Folder Title:	Urban Poverty Program - General - 1977 - June / July
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Dates:	06/02/1977 - 07/29/1977
Fonds:	Records of the Urban Development Sector
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Urban Poverty Program, 1977 (June - July)

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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: July 29, 1977

FROM: Alastair Stone, Chief, Operations Review and Support Unit

SUBJECT: Urban Poverty Lending

1. Today, the urban poverty program coordinators and the chief economists (or their representatives) met with Messrs. Jaycox, Kahnert and me to discuss the development of the Regional work plans to implement the urban poverty program which are required to meet the decision taken by the President's Council on July 25. (See Jaycox memo to Files dated July 25.) It was agreed that the "first cut" at these work plans should be developed by September 16 so that Mr. Jaycox can report to the President's Council by the end of September.

2. The content of these work programs was discussed. It was agreed that the work programs should be as specific as possible on staff allocation, timing and substance of work given the time factor. They should not be expected to conform to any standard format, but that each Region should include in its work plans at least the following five elements:

(a) a review of its country economic work plan specifying countries where a special effort will be made to analyse and discuss macro-economic policies which affect employment creation and poverty alleviation;

(b) a specific plan of action to develop employment creation poverty projects by the IDF divisions, including the necessary sector work, identification of intermediaries, and a review of the lending program for its poverty potential;

(c) a work plan for the development of sector strategies and action programs in other sectors which the Region feels can contribute significantly to the urban poverty program--notably water and sewerage, education, civil and building construction and perhaps power, transportation and tourism;

(d) the nomination of specific projects in the lending program in each important sector which will be developed as prototypes for poverty-oriented projects;

(e) the nomination of a city or cities which will be affected by a number of lending operations in various sectors and where it might be desirable to coordinate and design the projects for institutional/policy reforms and maximum beneficial impacts on the poor.

3. It was recognized that the elements spelled out above should properly be related to each other to form an overall regional implementation plan. Also it was noted that Mr. Baum has directed the CPS sector departments to assist the Regions with the development of their sector strategies and with the design of prototypical poverty projects. My staff and I are on call to assist in any way we can.

Cleared with and cc: Mr. Jaycox

cc: Mr. McNamara
Mr. Baum
President's Council
Regional Directors
CPS Directors
Regional Urban Poverty Program Coordinators
Participants
Mr. Dunkerley

AStone:ba.

Stout 68
Jay cox

M chawan	E1227
Baum	E1023

regional Directors

Hans adler	A1042
andre gue	A 210
A S Kirmani	A607
R Piccioto	A 507
Knox	A 712
van der Meer	A 803

CPS directors

van der Tak	E1023
Yudelman	D823
Hulton	D729
Rovani	D1030
Gordon	F402
Fuchs	F1006
Kanagaratnam	D928
Tolbert	D923
Willoughby	E516

~~18~~ 17

President's Council

Knapp	E1227
Brodies	E923
Congill	F1212
Chadenet	E1204
Chenery	E1239
Clark, W	E823
Warner	E1204
Benjenk	E723
Chaufournier	A313
Housain	A613
Krueger	A907
Stern	A513
Wapenhans	A1136
J. Adler	F1222
Damry	A1219
Gabriel	E624

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✓ Poverty Coordinators

Pollan	A 712	90
Rajagopalan	A 507	
Glaessner	A 809	
Bronfman	A 1042	
Howell	A 607	
Paulignan	A 210	

Participants

Kahnert	
S. Acharya	A 1019
Nowel	F 417
Westebbe	C 307
Hasan	A 613
Pilvin	C 503
Rowat	B 412
Chopra	E 718
Dousett	A 819
Landau	A 919
Jansen	C 502

Dunkerley

\+ Ramboust

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files

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

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(e) the nomination of a city or cities which will be affected by a number of lending operations in various sectors and where it might be desirable to coordinate and design the projects for institutional/policy reforms and maximum beneficial impacts on the poor.

3. It was recognized that the elements spelled out above should properly be related to each other to form an overall regional implementation plan. Also it was noted that Mr. Baum has directed the CPS sector departments to assist the Regions with the development of their sector strategies and with the design of prototypical poverty projects. My staff and I are on call to assist in any way we can.

Cleared with and cc: Mr. Jaycox

cc: Mr. McNamara
Mr. Baum
President's Council
Regional Directors
CPS Directors
Regional Urban Poverty Program Coordinators
Participants
Mr. Dunkerley

AStone:ba.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

Mr. Jaycox

OFFICE MEMORANDUM

AUG - 3 REC'D

Circulate

TO: Department Directors and Projects Advisory Staff in Central Projects Staff

DATE: July 28, 1977

File UPP

FROM: Sushil K. Bhatnagar, Office of the V.P., Projects Staff

Sushil K. Bhatnagar

SUBJECT: Items of Interest at July 27 Meeting of Directors and Advisers

PRESENT: Messrs. Baum, King, Baldwin, Chanmugam, Fuchs, Hultin, Jaycox, Kalbermatten, Lejeune, Sadove, van Gent, Willoughby, Yudelman, Israel, Lee, Morse, Raizen, Stone and Bhatnagar.

1) Circulate.

2) file UPP

Loan/Credit Documents

Mr. King reported that to assist staff in preparing the loan/credit documents in the new format and structure recently approved by the Board, the Office of the Senior Vice President, Operations had recently completed a draft of the detailed instructions on the definitive form of the President's Report. General instructions for the Staff Appraisal Report, on which work has started in PAS, are expected to be ready soon. He asked that the CPS Departments also prepare for their sectors supplementary instructions wherever sectoral/subsectoral aspects needed special attention in the sector annexes of the Staff Appraisal Report. Mr. Baum said that work in the CPS Departments in this regard should proceed concurrently with the preparation of the general instructions in PAS. He felt that this should not take much time since the CPS Sector Departments and the COPDs would have already done much of this work in connection with the preparation of model Staff Project Reports in their sector under the earlier "new style" of loan documentation.

Urban Poverty Program

Mr. Jaycox reported on the progress of the urban poverty program and on the meeting of the President's Council on July 25 where the program's current status was discussed. In general the implementation of the program so far has been disappointing. The poverty-oriented content of urban lending does not appear to be increasing. The employment-creation side of the program is particularly deficient, and on the basic service delivery side, the program is still overly dependent upon sites and services/slum upgrading projects. Implementation has been slowed by the controversy concerning the criteria to be used in the program monitoring system, specifically the capital/labor ratio threshold which would be used to distinguish poverty-oriented, employment creation projects.

The President's Council discussed the status of the program and it was decided:

a) Messrs. Chenery, Wapenhans and Jaycox would decide the issue on the program monitoring criteria by Friday, July 29, and we would use those criteria until we had enough experience to devise better ones.

../2.

Department Directors and Projects Advisory Staff in Central Projects Staff — July 27, 1977

b) The Regions would prepare specific work plans for implementing the urban poverty program in their Regions, including:

- specification of countries and work plans for a special effort in country economic work on the macro policy framework for employment creation and poverty alleviation;

- action plans to develop the employment creation programs of the IDF divisions; and

- identification of cities where our lending in various sectors might be coordinated to have more influence on policy and institutional development; and to maximize the beneficial impact on the poor.

c) Mr. Jaycox would report to the President's Council again, before the end of September, if possible, on the poverty content of the lending program and on the Regional work plans which should be ready by then.

Mr. Jaycox emphasized the need for the CPS sector departments, particularly IDF, water and education, to assist the Regions in developing sector strategies and prototypical projects designs. Mr. Baum underlined the responsibility of the CPS departments in getting behind the urban poverty program and in working with the Regions to help them develop their specific programs.

DISTRIBUTION: Messrs. Fuchs, Gordon, Hultin, Jaycox, Kanagaratnam, Lejeune, Rovani, Sadove, Tolbert, van der Tak, Willoughby, Yudelman, King, Israel, Lee, Lethem, Morse, Raizen, Ray, Weiss and Mrs. Scott.

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

SKBhatnagar/EVKJaycox:lic

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Warren C. Baum

DATE: July 27, 1977

FROM: Edward V.K. Jaycox

SUBJECT: Urban Poverty Lending - Monitoring Criteria for Employment Creation Projects

1. As directed by Mr. McNamara, Mr. Chenery, Mr. Wapenhans and I met yesterday to decide the issue of the criteria to be used in monitoring the employment creation elements of the urban poverty program. We agreed that in the interim period before a better formulation can be devised and made operational, we should employ a variation of the national threshold capital/labor ratio similar to those that have been proposed by me and suggested by the Regional Chief Economists, but which is easier to understand and smoother in its results.

2. The agreed method of calculating the country-specific threshold--which would in effect be a rough index of the relative availability of capital and labor across countries--is as follows:

a) The investment available in each country would be approximated by multiplying the country's current GNP by the investment rate that might be termed "normal" for countries having that level of per capita income.1/

b) The approximated investment derived as above would be divided by the total labor force. The resultant figure would give a norm or index of the capital available to sustain a man-year of employment.

c) The next step would be to multiply the indicator by 15 (15 man-years being chosen as the equivalent of a "job") to get a national threshold figure for a "labor-intensive" production process.

d) For poorer countries where the calculated national threshold would be below $800 per job, the threshold would be arbitrarily set at $800 (1976 prices), merely to ensure that the thresholds are operationally achievable. (This $800 level is about at the level of the calculated threshold for India, and we know it can be achieved in India.)

1/ These normalized rates of investment would be taken from the Chenery/Syrquin study, Patterns of Development, 1950-1970, adjusted for dollar inflation to a 1976 basis. See particularly "Figure 1: Investment" on p. 27 and backup tables.

e) In applying the threshold to determine whether a specific project was "labor-intensive" the total man-years of employment created by the project (or an identifiable component) would be divided by 15 to get the number of "jobs" and the latter would be divided into the capital costs of the operation (fixed and permanent working capital). 1/ No discounting of man-years of employment will be required. If the result is below the national threshold, then the project or sub-component would be considered a poverty-oriented project.

3. The assumption that "labor-intensive" projects so defined, will deliver large, direct wage/employment benefits to the target group will be tested by parallel monitoring of the estimated benefits flowing to the poor. This was agreed with the Operational Vice Presidents in February and with the Chief Economists more recently. Projects which do not meet this test but which Regions think nonetheless deliver enough benefits to the poor that they should be counted as poverty projects will also be considered on their merits.

4. The country-specific thresholds will be calculated by the Urban Operations Review and Support Unit, discussed with the country economists to iron out any obvious inter-country anomalies, and then will be published as guidelines for poverty project search/design and monitoring criteria. All of this should be fully in place by September, and will not affect the timing or, to any substantial extent, the accuracy of the statistical analysis of the lending programs promised to Mr. McNamara by September 30.

5. As soon as we have some experience with this approach we will evaluate the usefulness of the project search and monitoring criteria, and make the system more sophisticated/discriminating, if necessary. This system will be employed until a better system is shown to be necessary and operationally feasible. I will continue to discuss the proposals of the Chief Economists and try to develop a better system with them as suggested in my memorandum to them of July 19.

Cleared with and cc: Messrs. Chenery, Wapenhans
cc: Messrs. McNamara, Knapp
President's Council
Chief Economists
Regional Urban Poverty Program Coordinators
Regional Directors
CPS Directors

EVKJaycox:ncp

1/ The multiplication of the indicator by 15 suggested in (c) above and the division of man-years of employment by 15 in step (e) cancel each other out and may appear to be wasted steps. But for the purposes of guiding project search and design, the larger number for a "job" seems to us to be more understandable and effective than the smaller number for a man-year of employment.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

Mr. Stone

JUL 28 REC'D

OFFICE MEMORANDUM

TO: Files

DATE: July 25, 1977

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

EVKJaycox

SUBJECT: Urban Poverty Lending - President's Council Meeting, July 25

1. Today, the President's Council met to discuss the urban poverty lending program. My memorandum of July 21 on the status of the program provided background for the meeting (attached).

2. It was agreed that the controversy concerning the details of the program monitoring system that has continued for many months has gone on too long and reached an unproductive stage. Mr. McNamara asked that Messrs. Chenery, Wapenhans, and Jaycox decide the issue by the end of the week (July 29), reporting to him if it was not possible to reach agreement, and that no more staff or calendar time be spent on debating the criteria of the system. At some appropriate time in the future, we would look again to see if the monitoring system was working as we wanted it to, and modify our approach if necessary.

3. In the disucssion of the content of the program and of the four points put forward in the background paper, it was reaffirmed that the program should have two complementary parts--a macro-economic policy thrust and a lending program which directly benefits the poor. It was decided that the Regions should prepare specific work plans for developing their urban poverty programs. These could cover a wide range of subjects but should include:

(a) specification of countries and work plans for a special effort in country economic work on the macro policy framework for employment creation and poverty allevation;

(b) action plans to develop the employment creation programs of the IDF divisions;

(c) plans to develop sector-specific urban poverty strategies and prototypical poverty projects in the IDF, water, and education sectors; and

(d) identification of cities where our lending in various sectors might be coordinated to have more influence on policy and institutional development, and to maximize the beneficial impact on the poor.

4. It was agreed that Mr. Jaycox should report to the President's Council with a statistical analysis of the five-year lending program on a six-region basis, and a synthesis of the regional work plans. The deadline for this report was left flexible but should be before September 30, if possible. The report will then be discussed at a meeting of the President's Council.

Attachment

Cleared with and cc: Mr. Baum

cc: Mr. McNamara
President's Council
Regional Directors
CPS Directors
Regional Urban Poverty Program Coordinators
Chief Economists
Participants

EVKJaycox:ncp

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 21, 1977

FROM: Edward V.K. Jaycox

SUBJECT: Urban Poverty Program

1. You asked me for a brief status report on the progress of the urban poverty program as background for the meeting of the President's Council on Monday, July 25.

Summary of Present Status

2. In general, progress on implementing the program is somewhat disappointing, although I am optimistic that given appropriate support from upper line management, the program can move forward. On the negative side, the lending program has not been developed as rapidly as we had hoped. The poverty-oriented content of the urban-related lending program as estimated by the Regions has not increased since our first comprehensive analysis of the overall lending program last Fall. If anything, our most recent analysis of actual performance in FY77 and prospects over the next two years shows slightly lower poverty content than previously reported. The sectoral composition of the program is still overly oriented toward service delivery and is deficient on the productive or employment creation side. The overall poverty program is also still overly dependent upon "new style" urban projects, i.e., sites and services, and slum upgrading.

3. The criteria to distinguish urban poverty lending for project design and monitoring purposes, which were agreed to by the Operational Vice Presidents in February, have run into some resistance primarily from regional economic staff, and, therefore, the program monitoring system is not yet fully functioning. Two of the six Regions have decided not to analyze their lending programs for poverty content until they are satisfied with the details of the monitoring criteria. The controversy has centered on the criteria which I proposed for identification of those projects which are labor-intensive and yield direct benefits to the target population in the form of increased employment opportunities. The Chief Economists, as a group, have recently (June 29) proposed similar criteria (although calculated somewhat differently) which I have generally accepted subject to their further development for operational use--i.e., to the point where guidelines can be issued on how they would work in practice. We will immediately get to work on this with the Chief Economists and DPS, but the process could take 3-4 months. Meanwhile, I have proposed to proceed with the monitoring system on the basis of my original proposals so that we can report progress on the program by September 1. This controversy then, which has led to confusion and has slowed the substantive progress of the program, seems to be drawing to a satisfactory close.

4. On the positive side, I can report that there is growing understanding of the program among the operating staff, and there are signs that this will begin to affect the poverty content of the lending program by FY79, although this trend is not yet evident in any statistical analysis of the lending program. The Employment Creation and Small Scale Enterprise Development Paper issued earlier this year is contributing to this process, and all of the IDF Division Chiefs are now promoting this new direction. Something, however, will need to be done about the staffing constraints in this difficult sector of our operations, if this momentum is to continue to build. Guidelines on designing poverty-oriented projects in Education are now about to be issued after full discussion amongst operating staff, and three Regions have prepared strategy papers on how to approach the educational needs of the urban poor. In the water/sewerage sector, similar project design guidelines are being prepared and discussed amongst operating staff. The research program is developing slowly among promising lines, and some operationally useful outputs, particularly in water/sewerage technology, may soon be available.

Poverty Content of Urban-Related Lending in Four Regions

5. Attached for your information are three tables showing the poverty content of urban-related lending in FY77 (estimated actuals) and FY78 and FY79 (estimated/targeted) by year, by Region, and by sector for the four Regions which have updated the analysis of their current programs. We also have some information on FY80, FY81 and FY82, but this is so sparse as to be misleading at this point and is, therefore, not presented. Assuming that the information we have for four Regions is indicative, the FY77 proportion of poverty lending is about 15% as compared with the FY80 target we set for ourselves last February, of one-third.

6. Breaking this down by sector, the poverty content of DFC/Tourism/Industry lending (for four Regions) totalled less than 8% for FY77 and will not exceed 10% for FY77-FY79. The DFC/IDF contribution, in view of its major role on the productive employment side is clearly much too low. I believe water supply "poverty lending" at 27% for FY77-FY79 also appears very low, given the fact that existing water shortages in LDC cities fall most heavily on the target population. Water supply benefits merely in line with the proportion of the poor in total population is not consistent with the backlog situation that exists and the proportion of poor people in the population growth of LDC cities. Power and Transport should also be able to do more; world-wide, these important sectors have greater potential for direct beneficial impact on the poor. In Education, the total urban-related lending is only about 20%. This may be appropriate, given the relative deprivation of rural areas, but if the sector strategy is to emphasize neglected areas, a much higher proportion of this 20% should be aimed at the urban poor. Urban projects in the next two years continue to carry over half the total program.

Request for Support on Specific Points

7. In order for the program to gain the desired momentum, certain specific lines of action need to be agreed upon.

8. First, we need to put an end to the controversy over the monitoring system or at least get these differences off the critical path of program implementation. While monitoring is seldom welcomed, it is essential to any programming effort. The details of any monitoring or project search criteria can always be debated, particularly when they pertain to such a complex field as the one we are in. We have spent nearly twelve months now on these points, and the debate has been closed and reopened too many times, diverting effort from the real task and leaving the operating staff unnecessarily confused. As I have noted above, this controversy now appears to be drawing to a close, but we must agree to begin the monitoring process now, improving it as we go along.

9. Second, we need a major push on developing the poverty-oriented programs of the IDF divisions. Resources need to be shifted in that direction, perhaps at the expense of other more traditional sectors of operation. The IDF divisions also need some new kinds of expertise to take on their new responsibilities for industrial sector work and to find/develop the new kinds of intermediaries necessary for poverty-oriented work.

10. Third, in the next six months the Regions and CPS should try to develop sector-specific strategies for each sector expected to contribute to the urban poverty program, in each Region--along the lines of the work already done in some sectors in some Regions. These need not be elaborate pieces; the main objective would be to stimulate internal discussion and further sensitize the operating staff to the challenges of the program. As part of this, we should try to develop some prototype poverty projects in each sector, particularly water, education, and IDF (I believe that in urban projects we have already done this) which will demonstrate our latest thinking on appropriate project design for these types of poverty-oriented projects.

11. Finally, we should develop coordinated approaches to the parts of the lending programs that impact heavily on particular cities. In EAP, for instance, we find that some nine separate operations in various sectors are in the five-year program that will impact on Jakarta. Similar concentrations exist for cities in other Regions. In the case of Jakarta the Region is seriously considering trying to coordinate and design these operations so that they contribute as much as possible to the efficient and equitable development of the city, with heavy poverty orientation in employment creation, basic service delivery and policy/institutional reform. We should consider this approach for other cities in other Regions.

12. Given support on these four points, I am confident we can move the program forward and engage the imagination and energy of the operating staff.

Next Status Report

13. I intend to give you a full, six-Region report on the status of the urban poverty lending program by September 1. My present intention is to make this next report merely a brief discussion of the attached tables on a six-Region basis (provided the missing information is supplied) but would include any other feasible analyses you may want. After that, our next status report will be presented in the first week of January, if that is acceptable to you.

Attachment

Cleared with and cc: Mr. Baum

cc: Messrs. Knapp, Broches; Cargill, Chadenet, Chenery, Clark
Weiner, Benjenk, Chaufournier, Husain, Krieger
Stern, Wapenhans, J. Adler, Damry, Gabriel

Table 1

FY77-81 Non-Agricultural[1/] Lending Program[2/] by Year
(US$m)

	1977	1978	1979	1977-79	1980[5/]	1981[5/]	1977-81[5/]
Total Non-Agricultural[1/]	2,767	3,049	3,709	9,525	4,529	3,983	18,037
Rural[3/]	463	487	342	1,292	442	251	1,985
Locationally Unspecific[4/]	1,015	885	1,445	3,345	1,124	1,373	5,842
Unidentified Projects	0	200	553	753	1,405	1,135	3,293
Urban Related	1,289	1,477	1,369	4,135	1,559	1,223	6,917
Urban Poverty	197	360	284	841	563	371	1,775
Urban Poverty as % of Urban Related	15	24	21	20	36	30	26
Urban Poverty as % of Total Non-Agricultural	7	12	8	9	12	9	10

1/ Agricultural sector projects excluded.
2/ Includes East Africa, West Africa, LAC, East Asia and Pacific regional lending programs.
3/ Non-agricultural lending located outside cities.
4/ Non-agricultural lending of national character with no specific identified locations.
5/ Total program understated in FY80 and FY81 due to unspecified lending programs in some countries.

7/21/77

FY77-79 Non-Agricultural[1/] Lending Program by Region[2/]
(US$m)

	East Africa	West Africa	LAC	EAP	Total
Total Non-Agricultural[1/]	1,463	822	4,192	3,048	9,525
Rural[3/]	122	125	853	192	1,292
Locationally Unspecific[4/]	552	287	970	1,536	3,345
Unidentified Projects	225	33	415	80	753
Urban Related	564	377	1,954	1,240	4,135
Urban Poverty	119	110	444	168	841
Urban Poverty as % of Urban Related	21%	29%	23%	14%	20%
Target Population as % of Urban Population	25%	27%	25%	31%	27%
Urban Poverty as % of Total Non-Agricultural	8%	13%	11%	6%	9%

1/ Agricultural sector projects excluded.
2/ Data not available from EMENA and South Asia regions.
3/ Non-agricultural lending located outside cities.
4/ Non-agricultural lending of national character with no specific identified locations.

Table 3

FY77-79 Non Agricultural[1/] Lending Program[2/] by Sector

Sector	No. of Projects	Loan/ Credit Amount (US$m)	Urban Related (US$m)	Urban Poverty (US$m)	Urban Poverty as % of Urban Related	Urban Poverty as % of Non-Agricultural Total
DFC/IDF	45	1,260	1,018	105	10	8
Education	40	653	135	33	25	5
Industry	21	916	364	30	8	3
Population	9	206	51	11	21	5
Power	43	2,124	847	24	3	1
Tourism	8	155	69	2	3	1
Transportation	85	2,543	379	24	6	1
Urbanization	25	607	600	427	71	70
Water Supply	29	700	634	173	27	25
Other[3/]	18	361	38	12	29	3
Total	323	9,525	4,135	841	20	9

1/ Agricultural sector projects excluded.
2/ Includes East Africa, West Africa, LAC, East Asia and Pacific regional lending programs.
3/ Includes, inter alia, lending for Technical Assistance, Telecommunications, and Program Lending.

7/21/77

Files

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 21, 1977

FROM: Edward V.K. Jaycox

SUBJECT: Urban Poverty Program

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Summary of Present Status

2. In general, progress on implementing the program is somewhat disappointing, although I am optimistic that given appropriate support from upper line management, the program can move forward. On the negative side, the lending program has not been developed as rapidly as we had hoped. The poverty-oriented content of the urban-related lending program as estimated by the Regions has not increased since our first comprehensive analysis of the overall lending program last Fall. If anything, our most recent analysis of actual performance in FY77 and prospects over the next two years shows slightly lower poverty content than previously reported. The sectoral composition of the program is still overly oriented toward service delivery and is deficient on the productive or employment creation side. The overall poverty program is also still overly dependent upon "new style" urban projects, i.e., sites and services, and slum upgrading.

3. The criteria to distinguish urban poverty lending for project design and monitoring purposes, which were agreed to by the Operational Vice Presidents in February, have run into some resistance primarily from regional economic staff, and, therefore, the program monitoring system is not yet fully functioning. Two of the six Regions have decided not to analyze their lending programs for poverty content until they are satisfied with the details of the monitoring criteria. The controversy has centered on the criteria which I proposed for identification of those projects which are labor-intensive and yield direct benefits to the target population in the form of increased employment opportunities. The Chief Economists, as a group, have recently (June 29) proposed similar criteria (although calculated somewhat differently) which I have generally accepted subject to their further development for operational use--i.e., to the point where guidelines can be issued on how they would work in practice. We will immediately get to work on this with the Chief Economists and DPS, but the process could take 3-4 months. Meanwhile, I have proposed to proceed with the monitoring system on the basis of my original proposals so that we can report progress on the program by September 1. This controversy then, which has led to confusion and has slowed the substantive progress of the program, seems to be drawing to a satisfactory close.

4. On the positive side, I can report that there is growing understanding of the program among the operating staff, and there are signs that this will begin to affect the poverty content of the lending program by FY79, although this trend is not yet evident in any statistical analysis of the lending program. The Employment Creation and Small Scale Enterprise Development Paper issued earlier this year is contributing to this process, and all of the IDF Division Chiefs are now promoting this new direction. Something, however, will need to be done about the staffing constraints in this difficult sector of our operations, if this momentum is to continue to build. Guidelines on designing poverty-oriented projects in Education are now about to be issued after full discussion amongst operating staff, and three Regions have prepared strategy papers on how to approach the educational needs of the urban poor. In the water/sewerage sector, similar project design guidelines are being prepared and discussed amongst operating staff. The research program is developing slowly among promising lines, and some operationally useful outputs, particularly in water/sewerage technology, may soon be available.

Poverty Content of Urban-Related Lending in Four Regions

5. Attached for your information are three tables showing the poverty content of urban-related lending in FY77 (estimated actuals) and FY78 and FY79 (estimated/targeted) by year, by Region, and by sector for the four Regions which have updated the analysis of their current programs. We also have some information on FY80, FY81 and FY82, but this is so sparse as to be misleading at this point and is, therefore, not presented. Assuming that the information we have for four Regions is indicative, the FY77 proportion of poverty lending is about 15% as compared with the FY80 target we set for ourselves last February, of one-third.

6. Breaking this down by sector, the poverty content of DFC/Tourism/Industry lending (for four Regions) totalled less than 8% for FY77 and will not exceed 10% for FY77-FY79. The DFC/IDF contribution, in view of its major role on the productive employment side is clearly much too low. I believe water supply "poverty lending" at 27% for FY77-FY79 also appears very low, given the fact that existing water shortages in LDC cities fall most heavily on the target population. Water supply benefits merely in line with the proportion of the poor in total population is not consistent with the backlog situation that exists and the proportion of poor people in the population growth of LDC cities. Power and Transport should also be able to do more; world-wide, these important sectors have greater potential for direct beneficial impact on the poor. In Education, the total urban-related lending is only about 20%. This may be appropriate, given the relative deprivation of rural areas, but if the sector strategy is to emphasize neglected areas, a much higher proportion of this 20% should be aimed at the urban poor. Urban projects in the next two years continue to carry over half the total program.

Request for Support on Specific Points

7. In order for the program to gain the desired momentum, certain specific lines of action need to be agreed upon.

8. First, we need to put an end to the controversy over the monitoring system or at least get these differences off the critical path of program implementation. While monitoring is seldom welcomed, it is essential to any programming effort. The details of any monitoring or project search criteria can always be debated, particularly when they pertain to such a complex field as the one we are in. We have spent nearly twelve months now on these points, and the debate has been closed and reopened too many times, diverting effort from the real task and leaving the operating staff unnecessarily confused. As I have noted above, this controversy now appears to be drawing to a close, but we must agree to begin the monitoring process now, improving it as we go along.

9. Second, we need a major push on developing the poverty-oriented programs of the IDF divisions. Resources need to be shifted in that direction, perhaps at the expense of other more traditional sectors of operation. The IDF divisions also need some new kinds of expertise to take on their new responsibilities for industrial sector work and to find/develop the new kinds of intermediaries necessary for poverty-oriented work.

10. Third, in the next six months the Regions and CPS should try to develop sector-specific strategies for each sector expected to contribute to the urban poverty program, in each Region--along the lines of the work already done in some sectors in some Regions. These need not be elaborate pieces; the main objective would be to stimulate internal discussion and further sensitize the operating staff to the challenges of the program. As part of this, we should try to develop some prototype poverty projects in each sector, particularly water, education, and IDF (I believe that in urban projects we have already done this) which will demonstrate our latest thinking on appropriate project design for these types of poverty-oriented projects.

11. Finally, we should develop coordinated approaches to the parts of the lending programs that impact heavily on particular cities. In EAP, for instance, we find that some nine separate operations in various sectors are in the five-year program that will impact on Jakarta. Similar concentrations exist for cities in other Regions. In the case of Jakarta the Region is seriously considering trying to coordinate and design these operations so that they contribute as much as possible to the efficient and equitable development of the city, with heavy poverty orientation in employment creation, basic service delivery and policy/institutional reform. We should consider this approach for other cities in other Regions.

12. Given support on these four points, I am confident we can move the program forward and engage the imagination and energy of the operating staff.

Next Status Report

13. I intend to give you a full, six-Region report on the status of the urban poverty lending program by September 1. My present intention is to make this next report merely a brief discussion of the attached tables on a six-Region basis (provided the missing information is supplied) but would include any other feasible analyses you may want. After that, our next status report will be presented in the first week of January, if that is acceptable to you.

Attachment

Cleared with and cc: Mr. Baum

cc: Messrs. Knapp, Broches, Cargill, Chadenet, Chenery, Clark
Weiner, Benjenk, Chaufournier, Husain, Krieger
Stern, Wapenhans, J. Adler, Damry, Gabriel

EVKJaycox:ncp

Table 1

FY77-81 Non-Agricultural 1/ Lending Program 2/ by Year
(US$m)

	1977	1978	1979	1977-79	1980 5/	1981 5/	1977-81 5/
Total Non-Agricultural 1/	2,767	3,049	3,709	9,525	4,529	3,983	18,037
Rural 3/	463	487	342	1,292	442	251	1,985
Locationally Unspecific 4/	1,015	885	1,445	3,345	1,124	1,373	5,842
Unidentified Projects	0	200	553	753	1,405	1,135	3,293
Urban Related	1,289	1,477	1,369	4,135	1,559	1,223	6,917
Urban Poverty	197	360	284	841	563	371	1,775
Urban Poverty as % of Urban Related	15	24	21	20	36	30	26
Urban Poverty as % of Total Non-Agricultural	7	12	8	9	12	9	10

1/ Agricultural sector projects excluded.
2/ Includes East Africa, West Africa, LAC, East Asia and Pacific regional lending programs.
3/ Non-agricultural lending located outside cities.
4/ Non-agricultural lending of national character with no specific identified locations.
5/ Total program understated in FY80 and FY81 due to unspecified lending programs in some countries.

7/21/77

FY77-79 Non-Agricultural[1/] Lending Program by Region[2/]
(US$m)

	East Africa	West Africa	LAC	EAP	Total
Total Non-Agricultural[1/]	1,463	822	4,192	3,048	9,525
Rural[3/]	122	125	853	192	1,292
Locationally Unspecific[4/]	552	287	970	1,536	3,345
Unidentified Projects	225	33	415	80	753
Urban Related	564	377	1,954	1,240	4,135
Urban Poverty	119	110	444	168	841
Urban Poverty as % of Urban Related	21%	29%	23%	14%	20%
Target Population as % of Urban Population	25%	27%	25%	31%	27%
Urban Poverty as % of Total Non-Agricultural	8%	13%	11%	6%	9%

1/ Agricultural sector projects excluded.
2/ Data not available from EMENA and South Asia regions.
3/ Non-agricultural lending located outside cities.
4/ Non-agricultural lending of national character with no specific identified locations.

Table 3

FY77-79 Non Agricultural[1/] Lending Program[2/] by Sector

Sector	No. of Projects	Loan/ Credit Amount (US$m)	Urban Related (US$m)	Urban Poverty (US$m)	Urban Poverty as % of Urban Related	Urban Poverty as % of Non-Agricultural Total
DFC/IDF	45	1,260	1,018	105	10	8
Education	40	653	135	33	25	5
Industry	21	916	364	30	8	3
Population	9	206	51	11	21	5
Power	43	2,124	847	24	3	1
Tourism	8	155	69	2	3	1
Transportation	85	2,543	379	24	6	1
Urbanization	25	607	600	427	71	70
Water Supply	29	706	634	173	27	25
Other[3/]	18	361	38	12	29	3
Total	323	9,525	4,135	841	20	9

1/ Agricultural sector projects excluded.
2/ Includes East Africa, West Africa, LAC, East Asia and Pacific regional lending programs.
3/ Includes, inter alia, lending for Technical Assistance, Telecommunications, and Program Lending.

7/21/77

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②copy Info Systems EAP

OFFICE MEMORANDUM

TO: Mr. G. B. Votaw

DATE: July 20, 1977

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

attachments?

JUL 22 REC'D

SUBJECT: Urban Poverty Program (UPP)

1. The Regional IDF division, in cooperation with the Urban Operations Review and Support Unit, was recently engaged in the second round of the UPP monitoring exercise, the purpose of which was to update information on projects for FY77-81 in the EAP Region which had an urban poverty component (please see Attachment 1). I have attached an updated copy of Report 2-1 for the Region which was sent to Mr. Stone under cover of a memorandum from me (Attachment 2).

2. For this round, either or both of two criteria were used to identify those projects (or parts of them) which would qualify as having an urban poverty component. These were employment generation (on the production side) and affordability/replicability of the goods and services produced (on the consumption side). A project qualified under the employment criterion if its capital labour ratio was found to be below a predetermined country specific threshold capital labour ratio; thresholds for the countries in our Region were determined by Program economists (see Attachment 3) although controversy persists as to the theoretical justification and practical usefulness of such thresholds (see Attachment 3). Projects qualified on the affordability criterion if they resulted in lowering the price or increasing the availability of goods and services demanded by the urban poor target group, and the replicability criterion determined whether or not goods and services generated by projects could be supplied to the target group at prices which either covered the cost of the project or required subsidies which could realistically be provided on an ongoing basis.[1/] I might add that the theoretical basis of the methodology being used to classify projects having an urban poverty component is still subject to considerable criticism (see Attachment 4).

3. To determine, with some degree of confidence, the urban poverty component of the various projects in the Region's FY77-81 lending program, we felt it would be best approached by going directly to the Regional and CPS Divisions. Meetings were set up with them at which a representative of the Urban Operations Review and Support Unit was present. As expected, we discovered that, in most cases, the necessary data to enable a sensible computation just did not exist. For example, in the case of water supply

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1/ When the project is able to cover cost, it is, in theory, replicable. When it is unable to do so, some form of subsidy is involved and it is then necessary to consider whether the target group actually receives the subsidy, the size of the subsidy involved, and whether the subsidy will continue to be available.

projects, the Projects division had no data on the income breakdown of the final recipients. While it is highly likely that much of the water supplied under these projects does reach the urban poor, we have no way of estimating what proportion of the end users are, in fact, the urban poor. On these occasions, at the suggestion of the representative of the Urban Operations Review and Support Unit, the urban poverty component was left unidentified rather than resorting to insufficient data or uninformed guesswork to derive a figure.

4. On the above basis, the urban poverty component of the Region's FY77-81 non-rural lending programme was computed as 2.5%.[1/] The comparable figure for the previous iteration was 10% but we feel that on this go-round, we had access to better data than on the last occasion, and can stand by these estimates with greater confidence. Also, there is no linear progression in the increasing urban poverty content of the Region's program through the five-year period.

5. These figures are in sharp contrast to the targets outlined in Mr. Jaycox's Memorandum of January 6, 1977, in which the agreement of the Regional Vice Presidents was recorded, that by FY80 at least one third of all urban related (i.e. non-rural) lending by the Bank Group as a whole should yield direct benefits to the target population; in practice, this would amount to 10-12% of total Bank lending.

6. It is possible that the identified UP component of the Region's lending program will increase as we improve our ability and data base to assess the impact of projects on the urban poor; a process which is likely to absorb a great deal of time and effort. It is also likely to require a more amenable methodology for identifying the UP component of projects. But our improved ability to identify more accurately the UP component of the existing project pipeline will not, in any sense, alleviate the clear need to re-orient the Region's lending program to even approach meeting the agreed upon UPP targets. Unfortunately, recent Regional CPP's have not addressed themselves sufficiently to this issue. From what I have been able to discern of lending programs contained therein, they do not seem to be consistent with the proclaimed UPP targets and objectives.

PSMistry/FKanga:rra

1/ This number does not include the UP component of specific urban projects included in the FY77-81 five-year program. The proportion of these loans which will hit the target group is being estimated by the Urban Projects Department and will be provided to us. However, the total amount of loans for such projects account for only 8% of the Region's non-rural lending program for the period. Even if we assumed 100% of these loans addressed the needs of the target group, the UPP content of the FY77-81 non-rural program would still account for only 10.5% of the total.

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Mr. Pl...

Files

JUL 20 REC'D

OFFICE MEMORANDUM

TO: Chief Economists

DATE: July 19, 1977

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

SUBJECT: Urban Poverty Lending

1. I refer to your memorandum of June 29 on this subject, and want to thank you for the attention you have given to this matter. I am particularly pleased that you reaffirm the need for a national capital/labor ratio threshold as a search and monitoring criterion for urban poverty lending. This was the most controversial aspect of my earlier proposals, but I think that your agreement on this point shows that closer scrutiny of the operational problems we face and of the economics of the matter lead one in that direction. I am prepared to accept the general approach which you have proposed, and as you will see in the paragraphs below, I have taken account of your suggestions in outlining how I think we should now proceed. It will, however, take some time to make your approach fully operational, and we will have to rely on the earlier approach in this interim period to avoid further delay in implementing the program.

2. First, let me say that there is absolutely no conflict between us on the matter of the central role of country economic work in designing appropriate national strategies to alleviate poverty. I agree completely that these strategies must involve multiple objectives, and can only be developed on a country-by-country basis. I hope that country economists will in fact embark on this work, and begin to contribute this dimension to appropriate project design and policy reform. Up to now very little has been done. I suggest we get together soon to review the situation, and decide on a course of action to get country economic work to fulfill this potential role.

3. Concerning your idea that project officers adopt a "simple goals/achievement matrix" with weights given to the various goals, I have my doubts. This approach has been subjected to serious criticism because of its complexity and the inherent masking of subjectivity by the technique. Nevertheless, the idea may be worth pursuing and I would welcome further discussion on how it might be put into practice.

4. Your suggestion to adopt two search and monitoring criteria for employment-creating projects appeals to me very much. They complement each other and together cover the more important aspects of poverty lending; the flow of benefits to the target group and capital spreading. Even though we have some theoretical difficulties with both criteria as

you formulate them,[1/] I agree that we should go ahead in developing them on the broad lines you suggest. However, this will require that considerable work be done to make these criteria operational.

5. For the proportion of value added going to labor to be useful as a poverty lending criterion, we need to determine a consistent way throughout the Bank for finding and applying the "suitable minimum wage" you mention in paragraph 8. For use as a supplemental monitoring criterion, as discussed in your paragraph 19, we will probably need a scaler, that is, a minimum and a maximum--the minimum to distinguish urban poverty lending from business as usual, and the maximum to recognize the limit on value added to labor which the return to capital imposes. In short, I do not think we can make this criterion operational until more is known about returns to labor than we now have available. I suggest we proceed to work on this criterion with a view to its operational use in the near future. In February we agreed with the Operational Vice Presidents to monitor projects which passed the K/L threshold test to see if a high proportion of value added does in fact go to the target group. This empirical data plus some tests on non-poverty projects might quickly give us a scaler. We will need help on the minimum wage question (the $\bar{w}$ in Ahluwalia, Little, Pyatt formulation), and we will now explore this with you and with DPS.

6. The capital cost per job created threshold proposed by you is acceptable to me, although I must say that we find your approach to its calculation at least as crude and as complicated as the one we proposed. There are certain practical difficulties to be overcome and matters to be clarified before we can make your approach operational. We understand from Mr. McPheeters that the required time series of GDFI exist for only some 20 countries. Therefore a methodology for estimating the past 15 years of GDFI must be devised and agreed upon. The time series for suitable deflators is also a problem. The GDFI formula excludes working capital in both the national threshold and the project-specific K/L ratios; this may not be appropriate. For small-scale, informal sector investments, the capital costs on the project side may be largely working capital. This

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1/ Our difficulties with your formulation of the K/L ratio have already been partly aired (see also paragraphs 6-10 below). Your value added rule, used as a search criterion, favors projects with low returns to capital since by definition the lower the return to capital *ceteris paribus*, the higher will be returns to labor as a proportion of value added. If other things are not equal, high efficiency with high returns to capital accompanying higher wage rates may on your formulation give a lower poverty contribution than a relatively inefficient operation with low profits and wages.

operationally relevant matter needs to be sorted out. One curious anomaly of your approach--i.e., the faster the growth of GDFI over the past years, the lower the threshold relative to current GDFI--needs to be worked on and somehow compensated for. This anomaly derives from the necessarily rough approximation of your formula for the basic relationship between current savings and current needs of job creation which is what is really relevant.

7. I am very doubtful about the simplicity of estimating net (as opposed to gross) employment effects of projects, because if done responsibly, it entails analysis of all upstream and downstream indirect employment effects, positive as well as negative. Further, and more importantly, as a matter of economics, we do not understand why it would be correct to deduct employment displaced elsewhere assuming that the displaced labor is displaced because it is less productive. The point is we are not interested in more employment alone; we are interested in increasing the amount of efficient employment. I believe you are somewhat mixed up in your thinking on this point, and this mix-up may be at the core of some of the misunderstandings we have been having.

8. Since capital stock is to be estimated by adding up 15 years of past GDFI, I trust in comparing the resulting national K/L ratio threshold to the project K/L ratio, that, in the latter, L will be defined in terms of 15 man-year jobs, i.e., a permanent job will be defined as equivalent to 15 man-years of employment. This it seems to me is essential for internal consistency. This also solves the problem of how to account for "temporary employment" during project construction. In fact, I take it from your draft worksheet that this is what you had in mind.

9. I assume that identifiable parts of projects which meet poverty lending criteria would be so counted. Otherwise, we run the risk of encouraging the disassembly of logical project packages in order to group elements so that the total project might compare favorably with the national threshold. We understand that this may have happened in some rural development projects, with their 50% of benefits rule.

10. It appears that your proposed approach to calculating the national K/L yields lower thresholds than the one we proposed, and hence they may be more difficult to achieve. We may, in fact, have to factor up the results arbitrarily to make them operationally relevant. (This is the same problem we faced with our approach and why we proposed an arbitrary doubling of the threshold.)

11. I have serious difficulties with your proposed supplemental industry-specific or urban-specific thresholds which are put forward as ways of getting high enough thresholds to be operationally relevant in some of the poorest countries. These may be interesting for some purposes, but we do not believe that they will be useful for search, design, or

monitoring of poverty projects as we have defined them. In the first place the complexities of deriving sector-specific averages on a consistent basis--even over time in a single country--are enormous. More importantly, while we recognize all of the points you make in your paragraph 14, we do not feel that extreme poverty and/or dualism, or very large rural sectors are valid reasons for allowing urban operations to be substantially more capital-intensive than rural operations and still be labelled as poverty projects. Your rationalization, moreover, appears to condone if not promote dualistic development and, therefore, runs contrary to the main thrusts of the rural/urban poverty programs. If a national threshold is too low to be operationally useful, I suggest we adjust it to an arbitrary higher level that is operationally attainable rather than go through the complicated and to my mind misleading rationalization you propose. 1/

Next Steps

12. The next step as you propose would be to have a staff level review. This should cover both your proposals and the main points made in this memorandum. I would suggest that one huge meeting is not the way to do this. I believe it would be more efficient for each of you (together with the Assistant Projects Director nominated to liaise with the Urban Poverty Task Group by the Regional Vice President) to hold staff level reviews as you think best for your Region. Then we can meet again in a smaller group to finish this off. I would like to attend, or have Mr. Stone attend, the review meetings you will schedule.

13. It is clear that to develop both of your proposed search and monitoring criteria to an operational level will require some time. The process of staff level review and of resolving major and minor problems and misunderstandings has been shown to be time-consuming. Add this to the necessity of issuing detailed instructions to the operating staff of the Bank (like the ones which we drafted for the approach we proposed) and we clearly run the danger of further substantial delay in the implementation of the poverty program. I would estimate at least 3-4 months. This is very difficult for me to accept. As it is, my periodic report to Mr. McNamara on the status of the urban poverty program is now overdue, because two of the six Regions have chosen to delay analyzing their programs until they agree fully with the monitoring system. This is a potentially embarrassing situation for all of us. I would now like to get my report to Mr. McNamara by September 1 at the latest, which means that the review of Regional lending programs has to go forward immediately.

1/ We could specify, for instance, that where the threshold calculated by your method is below $800 (or below $100 per man-year by our method), it would be adjusted up to this level.

14. In these circumstances, and until your proposals are fully operational, I can see no alternative to going ahead with this review on the basis of the criteria originally proposed. The current monitoring information system is designed for these criteria and four of the six Regions have already done the work on this basis.

Messrs. de Azcarate, Dubey, Hablutzel, Hasan, Holsen, Waide

cc: Messrs. Baum, Benjenk, Chaufournier, Chenery, Husain
Krieger, Stern, Wappenhans

Messrs. Avramovic, Karaosmanoglu, Yudelman, van der Tak,
Fuchs, Gordon

Messrs. Bronfman (EAP), Pouliquen (WAP), Howell (AEP)
Rajagopalan (ASP), Pollan (EMP), Glaessner (LCP
Stoutjesdijk (ECD), B.B. King (VDP) Balassa (DRC)

Messrs. Zymelmann and Ballantine (EDP), Kalbermatten (EWT)
Hyde (DFC), F. Mitchell (TMP), Carnemark (TRP)
Messenger (PNP), Little and Keare (ECP), Ahluwalia (DRC)

Messrs. Dunkerley, Churchill, McCulloch, D. Singh, Stone
Strombom, Kahnert, Lethbridge, Beier (URB)

EVKJaycox:ncp

Mr. Alastair Stone, Chief, ORSU July 12, 1977

Friedrich Kahnert, ORSU

National Threshold Based on Gross Domestic Fixed Investment Over the Last 15 Years - Proposal by the Chief Economists

1. When taking a position on the proposal made in the June 29 memo by the Chief Economists I think we should be aware of two effects that this threshold has: (a) it gives a premium to meeting the poverty threshold to those countries where fixed investment is stagnant or falling; (b) compared to our threshold it gives a considerable advantage to very short term investments.

2. To illustrate these points we can argue in a simplified framework as follows. First let us assume there is no inflation i.e., we place ourselves in a constant price context. Second we assume that gross domestic fixed investment is equal to gross domestic investment, i.e., that there is no inventory build-up. It can be shown that if we remove this latter simplification the difference between the two measures, i.e., our own capital/labor threshold and theirs, is accentuated. If you then assume for the sake of simplicity that in the terminal year we are concerned with, say the year 1976, GDI per member of the 1976 labor force is US$50, our own capital/labor threshold for a 15-year investment project would be US$840. (This applies when using a 10% discount rate.) It can be shown mathematically that in order to reach this dollar figure through the method proposed by the Chief Economists we have to have a country in which gross domestic fixed investment per member of the 1976 labor force has fallen over the 15-year period by approximately 20%. Only then will they come to the same figure. If the fall is smaller or if gross domestic fixed investment per member of the 1976 labor force has remained stable or increased over the last 15 years our figure will progressively be much higher than theirs. For example if in fact GDFI per member of the 1976 labor force has increased by 3% per annum over thelast 15 years to reach the terminal level of US$50, their capital/labor threshold arrives at US$615, i.e., 73% of our threshold of US$840. If a 5% growth rate over the last 15 years is assumed, their threshold will come to US$545 or 65% of our own threshold.

3. It is thus clear that the faster GDI has grown in the past 15 years the more their threshold will fall below ours and the more difficult will it be to meet. I submit this may be an absurd effect.

4. We can turn the argument around, taking account of the fact that our threshold falls in absolute terms as the useful life of the investment made shortens. In the case where GDI has grown by 3% in the past and the Chief Economists threshold is at US$615 our threshold would fall to this level for a 10-year investment project. Since their threshold is not sensitive to the length of life of the investment any investment made that has an expected life of less than 10 years would be measured with a higher threshold under their method then under ours. Similarly, if we take a 5% growth of GDI per member of the 1976 labor force in the last 15 years, the two thresholds become equal for an investment project with just over eight years of useful life. At the margin, for an investment project with a useful life of only one year, their threshold is over

six times as high as ours in the case of 3% growth in GDI per member of the labor force and about five and a half times as high as ours in the case of an investment growth of 5%.

5. I wonder whether the Chief Economists thought about these effects when making their proposal.

cc: Messrs. Jaycox, Dunkerley, Churchill, Lethbridge.

Mr. Stone
D 614

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

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

DATE: June 29, 1977

FROM: Regional Chief Economists

SUBJECT: Urban Poverty Lending

Introduction

1. Progress in the design and implementation of an Urban Poverty Lending (UPL) program seems to be less rapid than is desirable. Several rules to guide such a program were set out in your memorandum of January 6 to OVP's, and acknowledged therein to be "arbitrary and contentious." In practice, the rules turned out to be more difficult to use than had been expected; and various recent ORSU clarifications designed to bring these rules into use have reopened the question of their desirability and feasibility. In this note we would like to suggest a way of proceeding which is more likely to receive the regions' full support and which, we hope, will help develop the Bank's UPL program.

2. The approach taken to date seems to have raised, rightly or wrongly, two kinds of problems. Firstly, the stress on programming indicators has diverted attention from the fact that the causes of urban poverty are complex and differ markedly from country to country (and even within countries), and therefore the ways of alleviating such poverty are similarly complex and varied. Secondly, the indicators proposed for project search and program monitoring were difficult for project officers or programs department staff to use in practice, could give misleading signals, and posed conceptual problems. These two kinds of problems are tackled below under the headings of "program design and project search" and "program monitoring".

not true

Program Design and Project Search

3. It follows from the first point above that a strategy for the relief of urban poverty must be designed in the context of a well-formulated national and regional strategy. In some countries the alleviation of such poverty would, at least in part, follow from the promotion of output and employment growth in rural areas.1/ In others, such as the highly urbanized Latin American countries or some Indian urban regions, solutions have to be found largely from within the urban economy. The kinds of solution can range from emphasis on growth improvement to emphasis on redistribution; the evidence 2/ suggests that there is little need to be pessimistic about the efficacy of an emphasis on the former.

OK

See basic needs conclusions

4. In any event, it clearly would not be desirable for the Bank to pick up a few projects in an otherwise unsatisfactory regional or urban program, so we will have (i) to develop the capacity to influence such

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1/ As is recommended, for example, in the draft Tanzania Basic Economic Report (S. Acharya et al, June 1977), and for Bangladesh.

2/ As, for example, cited in T. N. Srinivasan "Development Policies and Levels of Living of the Poor". IBRD May 28, 1977 not new

programs for the better, at least at the margin, and (ii) select projects by taking into account both general and project-related factors. In designing a UPL program it will also be necessary (iii) to be clear, country by country, what the Bank expects to achieve by greater involvement in urban poverty projects, and what assistance we have to offer in addition to the efforts of the country and other donors.

exists

discredited

5. Turning now to the detailed identification of suitable projects--suitable both for the Bank and for the country concerned -- it is clear that it is appropriate to advise loan and project officers to use multiple criteria. Many of these criteria overlap so they cannot usually be added up. We suggest that one way of keeping track of all these criteria during the identification phase is for project officers to use a simple goals/achievement matrix (as developed by urban planners); weights can be given to the various goals to help judge how well a particular project meets these multiple criteria.

6. The main criteria could be listed as follows:-

(A) The project must meet all normal Bank standards. It should, for example:

exists

(i) have reasonable rates of economic, social and (insofar as is appropriate) financial return;

ours

(ii) have costs which are held to levels, and a sufficiently large share repaid by beneficiaries, that the degree of subsidy involved does not prevent replication and the longer-term growth of the activity concerned;

exists

(iii) be capable of being implemented by existing or suitable new institutions;

exists

(iv) be part of satisfactory overall plan; and

exists

(v) linkages with rest of economy must be taken into account.

ours

(B) The project must also bring new benefits to the poor in the target group. The poor will benefit as consumers if their:

(i) consumption costs are reduced;

not as strong but with A ii

(ii) environment is improved (health, sanitation, water, open space, etc.); and

ours

(iii) access to present or future benefits is increased (education, transport to wider labor markets, etc.)

(C) As employees, the poor will also benefit if their:

ours

(i) permanent net new employment opportunities are increased, or

(ii) wages are increased if already partly employed, or

ours

(iii) temporary employment opportunities are increased during construction.

7. There is unlikely to be disagreement about the criteria in (A). Regarding (B) and (C) we accept that, particularly in very poor countries, it is not reasonable to expect the urban poor to be able to receive significant benefits largely by redistribution. Therefore emphasis should be given to reducing the costs of supplying goods and services that are consumed by the target groups and should be placed on identifying projects that are income and employment creating, for the poor, as in (C) (i) and (ii). For the latter purpose we suggest using one or both of the following two search criteria:

scale for change?

(a) percentage of permanent employment benefits accruing to the urban poor, and/or

(b) capital cost per new job created, compared with a suitable threshold.

Scale

8. The calculation 1/ of (a) could be approximated by multiplying a suitable minimum wage for the unskilled, by the number of employees earning that sum or less, and dividing by project value added. The more nearly that index approaches 100, the more (ceteris paribus) that project brings first-round benefits to the incomes of the poor. (See accompanying "Work Sheet for Monitoring Urban Poverty Lending" Part II.B.)

ours

9. The above index (a) would, of course, be higher, the lower the use of capital in output. This, however, is only an indirect way of getting at capital spreading. The use of ratio (b) would enable urban poverty programming to take special note of economy in the use of capital per job. Any project that has a lower ratio than a chosen threshold would in a very general sense represent an improvement, in that it would mean an effort to "spread" capital among the labor force, including the unemployed, relative to the present situation.

wrong

10. For each project it is a fairly simple job to estimate the net permanent employment created and relate it to project investment. It would seem essential to deduct employment displaced elsewhere 2/, and not to include benefits in the form of temporary employment arising from the construction phase of projects, which should, however, be considered separately.

1/ Modified from the proposal in the Ahluwalia, Pyatt and Little memo of November 4th.

2/ In extreme cases (e.g., India textile modernization) it could be that more employment is displaced than created, but in the long run greater efficiency would mean that the industry as a whole would employ more than would have been the case. This illustrates the need to use multiple criteria.

11. A national threshold implies a measure of total capital stock (in the usual sense of physical reproductible assets) and total labor force. For the latter ILO data are available for most countries and with occasional corrections the estimates can be accepted. The use of total labor force rather than actual employment is justified by the need to include both the unemployed and the under-employed -- the poorest segments of the labor force -- among the intended beneficiaries. 1/

ours

So are ours

Nice

12. On the other hand there are very few estimates of total capital stock at the national level; ICOR's are more widely used. For the purpose of this exercise, however, it would seem to be within acceptable limits of arbitrariness to estimate the stock of capital through a simple process of adding up annual gross domestic fixed investment (GDFI) over time. On the basis of rough calculations it would seem that the sum total of GDFI, at constant prices, over a period of 15 years to date should lead to a reasonable approximation of the required number. 2/ The comparison between the project ratio and a national threshold would have the advantage of dispensing with both the arbitrary increase (say doubling as suggested in the January 6 memo) of the threshold, and the need to discount the stream of capital costs and jobs in each project.

accuracy

OK

not rational

13. The use of a national threshold as an ideal would be desirable because it draws attention to the possible need (i) to spread more capital to labor-intensive sectors rather than capital-intensive ones and (ii) to minimize investment in capital-intensive urban enclaves. However, if thresholds are to be meaningful, then in each country they may, if circumstances warrant, have to be supplemented by additional sector-specific, or urban-specific, thresholds. For an example of the first, we could note that water supplies are essential, so within that sector a sector-specific threshold should be available to help project choice.

No

how?

14. As far as urban-specific thresholds are concerned, they would first of all help in the search for a special category of projects -- those that create employment for the urban poor within the overall urban lending program. Secondly, in many countries, such as the poorer African ones, large segments of the labor force in rural areas use very little or no capital; their main factor of production, other than their own labor, is land and minor improvements thereon which do not enter the estimates of capital stock. In these poor, dualistic, economies the rural labor force is relatively large, so its inclusion in total labor force in the denominator will result in too low a threshold to be of operational use. It would be better to exclude the rural sector from both sides of the threshold ratio

No

1/ This objective could be approached in two steps, and be neater conceptually; if project cost per job were compared with the threshold capital per employed person, and a separate adjustment made to account for the unemployed, if significant.

2/ An alternative approach, if an adequate GDFI series is unavailable, is to measure the capital stock using the Cobb-Douglas production function. The algebraic formulation is available if required. Other data may be available in some countries.

even though this will involve some arbitrariness (many infrastructure investments serve both the urban and non-urban sectors; agro-industries may provide quasi "urban" employment opportunities, etc.). The exclusion or inclusion of the rural sector could be left to the judgment of the Regions, depending on the particular characteristics of the country under consideration. In a heavily urbanized economy such a correction may not be necessary. In some economies the opposite kind of adjustment may be required, i.e., it will prove desirable to exclude labor and capital used in particular capital-intensive activities such as enclave minerals production.

15. The last of the search criteria mentioned in paragraph 6 above is that of employment during construction. Clearly, if a choice exists between two otherwise similar projects, then the project that offers the greatest employment benefits to the urban poor during construction should be preferred. Generally speaking, however, we are talking about a shift in the composition of urban projects within a more or less fixed investment total, towards those that bring permanent benefits to the poor. There may well be a case for introducing alternative labor-intensive technologies into the construction industry as a whole.

what is that?

What a loose statement

16. The search criteria discussed above contain a lot of double-counting. It is as well to stress this, and to mention that thorough project appraisal with proper use of shadow prices is in the end the best check on the desirability of the chosen project.

Program Monitoring

17. The Bank has a straightforward need to measure the proportion of its lending that is producing benefits for the target group. An urban poverty target group has been identified and at present according to very rough estimates about 32% of all those living in urban areas in LDCs are in that group. The proportion of 1977/79 Bank urban lending that is considered likely to benefit this target group, is 23%. 1/ The accepted objective for the time being is by FY1980 to raise the proportion of UPL in total urban lending to at least 32% Bank-wide -- although variations from region to region are warranted. 2/

18. Monitoring consists therefore in measuring the dollar amount of lending that is expected to benefit the target groups, i.e., that can be classified as "urban poverty lending". For this purpose one requires a procedure that can be consistently applied to all countries and projects and that responds to the needs and objectives of Bank Management, but that is not unrealistic in the information required nor unduly demanding in the staff time involved. Since the issues involved are complex and multi-dimensional, any monitoring system will inevitably involve simplifications and compromises. In the light of the extensive consideration which has already been given to this subject and the above discussion of search criteria, we have outlined a monitoring procedure which we believe would respond to these requirements.

same as ours plus additional

1/ As cited in the January 6th memorandum.

2/ It is not clear to what extent rural projects that benefit the urban poor should be included.

Not at the moment

An illustrative "Work Sheet for Monitoring Urban Poverty Lending" is attached which both explains and can be used to test our proposal.

19. We suggest a dual approach based on either "capital spreading" or direct consumption and income benefits for the target group. Thus any loan for an urban project would be classified as "urban poverty lending" if it met the test of "Employment Generation through Capital Spreading" based on comparing the project specific K/L ratio with the country specific threshold (calculated in accordance with the method discussed above). The data requirements are summarized in Part I of the attached "Work Sheet". If the project did not qualify on this basis, some part or even all of the loan amount would be considered as "urban poverty lending" based upon an analysis of the expected direct consumption benefits and the expected direct income generation benefits for the target group. While consumption and income generation benefits are really different dimensions, so adding one to the other involves some double counting, we believe this can be accepted as an initial "rule of thumb." The general approach to measuring benefits would be that discussed above; how these principles would be applied in practice is illustrated in Part II of the attached "Work Sheet". Even though the "urban poverty lending" computation would be based on either Part I or Part II, we recommend that both sections be completed on all projects in order to give us a better understanding of how the monitoring system is working and provide a basis for subsequent improvement in the monitoring procedures.

own?

new

Final Comments

20. Our last point is that we are concerned that the Bank is attempting to base its urban poverty lending program on insufficient knowledge and research. The three kinds of further work we consider desirable are:

(1) Identification of types of project that meet the above criteria, especially directly productive projects. This research could build on the small enterprise work already done by CPS plus other work, as in education, transport, site and services housing, and labor-intensive technologies;

(2) We need to know much more about what kinds of national, regional and urban strategies will best help the urban poor, and how to assess such strategies and plans from the UPL angle. This would seem to be a priority subject for DPS research and we hope that they will be able to make a contribution within the coming year.

(3) Related to (2), we could learn a lot from further city studies especially, of, say, pairs of cities in which one has had more success than the other in alleviating urban poverty.

21. We suggest that this memorandum be the subject of general staff-level review. If the broad approach is accepted, then the usefulness of the specific decision rules for monitoring should be tested by application to a small number of previously approved projects in different countries before being generally

applied. The approach could then be used experimentally for one year in the first instance and thereafter reviewed. We recognize your need to move ahead fast, but consider that the benefits of reaching agreement on the approach will be evident very swiftly.

22. To summarize, we are suggesting (a) that a range of general and country-specific considerations should enter into project choice, but stress should be given to employment of the urban poor; (b) that a simple indicator of capital cost per job created, compared with a suitable threshold, be used as one guide to project choice; (c) that monitoring be done on the basis of both capital spreading and expected direct benefits accruing to the urban poor from Bank loans; (d) that an active research program is necessary to improve future UPL design and (e) that the suggestions in this memo should be discussed and tested before directives are issued.

cc: Messrs. Baum, Benjenk, Chaufournier, Chenery, Husain, Krieger, Stern, Wappenhans

Messrs. Avramovic, Karaosmanoglu, Yudelman, van der Tak, Fuchs

Messrs. Bronfman (EAP), Pouliquen (WAP), Howell (AEP), Rajagopalan (ASP), Pollan (EMP), Glaessner (LCP), Stoutjesdijk (ECD), B.B.King (VPD), Balassa (DRC)

Messrs. Zymelmann and Ballantine (EDP), Kalbermatten (EWT), Hyde (DFC) F.Mitchell (TMP), Carnemark (TRP), Messenger (PNP), Little and Keare (ECP), Ahluwalia (DRC)

Messrs. Dunkerley, Churchill, McCulloch, D.Singh, Stone, Strombom, Kehnert, Lethbridge, Beier (URB)

Attachment

ILLUSTRATIVE FORMAT

WORK SHEET FOR MONITORING URBAN POVERTY LENDING
(To be completed at time of project appraisal for all urban projects)

Project: ______________________ Country: ______________

I. Employment Generation Through Capital Spreading
(If investment per job is equal to or below country K/L threshold, entire loan amount will qualify as urban poverty lending. If above threshold, the proportion of the loan amount that can be considered urban poverty lending will be based on Part II below.)

Country K/L Threshold:		Project Data:		
Base Prices	Project Prices	Fixed Investment	Permanent Jobs 1/	Investment per Job
______	______	______	______	______

II. Benefits for Target Group
(Please show data for all projects, even though results will not affect urban poverty lending total for projects qualifying under Part I above.)

A. Expected Direct Consumption Benefits.

(1) Type of Benefit	(2) Project Cost for Element	(3) Share of Benefits to Target Group	(4)=(2)x(3) Expenditures on Behalf of Target Group
______	______	______	______
______	______	______	______
______	______	______	______
______	______		______
Total Allocated	______	(A) [%] (*)	______
Unallocated Costs	______		
Total Project Cost	______		

(*) Calculated from total expenditure on behalf of target group as a percentage of allocated project costs.

B. Expected Direct Income Generation Benefits
(Annual levels in typical year once project is fully operative)

Total Value Added	Unskilled Wage Rate	Unskilled Employment (Number)	Unskilled Employment (Wage Bill)	Unskilled Wage Bill as % of Value Added
______	______	______	______	(B) [%]

III. Urban Poverty Lending Computation
(If qualified under I, enter total loan amount. If not qualified under I, add (A) and (B) and enter this percentage of loan amount (but not to exceed 100%).

UPL (In million $)

[ ]

1/ "Permanent Jobs" should be calculated net of any jobs which are eliminated by the project, but should be adjusted to include 1/15 of the man-years employed in project construction.


DROPOUTS
By Howard Post
MOST OF THE PEOPLE ARE LIVING BELOW THE, Y'KNOW, POVERTY LINE, CHIEF!
WHAT DO YOU INTEND TO DO ABOUT IT?!!
I'VE ADDRESSED THE PROBLEM AND HAVE ALREADY INITIATED APPROPRIATE MEASURES...
- MONDAY WE LOWER THE POVERTY LINE
POST
4-29

Files June 24, 1977

Suzanne M. Attwood, ORSU, URB

Poverty Income Levels

1. A meeting was held on June 17 to discuss Poverty Income Levels (see Ahluwalia and Duloy to Distribution, June 17, and Hee to Files, June 21). In addition to what is stated in those memos, the following points should be added.

2. There is a clear operational need to define a poverty or target group income for the purpose of intra-country project selection and design. This has been done on a Bank-wide basis by the country economists, initially at the request of the Rural and Urban Operations Review and Support Units. It has been duly noted throughout this process that there is a need for greatly improved data and that poverty analysis should be given more emphasis in country economic, sector, and project preparation work. However, these are the best working estimates available at this time, and they will be updated and improved upon in due course. In particular, there is a need for better income distribution data to determine the percentage of the populations, both urban and rural,1/ whose incomes are below the target or poverty income for a particular country. Many of the anomalies in the present data stem not so much from estimating the poverty or target income, although again this can certainly be improved upon, but from estimating the percentage of the population falling into this category.2/

3. The issue of whether or not it is desirable (and, if so, possible) to have comparability across countries for operational Target Groups has indeed been raised in ongoing discussions during the past two years. Given the operational emphasis of the Bank's Poverty Program to focus on the problems of poverty on a country-specific basis, the Target Group has been defined as the greater of either those in absolute or relative poverty.3/ Therefore, it has not been deemed desirable to have comparability across countries for comparability's sake. Rather, there has been an effort to have comparability in estimating the absolute poverty level in countries where this is the dominant consideration, and in estimating the relative poverty level, in countries

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1/ Including city specific and regional differences.

2/ Given the total absence of income distribution data in some countries, a "similar" country's income distribution was used as the best approximation. Further, many of these distributions are over ten years old and thus not always representative of a country's current situation.

3/ With a few exceptions, the regional breakdown is as follows: For E. Africa, W. Africa, East Asia, and South Asia, the absolute poverty level is the controlling one, whereas for EMENA and LAC it is the relative poverty levels. For the latter two regions, the absolute poor levels may be the controlling one on the rural side.

where this dominates. Similarly, care is being taken to define or identify target groups in urban and rural areas in the same country on a consistent basis.1/

4. Thus, for the operational implementation of the Poverty Program, the emphasis should clearly be on improving the estimates of the Target Groups on a country by country basis. If and when the Kravis study with the concept of a measure of absolute poverty with a purchasing power parity conversion among countries can be expanded and applied to more countries, then this should be done, and analyzed in cooperation with the regional economists. However, for EMENA and LAC, the operational emphasis should continue to be on the relative poverty level, most certainly from an urban point of view. Therefore, effort can be most productively concentrated on obtaining improved data and doing further analysis on income distributions, and the spatial and regional differences.

5. Further, aggregation of the corresponding populations at or below these poverty levels has never been a primary objective in gathering this data for the Poverty Program. However, Target Groups may be aggregated by Region or Bank-wide to given the total number of people in the Bank's Target Group,2/ which will be a mixture of absolutely and relatively poor populations, depending on the situation in the various countries. In practice, the Rural and Urban Poverty Programs are being monitored on the basis of the benefits accruing to the Target Groups.

SAttwood:km

cc: Messrs. Ahluwalia, Duloy (DRC); T. Davis, Turnham (AGP);
Cheetham, Hee, Hughes (Ms.)(EPD); Meo, Haq (EPR);
Jaycox, Dunkerley, Churchill, Lethbridge (URB).

1/ There has been some discrepancy up until now regarding this point because the rural exercise preceded the urban one and initial definition of the relative poverty levels differed somewhat.

2/ For example, this number has been used as a very rough approximation of the magnitude of the poverty situation by Region on the urban side for initial poverty programming purposes.

WORLD BANK / INTERNATIONAL ...

OFFICE MEMORANDUM

TO: Mrs. Helen Hughes, EPDDR

DATE: June 17, 1977

FROM: Michael Hee, EPDES

SUBJECT: Estimates of "Relative Poor" and "Absolute Poor"

1. Currently two definitions of poverty are used by the Rural and Urban Task Forces to arrive at the target population of the "poor". The "relative poor" are those whose incomes are less than one-third of the national average per capita income; the "absolute poor" are those with incomes below those necessary to obtain minimum food and non-food requirements. The target population is the more inclusive (or greater) of the two groups in any country.

2. Country economists have on this basis identified poverty groups in the urban and rural sectors for nearly all countries that borrow from the World Bank. Income criteria were based on "personal income" estimated, in many cases on the basis of necessarily crude data, by country economists. In particular, the definition of the absolute poverty income levels involves estimation of the cost of a minimum needs food basket, with a 30% addition to cover non-food necessities. This poses real difficulties, especially for large countries where regional differences are important, and as between rural and urban areas. The target populations suggested for Bank-wide use are summarized in Attachment I.

3. While country-specific estimates are relevant for country-specific programs, they do not permit an assessment of "absolute poverty" from a world-wide point of view.

4. Nick Carter has therefore attempted to estimate the number of people in absolute poverty from a global viewpoint in 46 countries by a methodology based on Kravis purchasing power parity and a "Kuznets" income distribution hypothesis. These estimates clearly have to be refined---it does not seem likely that there are more "absolute" poor than those identified country by country, by country and project economists. I would suggest that where in doubt the figures in Attachment I are taken as the upper limit. Estimates of the poor in these 46 countries are used to esimate the poor of the same universe of developing countries (comprising approximately 80% of population of this universe of LDCs) for which Rural and Urban Task Force's data are available. The results are summarized in Attachment II. These figures are, however, useful, to indicate the locus of the poor for aid purposes.

5. Assuming we are reasonably satisfied that this is the best we can do at present and that these are the numbers we should use for "Prospects" and the World Development Program, can we make any decisions about how these figures might be improved in time and how the "relative" poor data can be kept updated?

MHee/kg

THE LOCUS OF ABSOLUTE AND RELATIVE POVERTY BY INCOME GROUP AND REGION, 1975

(Millions)

	Total Population	Population in Poverty					
		Lower Income	Lower Middle Income	Upper Middle Income	Higher Income	Total	Total Poor as a Percentage of Population
South Asia	814	386	-	-	-	386	47
East Asia	265	77	28	9	-	114	43
Africa	285	113	32	3	-	148	52
Middle East	239	9	16	13	29	67	28
Latin America	304	4	7	110	14	135	44
Total	1907	589	83	135	43	850	45

Source: Economic Analysis and Projections Department estimates based on Rural and Urban Task Force's country estimates.

RELATIVE RURAL AND URBAN POVERTY BY REGION, 1975

	Total Population	Rural Poor (millions)	Urban Poor	Total Poor as a Percentage of Population
South Asia	814	306	80	47
East Asia	265	95	19	43
Africa	285	133	15	52
Middle East	239	49	18	28
Latin America	304	90	45	44
Total	1907	673	177	45

Source: Economic Analysis and Projections Department estimates based on Rural and Urban Task Force's country estimates.

ESTIMATES OF WORLD POVERTY 1975 BY REGIONS AND INCOME GROUPS FROM 46 COUNTRY SAMPLE /1

	Total Population	Lower Income	Lower Middle Income	Upper Middle Income	Higher Income	Total Poor	Total Poor % of Total Population
	Population (mil.) with less than $200 (KRAVIS) per capita Income /2						
South Asia	814	420	-	-	-	420	52
East Asia	265	83	30	2	-	115	43
Africa	285	103	39	-	-	142	50
EMENA	239	-	15	11	12	38	16
LAC	304	-	4	32	-	36	12
Total	1907	606	88	45	12	751	39

/1 Comprising approximately 80% population of LDC's. In Zambia, Korea, Argentina, Venezuela, Tunisia, and Yugoslavia, average income of the bottom decile is greater than $200 (KRAVIS) per capita.

/2 Based on a uniform analysis of distribution and development by Chenery and Carter (1977).

Source: EPDCA.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Distribution

DATE: June 17, 1977

FROM: M.S. Ahluwalia and John H. Duloy, DRC

SUBJECT: Poverty Income Levels

Our understanding of the major conclusions which emerged from today's meeting is as follows:

(1) At present, the poverty groups concept is being used in two very different contexts. It is being used in a country specific context for purposes of identifying a target group towards which Bank lending should be directed and it is being used in an inter-country or global context to refer to the size of the world's population in absolute poverty and its global distribution.

(2) There is a clear operational need to define a target group for the purpose of intra-country project selection and design. The CPS and Regions have defined such a group for each country as those people in the population with incomes below a country specific cut-off level. This level is at present determined as the larger of the populations implied by an absolute poverty cut-off or relative inequality considerations.

This cut-off level is strictly country-specific and the target groups so defined are not comparable across countries in terms of their level of living.1/ There is, therefore, no justification for adding across countries and presenting the resulting estimates as estimates of the world's poor. As Mahbub ul Haq points out in his June 6 memo, the procedure leads to 24 percent of Burma's rural population being in the target group, contrasting with 60 percent of Argentina's.

(3) Since a country specific definition of target groups is useful in directing lending for a particular country in a preferred direction we should term the cut-off income for each country as Target Group Income (TGI) rather than a poverty line. 2/

(4) The concept of the world's population in absolute poverty requires comparability of definitions across countries which would permit aggregating the number of poor across countries and talking meaningfully of the regional distribution of poverty. It was generally agreed that for this purpose, the most appropriate measure is one based on absolute poverty,

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1/ An important issue, not addressed here, is whether or not it is desirable (and, if so, possible) to have comparability across countries for operational target group definitions.

2/ The TGI could well be defined separately and differently for urban and rural areas.

with a purchasing power parity conversion among countries. It was recognized that the present data base is far from being adequate, the Kravis study having been applied to relatively few countries. However, it seems better to measure the right concept, however crudely, than to allow the concept itself to be distorted and rendered meaningless. Further, to improve the estimates over time, it is necessary to iterate between analysis of aggregate multi-country data and the judgments of regional economists concerning their own country.

(5) It was generally agreed that statements about poverty in an inter-country context, such as the Prospects Paper, should refer to the absolute poverty described in (4) above.

(6) This leads to the situation where the Bank's general policy statements about "poverty" and the numbers of individuals affected by it are no longer comparable with its definition of "target groups" and the number of people to be reached. However, this tension is due to the policy decision to lend to relatively high income countries and not to inadequacies in the definitions and data. Nor does this weaken the justification for having target group concepts: given that we must lend to countries which are not severely (or even moderately) affected by an absolute poverty problem, it is perfectly legitimate to direct our lending within these countries to a target group which is relatively poor. It only means that only some of our target groups are also absolutely poor. This is surely better than the present situation in which some of the "poor" are not "really poor," but only "relatively poor" and indeed may be richer than those in other countries who are not even called poor.

Distribution

Ms. Atwood
Mr. Ted David
Mr. Cheetham
Mr. Haq
Mr. Hee
Ms. Hughes
Mr. N. Lethbridge
Mr. Meo
Mr. Turnham

cc: M/s. Chenery
Karaosmanoglu

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

UPP Gen

OFFICE MEMORANDUM

TO: Mr. Alastair Stone, URB

DATE: June 17, 1977

FROM: Chief Economists VBW

SUBJECT: Urban Poverty Lending

We attach three copies of a draft memorandum on this subject which we hope to issue on Tuesday. We have tried to make a constructive contribution to the already overextended debate on this subject, so as to help all of us to get on with the real substance of urban poverty allievation. Please let Luis de Azcarate or Bevan Waide know if you or your colleagues think we should have second thoughts before distributing the memorandum.

When issuing it in final we plan to attach some calculations for specimen countries showing what the thresholds look like.

EBWaide/cml

EBWalde/LdeAzcarate/cml
6/16/77

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

FROM: Chief Economists

SUBJECT: Urban Poverty Lending

1. Progress in the design and implementation of the Bank's Urban Poverty Lending program seems to be less rapid than is desirable. This may in part be because the various rules set out in your memorandum of January 6 to OVP's, and acknowledged therein to be "arbitrary and contentious," are proving in practice to be more difficult to use than we had expected; various recent ORSU clarifications designed to bring these rules into use have reopened the question of their desirability and feasibility. In this note we would like to suggest a way of proceeding which is more likely to receive the regions' full support and which, we hope, will help develop the Bank's Urban Poverty Lending (UPL) program.

2. The objective of the exercise is to enable the Bank to help relieve urban poverty without adversely affecting our rural poverty program, and hence UPL is measured as a proportion of all urban lending. While this is acceptable as an initial simplification, we would note that in designing a country lending strategy it is necessary to consider the proportion of total lending that should be urban. Ultimately, therefore, we would wish to decide on the warranted level of UPL in any one country using a variety of criteria--including a judgement on the need for Bank intervention--as well as overall Bank UPL targets.

3. At present according to very rough estimates[1/] about 32% of all those living in urban areas in LDCs are in the urban poverty target group; the proportion of 1977/79 Bank lending in urban areas, that seems likely to benefit this target group, is 23%. The objective for the time being is to raise the proportion of UPL by FY1980 to at least 32% Bank-wide--although variations from region to region are warranted.

1/ cited in the January 6th memorandum.

4. In order to measure, for internal Bank monitoring purposes, whether such a target is being achieved it is necessary to identify the beneficiaries of our urban projects and the benefits they receive. We note here (see memorandum from Lethbridge to Waide dated May 24, 1977) that non-urban projects which benefit the urban poor can be included. The identification of benefits and beneficiaries in each country is, like the measurement of urban poverty itself, a very inexact task, but the general principle is, for each project, to identify the proportion of the value of benefits that accrue to the urban poor and apply that proportion to the $ amount of the loan.[1/] The resulting total for all urban projects is the UPL program.

5. Benefits can accrue to the poor in many different ways and over different periods. On the consumption side the poor will benefit if their:-

1. consumption costs are reduced;
2. environment is improved (health, sanitation, water, open space, etc.); and
3. access to present or future benefits is increased (education, transport to wider labor markets, etc.)

The poor will also benefit on the income side if their:-

4. permanent employment opportunities are increased, or
5. wages are increased if already employed.

6. We note that the last two of these are different from the others in that they are a part of the cost of other project benefits as well as being a desirable result of the project. The question of what kind of benefits are most desirable in an urban poverty project is considered

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1/ If the $ portion of the loan devoted to producing these benefits for the urban poor is measureable, then that figure could be used, for greater accuracy.

below; for monitoring purposes, however, we suggest (as also proposed by Messrs. Ahluwalia, Pyatt and Little in their November 4, 1976 proposals) sticking to the formulation in Para. 4 above. Although arbitrary, it can be applied consistently over time and has the merit of focussing project officers' attention on the target group and on identifying benefits.

7. The projects selected for the urban poverty lending program must of course be such as to meet all the normal Bank standards. That is, they must produce reasonable levels of economic and social return, and produce an adequate savings stream to enable long-run growth to be maintained: the dynamic effects must be considered so that the poor receive benefits that can be sustained over time. Likewise linkages with other parts of the urban economy must be traced, at least in larger urban areas, and such projects must be seen in the context of a sensible urban and regional plan. Clearly it would not make much sense for the Bank to pick up a few projects in an otherwise unsatisfactory urban program, so we would have to develop the capacity to influence urban programs for the better, at least at the margin. It will also be necessary to be clear, country by country, what the Bank expects to achieve by greater involvement in urban poverty projects, and what skills we have to offer. In short, project selection must take into account a variety of criteria whose importance will differ in different urban areas.

8. However, we accept that, particularly in very poor countries, it is not reasonable to expect the urban poor to receive consumption benefits indefinitely by redistribution. Therefore particular stress should be placed on identifying projects that are output and income creating--which for all practical purposes means employment creating. For this purpose we consider that the search criteria mentioned in the Ahluwalia, Pyatt, and Little proposals are the most suitable of the many proposed to date. We suggest that these be worked up over the coming year to the point of

where they are of operational use. We recognize however that, because these refinements have yet to be made and because it is necessary urgently to issue workable interim guidelines to assist project identification, and to act as a supplementary monitoring tool, some shortcut methods for the time being should be available.

9. For this use we suggest--along with <u>all</u> the criteria implied by the objectives in para. 7 above--the simple criterion of <u>capital cost per job created by the project, compared with a suitable national threshold</u>. The formulation of this is described in the following paragraphs. It would enable urban poverty programming to take special note of employment creation and economy in the use of capital per job, where these are seen by the Region to be important supplementary search criteria. Any project that has a lower ratio than the national threshold would in a very general sense represent an improvement in that it would mean an effort to "spread" capital among the labor force, including the unemployed, relative to the present situation.

10. For each project it is a fairly simple job to estimate the permanent employment created and relate it to project investment. It would seem appropriate to deduct employment displaced elsewhere, but not to include benefits in the form of temporary employment arising from the construction phase of projects. If total urban lending is fixed, and all we are considering is a shift from one kind of project to another then the benefits during the construction phase would differ only slightly as between projects. There may well be ways of organizing construction so as better to benefit the poor, but this subject is best taken up through studies of alternative technologies in the construction industry.

11. The national threshold then implies a measurement of total capital (in the usual sense of physical reproductible assets) and total labor force. For the latter ILO data is available for most countries and with occasional

corrections the estimates can be accepted. The use of total labor force rather than actual employment is justified by the need to include the unemployed and underemployed--the poorest segments of the labor force--among the intended beneficiaries.[1/]

12. On the other hand there are very few estimates of total capital at national level, and ICOR's are more widely used. For the purpose of this exercise, however, it would seem to be within the acceptable limits of arbitrariness to estimate the stock of capital through a simple process of addition of annual gross domestic fixed investment (GDFI) over time. On the basis of rough calculations it would seem that the sum total of GDFI, at constant prices, over a period of 15 years to date should lead to a reasonable approximation of the required number.[2/] This comparison between the project ratio and national threshold would have the advantage of dispensing with both the arbitrary increase (say doubling as suggested in the January 6 memo) of the threshold, and the need to discount the stream of capital costs and jobs in each project.

1/ This objective could be approached in two steps, and be neater conceptually, if project cost per job were compared with the threshold capital per employed person, and a separate adjustment made to account for the unemployed, if significant.

2/ This can be checked by applying an alternative approach to the measurement of the capital stock using the Cobb-Douglas production function with constant returns to scale. The algebraic formulation is available if required. This approach could also be used if an adequate GDFI series is unavailable.

13. While a national threshold would give a better measure of the capital "spreading" effect, it may be desirable for two reasons to limit the threshold to its urban dimension. The first is that the purpose of the "threshold" is to help in the search for a special category of projects--those that create employment for the urban poor--<u>within</u> the overall urban lending program. The second reason is that in many countries, especially the poorer ones, large segments of the labor force in the rural sector use very little or no capital; their main factor of production, other than their own labor, is land which does not enter the estimates of capital stock. In the poor, dualistic, economies countries where the rural labor force is relatively large, inclusion of total labor force in the denominator of the threshold will result in unduly low and rather meaningless figures. It would be better to exclude the rural sector from both sides of the threshold ratio even though this will involve some arbitrariness (many infrastructure investments serve both the urban and non-urban sectors; agro-industries may provide quasi "urban" employment opportunities etc.). The exclusion or inclusion of the rural sector could be left to the judgement of the Regions, depending on the particular characteristics of the country under consideration. Similarly (and the issue has already been widely debated) it may be judged necessary to supplement the national threshold by examining sector-specific ratios so that, for an essential product in a given sector, capital-spreading options are properly considered.

14. Our last point is that we are concerned that the Bank is attempting to base its urban poverty lending program on insufficient knowledge and research. The three kinds of further work we consider desirable are:-

1. identification of types of project that meet the above criteria, especially directly productive projects. This research could build on the small enterprise work already

done by CPS plus other work, as in education and housing, on labor intensive technologies;

2. We need to know much more about what kinds of urban plan will best help the poor, and how to assess such a plan from the UPL angle. This would seem to be a priority subject for DPS research and we hope that they will be able to make a contribution within the coming year.

3. Related to (2), we could learn a lot from further city studies especially of, say, pairs of cities in which one has had more success then the other in alleviating urban poverty.

15. We would suggest that this memorandum be the subject of general staff-level review, as was done for the May 11 memorandum. If the approach is accepted, then the validity of the cost per job decision-rule needs to be tested by application to a small number of countries--say one per Region in which we already have good knowledge of capital costs per job--before being generally applied. The approach could then be used experimentally for one year in the first instance and thereafter reviewed.

16. To summarize, we are suggesting (a) that Bank programming be done on the basis of estimates of the benefits accruing to the urban poor from Bank loans; (b) that a range of general and country-specific considerations should enter into project choice, but stress should be given to employment of the urban poor; (c) that a simple indicator of capital cost per job created, compared with a national threshold, be used as one guide to project choice and as a supplementary indicator of program performance; (d) that an active research program is necessary to improve future UPL design and (e) the suggestions in this memo should be tested before directives are issued.

cc

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

Mr. Jaycox
Mr. Churchill
Mr. Stone
Mr. ...

OFFICE MEMORANDUM

TO: Harold Dunkerley

DATE: ~~June 13, 1977~~

FROM: John A. Holsen

SUBJECT: Estimating "% of Urban Relatively Poor"

1. Mr. Beier has asked me to request country economists to update (in the course of their further mission work) your January 19, 1977, "Urban Poverty Estimates" for LAC. While doing so I wanted to be sure I understood just how you were going about making these estimates. All went well until I got to the last (right hand) column on "% of Urban Relatively Poor". I was unable to either reproduce or make sense of the numbers you show under this heading.

2. It seems to me that the "% of Urban Relatively Poor" is simply a statement about income distribution for the urban population. All the information you need is in the appropriate column of Shail Jain's "Compilation of Data"; to add anything more is simply to introduce "noise" into the estimation procedure. Thus, in the case of LAC, I would expect to see the same numbers for Bolivia and Peru as for Ecuador and the same number for El Salvador and Guatemala as for Honduras (since in each case the income distribution data for the third named country was used for all three countries). But this clearly is not the case.

..., because ... adjustments for urban income differentials in different countrys - (Col. 5)

3. This led me to make my own calculation for Argentina. I got 9.2% compared to your 20.5% -- a big difference! We came fairly close on Brazil, but then substantial differences appeared as I tried other countries.

4. My method is illustrated on the attached graph. It is simply interpolation (on the assumption that decile averages apply to the corresponding midpoints). The formula and illustrative numbers for Ecuador are:

$$\text{"\% of Urban Relatively Poor"} = \text{Midpoint Pop. as \% of Total for DWAI} \ll .33 + 10\% \left(\frac{.33 - \text{IODWAI} \ll .33}{\text{IODWAI} > .33 - \text{IODWA} \ll .33} \right)$$

$$28\% = 25\% + 10\% \left(\frac{.33 - .30}{.40 - .30} \right)$$

where DWAI = "decile with average income" and IODWAI = "income of decile with average income". Income is measured in units such that the average income of each decile is equal to 1.0 (but if I hadn't already

$$\frac{\text{Urb Poverty Income}}{\text{Avg Urb Income}} \times 5^{*} = \text{\% of Total Income of that 5\%}$$

of the Pop receiving the poverty income level or less!

interpolate - read off Jain

* 5 because we used every 5% rather than deciles

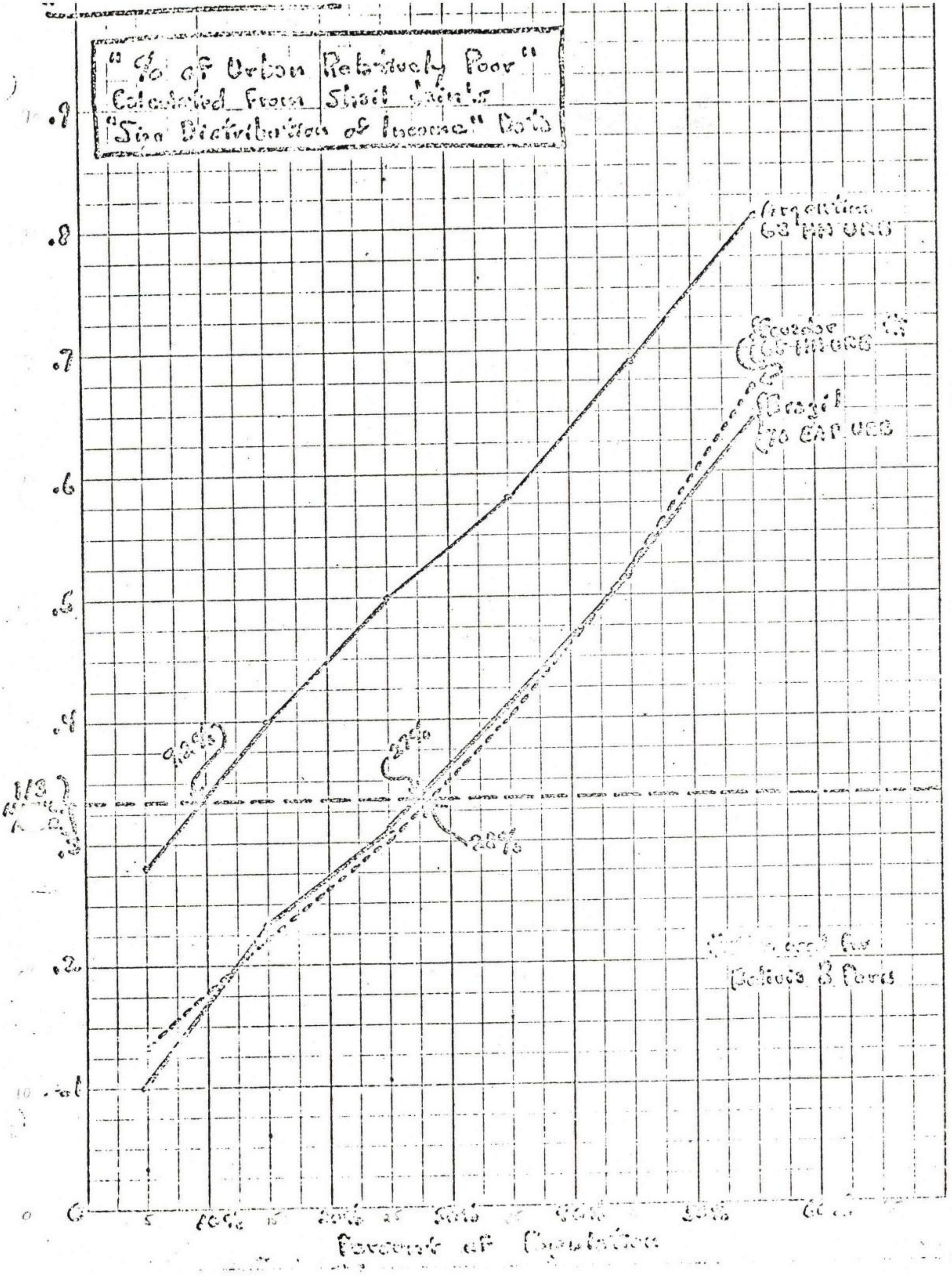
put the scale on the graph I would let total income be 100 rather than 10 and avoid moving the decimal point from what Shail Jain shows).

5. What approach did you take in making your estimates? Which approach makes better sense?

JAHolsen/ml

Attachments: Graph and Table

cc: Mr. Montek Ahluwalia
Mr. George Beier o/r
LAC Senior Economists


"% of Urban Relatively Poor"
Calculated From Shail Jain's
"Size Distribution of Income" Data
Argentina
Ecuador
Brazil
.9
.8
.7
.6
.5
.4
.2
.1
28%
27%
26%
Percent of Population

EXAMPLE: $\frac{(1592)(.88)(1.4)}{3} \cong 653$ $[(1592)(.88) \cong 1402]$ $(1402)(1.037) \cong$ [illegible]

U.S. [illegible]

UPDATED WORKSHEET DECEMBER, 1976/1
(Estimates for 1975)

	Distribution Used	GNP, Current Market Prices, per capita 1975	TPI/GNP /a	Personal Income Per Capita 1975	Urban Poverty Income Level /b	Urban Personal Income/c Per Capita/National Personal Income P.C.		Urban Personal Income Per Capita 1975		% of Urban Relatively Poor /d	
KA	Urban households 1963	1592	.88	1402	653	1.037	653/1453 = .449	1453	9.2	20.5	
	Urban, economic active population 1970	1008	.86	867	405	1.375		1192	27.0	25.5	
	Urban households, Ecuador, 1968	315	.71	225	105	1.755		393	28.0	[illegible]	
	Urban households; 1968	761	.59	447	209	1.219		545		23.2	
A	Urban income recipient 1970	534	.84	446	154	1.750		558		22.5	
ICA	Non-agricultural households 1961	906	.73	664	310	1.476		980		19.5	
AN REPUBLIC	Santa Domingo households 1969	719	.62	446	208	1.500		668	wrong	17.0	
	Urban households 1968	555	.62	346	161	1.500	.31	518	1.58 28.0	22.4	17.5
ADOR	Urban households, Honduras 1968	454	.83	377	176	1.500	.31	565	1.58	17.[illegible]	17.7
LA	Urban households, Honduras, 1968	655	.95	622	290	1.700	.27	1057	1.37	15.[illegible]	15.6
	Santo Domingo (D.R.) households 1969	557	.74	414	193	1.365		565		20.6	
S*	Partial distribution of urban wage earners 1970	178	.86	153	71	1.428		218		49.5	
S	Urban household 1968	350	.95	332	155	1.750		582		15.5	
/f	Constructed by country economist	1288	.71	914	377	1.956		1788		16.1	
	Urban households 1963	1188	.87	1035	484	1.264		1306		29.3	
UA	Urban households Mexico 1963	719	.71	512	239	1.500		769		24.0	
	Metro area income recipient 1968	1063	.77	816	381	1.400		1143		16.5	
Y	Urban, economic active population, Brazil, 1970	570	.90	513	239	1.600		821		20.5	
	Urban households Ecuador 1968	813	.82	666	311	1.400		932	28.0	24.[illegible]	
	National households 1967	1327	.89	1181	551	1.050		807		25.9	
ELA	Urban household 1962	2207	.70	1545	721	1.150		1777		24.9	

ncorporating corrections by country economists on the same worksheet circulated in November, 1976.
erived from most recent rural poverty exercise, as corrected by country economists.
/3 personal income per capita X 1.40. The multiplier 1.40 is used as urban/national price index except in cases where absolute poverty estimates produced different multipliers (Colombia and Jamaica)
argely arbitrary ratios used in most recent rural poverty estimates.
ince most distributions are for urban households, this column applies assumption that household income distributions are the same as personal distributions, in addition to the obvious weakness in the household istribution data.
aiti absolute poverty estimate indicated about .58 in absolute poverty w/poverty level, updated to 1975 of $85.5.
amaica estimates derived from data prepared by country economist for absolute poverty estimate.

y 18, 1977

Used 1.4 as urban/rural diff: income diff

F.K., June 10, 77

K/L-Gen
UPP Gen

Comparison of Country-Specific Capital/Man-Year Threshold and other Suggested Thresholds

Part I: Country-Specific Threshold and GNP per Capita

1. It has been suggested in previous discussions that our country-specific thresholds are close or equal to gross national product per head of the population. This is conceptually possible only if the following conditions are met:

   (a) the labor force participation rate is twice as high as the percentage of GDI in GDP;

   (b) gross domestic product is equal to gross national product.

2. It is therefore not surprising that a comparison of GNP per capita and our thresholds as calculated by EPD shows very large differences between the two figures. It should be noted that for sake of rapidity this comparison has been made with the uncorrected thresholds before comments by country economists have been incorporated. Also, the GNP per caput figures used are still subject to revision. I have tabulated the results of the comparison in Table 1. For the 85 countries for which both figures were available for 1976, our threshold is lower than per capita GNP in 28 cases and higher in 57 cases.

3. Table 2 shows the extent of the divergence between the two sets of figures. Column 1 shows the number of countries by Bank region where the figures are within 15% of each other which may well be explained by the margins of error in these calculations. Columns 3 and 5 show the extreme differences where the capital per man-year threshold is more than 50% below the GNP per capita figure or where it is more than 100%

above.

4. To illustrate how the three factors above account for the differences between GNP per capita and our capital per man-year thresholds, I have prepared Table 3 for two countries, Botswana and Algeria, both of which show sizeable diversions between the two figures. Both countries have very high rates of investment in relation to GDP but the participation rate in Botswana is more than double that of Algeria. The table illustrates to what extent our threshold is sensitive to the participation rate and the rate of investment in GDP. Both these elements are in the center of our preoccupation and the GNP per capita figure is totally insensitive to them. However, GNP per capita is sensitive to factor income received from abroad but our figure is not. The contribution of each of the three factors to the difference between our threshold and GNP per capita can be verified by multiplying the factors given in lines 6, 9 and 13 which gives as a result the factors given in line 3.

5. Looking at the list of countries where our capital/man-year thresholds vastly exceed the GNP per capita figure, i.e., where it is more than 100% higher, leads me to restate a point I made earlier. In fact, this list, with only two exceptions, contains countries with a very high proportion of GDP generated in the mining sector. Investment in mining, which very often is foreign investment, cannot really be considered fungible, i.e. available for investment in other sectors. Our method, therefore, may be much too generous where investment in the mining sector is a large part of GDI and we should consider adjusting our threshold for this effect if we can find the data.

Table 1

Comparison between K/L Threshold and GNP Per Capita

	Total countries compared	K/L Threshold is: Lower In	Higher In
East Africa	16	7	9
West Africa	19	10	9
East Asia and Pacific	9	-	9
South Asia	5	4	1
LAC	21	4	17
EMENA	15	3	12
Total	85	28	57

Table 2

Size of Difference between K/L Threshold and GNP Per Capita

Region	K/L within 15% up or down	K/L >15% to <50% below	K/L >50% below	K/L >15% to 100% above	K/L >100% above
EA	1	2	5	5	3
WA	9	5	2	1	2
EAP	1	-	-	6	2
SA	1	2	1	1	-
LAC	5	2	1	13	-
EMENA	3	-	1	9	2
Total	20	11	10	35	9

Table 3

Comparison of K/L Threshold and GNP per Capita

	Botswana (1974)	Algeria (1975)
		US $
Actuals		
1. GNP per capita	386	832
2. K/L threshold	873	4184
3. Line 2 over line 1	226%	503%
At 90% LF Participation rate		
4. GNP per capita	386	832
5. K/L threshold	1043	2332
6. Line 5 over line 4	270%	280%
GDI at 20% of GDP		
7. GNP per capita	386	832
8. K/L threshold	360	1489
9. Line 8 over line 7	93%	179%
GDP equal to GNP		
10. GNP per capita	430	830
11. K/L threshold	873	4184
12. Line 11 over line 10	203%	504%
P.M.		
13. Line 7 over line 10	90%	100.2%

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Jaycox

TO: Mr. Edward V.K. Jaycox, Chairman, Urban Poverty Task Force Group
Mr. Montague Yudelman, Director, AGR

DATE: June 6, 1977

FROM: Mahbub ul Haq, Director, PPR

SUBJECT: Poverty Income Levels (Your memo of May 17)

1. The Bank needs poverty estimates for two very different purposes. The first, and perhaps the most important, purpose is the definition of country-specific poverty target groups. This affects our country program thrust, project design, and country economic work. Your memorandum of May 17 to the Regional Directors and Chief Economists circulated estimates of this type.

2. It is obvious that this data cannot be aggregated; combining only 24 percent of Burma's rural inhabitants with 60 percent of Argentina's to establish a Bank-wide target group does not, of course, make much sense. Annex I, which shows a regional grouping of the rural target groups, shows how meaningless such a grouping would be. Yet we may have inadvertently done the same thing by circulating progress reports on the Bank's coverage of the poor in its projects. It is my understanding that our progress reports on global numbers of rural poor affected by Bank projects are based on country-specific estimates. I believe it may be misleading to continue this practice.

3. However, even when the country-specific results are viewed in an intra-regional context, I find it difficult to see how only 55 percent of Colombia's rural inhabitants are within relative poverty, while 80 percent of Chile's is; or how 90 percent of rural Kenya can be in poverty, compared to only 65 percent of rural Ethiopia. Rather than stressing the point in your memorandum that until better numbers are available, the present numbers would be used, I would have preferred noting the unsatisfactory nature of the present numbers and the need for greatly improved data. Your memorandum correctly points out that poverty analysis should be given more importance in country economic work. Not only will my staff be stressing this in their review of country economic work, they may be helpful in assisting your staff in improving some of the most peculiar anomalies.

4. The Bank's second need for poverty data stems from inter-country poverty comparisons. We have found it increasingly difficult to use country-specific poverty estimates — no matter how good they are — for global poverty work. Our first problem is an obvious one; the poor of Sweden are not the same as the poor in Bangladesh. Until recently, we have had no answer to this problem, other than using very gross guesstimates. Recently, however, Messrs. Chenery and Carter have used the International Comparison Project estimates of the income of most developing countries on a comparable purchasing power basis, and then combined this with income

distribution data to estimate the income distribution of a large sample (1.6 billion out of 2 billion people) of the developing nations. This has permitted us to estimate for the first time where the lowest 40 percent of the developing world live, and what their income is. Annex II is my staff's estimate where the poorest 40 percent of the total developing nations' population reside. This poverty group has incomes below $92 (roughly) in $ 1975. The 790 million could be raised to 900 million by using a higher income level. As the ICP project continues and our income distribution data improve, this procedure will automatically be sharpened. Since the ICP uses a purchasing power parity technique not too dissimilar in theory to that recommended in the April 1975 Baum memorandum, it should be a superior source on absolute poverty data for those countries when the ICP work is completed.

5. Obviously, until the ICP coverage is substantially increased, we must continue using both country-specific and global poverty data, although a clear distinction should be made between the two sets of data. This would imply that:

- First, programs directed towards basic needs may be designed around the Chenery-type data, since the ICP project seems a superior way to assess global poverty. These will need to be adjusted to country-specific needs when designing country basic needs programs, since basic needs and their provision vary from country to country.

- Secondly, the severe income distribution problems of some countries in Latin America and North Africa may be attacked by a variety of weapons, not just by direct poverty alleviation. In these countries, pricing changes, project choice, and different development strategies may be more important in improving income distribution than a decision to allocate one-third or more of our projects to a target group.

- Finally, the Chenery-type global absolute poverty statistics may be more simply understood by a nontechnical audience. For that reason, I propose we use data derived by that method in all future nontechnical publications and speeches of the Bank.

Attachments

cc: Messrs. Chenery, Baum, Christofferson, Cheetham, Beier, Davis, Carter
Mrs. Hughes

FMcc/bjc

Lowest 40 Percent of Developing Nations
Based on P.P.P. Comparisons

Regions	Total Population (million)	Poor Population (million)	Ratio of Poor to Total (%)	Location of Poor (%)	cf.
Latin America and Caribbean	304.8	35.1	12	4	16
East Asia and Pacific	324.9	123.8	38	16	13
(Indonesia)	(136.0)	(73.9)	(54)	(9)	
EMENA	232.7	58.8	25	7	8
East Africa	150.7	89.5	59	11	12
Western Africa	150.6	58.8	39	7	6
South Asia	814.9	425.4	52	54	45
TOTAL	1,978.6	791.4	40	100	

Source: Preliminary Runs by EPD/EA, expanded by EPR staff.

Country-Specific Poverty Target Groups

Regions	Population (million)	Poor (million)	Ratio of Poor to Population (%)	Location of Poor (%)
East Africa	141.0	101.2	72	12
Western Africa	144.4	46.6	32	6
East Asia and Pacific	265.3	114.1	43	13
South Asia	813.8	385.9	47	45
Europe, Middle East and North Africa	238.8	67.2	28	8
Latin America and Caribbean	303.7	134.6	44	16
TOTAL	1,907.0	849.6	44.6	100

Source: CPS country-specific data as revised by EPD/ES, May 1977.

[illegible] / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. E. B. Waide, Chief Economist, South Asia   DATE: June 6, 1977

FROM: Ernest Stern, VP, South Asia

SUBJECT: <u>Urban Poverty</u>

Mr. Hicks's memorandum of June 2 summarizes the debate which has been raging rather well. Since there still may be some doubt as to how the Region wants to deal with this issue, I wanted to note that I agree with him fully.

There are two points. First, it is a matter of indifference whether the criteria proposed will yield a large or small number of urban poverty projects for recording purposes, or even none at all. The temperature recorded on a broken thermometer is not of concern; and if anyone wants to continue to use it, we need not worry about it further. The only proviso is that the request for data be kept within strict bounds.

Second, the proposed criteria are not a suitable guide to designing projects. In our urban projects, we will continue to be sensitive to the capital/labor ratio, the incremental capital/labor ratio and the many other factors which, in a dynamic framework, would lead to projects which can be replicated and will affect low income groups in urban areas. We will not use any single indicator to accept or reject proposals nor will we test the utility of any one project in terms of its replicability for the total poverty group.

cc: Mr. Hicks
(Typed and signed for Mr. Stern in his absence.)

INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Bevan Waide, Chief Economist, ASNVP DATE: June 2, 1977

FROM: Norman Hicks, ASADA

SUBJECT: Urban Poverty Lending -- Your memo of May 27

The data shown in the Jaycox memo is roughly correct, and probably good enough for the purpose of doing the calculations desired. More accurate figures for the labor force, however, could be obtained from the latest Economic Report, Table 1.5. The opportunity cost of capital can be taken to be 20%, assuming a continuing inflation of about 10% per year.

The whole exercise is highly suspicious. While the memo talks about the capital/labor ratio, it proceeds to calculate an investment/labor ratio, which is hardly the same thing. I fail to see what relevance two times the investment/labor ratio has for determining a threshold capital/labor ratio. It would be more relevant to use the incremental capital/labor ratio, which could be calculated by dividing investment by the increment to the labor force. Between 1970 and 1976, using the data in the Stone memo, the ICOR would be about $4,500. Alternatively, one could assume a reasonable capital/output ratio and derive the capital/labor ratio. For instance, if the capital/output ratio was 2.0 in FY1976, then the capital/labor ratio would be $1,200. By comparison, the Jaycox threshold is calculated to be $176. x8? ($1408)? for a 15 year/p. job

A recent survey of urban small-scale industry in the Punjab indicates an average capital/labor ratio of about $530. Consequently, the use of the Jaycox threshold would mean that SSI operations would not qualify as urban poverty lending. It would seem to me that a concept needs to be developed that more accurately reflects the capital endowment of the urban poor. In the case of Pakistan, a threshold that equalled half of the average capital/labor ratio might not be a bad starting point.

cc: Messrs. Stern, Blobel, Picciotto, Rajagopalan, Pilvin,
Jansen, Clements/Osgood, Rowat

NHicks:mep

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Regional Chief Economists

DATE: June 2, 1977

FROM: John A. Holsen

SUBJECT: Capital/Labor Ratios and Urban Poverty Lending -- Once Again

1. No one seems satisfied with the present "guidelines" (see Mr. Jaycox's memo of May 11) on the above subject. Discussion has gone on for over six months; yesterday afternoons' long meeting didn't produce a consensus. After this meeting Vinod Dubey suggested to me that we see if the six of us can agree on an acceptable procedure -- on the assumption that such an initiative on our part would be welcomed by all concerned. We thought we should try to do it at our lunch next Monday. This note is a suggested solution that tries to respond to the problems raised yesterday.

2. I believe the main problems are the following:

(a) The present procedure may appear simple, but in practice it becomes complicated. A separate analysis has to be done for every project of the average "life" of the jobs created (when the capital involved includes items with varying lifetimes); the project analyst must discount future employment and capital expenditures (including maintenance), etc.

(b) It is not "intellectually respectable" particularly because of the mixture of stocks (the total labor force) and flows (GDI) and the arbitrary doubling of the GDI per worker figure. (Other aspects that bother me are net v.s. gross investment, the need for social and economic infrastructure investment, deepending of capital for the existing labor force, indirect effects and the application of national averages to individual projects in urban areas).

(c) The "threshold" figures which result from the present procedure seem low (and perhaps not realistic) for the poorer countries.

(d) The approach looks at only one dimension -- employment creation -- of projects; a broaden measure of benefits to the urban poor would seem to be desirable.

3. I wish to suggest a simple alternative that gets at problems (a), (b) and (c). Problem (d), as Tony Churchill pointed out, is not seen as a problem by Mr. McNamara. He wants to identify projects that directly generate substantial employment for the investment involved. Moreover, the employment generation test is not the only basis for classifying projects as meeting urban poverty criteria; projects which fail to pass this test also can be reviewed on the broader ground of benefits to the urban target groups and be "accepted" if they pass this second test.

4. The alternative employment creation test I suggest is simply to use as the threshold the ratio NDFI/Increase in Labor Force where NDFI is net domestic fixed investment. I would suggest using expected averages for a several year period -- perhaps initially 1978-82 -- so decisions would be based upon capital availabilities over the period when projects would be implemented. The ILO tables provide labor force data; the country economists could make the NDFI projection (in prices of some base year).

5. A single threshold number would be calculated for each country. The project analyst would only have to divide the initial fixed capital investment in the project by the number of permanent jobs involved (and convert this to the same price base as the threshold value) to see if it passed the test for classification as an "urban poverty project" on the basis of direct employment generation. There would be no worries about calculating the discounted job years and capital costs for each project. There need be no arbitrary doubling of the threshold (if my attached example is indicative of the results). There would be no need to consider working capital or maintenance expenditures, residual values of assets, etc, since we would be working with net fixed investment.

6. This approach would at least remove the present confusion between stocks and flows and between net and gross investment. I suggest, for the sake of simplicity, that other factors that would improve "intellectual respectability" be ignored for the present. (There is some reason to think that they at least partially offset each other.)

7. The calculation of NDFI would mean work for the country economists, but I think this should not be too difficult. Although data on inventory investment is usually available (or is small enough to be ignored), meaningful data on depreciation are hard to find. EPD/DPS is prepared to help on this. We know, however, that poorer countries use relatively less capital per unit of output than richer countries. Thus depreciation as a percent of both GDP and GDI (or GDFI) should be less in these countries than in the middle income developing countries. If so, use of NDFI would remove a bias toward very low threshold values in poor countries that comes from the present method. (We might establish a general relationship for NDFI coefficients as a function of total investment coefficients and per capita GNP levels to come up with reasonable estimates for those cases when data are not available or are of poor quality).

Jim
5903

involved in construction in order to arrive at total job-years directly generated by the project.

more years

Ten jobs for the next five years are judged better than five jobs for the next ten years, in keeping with usual ideas about time-preference as well as the urgency of the employment problem, so discounting is required. Future capital costs are also discounted. (I ignore the hairy question of the rate or rates to be used.) This lets one calculate a capital cost per job year which can be compared with the "threshold" value for the country concerned. (The "desirable" GDI/L level, doubled for "practicality", is taken as a "threshold" for classification as an urban poverty project because so many investments involve much more capital investment per job-year.)

Benchmark

Spreading

Comment: I still can't make economic sense out of GDI/L as a "desirable" level of invesmment per job-year. Once this approach is taken, however, there is no way to avoid taking job-years into account. I continue to be impressed by the complexity of the May 11 guidelines and how they will become more complex as one trys to answer questions such as those raised in Bevan Waide's memo of May 6.

Net GDI

Same $\frac{K}{L}$ 1 year

2 ours

O 7

Hypothetical Example of Present and Alternative "Threshold" Calculation a/

I. Assumed Data

	1976	Growth Rate (%)	Projected Aver. for 1978-82 b/
A. Middle-income, higher depreciation			
GDP	2,000,000	6.0	2,542,119
GDP per Capita	800	3.0	902
GDI/GDP	.20	-	.20
Dep./GDP	.10	-	.10
NDFI/GDP	.10	-	.10
Labor Force	1,000	3.0	1,127
Increase L.F.	-	-	32.8
B. Lower-income, lower depreciation			
GDP	500,000	6.0	635,530
GDP per Capita	200	3.0	225
GDI/GDP	.20	-	.20
Dep./GDP	.07	-	.07
NDFI/GDP	.13	-	.13
Labor Force	1,000	3.0	1,127
Increase in L.F.	-		32.8

a/ In constant prices; inventory investment ignored.
b/ For this example calculated as means of end points.

II. Threshold Calculations:

	Case A	Case B
Present Method (1976 data)		
Per job year	800	200
15 years discounted at 10%	6,693	1,673
Proposed Method (78-82 aver. data)	7,750	2,519
Proposed Method (1976 data)	6,865	~~2,231~~ 1,982