

PD-AAU-274  
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AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES AID MISSION TO PERU

C/O AMERICAN EMPASSY

LIMA, 1 PERU

TELEPHONE: 286200

CABLE: USAID/LIMA

June 26, 1986

Jorge Talavera T.  
Dean  
Dr. César Peñaranda Casteñeda  
Director  
Dirección de Investigación e  
Instituto de Desarrollo Económico  
ESAN  
Casilla Postal 1846

SUBJECT: ESAN - Project for the Refinement and Disaggregation  
of a Macroeconomic Model of the Peruvian Economy  
Grant No. 527-0000-5-00-6513-00

Dear Dr. Peñaranda:

Pursuant to the authority contained in the Foreign Assistance Act of 1961 as amended, the Agency for International Development (hereinafter referred to as "A.I.D." or "Grantor") hereby grants to the Escuela de Administración de Negocios para Graduados (hereby referred to as "ESAN" or "Grantee") the sum of \$98,800 to provide support for a program to perfect and disaggregate a model of the Peruvian economy, as described in Attachment 1, the Schedule of this Grant, and Attachment 2, entitled "Program Description."

This grant is effective and obligation is made as of the date of this letter and shall apply to commitments made by the Grantee in furtherance of program objectives during the period beginning with the effective date and ending June 30, 1988.

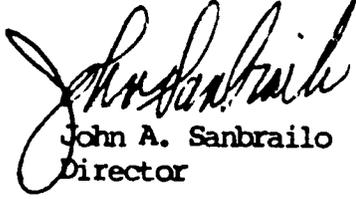
This grant is made to ESAN on condition that the funds will be administered in accordance with the terms and conditions set forth in Attachment 1, entitled the Schedule; Attachment 2, entitled "Program Description;" Attachment 3, entitled "Mandatory Standard Provisions" (AID Form 1420-54, 1-85); and Attachment 4, "Optional Standard Provisions" (AID Form 1420-53, 1-85), which have been agreed to by your organization.

Dr. Jorge Talavera T.  
Dr. César Peñaranda C.

2.

Please sign all six (6) copies of this letter to acknowledge your receipt of the Grant, and return five (5) copies to the Program Office, USAID/Peru.

Sincerely yours,

  
John A. Sanbrailo  
Director

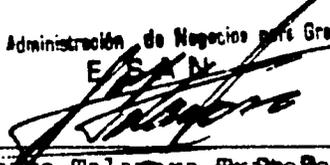
ATTACHMENTS:

1. Schedule
2. Program Description
3. Mandatory Standard Provisions
4. Optional Standard Provisions
5. ESAN Proposal

ACKNOWLEDGED AND AGREED TO:

ESCUELA DE ADMINISTRACION DE NEGOCIOS PARA GRADUADOS

By:   
César Peñaranda Castañeda  
Title: Director  
Date: June 26, 1986

Escuela de Administración de Negocios para Graduados  
E. S. A. N.  
BY:   
Jorge Talavera T. for Pinedo  
DECANO  
Dean  
TITLE: Dean  
Date: June 26, 1986

FISCAL DATA:

Appropriation : 72-1161021  
Budget Plan Code : LDAA-86-25527-DG13  
Project No : 527-0000 (0169)  
Total Estimated Amount: \$98,800  
Total This Obligation : \$98,800  
Funding Source : USAID/Peru



SCHEDULE

A. Purpose of Grant

The purpose of this Grant is to support ESAN in the further development and elaboration of its macroeconomic model of the Peruvian economy.

B. Period of the Grant

The effective date of this Grant is the date of its signature. The expiration date of this Grant is June 30, 1988.

C. Amount of Grant and Payments

1. A.I.D. hereby obligates for this Grant the amount of \$98,800 for purposes of this Grant.

2. Payment shall be made to the Grantee in accordance with procedures set forth in Section 1, entitled "Payment - Periodic Advance" of Attachment 4, "Optional Standard Provisions."

D. Financial Plan

The following is the budget for this Grant, all local cost financed items. Revisions for this Grant Budget shall be made in accordance with Mandatory Standard Provision 4 of this Grant, entitled "Revision of Grant Budget."

FINANCIAL PLAN

	<u>GRANT BUDGET</u>		<u>ESAN</u>	<u>TOTAL</u>
	<u>DOLLARS</u>	<u>CURRENCY</u>	<u>CONTRIB</u>	
<u>Personnel</u>				
1. Principal Researcher (US\$1,800 for 18 months)		\$32,400		\$ 32,400
2. Assistant Researcher (US\$1,000 for 18 months)		18,000		18,000
3. Other Researcher (US\$700 for 15 months)		8,400		8,400
4. Secretary (US\$400 for 15 months)			\$ 6,000	6,000

	GRANT BUDGET		ESAN CONTRIB	TOTAL
	DOLLARS	CURRENCY		
<u>Computation</u>				
Machine time		5,000	15,000	20,000
Technical Support			4,500	4,500
Purchase 2 microcomputers	\$ 6,000			6,000
<u>Other Materials</u>				
Purchase of Books, Journals, etc.	4,000			4,000
Other Materials, Xerox, etc.	4,000			4,000
Travel for Consultation	8,000			8,000
Articles			3,000	3,000
Book summarizing results		8,000	3,000	11,000
<u>Miscellaneous and Contingency</u>		5,000		5,000
TOTAL	\$22,000	\$76,800	\$31,500	\$130,300

E. Reporting and Evaluation

1. Within 15 days of the end of each calendar quarter, the Grantee shall submit to USAID/Peru a report of the results of the research progress made during that calendar quarter.

2. Within 45 days of the end of the activities financed under the grant, the Grantee shall submit to USAID five copies of a final report detailing the research carried out, the results obtained, and suggestions for further study if applicable.

3. Grantee shall also provide quarterly financial reports stating amounts of funds received, spent, and liquidated, in accordance with the Budget Categories.

F. Special Provisions

The following Optional Provisions apply to this Grant: 1, "Payment Periodic Advance;" 3, "Air Travel and Transportation;" 5, "Procurement of Goods and Services;" 8, "Local Cost Financing With U.S. Dollars;" 9, "Publications;" 13, "Title to and Use of Property (Grantee Title);" and 20, "Cost Sharing".

PROGRAM DESCRIPTION

A. Purpose of Grant

The purpose of the Grant is to support ESAN in carrying out a disaggregation, refinement, and further elaboration of its macroeconomic model of the Peruvian economy, in order to permit private sector individuals and institutions to have access to a model which will permit them to forecast developments and trends within the economy.

B. Background

It is well recognized that one of the most serious obstacles to the development of the private sector in Peru is uncertainty about the direction and content of government policy and the inability to forecast accurately the consequences of changes in government policy. While at least two large-scale macroeconomic models of the Peruvian economy exist, both are in the custody of public sector institutions, the Central Reserve Bank and the Ministry of Labor. There is no procedure for regular and systematic access to these models by the private sector. This project is designed to elaborate and refine an existing, relatively small scale model of the Peruvian economy already developed by ESAN. However, this small-scale model as currently developed tends to produce anomalous results and requires considerable refinement if it is to be used with confidence by final consumers.

C. Characteristics of the Study

1. Modification and Elaboration of Aggregate Supply Conditions. In the present state of its development, the aggregate supply conditions of the model are given by a single equation in which output is a function of employment, the real money supply, and certain dummy variables. While this is adequate for some purposes, it does not adequately reflect the variety of outcomes which can result from various changes in the composition of output which are themselves a consequences of government policy. (The Mission has argued elsewhere that policies designed to shift the composition of output away from assembly manufacturing and toward agriculture are essential to an eventual solution of the balance of payments/debt problem.)

As a first approximation, the Grantee proposes to disaggregate the supply characteristics of the model into seven sectors, corresponding to the sectoral breakdown of GDP published by the Central Reserve Bank, agriculture and livestock, fishing, mining and petroleum, construction, manufacturing, government, and other. In addition to the sectoral disaggregation, the Grantee proposes to add and/or modify equations in order to better capture the effects of changes in the distribution of income and the activity of the informal sector. Finally, in the agricultural sector, the Grantee proposes to disaggregate further to the level of individual crops.

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2. The External Sector. In the external sector, the Grantee will also disaggregate to the level of the seven sectors mentioned above. Separate traditional and non-traditional export equations are to be fitted for each of the seven sectors. Imports into each of the seven sectors are to be estimated, separately, for goods which are competitive with domestic production and goods which are complementary with domestic output (i.e. capital goods and inputs).

3. The Monetary Sector. In the monetary sector of the model, the Grantee proposes to replace the present global estimation of the supply of and demand for money by separate estimates of demand for a supply of (a) currency, (b) M1 as traditionally defined, (c) liquidity in local currency, and (d) liquidity denominated in foreign currency. In addition, the model will be modified to allow for temporary disequilibrium in each of the four components of the monetary sector.

4. The Fiscal Sector. Finally, the fiscal sector of the model will be modified to provide for more richness of detail in both the revenue and the expenditure side.

#### D. Study Implementation

Dr. Santiago Roca, Professor at ESAN will be the principal investigator for the study, assisted by Mr. Rodrigo Priale and Mr. Guillermo Dávila. The study will be carried out in close consultation with the Program Officer, USAID/Peru.

The Grant period is for two years and is expected to involve 18 months of full-time work by the principal investigators. The Grantee will submit quarterly progress reports within fifteen days of the end of each quarter and will submit a final report within 45 days of the end of the study. In addition, the Grant budget provides for the publication of results of the study for wide distribution to the Peruvian private sector.

#### E. Required Accounting Records

ESAN agrees to keep separate accounting records for funds under this Grant, separate and apart from records kept by ESAN for any other funds held for similar projects or for other purposes.

#### F. Release of Funds

Release of funds under this agreement shall be in accordance with Section D, Financial Plan of the Schedule, and Article 1 of Attachment 4, Optional Standard Provisions.