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The World Bank

1818 H Street NW

Washington DC 20433


Telephone: 202-473-1000

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Urban Poverty Program, 1977 (Oct. Dec)



 **Archives**
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URBOR - Urban Poverty Program - General - 1977 - October / December

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Draft memo,
lists and materials
sent to VanderTak

12/18/78 without
EVKJ's approval.

BQ

Copy to Jaycox
File
DRAFT
AJStone:ba/bb
12/12/77
UPP

TO: Mr. E. V. K. Jaycox
FROM: Alastair Stone
SUBJECT: U.S. Treasury's IFI Division Paper

As requested, I have reviewed the paper and find it in general to be a well balanced review of efforts by the Development Banks to reach the poor. There are a few points, however, which I believe we should raise as follows:

- (a) Summary, page 2. Having read the paper, I realize the statement that rates of return tend to be low refers primarily to rural development. But it does leave a general negative impression which is not proven to be correct (nor is the opposite impression, i.e., high rates proven) especially in urban poor projects. I think a more conditional statement regarding rates of return is appropriate.
- (b) Page 2 of the body of the report. The point regarding 100 jobs is not clear. We should suggest replacing it with a statement of the inability of agriculture and the modern industrial sector to absorb the expected increases in the work force and hence the important rate of the informal industrial sector.
- (c) Page 3. I believe the description of sites and services process is not balanced. We should recommend that the statement highlight the supply of services not the construction of houses. Similarly the statement should highlight; the cost reductions from reducing standards, the job creation that occurs with this type of construction, and only thirdly the impact of self-help as a mechanism to reduce the requirement for public finance.

- (d) Page 9. We should recommend that the employment generation aspects of public transport be mentioned along with the need to avoid the negative impacts on the poor of changes in the transportation system.
- (e) Page 10. The statement that the project must be replicated on a national scale to be effective and justifiable is a misinterpretation of our concept of replicability. We require that replicability at the national scale be possible but not mandatory.
- (f) Page 12. I wonder about the statement regarding reduced lending for heavy infrastructure. Is there in fact a reduction?
- (g) Page 14. I do not think we should encourage such statements regarding the risks associated with lending to small scale enterprises. At this stage we just do not know what the risk profile is for small scale enterprises compared with large scale enterprises.
- (h) Page 16. This is the same point that I made regarding page 2 of the summary.
- (i) Page 17. The statement regarding increases in the value of serviced land as "cannot be taken too seriously" is misleading. The measure does give some indication of the value of the improvement otherwise (hopefully) we would not use it. I suggest we recommend that the statement be changed or deleted to be a more accurate comment on the value of various methods of analysis.
- (j) Page 21. As a statement of fact the Bank's acceptance of subsidies on the administration of small farmers, may be accurate. However, if it is true then we have a substantial problem as we have consistently argued against such subsidies except within a single institution where differential loading of overheads is acceptable.

This is quite different from the statement in the text that the Bank has approved a policy of general subsidy. I suggest we recommend they make the statement more conditional if the rural development chaps agree.

cc: Messrs: Dunkerley and Churchill

December 7, 1977

Through: Mr. Montek Ahluwalia
Mr. Alastair Stone
Suzanne M. Attwood, ORSU, URB

Urban Poverty Estimates

In response to your query we reviewed the work sheets for each country which formed the basis of the estimates of urban poverty income levels and the size of the urban "target groups" presented in the memorandum of Messrs. Jaycox and Yudelman to Chief Economists of May 17, 1977 (attached).

For several countries, particularly in Africa, the income levels are no more than very rough guesses or approximations, and it is generally agreed that work must be carried out in this area in the course of regular country economic work.

Shown below are the estimates of absolute per capita poverty income levels and the corresponding percentage of the urban population at or below these levels. Please note that absolute estimates exist for only two countries, Egypt and Thailand, where relative poverty income levels are greater than absolute poverty income levels.

	1975	
<u>East Africa</u>		
Malawi	\$ 60	25%
Mauritius	\$165	45%
Rwanda	\$121	30%
Zambia	\$175	25%
<u>West Africa</u>		
Ivory Coast	\$203	20%
Mali	\$ 61	27%
Niger	\$133	35%
Upper Volta	\$108	35%
<u>EMENA</u>		
Afganistan	\$110	25%
Egypt	\$109 <u>1/</u>	7.4%
<u>LAC</u>		
Haiti	\$ 71	50%
<u>EAP</u>		
Indonesia	\$125	55%
Korea	\$158	9%
Malaysia	\$215	20%
Papua New Guinea	\$320	10%
Philippines	\$180	26%
Thailand	\$112 <u>1/</u>	6%

1/ Relative poverty level is greater as follows:
Egypt \$119 and 22%, Thailand \$125 and 9%

South Asia

Bangladesh	\$110	61%
Burma	\$ 60	25%
India	\$ 80	53%
Nepal	\$ 90	26%
Pakistan	\$ 65	48%
Sri Lanka	\$ 68	26%

cc: Messrs. Jaycox, Dunkerley, Churchill and Noman

SMA/lwm

ROUTING SLIP		DATE:	Dec. 9, 1977
NAME		ROOM NO.	
Messrs. Yudelman, Merriam,			
Dunkerley, Churchill,			
A. Stone		DEC 09 REC'D	
APPROPRIATE DISPOSITION	NOTE AND RETURN		
APPROVAL	NOTE AND SEND ON		
CLEARANCE	PER OUR CONVERSATION		
COMMENT	PER YOUR REQUEST		
FOR ACTION	PREPARE REPLY		
INFORMATION	RECOMMENDATION		
INITIAL	SIGNATURE		
NOTE AND FILE	URGENT		
REMARKS:			
<p>This is a draft of the U.S. Treasury's IFI Division's paper that will eventually go to Congressional sub-committee in the Spring. I've been asked to comment on it by the authors. Could I have your reactions by Monday, December 12, COB?</p> <p><i>Talbot Jaycox</i></p> <p>Attachment</p>			
FROM:	ROOM NO.:	EXTENSION:	
Mr. Jaycox			

Nov 4

Reaching the Poor

Summary and Recommendations

The dominant theme of development policy is becoming growth with equity. The IFIs, especially the World Bank, are adjusting their lending activities to assure that the poorest members of society share in the future economic progress of their countries.

The World Bank, ADB, and IDB have all made large increases in loans for agriculture and rural development. Even so, these loans reach a very small fraction of the estimated 800 million rural poor. To be truly effective these types of projects must be replicated on a national scale.

The problems of increasing the incomes of the 200 million urban poor are more complex. Strategies now being pursued by the World Bank include both improving living conditions with housing and public service related loans, but also creating low-skill jobs and undertaking transportation projects with low-income users in mind.

The IFIs also lend for projects which improve the lot of the world's poorest even though that may not be their specific goal. Infrastructure loans and loans to development finance corporations and other intermediaries reach the poor to some extent. Education, population, nutrition, and health projects also benefit the poor to a varying degree.

Several problems are of special importance for loans intended to directly reach the poor. Rates of return for

for proposed projects are difficult to calculate, and rates of return for completed projects started in the late 1960s have tended to be low. Local and recurrent costs figure prominently, and poor-directed projects entail high technical assistance components. Loans targeted to reach the poor require aid leverage to stimulate complementary government policies.

The U.S. should pursue the following policies with regard to directly reaching the poor via the IFIs:

A. The U.S. should encourage the World Bank to continue moving in the direction of greater lending specifically directed toward the poor. The U.S. should urge the IDB to develop a clear strategy with regard to loans directly benefitting the poor.

B. The U.S. should ask the ADB and IDB to begin collecting and reporting data on the number of poor families that their loans are reaching.

C. The U.S. should encourage the World Bank to continue experimenting with new project evaluation techniques which combine equity and growth as criteria.

D. The U.S. should urge the Bank to use limited local cost financing and greater conditional program lending to lever improvements in policies complementing poor-targeted projects and the replication of comprehensive rural and urban development projects.

Reaching the Poor

I. Introduction

Development strategies through the 1960s focused primarily on overall GNP growth. Criticisms of per capita GNP growth as the goal of development policy concentrated on weaknesses in per capita GNP as a measure of average living standards or distinguished between "growth" and "development". More recently it has become increasingly clear that there is an even more important consideration: the poorest segments of a population do not necessarily participate equitably in the economic growth of their countries. In fact, there seem to be systematic barriers to improvements in the lot of the poor in the lowest income countries, and even in more advanced LDCs income distribution may not improve in the absence of special policies.

The desire to dramatically improve the living standards of the approximately 1 billion people who are the poorest in the world has led the IFIs to increase their emphasis on activities which directly reach this group. The goal is growth with equity--assuring that the poorest members of society participate to a greater extent in economic advancement.

It is useful to distinguish between the rural and urban poor. The rural poor tend to be insulated from modern sectors of the economy and benefit relatively little from modern sector

growth. A strategy to reach the rural poor directly must center on increasing the productivity of poor but viable farmers; landless laborers, and the self-employed through increased access to land, water, fertilizer, appropriate agricultural technology, credit, and markets.

The urban poor present much more complicated problems. It is of course necessary to make the modern sector reflect true factor scarcities by eliminating artificially low real interest rates and artificially high urban wages. But even under the best of circumstances, the modern sector of most developing countries will be unable to absorb the number of new entrants into the urban labor force expected over the intermediate future. In fact, some current theories of rural-urban migration conclude that for every hundred urban modern sector jobs created, more than a hundred workers migrate from rural to urban areas to claim them. For this reason, a strategy designed to help the urban poor must also include measures to increase the access of small "informal sector" producers to inputs of all kinds and a redirection of public investment.

II. Rural Development

The World Bank defines a rural development project as one where at least one-half of the loan amount goes to rural beneficiaries who are below the poverty line in that country. Poverty lines are estimated using a dual methodology, one combining the cost of minimum nutritional and other needs and the other, used in higher-income LDCs, based on "relative

poverty." The Bank estimates that the rural poor number about 800 million.

The IFIs, led by the World Bank, began increasing lending for agricultural and rural development dramatically in the early 1970's. The Bank's record is summarized in Table 1. Between FY 1973 and FY 1977 annual Bank lending commitments for agriculture and rural development increased from \$938 million to \$2302 million. Rural development lending increased from \$247 million to \$1452 million over the same period.

Similarly, the Asian Development Bank (ADB) more than doubled its agricultural lending from 1973 to 1974 to \$134 million, which represented 24.5% of total lending. In the Inter-American Development Bank (IDB) growth in agriculture has been more modest, but only because its base was relatively high. Even so, lending went from 21% in 1974 to 28% in 1976, or to \$428 million. Additionally, the ADB provided 47.4% of its technical assistance money in 1976 for agriculture, while the IDB devoted about 58% of its technical assistance for the sector. This illustrates the fact that both institutions are continuing to emphasize lending for agriculture, and that this sector requires relatively more technical assistance than more traditional areas of IFI lending. A separate breakout for rural development is not available.

A major goal of rural development lending is to directly increase the production and income of small farmers.

	<u>FY73</u>	<u>FY74</u>	<u>FY75</u>	<u>FY76</u>	<u>FY77</u>	<u>Percentage Increase FY77-FY76</u>	<u>Annual Average FY68-72 FY73-77</u>	
<u>TOTAL BANK GROUP LENDING</u>								
No. of Projects	148	174	190	215	228	5.0%	70	191
Lending (\$M)	3,408	4,313	5,896	6,632	7,067	6.6%	2,094	5,463
<u>TOTAL AGRICULTURE AND RURAL DEVELOPMENT LENDING</u>								
No. of Projects	46	56	70	65	84	29.2%	29	64
Lending (\$M)	938	956	1,858	1,628	2,302	41.4%	362	1,536
% of Total Bank Group Lending	28%	22%	32%	25%	33%	-	17%	28%
<u>RURAL DEVELOPMENT</u>								
No. of Projects	17	25	38	38	53	39.5%	7	34
Lending (\$M)	247	450	980	792	1,452	83.3%	64	784
% of Total Agr. & Rural Dev. Lending	26%	47%	53%	50%	63%	-	18%	48%
<u>AGRICULTURE</u>								
No. of Projects	29	31	32	27	31	14.8%	22	30
Lending (\$M)	691	506	878	855	851	-0.5%	298	756
<u>OTHER SECTORS</u>								
No. of Projects	102	118	120	150	144	-2.0%	41	127
Lending (\$M)	2,470	3,357	4,038	5,004	4,765	-3.7%	1,722	3,927

This is done by the provision of irrigation, implements, feeder roads, extension services, and agricultural credits. Further, efforts are made to expand the supply of inputs such as improved seed and fertilizer. The administrative capabilities of the government agencies administering the project are also bolstered through the provision of technical assistance.

While the emphasis on rural development lending is relatively recent, the Bank was able to dramatically increase its agricultural efforts only because it had previously participated in rural development for several years. Project performance audits by the World Bank provide some idea about the role and effectiveness of agricultural lending in the project approval period centered around 1969-1970. Very few projects at this time were directed specifically at the poor, although small farmers sometimes did benefit, and there was some employment creation for landless laborers. At this time, the Bank gained valuable experience in the agricultural field. For example, a cooperative farms project in Tunisia was one of the first projects the Bank did which directed the benefits at the poor. It was an extremely long time in preparation and involved a high input of Bank supervision. The project had to be extensively revised and reduced mainly due to governmental policy changes. Implementation was also a problem. In

the end, however, small farmer incomes were significantly increased (about fivefold) although only after suffering initial severe decreases. Employment creation for landless laborers had to be dropped as a project objective. For a first attempt, this was a reasonably successful project in terms of aiding the poor. Further, it contributed several major technological and institutional improvements which aided farmers of all incomes. The income gains of small farmers were a result of better organization, improved farm implements, crop diversification and intensification, and better farm techniques and management.

The example just cited shares general aims with other rural development projects. One-third of agricultural projects in this period from 1969-1970 involved creation of new implementing agencies, and another one-third of the agencies had already received Bank assistance. Further, 80% of the projects were concerned with crop intensification, including the Tunisia project.

Audit reports for more recent projects will become available only when the projects reach completion. However, examination of a sample of recently approved World Bank projects intended to reach the poor illustrate their nature and diversity.

Rural households among the poorest segment of the Indian population will benefit from a group of similar agricultural research and extension projects in that country. The projects

will improve tree crop production in Kerala state; develop groundwater resources and appropriate low-cost technology for small-holder families in Orissa state; increase food production in West Bengal; and consolidate extension and research services in Assam. 1/

In the Dominican Republic a Third Window loan will finance the construction and equipping of 26 rural health clinics and a health sub-center in locations which now have only minimal access to health and family planning services. The various components of the project will help establish a comprehensive health delivery system emphasizing preventive care and family planning.

The Bank has financed highways in Kenya before, but it recently approved its first loan for rural access roads. The roads financed will use labor-intensive construction techniques and employ local labor. They will increase the access of rural, predominantly poor people to agricultural markets and also to schools and health facilities.

The Bank is making estimates for the numbers of rural poor which recently approved rural development projects will reach. Table 2 summarizes this information for rural development lending in FY 1977. Over five million families will benefit directly from rural development projects

1/ Ironically, the U.S. voted negatively on each of these poor-directed IDA loans as required by IDA IV legislation, illustrating the conflict which often exists between U.S. political and economic goals.

TABLE 2 : BENEFICIARIES OF AGRICULTURE AND
RURAL DEVELOPMENT LENDING IN FY77

	East Africa	West Africa	EMENA	East Asia/ Pacific	South Asia	LAC	TOTAL
Expected Number of Direct Beneficiaries ('000 Families)	323	425	783	835	2,500	170	5,036
-Of which in the Poverty Target Group ('000 Families)	241	361	367	501	1,400	121	2,991
Expected Number of Indirect Beneficiaries ('000 Families)	847	1,042	181	911	2,600	477	6,088
-Of which in the Poverty Target Group ('000 Families)	105	28	42	392	1,700	399	2,666

RORSU
June 30, 1977

committed in FY 1977, almost double the figure for FY 1976. Of these families, three million will be in the poverty target group. Another six million families will benefit indirectly of which over two million are in the target group.

These numbers will increase in future years, but even so these achievements are modest in view of the roughly 130 million rural poor families in LDCs. The real value of these projects is not limited to the families touched, however. One of the prerequisites of IFI project approval is that it be given high priority by the LDC government. As a result, an important contribution the IFIs are making is that some governments have made reaching the poor a policy goal. Project selection is one method that is used to accomplish this. LDCs have contributed a significant portion of their own resources as counterpart funds for IFI rural development projects, so they are acquiring a stake in the process of raising small farmer incomes.

III. Urban Development

The problems of the urban poor are more complex than those in rural areas, and the strategies being developed to meet these needs reflect this difference. The urban poor generally live on the outskirts of the rapidly growing cities, and unlike many of their rural counterparts, do not have direct access to factors of production. It is estimated that there are close to 200 million people in LDC cities who lack housing, basic infrastructure and jobs.

Since its creation in 1961 the IDB has been interested in low cost housing for the urban poor. The method first tried was to lend to savings and loan institutions, so that they could on-lend the money to those who qualified on the basis of income. Most of this money was provided from the Fund for Special Operations (FSO). This approach led to the direct construction of about 350,000 units through the provision of about \$415 million of IDB funds. It was hoped that this would provide seed capital which would lead to the overall development of mortgage markets in Latin America. The effort, however, was not particularly successful, and the IDB has essentially dropped this approach to the urban problem, primarily because the programs were too expensive to be implemented on a national scale.

The experience of the IDB was useful, however, because as a result the sites and services concept for urban housing was developed. This typically involves construction of only one wall of a house along with a core of essential utility outlets; the participant builds the rest of the house himself. Sites and services projects also provide for the construction of basic infrastructure including water supply and sewerage, electricity, and roads, and provide for credit for the purchase of construction materials. The high self-help component keeps the cost per unit much lower than the previous approach, and it appears that the cost is low enough so that the projects can be replicated country-wide. Slum upgrading

*This is
100% FSO/IDA
operation
now.*

The IDB has not pursued this shelter solution but it has been pushed forward by the World Bank

is similar to sites and services in that self-help is important in keeping down unit costs. The only difference is that the residents retain their location instead of moving to new sites.

Both sites and services and slum upgrading projects seek to do more than provide bricks and mortar. They are intended to serve as vehicles for the delivery of a variety of opportunities, ideas, and services.

Because the poor generally live on the outskirts of urban centers, transportation to work for those with jobs can be a severe problem, absorbing an inordinate amount of worker's time and income. Therefore the World Bank has begun to undertake urban transportation projects which emphasize the mass movement of people. This involves low cost buses, cycle lanes and sidewalks so that the least expensive modes of transportation are encouraged and do not fall victim to the automobile.

Another approach to directly reaching the urban poor is the comprehensive urban development project. In addition to sites and services components, these projects include employment creation through development of cottage industries. This is accomplished by provision of land and utilities for the businesses, credit and technical assistance to encourage good management and appropriate technology. Urban development projects often include health, education, and land use planning to maximize the social impact of the investments.

As an example, the Bank is extending credit to Salvadorian agencies for the provision of serviced lots for homes and

small businesses, a pilot squatter upgrading scheme, small informal credit and training and technical assistance for the executing agencies. Services provided at the building sites will include water, sewerage, and paved footpaths. The pilot squatter scheme will improve living conditions through provision of secure tenure, basic infrastructure, community facilities (such as public markets and health clinics) and credit. Credit and technical assistance aimed at small entrepreneurs in marginal communities will be provided with a complementary program of training and technical assistance. The benefits of this project are all directed toward the poorest half of the urban population.

Technical assistance to domestic agencies in the urban sector is involved in all of these approaches. As in agriculture, once the project methodology is developed for a country, the project must be replicated on a national scale to be effective and justifiable. This national effort is beyond the capability of the IFIs in most cases.

Aside from the IDB's lending for housing credit, urban development lending does not have a very long history. An entirely new sector strategy had to be developed for the urban poor, although it did combine elements of other sectors of IFI lending.

The World Bank has committed \$337.3 million in the urban sector, most of it since 1973 when the Bank started to implement the new urban strategies. In 1974, World Bank

lending for urban development was \$113 million, but it gradually dropped to \$80 million in 1976. In FY 1977 it rose to \$158.2 million, and the Bank expects lending for urban development to rise to \$412 million in FY 1978. This large increase in lending implies that many initial pilot projects will be completed, and larger scale projects will be initiated. For example, in 1974 the first Indonesian urban development project for Jakarta was approved for \$25 million. The second stage project, approved two years later for \$52.5 million, greatly expanded the Jakarta project and includes a pilot phase for another city, Surabaya. The estimated economic rate of return for the first phase of the project was 17%, while the rate of return for the second phase project is 59%, indicating that high rates of return obtain once a proper approach is developed. No urban development projects have yet been completed by the World Bank.

The ADB committed its first loan for urban development in FY 1976, a \$1.15 million loan for technical assistance to prepare a master urban development plan in the Indonesian city of Bandung. It followed this loan with a \$20.5 million loan for urban development in Hong Kong, and may eventually make a loan for the Indonesian project itself.

The IDB has invested \$495 million in the urban sector through FY 1976. This was mainly for earlier housing loans, although recent loans have been for reconstruction of housing following national disasters, such as the Guatemala City earthquake. The IDB has not yet implemented an urban development project using the sites and services concept.

IV. Other Assistance

The foregoing discussion presented IFI efforts to directly assist the poor. Much of the remaining portion of IFI lending programs provide assistance to the poor, but in an indirect way. This should not be ignored, however, because it involves 60% of all IFI lending. The IFIs have traditionally expected to assist the poor through less direct methods, and their efforts in various sectors undoubtedly provide additional assistance for the poor while simultaneously meeting other objectives.

A. Infrastructure

The IFIs have made large sums available for the development of infrastructure. Recently the IFIs have directed lending for infrastructure to poorer regions and people as much as the absorptive capacity of the involved institutions and countries permit. It is beginning to be more difficult to develop as many projects as in the past, mainly because agencies previously aided by the IFIs are now capable of conducting their own investment programs. Infrastructure lending will still absorb a large proportion of IFI funds, but as the lending diminishes, it will create more pressure on the IFIs to develop alternative sectors to channel the same volume of resources to the LDCs. Therefore sufficient funds should be available to expand direct assistance to the poor and greater employment creation efforts.

B. DFC Lending

IFI lending to development finance companies serves essentially two goals which provide a measure of assistance to the poor. The first is that lending to DFCs supports rational allocative policies, primarily through appropriate interest rates, although DFC lending should be to sectors where no large price distortions of any kind exist. In this way, DFC lending is closely related to IFI leverage on the macro-economic policies of the LDCs. The second goal of lending to DFCs is to encourage employment creation, increasingly through programs to assist medium and small scale enterprises.

Rational allocation policies reinforce producer incentives and markets so that the productive potential of the poor can be realized. If real interest rates are too low, for example, the capital versus labor choice is distorted, production costs are higher than necessary in terms of real resource costs, and too few jobs are created. Artificially low real interest rates also decrease incentives to save, reducing investment generation and limiting DFC lending to the safest customers, who are not small farmers or businesses.

Lending to medium and small size enterprises tends to create low-skill employment and encourages the use of appropriate technologies. Large, unwieldy enterprises, especially state-owned, sometimes hang on to a technology no matter how factor availabilities change or techniques improve. Smaller

business units, especially when encouraged by DFC lending, are more agile and can take advantage of the new appropriate technologies being developed more easily.

However, small scale enterprises are more difficult to lend to because of high administrative costs, and because the loans are riskier. The IFIs are interested in expanding this type of lending, but much remains to be done.

C. Other Sectors

The IFIs directly and indirectly benefit the poor by supporting projects in education, population, nutrition, and health. The following remarks are meant to suggest the barest essentials of IFI activity in these fields.

Education includes all levels of formal training, plus vocational and informal education. These various levels benefit different groups, but the IFIs have been putting increasing emphasis on education which reaches the poor.

An important aspect of education projects is that recurrent costs are the largest expense. These projects generate few economic benefits in the short run; the returns to the economy are rather long range. Hence there is a limit to the quantity of recurrent expenditures the government budget can support. World Bank lending for education grew from \$153 million in FY 1974 to \$288.6 million in FY 1977, when it was 4.1% of total lending. The IDB increased its education efforts from only \$19 million in 1974 to \$79 million

in 1976; that was 5.2% of total lending in the latter year. The ADB did not lend for education in 1976, but it did lend \$14.5 million in 1975.

Population projects are another method of reaching the poor, however some benefits of these activities are very long range. Because of this and the controversial nature of the projects in many countries and because of implementation problems with the projects which have been attempted, IFI activity in population programs has been rather limited. The World Bank increased its lending from \$25.8 million in FY 1976 to \$47.3 million in FY 1977 for population and nutrition. This is not necessarily a trend, however; \$25 million was lent in FY 1974 and \$40 million in FY 1975. The IDB has also lent for population projects on a small scale, but only as components of other loans. The ADB has not done any population projects.

Health benefits are also important in directly reaching the poor. The role of the IFIs has been to assist in the development of appropriate methodologies so that minimum health benefits can be brought to all people, especially those in rural areas. Even with this limited role, the World Bank provided \$182 million in health assistance in conjunction with other projects in FY 1976. In urban areas, piped water supply and sewerage represent important health benefits. Although not all IFI projects in this area reach the poor, more emphasis is

being given to public standpipes and sewerage for the poor. World Bank water supply and sewerage lending increased from \$145 million in FY 1975 to \$335 million in FY 1976 and \$355 million in FY 1977. IDB lending in the sector grew from \$108 million in 1975 to \$124 million in 1976. ADB lending went from \$62.8 million in FY 1975 to \$82.4 million in 1976, then dropped to \$28.5 million in FY 1977. This latter observation indicates a transient decline as overall ADB efforts in the field have not diminished.

V. Difficulties in Reaching the Poor with IFI Lending

Loans intended to directly reach the poor share many problems with more traditional projects, but these problems tend to be more difficult with "new directions" lending. Rates of return are hard to measure, for example, and rates of return on the earliest new style projects have tended to be low. A large fraction of the expense of most projects directed toward the poor are local, recurrent costs. Loans targeted to reach the poor entail high technical assistance components. Greater aid leverage is required in support of poor-directed projects.

A. Project Selection.

It is difficult to estimate costs and especially benefits for many of the types of projects whose target is the poor. In agricultural projects predicting the future prices of inputs and outputs poses problems, but at least the benefits

are quantifiable. In urban development projects, benefits are roughly estimated by increases in land values which result from the improvements. This is probably as good a proxy as exists, but the fact remains that urban real estate markets in LDCs are so imperfect that rates of return estimated in this fashion cannot be taken too seriously. The benefits of health, education, and population projects are extremely difficult to quantify, and the IFIs generally choose projects on a "least cost" basis.

In addition to estimation problems, usual benefit-cost techniques fail to take account of a country's social or other policy objectives. In benefit-cost analysis as traditionally practiced, the benefits and costs (in opportunity cost terms) to the economy as a whole of the project are discounted to the present and compared. This technique does not weigh different kinds of production differently (as between consumption, investment, and exports, for example) nor does it distinguish among benefits accruing to different income groups.

The World Bank is experimenting with broader techniques which weigh different production mixes and distributions of benefits differently by using shadow prices which reflect government policy goals. Despite their many drawbacks, such methods are a valuable supplement to more traditional calculations.

B. Low rates of return

An important problem with rural development projects is that the rates of return have been low. Of the completed agricultural projects covered by the third annual audit review of the World Bank, seven out of 18 agricultural projects had rates of return below the acceptable minimum of 10%. In three cases the price of the output had declined. Should the price recover, the rates of return will substantially rise. The remaining four projects include all three innovative agricultural projects covered by the review designed to aid the poor. There are many causes for the low rates of return, some which are external to the projects.

Rates of return projected in appraisal reports of recent projects have not generally been high, although they are above acceptable levels. This leaves less margin for error, however, and so requires especially timely and efficient implementation coupled with good project design. Data on more recent projects is not complete, and it is expected that as the countries and the IFIs become more acquainted with these types of projects, the rates of return will improve.

C. Local cost financing

One aspect of projects which aid the poor is that they involve significant amounts of local cost financing. The inputs the project requires can often be procured domestically. Technology is simple and manpower requirements are unsophisticated. In the past, the U.S. has not been in favor of local cost

financing. The view was that the project should have high enough priority to have local funds cover all local costs, that this would allow IFI resources to have maximum impact by being spread as far as possible, and that if a country needed discretionary foreign exchange, a program loan should be the proper instrument to have the maximum impact on macro-economic policies.

On the other hand, the IFIs have maintained that they must finance a certain minimal percent of project costs to make IFI participation effective in obtaining the necessary policy decisions for proper implementation. This argument is strongest for more innovative projects. For example, in the Indonesian second urban development loan, 27% of the total project costs are foreign exchange, and the World Bank financed 50% of total costs. Local cost financing is an incentive to the LDCs to undertake these type of projects. For large borrowers, moreover, the discretionary foreign exchange generated by local cost financing could approach the amount of program lending the countries presently receive.

Given the low foreign exchange component in loans directed to improving the incomes of the poor, it would be useful for the U.S. to review policies toward both local cost financing and program lending by the IFIs and by AID as well. Local cost financing and conditional program

lending could be used to encourage reaching the poor, to increase aid leverage, and to facilitate adjustment to the recent world economic crisis.

D. Financing Recurrent Costs

Traditional bricks-and-mortar projects typically entail a large initial outlay for benefit-producing assets followed by a long stream of benefits. New directions projects, however, often require continuous expenditures well into the future. This point was highlighted in connection with education projects earlier in this paper. The IFIs are generally against financing recurrent expenditures. The argument is that the recipient country should be willing to pay them if the project has a high priority. Recurrent expenditures could ideally be financed from user charges or other cost recovery techniques. Replication on a national scale is virtually impossible without significant cost recovery, in fact.

In limited cases, however, the IFIs have found sound reasons for financing recurrent costs. Projects which directly aid the poor frequently have relatively low capacity for cost recovery, especially in the start-up period of the project. The IFIs will finance these initial recurrent costs if government sources are incapable of doing so, provided this financing is gradually reduced so that the project will eventually pay its own way. The increase in cost recovery generally is a

result of the increased incomes of project beneficiaries, which mandates that the project be well underway before significant cost recovery can occur.

The social welfare desires of the LDC government sometimes manifest themselves in a decision to subsidize certain project components. Further, such a subsidy may be necessary to provide the participants in a project with the necessary incentives for project implementation. In these instances, the IFIs occasionally finance recurrent costs, but only if the subsidy is such that it can be replicated on a national level. For example, a major problem in providing credit to small farmers through DFCs is that the administrative costs are very high relative to the loan amount. This is mainly because most small farmers are unfamiliar with credit. Further, many governments wish to keep the cost of capital within reason for small farmers, so they do not want the interest rate to be higher for them than for medium or large farmers. In response, the World Bank has now approved a policy that the administrative costs of loans to small farmers may be subsidized. It is hoped that as small farmers become more familiar with credit facilities, the administrative costs, and the subsidy, will be reduced.

E. High Technical Assistance Components

Projects directed toward the poor involve relatively less cost for material and more technical assistance than

more traditional projects. The IFIs have demonstrated their ability to deliver on bricks-and-mortar projects but technical assistance is not a forte of any of the development banks. On this criterion, bilateral aid programs, especially those dedicated to reaching the poor such as AID, are superior to the IFIs.

Poor-targeted projects also require substantially greater staff time from the IFIs than more traditional lending, both at IFI headquarters and in the field. A rapid increase in lending directed toward the poor could require huge increases in IFI staffing levels and consequently raise the ratio of administrative expenses in total IFI budgets.

F. Required Leverage

The governments of many LDCs operate with relatively short horizons: they make the decisions most likely to extend their tenures past the next election. In some cases this leads them to devote more attention to the higher-income, politically active strata of society rather than the economically disadvantaged. There are countless examples of the interests of poor farmers being sacrificed to well-off urban consumers, for example.

This means that in many countries, lending agencies must use aid leverage to encourage increased emphasis on directly reaching the poor. For reasons detailed in the chapter on aid leverage, bilateral aid donors are less

willing or able to exert the required leverage than the IFIs; the World Bank has clear superiority over the regional banks in this regard. If donors including the Bank are unwilling to use their aid leverage to encourage policies complementing their loans, projects intended to reach the poor stand a diminished chance of success.

VI. Recommendations

A. Increased emphasis on directly reaching the poor.

The most critical policy question for the U.S. concerning IFI efforts to reach the poor directly is whether to encourage the development banks, particularly the World Bank, to move farther faster than already planned. The World Bank (both IBRD and IDA) is already forging ahead at a rapid pace. The Bank is engaged in a learning process which should not be forced, and new style projects intended to directly increase the incomes of the poor require a different staffing pattern which should not be rushed. The U.S. should encourage the Bank to continue moving rapidly in the direction of greater lending for poor-directed projects per present plans.

IDB intentions are much less clear. The U.S. should encourage the IDB to develop a clear strategy with regard to development loans directly benefitting the poor so that performance can be measured against intentions.

The ADB lends primarily for highly bankable, infra-structural projects. Its goals are limited, but it achieves them efficiently. The aid leverage the ADB exerts is somewhat limited, so its ability to enforce the policy changes

which must increasingly accompany poor-directed projects is not great. The U.S. should not insist that the ADB jeopardize the effectiveness of its existing policies by making a radical shift to reaching the poor directly.

AFDF has been in existence for three years, and U.S. membership is even more recent. The institution barely has coherent overall strategies, has no aid leverage whatever, and has very limited professional capability. The U.S. should encourage the AFDF to continue lending primarily for agriculture and infrastructure.

B. Reporting

The World Bank is collecting data on the number of poor families reached by its projects and making this information available to member countries. The U.S. should ask the ADB and IDB to adopt World Bank poverty criteria and begin collecting the same data. At present, it is difficult to assess how much these institutions are already doing. Better monitoring and evaluation systems are vital to increasing the effectiveness of the IFIs in reaching the poor. Sometime in the future it may be useful to ask the AFDF for similar reporting.

C. Project selection

The U.S. should encourage the World Bank to continue evaluating potential projects in traditional ways, but also to continue experimenting with techniques which give different weights to benefits accruing to different strata

of the income distribution and other innovations. These considerations would be an appropriate addition to project documents even though project selection will continue to follow usual lines.

D. Aid leverage through local cost financing and conditional program loans.

The U.S. should urge the Bank to stimulate policy reforms helping the poor to increase their incomes with the inducement of local cost financing in limited cases and conditional program loans in more general cases. These incentives should also be used to give recipient countries added inducement to replicate comprehensive rural and urban development projects on a national scale.

URBOR: A Critical Note

1. The purpose of this note is to record my first impressions of where URBOR is and where it should be going. The perspective is critical, the purpose provocative and hence the considerable achievements of the Unit are essentially outside the purview of this note. Rather, it focuses on URBOR's problems and the way in which they might be solved. The present juncture seems to me to be particularly propitious for such an exercise being one of transition from the more or less successful completion of the first stage of URBOR's task of getting things afloat to the next one of keeping them moving, charting the course and plugging the leaks. The Unit has, inter alia, established urban poverty (UP) lending criteria and targets, a monitoring and evaluation system, poverty income levels and size of target groups and has got the regions to designate countries of UP emphasis and formulate urban poverty programs (UPP). While much of this was in the nature of a preliminary, first shot exercise and needs further refinement, URBOR has a substantial base to build upon.

2. In order to do so, however, the Unit needs to analyze its failures and problems, which is what the first section focuses on and give careful thought to the manner in which they are to be overcome and to what end. Section II attempts to contribute to and stimulate such thought.

Section I. URBOR's Problems

3. The Unit suffers from inadequate support among the Bank staff. While the nature of URBOR's task would have made it unavoidable that the Unit would ruffle some bureaucratic feathers and generate some resentment in going about its business, a fair share of the problem is of a contingent nature. This contingent aspect has three related and overlapping dimensions which may be categorized as institutional, procedural and operational.

4. The institutional problem is that within the dichotomy in the organizational structure of the Bank, viz, between operational staff and policy and research staff, the nature of URBOR's work belongs essentially to the latter category (or at best straddles the two) but it is located in an operational department and is supposed to serve as a secretariat of sort to an ad hoc task group, which does not have a location in the organizational structure of the Bank. This has lent a certain ambivalence to the attitude of the rest of the Bank to URBOR and served to isolate it. Thus, in attempting to influence the operations of the Bank, the Unit has not had adequate recourse to the established institutional mechanisms for bringing about such changes (DPS, in particular). Relatedly in the perception of the operational departments its legitimacy has appeared to be somewhat dubious.

No

Name
one
DPS
change

5. The second or procedural leg of the triad has exacerbated and interacted with the problem of ambiguity in the institutional status of URBOR. The procedure that has evolved for implementing the Unit's work has resulted in URBOR being seen not so much as an all Bank Unit which operates under the aegis of an All Bank Urban Poverty Task Group (UPTG) but rather as a part of the Urban Projects Department with a narrow bureaucratic base. The UPTG seems to be becoming a moribund force, neither energizing the Unit nor being fuelled by it.

partly
true

Liberally true
re UPTG

6. The aspect of the problem which may be categorized as operational arises from the manner of URBOR's operations. This is the variable over which URBOR has most control while the first two features are more in the nature of parametric constraints. The operational difficulty consists of mobilizing and involving the staff of the Bank and of acquiring prestige in the sense of demonstrating specialized expertise and bureaucratic acumen.

not an
objective
of itself

It is not surprising, of course, that these difficulties have not been entirely resolved yet and they can be expected to linger a while. The Unit has met with mixed success in mobilizing the staff, particularly the non-operational staff of the Bank. Thus, for example, DPS do not really feel involved in the UPP, which is not considered to be also their program. This is perhaps due as much to errors of commission as of omission, vide the manner in which the debate on urban poverty lending criteria was settled which amounted to URBOR laying down the line and hence they are not sufficiently seen to be the product of a Bank-wide agreed and considered position, something debated and worked out by the non-operational/analytical staff of the Bank. UPP concerns are not adequately reflected in the work of the DPS. Particularly noteworthy, in this context is URBOR's relationship with Policy, Planning and Review and its Basic Needs approach. As has been recognized it is important to eliminate the quite unnecessary conflict which appears to be developing between that approach and the UPP. (Amongst other things, that would facilitate in overcoming the problem of adequate utilization of the existing mechanisms for review of CPPs).

*How?
PN is not operational*

7. As to the second of the operational difficulties identified above, URBOR's prestige is not as high as it should be. This is again, in part, a reflection of the inherent difficulties of URBOR's somewhat messy task. The fuzziness which surrounds thinking in the field of poverty alleviation and the attempt by URBOR to be novel, innovative and experimental both demand and render difficult the acquisition of the title of the home of expertise in the area. Part of the problem is how to lay claim to a body of knowledge which remains nebulous, underdeveloped and messy, full of half baked ideas in search of ^{theoretically and} ideologically acceptable ovens. Again, crimes of commission have also contributed to the perception that the intellectual/analytical basis of some of URBOR's positions have been rather dubious. In my view, the capital-labour ratio catechism in particular

Explain!

is and has been widely perceived to be fraught with difficulties and consequently has impaired URBOR's prestige and credibility. The issue does not appear to me to have been satisfactorily resolved, it continues to bother people and to evoke criticism, for example, many of the regions express dissatisfaction with it in their recently submitted urban poverty programs (the problem is obviously related to the inadequate mobilization of DPS). Other problems that I have detected with the way in which the Unit is perceived by the rest of the Bank which deserve to be mentioned, though I am not sure to what extent they are fair or correct, are that URBOR sometimes tends to rush into things without sufficient forethought and to demand too much, too easily so that there is some danger of an incipient "boy who cried wolf" syndrome.

Section II. The Task Ahead

8. It is, of course, much easier to be critical than to address the question of what is to be done. The critique suggests some broad and general directions of effort though not, of course, the specifics of how to go about achieving them. The following outline makes suggestions of varying degrees of specificity.

9. Given the size of the Unit in relation to the task of refining the UPP and supporting its implementation, URBOR needs to employ its resources with extreme judiciousness. The Unit's territory is so vast and intricate that it faces the danger of getting lost in a hectic maze of activity, responding in an ad hoc manner to the multitude of tasks that it could undertake and that may be demanded of it. To avert this danger, the Unit's work program and priorities need to be exceptionally finely tuned. The essence of problem is akin to an exercise in acupuncture: a

Glad this is realized!

?

careful selection of the nerve points on which pressure is to be applied.

10. Since URBOR cannot and is not meant to implement the UPP, its involvement in operational work has to be very limited and highly selective, if at all. Clearly, the only way the Unit can make a significant and Bank-wide impact is by providing a generalizable service, i.e., a replicable and affordable service, as it were. This service must consist of servicing the implementation by others of the UPP, not the undertaking of part of the implementation. The Unit would have to guard against the blurring of this distinction which could easily happen, particularly since URBOR is going to be involved in operational work, the tree of which might distract from the woods which should be the purview of the Unit. Thus, URBOR ought to see its operational involvement as serving the end of learning general principles, in other words, operational research of a case study kind. In the context of the city strategy, this means that URBOR's involvement should consist neither of simply implementing part of the UPP nor even of setting an example for the regions to follow but rather of developing the conceptual and empirical basis of city strategy and selling it to the regions. In general, I do not think that URBOR can adopt the approach of getting what it wants done by setting examples. Another potential pitfall of URBOR's operational involvement that needs to be guarded against is an addition to the identification of URBOR with the Urban Projects Department (the city strategy and urban sector work, in particular, are prone to that danger).

11. Having rather belaboured the broad, overall perspective the paper turns to the overdue task of making some more specific recommendations.

The Unit should seek ways of providing analytical/research input into operational work. One form this could take is as per the demand formulated in South Asia's RUPP for the Unit to keep track of and digest research work in the area and to serve as a sort of reference service or "knowledge-bank" for the regions to draw upon. I am not entirely convinced of the feasibility

Reasons?

Each CPS urban sector has to do this.

or merit of this but I do think that the suggestion deserves further consideration. A clearly defined and limited variant of the theme may be manageable and useful, e.g., a systematic effort to collect and disseminate the fruits of the considerable amount of work engendered by the World Employment Program (Perhaps the Unit should give more thought to desirability of and the ways in which it could serve as a contact point between the WEP and the Bank). A rather different avenue than the one advocated by the aforementioned RUPP which could be explored in this context is that of launching a program of operationally supportive work, i.e., a sort of analytical and empirical framework for UPP operations. This would include, in particular, the organization of special missions on urban poverty. These would not be sector missions as such but rather missions looking at poverty and related issues. URBOR participation in the missions could be secondary and limited, rather it could in the main organize and cajole others into such missions. Aside from the region concerned, they would involve, in particular, the following lobbies/shops: basic needs, income distribution, regional and urban economics, employment and rural development, IDF, and RORSU. These missions preferably would be related to the basic economic mission process so that their results could also inform the BERs and CPPs. The Leiserson mission to Indonesia could provide a prototype. The regions in their UPPs make it quite clear that they are very amenable to and feel the need for some kind of urban poverty mission work in the context of their economic and sector work. URBOR should be able to elicit the support of the regions in its efforts to support them in this way. It could accelerate such work and provide and mobilize resources for the task. Careful thought would need to be given to developing a program and framework for such missions. (What might be some of the systematic tasks of such missions are indicated further on). The mobilization of DPS and DRC resources for such

ILO?

No difference to Urban Sector Missions

missions may present some difficulties but it should be possible to some extent and hopefully to an increasing extent if the missions produce good results and if they are also taken as an opportunity to expand the involvement and stimulate the interest of DPS, DRC and others.

12. If and to the extent that happens a second bird would be killed, that of widening the support base of URBOR and UPP and of acting as a go between between DPS and the regions. That is important for the crucial task of going beyond the numbers game, of preventing the UPP from deteriorating into a mechanical exercise of application of formulae. Amongst other things, this implies closer collaboration with the basic needs work and refinement of lending criteria and of other first shot exercises such as poverty income levels.

13. The need to dovetail UPP and basic needs is recognized. The establishment of a relationship of mutual support needs to be done at the staff level, i.e., preferably without management intervention. One particular benefit for URBOR would be greater impact on the CPPs. It seems to me to be rather futile to intervene in the CPP review process in what must necessarily be an ad hoc and fragmentary manner. URBOR must utilize the existing mechanisms. The process is highly structured and institutionalized and either one is a part of it or not (e.g. URBOR cannot get on to the distribution list for CPPs), in the latter case one ends up with responsibility without power - a harlot turned on its head!

14. Another strand in the provision of "replicable and affordable" services by URBOR to the UPP and in transcending the numbers game would be for the Unit to undertake the refinement of the conceptual and empirical basis of the UPP. This would, of course, be closely allied with the organization of poverty missions and collaboration with the basic needs

✓
Akbar DPS is not as critical to URBOR as you suggest

Fruity is there
you should remember this is under discussion with Chernick & Meo

We are not getting into reformulation maybe evolution

approach, indeed to some extent it would be a necessary part of that work. We should attempt to go behind the proxies and compromises required in making concepts operational to a better understanding of what exactly lies behind the operational surrogates and how these might be improved. Further clarification of the concept of poverty to be employed, the UPP lending criteria and the objectives of the program would facilitate, indeed, may be sometimes necessary for further work. Perhaps the Unit should now attempt to arrive on Bank-wide positions on the conceptual building blocks of the UPP.

15. Some of these issues would arise in the course of discharging URBOR's responsibility for preparing an issues paper ^{program} on employment. That would also provide an opportunity for involving and mobilizing other parts of the Bank. Perhaps we could kick off by calling a meeting to discuss how and what is to be done and seek collaboration of say, Messrs. Streeten, Leiserson, Ahluwalia, Little, Keare, Westphal and Gordon.

They attempted this 2 yrs ago & it was useless

16. Last but certainly not least, URBOR should consider an initiative to revitalize the UPTG. This should probably include a change in the composition of the Group. One way of going about it would be for the chairman of the UPTG to send a memorandum to the existing group noting that the UPTG having largely achieved its first set of objectives, now needs to oversee the implementation of the UPP by acting as a sort of executive board which requires certain changes in its personnel and functioning.

This is very much on my mind

17. The Interim Report of the UPTG mentioned a number of issues and directions for further work which remain partly or entirely unexplored. They are listed in the appendix. The thrust of the suggestions of this note clearly encompasses the fulfillment of many of these tasks.

18. Perhaps even more clearly, this note has not attempted either a balanced appraisal of URBOR's past achievement or a blueprint for future work. To reiterate, its purpose is to criticize, to provoke and to stimulate discussion.

Appendix. Suggestions for Further Work Arising from the Interim Report of the Urban Poverty Task Group (Sec M76-208)

1. Information on the access to water, sanitation and minimum nutrition (para 11).
2. Employment characteristics of the urban poor (para 13).
3. Definition of the target group (Can the definition proposed be made operational?) (para 16).
4. Proxy for field identification of target group. Overlap between absolute poor and those without access to basic requirements (Relationship with basic needs approach?) (para 17).
5. Empirical testing of the utility of the adopted poverty definition and refining and modification of the definition (para 19).
6. Refining and developing at country level the existing basic model for estimating the requirements of growth of income and employment (paras 22 and 30).
7. Giving country specific content to the general UPP strategy (para 34).
8. Greater emphasis on industry sector analysis at country level (para 45).
9. Guidelines for improving industrial project design and identification of industries to be promoted at country level (para 47).
10. Utilizing a CPS/DPS/Regional Working Group for overseeing country economic work (para 75).
11. Development of a research program (paras 76-78).
12. Tackling the conceptual and measurement problems surrounding the definition, location and characteristics of the target population (para 77).
13. Policy work on employment, urban land and technical assistance and credit to small enterprises (para 79).
14. Collaboration with other UN and national agencies, including, in particular, the World Employment Program (para 83).

UPP
goal
(general areas)

OFFICE MEMORANDUM

TO: Mr. A. Stone, URB

FROM: E. Bevan Waide, ASNVP *EW*

SUBJECT: Urban Poverty - Program Status Report

DATE: October 20, 1977

OCT 21 REC'D

I enjoyed reading the status report to Mr. McNamara of October 12, and naturally welcome the finding that the overall program of economic and sector work status is quite satisfactory and useful for supporting program development and project design. However, I am a little mystified by the promises implied in Table 1, page 3. As far as India is concerned we neither promised, nor plan, a basic economic mission in FY1978. We also do not plan a basic economic mission to Pakistan, although the report of the FY1977 mission is expected to be issued early next calendar year. On Bangladesh, we will, as indicated, be sending four missions as already planned each of which will produce results that may have some bearing upon urban poverty. If this is what is meant by "special sector missions" then that is fine, but we would not wish to convey a promise of special urban poverty missions which are not, as such, planned.

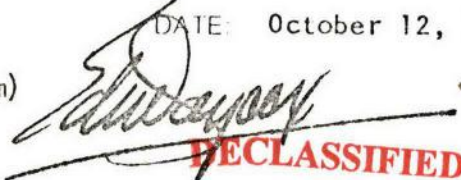
cc: Messrs. Clements
Dunn
Alisbah

CONFIDENTIAL**OFFICE MEMORANDUM**

TO: Mr. Robert S. McNamara

DATE: October 12, 1977

FROM: Edward V.K. Jaycox (through Mr. Warren C. Baum)

**DECLASSIFIED**

JUN 17 2015

WBG ARCHIVES

SUBJECT: Urban Poverty Program Status ReportSUMMARY, CONCLUSIONS AND RECOMMENDATIONS

1. In accordance with the decisions taken at the July 25 meeting of the President's Council, the Regions have reviewed their programs and presented their plans to implement our attack on urban poverty. Each Region has reviewed our present knowledge of the urban poverty situation, country by country, and put together a work program to increase that knowledge and set the stage for informed dialogue on the macroeconomic and policy framework for poverty alleviation in certain key countries. The papers also present work programs to develop the employment creation impact of our IDF lending, and plans to develop sector strategies in the other sectors likely to contribute most to an attack on urban poverty including prototype urban poverty projects in some sectors. Each Region has nominated certain cities where by virtue of the weight of our involvement it may make sense to try to coordinate operations to maximize their beneficial impact on the urban poor. Each Region has also presented a statistical analysis of its current lending program estimating/targeting its urban poverty content.

2. Attached are copies of the six papers. I do not expect you or the members of the President's Council will take the time to read all of this material, but I want you to be aware of its general nature and the amount of effort that has gone into this review.

3. The general conclusions to be drawn from these papers are:

- (a) there is a paucity of reliable information on the extent and nature of urban poverty, and a general absence of national strategies to deal with it, requiring a special effort in country economic and sector work if we are to devise reasonable lending programs in this area, and engage governments in meaningful discussion of the policy and institutional frameworks required to make progress;
- (b) the IDF, labor-intensive/small-scale enterprise lending programs will take time to develop especially in the poorer countries, require more and qualitatively different sector work to support them, and require additional manpower immediately if development is not to be further delayed;

CONFIDENTIAL

- (c) there is a large scope for poverty-oriented lending in the urban, IDF, water/sewerage, and education sectors and country-specific strategies in these sectors can be articulated in a relatively short time, provided that demand for this is sustained through the routine processes of the Bank, particularly the CPP process;
- (d) the Bank-wide targets of urban poverty lending, i.e., one-third of all urban-related lending by FY80, is attainable provided that currently unidentified projects are consciously nominated and subsequently designed to be poverty projects, and this process is reinforced by the CPP and other review procedures; and,
- (e) there is substantial potential for confusion amongst operating staff of the signals being given by our urban and rural poverty efforts on the one hand and by the developing discussion of "basic needs" on the other. These themes are not in conflict but can and are now to some extent seen to be so.

4. Overall, I believe we have made significant progress with these analyses and work programs. This work constitutes an early stage in the difficult process of reorientating Bank urban-related lending and the analytical work that will support it. Obviously, implementation of the program will require a continuing effort and the close attention of management at all levels.

5. The main recommendations that I have to make at this point are three:

- (a) More attention to the development of the IDF employment creation program is necessary if this sector is to make the contribution that we desire and expect. The IDF manpower budgets should be supplemented immediately by the addition of funds for consultants to be expended during the remainder of this fiscal year, and next year's budget should be based on a more ambitious program development and more realistic work coefficients to account for the difficulties in this area.
- (b) The poverty thrusts of Bank programs (both urban and rural) should be integrated into and highlighted in the CPP process by explicit discussion in the text and the quantification of programmed poverty lending in Attachment 1 to the CPP. Mr. Yudelman and I have a concrete proposal to make to this effect, if it is agreed in principle that this is desirable.

- (c) The discussion of basic needs, ongoing within the Bank, should be explicitly linked with and supportive of what is already being done in our rural and urban poverty programs, and should not be allowed to be seen by operating staff as a new theme that is competitive with or superseding what is just now becoming operational.

ECONOMIC AND SECTOR WORK PROGRAMS

6. Each of the Regions has nominated countries of focus for a special effort in economic and sector work emphasizing the urban poverty dimensions (income distribution, employment opportunities, and access to basic goods and services) and the policy/institutional frameworks for poverty alleviation. These countries have been chosen on the basis of the estimated magnitude of the urban poverty problem and (with the exception of Iran) of the opportunities that our lending programs present.

TABLE 1: PRIORITY COUNTRIES

Economic/Sector Missions and CPP Review Dates
FY78

<u>East Africa</u>	<u>West Africa^{a/}</u>	<u>EMENA</u>	<u>LAC</u>	<u>EAP</u>	<u>South Asia</u>
Kenya (3/78)*	Ghana (-)	<u>High Priority</u>	Bolivia (n.a.)	Indonesia (7/77)***	Bangladesh (12/77)*
Tanzania (6/78)	Ivory Coast (-)	Egypt (2/78)***	Brazil (9/77)*	Korea (-)*	India (11/77)***
Zambia (1/78)*	Nigeria (11/77)*	Iran (4/78)	Chile (n.a.)	Malaysia (12/77)**	Pakistan (n.a.)***
	Senegal (4/78)	Morocco (4/78)***	Colombia (1/78)*	Papua New Guinea (4/78)	
		Turkey (3/78)***	Haiti (-)*	Philippines (2/78)*	
		<u>Medium Priority</u>	Mexico (4/78)***	Thailand (9/77)**	
		Afghanistan (2/78)*	Peru (n.a.)***		
		Algeria (11/77)*			
		Lebanon (12/77)			
		Portugal (4/78)			
		Syria (3/78)*			
		Tunisia (10/77)**			

No official CPP Review Schedule for West Africa; dates shown are Regional projections.

a.) Date not yet set for CPP review.

b.) No review in FY78.

* Special Sector Mission(s) in FY78.

† Basic Economic Mission in FY78.

‡ Basic Economic plus Special Sectoral Mission(s) in FY78.

7. These 36 countries have been well chosen; they account for over 90% of the urban poverty problem in our borrowing countries. The level of effort planned for the urban poverty related economic and sector work in these countries varies considerably from country to country, depending upon our existing knowledge and the relative priority of the urban poverty problem. The work programs in general reflect careful thought on these matters, although it is unlikely that we will be able in the course of the next two years to engage in well-informed dialogues with governments on macroeconomic policy frameworks for employment creation and poverty alleviation. Given their manpower and planning constraints, generally, the best that the Regions could do at this point is to add dimensions to or shift somewhat the focus of already planned work. This has been done pretty much across the board, and in my view the overall program of studies is quite satisfactory and will be very useful in supporting program development and project design.

EMPLOYMENT GENERATION - IDF WORK PROGRAMS

8. The development of the work programs in employment generation and raising the productivity of the urban target groups is now underway in all Regions. The burden of this, as has always been recognized, will fall on the IDF divisions, which are not fully equipped for the task ahead, in terms of experience and manpower. The programs now really start almost from scratch, in four of the six Regions, and in the FY78-79 lending programs contribute very little to the overall urban poverty effort. In EMENA and LAC, the programs are more substantial; in these two Regions the higher capital/labor thresholds, which reflect the relative availability of capital and labor in these economies, reduces the difficulty of meeting the poverty criteria in the formal sector and through existing intermediaries. In the poorer regions the problem of developing truly labor-intensive operations is much more difficult.

9. Overall, in the next two years only about 12% of total IDF lending is estimated to meet the labor-intensive poverty criteria. IDF, with Industry and Tourism will account for almost all of the clearly employment-generating poverty projects, but over the next two years these operations together will amount to only about 25% of the entire poverty effort. The urban poverty program will thus, through this fiscal year and next, continue to be primarily a sites and services, slum upgrading (although these projects will have increasing amounts of support for small-scale enterprise) (47%) and water supply (20%) program. Beyond these years the opportunities for poverty-oriented IDF lending exist, but regional plans have generally not developed to a quantifiable stage. The tables 1/ below summarize the IDF lending programs and their estimated poverty content.

1/ These tables do not reflect the revised EMENA work programs mentioned in paragraph 10 below.

TABLE 2: ALL BANK: FY77-81 LENDING PROGRAM
IDF SECTOR BY YEAR
(US\$ Million)

Category	Actual						
	1977	1978	1979	1978-79	1980 ^{c/}	1981 ^{c/}	1980-81 ^{c/}
Urban Related (of which UPP)	597 (24)	465 (69)	445 (42)	910 (111)	508 (78)	456 (29)	964 (107)
Rural	0	0	16	16	18	0	18
National ^{a/}	89	30	238	268	207	78	285
Unknown ^{b/}	0	0	95	95	81	437	518
Total IDF Lending ^{c/}	686	495	794	1,289	814	971	1,785
UPP as % of Total IDF Lending	4%	14%	5%	9%	10%	3%	6%
UPP Lending as % of Urban Related Lending	4%	15%	9%	12%	15%	6%	11%

TABLE 3: FY78-79 IDF LENDING PROGRAM

ALL BANK		BY REGION					
Urban Poverty Program as a Percentage of		Urban Poverty Program as a Percentage of Urban Related Lending in Sector					
All Bank UPP	Urban Related Lending in Sector	East Africa	West Africa	EMENA	LAC	EAP	South Asia
12%	12%	5%	13%	26%	22%	6%	2%

Note: UPP: Urban Poverty Program Lending.

^{a/} Lending of national or systems character which is spatially diffused.

^{b/} Locational distribution not yet identified.

^{c/} Total program understated in FY80 and FY81 due to unspecified lending programs in some countries.

October 12, 1977

Mr. Robert S. McNamara

10. The problems in getting the IDF employment creation program developed faster have been noted before. First, there are the demanding labor-intensive criteria which, particularly in the poorer countries, imply the movement of our existing intermediaries into totally new enterprise sectors or the development of new intermediaries, which operate in these labor-intensive sectors. Second, there is the general absence of government policies and explicit strategies to support small-scale and employment-creating enterprises. Third, there is a lack of knowledge and experience on our part as to the nature and the country-specifics of the sectors where the bulk of the poor are and will be employed. Each of the Regions has cited these barriers and others. It will take time to overcome these difficulties. The question is whether it need take as long as now indicated. EMENA has made a special effort in recent weeks to go over its IDF program again with a view to increasing its poverty content. This Region now indicates that it may be feasible to move from about 26% poverty content in FYs 78 and 79 to 40%. It is clear that the IDF programs need and can benefit from more work and closer scrutiny for opportunities to create more employment per unit of investment. I suggest that the regional managements and the IDF of CPS give priority to this in the weeks ahead, and that more ambitious programs in terms of employment creation be developed in the context of the upcoming budgetary process.

11. The budgetary aspects of this work are important. Every Region points to the manpower constraints, and the high staff costs per unit of lending standing in the way of program development. I recommend an immediate injection of additional resources, equivalent to one man-year per Region in consultant funds to be earmarked for this program and to be expended this fiscal year. Next year's budgets for the IDF divisions should be based on more ambitious plans and more realistic coefficients.

SECTOR STRATEGIES AND PROTOTYPE PROJECTS

12. The Regions have devised strategies which will guide their lending programs in some of the sectors which can make a contribution to the urban poverty effort, and they will be outlining strategies in other sectors in coming months. The following sector papers already exist:

<u>Sectors</u>	<u>E. Africa</u>	<u>W. Africa</u>	<u>EMENA</u>	<u>LAC</u>	<u>EAP</u>	<u>S. Asia</u>
IDF	x	x	x	x	x	x
Education	x	x		x		x
Urbanization	x	x		x	x	x
Water Supply	x		x	x		

Although the depth of analysis of these papers varies considerably from Region to Region and sector to sector, they all represent a step forward in raising the consciousness of operating staff and getting more specific about implementing an attack on urban poverty. In many cases the papers articulate rural strategies as well.

13. The Regions have identified some prototype urban poverty projects as follows:

Prototype Projects by Region and Sector

<u>Region</u>	<u>Country</u>	<u>Sector</u>	<u>FY</u>	<u>Project</u>
E. Africa	Kenya	IDF	78*	Kenya SSE
	Botswana	IDF	78	Urban II (SSE component)
	Sudan	Water Supply	80	Urban Water Supply
W. Africa	Upper Volta	IDF	78	Small Scale Industry
	Niger	IDF	79	Small Scale Industry
	Gambia	IDF	79	Small Scale Industry
EMENA	Egypt	Education	79	Education II
	Egypt	Water Supply	80	Water Supply II
	Algeria	Water Supply	81*	Water Supply
LAC	Peru	Education	80*	Education II
	Nicaragua	Water Supply	78	Nicaragua Water Supply
E. Asia and Pacific	Philippines	Water Supply	79	Manila Water Supply II
S. Asia	Pakistan	Water Supply	81	Karachi Water and Drainage
	Pakistan	IDF	80	Small Scale Industry

14. The projects in the earlier years, FY78-79, more accurately fit with the notion of prototypes, i.e., they come early in the program and can be models for subsequent projects in the sector. Of course, some existing projects may perform this role as well; for instance, I believe we already have ample prototypes in basic urbanization, i.e., sites and services and slum upgrading. I suggest that the CPS sector departments and the Projects managers collaborate further to identify potential prototype projects in the next two fiscal years.

CITIES OF CONCENTRATION

15. The Regions have identified cities where we will have a relatively large number of operations in the next five years and where it may make sense to make a special effort to coordinate lending, sector work, and loan conditions to maximize our impact on policies, institutions and the poverty situation. These cities are as follows:

* Indicates standby project.

<u>Region</u>	<u>City</u>
East Africa	Nairobi
West Africa	Abidjan
East Asia and Pacific	Jakarta
South Asia	Calcutta
EMENA	Cairo Casablanca
LAC	Kingston Lima

16. Plans for this approach are under preparation in the case of Jakarta, with a collaborative effort involving EAP regional staff and the Urban Operations Review and Support Unit. As these plans develop, the experience will be shared amongst the Regions.

STATISTICAL ANALYSIS OF URBAN POVERTY LENDING

17. Table 4 below sets out the lending program by FY77-81. Tables 5-7 set out the program by Region and by sector for FYs 78 and 79. 1/

TABLE 4: ALL BANK: FY77-81 NON-AGRICULTURAL LENDING PROGRAM BY YEAR (US\$ Million)							
Category	Actual						
	1977	1978	1979	1978-79	1980 ^{c/}	1981 ^{c/}	1980-81 ^{c/}
Urban Related (of which UPP)	2,332 (318)	2,466 (559)	2,206 (361)	4,672 (920)	2,675 (746)	1,958 (504)	4,633 (1,250)
Rural	671	608	598	1,206	563	472	1,035
National ^{a/}	1,606	1,683	2,396	4,079	1,522	1,668	3,190
Unknown ^{b/}	50	285	1,011	1,296	2,631	2,206	4,837
Total Non-Agricultural Lending ^{c/}	4,659	5,042	6,211	11,253	7,391	6,304	13,695
UPP/Total Non-Agricultural Lending	7%	11%	6%	8%	10%	8%	9%
Urban Poverty as % of Urban Related Lending	14%	23%	16%	20%	28%	26%	27%
Urban Poverty as % of Urban Related Lending (1/6/77 estimate)	20%	25%	23%	24%	27%	50%	35%

Note: UPP: Urban Poverty Program Lending.

a/ Lending of national or systems character which is spatially diffused.
b/ Locational distribution not yet identified.
c/ Total non-agricultural program understated in FY80 and FY81 due to unspecified lending programs in some countries.

October 10, 1977

1/ The figures for EMENA and the totals do not reflect the very recent targeting exercise undertaken by that Region to increase the poverty content of urban-related lending.

Category	All Bank	East Africa	West Africa	EMENA	LAC	EAP	South Asia
Urban Related (of which UPP)	4,672 (920)	389 (97)	268 (83)	988 (132)	1,505 (426)	738 (94)	785 (89)
Rural	1,206	80	105	121	519	134	246
National ^{a/}	4,079	402	195	1,101	589	1,107	686
Unknown ^{b/}	1,296	225	32	521	387	80	50
Total Non-Agricultural Lending	11,253	1,096	600	2,731	3,000	2,059	1,767
UPP/Total Non-Agricultural Lending	8%	9%	14%	5%	14%	5%	5%
Urban Poverty as % of Urban Related Lending	20%	25%	31%	13%	28%	13%	11%
Target Group as % of Urban Population	33%	25%	27%	20%	25%	31%	51%

Note: UPP: Urban Poverty Program lending.

a/ Lending of national or systems character which is spatially diffused.
b/ Locational distribution not yet identified.

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Sector	WITHIN BANK			WITHIN SECTOR			WITHIN UPP
	No. of Projects	Amount (US\$ Mil.)	Sector Share of Lending	Percentage Urban Related Lending	Percentage Urban Poverty Lending	UPP as % of Urban Related Lending	Sector Share of UPP Lending
Telecommunications	11	401	4%	16%	3%	20%	1%
Development Finance Corporations	36	1,289	11%	71%	9%	12%	12%
Education	37	725	6%	30%	3%	10%	2%
Industry	38	1,472	13%	44%	5%	11%	8%
Population	9	268	2%	22%	5%	21%	1%
Power	40	2,213	20%	32%	< 1%	3%	2%
Tourism	6	96	1%	76%	59%	78%	6%
Transportation	84	2,822	25%	7%	< 1%	1%	< 1%
Urbanization	27	699	6%	99%	61%	62%	47%
Water Supply	38	1,061	10%	89%	17%	19%	20%
Other ^{a/}	7	187	2%	81%	0%	0%	0%
Total Non-Agricultural Lending	333	11,253	100%	42%	8%	20%	100%

Note: UPP: Urban Poverty Program lending.

Non-Project and Technical Assistance lending.

Sector	ALL BANK		BY REGION					
	Urban Poverty Program as a Percentage of		Urban Poverty Program as a Percentage of Urban Related Lending in Sector					
	All Bank UPP	URL Lending in Sector	East Africa	West Africa	EMENA	IAC	EAP	South Asia
Telecommunications	1%	20%	-		0%	64%	-	10%
Development Finance Corporations	12%	12%	5%	13%	26%	22%	6%	2%
Education	2%	10%	-	6%	2%	39%	0%	20%
Industry	8%	11%	2%	-	11%	0%	40%	8%
Population	1%	21%			11%	12%	-	50%
Power	2%	3%	5%	0%	30%	3%	0%	0%
Tourism	6%	78%			-	80%		0%
Transportation	< 1%	1%	0%	0%	-	0%	3%	0%
Urbanization	47%	62%	78%	66%	30%	73%	69%	56%
Water Supply	20%	19%	19%	39%	10%	45%	< 1%	11%
Other ^{a/}	0%	0%	-	0%		-		0%
Total Non-Agricultural Lending	100%	20%	25%	31%	13%	28%	13%	11%

Note: URL: Urban Related Lending.
 UPP: Urban Poverty Program Lending.
 -: Denotes no urban related lending.

^{a/} Non-Project and Technical Assistance lending.

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18. In Table 4, FY77 is an "actual" in the sense that it shows our final intent. Of course, it will take some time to learn if our intentions are realized. You will note that the overall poverty content of urban-related lending for FY77 was only about 14%, considerably less than the 20% forecast early in that fiscal year. This is due to the tightening up of the estimates as the poverty criteria became agreed and understood, as well as the evolution of project designs, project slippages, etc. I would expect in future for forecasts and "actuals" to be somewhat closer.

19. Some highlights from the tables:

- The poverty content of the sizeable urban-related lending in South Asia and East Asia & Pacific, is very low relative to the size of the target group in those Regions.
- The proportions of urban lending that are poverty-oriented in education (10%), water supply (19%) and IDF as noted above (12%) fall substantially below their potential.

- There seems to be a significant drop in urban poverty lending in FY79 both in absolute and percentage terms as compared to FY78. This may or may not be a true indicator of poverty content in that year, but we doubt it is due to some conservative bias in forecasting since the FY80 forecasts show a large increase in poverty content even though the FY80 program is still quite undefined. The Urban Operations Review & Support Unit will be looking into the FY79 program in detail in the weeks ahead.

20. We have concentrated in Tables 5, 6, and 7 on only the next two fiscal years. FY80 and beyond are still too undefined to bear analysis and up to now the Regions (with the exception of EMENA as noted above) have not chosen to use the degrees of freedom afforded by these undefined programs to target the characteristics they want to see in these outlying years. This is where I believe that the CPP process has a major role to play, and some of the Regions have indicated their plans to adopt the CPP as the major vehicle for setting and discussing these targets.

Attachments (6)

cc: President's Council
Regional Directors
CPS Directors
Regional Urban Poverty Program Coordinators
Chief Economists

EVKJaycox/AStone:ncp/ba

LEVELS OF SERVICE TO URBAN POOR

PRESENT LENDING PROGRAM - 78/82

WATER SUPPLY AND SEWERAGE - LAC

COUNTRY	LOAN	OBJECT	AMOUNT US\$ MILLION	POP. SERVED MILLION	URBAN POOR SER- VED MILLION
BAHAMAS	Sew. II	Sew.	7.0	0.320	0.070
BOLIVIA	WS II	Water	20.0	1.200	0.360
BRASIL	NE	WS/Sew	50.0	3.500	2.500
BRASIL	S. Paulo S.T.	Sew. Treat.	80.0	1.200	0.560
BRASIL	S. Paulo II	Sew	150.0	3.000	0.670
BRASIL	Center	WS/Sew	70.0	2.800	1.900
BRASIL	Unident.	Sew.	60.0	3.000	1.600
CHILE	I	WS	35.0	0.660	0.530
COLOMBIA	Bogota	River. Reg.	10.0	---	---
COLOMBIA	Cali II	Sew.	15.0	0.300	0.240
COLOMBIA	Bogota III	WS	30.0	0.380	0.240
COLOMBIA	INSFOPAL III	WS/Refuse	20.0	1.000	0.800
COLOMBIA	INSFOPAL IV	WS/Sew.	25.0	0.500	0.320
ECUADOR	Water Supp.	WS	20.0	0.300	0.200
EL SALVADOR	I	Sew.	15.0	0.290	0.180
GUYANA	I	WS/Sew.	7.0	0.140	0.090
GUYANA	II	WS/Sew.	9.0	0.200	0.120
HAITI	I	WS	7.0	0.170	0.130
HAITI	II	WS/Sew.	15.0	0.360	0.250
MEXICO CITY	II	WS	150.0	3.000	2.400
MEXICO	Med. Cities IV	Sew.	70.0	0.600	0.350
NICARAGUA	WS III	WS	10.4	0.220	0.130
NICARAGUA	Sanitation	Rural	3.1	---	---
PANAMA	WS II	Sew.	25.0	0.610	0.420
GUATEMALA	WS/Sew.	WS/Sew.	25.0	0.290	0.200
PARAGUAY	Rural WS I	Rural	6.0	---	---
PARAGUAY	Rural WS II	Rural	10.0	---	---
PERU	Lima WS	WS	50.0	1.500	1.200
TOTAL			<u>994.5</u>	<u>25.540</u>	<u>15.460</u>

Note: The above figures do not include the impact on urban poor due to projects of the period 1971-1976.

STRATEGY OF THE SECTOR

WATER SUPPLY AND SEWERAGE -- LAC

COUNTRY/LOAN	LARGER GEOGRAPHIC COVERAGE	MULTI-CITIES	CONSOLIDATION OF INSTITUTIONS	NETWORKS EXTENSIONS TO MARGINAL AREAS	INVOLVEMENT IN NEW FIELDS	REMARKS
BAHAMAS/WS/S II			Yes	Yes		
BOLIVIA/WS/S		Yes	Yes	Yes		
BRASIL/WS/S NE		Yes	Yes	Yes	Yes	Project to cover sewerage and pollution problems in capital cities of three states
BRASIL/S. Paulo II			Yes	Yes	Yes	Pollution control - 1st stage
BRASIL/S. Paulo S.T.			Yes	Yes	Yes	Pollution control - 2nd stage
BRASIL/Center		Yes	Yes			
BRASIL/Unident.		Yes	Yes	Yes		
CHILE/WS	Yes			Yes		
COLOMBIA/Bogota r Reg.			Yes		Yes	Regulation of Rio Bogota to control flooding and contamination
COLOMBIA/Cali II			Yes	Yes	Yes	Reduction of degree of contaminated waters entering treatment plant and flooding control
COLOMBIA/Bogota Water III			Yes	Yes		
COLOMBIA/ INSFOPAL III		Yes	Yes	Yes	Multi- purpose	Includes refuse collection and disposal
COLOMBIA INSFOPAL IV		Yes	Yes	Yes		
ECUADOR/WS		Yes		Yes		
EL SALVADOR/ Sewage I	Yes		Yes	Yes		
GUATEMALA/WS & S I	Yes		Yes	Yes		
GUYANA/WS & S II	Yes			Yes		
HAITI/WS I	Yes	Yes	Yes	Yes		
HAITI/WS & S IV	Yes	Yes	Yes	Yes		
MEXICO/City II			Yes	Yes		
MEXICO/M. Cities IV		Yes	Yes	Yes		
NICARAGUA/WS III			Yes	Yes		
NICARAGUA/Rural San						Rural
PANAMA/Sew.				Yes		
GUATEMALA/WS & S	Yes			Yes		
PARAGUAY/ Rural WS I	Yes	Yes				Rural
PARAGUAY/ Rural WS II	Yes	Yes				Rural
PERU/Lima WS	Yes		Yes			

September 21, 1977

LCPWS MANAGUA WATER SUPPLY III PROJECT

AN ILLUSTRATION OF THE LCPWS DIVISION STRATEGY
FOR URBAN POOR IN LATIN AMERICA

THE PROJECT

1. The project would be the third expansion of Managua's water supply. The first expansion financed by IDA Credit 26-NI was completed satisfactorily in 1966. The second stage financed by Loan 808-NI was successfully carried out, even considering the difficult problems created by the 1972 earthquake. The project consists of additional water wells, pumping equipment, storage and distribution facilities, house connections, data processing facilities for the borrower, and studies of new water sources for the next expansion stage. The total project cost is estimated at 13.9 million dollars and the Bank loan will amount to 10.4 million dollars (total foreign cost). The borrower would be the Empresa Aguadora de Managua (EAM).

SELECTION CRITERIA

2. The project constitutes a typical illustration of the LCPWS strategy for the urban poor in Latin America. Its main objectives are:

- (i) to provide safe water to 95% of the Managua population up to 1985;
- (ii) to increase the number of urban poor served by house connections by about 220,000;
- (iii) to achieve a better consolidation of sector organization. The Government will conduct a study of the organizational arrangements for water and sewerage services in Managua which would develop recommendations for unification of service under one single company, or for otherwise satisfactory coordination;
- (iv) to consolidate the borrower's managerial and operational capabilities. The increase in personnel would be reduced in order to obtain a ratio of employment per 1,000 connections satisfactory to the Bank. Government receivables would be reduced to two-months billing. Inventories would be reduced to no more than 3% of the gross value of fixed assets. The company's financial situation would be improved thanks to the implementation of adequate tariffs and the Bank would continue to be consulted for changes in the higher levels of of the borrower's management;
- (v) to prevent the sanitation problems that could occur if appropriate sewerage disposal lags behind installation of

water connections. Bank disbursements for water transmission and distribution works for a given neighborhood will be contingent on the presentation by the borrower of a program acceptable to the Bank for sewerage disposal in that area;

- (vi) to ensure its replicability. Present average tariff is 12% higher than the marginal cost of the project;
- (vii) to ensure cross-subsidization between consumers and reflect the affordability criteria. Although the present tariff structure is progressive, tariff progressivity is low (1.25) and minimum consumption is high (5,000 to 8,000 gallons per month) which results in high tariffs for the poor consumers (about 30% of total population). With the proposed loan, the tariff structure would be modified in order to lower the minimum consumption and introduce more progressive and simplified tariff structures; the objective of such restructuration is that large consumers will pay three times the marginal cost of the proposed project, thereby subsidizing low-income users; and
- (viii) to ensure the connection of poor people to the system. A revolving fund has been set up in the borrower to finance the cost of the connection charged to this people.

MONITORING INDICATORS (See Attachment 1)

3. Monitoring indicators have been designed in order to follow, by quarter, the implementation of the proposed project and, particularly, the components regarding the urban poor. The most relevant indicators cover production, population served, number of connections, consumption per capita, tariffs, operating costs, etc.

RCosta/ERodrigues
LCPWS

LEVELS OF SERVICE TO URBAN POOR

ADDITIONAL LENDING PROGRAM - 78-82

WATER SUPPLY AND SEWERAGE -LAC

COUNTRY	LOAN	OBJECT	AMOUNT US\$ MILLION	POP. SERV. MILLION	URBAN POP. SERV. MILLION
BOLIVIA	S. Cruz	Sew/Stormwater	30.0	0.230	0.080
BRASIL	Unident.	Sew.	40.0	0.800	0.560
CHILE	Med. Cities I	WS/Sew.	20.0	0.600	0.360
CHILE	Med. Cities II	WS/Sew	20.0	0.600	0.360
COLOMBIA	INSFOPAL V	Refuse	25.0	3.900	0.975
CUADOR	Sml. Cities I	WS	20.0	0.660	0.460
MEXIC	CITY III	WS	50.0	2.000	1.400
MEXIC	M. Cities III	WS	50.0	1.300	0.900
NICARAGUA	Rural II	WS	5.0	--	--
PERU	Mantaro	WS Prod.	30.0	--	--
JAMAICA	Kingston III	WS	20.0	0.150	0.080
TOTAL			<u>310.0</u>	<u>10.240</u>	<u>5.175</u>

Note: The above figures do not include the impact on urban poor due to projects the period 1971-1976.

Country/Project	No.	LAON AMOUNT (US\$ MILLION)					
		FY78	FY79	FY80	FY81	FY82	
<u>Bahamas</u>	1						
Sewerage II				7.0			
<u>Bolivia</u>	2						* additional projects proposed
Santa Cruz Small Towns			30.0*			20.0	
<u>Brazil</u>	6						
NE Sao Paulo II Sao Paulo III Center Unidentified Unidentified (sewerage)		80.0	50.0			150.0	
				70.0	60.0 40.0*		
<u>Chile</u>	3						
Santiago Medium Cities I Medium Cities II			35.0		20.0*	20.0*	
<u>Colombia</u>	6						
Bogota River Control Cali II Bogota Water III INSFOPAL III (Garbage) INSFOPAL IV (Water) INSFOPAL V (Garbage)		15.0	10.0	30.0		25.0	25.0*
			20.0		25.0		
<u>Ecuador</u>	2						
Small Cities I Small Cities II			20.0*		20.0		
<u>El Salvador</u>	1						
Sewerage				15.0			
<u>Guyana</u>	2						
WS & S I WS & S II				7.0		9.0	
<u>Haiti</u>							
Provincial Towns I Provincial Towns II		7.0			15.0		
<u>Mexico</u>	4						
Mexico City II Mexico City III Medium Cities II Medium Cities III		150.0	50.0*	70.0		50.0*	
<u>Nicaragua</u>	3						
Managua III Rural I Rural II		10.4 3.1			5.0*		
<u>Costamala</u>	1						
Water I					25.0		
<u>Panama</u>	1						
Sewerage				25.0			
<u>Paraguay</u>	2						
Rural I Rural II		6.0				10.0	
<u>Peru</u>	2						
Lima Mantaro			50.0			30.0*	
<u>Jamaica</u>	1						
Kingston III				20.0*			
No. of Projects	39	7	8	8	8	8	
Amount of Loans	---	271.5	262.0	244.0	210.0	214.0	1,304.5

LCPWS

ADDITIONAL STAFF REQUIRED FOR PROPOSED LENDING PROGRAM - 78/82

<u>DESCRIPTION</u>	<u>FY78</u>	<u>FY79</u>	<u>FY80</u>	<u>FY81</u>	<u>FY82</u>
Approved Staff	14	14	14	14	14
PAHO Support	-	2	2	2	2
Division Chief/ Deputy Division Chief	(1)	(1)	(1)	(1)	(1)
Technical Assistance to Other Project Activities <u>1/</u>	(-)	(1)	(1)	(2)	(2)
Staff/Projects Available	13	14	14	13	13
Staff/Projects Necessary	14	16	16	16	17 <u>2/</u>
Additional Staff Needed	+ 1 <u>3/</u>	+ 2	+ 2	+ 3	+ 4
Number of projects in Approved Lending Program	7	5	7	5	4
Number of Projects in Proposed Lending Program	7	8	8	8	8

1/ Urban Projects (CPS); tourism projects; agriculture projects, and integrated rural development projects.

2/ During the period 1983/86 two additional staff (increasing divisional staff to 18) would be necessary to maintain the Division's share of total investments in the sector at 11%.

3/ For FY79 projects identification and preparation.

ADDITIONAL LENDING PROGRAM - 78/82

STRATEGY OF THE SECTOR

WATER SUPPLY AND SEWERAGE -- LAC

COUNTRY/LOAN	LARGER GEOGRAPHIC AREAS	MULTI-CITIES	CONSOLIDATION OF INSTITUTIONS	NETWORKS EXTENSION TO MARGINAL AREAS	INVOLVEMENT IN NEW FIELDS	REMARKS
BOLIVIA/Santa Cruz					Multi-Purpose	Flood prevention by stormwater collection benefits the whole watershed
BRASIL/Unident.		Yes	Yes	Yes	Pollution Control	Sewerage and pollution control in large-size cities of Brasil
CHILE/M. Cities I	Yes	Yes		Yes		
CHILE/M. Cities II	Yes	Yes		Yes		
COLOMBIA/INSFOPAL V		Yes	Yes		Refuse collection Street sweeping	Emphasis in recyclable and reclaimable wastes which benefits separators
ECUADOR/Small Cities I		Yes	Yes	Yes	Rural	
MEXICO/City III			Yes	Yes	Yes	Marginal Areas
MEXICO/ Medium Cities III		Yes	Yes			
NICARAGUA/Rural I	Yes	Yes	Yes		Rural	Rural Development
PERU/Mantaro	Yes		Yes			Increase in water production will benefit the whole city of Lima
JAMAICA/Kingston III			Yes	Yes	Multi-Purpose	

ANNEX 7
Attachment 6

OFFICE MEMORANDUM

OCT - 5 RECD

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

DATE: October 4, 1977

FROM: P. Cressner, Assistant Director, LCPDR and
D. Cook, Sr. Operations Officer, LCPIDSUBJECT: Urban Poverty LendingIntroduction

1. This memorandum responds to your note of July 25, 1977 concerning the Region's urban poverty lending program. After a brief look at the present profile of the Region's urban poverty lending effort, it reviews planned economic work which is urban poverty oriented. It then summarizes the urban poverty strategies and work plans of the Regional IDF, Water and Sewerage, and Education Divisions, whose full statements are appended, and points to the key features of the Urban Department's work in LAC. Prototype projects and target cities are proposed.

The Setting

2. Latin America is now a predominantly urban region. By 1975 60% of the total population (some 186 million) was urban, reflecting the situation in the seven most populous countries which have reached urbanization ratios ranging from 55% in Peru to 60% in Brazil and Mexico, 66% in Colombia and over 80% in Argentina, Venezuela and Chile. It is estimated that 25% of the region's urban population, or some 47 million people, have incomes that fall below the urban poverty threshold. Nine-tenths of them are concentrated in the same seven countries: Brazil (17 million), Mexico (11 million), Argentina and Colombia (4 million each), Venezuela (2.5 million), and Peru and Chile (about 2 million each). The large and rapidly growing conurbations of Latin America are, of course, situated in these major countries. While the majority of the population of almost all the Caribbean and Central American Countries, as well as of Bolivia, Ecuador and Paraguay still live in rural areas, the rate of growth of some of the major cities in these countries is very high and the associated economic and social problems acute.

3. When taking a first cut at developing an urban poverty lending strategy two years ago, the Region decided to concentrate its efforts mainly on Brazil, Colombia, Mexico and Peru, which together account for 70% of the Region's urban poor. In addition, three cities in smaller countries--Kingston (Jamaica), San Salvador (El Salvador) and Guayaquil (Ecuador)--were singled out for special attention because of the severity and complexity of their poverty problems. Bolivia has since been added to the list of target countries, which also includes Nicaragua and Guatemala, where the Bank Group became involved in urban poverty lending through its earthquake reconstruction loans. Finally, the Region is about to initiate a dialogue with Chile concerning possible projects focusing on urban unemployment and poverty and to study the special urban poverty problems of Haiti, the poorest country of the Western Hemisphere whose relatively small, but growing urban sector has the highest proportion of poor (50%) in the Region.

4. Implementation of the new strategy implied a number of actions by Regional Management. First of all, a conscious effort was begun to make the study of urban growth patterns, underemployment and unemployment and poverty a much more important component of economic and sector work. Examples are the three major urban studies carried out in Mexico in 1975 and 1976, the work of a major urban mission in Brazil in early 1977 and the prominence given the study of urban poverty in the Basic Economic Report on Peru which is about to be completed. As a result of this work and of a long Bank involvement in the study of Colombia's urban problems, the Region has been able to engage in an intense dialogue with the governments of these four major countries concerning national and regional policies, criteria and institutional arrangements affecting the urban poor.

5. At the same time, a significant part of the Region's IDF Division's efforts was redirected towards the study of small-scale enterprise and of labor intensive activities, the identification of appropriate credit and technical assistance institutions and the development of projects that promise to have a significant impact in creating employment for the urban poor (as described more fully in paras 19-23). The first loan in the Region to an institution devoted exclusively to small-scale enterprise financing was made to Colombia's CFP in FY75. The results have been sufficiently encouraging for a second loan to the same institution in FY77. Intensive efforts to develop an appropriate small enterprise credit and technical assistance program in Mexico has led to the appraisal of a project scheduled for Board presentation in FY78 and similar efforts in Jamaica and Brazil are underway. A number of promising programs and projects have been developed in smaller countries such as El Salvador, Bolivia, Nicaragua and Guatemala, as components of multi-sectoral urban projects. The Division's work program for the next few years envisages a variety of approaches to SSE lending in most countries of the Region.

6. Other Project Divisions whose sector work and lending activities can be of key importance to the urban poverty thrust--especially Water Supply and Sewerage, and Education--were encouraged to evaluate their activities critically and develop work programs to make them more poverty oriented. The Bank's financing of water and sewerage projects in Latin America tends to have a significant impact on the urban poor because the existing water supply systems already serve over 80% of the Region's total urban population, i.e. most of the non-poor and a part of the urban poor. It is estimated that on the average about 70% of the additional water supply and distribution facilities provided through Bank-financed projects benefit the urban poor. The strategy which the Water Supply and Sewerage Division has developed and begun to implement (see paras 31-40) focuses on the more systematic use of the affordability/replicability criteria, specifically through the application of tariff policies resulting in cross-subsidies for water services in favor of the urban poor. Moreover, the LAC Region has started to be increasingly involved with projects dealing with sewerage disposal, garbage collection and disposal and pollution control. Inadequacies in these areas have emerged as increasingly severe urban problems in the larger cities of Latin America and their impact on the urban poor is particularly severe.

7. The Region's Education Division has developed an urban poverty strategy statement and a work plan (see paras 24-30) to implement it over the next few years. This strategy recognizes that in urban areas of LAC, access to general basic education and adult literacy rates are fast approaching the standards of Southern Europe. Under these circumstances, the first priority of the urban poverty strategy in the education sector will be the continued strengthening of the vocational training system in the various countries--a field in which the Bank has been concentrating its efforts in recent years--but with some reorientation to deal more effectively with the educational needs of workers and managers in small enterprises, including those in the "informal" sector. At the same time, greater emphasis is to be placed on the basic education needs of out-of-school children and adolescents in poor urban areas. These new activities will complement continued efforts to assist in the expansion and improvement of secondary and adult education.

8. Regional Management has also encouraged increasingly close cooperation between its Projects Divisions (IDF, Water Supply and Sewerage, Power, Railroads and Education) with the rapidly expanding activities of the Urban Projects Department in the LAC Region (see paras 41 and 42). This collaboration^{1/} has taken the form of joint sector work as well as the joint preparation, appraisal and supervision of new style urban projects which contain a variety of components, including sites and services, water and sanitation, education, transportation (including suburban rail lines), health and job creation.

9. Table I summarizes the results of the latest UPP monitoring exercise covering the FY77-81 Lending Program (based on March 1977 data). As shown there, the Region's urban related lending for job creation, training, public services and shelter for the urban poor will amount to about 30% of total urban-related lending. This would exceed the 25% share of the poor in the area's total urban population--the percentage set as a first target for the Regional urban poverty lending program. Well over 70% of such lending would be for projects or project components in the four key countries (Brazil, Colombia, Mexico or Peru) which together account for roughly the same proportion of the urban poor. As for the sector composition of planned urban poverty lending, urban projects (sites and services, shelter and urban transport) would account for 31% of the total urban poverty lending program, water supply and sewerage for another 32%, job creation through IDF and Tourism projects for about 24% and Education and Training for 5%. The data appear to indicate that both the size, country coverage and sector composition of the planned urban poverty lending effort are reasonably appropriate. Partial updating of the information in the IDF and Education Divisions' Strategy Notes shows that the urban poverty content of IDF and Education lending in the next five years may well be substantially higher than the estimates of only a few months ago which are reflected in the Table.

^{1/} This coordination could be simplified and--in the view of the respective Regional Division Chiefs--become more effective if urban project activities were carried out through a Division in the Region.

LAC FY77-81 LENDING PROGRAM TOTALS AS AT 3/9/77 (EXCLUDING AGRIC. SECTOR)

COUNTRY	FY77-81 No. of Projects	Ln./Cr. Amount	URL Total	UPP Amount	UPP as	UPP (URL) Amount	UPP (URL) As % of URL Total	Urban
					% of Ln./Cr. Amount			Relatively Poor As % of Urban Pop. ^{2/}
ARGENTINA	9	910.0	115.0	17.3	1.9	2.3	2.0	21
BAHAMAS	1	10.0	10.0	3.0	30.0	3.0	30.0	n.a.
BARBADOS	1	8.0	8.0	8.0	100.0	8.0	100.0	n.a.
BOLIVIA	12	215.5	88.6	39.4	18.2	33.4	37.7	20
BRAZIL	29	2,140.0	1,097.1	352.4	16.4	275.4	25.1	26
CENTRAL AMERICA	1	40.0	-	4.0	10.0	-	-	-
CHILE	8	310.0	60.0	42.0	13.5	42.0	70.0	23
COLOMBIA	18	834.0	523.7	107.1	12.8	107.1	20.5	23
COSTA RICA	5	80.0	76.8	19.5	24.3	19.5	25.4	20
CARIBBEAN	3	90.0	210.0	11.3	12.5	5.3	25.0	-
DOMINICAN REP.	6	75.0	29.9	20.8	27.7	18.8	62.8	17
ECUADOR	12	257.0	94.0	33.3	12.9	31.8	33.8	23
EL SALVADOR	8	133.4	67.3	45.7	34.2	45.7	67.9	18
GRENADA	1	3.0	-	-	-	-	-	n.a.
GUATEMALA	6	196.5	61.5	26.6	13.5	26.6	43.3	16
GUYANA	1	12.0	12.0	3.6	30.0	3.6	30.0	21
HAITI	7	74.0	45.5	29.6	40.0	28.6	62.7	50
HONDURAS	6	156.0	66.6	1.6	1.0	1.6	2.3	15
JAMAICA	4	52.0	26.2	22.0	42.3	22.0	84.2	16
MEXICO	21	1,445.6	691.4	324.3	22.4	274.3	39.7	29
NICARAGUA	7	98.0	23.0	24.8	25.3	19.7	85.9	24
PANAMA	5	125.0	67.0	3.0 ^{1/}	2.4	-	-	17
PARAGUAY	8	112.0	32.0	2.2	1.9	2.2	6.9	21
PERU	11	395.0	152.0	59.8	15.1	58.0	38.2	24
TRINIDAD & TOBAGO	1	7.0	7.0	1.4	20.0	1.4	20.0	26
URUGUAY	4	76.0	64.0	9.0	11.8	7.8	12.1	25
TOTAL:	195	7,855.0	3,439.5	1,211.4	15.4	1,037.9	30.2	25
SECTOR								
LCP: Dev.Fin.Comp.	27	956.0	725.5 ^{1/}	166.1	17.3	149.3	20.6	
Education	23	389.7	175.0 ^{1/}	71.5	18.3	58.0	32.9	
Transportation	38	1,597.0	143.0 ^{1/}	34.2	2.1	-	-	
Power	32	1,985.0	754.0 ^{1/}	48.8	2.4	38.8	5.1	
Water Supply	21	779.5	685.0 ^{1/}	368.8	47.3	334.8	49.1	
Non Projects	4	360.0	36.0 ^{1/}	15.0	4.1	-	-	
Tech.Assistance	2	16.0	-	-	-	-	-	
COPD: Industry	13	791.0	253.0 ^{1/}	-	-	-	-	
Population	5	158.0	79.0 ^{1/}	21.1	13.3	21.1	26.8	
Telecomm.	4	119.0	38.0 ^{1/}	12.0	10.0	12.0	31.6	
Tourism	7	194.0	123.0 ^{1/}	149.8	77.2	99.8	80.6	
Urbanization	19	509.8	428.0 ^{1/}	324.2	63.5	324.2	75.8	
TOTAL:	195	7,855.0	3,439.5	1,211.4	15.4	1,037.9	30.2	

^{1/} Approximate.

^{2/} Preliminary estimates prepared in January 1977; these figures are being revised in the course of country economic work. Figure for Haiti is absolute poor.

LCPDR - 10/4/77

10. We feel that the emergence of a broadly acceptable Urban Poverty Lending Program in the Region, which would, if successfully implemented, reach a significant number of the urban poor, is a first "pay-off" of the substantial efforts which Regional staff on both the Programs and Projects side has made in close collaboration with Urban Projects staff. The intensification and refinement of these efforts, described in subsequent parts of this memorandum, should consolidate this encouraging trend. At the same time a note of caution is called for. Latin American governments and Latin American regional institutions like ECLA and IDB have for many years struggled with the problems of inadequate urban planning and lack of public services, shelter and job opportunities for the urban poor. Some of the institutional and policy approaches which have been developed constitute noteworthy pioneering efforts. While the Bank deals with national and local governments and specialized institutions which are often sophisticated and experienced, the speed and extent to which new policy approaches will be adopted and innovative project concepts can be successfully introduced varies widely from country to country, depending on a great number of economic, political and social factors. Among the major obstacles to rapid progress are the inadequacies of government structures at all levels to cope with multi-sectoral urban development schemes, the political difficulties of land acquisition and rezoning in the face of entrenched interests, and often, resistance to change on the part of the urban poor themselves in the absence of adequate community participation. The Bank can suggest and encourage action but the pace will inevitably be determined by government decisions in an often difficult political environment. On the Bank's part financing priorities, credit-worthiness considerations and staff availabilities will be of importance. This last point is dealt with further in paras 48 and 49 below.

Country Economic Work

11. While efforts will be made in all of the Region's country economic work to give increased attention to the macro-policy framework for employment creation and urban poverty alleviation, four large countries and four smaller ones have been singled out for special emphasis during FY78 and FY79.

12. In Brazil the report of a major Urban Sector Survey, which studied large cities in several regions, will be completed in FY78, involving some 120 manweeks of work. The survey includes indepth studies of macro-economic policies and a series of specifically urban analyses. This study has already helped to generate several potential Bank projects (e.g., two urban transport projects, the first sites and services project, Sao Paulo Pollution Control). A Human Resources Study will also be fielded in FY78 which will devote considerable attention to urban problems in the Northeast and Central South of Brazil. Follow-up work on both of these studies is planned for FY79.

13. In Colombia a major research study is being carried out under the aegis of DPS, with the cooperation of a private Colombia research partner. This "City Study" addresses the spatial problems of Bogota and, in its second stage, of Cali. It is expected to generate a wealth of urban data that will be helpful in analyzing the impact of public sector policies on housing decisions, use of urban transport, employment creation, etc. Another joint LAC/DPS study concerns provincial and municipal finances. The FY79 economic mission will focus on policies and incentives affecting low cost job creation.

14. In Mexico we plan to follow up on the three major urban and spatial development studies carried out in recent years, by a small mission in FY78 which will attempt to identify a special urban project for the Gulf Coast Region. The country economic mission of FY78 will be undertaken jointly with the Mexicans and the Development Research Center. It will analyze expenditures and incomes of urban families, identifying the location, educational levels and employment characteristics of the urban poor, and seek to relate recent trends in these factors to the macro-economic and urban development policies. The mission's work will continue into FY79.

15. In Peru the Basic Economic Report being completed in FY78 devotes a substantial part of its analysis to the problems of urbanization, employment creation among the urban poor and other poverty related issues. The Region has also sponsored Richard Webb's FY78 and FY79 indepth study of labor markets in Lima, which offers an important new approach to analyzing employment problems of the urban poor. Follow up work, arising out of both studies, is anticipated for FY79, but is not yet planned in detail.

16. Urban poverty focused country economic work is also planned for Haiti, El Salvador, Ecuador and Jamaica. The Haiti mission will concentrate on urban migration, adequacy of public services, employment possibilities for the urban poor, decentralization to provincial towns, etc. against the backdrop of expected public, private domestic and foreign investment. In El Salvador, building on U.N.-financed studies and the experience in implementing a sites and services project, a mission will examine possible measures to slow urban migration, accelerate job creation and upgrade nutrition and health standards. The mission will also carry out a preliminary study into the possibilities for transmigration of the poor to other less densely populated countries. The Ecuador mission will examine the problems and prospects for reducing urban poverty in Guayaquil, with special focus on land policy and administrative problems. The Jamaica work would proceed in two stages. A preliminary mission in FY78 to explore the appropriate focus for a UPP related macro-economic study and a more extensive mission, probably in FY79, to undertake this study.

17. To put the above country economic work in context, Annexes 1 to 4, summarize for each of the large countries: the economic background; recent and planned economic and sector work that relates to the urban poverty problem; and the way in which this work links in with the lending program. Carrying out the proposed country economic work program will

require considerable manpower inputs from DPS, CPS and consultants, as well as Regional economic staff. The estimated total manpower requirements for the economic studies described above is shown in Table II below. It should be stressed that the FY78 missions are firmly planned and partially staffed, while those for FY79 are planned only in outline. The Region is currently preparing a detailed proposed program of country and sector work for FY79 as a preliminary to its budget submission; the final program cannot be prepared, of course, until the budget constraint is known and necessary support from other units of the Bank has been confirmed.

The IDF Division Strategy for Employment Creation

18. While many of the countries of the LAC Region have achieved substantial progress in industrialization, a wide variety of economic, political and institutional systems prevail in different countries. With the exceptions of Guyana, Haiti, Bolivia, El Salvador and Honduras, all countries in the Region had a per capita GNP in excess of US\$500 in 1976 and in nine countries the figure exceeded US\$1,000. Since UPP guidelines for capital cost per job created are relatively high, particularly in the larger urbanized countries such as Brazil, Mexico, Argentina, Colombia and Chile, many of the private sector industrial projects supported through traditional DFC lending would qualify as UPP lending. However, rapid rates of population increase, and a high incidence of underemployment, unemployment and urban poverty prevail even in the relatively well-developed countries of the Region. It is thus desirable to try to develop new approaches to IDF lending, which will permit low capital cost job creation, taking into account specific country characteristics.

19. Strategy and Work Program. Over the past 2-3 years a strategy has been progressively developed and implemented which is designed to enhance the employment generation impact of IDF projects. (See Annex 5). This strategy comprises five main elements:

(i) Initiating sector studies and research work to improve understanding of the influence of economic, social and institutional factors and industrial policies on the development of labor intensive industrial activities. In most countries increased attention is being paid to the problem of expanding labor intensive manufactured exports. A special study was undertaken of the direct and indirect employment impact of DFC-financed projects in Colombia and further work is underway with DPS to examine access to technology problems. The effects of interest rate levels and fiscal and other incentives on the capital intensity of industrial projects have been studied in Brazil and other countries.

(ii) Orienting the lending operations of traditional DFC's more towards small enterprises and labor intensive sectors. Some progress has been achieved in Colombia with the Sixth DFC project and in Bolivia with the second mining credit.

COUNTRY ECONOMIC WORK WITH SPECIAL URBAN POVERTY FOCUS
IN FY78 AND FY79

<u>Country</u>	<u>Type of Mission and Report</u>	<u>Scheduled Start</u>	<u>Estimated Man/Weeks</u>
Brazil	Urban Sector Survey to complete report started FY77	In progress (FY78)	120 (of which 42 from URB and DPS)
Brazil	Human Resources Special Report	October 77	108 (of which 17 from Region)
Mexico	Urban Poverty and Inc. Distribution Project (various missions)	March 78	100 (65 DRC 35 LAC)
El Salvador	Urban Sector Mission	FY 79	48 *
Ecuador	Preparatory Economic Work for Guayaquil Urban Project	FY 79	48 *
Haiti	Urban Sector Mission	November 77	36 (of which 12 from Region)
Colombia	Urban Poverty Mission	Late FY 79	28 (of which 12 are CPS)
Colombia	Bogota City Study	FY 78	258 (all DPS)
Jamaica	Urban Poverty Mission and Preceding Pilot Mission	February 78	95 (of which 53 are CPS or consultants)
Peru	Basic Mission (Urban oriented part)	In progress (FY78)	20
Peru	Labor Markets Study	In progress (FY78)	36
Peru	Follow-up Work	FY 79	24

* Tentative estimate based on preliminary planning. Breakdown between
Bank staff and consultants not yet determined.

Further work is underway in Mexico to increase financing for capital goods production, which is relatively labor intensive.

- (iii) Experimenting with new institutional arrangements to reach a wider distribution of smaller clients. In Mexico and Uruguay credit has been channeled through commercial banking networks while in Colombia and Ecuador a larger number of intermediaries have been encouraged to participate in Bank operations.
- (iv) Identifying countries with institutional frameworks that would permit projects to be designed specifically to support small-scale enterprises. The first small-scale industry loan in the Region was made in FY75 to a specialized development bank in Colombia, and was followed by a much larger repeat operation in FY77. Other projects of a more complex nature in Mexico, Jamaica and Brazil have now reached the appraisal or preappraisal stage.
- (v) Increasing efforts to support SSE development in connection with urban development and sites and services projects. To date support has been given to projects in Bolivia, El Salvador, Colombia and Mexico in which lending through intermediaries such as cooperatives and credit unions is being tried.

20. As a result of the initial experience gained in trying to implement this strategy, it is becoming clear that the task is formidable and requires considerably higher manpower inputs, both for project preparation and supervision than traditional DFC lending. The rate of progress will depend on several factors: the speed with which governments are prepared to take the actions required to support SSE development; the need to upgrade divisional experience and expertise in this field; the development of acceptable solutions to interest rate and local cost financing issues, etc. Nevertheless, a sizeable lending program has evolved for 1978-82, amounting to about US\$1 billion, of which between one-quarter and one-third may meet UPP lending criteria, and it should be possible to further strengthen the poverty impact of this program in its later years. (See Annex 5, Table I).

21. Of the 25 anticipated IDF lending operations for FY78-82, three represent specific SSE projects (Jamaica, Brazil, Colombia), three involve substantial SSE components (two Mexico SMI projects and Bolivia Mining and Industry) and in twelve other projects about 25% of financing should qualify as UPP lending. In addition, the Division expects to provide support to some 10-12 urban development projects in the five-year period, which will have employment creation components. Sector work focusing on

employment generation and SSE characteristics and needs is planned for FY78 in Bolivia, Peru, Argentina, Chile and Haiti. In 1979 further sector studies are planned for Ecuador, Colombia, Paraguay and Uruguay. Sector work in later years has not yet been planned in detail, but will continue to focus on employment generation in SSE's.

22. There are several additional possibilities for SSE lending, both in countries where only DFC-type operations are programmed and in countries not included in the current FY78-82 program. Peru and Bolivia are the most promising candidates in the first group; SSE-related sector work is to be carried out in FY78 in both countries. The most interesting opportunities in the second group of countries are in Chile, where we intend to mount an SSE sector mission in FY79; in Guatemala where we are planning a project identification mission in FY78 or FY79; and in Haiti where a feasibility study is underway to establish a private DFC. Furthermore, the SSE operations currently planned are primarily designed to support organized small industrial enterprises in the modern sector. Even in countries where these operations are planned, it should be possible to develop additional operations through different institutional arrangements that cater for the needs of artisan and informal sector enterprises. While we intend to do some preparatory work on these possibilities in the course of country economic and sector work and in connection with the appraisal and supervision of planned projects, developing them rapidly into concrete operations is likely to require additional budgetary allocations. Present estimates indicate that we will need additional manpower equivalent to 1-2 staff positions in FY78 to implement the current five-year lending program, and further increases may be required in later years, especially if we are to develop additional operations in the informal sector.

23. Prototype Projects. In reviewing our present work program, we have found it very difficult to select any project that could be regarded as proto-typical, in the sense that it could be readily replicated in other countries. The variety of the institutional frameworks prevailing in different countries has made it necessary to develop specific approaches in each. While we have gained valuable experience in our two projects with Corporacion Financiera Popular in Colombia, similar specialized SSE institutions do not yet exist in the other countries of the Region. Similarly, we hope to learn a great deal from the complex small-scale industry projects being developed in Mexico, Brazil and Jamaica in terms of working through commercial banks, developing guarantee schemes, creating an industrial extension force, public sector involvement in the venture capital field, leasing schemes for buildings and equipment, etc. Much of the experience should be transferable, but the projects are not likely to be replicable in other countries without making far-reaching adjustments to allow for special local conditions.

Education Division: UPP Strategy

24. The Region's Education Division has developed an urban education and training strategy and has outlined an urban lending program directed towards the needs of the urban poor. (See Annex 6). The strategy and

lending program take as their starting point the fact that urban Latin America is fast approaching Southern European standards as regards access to basic education and the level of adult literacy rates. The same is not yet true for adult and secondary education. The most common educational need for the adult urban poor in Latin America appears to be skill training to enhance the employability of the unemployed and the productivity of those already employed.

25. The Region's Education Division considers that many of its past and ongoing projects have contributed to resolving the education problems of the urban poor. In the early 1970's LAC education projects concentrated mostly on secondary and technical education and post secondary teacher training. The principal objective of these projects was to help LAC countries transform their traditional "academic" schools into institutions offering pre-vocational, practical courses. While their principal justification was expressed in terms of manpower needs rather than equity, efforts were made to locate the schools in low-income neighbourhoods and many of them were apparently successful in attracting poorer urban children. In recent years, while continuing to support reform and expansion of secondary education, the emphasis of regional education lending has shifted towards the support of non-formal vocational education schemes which are relatively well developed in most LAC countries. In fact, the Bank is presently financing such programs in Honduras, Costa Rica, Ecuador, Chile, Bolivia, Paraguay and Brazil. These schemes serve primarily semi-skilled and skilled workers in medium and large-scale enterprises. They do not generally devote many of their resources to training workers and managers in small-scale enterprises or the informal sector.

26. Strategy and Work Program. In the light of these facts, the LAC Region's urban education and training strategy in terms of relative priority will be (a) the continued strengthening of national vocational training systems with some reorientation to deal more effectively with the educational and training needs of workers and managers of small enterprises, including the "informal" sector; (b) greater emphasis on the basic education needs of out-of-school children and adolescents in poor urban areas; and (c) continued support for quantitative expansion and qualitative improvement of secondary education.

27. The implementation of this strategy is planned as follows:

- (i) During FY78, the Region's Education Division expects to extend its assistance for urban vocational training to Uruguay, Haiti and El Salvador and in FY79 to Peru and, if possible, Mexico. By that time, the Bank would be involved in supporting skill training for the urban population in most of the active borrowing countries in the Region. Lending operations after FY80 would thus consist largely of repeater projects which will afford us an

opportunity to apply the lessons of experience. In order to be able to incorporate SSE and "informal" sector training into its vocational training projects, LAC's Education Division plans to do the necessary research and review work (described in Annex 6, para 21) during the next six months.

- (ii) Much of the work involved in formulating this substrategy for skill training, tailored to the needs of the urban poor, will also be relevant for the formulation of more concrete plans for the development of non-conventional basic education projects directed at out-of-school children and adolescents in the urban poverty areas. It is hoped that by May 1, 1978 a subsector strategy paper on SSE training and non-formal basic education/information services will be completed. This timing would enable the conclusions of the paper to be reflected in the design of the Second Education Project in Peru, now scheduled for Board presentation in FY79, which has been tentatively chosen as a prototype UPP Education Project. (See para 30 below).
- (iii) The Region expects to continue an active program to support the expansion of access to secondary education in low-income urban areas in many countries of the LAC Region. The choice of which countries, regions or cities to emphasize will, of course, depend on the relative priority governments assign to secondary, urban education vs. other levels, especially basic rural education; the willingness of governments to improve the quality of their secondary education systems and their financial capacity to cover the heavy recurrent costs.

28. The most recent FY78-82 Lending Program already reflects well the Region's UPP Education Strategy. As shown in the updated version of the Urban Poverty Program Information System data presented in Annex 6, education/training loans or loan components in urban areas would account for 42% of total lending in the LAC Region for the education sector and 57% of this would be UPP lending.

29. The determination of additional manpower needs to implement the urban education and training strategy described above will require more precise definition of project components. However, experience with "new style" rural education projects suggest some 30% to 40% of additional time may well be needed for preparation and appraisal and an even more substantial increase in manpower for project supervision.

30. Prototype Urban Poverty Education Project. The LAC Region's Education Division has chosen the Second Education Project in Peru as prototype project for UPP lending. The project is now scheduled for

presentation to the Executive Directors late in FY79. As already noted, this timing will enable the design of the project to reflect the subsector strategy for more poverty-oriented skill training and non-formal basic education, on which work is to proceed over the next six months. The project will also benefit from the extensive work on urban poverty just being completed as part of the Basic Economic Mission, an education sector mission scheduled for October 1977 and the work on the SSE sector which the LAC IDF Division has tentatively planned for October/November 1977. A revised project brief, indicating the thrust of this prototype project (or component), should be available by May 1, 1978.

Water Supply and Sewerage Division: UPP Strategy

31. Since 1960, there has been a significant improvement in water supply and sewerage service levels in most urban areas of Latin America, despite the very rapid growth of the Region's urban population. By 1975 about 81% (151 million) of the total urban population were being provided with public water services, either through house connections or standpipes and 35% (65 million persons) were connected to public sewerage systems. The push towards improved water service levels dates from the Charter of Punta del Este of the Alliance for Progress, which set ambitious goals that many countries have substantially achieved (even though at least five years later than originally envisaged). New goals set in 1972 by Latin American countries envisage house connections for 80% of the urban population and 70% sewerage system coverage by 1990.

32. The relatively encouraging data concerning the 1975 water supply coverage still imply that a large part of the poorest groups in Latin America's cities has very inadequate water supply and most are not serviced by public sewerage systems. Moreover, in the major cities, most of which are also the most important industrial centers and of which no less than 21 have already over one million inhabitants, pollution and garbage disposal have emerged as increasingly serious problems whose impact on the urban poor is particularly severe.

33. While in the 1960s Bank activity in the sector was negligible, during the 1971-76 period the Bank made loans/credits amounting to US\$334 million for water supply and sewerage, financing an estimated 11% of total such investments in the Region. These projects will benefit about 4 million urban poor.

34. Strategy and Work Program. From the data presented in the Strategy Statement (see Annex 7), it is clear that many urban water sewerage projects, included in the current 1978-82 Lending Program, will have features designed to enhance their impact on the poor. Of the 25 urban water and sewerage projects included in the lending program, 22 envisage the extension of distribution networks to marginal areas, 12 will be multi-city projects (most of them sector loans) and six will involve the Bank in a more significant way with sewerage disposal, refuse collection and pollution control.

35. More systematic application of the affordability/replicability criteria, based on the experience with existing projects, is contemplated in all cases. Specifically, the establishment or strengthening of tariff policies and structures resulting in cross-subsidization of the cost of water to the urban poor, will be vigorously pursued. At the same time, efforts to encourage borrowing entities to develop and apply design criteria and standards in line with the urban poor's ability to pay will be continued and borrowing entities will be encouraged to set up revolving funds to finance house connections. All this is to be done within the context of financially self-sustaining operations which have proved to be indispensable to assure reasonable progress in meeting rapidly expanding demands without creating unsustainable burdens on government budgets.

36. The present FY78-82 Lending Program contemplates the financing of 25 urban water supply and/or sewerage projects in the Region with loans totalling US\$810 million at current prices. As shown in the Strategy Statement, it is estimated that 15.5 million urban poor would benefit from the execution of the program. While the present program is sizeable, the Region's Water Supply and Sewerage Division estimates that the Bank's share in total investments in the sector will decline in the LAC Region. The Division has prepared a tentative additional lending program designed to keep Bank participation at the relative level reached during 1971-76. Such an effort would, according to present estimates, require the processing of 11 additional projects, involving a gradual increase in staff input over the next five years equivalent eventually to six additional professionals.

37. The desirability of such an increase of the program needs further discussion within the Region. It is clear, however, that implementing the present lending program so as to maximize its impact on the urban poor may well call for additional manpower, including experts in management, pollution control and sewerage disposal. These manpower needs will become clearer in the course of implementing the program.

38. Prototype Urban Poverty Water Supply Project. The LAC Region's Water Supply and Sewerage Division has chosen the Third Water Supply Project for Managua, Nicaragua as a prototype project which reflects the application of its UPP Strategy. The project, scheduled for presentation to the Executive Directors before the end of CY77, builds on the experience of two previous, successful loans. The project covers both new sources of supply and distribution facilities, including house connections. Its main objectives are to provide safe water to 95% of the city's population, increase the number of poor with house connections by about 220,000 and consolidate the institutional structure of the borrowing entity.

39. Special features and conditions designed to make the project poverty oriented will be:

- (i) Modification of the present tariff structure to increase sharply its progressivity. Low progressivity and high

minimum consumption limits have resulted in relatively high tariffs for poor consumers. Under the loan, the minimum consumption limits would be reduced and the tariff restructured so that large consumers will pay three times the marginal cost of the proposed project, permitting cross-subsidization of low-income users.

- (ii) To ensure connection of poor people to the system, a revolving fund has been set up by the borrower with the help of AID to finance connection charges.
- (iii) To prevent sanitation problems, that might occur if appropriate sewerage disposal lags too much behind the installation of water collections, disbursements from the Bank loan for a given neighbourhood will be made conditional on the borrower presenting to the Bank a satisfactory program for sewerage disposal for that neighbourhood.

40. Monitoring indicators have been designed which should enable the Bank to follow closely progress in implementing the project and particularly its poverty features.

Urban Projects: UPP Strategy and Program

41. Over the past five years the Urban Projects Department has focused its lending operations mainly in the smaller countries of the LAC Region. The strategy has been to develop and test out in a more measurable environment new approaches that would enable projects to meet urban poverty lending goals such as affordability, replicability and low capital cost per job created, before trying to tackle the acute and complex problems of the very large urban centers of Latin America. This strategy has been quite successful. Data from the six projects under supervision indicate that shelter and services have been provided to the urban poor at affordable prices without requiring major government subsidies. In more recent projects (e.g. El Salvador II) it is expected that jobs will be created at a cost of between US\$700 and US\$1,000 each which is well within the UPP threshold. In addition, local institutions have been strengthened and grass roots community participation in project preparation and implementation stimulated. The experience gained should be transferrable and the project designs replicable in the larger countries.

42. The lending program for FY78-82 is more extensive, envisaging 28 loans amounting to US\$970 million. It is much more focused on the larger countries with high concentrations of urban poor. Brazil, Colombia and probably Mexico will have at least one project per year. A second project is planned for Peru and new projects in Chile, Bolivia, Ecuador and possibly Haiti. Repeater operations in Central America and the Caribbean are also planned. The overall program will continue to focus on basic urbanization projects with high urban poverty content.

Twenty-five of the 28 planned projects will offer packages of low cost shelter and services such as water and sanitation, education, nutrition and health. In general, these projects will also contain a significant employment component. The other three projects will be urban transport projects. They are expected to contribute significantly to the alleviation of urban poverty by improving collective transport and the accessibility to employment opportunities for the poor. The work program will focus primarily on project work with the exception of a sector survey mission in Colombia (FY79 or FY80) and some short reconnaissance missions (e.g. in Haiti). Nevertheless, substantial manpower additions will be needed to implement it.

Target Cities

43. The Region has tentatively identified Kingston, Jamaica and Lima, Peru as cities where a series of urban oriented projects are planned over the next few years and where coordination of policy and of project design and execution might bring important benefits.

44. Kingston, Jamaica has about one-third of the island's population, a large proportion of urban poor and high levels of under- and unemployment. It is of a size that lends itself to analyzing the interrelationship between macro-economic policies, sectoral programs and the impact of individual projects. The Government is keenly interested in dealing with urban poverty and has a "basic needs" approach, but needs assistance in policy formulation and project coordination and implementation. There are also institutional weaknesses and the country is facing serious economic difficulties.

45. A sites and services project containing an employment component, a water supply project, a power project, an education project and two family planning projects affecting Kingston are already in execution. A small-scale enterprise project has been appraised and is scheduled for approval in FY78 or FY79, a second power project is scheduled for FY78, a second sites and services project for FY80 and another education project for FY81. The country economic mission should provide an opportunity to study macro-economic policies and their effects on the urban poor, and also an opportunity to open a dialogue with the Jamaican authorities on the need to maximize the favorable impact of the various urban poverty related projects in Kingston. (Although scheduled for FY78, both the staffing and timing of this mission are now uncertain because of a series of developments in connection with Jamaica and other countries in the Caribbean Region).

46. Lima is a natural choice for a target city. The Peruvian Government has demonstrated that it attaches high priority to tackling the severe urban poverty problems affecting the city (see Annex 4). Besides the sites and services project which contains a major water

distribution component and the secondary education project already being executed, a second sites and services project is slated for FY80, a second education project is slated for the same fiscal year, a water supply project in late FY78 or early FY79 and a possible SSE project in FY80. A substantial amount of economic research is also planned as described previously.

47. However, the selection of Lima, Peru as a "target" city must remain somewhat tentative until the economic situation improves sufficiently to allow a fruitful dialogue with the Peruvian authorities and creditworthiness considerations permit us to move ahead with our full lending program.

Manpower Implications

48. The lending program currently planned for FY78-82 is quite ambitious and should have a reasonably satisfactory impact on alleviating urban poverty in the Region. As noted in the discussion of the economic and sector work programs, implementing this lending program will stretch existing manpower resources this year and almost certainly will require additional staff to be made available in FY79 and later years. Opportunities exist to further strengthen the program, but realizing them rapidly will require further budgetary allocations. In the case of the IDF Division one or two staff members or their equivalent in consultancy funds should preferably be made available during FY78.

49. In considering the question of manpower allocations, it is important to recognize that what we are aiming to achieve under the Urban Poverty Program is an improvement in the quality and not necessarily the volume of our urban related lending. The manpower inputs for identification, preparation and supervision of such projects will inevitably be higher than for our more conventional projects--in some cases two to three times higher. Bank Management has set objectives that imply increasing overall lending volumes relatively rapidly. These larger volumes can only be achieved by increasing loans in other sectors, including agriculture and rural development. Consequently, an appropriate balance needs to be struck in manpower and budgetary allocations to achieve the objective of increasing our lending to the urban and rural poor which requires larger manpower inputs per dollar lent and the objective of increasing the absolute volume of lending for the Region.

Attachments (7)

Cleared with & cc: Messrs. van der Meer, LCP and Holsen, LCNVP

cc: Messrs. Krieger, Lerdau (LC11), Lari (LC1), Wyss (LCPDR), Pfeffermann (LC11), Nowicki (LC1), Skillings (LC11), Favilla (LC11), Schloss (LC11), Scherer (LC11), Gonzalez-Cofino (LC11), Dutt (LC1), Flood (LC1), Fernandes (LC1), Aguirre-Sacasa (LC1), Thint (LCPED), Zavala (LCPWS), Knotter (LCPID), Newman (LCPPR), Wessels (LCPEN)

Outside Distribution:

Messrs. Habte (EDC), Rovani (EWT), Fuchs (IPD), Willoughby (TRP), Stone (URB), Gordon (IDF), Bronfman (EAP), Pouliquen (WAP), Howell (AEP), Waide (ASNVP), Pollan (EMP)

BRAZIL

The Urban Situation

1. In common with many other Latin American countries, Brazil has experienced a rapid rate of urban growth in the recent past. In 1950 Brazil was still a predominantly rural nation with approximately 64% of its population in the countryside. Today the proportions are almost reversed. An estimated 61% of the 116 million 1977 population is concentrated in urban areas. This urban population is growing at about 4.2% a year--slower than in the past but still fast enough to place heavy demands upon the provision of housing and infrastructure.
2. Urban incomes are significantly higher than rural incomes on average but the distribution of income in urban areas is highly skewed and there is extensive poverty. Data for 1970 indicates that about 40% of the working population living in major urban areas earned less than the legal minimum wage (some US\$400 per year in 1970 prices). The incidence of poverty was even higher in the cities of Northeast Brazil where, in some cases, over half the working population earned less than the minimum wage. Yet it would be a mistake to conclude that urban poverty is concentrated mainly in the Northeast. In terms of sheer size the major metropolitan centers of Sao Paulo and Rio de Janeiro are of outstanding importance. Although a relatively smaller proportion of the population in these cities earns less than the minimum wage (35% in the case of Sao Paulo) they constitute a large body of people in absolute terms. It is estimated that about one quarter of the urban poor of Brazil are concentrated in these two cities alone. The concentration of such large numbers of poor in so restricted an urban space creates, in itself, special problems.
3. The Government of Brazil is currently in the process of formulating a national urban policy. This innovation in Brazil's development planning dates from the formulation of the Second National Development Plan (1975-79). The objectives of urban policy set out in the Second Plan complement and reinforce the long-standing objectives of regional development planning. Regional disparities are to be reduced by attaining a more balanced distribution of economic activity and by redirecting migration away from the major metropolitan centers of the Southeast coast towards the interior. New initiatives in urban planning have also been influenced strongly by recent economic developments. In response to the high cost of imported petroleum, the Government is seeking ways to restrict private automobile transport and to foster the development of collective urban transport. Urban transport planners at the local level are responding positively to signals from the federal authorities. Cities which, in the past, frequently catered to the needs of the private automobiles are now giving much more prominence to collective transport. The greater priority now being given collective transport is likely to have a major impact upon the lower income brackets of the urban population as they are necessarily almost entirely dependent upon these facilities.

4. The Government established in 1975 an inter-ministerial National Committee for Metropolitan Regions and Urban Development (CNPU) at the federal level to develop policies and coordinate action in the urban area. The Brazilian Urban Transport Enterprise (EBTU) was established in 1976, also at the federal level, to foster the development of collective urban transport throughout Brazil. These new institutions are still in a formative stage but are already assuming a major role in shaping and executing the Government's urban development strategy. Concurrent with the establishment of new institutions, the National Housing Bank (BNH) has expanded its programs of housing and infrastructure and sharpened its focus upon the needs of the lowest income groups with the creation of a sites and services program (PROFILURB) in 1975.

Economic and Sector Work

5. The Bank is giving increasing attention to urban problems in its economic and sector work program. A special survey of urbanization in Brazil was included in the last country economic memorandum. This served as the point of departure for an urban sector mission which visited Brazil in January 1977. The objective of the mission was to review and assess policies and programs adopted by the Government in tackling the problems of urban development and, within the framework of those policies and programs, to identify projects that may be suitable for Bank finance. The mission was, therefore, a combined effort of sector review and project identification. As a result of the mission our understanding of sector issues and of the policy-planning framework has been greatly enhanced.

6. We plan to follow up this work by focusing even more specifically upon the issue of urban poverty with a view to identifying ways of ameliorating the problem. A mission on human resources is scheduled to visit Brazil in October (1977). A fundamental aim of the mission will be to gain an understanding of current and evolving policies which affect the satisfaction of basic needs. Health, nutrition, education and housing are the crucial elements which will be examined in an effort to assess the needs of the urban poor and to identify ways in which government policy could address those needs most expeditiously.

7. Yet further work is planned in FY79 to examine the incidence of urban poverty and the structural characteristics of employment in the "informal" sector. Special attention will be given to possibilities for encouraging the development of small-scale and micro-industry. This work will build upon the assessment of the small-scale industry sector set out in a SSE credit project brief earlier this year (1977).

8. The Bank also has a growing interest in urban research in Brazil. We are in close contact with FIPE, an economic research institute of the University of Sao Paulo, which has recently embarked upon an ambitious program of research in the field of urban economics. Jointly with FIPE, the Bank is developing the basis for a collaborative effort in two specific

areas of research. The first of these would be an investigation of the determinants of industrial location. A major objective would be to identify effective policy instruments which can be employed to guide the pattern of industrial location. A second topic of research of interest to both FIPE and the Bank would be to analyze the effect of city size upon the cost of providing public services to the urban community.

9. A Basic Mission to Brazil is programmed for FY80. A major developmental problem on which the mission will focus is how to mobilize the country's potential for sustained and rapid growth and at the same time ensure a balanced distribution of the benefits of growth between regions and between income groups. The Basic Report will necessarily address the issue of urban poverty explicitly and will draw together the results of the sector work and research work undertaken in previous years.

The Lending Program

10. Several loans have been made in the past which touch directly upon the welfare and the productivity of the urban population. Particularly noteworthy in this respect was a recent loan for vocational training which was specifically designed to upgrade the skills of the lower income groups and broaden their employment opportunities in industry and services. Another vocational training project is programmed for FY82.

11. The Bank has been quite active in the Water Supply and Sewerage sector. Within the context of Brazil's changing urban needs the Bank lent support to a project directed at extending the water supply and sewerage system of many cities in the State of Minas Gerais. Another project currently under preparation will have a major impact upon sewage disposal in the city of Sao Paulo by providing for the treatment of industrial effluents. The benefits of this project will accrue in large measure to the very lowest income groups of Sao Paulo.

12. The future lending program for Brazil places a heavy emphasis upon urban projects of which a number are currently being prepared. We are working closely with the Brazilian Government in the field of urban transport. Soon to be appraised is a project for the development of integrated urban transport systems in four major cities--Porto Alegre, Curitiba, Salvador da Bahia and Recife. The emphasis of these projects is on mass transport by bus, often by way of special bus lanes along urban highways. A project element in some cases is to control access to the inner city by automobiles and to provide alternative access by way of shuttle bus services from peripheral parking areas. Basic to the project concept is to support the least cost solution to urban transport problems and thereby deliver transport services effectively to the urban poor. Four urban transport projects have been included in the five-year lending program and only one of these is specifically related to railways.

13. A second part of the Bank's urban lending will be directed at supporting the Government's efforts to direct urban growth away from the major metropolitan areas towards medium-size cities. The CNPU has devised a program specifically aimed at the development of medium-sized cities and we expect the program to have become sufficiently well articulated to merit a Bank loan by FY80. The CNPU is also encouraging the planning authorities of many individual cities to develop integrated urban development programs. We have provided in our future lending program for three loans to support specific city programs. From the present perspective it appears that one of them may be located in Sao Paulo and a second in Recife. The loans would finance a mixed package of investments interrelated by virtue of their forming part of a comprehensive integrated plan for the development of the city.

14. The Bank also envisages lending for the provision of shelter to the urban poor. To this end we are currently discussing with the BNH how we may best structure a project related to the PROFILURB program. Ways are being explored also to link the provision of shelter to the generation of better employment opportunities for the urban poor. In this context the small enterprise credit project which is under preparation, takes on special significance.

LC2DA
10/4/77

COLOMBIAUrban Situation

1. Colombia has experienced one of the highest rates of urban growth in Latin America and, hence, in the world. The urban population now represents 66% of the total population of 24 million. Migration into urban communities continues at a high rate, as evidenced by the average annual rates of urban and overall population growth during the 1964-73 period: 3.9% and 2.6%, respectively. Colombia has many more relatively large urban centers than other countries of comparable size and development: 16 cities have more than 100,000 inhabitants, of which Bogotá has about three million, Medellín about 1-1/2 million, and Cali and Barranquilla exceed 900,000 and 700,000, respectively.
2. Although average living standards in urban centers are better than in rural areas, urban poverty is a significant problem. Approximately 24% (3.8 million) of the urban population receive annual incomes below US\$154, and access to basic services is very unequally distributed. One-quarter of the urban population has no direct access to public water supply; two-thirds no access to sewerage services. There are urban areas where three-quarters of primary school age children do not attend school for lack of facilities.
3. Un- and under-employment continues to be a serious problem. In 1976 end of year rates were approximately 9.2% and 14.7%, respectively, as compared to approximately 13% and 17% in 1975. Industry and trade, each of which increased employment by more than 10% in 1976 are primarily responsible for improved urban rates. Since the early 1970s, successive Colombian Governments have placed increased emphasis on helping the urban poor in the form of integrated programs which are likely to contribute to increased productivity and employment. The thrust of this effort is on improving conditions in intermediate cities, to divert migration from the three or four largest cities, into cities the size of which will make provision of basic services more manageable.

Economic and Sector Work Program

4. Recently the Bank has studied various aspects of urban poverty in Colombia, among which the urban development of Bogotá is the most noteworthy. Several research and planning projects in execution or about to be started, focus directly on the causes of urban poverty:
 - (1) The Bank is assisting the National Planning Department in refining a research program on comparative urban service costs, which will cover between five and eight cities with initial focus on water supply, sewerage, electricity, and telephones. A preliminary study was conducted on the solid waste sector (garbage);
 - (2) Bogota was selected for a large city study describing and analyzing behavioural changes in choosing housing, transport and employment location and the influence of public sector policies on them. This study which, as a second step will also focus on Cali, is currently in progress in cooperation with a private Colombian research partner; and
 - (3) As part of country economic work, the Bank proposes sending a mission to Colombia in FY79 to review policies and incentives affecting job creation for the urban poor and a sector survey mission to lay the ground work for an expanded urban program for Colombia is under consideration for FY79 or FY80.

5. Several urban-related studies have been carried out or are in progress which have an important bearing on the problem of urban poverty. Some of these are: the employment effect of DFC's in Colombia; development of small-scale industry; telecommunications, emphasizing the effect of such facilities on smaller cities; water supply and sewerage; nutrition and health; energy balance, with its implication on industrial growth and employment creation; rural migration, the employment intensity of exporting industries, solid waste management, etc.

Lending Program

6. For the last two years, we have been assisting the Government in the design and preparation of its integrated program for zones of poverty concentration in 24 medium-size cities. We expect to make a loan to support this program in FY 78. We are also working on a similar integrated project in the city of Cartagena. The FY 78-82 urban lending program of about US\$119 million includes at least one urban project a year, and should benefit directly about 20% of the urban poor.

7. In the Water Supply and Sewerage Sector, the Bank has made a loan for Cali, two loans for Bogotá, one for an intermediate city, and two to INSFOPAL to finance investments in other intermediate cities and improve overall planning and financing of the sector. The FY 78-82 lending program will support principally the urban poor. It includes two further loans to INSFOPAL and others to Cali and Bogotá, some of which may support the development of solid waste management. A mission is now studying a pilot project to upgrade the conditions of the communities of "pickers" who reprocess certain material thrown away as garbage (and which are among the poorest of the poor).

8. Our IDF program has been instrumental in providing employment opportunities in the urban sector. In FY 76 we made the first loan for small-scale industry and a second loan was approved in FY 77. Currently, a mission is studying a free-zone/industrial park project which would provide employment to some of the migratory flow which reaches Cartagena. Additional lending for industrial development is provided for in the FY 78-82 program. Under the recently approved Nutrition loan, about 600,000 people, or one-third of the project beneficiaries, who live in the slums of small- and medium-size towns and in portions of Bogotá, will receive nutrition education and improved health services. The project financed with this loan is part of a broader Government effort which addresses directly and specifically the needs of the poor.

9. Bank lending in other sectors also impacts indirectly on the urban poor. By raising employment productivity, income and the standard of living of small farmers, the Integrated Rural Development Program also aims to stem rural-urban migration. Three on-going projects with the Land Reform Agency have similar objectives. The Fourth Telecommunications Project is aimed at improving communications in the small towns and rural areas. The Government aims, in combination with other investments, to make those areas, especially the intermediate and small towns more attractive for employment creating industries.

10. Directly or indirectly our lending program in Colombia will assist more than one-third of the urban poor. Furthermore, the IDB is also heavily involved in helping the urban poor by assisting in Buenaventura and Bucaramanga. These efforts and those of the Government should go a long way in helping to alleviate urban poverty in Colombia.

MEXICOUrban Situation

1. Mexico is Latin America's second most populous country, with 60.2 million in 1975. No country having over 10 million in population exceeded Mexico's 3.5% population growth rate in the 1960-70 period. By 1976, however, an encouraging decline in the population growth rate to 3.2% p.a. had been noted. In 1975, 60.1% of the population was urban and its rate of increase was among the most rapid in the hemisphere, 4.3%. Moreover, the growth of Mexico City, Latin America's largest city in 1970 with 8 million inhabitants, was about 6% p.a., of which one-half is from migration. At current growth rates it would reach over 31 million people by the year 2000. Considering that almost one-third of the urban population falls below the poverty threshold, the need for both a poverty and a decentralization strategy is apparent. The low rates of economic growth in 1976 and 1977 can only have aggravated this situation.

Economic and Sector Work

2. The adverse population trends were stressed in the Basic Economic Report of 1972. Growing out of this report, the Bank initiated three major studies of urban and spatial development issues which have recently been completed. The first two confirm the desirability of a decentralization strategy seeking to slow the growth of the largest cities, especially Mexico City, and the third points to the Gulf Coast as an area with potential. A small mission will follow up these reports in October/November and will attempt to identify an urban project in the Gulf Coast region, probably Coatzacoalcos. Based on these studies, and other work going on in Mexico, such a continued work on the National Water Plan, started as a UNDP-financed project for which the Bank was the Executing Agency, the elements of an effective urban and regional strategy can be assembled. Although additional work and dialogue are needed to align various policy instruments with the strategy for urban decentralization, the Bank has recently begun to direct increased efforts at identifying ways to ameliorate urban poverty more directly. An industrial mission last year identified a SMI project, found import licensing, some aspects of labor legislation and credit scarcity to be particularly detrimental to small industry growth, and recommended policies to help remedy the situation. An industrial mission early next year will follow up on those recommendations. A review of all government policy affecting SMI would also be carried out by the high level Committee which will oversee the SMI project. As an outgrowth of the 1977 economic mission, a joint Bank-Mexican study is being proposed for 1978, to analyze expenditures and incomes of urban families and identify the location, education and employment backgrounds of the urban poor. The results of this study would be used in the dialogue with the authorities about appropriate economic policies.

Lending Program

3. The Bank's lending program has supported the decentralization strategy in industry by financing large steel and fertilizer projects in sites likely to become growth poles. Tourism lending has financed infrastructure development and hotel construction creating jobs, largely outside of the largest cities. One loan for medium cities water supply has been made and others are in the pipeline. An urban project at Lazaro Cardenas, site of the Bank-financed Las Truchas steel mill designed to benefit the poor which have flocked to the site seeking work, is in the appraisal stage. A recent governmental reorganization created a new Ministry of Human Settlements and Public Works which has facilitated the development of an institutional framework for the Lazaro Cardenas project that can be used as a prototype for future urban projects in Mexico.

4. The focus on urban poverty has resulted in incorporating elements designed to increase the share of financing going to small industry in the Small and Medium Industry Project just appraised. At least 60% of the financing under this project should go to support firms which meet the UPP guidelines on the costs per job created. Work is also underway to identify a credit project for capital goods production, most of whose sub-projects could meet UPP guidelines. Future projects for Mexico City Water Supply will concentrate on bringing water to poor peripheral areas. A possible project in vocational education linking it to the informal sector, with an estimated UPP content of 40%, is included in the 1980 program. Finally, the population project, although focusing on groups not now covered by family planning services in the rural areas, will eventually benefit the urban poor by slowing down migration to the metropolitan areas.

LC1DA
10/3/77

PERUUrban Situation

1. Although population density in Peru is low (12/Km²), the limited arable land, the difficult topography of the country, government policies to promote rapid industrialization, coupled with rapid increases of population, have led to heavy conglomeration around Peru's urban centers, mainly along its coast. The Lima-Callao area with a population of about 4 million, is by far the largest urban center. About a third of Peru's total population currently live in the major cities, and a third of these live in poor settlements in the outskirts of the cities known as "pueblos juvenes". While Peru's total population has increased at an annual rate of about 3.1%, the urban population grew at 5.1% and the population in "pueblos juvenes" increased at a rate of nearly 14% in recent years. Peru's population is projected to increase from 15.4 million in 1975 to about 27.2 million in 1990 while the urban population is expected to increase to 18 million and Lima's population alone to 8.1 million over the same period. The magnitude of the problem that these figures present has drawn the attention of the Government and the Bank and makes the urban poor a natural target for future development programs.

Economic and Sector Work

2. The Basic Economic Report on Peru, which will be completed during FY78, devotes a substantial part of its analysis to the problems of urbanization, employment-creation among the urban poor and related poverty issues. The discussion of the draft report with the Government is expected to lead to identification of other areas of sector work on policies to reduce urban poverty. Follow-up work on these sector issues will form a major part of the urban poverty related work during FY78 and FY79. During FY77 the Bank has assisted in completing a research project started by the Peruvians to study the geographical distribution of urban poverty in Peru and to devise appropriate indices to measure urban poverty. The Bank is also sponsoring an in-depth study of labor markets in Peru's urban centers with the aim of analyzing their structure and elasticities, and their effect on wage structures and rural-urban migratory patterns; this study is expected to be completed by the end of FY78, but follow-up discussions with the Government and further work may continue through FY79. A specialized sector mission is planned for FY78 to focus on the policies and programs that would increase labor absorption in the industrial sector and to serve as background for identification of a future project oriented towards labor intensive and small industries. Finally, some work on the urban sector at specific locations (yet to be selected) is also expected during FY78 and FY79 in preparation for two additional sites and services projects.

Lending Program

3. The Bank's lending program has supported in various ways the Government's efforts to alleviate the living conditions of the urban poor. Most importantly, in an effort to provide the urban poor with basic facilities and employment opportunities, the Bank is providing financing of a sites

and services development project (FY76) that includes construction of low cost housing, the paving of streets and expansion of the water distribution network and the construction of industrial parks to generate employment among the urban poor in the outskirts of Lima and Arequipa. The Education project (FY74) will make educational facilities and services available to more people in the urban areas, including the pueblos juvenes. The Industrial Credit project (FY77) is also expected to have a positive impact on urban employment, particularly through support to social property sector investments that tend to be labor intensive. In FY78-82, two more sites and services development projects (locations not yet identified) are expected to be financed by the Bank. Other future projects expected to have a direct impact on the conditions of the urban poor are the proposed Second Industrial Credit project which is being prepared with a focus on the small scale industries sector and the Second Education project which will be designed to be especially responsive to the education needs of the lowest income groups in the cities. Also, a primary objective of the Lima Water Supply project, to be appraised shortly, will be to make more water available to the poor areas surrounding the city.

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10/3/77

IDF DIVISION PROPOSED STRATEGY AND WORK PROGRAMI. Introduction

1. The wide variety of economic, political and institutional systems prevailing in the countries of the LAC region requires a very flexible approach to the development of IDF lending programs with a satisfactory UPP impact. Considerable experience has already been gained in past industrial sector and operational work dealing with the problems of direct employment generation, which has served as guidelines in drawing up the present program. Expansion of the program, which we propose to design **provided** additional manpower resources are made available, would be based on a **similar** strategy.
2. Much of our past industrial sector work has focussed on the need to increase exports of manufactures by virtually all of the countries of the region. The rationale for such policies has rested not only on the need to reduce balance of payments constraints to overall growth but also on the presumption (verified in virtually all cases) that comparative advantage would lie in labor-intensive industrial branches; thus, increased exports of these items should mean increased employment opportunities. Over the last decade an increasing number of Latin American countries have moved to implement appropriate policies along the lines indicated (including such elements as introducing realistic exchange rates and reducing effective tariff protection) with significant improvements in export performance. Similarly, the need to establish positive real interest rates for industrial lending to avoid favoring capital-intensive investments has been, and continues to be, stressed in much of the individual country sector analyses and lending operations. These various elements have been included in policy dialogues conducted with many countries of the region.
3. It is at the operational level that the variety of prevailing conditions have encouraged the region to adopt different techniques to meet the needs of the individual countries. To complement traditional DFC lending through a network of private institutions in Colombia, which has tended to focus mainly on medium sized industry, Bank assistance has also been directed since 1975 towards a specialized "financiera" dealing with SSE. After considerable initial difficulties in project implementation, the strengthening in the capacity of the institution involved and the strong demand for these particular types of lending by SSE led to a second operation in FY77; a third loan is planned, as noted below, in FY80. While our first operation entirely in support of SSE has been quite successful, it has been highly labor intensive in project preparation and supervision compared to the more traditional DFC-type operations, particularly in terms of dollars lent.
4. Partly to induce a wider distribution of Bank funds (including to small and medium sized enterprises) we introduced a maximum limit for the total amount that can be lent to any enterprise or group of enterprises and

we permitted somewhat more favorable conditions for smaller and decentralized firms. In our second medium-scale mining and industrial credit project through a private DFC in Bolivia we have made a notional allocation of a small amount for relending to small-scale enterprises either by the DFC or by means of an innovative second-tier arrangement through participating commercial banks. Finally, in our third DFC loan to Ecuador we have increased substantially the number of participating intermediaries to include those that are likely to lend to new and smaller-scale clients.

5. Recently, we have been making increasing efforts to support SSE participation in the context of urban development and sites and services programs. This approach seems particularly promising, as has been shown by our involvement in operations of this nature in some of the smaller countries such as El Salvador, Bolivia and Jamaica, as well as Colombia and Peru, and in some regional programs in Brazil and Mexico. In the special case of the Guatemalan earthquake rehabilitation program there was also a component devoted to SSE development.

6. The preparation of SSE projects is difficult and time consuming, as shown by our experience in developing so-called "free standing" operations in Mexico, Brazil and Jamaica. In the case of Mexico, discussions have been going on with the Government for a couple of years to define an SSE project in which Bank assistance, inter alia, would serve a useful purpose in providing a catalytic agent to integrate presently dispersed activities. There exist in the country a number of different institutions, either specifically for small and medium industry or whose clients are predominantly in that size range. These institutions provide separately long-term credit, equity capital, technical assistance, training and physical facilities. The project design (SMI) which has finally emerged from these discussions, while not aimed exclusively at SSE, will have a substantial component directed at that sector; it embraces a flexible but non-bureaucratic coordinating mechanism and contains an indicative allocation of resources among the principal components. Another unique feature is the "second-tier" mechanism, which will channel the program's loan funds through the specialized institution concerned to cooperating non-banking and banking financial intermediaries. A guarantee fund mechanism will also be established as an integral part of the program. This project is now in the appraisal stage, with Board presentation scheduled for FY78.

7. Similarly, discussions have been held for some time with the Brazilian Government to find a means for channelling Bank assistance to small-scale industry programs underway in that country. In this case, a number of activities including financial programs are being undertaken at local levels 1/

1/ There are urban development projects at the state level which contain components for assistance to SSE; see also para. 6.

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while at the federal level an extensive technical assistance program is underway. It will be necessary for the Government to choose between a central or regional approach to the problem or perhaps use a combined approach; Bank initiative in pressing this matter has served to focus attention on these key issues and it is hoped to have the necessary elements of a program to undertake a formal appraisal in FY79. 1/

8. Among the smaller countries of the region, specialized institutions for providing financial assistance to SSE often do not exist; while most have DFC-type institutions, these have tended to focus their efforts on medium sized enterprises. In the case of Jamaica, however, difficulties in implementing a sites and services project initiated in FY74 suggested the need to strengthen and complete a rather diversified institutional structure in support of a "free standing" SSE operation. Very considerable Bank staff effort has been devoted to advising the Government in reorganizing that structure to strengthen the SSE institutions and a loan is now scheduled for appraisal in December of this year.

II. The FY78-82 Program

9. The main characteristics of the current (revised) LCPID lending program for FY78-82 are presented in Table I. Of 25 anticipated operations (excluding two rather unlikely ones with CABEI, which are still carried in the regional totals), 3 represent "free standing" SSE operations (Jamaica, Brazil and Colombia) while 3 involve operations in which SSE will have significant identifiable components (Mexico SMI (2) and Bolivia Mining). In addition, there are 12 operations planned among the smaller countries of the region (including lending to Peru and through the CDB) where the characteristics of the countries and the institutions being assisted suggest that, on the average, 25% of the funds committed shall reach SSE target enterprises. Finally, there are five planned operations in four of the largest countries in the region (Argentina, Brazil, 2/ Colombia 3/ and Mexico) which, under the revised new UPP-investment thresholds, will have important employment-generating impact through support to subprojects (particularly in the metal-mechanical areas) with low investment/job requirements. It can be expected that the SSE projects will generally fall within these UPP guidelines; assuming additionality of the two criteria, UPP/SSE content will reach an estimated 34% in this period.

10. We intend also to continue our strong support to urban development projects and expect to help in preparing SSE components in some 10 to 12 projects in the five-year period.

11. Sector work currently scheduled for FY78 and tentatively planned for FY79 is designed to increase knowledge of SSE characteristics and of industrial branches offering employment-generating potential. In two of

1/ In the proposed operational program set out in Table I, this appears as an FY80(s) project.

2/ An additional project in Brazil (the Sao Paulo pollution control project) has no employment-generating impact but should affect favorably the urban poor.

3/ The Cartagena Export Processing Zone project, which is not included in this group, will not have direct employment impact; however, the industries to be located there are clearly expected to be labor intensive.

the smaller countries of the region (Bolivia and Peru), SSE sector surveys in FY78 will provide basic information on structure and characteristics of the sector as well as on the institutional infrastructures to support SSI/SSE in the two countries. Findings of the missions are expected to shed light on the appropriate policy mix to strengthen the sector, as well as on the alternatives of linking SSI/SSE components with repeat operations or developing "free standing" support programs. Results of the Bolivian and Peruvian sector missions could be incorporated into repeat DFC-type operations planned in both countries in FY80 and 81 or could lead to "free standing" operations at least in one case.

12. The FY78 Argentine Industrial Survey will also include a review of the SSE sector and existing institutions providing assistance to that sector. Moreover, it will explore, in a number of specific branches, the possibilities of expansion in those activities with low capital/job requirements to meet UPP thresholds. The special study of the Brazilian capital goods subsector planned for late FY78 is also expected to provide basic data on employment-generating opportunities from these branches of industry; limited data from the recent survey of this subsector in Mexico indicate a number of enterprises with investment needs below UPP thresholds for that country.

13. Finally, we intend to review the employment creation potential of small- and medium-scale enterprises for the urban poor in Haiti. In support of urban and tourist sector work in Haiti, it is planned to assign an industrial economist (consultant) to review indirect employment effects of possible investment in these fields, particularly through strengthened existing or newly created SSEs. This should provide a good background for developing a possible DFC project in that country.

14. The experience and knowledge gained in the course of these studies, as well as in the course of appraisals being undertaken in FY78 for SSE (Mexico and Jamaica) and DFC operations (such as in Costa Rica and Nicaragua) will permit better design of operations and formulation of appropriate policy mix in the countries concerned. Recommendations stemming from this work could also lead to generalizations applicable to other countries. Sector work in FY79 is expected to be undertaken in Ecuador, Colombia, Paraguay, and Uruguay; these mission work programs will be drafted to take these experiences into account.

15. LCPID has had operational as well as sector work experience in most countries of the region. Operations planned in the period FY78-82 will include 13 countries plus the Caribbean regional members of CDB. The design of the program, the specific countries included and the loan content reflect country considerations as well as present divisional staff availabilities. Experience gained in past operations, as described earlier, has already permitted project designs with relatively high UPP/SSE content.

16. Nevertheless, the fulfillment of these expectations in the time period specified depends upon a number of concurrent favorable developments. A critical factor will be the speed with which governments take the required actions to provide the necessary infrastructure to support the sector. Reference was made earlier to the time needed in the case of Mexico to obtain from that Government its decision to integrate the various elements

involved; in the case of Brazil, basic decisions have yet to be taken. However, in the case of Jamaica, the speed with which the Government has accepted Bank recommendations to restructure SSE institutions makes it possible to advance the project into FY78.

17. A second element will be the speed with which Bank staff and management can develop acceptable approaches to two critical problems--the interest rate and local currency expenditures. While there has been general agreement on the need to review both matters pragmatically in order to fulfill the desired objectives, 1/ it is clear that the specific solutions proposed for these issues in each country will have to take into account existing conditions, so that no single formula can suffice. In these circumstances, development of appropriate project designs and acceptance of proposed solutions will require both flexible and imaginative approaches by units concerned with loan processing.

18. A final factor will be budgetary constraints. The current program has assumed modest increases in supervision requirements after FY78, which will be reflected in subsequent budget preparations and which hopefully will be accommodated, but includes only very limited staff allocations for the preparation of new projects.

III. Possibilities to Intensify LCPID Activities with UPP Impact

19. A review of the possibilities for expanding our SSE-related work must again begin with a consideration of country conditions to determine priorities. There are some countries not included in the present FY78-82 program where general economic conditions and policy framework make it unlikely that the Bank could consider DFC-type operations. To the extent that employment-generating activities may be Bank priorities in these cases, such aspects could be considered in some cases as components in other sector operations, for example under urban development or tourism operations. However, there clearly are additional possibilities for SSE lending both in countries where only DFC-type operations are programmed and in countries which are not included in our current FY78-82 lending program. Examples in the first category are Bolivia and Peru. In Colombia we are working on a freezone/ industrial park project which would provide work to the poor in Cartagena. Possible operations in "new" countries are discussed in paragraph 23.

20. There are countries among the more developed in the region where the nature of urban poverty is less pressing. In these instances, one method to increase employment generation of conventional DFC operations is to identify specific industrial branches where capital requirements are relatively low, i.e., below the UPP thresholds. Some work on this aspect has been initiated for the capital goods subsector and, in the sector studies mentioned above (e.g. Argentina), it is proposed to elaborate on this potential as well as to attempt to identify other labor-intensive subsectors. In both Brazil and Mexico, where there are sharp differences in conditions among the various states, it is expected to combine this approach with direct SSE projects. 2/

1/ See the relevant sections in the paper presented to the Board, Employment Creation and Small Scale Enterprise Development - pages 45-46.

2/ Also in the case of Colombia, the relatively high UPP investment threshold means that part of the lending under the conventional DFC projects is significantly employment generating.

21. Further intensification of this work can take two approaches, not necessarily mutually exclusive. The first is to increase the number of "free standing" SSE projects; the second is to increase the share of SSE/UPP components in the more "conventional" DFC operations. ^{1/} Relatively well established institutional frameworks for industrial development and promotion exist in most of these countries. While the majority do not have financial intermediaries specializing in SSE, they do have technical assistance institutions in support of that sector. Quickest results can most likely be obtained by working through this framework with conventional DFC operations to optimize the share devoted to SSE and to use the leverage of the operation to obtain improved policy and institutional support (particularly technical assistance). However, this approach may not always be the best solution from the long-term point of view.

22. Depending upon our experience in each country, repeater operations could have identifiable SSE components or, if the magnitude and conditions justify it, could be specifically focussed on SSE. In order to develop the best long-term solution, considerably more staff time would have to be devoted to credit supervision in the immediate future than currently budgeted and more staff time would be required for the project preparation-appraisal cycle, whether the alternative chosen is a self-contained SSE component or a "free standing" SSE project.

23. The countries of the region where no DFC-type operations are presently planned for FY78-81 are Chile, Dominican Republic, Guatemala, Haiti, Panama and Venezuela. It is possible that the Bank and IFC would support, in FY80-81, a private DFC in Haiti. A feasibility study is now being prepared with USAID financial assistance; provision would have to be made for appraisal, probably in FY79. For Guatemala, some preliminary contacts with appropriate government agencies are expected to be made in the course of a study of Central American integration problems in early 1978. This could provide the basis for a project identification mission in the calendar year (at the end of FY78 or early in FY79). In the case of Chile it would be necessary to initiate work with an SSE sector mission to determine the basic characteristics of that sector; this would be done in early FY79.

^{1/} As indicated in para. 5, even our "conventional" operations are frequently using very different and sometimes innovative concepts.

24. Assuming two additional staff for the division (realistically one manyear in FY78), it is proposed to allocate the additional time as follows:

FY78

- a) 15 manweeks for additional support to appraisal missions to develop SSE components (Costa Rica and Honduras);
- b) 10 manweeks for project identification missions (e.g. Guatemala, Colombia and Haiti);
- c) 15 manweeks for increased supervision of existing operations (Colombia, Ecuador and Bolivia) and preparation of SSE components for future repeat loans or new "free standing" projects.

FY79

- a) 20 manweeks for supervision of existing operations;
- b) 20 manweeks for SSE sector missions (e.g. Chile);
- c) 40 manweeks for additional support to currently planned appraisal missions and for initiating new appraisals (e.g. Haiti, Guatemala and Argentina).

Prepared by IDF Division

TABLE I. LCPID - FY 1978-1982 OPERATIONAL PROGRAM

(Incorporating latest missions)

	Country	Amount	UPP/SSE	Value	Comments
		(US\$ millions)	Component %	(1x2) (US\$ millions)	
FY 1978	CDB - SSE	20	25	5	Estimated SSE component
	Jamaica - SSE	7	100	7	Free Standing SSE
	Mexico - SMI	45	60	27	50% SSE plus UPP component of balance
	Mexico - FOMEI III	75	25	19	estimated UPP component
	Brazil - Sao Paulo Pollution	65	0	0	
	Colombia - Cartagena Export Zone	7	0	0	will have indirect employment effects
FY 1979	Nicaragua - INFONAC	12	25	3	estimated SSE component
	Costa Rica - DFC	10	25	2.5	estimated SSE component
	Ecuador - DFC IV	25	20	5	estimated SSE component
	Total	47		10.5	
FY 1980	Bolivia - BISA II	20	50	10	estimated SSE component
	Brazil - Small Industries (S)	35	100	35	free-standing SSE project
	CABEI - (S)	(37)	-	-	
	Colombia - DFC VII (S)	70	10	7	estimated SSE component
	Colombia - SSI III	25	100	25	free-standing SSE project
	Honduras - DFC (S)	10	25	2.5	estimated SSE component
	Peru - COFIDE II (S)	40	25	10	estimated SSE component
	Total	200		89.5	
FY 1981	Argentina - BAMADE II	110	25	27.5	estimated SSE and UPP content
	Brazil - BNDE	100	20	20	estimated UPP content
	CDB - III	52	25	13	estimated SSE component
	El Salvador - DFC	15	25	4	estimated SSE component
	Paraguay - DFC II	20	50	10	estimated SSE component
	Uruguay - DFC	30	25	7.5	estimated SSE component
	Total	327		82	
FY 1982	Bolivia - Mining II	50	70	35	estimated SSE component
	CABEI	(46)			
	Mexico - FOMEI IV	100	30	30	estimated UPP content
	Mexico - SMI II	40	65	26	50% SSI plus UPP component of balance
	Peru - COFIDE III	60	30	18	estimated SSE component
Total	250		109		
Grand Total ^{a/}		1,043		349	

^{a/} Total excludes the two proposed CABEI operations.

LCPED URBAN STRATEGY NOTE1/
Educational Problems of the Urban Poor

1. A useful starting point for analyzing the educational problems of the urban poor in the LAC Region is to review the educational profile of the countries concerned in comparison with the profiles of other economic/geographic Regions. Three education indicators have been selected (primary and secondary enrollment rates and adult literacy rates). The percentage of total population residing in urban areas is shown as well for information.

<u>Country Grouping</u>	<u>2/</u> <u>Comparative Social Indicators</u>			<u>Adult Literacy Rate</u>
	<u>% Urban Population</u>	<u>Primary School Enrollment Rate</u>	<u>Secondary School Enrollment Rate</u>	
Industrialized Countries	70	110	83	99
Southern Europe	46	106	43	76
North Africa and Middle East	43	75	22	39
Africa South of Sahara	19	51	6	22
South Asia	20	74	25	35
East Asia and Pacific	26	82	24	70
<u>LATIN AMERICA</u>	<u>60</u>	<u>91</u>	<u>35</u>	<u>72</u>

2. In terms of the percentage of total population residing in urban areas, the LAC Region is the most heavily urbanized of all non-industrial country groupings. With regard to access to general basic (primary schooling or some form of literacy training) and secondary education, the LAC Region is fast approaching the standards prevailing in Southern Europe. To be certain, the quality of education may differ substantially and the proportion of entering children who actually graduate from primary and secondary schools in Latin America may be much lower than in

1/ As used in this Note, the term "education" is meant to include formal, nonformal and informal education and training.

2/ The figures cited are weighted (according to population) averages. For definitions, sources and data by individual country in Latin America, see Annex 1.

Southern Europe. Nevertheless, in terms simply of numbers of existing school places, Latin America now has a relatively well developed primary education system. Moreover, considering that the figures cited are average values for both urban and rural areas, it is reasonable to assume that many Latin American countries already have or will soon attain universal primary education for the urban populations of all income levels. The same is not yet true for secondary education in Latin America, to which only slightly more than one-third of the relevant age group have access. The focus of most national public investment programs in Latin America during the coming decade will therefore be on: (a) completing the primary education system in rural areas; and (b) expanding access to secondary and tertiary education nationwide, but particularly in urban areas where the pressure of graduates from the lower levels of the system will be the greatest.

3. In the light of this very broad characterization of the educational profile and the likely priorities of the LAC countries, the following summarizes LCPED's views on the specific educational problems of the urban poor in the Region. The educational problems of the school age population and adults are disaggregated for discussion purposes, but the sequence of the presentation is not meant to suggest any particular order of priority.

4. School Age Population. In Latin America, with the notable exceptions of Bolivia, Brazil, El Salvador, Guatemala, Haiti and Nicaragua, the principal problem for poor children of primary school age (6-11 years) in urban areas is not so much the absolute lack of school places, as the fact that they are relatively more prone to drop out of the system after only a few years of education. Besides the fact that such children are ill-prepared for future employment because they may not achieve even basic literacy and numeracy, a high incidence of young children who are not in schools in marginal urban areas reduces the employability of mothers and thereby imposes additional economic hardship on their families.

5. To the extent that non-participation and/or drop outs are a function of absolute poverty (i.e. children are forced to contribute to the family income for survival), there is little that can be done to attack the underlying causes directly through the Bank's primary education projects. Solutions to these economic problems will depend more on the prospects for increasing the demand for urban labor through productive sector projects. The Bank may, however, design projects which aim to: (a) reach these children and their families with useful education/information services to improve the quality of life (i.e. family life education) through less conventional means such as the mass media; (b) provide basic education (literacy, numeracy) combined with skill training to adolescents through flexible accelerated programs, often organized on a part-time basis so that participants can hold jobs and study at the same time; and (c) provide a more liberal supply of educational materials at little or no cost to children, school feeding programs and the like for the urban poor as an incentive to families to leave children in school for longer periods, provided the governments

concerned have the financial resources necessary to operate such programs over the longer term.

6. Economic problems are, of course, not the only cause of drop outs among the urban poor. Of equal or greater importance are the qualitative deficiencies of the primary education systems themselves, many of which can be addressed through Bank projects: modernization of inappropriate administrative arrangements, upgrading of poorly qualified teachers, revision of rigid examination systems, reform of curricula which do not deal with the specific psychological, social and learning problems of poor children. Besides alleviating the problem of dropouts and improving the content of education, such actions can help to improve the flow of students through the primary system and thereby actually increase the availability of school places by avoiding the situation where schools are literally cluttered up with repeaters and other over-aged children.

7. It is important to note that such qualitative deficiencies are not unique to low-income urban areas; rather, they usually affect the entire public primary education system and are equally, if not more, prevalent in rural areas. As a rule, qualitative changes and improvements in management and planning have to be introduced on a national basis and therefore projects aimed at helping only the urban poor in particular metropolitan areas are not the best vehicles for dealing with the fundamental educational problems of the target population in most LAC countries. Exceptions would of course include those countries in which there is still an urgent need to simply increase the quantity of school places available (e.g. in those countries listed in para. 4 above; in smaller cities and larger market towns where industrial and other urban development programs may be planned to ease pressure of migration to the main metropolitan centers; new housing developments in sites and services projects).

8. With regard to the secondary school age population in urban areas, they have the same problems as those of younger children described above, but in addition they suffer from an absolute lack of school places. Consequently, both quantitative expansion and qualitative improvement of urban secondary education are considered appropriate responses to the problems of the poor in the cities and towns of the LAC Region. Whatever facilities or resources are provided through secondary education projects, particularly equipment, workshops and other practical areas, should also be made available for use by adults and adolescents in nonformal education and training programs (e.g. functional literacy, handicrafts, nutrition, hygiene, semi-skilled vocational training). Needless to say, given the low enrollment rates in secondary education in most Latin American countries, it cannot be assumed that an area is a low-income neighborhood simply because it lacks a secondary school. Therefore, particular care will have to be taken in the siting of Bank project schools to assure that they serve the intended target population.

9. LCPED has not thus far approached the question of higher education from the standpoint of serving the urban poor, most of whom never reach that level. To the extent that they do, most LAC countries have public university systems which charge only very limited or no tuition fees. The real cost to the student and his or her family is the opportunity cost of the student's not working. Several of the countries in the Region have been experimenting with student loan funds for higher education, largely with the assistance of USAID and the IDB.

10. Adult Population. Urban poor adults generally include unemployed persons, unskilled and semi-skilled workers in large and medium-size enterprises, and managers and workers in small-scale enterprises (SSEs). For the purpose of this paper, SSEs are defined as: (a) small but relatively modern manufacturing industries, (b) organized non-manufacturing activities such as construction, transportation and trading, and (c) traditional or "informal" activities such as traditional artisans, petty traders and transporters, and the like.^{1/} In most LAC countries, with the exception of the English-speaking Caribbean, open unemployment among the primary labor force is not very high, although underemployment is considerable.^{2/} While most of the countries have some data on the educational characteristics of the labor force by occupation, information on the unemployed and on the "informal" sector in general is often not available. Nevertheless, given the national literacy figures in Annex 1, illiteracy, even among the urban poor, is thought to be a less serious problem in Latin America than for any of the other developing country Regions. Notable exceptions to this broad generalization include: Bolivia, Brazil, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras and Nicaragua, where the proportion of the total adult population classified as literate is less than the weighted average for the Region.

11. Consequently, the most common educational need of the adult urban poor in Latin America appears to be skill training to enhance the employability of the unemployed and the productivity of the already employed. In the case of SSE managers, technical assistance in small business management is also essential. Literacy programs may or may not be important, depending on both the country and the occupation concerned. While literacy may be desirable for a variety of societal reasons, it is not always an essential prerequisite to vocational training (e.g. certain categories of construction workers or mechanics do not need to know how to read and write to learn trades such as bricklaying, automobile repair, etc.). In many cases, skills can be taught successfully provided that the instructional methodology does not rely heavily on the use of written course materials, but employs instead audiovisual learning aids.

^{1/} This is the definition adopted in the publication of the IDF Department entitled Employment Creation and Small Scale Enterprise Development, of March 22, 1977.

^{2/} Unemployment is often, however, quite high among out-of-school adolescents and women seeking work who are not heads of households.

12. In most LAC countries there is a long tradition of organizing nonformal public vocational training schemes for semi-skilled and skilled workers, usually modeled after the French and Spanish post-World War II vocational training programs. In most cases they have been developed with the assistance of the Spanish government, the ILO and (more recently) the World Bank. The training systems vary slightly from country to country, but they often have some degree of autonomy from the central governments with administrative links to either the Ministry of Education or Labor, almost always have private sector participation in their management, and frequently have an independent source of income in the form of payroll and other taxes. At the present time, only Nicaragua, El Salvador, the Dominican Republic and most of the English-speaking Caribbean lack some such vocational training scheme. As a rule, the agencies cater to medium and large scale enterprises, for whom they organize apprenticeship, entry level and upgrading training in vocational training centers, by mobile units and in-plant. They do not generally offer much management training for the medium and large scale enterprises, nor do they devote much of their resources to SSE (particularly "informal" sector) training.

LCPED's Past and Ongoing Activities

13. LCPED considers that many of its past and ongoing projects have contributed to resolving the educational problems of the urban poor. However, this is a matter of judgement which cannot easily be supported by quantitative data, because information has not regularly been collected regarding the income levels of project beneficiaries.

14. Through the early 1970s, most LAC education projects concentrated on secondary and technical education and post-secondary teacher training. This was a result of general Bank policies in the education sector and a particular division of labor which had developed among the principal aid donors active in the LAC Region (USAID concentrated on primary education, the World Bank on secondary and the IDB on higher education). Most of the secondary and related teacher training projects were designed to assist Latin American countries to transform their traditional "academic" (science and humanities) schools into institutions which would offer pre-vocational, practical courses to better prepare students for employment or at least to orient them to pursue non-traditional technological careers at the post-secondary level. While the principal justification for these projects was expressed in terms of manpower needs rather than equity, efforts were made to locate the facilities in low-income neighborhoods and preliminary evidence emerging from some of the project completion reports (e.g. Colombia 679-CO) suggests that many of the schools were successful in attracting poorer urban children.

15. Since the early 1970s, while LCPED has continued to support reform and expansion of secondary education in Latin America, it has been devoting an increasing share of its resources to primary education and nonformal adult vocational training. Primary education projects are now underway in Nicaragua, Paraguay, Dominican Republic, Colombia, Haiti and Bolivia. In all cases, the bulk of the physical investment in new

school places is concentrated in rural areas, in line with the situation described above in paras. 1-3. Nevertheless, these projects also include provision for many activities designed to revise the system of primary school administration and supervision, modernize curricula, improve and expand teacher training, produce educational materials, etc. These software/administrative features of the ongoing primary education projects are helping to alleviate some of the fundamental deficiencies of the respective primary systems on a national level, and in that sense will also deal indirectly with the educational problems of the urban poor.

16. With regard to adult education, the Bank is presently involved in financing the kind of vocational training schemes described in para. 12 above in Honduras, Costa Rica, Ecuador, Chile, Colombia, Bolivia, Paraguay and Brazil. Besides provision of basic infrastructure (vocational training centers, mobile units and equipment for in-plant training), these projects have included financing for the introduction of placement and follow-up services, management advisory services to local enterprises, improved instructor training, reformulation of course content into discreet training modules coupled with systems for trade testing and certification, and modernization of instructional methodologies to shift to audiovisual teaching techniques for illiterate trainees in selected occupations. LCPED has been less involved in adult basic or general education, except in rural areas through projects in Haiti, Colombia, Brazil and Bolivia. It may well be that school facilities provided in many of the secondary education projects are also being used for adult nonformal education and training, but without specific Bank financing for such activities.

17. One final point which should be mentioned is the fact that, although the Bank's education projects are not intended to generate employment, the increasing involvement in the construction of numerous, small primary schools does create some employment for the construction, building materials and school furniture industries in nearby cities and towns.

LCPED's Proposed Urban Education Strategy

18. LCPED's proposed urban education strategy will include the following activities, in order of relative priority: (a) continued strengthening of national vocational training systems, but with some reorientation to deal more effectively with the educational needs of the SSEs (particularly "informal" sector enterprises); (b) much greater emphasis on the basic education needs of out-of-school children and adolescents and their families in poor urban areas; (c) continued support for quantitative expansion and qualitative improvement of secondary education; (d) increased support for qualitative improvement of the content, management and planning of primary education, but with major infrastructure investment in selected countries only.

19. Annex 2 contains an updated version of the Urban Poverty Program Information System data for LAC Education Projects, modified to reflect the latest approved lending program for FY78-82. Of a total of US\$383 million to be lent, 42 percent would be invested in education projects/components in urban areas. Approximately 24 percent of the total or

57 percent of urban lending would be directed towards the urban poor.

20. Vocational Training. During FY78, LCPED will extend its support for urban vocational training, mostly for adults, in Uruguay and Haiti (and possibly El Salvador); during FY79/80S it will extend to Peru (and possibly Mexico). At that time, LCPED would be involved in the support of skill training for the urban population in all active Borrowers in the LAC Region except Guatemala (which is being assisted by the IDB); Nicaragua (which has not so far developed any clear policies in this area); Panama and Argentina (for which no education projects are included in the respective lending programs); and the English-speaking Caribbean. Unless circumstances change in any of the foregoing countries, our lending operations from FY80 onward would consist largely of repeater projects, which would afford us an opportunity to further strengthen the ongoing programs and diversify their activities as appropriate.

21. Beginning with the FY80S project in Peru, and thereafter through repeater operations in other countries, LCPED plans to become more actively involved in SSE (particularly "informal" sector) training to complement the work we have already been doing in skill training for medium and large-scale enterprises. The definition of a preliminary sub-sector strategy for dealing with this segment of the urban poor in the Latin American context will require about six months of work, including: (a) a thorough investigation to locate such information as may exist regarding the specific employment and educational characteristics of the population in question by country, or if available, by major metropolitan centers; (b) inventory of the experience of some of the Latin American training agencies (including several Bank Borrowers) who state that they have begun to engage in informal sector training and a review of evaluation results if available; (c) a review of the experience of other donor and technical assistance agencies who have been active in this field in Latin America; (d) an exchange of ideas with the other Education Divisions, the IDF and Urban Projects Departments about how best to approach the design of such projects; (e) the identification of what appear to be the key institutional/financial issues for such projects; and (vi) the drafting of checklists/guidelines for use by sector, identification, preparation and appraisal missions. We anticipate that, given the relative scarcity of managerial and financial resources available for adult vocational training, the most effective way to become involved in SSE training would be by working through those national agencies with which we already have a lending relationship. It may also be possible to carry out some semi-skilled training schemes in the actual process of improving lending conditions in the urban poor areas: basic skill training could be built into water supply, sanitation, housing, health and educational components of projects in those sectors or of integrated urban development projects.

22. Nonformal Basic Education/Information. The potential clients of the basic education programs are essentially the out-of-school children and

other family members of the urban poor as described in para. 10 above. They may include many of the dependents of the beneficiaries of the aforementioned vocational training schemes, especially if the newer orientation suggested in para. 21 above is implemented. The design of appropriate educational/informational programs for these children and their families will depend partly on the information to be generated in the course of the work described in para. 21, which will help to identify how large the population in question may be by country and metropolitan area, what their employment and educational characteristics are like, etc. Therefore, the sub-sector strategy which LCPED proposes to develop (para. 21) will focus on adult skill training needs, but will deal as well with the nonformal basic education/information needs of the family group which are not being met by the more conventional formal education system.

23. Secondary Education. There is an apparent need to expand access to secondary education in low-income urban areas in all countries in the LAC Region (Annex 1). The choice of which countries to emphasize will depend on: (a) the relative priority which the various governments assign to secondary v. other levels of education and to urban v. rural education; (b) the existence of government commitment to qualitative improvement as well as quantitative expansion of secondary education and, therefore, the scope for the Bank to support institutional developments in addition to mere physical expansion; (c) the financial capacity of the various governments to support particularly the recurrent costs of an expanded secondary education system.

24. Primary Education. During FY78 we will expand our assistance to urban primary education in Haiti; in FY79 we expect to begin to assist primary education in Brazil through the development of a sector loan for the Northeast, which may include some facilities for the urban poor within that region; and in FY80S we will probably include assistance for primary education in the proposed Second Education Project in Peru with some facilities located in the settler developments ("pueblos jovenes") surrounding Lima and the smaller cities and market towns of the Sierra. In most other countries in the LAC Region, except for Bolivia, Guatemala and Nicaragua, we are not likely to concentrate much investment in physical infrastructure in urban areas, although we would plan to assist administrative reform and software development at the national level as opportunities to do so arise.

25. Prototype Urban Poverty Education Project. LCPED proposes that the prototype project (or project component) be the Second Education Project in Peru, scheduled for presentation to the Executive Directors in FY80S. The timing of Peru II will enable us to complete the sub-sector strategy work described in paras. 21-22 above, in time to affect the design of the project. In addition, during the next six months, several sector missions to Peru are planned (including one each by the Regional IDF and Education Divisions) and these will provide essential inputs for the design of an urban poverty-oriented project (or component).

Finally, Lima has been nominated as one of the cities in the LAC Region which will be affected by a number of lending operations in various sectors over the next few years and where coordinated action may therefore achieve maximum impact on the poor. A project brief already exists for the Second Education Project in Peru, but this would need to be revised in the light of the aforementioned sector work. A revised project brief, indicating the thrust of this prototype project (or component), should be available together with the completed sub-sector strategy paper on SSE training and nonformal basic education/information services, by May 1, 1978.

Operational Implications of LCPED's Urban Education Strategy

26. The following list is not meant to be exhaustive, but simply to raise some issues for discussion within the Bank regarding the implications of LCPED's proposed urban education strategy.

(a) Single-Sector v. Multi-Sector Projects. LCPED's approach to the identification and design of projects is to begin with a comprehensive assessment of the overall education system to identify key sectoral constraints of a technical or financial nature, to avoid over-concentration of resources in particular areas or at particular levels of the education system, and to evaluate the possible project components in the framework of priority needs emerging from the overall and regional economic and social development plans of the country. In the multi-sector projects, this broader framework is often obscured by the concentration on the immediate needs of a particular target population. Both the Bank and the country may opt to accept this fact in order to achieve the "integrated" development of the area in question. However, the typical multi-sector project usually provides a poor vehicle for introducing the kinds of policy changes in the education system (particularly for primary and secondary education projects) which are essential to resolving the long-term fundamental problems of the poor. Therefore, LCPED recommends that education components not be automatically included in multi-sector projects unless (i) there is no prospect of a single-sector education project in the particular country during the coming several years; (ii) there is an urgent need in a particular country/city for simple quantitative expansion of school places for the target population, regardless of the content or quality of education; (iii) there is an immediate need for a particular training activity to support a productive sector component of the multi-sector project.

(b) Local Cost Financing. As with all education sector projects, programs designed to address the needs of the urban poor will have fairly low foreign exchange components, often some 20 percent or less. Consequently, if the Bank wishes to increase the numbers of such projects and have a meaningful participation in their implementation, it will have to be prepared to finance ever larger shares of the local costs.

(c) Manpower. There are two dimensions to the manpower question: the possible need for an absolute increase in staff and/or consultants to handle the poverty-oriented projects, and the source of recruitment of that manpower. It will not be possible to quantify the manpower

needs to implement the proposed urban education strategy until after completing the work described in paras. 21-22 above. However, experience with the "newer" style rural education projects in the last two years suggests that some 30-40 percent additional time is needed to process the projects through presentation to the Loan Committee, and a minimum 100 percent increase in manpower (to about 20 man-weeks per year) is needed for project supervision. As to the sources of recruitment, the UNESCO Cooperative Program is not appropriately staffed to respond to our needs for help in identifying, preparing and appraising the urban adult vocational training projects. Therefore, to the extent that we become more actively engaged in these kinds of projects, we will have to rely increasingly on consultants from the ILO, UNIDO, UNICEF and possibly other organizations with relevant experience such as TETOC, AITEC, Stanford Research Center, IMDI, IRDC and the like.^{1/}

Attachments

DDowsett/mlm

^{1/} For an explanation of acronyms of these and other potentially relevant agencies, see Annex 3 of IDF Department, Employment Creation and Small Scale Enterprise Development, March 22, 1977.

1/
SELECTED COMPARATIVE SOCIAL INDICATORS

<u>Country/Grouping</u>	<u>% Urban Population</u>	<u>Primary School Enrollment Rate</u>	<u>Secondary School Enrollment Rate</u>	<u>Adult Literacy Rate</u>
Industrialized Countries	70	110	83	99
Southern Europe	46	106	43	76
N. Africa and M. East	43	75	22	39
Africa South of Sahara	19	51	6	22
South Asia	20	74	25	35
East Asia and Pacific	26	82	24	70
Latin America	60	91	35	72
Argentina	80	104	44	93
Barbados	na	101	75	97
Bolivia	37	73	13	40
Brazil	59	71	27	68
le	83	111	29	90
ta Rica	41	107	29	89
Dominican Republic	42	108	19	51
Ecuador	42	96	24	69
El Salvador	39	71	18	63
Guatemala	34	64	12	47
Guyana	40	93	52	85
Haiti	19	41	4	20
Honduras	31	81	10	52
Jamaica	37	106	43	86
Mexico	62	107	23	76
Nicaragua	49	65	13	57
Panama	50	116	42	82
Paraguay	36	107	17	81
Peru	55	132	41	72
Trinidad and Tobago	25	110	22	90
uay	81	108	56	91
azuela	76	101	33	82

1/ Sources: IBRD, World Economic and Social Indicators, SecM77-600 of July 22, 1977 and IBRD, World Tables of 1976. Data generally refer to a year within the 1970-75 period. Enrollment ratios are gross (i.e. they include children above and below the normal age group) and adult literacy rates are for the population aged 15 years and over. The averages for the major country groupings are weighted averages (on the basis of 1970 population figures cited in the World Tables of 1976). For other definitions, see Sources and Notes to the above-cited documents on pp. 32 and 528-550, respectively.

COUNTRY	PROJECT I.D.	FY	SOURCE	LOAN/ CREDIT AMT	CATEGORY/ LOCATION (%)	ALLOCATED LOAN/CREDIT AMT	% UPP	LOAN/CREDIT AMT/UPP
JAMAICA	6-JAM-EE-03	81S	IBRD	14.0	Gen. Urb. 40 Rural 60	5.6 8.4	25	3.5 -
MEXICO	6-MXC-EE-03	80	IBRD	30.0	Gen. Urb. 80 Rural 20	24.0 6.0	40	12.0 -
NICARAGUA	6-NIC-EE-03	82S	IBRD	15.0	Gen. Urb. 40 Rural 60	6.0 9.0	20	3.0 -
PARAGUAY	6-PAR-EE-04	81S	IBRD	15.0	Gen. Urb. 40 Rural 60	6.0 9.0	20	3.0 -
PERU	6-PER-EE-02	80S	IBRD	35.0	Gen. Urb. 40 Rural 60	14.0 21.0	30	10.5 -
URUGUAY	6-URU-EE-01	78	IBRD	12.0	Gen. Urb. 90 Rural 10	10.8 1.2	50	6.0 -

Total Lending: US\$383 million

of which General Urban: US\$161 million (42%)

of which Rural: US\$222 million (58%)

Urban Poverty Lending: US\$92.3 million

% of Total Lending: 24%

% General Urban Lending: 57%

WATER SUPPLY AND SEWERAGE DIVISION

PROPOSED STRATEGY AND WORK PROGRAM

Background

1. The population of Latin America is predominantly urban, with an average annual growth as high as 6%. Bank staff estimates that 25% of the urban population (46 million) were below the urban poor target income in 1975. Water supply and sewerage service levels improved considerably during the period 1960-75. In 1975, about 81% (151 million) of the total urban population (186 million) were served by water services (house connections and standposts) and the percentage of the urban population connected to public sewerage systems was 35% (65 million).

2. In the 1960s, Bank activities in the sector were negligible. During the 1971-76 period, the Bank share (US\$334 million) of total sector investment made in the sector (US\$3 billion) increased to about 11%. It is estimated that the Bank projects constructed during this period will benefit an urban poor population of about 4 million.

Strategy of LCPWS

3. The current lending program for 1978-82 (Attachment 1) amounts to US\$1 billion at current prices for water and sewerage in the urban and rural areas. Attachment 2 shows the total incremental population served for each project included in this program and, for urban projects, the incremental urban poor population estimated to benefit from these projects (about 15.5 million). Assuming that Bank activities in the sector would be maintained for the period 1983-86, at the same levels as they are for the period 1977-82, Bank participation in total sector investment in the region would reach about 2 billion, i.e., a decrease from 11% to 7.6% as compared to the period 1971-75.

4. Although Bank participation in financing urban water supply and sewerage projects is bound to decrease in quantitative terms, Bank qualitative involvement in the sector, particularly in connection with the urban poor, should increase for the following reasons:

- (i) a larger geographical area will be covered with the new countries included in the lending program;
- (ii) a greater number of sector loans will permit us to reach more cities;
- (iii) a better consolidation of previous institution-building achievements and an extension of distribution networks to marginal areas will be made possible through repeater loans to existing borrowers;

- (iv) a larger involvement in fields of great concern for the next decade such as sewerage disposal, refuse collection and disposal and pollution control problems will be achieved through specific projects;
- (v) a systematic use of the affordability/replicability criteria and of experience gained with existing operations will be sought, particularly the establishment of tariff policies and structures resulting in cross-subsidies for the poor; the use of standards and design criteria more in line with the capacity of the urban poor to pay; the promotion of community education and the promotion and financing of training;
- (vi) a better coordination between national and international institutions will be sought, by the LCPWS Division in order to channel the cheapest funds to the poor.

Attachment 3 is a summarized illustration of the foregoing strategy with a prototype example (Managua III project).

5. Our quantitative and qualitative efforts might very well, however, be insufficient. There are 21 cities in Latin America with more than one million inhabitants. Most of them are industrial centers, i.e., points of attraction for migrants, all are highly polluted and already have a large proportion of urban poor. To alleviate the condition of the urban poor in these cities will require enormous investments and presumably new techniques and difficult economic choices. The various issues related to these problems would alone justify a larger Bank involvement in the sector. No precise targets can be established but an attempt to maintain Bank participation in total investment in the sector for the period at 11% seems not unreasonable ^{1/}. This would require an additional input of staff of about six professionals (Attachment 5). In order to increase qualitative Bank participation, these professionals would have to be qualified experts in management, pollution control and sewerage disposal. In parallel, optimization of human resources could be achieved through an improved coordination among the different departments of the Bank working directly or indirectly in the sector. Attachment 6 provides, in a summarized form, additional Bank qualitative involvement that would be made possible if the present lending program were increased.

6. There are other recommendations that should be made at this stage. They are dictated by the LCPWS' experience in Latin America and concern particularly:

^{1/} A tentative increased lending program for the period 1978-82 is given as Attachment 4.

- (i) the problem of the urban poor's incapacity to pay for house connection costs. This could be eased through the establishment of revolving funds by our borrowers. The Bank should encourage this practice and even participate in the financing of such funds;
- (ii) the problem of uncontrolled land development which may create heavy speculation, inadequate residential development and almost always expensive distribution of waterworks. The Bank should have a more intensive dialogue with the governments regarding urban land policies;
- (iii) the problem of the discrepancy between the various sources of information regarding the urban sector. The Bank should pursue the idea of establishing in Central Projects a data bank, and the use of a computer program for calculation of population, investments and service level projections.

Attachments

RCosta
LCPWS
10/3/77

WATER SUPPLY AND SEWERAGE

(US\$ millions)

<u>Country/Project</u>	<u>FY78</u>	<u>FY79</u>	<u>FY80</u>	<u>FY81</u>	<u>FY82</u>
<u>BAHAMAS</u>					
Water, Sewerage II			7.0		
<u>BOLIVIA</u>					
Water Supply II					20.0
<u>BRAZIL</u>					
Water Supply & Sewerage - N.E.		50.0			
Sao Paulo II - Sewerage Treatment					150.0
Sao Paulo - Sewerage Treatment	80.0				
Water Supply & Sewerage - Center			70.0		
Water & Sewerage - Unidentified				60.0	
<u>CHILE</u>					
Water Supply		35.0			
<u>COLOMBIA</u>					
Water & Sewerage - Bogota River Reg.		10.0			
Water Supply - Cali II	15.0				
Bogota Water III			30.0		
INSFOPAL III		20.0			
INSFOPAL IV				25.0	
<u>ECUADOR</u>					
Water Supply					20.0
<u>EL SALVADOR</u>					
Water Supply I			15.0		
<u>GUYANA</u>					
Water Supply & Sewerage I			7.0		
Water Supply & Sewerage II					9.0
<u>HAITI</u>					
Water Supply I	7.0				
Water Supply & Sewerage II				15.0	

WATER SUPPLY AND SEWERAGE (Cont'd)

Country/Project	FY78	FY79	FY80	FY81	FY82
<u>MEXICO</u>					
Water Supply Mexico City II	150.0				
Water Supply Med. Cities IV (S)			70.0(S)		
<u>NICARAGUA</u>					
Water Supply III	10.4				
Rural Sanitation	3.1				
<u>PANAMA</u>					
Water Supply II (S)			25.0(S)		
<u>GUATEMALA</u>					
Water Supply & Sewerage				25.0	
<u>PARAGUAY</u>					
Rural Water Supply I	6.0				
Rural Water Supply II (S)					10.0(S)
<u>PERU</u>					
Lima Water Supply (S)		50.0(S)			
<hr/>					
No. of Projects/Total Value	(7)271.5	(5)165.0	(7)224.0	(4)125.0	(5)209.0

09/19/77

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This news item appeared on page 7 of the 6 Oct. 1977 issue of:

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Visits North Korea

Burma Head Seeks Outside Aid

By KEITH LORENZ

Journal of Commerce Special
BANGKOK — The September state visit of Burma's President Ne Win to North Korea places that country in a peculiar juxtaposition with another hermit-like Southeast Asian country — Cambodia — which has also been pursuing an infatuation with North Korean President Kim Il Sung, leader of the post World War II dynasty in Pyongyang.

The reclusive Burmese president, who took over power in a relatively bloodless coup d'etat in Rangoon in 1962 from the spiritual Buddhist scholar U Nu, has recently been making some tentative jabs to obtain limited external aid for projects earmarked for development by the Burma Socialist Program party, of which he is head.

However it estimated that Burma will need almost \$1 billion in external assistance in order to come anywhere near achieving its targets for the present economic plan due to expire about 1982. It is unlikely that President Kim Il Sung will come up with anything significant, since North Korea is unable to meet its own massive foreign indebtedness.

Consequently observers can only predict that the state visit may herald some new Asian political axis between Pyongyang, Phnom Penh and Rangoon, heralding an anti-ASEAN (Association of Southeast Asian Nations) poor man's club.

Having earlier this year skirted an offer by a group of seven donor countries organized into a consultative group by the World Bank to try to pry the Burmese leadership out of isolation, President Ne Win has taken two steps back for every one forward.

Change? Be Slow

However, if change occurs, it will be at the same snail-like pace, according to economic observers in nearby non-communist capitals. Only the rampant black market, abetted by officials of the state monopolies, the illegal border trade with Thailand, and occasional Japanese loans, especially for oil exploration and production, manage to keep the once-affluent agriculture- and mineral-rich nation from sinking altogether.

Burma has one of the lowest per capita incomes in the world, approximately \$90 per year. The private sector represents such a fraction of the overall economy that little incentive exists for the population to strive to improve itself.

Furthermore, the Burmese seem a fatalistic people, as Buddhists go in general; and sociologists say they have adapted comparatively well to the austere mandates of their leader's Burmese Way to Socialism, perhaps believing they are paying the price as a people — collectively — for sins they have accumulated in previous existences.

Their neighbors, the Thais, would freely admit to that, having been laid waste numerous times in history by marauding Burmese kings.

Fishing Rights Feud

The two countries are still regularly feuding over fishing rights, and hundreds of captured Thai fishermen currently languish in Burmese jails. One reason is that Burmese fishermen have been given a new incentive recently through an involvement of the Asian Development Bank.

The scheme was coordinated through Burma's Pearl and Fisheries Corp., and provides an incentive system of payments which has resulted in fish export earnings — representing an estimated \$200,000 for the whole decade to 1964 — climbing to an estimated \$5 million in 1977, from \$1 million last year. This scheme no doubt accounts for some of the bitter conflict with Thai fishing fleets in the Andaman Sea, also Burma has opted for the 200-mile zone, and Thailand has not yet.

However, tight restrictions still remain on imports, joint ventures with foreign firms, and especially private foreign investment in the potentially rich mineral and oil resources, as well as logging. Incentives here are still woefully lacking.

Leaders Distrustful

Burmese leadership, even under U Nu, who became premier shortly after freedom from Britain in 1948 (following a mass assassination of the independence leader Aung San, and his cabinet), also exhibited distrust of foreign investment, and influence in general, especially the capitalist sort. This was due partly to traditional economic domination by overseas Indians and Chinese brought in to develop the country during the British

colonial period, according to Burmese specialists.

It is also due to a basic Buddhist indifference to heavy, materialistic involvement in commercial affairs, in a land where Buddhism is considered to be still in its "purer" form.

Nevertheless, this philosophy has not prevented Burma's elite military class, enjoying all the privileges under President Ne Win which are denied the masses, both rural and urban, from savoring the best the black market and manipulation of state enterprises can produce. Western political observers contend that the inordinate privileges of the leaders of Burmese State Socialism are the strongest arguments against change.

The continuing war against ethnic minorities, now in its 30th year, will also provide the convenient rationale for President Ne Win to keep the military strong, and spend much of what the country can earn on defense. A defection of some of the Kachin and Karen units to Chinese communist leadership in the north also provides President Ne Win with ready-made counter insurgency requirements, in spite of a recent visit to Peking and declarations of mutual friendship with his hosts.

US Embassy

The comparatively large U. S. embassy in Rangoon is overflowing with narcotic agents — many under various

Continued

cation of this New Directions program. Development funds, for instance, should not be refused for farm-to-market roads just because rich farmers as well as poor farmers will use the roads.

- Donor countries ought to establish targets for supplying basic human needs in the areas of health, education, food, and shelter.

Mr. Gordon notes, though, that there are development techniques that can combine economic growth with the supply of basic human needs. The two aspects need not be exclusive.

Land tenure practices can aid poor farmers and provide growth. Health expenditures can avoid the construction of large, sophisticated hospitals that serve an elite rather than the poor. Education authorities can concentrate on primary schools rather than secondary schools and universities.

- Because of strong nationalistic feelings in most development countries and the uncertainties of development economics, the U.S. should show "a lot of humility" in its bilateral aid programs. Nor should it go along with "patent foolishness" in the use of American money.

- The U.S. should support the development of new knowledge specifically suited for development of poor countries.

At AID, the Brookings study will be fed into a general review of foreign-aid strategy by the Carter administration. It could help the U.S. move from a position of retreat to one of offense in the war on world poverty.

10/6/77

The "Mainichi" said 10.7% of Japan's total official development assistance went to Africa in 1976, compared with 5.2% in 1974.

BUENOS AIRES: "La Prensa" carried an editorial urging Latin American nations to consider a recent proposal for a new treaty to achieve regional economic integration.

A new treaty to establish a Latin American area of economic preferences, without fixed schedules, irrevocable commitments or quantitative targets, has been proposed by the Argentine representative and chairman of the Executive Committee of the Latin American Free Trade Association (LAFTA).

In a lecture at the IDB's Institute for Latin American Integration last week, he proposed a new treaty to overcome the difficulties which have prevented economic integration of this region so far.

Trade between LAFTA's 11 member countries, which have a population of 270 million, last year stood at \$7 billion.

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World Bank
News Service of the Department of Information and Public Affairs

This news item appeared on page **9** of the **6 Oct. 1977** issue of:

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- THE TIMES
- THE FINANCIAL TIMES
- THE GUARDIAN

The Christian Science Monitor

Moving to the offensive in war on poverty

By David R. Francis

Washington

A new Brookings Institution study for the Agency for International Development [AID] recommends that U.S. foreign aid be more than doubled in real terms by 1982 to \$10 billion a year.

At present, noted Lester Gordon, the Harvard economist who headed the study, the worldwide image of this country in the area of development assistance is "one of retreat."

That image is fully justified. The net flow of official development assistance from the United States to developing

Economic scene

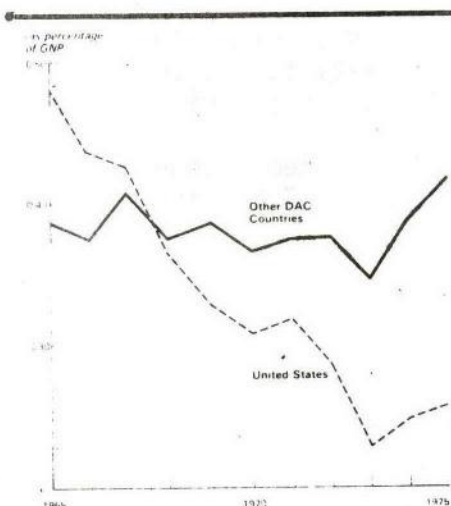
countries has dropped from 0.53 percent of the nation's total output of goods and services in 1960 to 0.26 percent in 1976. That latest percentage represents a per capita contribution of nearly \$19, about the price of a good dinner out for two.

In other words, the United States is making only a minor sacrifice to help the billions of poor people in the world.

"Other nations are ahead of us in committing themselves to the attack on world poverty," said Mr. Gordon in an interview.

Among the industrial donor countries, the U.S. ranks 12th in its generosity. Sweden is first, giving more than 0.8 percent of its gross national product in development assistance.

Mr. Gordon believes that the "time is ripe" for the United States to make a real



U.S. foreign aid compared with all other DAC (Development Assistance Committee) donor countries. Source: DAC.

commitment to the reduction of world poverty by the year 2000. It should also call on other donor nations to join in this major assault on the problem, he believes.

As preparation for this major step-up in expenditures, his study recommends methods to better focus and coordinate the U.S. foreign programs. These are now scattered throughout the administration.

In addition to AID, the Department of Agriculture handles the PL480 food-aid program; the Treasury concerns itself with the World Bank and other international financial institutions; the Office of the Special Representative for Trade

Negotiations deals with trade concessions for developing countries; the State Department manages relations with the various United Nations agencies and commodity questions; the Department of Health, Education, and Welfare has liaison with the World Health Organization, and so on.

Professor Gordon suggests that the President might appoint a new coordinator in the White House to deal with international development issues. He should have direct access to the White House, access to money through the Office of Management and Budget, and a staff of perhaps a dozen technical and social scientists.

Alternatively, Mr. Gordon went on, the State Department could appoint a new undersecretary for development.

In either case, the coordinating official would attempt to prevent the various government agencies from working at cross-purposes. He would attempt to avoid further proliferation or atomization of aid activities and weigh priorities for the use of available funds.

Mr. Gordon's group of six researchers has other recommendations for AID:

- The U.S. should continue the New Directions program for foreign aid adopted by Congress a few years back. That program requires that foreign aid be aimed at alleviating poverty directly in the developing countries and not just at economic growth.

Mr. Gordon cautioned, however, that good sense should be used in the appli-

Continued

Report

News of the World Bank

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*Alastair's
UP article*



Threshing barley in Ethiopia. A rural development strategy is dependent on national commitment.

Photo: Kay Muldoon

Rural development

The start is promising, but the problems are formidable

In the four years since the World Bank's policy on rural development was set in motion,⁽¹⁾ many lessons have been learned about that crucial but difficult sector of development. These lessons derive from the 128 rural development projects assisted with Bank finance during the fiscal 1975-77 period and from the more than 400 agriculture and rural development projects currently being implemented in the field, some 200 of which are rural development projects.

Two conclusions stand out. First, it is possible to design projects that will assist large numbers of the rural poor to expand production and increase their incomes. But, second, rural development is no easy task.

Rural development projects which the Bank has helped to shape incorporate

four elements. First, they are designed so that large numbers of low-income producers are reached. Second, they are financially viable and are able to raise the incomes of the rural poor substantially. Third, they are relatively low cost and, therefore, are replicable within the limited budgets of developing countries. Fourth, they are comprehensive in scope, where it is clear that the nonagricultural components (improved health, education, and nutrition, for instance) are consistent with national, regional, and sectoral goals.

But even the most well-thought-out plans of the Bank must inevitably be less than successful if the local environment is not conducive to success. Unless, for instance, a country is committed to a policy of making the rural sector productive and, especially, of involving small farmers in development, assistance can be of little help. Recent evidence points to the fact that, over the past few years, developing countries have, in fact, in-

(1) It was in September 1973 that Bank President Robert S. McNamara called for a target of 5 percent growth in productivity on small farms by 1985. For the Bank, he set a goal of bringing improved technology and other inputs to over 100 million small farmers over the same time span.

(Cont'd on Page 2, Col. 1)

Urban development

Jobs, access to goods and services are seen as keys

By Alastair J. Stone

In organizations such as the World Bank, there are few occasions when it is possible to clearly observe a change of policy. In 1973, the Nairobi speech of the President of the Bank, Robert S. McNamara, was such an occasion, for it focused attention for the first time on a particular group, the rural poor.

At first glance, a speech on rural poverty must appear to be a strange introduction to the subject of urban poverty. However, all the seeds of an urban poverty policy are there. The concern for particular groups, is expressed in questions such as: Who benefits from the Bank's lending and policy advice?; and, especially, What benefits reach the poor?

It also became apparent early in the implementation of the rural poverty program that increases in rural incomes through agricultural employment would occur only as large segments of the rural population migrated to urban areas. So to complement the rural poverty policy, an urban poverty policy was announced in the World Bank President's 1975 speech to Board of Governors.

To implement that policy and to ensure that benefits will directly flow to the poor, the Bank has a two-part strategy. The first part of the strategy calls for increasing the income-earning opportunities of the urban poor; the second calls for increased provision of and access to basic goods and services.

In developing these strategies, close attention has been paid to resources available in a particular country and to the size of the problem being tackled. Specifically, in the strategy for the provision of goods and services, subsidies from other parts of a country's economy will rarely be available. Thus, the general strategy is to have projects designed within the per capita budgets already available to the urban poor. In generating income-earning opportunities, the availability of capital is an important factor, so for each country, a capital-per-job threshold has been established, which reflects the available capital resources of the country and the size of the work force to be employed. Projects with capital-per-job below this threshold

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A Karachi slum. The numbers of urban poor are expected to more than double in the next ten years.

Urban . . . Cont'd

will be spreading capital to low-capitalized industries where the poor find employment. Therefore, the strategy for increasing income-earning opportunities for the poor is to design projects which are efficient and which spread capital below the threshold.

To understand the scope of the urban poverty program and the challenge it poses for the Bank, consider that well over half the lending operations of the Bank involve, to some degree, the urban sector. In addition, for the Bank's poverty program to make sense in a country-specific context, it must rely heavily on expanded country, sector, and project economic work. Also, the need for project coordination takes on new meaning as a specific group in the population of one city receives benefits from several projects in a short time span.

The challenge is great, and will require a broad, sustained effort to achieve success. Progress after two years is observable in most areas. There exist defined urban poverty groups for each of the Bank's borrowing countries. They average one-third of the urban population, and, in 1975, totaled about 181 million people. Their numbers are expected to more than double in the next 10 years. Criteria have been developed to distin-

tunities of the poor; and lending in all other urban sectors is similarly being expanded. Given the limited experience of the Bank in many of these areas, detailed monitoring of results, on a project basis, is being designed into these projects.

Backing these direct efforts is an expanding research program to explore new methods of benefiting the poor. For example, preliminary results of research into intermediate technology for the disposal of human excreta suggest the existence of viable methods with unit costs which are a fraction of the traditional waterborne methods of disposal and treatment.

To look to future directions of the Bank's urban poverty program, ongoing policy investigation into such areas as urban land tenure and municipal fiscal policies suggests a broadening of concerns in urban areas, especially where its lending will be concentrated. This will lead to increased intersectoral cooperation in the Bank, and new ways for the Bank to involve itself in urban economic development. With the common concern for developing both income-earning opportunities and the provision of goods and services for the urban poor, the design of projects and the scope of the Bank's involvement in cities of emphasis may well be different from what they have been in the past.



Safe water in Brazil. Water supply projects are increasing in number.

Photo: Jean Speiser for UNICEF

guish urban poverty lending from other lending so that the size and progress of the program can be followed. These criteria reflect the objectives of the program to design ways of benefiting directly the urban poor in a manner which reflects resources available in a country and the size of the problem. Rough estimates suggest that 9 percent of the Bank's current five-year lending program (excluding agriculture) will meet the tests of urban poverty lending. The objective established by the management of the Bank is to increase this to about 14 percent by 1980. So that such an increase might occur, country work programs, both on the economic and the project side, are being designed to reflect urban poverty concerns.

The number of multisectoral urbanization projects is increasing, as is the number of water supply projects that explicitly provide water to the poor; the provision of development finance for small-scale enterprises is being expanded so as to increase the employment oppor-

The Bank's ability to alleviate urban poverty directly through the projects it helps finance will remain small in comparison with the problem. The burden of executing significant programs designed to help the urban poor lies clearly with sovereign governments.

Many have taken up the challenge, and have demonstrated successful approaches which can be transferred to other countries. The discussion of poverty issues is an increasing part of the Bank's contact with its borrowing member governments. In the meantime, progress in implementing the urban poverty program goes on, accompanied by a lively and useful discussion within the Bank. Both the progress and the discussion will undoubtedly continue, as the urban poverty program is a major objective of the Bank's current five-year program.

Mr. Stone is Chief of the Urban Operations Review and Support Unit in the World Bank's Urban Projects Department.

WORLD BANK LOANS, JUNE-JULY 1977

Country	Purpose	Amount (\$ millions)
Argentina	Industrial credit	100.0
Brazil	Vocational training	32.0
Colombia (three loans)	Telecommunications; small-scale industries; highways	165.0
Ecuador	Agricultural credit	15.5
Egypt (three loans)	Regional electrification; industrial imports; iron ore engineering	120.5
El Salvador	Sites and services	6.7*
Greece	Regional development	35.0
India (two loans)	Bombay High offshore development; development finance companies	230.0
Indonesia	Population	24.5
Jamaica	Rural development	15.0
Kenya	Irrigation	34.0**
Korea (three loans)	Development finance companies; heavy machinery; vocational training	173.0
Lebanon	Rehabilitation	50.0
Malaysia (two loans)	Irrigation; power	61.0
Mauritius	Development finance companies	7.5
Mexico	Rural development	120.0
Nigeria (two loans)	Agricultural development	62.0
Panama	Power	42.0
Philippines	Power	58.0
Romania (three loans)	Glass fiber plant; polyester plant; pig production	139.3
Sudan	Railways	12.0***
Swaziland	Education	4.0
Syria (two loans)	Water supply; education	70.0
Thailand	Irrigation	55.0
Tunisia	Water supply	21.0
Yugoslavia (two loans)	Power transmission; agricultural credit	155.0
Total, June-July 1977		1,808.0

*With a \$6 million IDA credit.

**With a \$6 million IDA credit.

***On Third Window terms, with an \$8 million IDA credit.

IDA CREDITS, JUNE-JULY 1977

Country	Purpose	Amount (\$ millions)
Afghanistan	Agricultural credit	12.0
Bangladesh (five credits)	Irrigation; shallow tubewells; extension and research; program credit amendment; inland water transport	77.0
Burundi	Development finance companies	3.4
Cameroon	Rural development	7.0
El Salvador	Sites and services	6.0*
India (four credits)	Irrigation; agricultural development; command area development; extension and research	114.0
Kenya	Irrigation	6.0**
Mali	Education	10.0
Nepal	Highways	17.0
Sierra Leone	Power	8.2
Sudan	Railways	8.0***
Tanzania	Sites and services	12.0
Total, June-July 1977		280.6

*With a \$6.7 million Bank loan.

**With a \$34 million Bank loan.

***With a \$12 million Bank loan on Third Window terms.

Project Appraisal from 570 miles up

The launching on July 23, 1972, of the first Earth Resources Technology Satellite (ERTS-1) made the front pages of most of the world's newspapers. The launching at the Vandenberg Air Force Base in California also inspired many words of optimistic copy on what the 1,965-pound satellite might mean for the world's scientific community.

"Flying 570 miles above the ground, a one-ton package of cameras (*sic*) and electronic scanners is watching Earth—looking for diseased forests 1,000 miles from any settlement, measuring the world's wheat crop, detecting the spread of water pollution over entire oceans, and monitoring dozens of other phenomena on a scale never before possible," wrote Boyce Rensberger in the *New York Times*.

What made ERTS (now renamed LANDSAT) special was the fact that the area covered by a single satellite image was equal to 1,000 or more photographs taken by an airplane. In addition, the LANDSAT satellite passed over the same area of the Earth's surface once every 18 days, and did so at exactly the same time of day, making it possible to obtain repetitive coverage of the same point on Earth 20 times throughout the year.

Since that day a little more than five years ago, a second LANDSAT satellite has been launched into orbit (January 1975). A third and a fourth LANDSAT are being prepared, each to include some modifications or improvements in the instrument package.

Report recently talked to two World Bank staff members who are intimately involved in utilizing the satellites' imagery and data in their day-to-day work at the Bank. **Report** wanted to find out whether the optimism of five years ago was well-founded, and in what ways LANDSAT has been of use to institutions such as the Bank.

Wolfram U. Drewes is a Senior Resource Planner in the Economics and Resources Division of the Bank's Agriculture and Rural Development Department. Mr. Drewes did his undergraduate work at the University of Colorado and obtained his Doctorate at Syracuse University. He spent eight years in field resource surveys in the Amazon basin for both a private research institution and for the US Agency for International Development.

Later, as head of the Natural Resources and Transportation Division of the Organization of American States, he directed and carried out more than a dozen integrated regional planning projects in Latin America. Since coming to the Bank in 1970, Mr. Drewes's work has focused on the uses of remote sensing in development projects, working particularly in heavily populated areas of limited resources such as Bangladesh, India, Indonesia, and the Sahel region of Western Africa.

John R. McKenna, Jr. is a Research Assistant working in the same division and World Bank department. Mr. McKenna did his undergraduate work at the University of Maryland, and received his M.A. from Louisiana State University, concentrating on settlement geography. He spent five years in ground water and geologic/seismic field surveys in Latin America and Alaska for both government and private industry.

The white smudge at the top-center portion of this photo means potential trouble for the Malaysian port of Kota Baru in Kelantan state. It's silt washed to sea by the Kelantan River. The solid white half-moon lodged in the crook of the land mass indicates that the whole port area is badly silted.



With the World Bank, Mr. McKenna has been a co-investigator on land-use oriented remote sensing projects in Burma, Zaire, and India.

Report: The first earth resources satellite was sent into orbit some five years ago. In your opinion, has its performance, and that of its successors, lived up to the hopes that were attached to it then?

Drewes: Yes, I think it has more than carried out its job. The equipment on the first satellite had a life expectancy of one year and it functioned more than two years before there were any problems with the tape recorder on board. The instrument itself is still operational for direct readout stations such as those existing in the US, Canada, Brazil, and Italy. LANDSAT II, launched more than two years ago, has performed equally well. It's still operational, and NASA (National Aeronautics and Space Administration) is still using the tape recorder for those areas that are not within the direct readout station range.

Report: Exactly what was—and is—the job that these satellites were and are supposed to do?

Drewes: They record the reflectance obtained from selected areas over the earth's surface from approximately 82½ degrees north latitude to 82½ degrees south latitude. They cross the equator at exactly the same time every day (9.42 A.M.) so that the sun's angle is quite constant whenever they record data.

McKenna: For the first time, we have a regional perspective of the surface of the Earth. LANDSAT covers an area of 115 miles by 115 miles on the side. Because agricultural patterns and geologic formations have length and breadth to them, technicians are frequently overwhelmed by the number of individual photographs when viewing aerial photographs. When looking at a LANDSAT image, one looks at an area roughly 10,000 square miles, and it gives us, for the first time, a regional perspective.

Report: Has suspicion—that LANDSAT could also be used for military purposes—generally dissipated?

Drewes: Yes, I think it has. It was, at one time, greeted with some suspicion by a number of countries, but the fact that its resolution cell is considered to be



80 meters on the side means that most military vehicles or installations can not readily be recognized. Shortly after the first launching, NASA offered the system to the world through the UN under what they called an "open skies" policy. Countries that signed this agreement eventually relaxed their fears of having military connotations tied to it. They are now talking about obtaining 30 meter resolution, 20 meter resolution, and are now aiming at getting more specific data to be able to record smaller field patterns such as rice paddies rather than just the larger agricultural patterns of more than an acre in size. I think that suspicion has dissipated, and in the past five years, the Eastern European countries have also played a significant role, and have shown what their resource-oriented imagery looks like.

The developing countries are the ones that really gain more from the satellite data collection system than do the countries that have excellent maps, resource data base, and up-to-date statistics. Now, for the first time, we can work in some of the more remote countries like Afghanistan and actually analyze what the terrain surface features represent.

McKenna: Even though there has been a great change over the last couple of years, there are still countries that are hesitant—especially in the building of receiving stations.

Under the "open skies" policy, a government with a receiving station has to provide that imagery at cost and openly to its neighbors. This is unacceptable to some governments. Some governments would rather have the program be the responsibility of an international organization such as the UN. Another question that comes up time and time again in our discussions with various individu-

als or various countries is how long is LANDSAT going to be operational? As it stands right now, it is purely an experiment, and has not yet been declared operational by the US government.

Report: What exactly are the benefits that countries receive from the satellites?

Drewes: One can get rather clear indications of where the agricultural areas of a country are, and if one focuses on pre-harvest periods of, say the rice areas of the world, one can see exactly where the rice is coming from—and one can determine how many acres of rice are in production. The instrument itself is composed of a multispectral scanner system, which records in four individual wave lengths—two in the visible light and two in the near infrared. Each image is composed of 2,340 scan lines and each scan line includes 3,220 picture elements, commonly referred to as "pixels." If one multiplies the two it provides the technicians with roughly 8 million individual reflectance signals in each of four bands, or some 32 million signals that the resource technician can use in his analysis if he is working with a computer. So it gives us a tremendous amount of information with each pixel representing 1.1 acre in size.

Report: But, wouldn't a country know already where its crops are being grown?

Drewes: Well, in the case of forestry, a country might know that its forest areas have been cut back tremendously, yet it might not know how much of a cutback there is. Satellite imagery can illustrate clearly where the timber

