

May 21, 1981

PD-ABA-398

64617

ACTION MEMORANDUM FOR AA/PPC, CHARLES PADLILLO (ACTING)

THRU : AAA/PPC/PDPR, Mr. John Eriksson *J.E.*

FROM : PPC/PDPR/RD, Donald G. McClelland *DM*

SUBJECT : Approval of Small Research Activity ("Agricultural Development and the Demand for Food: A Concepts Paper")

Problem

Your approval is required to finance the small research activity discussed below.

Discussion

The USDA has submitted a research proposal entitled "Agricultural Development and the Demand for Food: A Concepts Paper." Its purpose is to identify programs, policies, and projects that are most likely to generate an increase in the rate of growth of effective demand of poor people in developing countries. To achieve this objective, each of the activities under the five functional categories set forth in A.I.D.'s Agricultural Development Policy Paper (June 1978) will be analyzed to determine what role, if any, each has in accelerating the rate of growth of effective demand of the poor.

To carry out this analysis, the USDA will rely on secondary data, including past project activities, evaluation reports, and empirical studies. Since many of the conclusions of the analysis may vary depending on country specific conditions, the contractor will develop a typology, initially based on: (a) equality or inequality in the distribution of and access to assets; and (b) whether or not various macroeconomic and sectoral policies are conducive to equitable growth. In the context of the analysis, the contractor will address a series of questions and issues specified in the attached proposal.

The work is planned to commence on or about June 1, 1981, and to be completed within six calendar months, or by about November 30, 1981. The estimated budget is \$97,650. The attached proposal indicates that Dr. Bela Mukhoti (USDA) and Professor Bruce Johnston (Stanford Food Research Institute) will be the principal investigators.

Recommendation

That you approve the proposed project.

Approved *CA*

Disapproved \_\_\_\_\_

Date 5/27/81

Attachment: a/s

AID 1350-1 (10-79)	UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY AGENCY FOR INTERNATIONAL DEVELOPMENT	1. Cooperating Country Worldwide	Page 1 of 7 Pages
		2. Obligation No. 3013014	3. <input checked="" type="checkbox"/> Original or Amendment No. _____
		4. Project/Activity No. and Title 930-0091 Rural Development Research	

PIO/T

PROJECT IMPLEMENTATION  
ORDER/TECHNICAL  
SERVICES

DISTRIBUTION	5. Appropriation Symbol 72-1111021.3		6. Allotment Symbol and Charge 143-30-099-00-20-11		
	7. Obligation Status <input type="checkbox"/> Administrative Reservation <input checked="" type="checkbox"/> Implementing Document			8. Project Assistance Completion Date (Mo, Day, Yr) 12/31/81	
	9. Authorized Agent AID/W		10. This PIO/T is in full conformance with PRO/AG Date _____		
	11a. Type of Action and Governing AID Handbook <input type="checkbox"/> AID Contract (HB 14) <input checked="" type="checkbox"/> PASA/RSSA (HB 12) <input type="checkbox"/> AID Grant (HB 13) <input type="checkbox"/> Other			11b. Contract/Grant/PASA/RSSA Reference Number (If this is an Amendment)	
	12. Estimated Financing (A detailed budget in support of column (2) is attached as attachment no. <u>1</u> )				
		(1) Previous Total	(2) Increase	(3) Decrease	(4) Total to Date
Maximum AID Financing	A. Dollars		\$60,000		\$60,000
	B. U.S.-Owned Local Currency				
13. Mission References	14a. Instructions to Authorized Agent				
	<p>Negotiate a RSSA Agreement with the USDA to finance the work described in the "Statement of Work," Attachment 2, and the USDA's proposal, Attachment 3.</p> <p style="text-align: right;">FUNDS RESERVED BY <i>[Signature]</i> POSTED <u>5/21/81</u> SER/FM/CSD</p>				
14b. Address of Voucher Paying Office					
SER/FM/PAD, Rm. 623, SA-12, A.I.D., Washington, D.C. 20523					

15. Clearances—Include typed name, office symbol, telephone number and date for all clearances.

A. The project officer certifies that the specifications in the statement of work are technically adequate <i>[Signature]</i> D. G. McClelland, PPC/PDPR/RD	Phone No. 632-1788	B. The statement of work lies within the purview of the issuing and approved agency programs <i>[Signature]</i> John Eriksson, PPC/PDPR	Date 5/21/81	Date 5/21/81
	Date 5/21/81			
C. <i>[Signature]</i> Douglas Caton, PPC/PDPR/RD	Date 5/21/81	D. Funds for the services requested are available		
E.	Date	JL Wilkinson, PPC/PB <i>[Signature]</i> 5/25/81 Monica Muhammad, PPC/PB <i>[Signature]</i> 5/28/81		

16. For the cooperating country: The terms and conditions set forth herein are hereby agreed to		17. For the Agency for International Development	
Signature _____	Date _____	Signature <i>[Signature]</i>	Date 5/25/81
Title _____		Title Charles Paolillo, AA/PPC (Acting)	

AID 1350-1 (10-79)  PIO/T	1. Cooperating Country <b>Worldwide</b>	2. Obligation No. <b>3013014</b>	Page 2 of 7 Pages
	4. Project/Activity No. and Title		

**SCOPE OF WORK**

18. THE SCOPE OF TECHNICAL SERVICES REQUIRED FOR THIS PROJECT ARE DESCRIBED IN ATTACHMENT NUMBER \_\_\_\_\_ HERETO ENTITLED "STATEMENT OF WORK".

19. SPECIAL PROVISIONS

- A.  LANGUAGE REQUIREMENTS (SPECIFY) \_\_\_\_\_  
(IF MARKED, TESTING MUST BE ACCOMPLISHED BY AID TO ASSURE DESIRED LEVEL OF PROFICIENCY)
- B.  ACCESS TO CLASSIFIED INFORMATION  WILL  WILL NOT BE REQUIRED BY TECHNICIAN(S).
- C.  DUTY POST(S) AND DURATION OF TECHNICIANS' SERVICES AT POST(S) (MONTHS)  
**Washington, D.C. and Stanford University; 6 months**
- D.  DEPENDENTS  WILL  WILL NOT BE PERMITTED TO ACCOMPANY TECHNICIAN.
- E.  WAIVER(S) HAVE BEEN APPROVED TO ALLOW THE PURCHASE OF THE FOLLOWING ITEM(S) (COPY OF APPROVED WAIVER IS ATTACHED)
- F.  COOPERATING COUNTRY ACCEPTANCE OF THIS PROJECT (APPLICABLE TO AID/W PROJECTS ONLY)
  - HAS BEEN OBTAINED  HAS NOT BEEN OBTAINED
  - IS NOT APPLICABLE TO SERVICES REQUIRED BY PIO/T
- G.  OTHER (SPECIFY)

20. BACKGROUND INFORMATION (ADDITIONAL INFORMATION USEFUL TO AUTHORIZED AGENT)

21. SUMMARY OF ATTACHMENTS ACCOMPANY THE PIO/T (INDICATE ATTACHMENT NUMBER IN BLANK)

- 1   DETAILED BUDGET IN SUPPORT OF INCREASED FUNDING (BLOCK 12)
- \_\_\_\_\_ EVALUATION CRITERIA FOR COMPETITIVE PROCUREMENT (BLOCK 14)
- \_\_\_\_\_ JUSTIFICATION FOR NON-COMPETITIVE PROCUREMENT (BLOCK 14)
- 2   STATEMENT OF WORK (BLOCK 18)
- \_\_\_\_\_ WAIVER(S) (BLOCK 19) (SPECIFY NUMBER)
- 3   Proposal



Attachment 1: Estimated Budget

Agricultural Economist:	6 mo. @ \$3,500/mo.	\$21,000
Development Economist:	6 mo. @ 4,000/mo.	24,000
Junior Economist:	6 mo. @ 2,290/mo.	13,750
Secretary:	6 mo. @ 1,250/mo.	7,500
Domestic Travel:	8 round trips (Washington, D.C./Palo Alto, California, @ \$600/trip	<u>4,800</u>
Sub-total		71,050
Contingency:	@ 10%	<u>7,105</u>
Sub-total		78,155
Overhead:	@ 25%	<u>19,540</u>
Total		<u><u>\$97,695</u></u> <sup>a/</sup>

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<sup>a/</sup> Only \$60,000 will be financed by this PIO/T. The remaining \$37,695 will be financed by PIO/T amendment.

## Attachment 2: Statement of Work

### Objective

The contractor will prepare a concepts paper that identifies programs, policies, and projects that are most likely to generate an increase in the rate of growth of effective demand of poor people in developing countries.

### Procedure

The contractor will analyze each of the activities under the five functional categories set forth in A.I.D.'s Agricultural Development Policy Paper (June 1978) to determine what role, if any, each has in accelerating the rate of growth on effective demand of the poor. The five functional categories are as follows:

1. Asset Distribution and Access, including land tenure and local participatory institutions;
2. Planning and Policy Analysis;
3. Development and Diffusion of New Technology, including agricultural research, education, and extension;
4. Rural Infrastructure, including land and water development, conservation, energy (including rural electrification), and rural roads; and
5. Marketing and Storage, Input Supply, Rural Industry, and Credit.

To carry out the analysis, the contractor will rely on secondary data, including past project activities, evaluation reports, and empirical studies. Since many of the conclusions of the analysis may vary depending on country-specific conditions, the contractor will develop an initial typology based on:  
(a) equality or inequality in the distribution of and access to assets; and  
(b) whether or not various macroeconomic and sectoral policies are conducive to equitable growth.

In the context of the analysis, the contractor will address the following questions, inter alia:

1. To what extent and under what conditions is investment in some of the activities under the five categories more employment intensive, other things being equal, than investment in other of the activities?
2. To what extent is investment in the various activities complementary when analyzed in terms of their employment impact on the poor? Will the maximum employment impact materialize only if investment is undertaken in more than one activity, either simultaneously or sequentially? Under what conditions should investment in primarily employment

- generating activities precede, follow, or occur simultaneously with investment in activities designed primarily to increase agricultural production? Given a particular investment activity, to what extent can production and employment be maximized by appropriate policies and choice of techniques? Does food aid have a role in determining possible investment priorities, such as permitting employment generation to precede production growth in a non-inflationary environment?
3. To what extent are the employment impacts that result from investment in each activity primarily of a secondary or tertiary nature? To what extent does the employment that is generated result from backward and forward linkages throughout the economy, and therefore, involve a lag between the time the investment is made and the time poor people are employed?
  4. To what extent are employment impacts resulting from investment in each activity country specific (in terms of resource endowment and the country's stage of development)?
  5. How and to what extent can macroeconomic and factor pricing policies (functional category 2) influence potential employment expansion through investment in each of the remaining four categories?
  6. To what extent can the private sector be the primary source of investment for the key employment creating activities? What is the appropriate role for the public sector in stimulating employment generation?

### Final Product

The contractor will commence work on or about June 1, 1981. Within three weeks, a detailed topic and sub-topic outline will be submitted to PPC/PDPR/RD, the monitoring office. The monitoring office will provide comments on the outline and clear it (including mutually agreed upon revisions, if any) within two weeks. One month prior to submitting the final report, the contractor will submit a draft report to the monitoring office which will, in turn, organize a seminar at which the contractor will lead a discussion of the report. The contractor will incorporate suggestions made at the seminar into a final report which will be submitted to the monitoring office six months after initiation of the study, or about November 30, 1981.

The contractor will organize the final report so that each of the five functional categories (as well as other possible categories) are discussed separately. The final report will also include a separate summary section that delineates conclusions and policy recommendations. Of particular importance, the final report will indicate the relative effectiveness of alternative instruments (policies and projects) in terms of their ability to augment the rate of growth of effective demand of poor people. The

recommendations of the final report will be in a form readily amenable to the preparation of guidelines that are operationally oriented, and therefore, useful to A.I.D. Missions. The final report will be written in English, approximately 100-200 double-spaced pages. The original and ten copies will be submitted to the monitoring office. The original will be a camera-ready copy.



United States  
Department of  
Agriculture

Economics  
and Statistics  
Service

Washington, D.C.  
20250

May 7, 1981

Dr. Douglas Caton  
Rural Development Division  
Policy and Program Coordination  
Agency for International Development  
New State Building - Room 2675  
Washington, D.C. 20523

Dear Dr. Caton:

This is in response to our meeting with Don McClelland on May 4 concerning our proposal on Agricultural Development and the Demand for Food: A Concepts Paper. We have incorporated the suggested changes and prepared a modified proposal for your consideration.

Considering the urgent need to develop contractual arrangements with individuals outside of our office, we would appreciate your prompt response so that we can proceed with this work as scheduled in the proposal.

Sincerely,

A handwritten signature in cursive script, appearing to read "T. Kelley White".

T. KELLEY WHITE  
Director  
International Economics Division

Enclosure

## AGRICULTURAL DEVELOPMENT AND THE DEMAND FOR FOOD:

### A CONCEPTS PAPER

#### Introduction

A.I.D.'s Agricultural Development Policy Paper (June 1978) sets forth a strategy for agricultural development. The strategy is based on the premise that improved diets in developing countries will depend, in large measure, both on increasing food supplies (mainly through accelerating agricultural production and improving food distribution) and on expanding employment and income of low-income families (thereby enabling those with inadequate diets to purchase the food they need). The paper points out that such a strategy requires a simultaneous emphasis on two objectives: production on one hand, and income and employment on the other, and thereby recognizes that the supply and demand sides are interdependent. It also suggests that employment growth may be an essential prerequisite for agricultural producers; that is, increased income must be generated to create the effective demand necessary to induce farmers to expand production.

The programmatic implications of the strategy for A.I.D. are summarized in terms of five functional categories as follows:

- (1) Asset Distribution and Access, including land tenure and local participatory institutions;
- (2) Planning and Policy Analysis;
- (3) Development and Diffusion of New Technology, including agricultural research, education, and extension;
- (4) Rural Infrastructure, including land and water development, conservation, energy (including rural electrification), and rural roads;

(5) Marketing and Storage, Input Supply, Rural Industry, and Credit.

Investment in one or more of these activities is typically needed to increase agricultural production by poor farmers and/or to create employment opportunities for those who lack the income to purchase food. The appropriate sequence of investment in these activities will depend on country-specific conditions, including the potential for agricultural growth and the stage of economic development. 1/

Much of the past analytical work on agricultural development has concentrated on the supply constraints. Perhaps because of this emphasis, it is often easier to conceptualize the relationship between investment in any one of the activities aggregated under the five categories and the return to that investment in the form of increased agricultural production. It is more difficult to conceptualize the linkages between such investments and increased employment of poor people. For example, the primary impact of investment in a production credit program is likely to be increased production; the link, if there is one, with increased employment is less clear. Similarly, investment in agricultural research is generally associated with very favorable actual or potential returns as manifested by increased agricultural yields; but are such investments also associated with the generation of employment opportunities for the poor who lack income to purchase food? The answer to this question is less clear. 2/

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1/ Investment in "Planning and Policy Analysis" is unlikely to have a direct impact on either production or employment. However, appropriate agricultural and macroeconomic policies, which derive from a country's planning and analytical capability, are crucial, and investment is often needed to create or enhance this capability.

2/ In addition to the relatively heavy emphasis on the supply constraints, as suggested above, this problem may also be due to a production-oriented focus actually "built-into" the five functional categories. The implication of this latter problem is that investment in activities not included under the five categories may be necessary to achieve agricultural development (especially if such development requires that employment and income of poor people be increased).

11'

### Purpose

The purpose of the concept paper is to develop a conceptual framework to assist A.I.D. Missions and developing country governments to identify programs, policies, and projects that are most likely to generate increased effective demand on the part of the poor. The paper will also identify follow up analysis needed to empirically validate (or refute) the conceptual framework developed. The need for the paper is based on the premise that enhanced purchasing power of low income people is needed to stimulate increased agricultural production as well as to improve the diets of the poor. In the absence of increased effective demand generated by increased employment of the poor, or government transfer to the poor, both objectives are not likely to be achieved. <sup>3/</sup> Very little work to date has addressed this important dimension of the development process.

### Procedure

The five functional categories identified in the policy paper will constitute the point of departure. Each will be analyzed to determine what role, if any, it has in accelerating the rate of growth in effective demand. The operative question is: How might investment in agricultural education, for example, contribute to increased employment of the rural poor, and thus, increased income, purchasing power, and demand for food. The emphasis is on how employment might be generated. Thus, a theoretical or conceptual analysis is called for, in contrast to a strictly empirical analysis. However, this will be supplemented by an analysis of secondary data, including evaluations of selected past project activities and studies, to help substantiate

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<sup>3/</sup> Resource constraints severely limit the widespread utilization of government transfers, thereby reinforcing the need to encourage employment expansion.

(or refute) the conclusions derived from the theoretical analysis.

As working hypotheses, typologies will provide a basis for comparing a small sample of selected countries. These country typologies will be developed according to (1) equality or inequality in distribution and access to assets, and (2) macroeconomic and sectoral policies regarding equitable growth strategies.

The following questions, inter alia, will be investigated. First, under what conditions, other things being equal, is investment in one or more functional areas likely to have more impact on effective demand generation than in others? (Note that the objective is not to identify specific measures for creating employment, but rather to identify the likely employment impact of investments in the functional areas).

Second, to what extent is investment in different functional areas complementary? That is, will the maximum employment impact materialize only if investment is undertaken in more than one activity, either simultaneously or sequentially? For example, under what conditions should investment in primarily employment generating activities precede, follow, or occur simultaneously with investment in activities designed primarily to increase production? To what extent can production and employment be maximized by appropriate policies and choice of techniques in the same investment activities? Does food aid have a role in determining possible investment priorities, such as permitting employment generation to precede production growth in a non-inflationary environment?

Third, to what extent are employment impacts that result from investment in each activity or category primarily of a secondary or tertiary nature? For example, employment may be generated primarily as a result of backward and forward linkages throughout the economy, thereby involving a lag between the investment and the increased employment of the poor people.

Fourth, to what extent are employment impacts resulting from investment in a particular functional category or activity country-specific (resource endowment and a country's stage of development)?

Fifth, how and to what extent can macroeconomic and factor pricing policies (category two) influence potential employment expansion under the remaining four categories?

Sixth, to what extent can the private sector be the source of investment for the key employment creating activities under each category; what is the appropriate role for the public sector in stimulating employment generation?

#### Final Product

The final report will discuss each of the five functional categories (as well as other possible categories) separately. It will include a summary section delineating conclusions and policy recommendations based on the conceptual framework developed. Of particular importance, the final report will indicate the relative effectiveness of alternative instruments (policies and projects) in terms of their ability to augment the rate of growth of effective demand for the poor people, thereby reducing malnutrition. The recommendations will be in a form readily amenable to the preparation of guidelines that are operationally oriented, and therefore, useful to Missions. The report will be written in English, approximately 100-200 double-spaced pages. The original and ten copies will be submitted to PPC/PDPR/RD, the monitoring office.

A detailed topic and sub-topic outline will be submitted to the monitoring office three weeks after initiation of the study. The monitoring office will provide comments on the outline and clear it (including mutually agreed upon revisions, if any), within two weeks.

One month prior to submitting the final report, a draft report will be

submitted to PPC/PDPR/RD which will organize a seminar that focuses on the draft. The final report would then incorporate suggestions made at the seminar.

Time Limit

It is anticipated that the entire project will be completed within six months of the initiation.

Possible initiation date: June 1, 1981.

Budget

Agricultural Economist:	6 mos. @ \$35,000/mo.	\$21,000
Development Economist:	6 mos. @ \$4,000/mo.	\$24,000
Junior Economist:	6 mos. @ \$2,290/mo.	\$13,750
Secretary:	6 mos. @ \$1,250/mo.	\$7,500
Domestic Travel*		<u>\$4,800</u>
Sub-total		\$71,050
Contingency (10%)		<u>\$7,105</u>
Sub-total		\$78,155
Overhead (25%)		<u>\$19,540</u>
Total		\$97,695

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\* Eight domestic trips to Stanford University @ \$600 each.

Staff

- (1) Project Leader: Bela Mukhoti; Ph.D. London School of Economics, Economist, IED, USDA.
- (2) Bruce Johnston; Ph.D., Stanford University. Professor of Economics Food Research Institute, Stanford University. (Appointment subject to his concurrence with our and A.I.D.'s proposed project content and cooperative agreement with University of California, Berkley).

- (3) David Jesse; Ph.D. in Agricultural Economics, University of Kentucky, Lexington, Ky. (June 1981) (Appointment subject to cooperative agreement with University of Kentucky).
- (4) Romesh Diwan, Ph.D. in applied Econometrics, University of Birmingham. Professor of Economics, Rensselaer Polytechnic Institute, Troy, New York. (Possible collaborator if some financial arrangements can be made).