AID/W CAPITAL PROJECT PAPER (PROP)

I. PROJECT IDENTIFICATION

1. PROJECT TITLE

DEVELOPMENT PLANNING AND ADMINISTRATION

APPENDIX ATTACHED: [X] YES [ ] NO

2. PROJECT NO. (M.O. 1095.2) 528-11-720-001

3. RECIPIENT (specify)
[X] COUNTRY URUGUAY
[ ] REGIONAL ____ [ ] INTERREGIONAL ____

4. LIFE OF PROJECT
BEGINS FY 1970
ENDS FY 1973

5. SUBMISSION
[X] ORIGINAL DATE Feb 1972 (2)
[ ] REV. NO. ____ DATE
CONTR./PASA NO. ____

II. FUNDING ($000) AND MAN MONTHS (MM) REQUIREMENTS

A. FUNDING BY FISCAL YEAR	B. TOTAL $	C. PERSONNEL (1) $	C. PERSONNEL (2) MM	D. PARTICIPANTS (1) $	D. PARTICIPANTS (2) MM	E. COMMODITIES $	F. OTHER COSTS $	G. PASA/CONTR. (1) $	G. PASA/CONTR. (2) MM	H. LOCAL EXCHANGE CURRENCY RATE: $ US ____ (U.S. OWNED) (1) U.S. GRANT LOAN	(2) COOP COUNTRY (A) JOINT	(2) COOP COUNTRY (B) BUDGET
1. PRIOR THRU ACTUAL FY	163	163	28					163	28			
2. OPRN FY 1972	20			20	30							
3. BUDGET FY 1973	20			20	30							
4. BUDGET +1 FY												
5. BUDGET +2 FY												
6. BUDGET +3 FY												
7. ALL SUBQ. FY												
8. GRAND TOTAL	203	163	28	40	60			163	28			

9. OTHER DONOR CONTRIBUTIONS

(A) NAME OF DONOR	(B) KIND OF GOODS/SERVICES	(C) AMOUNT

III. ORIGINATING OFFICE CLEARANCE

1. DRAFTER T.O. Stephens / J.C. Crespi	TITLE Rural Development Officer / Agricultural Assistant	DATE
2. CLEARANCE OFFICER W. G. Rhoads	TITLE AID Representative	DATE 2/23/72

IV. PROJECT AUTHORIZATION

1. CONDITIONS OF APPROVAL

2. CLEARANCES

BUR/OFF.	SIGNATURE	DATE	BUR/OFF	SIGNATURE	DATE

3. APPROVAL AAs OR OFFICE DIRECTORS
SIGNATURE ____ DATE ____
TITLE ____

4. APPROVAL A/AID (See M.O. 1025.1 VI C)
SIGNATURE ____ DATE ____
ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

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Project Goal

To achieve sustained domestic economic and export growth. Uruguay has one of the poorer records of economic growth and development in the world over the last 15 years. GNP has increased hardly at all and per capita income has fallen. Since agricultural exports are the key factor in Uruguayan development, and the very limited quantitative understanding of the sector and resulting ineffective agricultural policies bear much of the blame for past poor performance, the proposed research project is aimed at a vital undertaking for increasing Uruguayan development.

Measurements of Goal Achievement

1. Export growth of 5 to 10%.

2. Domestic agricultural growth of 5%.

3. The extent that the Office of Planning and Budget and the Ministry of Livestock and Agriculture are utilizing their planning capabilities to influence decisions of the President of the Republic and his Ministries in the conduct of economic policies towards the agricultural sector.

4. The extent that planning agencies policy recommendations are frequently adopted by the Government of Uruguay.

5. The improvement in coordination among Central Bank, Ministry of Economy and Office of Planning and Budget is enhanced to insure that exchange rate, monetary and fiscal policies are consistent with planned objectives in the agricultural sector.

Basic Assumptions about Goal Achievement

That lack of planning and coordination are key factors in the slow rate of economic growth.

That strong political leadership is necessary to economic growth.

That the consensus of the population is in agreement with priorities established by the GOU.

That the export growth per year will be adequate to meet the import demand of a growing economy and service its external debt.

That operations of COPRIN in the setting of internal prices are not inconsistent with production increase goals for major products within the agricultural sector.

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Project Purpose

a) Increase the economic planning input of the Office of Agricultural Programming and Policy and the Office of Planning and Budget in the decision-making process in the agricultural sector.

b) To increase the analytical and presentation capability of Office of Agricultural Programming and Policy and Office of Planning and Budget. Technical assistance is needed to expand and improve the planning and programming capacity of the government. Agricultural producers who have the capability to make use of the technical information now available in Uruguay to increase production, do not find it economically sensible to do so because of the many disincentives placed in front of them. Although progress has been made in rationalizing Uruguayan policy-making to overcome these disincentives, many additional reforms need to be initiated. Decision-making in the past has too often been ad hoc, based on the particular pressures of a given day and prejudices of policy-making officials. It is decentralized and often made without adequate regard to impact on agricultural productivity. The Ministry of Agriculture participates in as many decisions as possible, but its influence has been quite limited. The resultant impact of Government actions affecting the agricultural sector has been disjointed and not always positive.

Conditions expected by the End of the Project

1. That policy recommendations which are made by planning agencies in Government forums will have a well developed analytical base and are conditioned to the realities of rational GOU decision-making.

2. That many Ministry of Agriculture policy recommendations are based on studies and analysis undertaken by the Office of Agricultural Programming and Policy (OPPA) and the Office of Planning and Budget (OPP) economic research groups.

3. Higher level of private investments, combined with measures by the GOU to make investments more effective should result from the planning process.

4. That long term GOU investment planning will be conducted at the interministerial level and be based on the analytical base provided in OPP and OPPA.

5. That broad based analytical studies of agriculture sector be continuously undertaken to provide policy alternatives to decision-makers, as well as the analysis of existing policies (fiscal, monetary, pricing, exchange rate, etc.) to determine their influence on agricultural growth.

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Basic Assumptions about Project Purpose

That the President of the Republic will direct his cabinet to present recommendations based on a set of clearly planned objectives and methods.

That the GOU Ministries have a vested interest in utilizing planning agencies for greater policy directions and improved management.

That Planning Department heads have direct access either to respective Ministries or to the President of the Republic.

That private sector retains sufficient confidence in the government to undertake investment in the economy and that their attitudes towards efficiency will lead to the introduction of modernizing technology.

Output Indicators

a. Collection, analysis and storage of statistical information necessary for management and decision-making in agricultural sector.

b. Information dissemination and publication of studies conducted under the auspices of other institutions involved in studying agricultural sector.

c. Increased coordination with and prompt access to general and specific economic information gathered by other GOU agencies by the staff technicians of the project.

d. Development from the above data, analytic studies, such as economic models both of a short term and planning nature that would create greater understanding of the behavioral interconnections of the economy and the relation of the agricultural sector to other sectors of the economy.

e. Increased technical and educational level of Uruguayan technicians in working with new or improved tools of analysis.

f. Testing of various economic models and theoretical structures to determine their usefulness in policy making and planning.

g. The development of a formal transmission system of analysis and information from the project staff to their respective Ministers and Ministries.

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Magnitude of Outputs

Participants trained by 1972 - 0

Participants trained by 1973 - 2

Participants trained by 1974 - 2

Total trained by 1974 - 4

Publications of models and related studies by staff and studies by other agencies useful in understanding the economy and its functioning :

1972 - none

1973 - 2 studies

1974 - 5 studies.

Increased utilization of University graduate economic and graduate Agricultural School technicians and interchange of information and studies.

Establishment of adequate models of the agricultural sector for economic policy and planning analysis.

The CIDE studies will be updated, amplified and data published on an annual basis.

Inputs

USAID :

a) 18 man/months of contractual long term advisory services, in the technical field of agricultural economics.

b) 10 man/months of short term contractual advisory services in the field of economics.

c) Participant training, 60 man/months.

G. O. U. :

a) OPPA budget.

b) Office space, local transportation, and logistical support.

c) Secretarial services.

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d) Five local counterpart technicians from OPPA/OPP, plus statistical services from agricultural statistical department.

e) Limited computer time.

Statement of Project Inputs

A direct hire staff consisting of a Rural Development Officer, an Economic Officer, 2 Uruguayan professionals, and one secretary will be responsible for the overall management of the project, including the guidance necessary in the establishment of goals, the designation of priorities and the planning coordination necessary to carry out the project.

Contract Technical Assistance

1. Technical assistance to support this project will be provided through a contractual arrangement with a U. S. University. It will provide, (a) 18 months of long-term advisory services in the technical field of Agricultural Economics, (b) 10 man/months of short-term advisory services in the field of Economics, and (c) 60 man/months of participant training.

Budget

	Prior Years	FY 1972	FY 1973	Total
Contract	163	-	-	163
Training	-	20	20	40
Total :	163	20	20	203
G.O.U. : $		50	50	100

Basic Assumptions about Inputs

That budget support of GOU is adequate and timely.

Adequate and timely University budget support.

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RATIONALE

Livestock accounts for slightly more than two-thirds and crops for the remaining one-third of agricultural output. Manufacturing accounts for about one-fourth and services for more than one-half of national output. Employment has been falling in agriculture, rising slightly in manufacturing and increasing most rapidly in services. The public sector has been absorbing much of the excess labor in the economy.

The importance of the secondary and terciary sectors in terms of employment, value added to GNP, and tax collections has caused the GOU to emphasize policies and programs exceedingly beneficial toward these sectors to the detriment of the agricultural sector, notwithstanding the fact that the agricultural sector contributes 90% of the exportable surplus in the economy. The GOU lacks basic analysis of the structure of interrelationships between these sectors which would permit policies adequate to meet partly its objectives in each sector without placing undue burdens on one or the other.

For example in the exchange rate policies made by GOU from mid 1970 to the present, the GOU attempted to keep the cost of importing down through the use of an overvalued exchange rate, neglecting apparently the implications for export incentives of traditional exports. Moreover, when the disincentive aspects of these policies was clearly recognized, the GOU attempted to handle the problem by exonerating exporters from the payment of export taxes while the GOU was running substantial fiscal deficits.

Although this project does not aim to change the attitudinal orientation of Uruguayans towards subsidization of consumers and importers, or other value judgements, it does aim at making clearer to the decision-maker the cost of such policies to the economy in general and to particular sectors. These policies plus uncertainties concerning future policies appear to have been detrimental to investment incentives in the agricultural sector.

Thus, this program is oriented at improving policy management through the introduction of better and/or new analytical tools which could provide the planning agencies with the necessary arguments to convince and to educate the political decision-makers to the costs and benefits of particular policies, as well as analyzing the structural interrelationships of the economy which would provide better information as to its operation.

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The Office of Programming and Policy (OPPA) of the Ministry of Livestock and Agriculture has the responsibility for agricultural policy, the administration of external assistance programs, technical assistance and training of personnel of the Ministry of Livestock and Agriculture, and coordination of the programs and budgets, plus evaluation of projects of this Ministry.

OPPA was created by Executive decree on 1965 to establish a high level office for the development and coordination of those programs and policies pertaining to agriculture at a national level. This organization was designed to act as the principal advisor to the Minister of Livestock and Agriculture in the above areas. OPPA is divided into six functional activities, which are :(1)Administration and coordination, (2) formulation of medium and short-term agricultural plans, (3) design of agricultural policies, (4) coordination of activities of the various departments of the Ministry, (5) budget preparation for the Ministry, and (6) evaluation of projects relating to agriculture.

The USAID has been working with the National Office of Planning, and OPPA, which have now requested assistance to help develop and operate a short-term economic model or models for the agricultural sector. These models would serve as evidential basis for policy recommendations to the respective executive heads on problems connected with investment and production in the agricultural sector. At present there are six Uruguayan technicians developing a model which could relate prices for agricultural commodities to output, technological level, investment incentives, etc. This technical team needs assistance in understanding the statistical problems in developing economic models as well as assistance from an experienced model builder who could identify and clarify the pitfalls incompassed in such a model. Moreover, the Uruguayan team needs assistance in interpreting the results of these models and converting these results into meaningful policy recommendations.

The approach to making this assistance effective as it is now visualized would be for the technicians provided by this activity to first, review, assemble and compile the data necessary to begin the construction of models for the agricultural sector. This would be followed by the actual construction and operation of such model. Once the utility of the general model is demonstrated, the emphasis will shift to the identification of some of the specific commodity areas in agriculture, such as : beef, milk, wheat, wool, etc., and the construction of micro-models for a limited number of these specific commodities. It is expected that the operation of both the macro and the micro models will provide a clearer understanding of the functioning of the economy so that sound policy alternatives and/or recommendations can be offered to the decision-makers.

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The contract consultants made available by this activity will spend the last portion of their time giving additional training to the Uruguayan team assisting them in developing policy alternatives based upon information gained through the use of these models. When the activities outlined above are successfully completed, a permanent capability should remain that will enable the continued use of practical and theoretical constructs necessary to develop policy issues for the GOU decision-making apparatus which are soundly based on empirical evidence.

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Course of Action

a) Implementation Plan

FY 1972 :

(a) Finalize the contractual arrangements with a U. S. University for the provision of technical assistance.

(b) Begin long-term training in planning and economic model building of two participants selected from OPPA and OPP personnel.

FY 1973 :

(a) Mobilize the one long-term and two short-term contract technicians. The two short-term technicians will be on board approximately two months. These three technicians will identify data and information requirements, plus possible sources of this information necessary for : (1) thepreparation and analysis of a multisector model, (2) a model of the agricultural sector as related to other sectors, and (3) an analysis of the relationships of output, exports, imports, savings, investment, prices, and GOU tax and trade policies.

(b) Develop an organizational structure and staffing requirements which will permit the continuation of economic analysis as outlined above.

(c) Identify, process and send two Uruguayan technicians for participant training in economic analysis and the construction and use of predictive economic models.

FY 1974

(a) The two short-term technicians will return to Uruguay and together with the long-term technician will : (1) develop policy recommendations based upon the information and analysis produced by the economic models constructed, and (2) report recommendations relative to continuing this activity for the purpose of providing policy decision alternatives to decision makers.

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