

PROJECT STATEMENT

Date February 7, 1972

A. PROJECT SUMMARY

1. Statistical

Project Title: Agricultural Diversification and Trade (Philippines)

Status: New Project, Second Phase

Contractor: USDA Economic Research Service

Principal Investigators: L. J. Atkinson, D. Kunkel

Duration: January 1, 1972 to December 31, 1974

Total Estimated Cost: \$303,423

Funding by Fiscal Year:	1972	\$ 49,879	
	1973	100,162	
	1974	99,841	
	1975	53,541	= 1/2 FY 71
			23 023

Project Manager: L. Witt, TA/AGR

2. Narrative

This is one of three projects on the same problem presented to RAC in April 1971 and funded for planning. This one will concentrate on the Philippines; the other two will deal with selected countries of Latin America and with Thailand. The projects will assemble and analyze data and provide information for policy makers on agricultural production and marketing alternatives at farm, regional, national and international levels as changes in production techniques, supply response, and prices force new patterns of crops and livestock production. They will also yield information on broad relationships and analytical procedures and methodologies useful to any LDC faced with abrupt changes in production technology.

Agricultural diversification (as explained in the initial project proposal) is being sought by many LDCs for several reasons, including (1) finding alternative uses for land resources devoted to food grain production as self-sufficiency needs are met and exceeded, (2) creating higher incomes, for farmers as they use their land more intensively, (3) seeking to produce agricultural commodities which in the aggregate better meet the tastes, demands and needs of their people, and (4) producing more products for international markets and earning larger and more secure foreign exchange income.

The study is being done in four phases, starting with an appraisal of present information and ending with analyses of policy alternatives, and involve close collaboration of USDA economists and economists of the Philippine Bureau of Agricultural Economics and Philippine College of Agriculture.

B. Expanded Narrative Statement

1. Project Description and Background

In many of the more advanced LDCs, key decision makers in agriculture now are faced with the need to choose among policies and programs to best adjust to the changes in production techniques, supplies, domestic or international demand which affect farm prices and costs. They also face pressures from consumers and as reflected in views of other ministries. They have a political will to make logical choices among the best alternatives but have inadequate information upon which to make these choices; hence postpone or fail to make decisions.

Several existing or proposed projects seek to fill this gap, e.g., simulation or large scale linear programming models, forms of agricultural sector analyses, and these are appropriate to fairly comprehensive, broad evaluations. However, in some LDCs the problems are much more focused around one or a narrowly circumscribed set of issues. Under such circumstances, an in-depth subsector analysis may be more appropriate. At the same time, properly organized; the subsector analysis will contribute data inputs and relationships to a complete sector analysis.

This project was one of three financed for planning so that the U.S. and host country professionals could jointly develop a work plan and division of labor. The other two, to be submitted later, are for North Carolina State with selected countries of Latin America; and for the East-West Center in Thailand.

These three subsector analyses focus on diversification and trade alternatives. Each will take an approach adjusted to the data base, the choices

to be examined, and the relative emphasis on the micro and macro aspects of the problem. At the same time, each project will have elements in common - the development of position papers for the decision-maker, the analysis of export market prospects, the need for commodity transportation costs, the specification and analysis of changes in the production function, and a goal to demonstrate how the methodology used can contribute to an improved basis for decision making. To strengthen the several projects, avoid duplication, and to facilitate the expansion of this work to other countries, periodic research workshops are planned to involve Contractor personnel, the LDC research leaders from the three projects, and selected LDC personnel in other countries for whom these problems and this approach may be appropriate.

Although this project provides intensive work in the Philippines with immediate and obvious usefulness to the country, it has two important aspects of significance on a worldwide basis. One is to develop sub-sector analysis techniques that are more efficient than those presently available to the governments of LDCs. Through the simulation project and others of a similar nature, fairly reliable analytical techniques are becoming available. At present, however, they are expensive in money resources and require heavy inputs of a type of manpower in short supply in most of the world. These three projects should indicate more efficient ways for governments to analyze critical problems and policy activities.

The second aspect of significance on a worldwide basis is the specific data and interpretations on how an LDC agricultural economy responds to production innovations and market opportunities. This becomes an input into analyses of the consequences of trade policy changes, and can be fed into revisions and interpretations of such world models as the FAO Indicative World Plan.

This specific project has been jointly planned by the Bureau of Agricultural Economics, Manila, (BAE) the College of Agriculture, University of the Philippines, Los Banos, (UPCA) and the Economic Research Service, U.S.D.A. (ERS). Attachments 1 and 2 lay out the work plan, and the research methodology to be used. Resources will be provided by agencies of the Philippine Government, the USAID Mission, Manila, and AID/W allotments to the ERS.

The first major purpose of the project is to develop data and analysis to policy makers on realistic agricultural production and marketing alternatives at farm, regional, national and international levels as production techniques, supply and price changes force consideration of new patterns of crops and livestock production. The research group will exploit existent research findings, on-going research, and develop new information as needed.

The second major purpose is to enhance the research capacity in the Department of Agriculture and Natural Resources and in the University of the Philippines College of Agriculture and to strengthen the mechanisms for continuous analysis and reevaluation of opportunities and alternatives as production and market conditions change.

Recent technological breakthroughs have made possible a substantial increase in food grain production in a number of countries. Additional

improvements in farm practises are occurring in many countries as further technical innovations are created. In still others increasing domestic consumption is reducing farm exports despite a continuing need for foreign exchange. These developments coupled with the limited international markets for food grains stimulate a greater concern with the diversification of agriculture, that is to identify other farm production possibilities which can maintain and enhance farm income and employment, utilize domestic market opportunities and provide alternative and more promising sources of foreign exchange, thus using and intensifying the use of some of the resources now devoted to food grains. In some countries the need is for rigorous objective data which will identify for policy makers the available options for the resources now or likely to become surplus in grain production, or to exploit agricultural resources more fully to create new streams of income and foreign exchange.

Philippine decision makers, in considering diversification alternatives, require information on farm production possibilities, farm incomes, income and employment consequences of technological change, as well as on interregional competition, regional integration, and likely changes in trade patterns and prices. Adequate supply analysis requires far more specific data on farm level alternatives than is presently available, including how likely new farm practises will change the nature of the farm production response. Also, the existence of sensitive issues in the allocation of resources and direction of policy and programs requires that decision makers have available rigorous, objective analyses by host country colleagues appraising the consequences of alternative uses of research, agricultural and financial resources. Thus, the strengthening of host country analytical capacity in the area is vital.

The research plan provides for short and intermediate term reports which will help policy makers to improve their decision making process. Final products will result after interim reports have been evaluated and revised.

2. Significance to AID Objectives

This project will forge linkages among the Philippine Bureau of Agricultural Economics, the Agricultural College of the University, and the Economic Research Service of the U.S. Department of Agriculture. It will assist Philippine professionals in drawing on research information for position papers on important policy alternatives. And they will do this on important and significant problems facing the host country, the AID Mission, and the U. S. generally. It will be congruent with new AID objectives to strengthen host country capacities to analyze alternatives and assess priorities in relation to important agricultural development issues.

This project will contribute to AID objectives by assisting developing countries in formulating and implementing agricultural development strategies and policies in view of changing production, market and trade opportunities. Information has not been available to develop and appraise farm production programs in an international context. Present programs are largely developed by considering individual countries as separate entities. This project will analyze diversification options and production potentials in the Philippines and evaluate these potentials in a trade and development context. Thus, policy makers will be able to evaluate policies and programs after considering internal production possibilities and the production and trade prospects of other countries. Developing economic intelligence of this nature is essential if country planners and AID advisors are to effectively develop programs and strategies.

Thus, this project (and the other two) will develop and demonstrate the procedures by which an LDC can assess the choices available and make more logical and integrated political decisions among these alternatives.

3. Relation to Existing Knowledge

The first phase of this project, and even the planning activity, draws heavily upon research already completed or underway. Much emphasis is being placed on bringing all this information together in such a way that the informational gaps become obvious, and plans can be devised to fill these gaps through new research.

Not only in the Philippines but generally there is considerable information currently available relevant to this topic, but this information must be compiled and analyzed in a uniform and systematic manner. A great need exists for detailed farm level data on physical production costs and possibilities. The availability of relevant data depends to a large extent upon the particular country and commodities being considered. It is expected that this research in the Philippines will lead the way towards much more relevant country studies than have been done in the past. A series of such country studies, for example, would make the FAO's Indicative World Plan a far more useful document. To date such overall approaches have seldom been able to draw on micro economic agricultural data, and in consequence are unable to provide rigorously defined policy options.

4. Relation to Other Research

Within the Philippines the project will draw heavily on relevant on-going research. It will seek to avoid duplication and overlay wherever possible,

and it has a broad based advisory committee to insure that this policy is enforced.

The analysis of trade prospects will draw on previous ERS research on world demand prospects for wheat, rice, feed grains, all grains, oil seeds, cotton, bananas and beverage crops, along with data on recent changes in conditions of trade. It will be necessary also to draw on current studies of trade problems, barriers to trade etc., because of the current very dynamic situation on trade policy. The research at Williams College will be particularly appropriate.

The other diversification projects (to be submitted later) will be coordinated with this project, first through periodic meetings in Washington of the project leaders, and second through an annual workshop-seminar which will bring together host country leaders, contractors, and selected outside research workers with a substantial interest in these issues, some of whom may become collaborators in later future projects, and others who may be doing similar work financed through other sources. On some occasions other international agencies - Asian Development Bank, IBRD, Economic Commission for Asia and the Far East, FAO or Foundations may be invited to participate.

Finally, this research will draw on international centers, particularly IRRI, and other sources of technological innovations and practises which may change production functions and supply responses, so as to incorporate dynamic elements into the research.

5. Proposed Work Plan

The work plan has been developed jointly with the cooperating institutions in the Philippines. Planned activities have been divided into four major phases over a project period of 36 months, as follows:

Phase 1. Intensive study and evaluation of existing data, analyses and programs. Three months. This evaluation will focus on six problems areas:

Farm surveys

Experience and planned programs on crop diversification

Identification of homogeneous, agro-economic regions

Supply response studies

Demand and market studies

By the end of this period this review will have provided a sound basis for determining the priority needs for additional research or data collection.

Phase 2. Evaluation of initial studies, establishing special research projects and preliminary macro-analysis. Nine months. A research workshop will be organized to advise the coordinators as they complete Phase 1 and begin Phase 2. Priority research responsibilities will be assigned. These will include micro-economic studies of representative farms, supply response, demand and market studies. It will also include updating of some existing studies. Material gathered in Phase 1 and other current material, such as the revised 4 year plan will be used to develop a preliminary macro-analysis, or "first approximation" answers to current policy issues.

Phase 3. Completion of regional micro-economic and industry studies, preliminary draft of final macro-economic analysis, and initiation of analysis of trade prospects.

One year. This phase will also examine linkages relating agriculture to the input industries, to marketing and processing activities, and to the demand side of the national economy.

Phase 4. Preparation of intermediate and final reports for circulation and review; revision and publication of the final report.

This research is designed to:

1. Capitalize on existing research work and data to provide first approximation answers at intervals throughout the study to maximize its utility to decision makers.
2. Undertake new activities only after careful appraisal of existing work.
3. Integrate its activities with those presently underway in the Philippines.
4. Generate real cooperation among the participating institutions and contributed to their problem solving ability.
5. Make the several micro-economic analyses reflect specific geographical conditions, and thus provide the "intensive studies" called for in the revised 4 year plan for agriculture, needed to generate "conclusive evidence" that recommended production changes are in fact profitable alternatives.
6. Generate both finished research, but also approaches and mechanisms within the cooperating Philippine institutions to continue research after this project is completed.

6. Research Methodology

The joint discussions in the Philippines brought much definition to the work plan and to a prospective division of labor. In each of several areas a number of studies were identified as typical of what should be done. It was agreed that a first task will be to review the accomplishments in detail, make a firm selection of the special studies to be made and the methodologies that would be used. The research workshops at the end of Phase 1 will contribute to this process.

Meanwhile, the ERS has prepared a supplement to the work plan and a bibliography (made available to the RAC sub-committee) which identifies methodology thought to be suitable, and most likely to be used, with necessary modifications to be worked out with Philippine colleagues.

The intent is to select from standard analytical methodologies and adapt them to the time and data constraints of the situation.

7. Researcher Competence

The ERS has much experience in drawing on a variety of research results for the preparation of macro - agricultural studies and the preparation of position papers bearing on policy decisions that administrators must make. At the same time they have maintained an objective, professional detachment from the policy positions subsequently taken. This experience is particularly relevant for the institution building - research competence function, important for the Philippines Bureau of Agricultural Economics.

The two men that ERS placed in the Philippines in June-July 1971 were well accepted and worked effectively as members of the planning committee that developed the workplan (attachment 1). One member of the proposed ERS team conducted the ERS study on Colombia, one of seven countries whose agricultural progress was studied under AID contract. Reports from the Director of the Bureau of Agricultural Economics and from the mission make it clear that the ERS inputs were welcome, that the personnel were well accepted, and that an appropriate working relationship was inaugurated. See attached letter.

8. Contribution to Institution Building

The GOP recognizes the importance of creating the research capacity contemplated in this project. They are making by far the largest contribution in personnel, between 12-20 man years annually to the U.S. 2 plus. The major Philippine leadership have Ph.D.'s, foreign training, and research experience. The proposed budget allocation clearly creates the financial base for the research capacity. What remains is to upgrade the participants in team research and the preparation of policy papers. It is clearly expected that this capacity will be maintained and utilized in the Philippines after the project has been completed.

9. Utilization Plans

Much of the utilization will occur through major interaction with host country decision makers and through host country colleagues, with U.S. personnel playing a minor role. A series of reports will be prepared at strategic intervals, when policy decisions are due, as internal documents for decision makers and utilizing the best evidence then available. These probably will be for limited circulation.

In addition to the host country utilization, ID is concerned that the uses of this kind of research collaboration and network of relationships be considered in other countries, and by decision makers who are concerned in having a flow of policy related information coming to them. For this reason it is planned to have a series of research seminars, probably one each by each of the three contractors, while the work is going on, to include a variety of LDC senior researchers and administrators.

In addition to the position papers discussed above, there will be published reports at the end of each phase of the work plan. These will be available for use both within the country and by research workers and development organizations in other countries.

These reports will provide up-to-date and comprehensive understandings of the interplay of internal and international economic forces. Thus they will supply basic data and analysis inputs into IBRD, FAO, USAID, Asia Development Bank, and government agencies. They will document the policy related papers and provide a broader understanding of the various diversification and development issues.

10. Budget Analysis

The project budget as shown on the next page is for the original project proposal developed in Manila. The USAID/Manila input is shown in items 4a and 5b. The AID Mission also will provide training fellowships outside of this budget. The AID/W support is in addition to these figures and are shown separately as Table 2.

The budget in Table 1 has since been slightly modified for the first year, first by adding in the salaries and other contributions of the BAE and UPCA, and second by deducting the contingencies item, since the National Research Development Board on October 28, 1971 stated that it would make the additional allocation if needed. The budget for the first year was approved in late January by the Chairman of the Board.

In Table 2 the FY budgets were prepared on the assumption of a January 1, 1972 start. Thus scheduled fiscal year allocations need to be shifted slightly. Also figures need to be adjusted upward for the January 1 salary adjustments of government workers. The ERS budget is developed on the basis of TDY assignments. It is hoped that personnel ceilings will not be a problem in 1973, and make some budget changes possible.

These two tables need to be put together to show the total inputs; however this is done in terms of man years rather than salaries. Two categories are listed.

Professional inputs including graduate students.

	<u>First year</u>	<u>Second year</u>	<u>Third year</u>
Philippines	13.5 man years	20 man years	10 man years
ERS	2.2	2.5	3
Aids, Clerks & interviewers			
Philippines	23	38	25
ERS	<u>0.4</u>	<u>0.35</u>	<u>0.5</u>
Total	39.1	60.85	38.5

Table 1

BUDGETARY REQUIREMENTS, BY YEAR
(in pesos)

I T E M	: 1st Year : : (Phase 1 : : & 2) :	: 2nd Year : : (Phase 3) :	: 3rd Year : : (Phase 4) :	: Total :
1. <u>Salaries and wages a/</u>	<u>169,000</u>	<u>255,000</u>	<u>130,000</u>	<u>554,000</u>
a. Project researchers	74,250	108,000	54,000	236,250
b. Research aides	34,650	50,400	25,200	110,250
c. Casual clerks	31,500	45,000	27,000	103,500
d. Emergency interviewers	19,600	39,600	14,800	74,000
e. Honoraria	9,000	12,000	9,000	30,000
2. <u>Travel expenses</u>	<u>25,000</u>	<u>50,000</u>	<u>10,000</u>	<u>85,000</u>
a. Project staff	10,000	20,000	5,000	35,000
b. Field supervisors	15,000	30,000	5,000	50,000
3. <u>Supplies and materials</u>	<u>10,000</u>	<u>25,000</u>	<u>15,000</u>	<u>50,000</u>
4. <u>Contractual services</u>	<u>75,000</u>	<u>150,000</u>	<u>75,000</u>	<u>300,000</u>
a. Local consultants	40,000	80,000	15,000	135,000
b. Data processing	10,000	30,000	20,000	60,000
c. Other services b/	25,000	40,000	40,000	105,000
5. <u>Equipment outlay c/</u>	<u>239,900</u>	<u>95,500</u>	-	<u>335,400</u>
a. Local procurement	43,600	8,000	-	51,600
b. Foreign assistance	196,300	87,500	-	283,800
6. <u>Contingencies</u> 10% of total	<u>57,700</u>	<u>63,900</u>	<u>25,600</u>	<u>147,200</u>
T O T A L -	<u>576,600</u>	<u>639,400</u>	<u>255,600</u>	<u>1,471,600</u>

a/ Excluding salaries of technical personnel from respective cooperating agencies (see Appendix D for details); consultant services included under item 4.

b/ Includes rental for office space and publication of reports.

c/ See Appendices E₁ and E for details.

Table 2

Budget for Economic Research Service
Project in the Philippines
(budget by project years)

<u>Year 1</u>		<u>Year 2</u>		<u>Year 3</u>	
FY72	\$49,879	FY73	\$50,081	FY74	\$49,921
FY73	50,081	FY74	49,920	FY75	53,541

Budget by items by fiscal years

	<u>FY72</u>	<u>FY73</u>	<u>FY74</u>	<u>FY75</u>
Salaries & allowances	\$27,099	\$51,373	\$55,955	\$36,681
Travel	9,774	19,724	22,863	9,876
Data processing	1,500	6,000	8,000	
Workshop	5,000	10,000		
Overhead (15%)	6,506	13,065	13,023	6,984
	<u>\$49,879</u>	<u>\$100,162</u>	<u>\$99,841</u>	<u>\$53,541</u>

Total \$303,423

11. Internal and External Reviews

The original project was developed in close association with the EA Bureau. The writing of the workplan and other activities included much interaction with USAID/Manila, and several debriefing meetings, upon returning to Washington. On several occasions, at least as early as January 1971 SEADAG Seminar, the Undersecretary of Agriculture has emphasized the great importance he gives to information on diversification alternatives.

In short, the project has been worked out with extensive discussions with the Mission, the BAE and UPCA, and interaction with the then EA Bureau in Washington.

Frank Sheppard, AID/Manila, visited with Secretary of Agriculture, Arturo Tanco, about both the professional quality and possible political consequences of a relationship with ERS. This was well in advance of the project development. The Secretary made a strong positive statement welcoming the relationship. Attached are two letters from the Director of the Bureau of Agricultural Economics defining the role of the ERS collaborators as advisors.

This project was reviewed at length by RIGC and RAC in March and April 1971. Part of the discussion was concerned with the size of the task compared with the resources requested, and the absence of a firm methodology. The answers given were that additional resources would be expected from the Philippines; and that to be truly cooperative the workplan and methodology had to be developed jointly in the Philippines. The RAC decision was to fund the planning activity, and review the project as developed through this process. The project presented here is the result of that process. It was discussed at a

RIGC meeting on December 3rd, and forwarded to RAC with the specification that two additional statements be prepared. One is a review of the status of the other two projects on Diversification and Trade. The other is on anticipated ways in which progress on and the results of this work will be brought to the attention of other interested parties.

These statements are provided separately.

12. Proposing Office General Evaluation

This office considers this as a demonstration-model-test of some of the new approaches of AID. An important problem was identified, a prospective contractor planned an applied research project jointly with the host country counterpart organization, personnel and financing are assembled on a bilateral basis. To demonstrate and test the efficacy of this approach is an important aspect of a central research project, if such activities are to become part of specific country programming in the future. In addition, this research is innovative in the sense that it attempts to go from general principles about diversification to specific and meaningful data analysis and the definition of realistic policy options.

CABLES - FROM - MANILA

April 1971

Upchurch met key agency officials and found enthusiastic response to proposal and willingness to fund Philippine Government participation. Tentative plans made for ERS join Philippine Bureau of Agricultural Economics (BAE) and University of the Philippines College of Agriculture (UPCA) in cooperative project as management team. These plans informally approved by Undersecretary Agriculture Drilon; Paulino, Director BAE; Dean Orillo and Ilag, UPCA; acting Director National Economic Council, and USAID/P.

Suggest USDA-ERS planning team arrive mid-May to complete operational plans including budgets. Provide ETA.

August 1971

Mission anxious that project start as soon as GOP confirm their funding.

October 1971

Project approved by National Science Development Board staff now awaiting board approval. Absence of Chairman Median caused postponement of regular October meeting.

January 21, 1972

NSDB approved Agricultural Diversification Study during January 18 Board Meeting. Except commence local work early in February after scheduled February 1 formal signing of memorandum confirming inputs of various concerned agencies. Request confirmation TAB support outline in work plan to permit USAID/P signature.

REPUBLIKA NG PILIPINAS
KAGAWARAN NG PAGSASAKA AT LIKAS NA KAYAMANAN
KAWANIHAN NG EKONOMIYA SA PAGSASAKA
(BUREAU OF AGRICULTURAL ECONOMICS)
CASMAN BLDG., QUEZON BOULEVARD EXT.
LUNGSOD NG QUEZON

November 5, 1971

Dr. Lawrence W. Witt
Senior Economist
Agricultural Economics
and Sector Planning Division
Office of Agriculture and Fisheries
Bureau of Technical Assistance
Washington, D. C. , USA

Dear Larry:

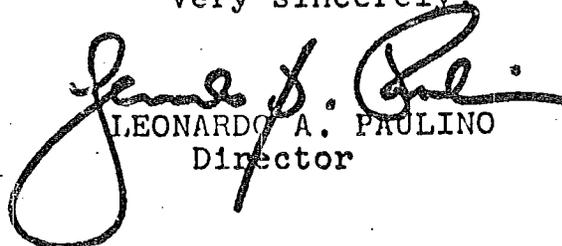
In connection with our conversation this morning regarding the consultative arrangements between the Philippine Government and the United States Government, we would like to inform you formally that it is the policy of the National Science Development Board, the research-financing agency in the country, and the Bureau of Agricultural Economics as the proponent on the Philippine Government side in the matter of the Agricultural Diversification and Markets Project, that whenever local consultants are available on any specific area of this research, we shall attempt to acquire their services, as a matter of priority. In any case where special assistance will be required on methodologies, and no Filipino consultant is available, then we shall request for a specialist from your country on a short-term basis.

In the matter of ERS participation in the project, we would like to state categorically that Dr. L. Jay Atkinson's services would be completely acceptable to us.

As a Philippine research project, in no case shall the work be under the direction of other than Filipino counterparts, which is to say that any consultant shall serve in an advisory capacity.

We hope you will find this arrangement acceptable.
Thank you.

Very sincerely,


LEONARDO A. PAULINO
Director

REPUBLIKA NG PILIPINAS
KAGAWARAN NG PAGSASAKA AT LIKAS NA KAYAMANAN
KAWANIHAN NG EKONOMIYA SA PAGSASAKA
(BUREAU OF AGRICULTURAL ECONOMICS)
CASMAN BLDG., QUEZON BOULEVARD EXT.
LUNGSOD NG QUEZON

NOV 5 1971

October 27, 1971

Dr. L. Jay Atkinson
Chief, Economic Development Branch
Foreign Development and Trade Division
USDA-ERS
Washington, D.C. 20250

Dear Jay,

We have the two drafts which you sent and the Williamson article, too. Thank you.

Regarding the methodological statement, Jess and I are quite receptive to the idea of utilizing more advanced techniques. Unfortunately, we may not yet have the capability in men and materials, and we do not know how others in the Philippine Government would react to, for instance, a simulations model.

On the whole, we think that the proper methodologies to employ will have to be determined here when you will come. But before all of these, I would prefer that even before initiating Phase I, we should hold sessions with consultants and yourselves, and with whomever else will be directly or indirectly involved in Project ADAM. The sessions will be for the main purpose of mapping out the strategies for Phase I, in detail.

We attended a meeting at the National Science Development Board the other day, together with Frank Sheppard and Pete Sandoval of UPCA. The meeting was requested by NSDB to discuss the proposed project's budget.

We were informed that the NSDB Governing Board had approved the project in principle, that the Advisory Board had also given its okay. The meeting was the penultimate one before the next Board meeting to resolve any loose ends and thereby facilitate final and formal approval.

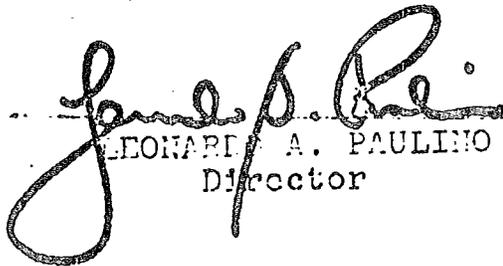
Frank, of course, stood four-square behind us assuring the NSDB of the fullest support from AID in regard to commodity assistance, consultancies, and travel grants for some researchers.

We anticipate that the project will get the stamp of approval before the middle of November, but that we may be able to initiate Phase I formally no earlier than a month thereafter, because the release of funds may not occur until then.

In the meantime, however, we shall start discussions with UPCA probably next week and start scouting for the research and clerical force we will need so that as soon as we get the green light, we can start without any further delays. How are things on your side?

Regards.

Sincerely yours,



LEONARD A. PAULINO
Director

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a.
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Dec. 12-13, 1974
RAC Meeting 115

October 3, 1974

RESEARCH PROJECT STATEMENT

1. Summary

Project Title: Agricultural Diversification and Trade - Asia

Time Period: July 1, 1975 - June 30, 1976

Estimated Cost: \$150,000

Principal Investigators: U.S. Department of Agriculture - Economic Research Services

Narrative

This statement is in support of a one year extension of the "Agricultural Diversification and Trade" project currently funded through June 30, 1975. The purpose is provide support for refinement and utilization of research completed during the first three (3) years of the project to include consideration of a wider range of agricultural policy alternatives than initially contemplated and their implications for developing a viable diversified agricultural sector in the Philippines. Interrogation of the analytical framework with a wide range of policy alternatives will provide for refinement of that framework in a manner consistent with the need for flexible analytical systems applicable to situations in other LDCs.

Agricultural diversification (as explained in the initial project proposal) is being sought by many LDCs for several reasons, including 1) finding alternative uses for land and labor resources as self-sufficiency needs are met and exceeded, 2) creating higher incomes for farmers as they use their resources more intensively, 3) seeking to produce agricultural commodities which in the aggregate meet the tastes, demands and needs of their people and 4) producing more products for international markets and earning larger and more secure foreign exchange income. The specific task here is to explore a wide range of agricultural policy alternatives and to evaluate their effectiveness in meeting the types of diversification objectives specified above.

Results of completed research in this and related projects provide the basis for effective testing and utilization of the research product. Procedures, accomplishments and findings of this and related activities will be disseminated to other interested groups via a formal seminar and related publications developed and presented jointly by the Philippine Bureau of Agricultural Economics, USDA and USAID.

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Matrix

2. Research Purpose and Expected Products

In many of the more advanced LDCs, key decision makers in agriculture now are faced with the need to choose among policies and programs to best adjust to the changes in production techniques, supplies, domestic or international demand which affect farm prices and costs. They also face pressures from consumers and others as reflected in views of other ministries. They have a political will to make logical choices among the best alternatives but have inadequate information upon which to make these choices; hence postpone or fail to make decisions.

Several existing or proposed projects seek to fill this gap, e.g., simulation or large scale linear programming models, forms of agricultural sector analyses, and these are appropriate to fairly comprehensive, broad evaluations. However, in some LDCs the problems are much more focused around one or a narrowly circumscribed set of issues. Under such circumstances, an indepth subsector analysis may be more appropriate. At the same time, properly organized, the subsector analysis will contribute data inputs and relationships to a complete sector analysis.

Although this project provides intensive work in the Philippines with immediate and obvious usefulness to the country, it has two important aspects of significance on a worldwide basis. One is to develop sub-sector analysis techniques that are more efficient than those presently available to the governments of LDCs. Through the simulation project and others of a similar nature, fairly reliable analytical techniques are becoming available. At present, however, they are expensive in money resources and require heavy inputs of a type of manpower in short supply in most of the world. This and related projects should indicate more efficient ways for governments to analyze critical problems and policy alternatives.

The second aspect of significance on a worldwide basis is the specific data and interpretations on how an LDC agricultural economy responds to production innovations and market opportunities. This becomes an input into analyses of the consequences of trade policy changes, and can be fed into revisions and interpretations of such world models as the FAO Indicative World Plan.

This specific project has been jointly planned by the Bureau of Agricultural Economics, Manila, (BAE) the College of Agriculture, University of the Philippines, Los Banos, (UPCA) And The Economic Research Service, U.S.D.A. (ERS). The work plan, and the research methodology to be used are presented in section seven below. Resources will be provided by agencies of the Philippine Government, the USAID Mission, Manila, and AID/W allocation to USDA-ERS.

The first major purpose of the original project was to develop data and analytical procedures useful to policy makers concerned with realistic agricultural production and marketing alternatives at farm, regional, national and international levels as production techniques, supply and price changes force consideration of new patterns of crops and livestock production. This purpose will be met by June 30, 1975 but numerous policy alternatives remain to be tested and evaluated before real utility of the analytical framework is realized.

The second major purpose is to enhance the research capacity in the Department of Agriculture and Natural Resources and in the University of the Philippines College of Agriculture and to strengthen the mechanisms for continuous analysis and reevaluation of opportunities and alternatives as production and market conditions change. Extension of the project through June 30, 1976 will provide the opportunity to expand this capacity beyond research conception and execution to implementation.

Elaboration of initial project purpose and products is contained in the original project statement of February 7, 1972 (copy attached).

3. Significance and Rationale

a. Relation to AID Objectives

This project will forge linkages among the Philippine Bureau of Agricultural Economics, the Agricultural College of the University, and the Economic Research Service of the U.S. Department of Agriculture. It will assist Philippine professionals in drawing on research information for position papers on important policy alternatives. And they will do this on important and significant problems facing the host country, the AID Mission, and the U.S. generally. It will be congruent with AID objectives to strengthen host country capacities to analyze alternatives and assess priorities in relation to important agricultural development issues.

This project will contribute to AID objectives by assisting developing countries in formulating and implementing agricultural development strategies and policies in view of changing production, market and trade opportunities. Information has not been available to develop and appraise farm production programs in an international context. Present programs are largely developed by considering individual countries as separate entities. This project will analyze diversification options and production potentials in the Philippines and evaluate these potentials in a trade and development context. Thus, policy makers will be able to evaluate policies and programs after considering internal production possibilities and the production and trade prospects of other countries. Developing economic intelligence of this nature is essential if country planners and AID advisors are to effectively develop programs and strategies. This project will develop and demonstrate the procedures by which an LDC can assess the choices available and make more logical and integrated political decisions among these alternatives.

b. Relation to Existing Knowledge

The first phases of this project drew heavily on research already completed or underway. Considerable emphasis was placed on bringing all this information together in such way that data gaps were obvious and plans for filling these gaps could be developed and executed.

There is considerable information available on this topic in the Philippines and elsewhere. It has been compiled and analysed in a uniform and systematic manner during earlier phases of this project. The information generated from this extension of the project will improve the quality of data available for decision makers and also further refine the collection of primary data useful for policy analyses. The availability of relevant data depends to a large extent upon the country and commodities being considered. This research in the Philippines will lead the way toward much more relevant country studies than have been done in the past.

4. Plans for Research Linkage

Research undertaken during this last phase of the agricultural diversification and trade project and that completed during earlier phases is directly related to other projects of TAB. The results of the NCSU contract cds 3632 directly complement this research project by providing another test of appropriate methodology and an alternative production and marketing systems and related policies. Results of this project are also directly related to the farm income project of the USAID Philippines Mission. Mission personnel are developing plans to integrate procedures and findings of this project into on-going programs. There is continual dialogue and direct mutual participation in this project by AID/W, USDA-ERS, Philippines Department of Agriculture and Natural Resources, International Rice Research Institute, The World Bank, The Asian Development Bank and others. A workshop has been held on various issues of Agricultural Diversification and Trade with representatives of these organizations in attendance. A second seminar is planned to present the procedures and finding of this project to interested agencies and individuals from other LDCs. Details of this seminar are currently being planned by USAID Philippines, USAID/W, USDA-ERS and various agencies of the GOP.

5. Plans to Facilitate Utilization

Effective utilization of the products of this research depends upon the availability of adequately training personnel. The Philippines Department of Agriculture and Natural Resources, USAID/Philippines, AID/W and USDA have developed a plan for training participants in necessary skills. In addition, active involvement of participants in all phases of the project has been and will be diligently persued.

Much of the utilization will occur through major interaction with host country decision makers and through host country colleagues, with U.S. personnel playing a minor role. A series of reports will be prepared at strategic intervals, when policy decisions are due, as internal documents for decision makers and utilizing the best evidence then available. These probably will be for limited circulation.

In addition to the host country utilization, AID is concerned that the uses of this kind of research collaboration and network of relationships be considered in other countries, and by decision makers who are concerned in having a flow of policy related information coming to them. For this reason, it is planned to have additional research seminars, while the work is going on, to include a variety of LDC senior researchers and administrators.

In addition to the position papers discussed above, there will be published reports at the end of each phase of the work plan. These will be available for use both within the country and by research workers and development organizations in other countries.

6. Management Considerations

A. The Department of Agriculture and Natural Resources will continue to provide data collection, analysis, clerical and certain other support services. USAID/Philippines will provide consultant services as they are determined necessary, certain other support services and participate in development of the planned seminar on project results and use. USAID/W - TAB will provide support outlined in the attached preliminary budget.

B. Dr. Arlo Minden TAB will serve as project coordinator along with Dr. W. Faught USDA-ERS. Dr. Frank Sheppard USAID/Philippines and other mission staff will also participate in management responsibilities as will designated administrators of the Philippines Bureau of Agricultural Economic (BAE). Principle investigators will be Dr. David Kunkel USDA-ERS and Mr. Jess Alix Acting Director, BAE.

C. The original project was developed in close association with the EA Bureau. The writing of the workplan and other activities included much interaction with USAID/Manila, and several debriefing meetings, upon returning to Washington. On several occasions, at least as early as January 1971 SEADAG Seminar, the Undersecretary of Agriculture emphasized the great importance he gave to information on diversification alternatives.

In short, the original project was worked out with extensive discussions with the Mission, the BAE and UPCA, and interaction with the then EA Bureau in Washington as were the conditions of this proposed extension.

The original project was reviewed at length by RIGC and RAC in March and April 1971. Part of the discussion was concerned with the size of the task compared with the resources requested, and the absence of a firm methodology. The answers given were that additional resources would be expected from the Philippines; and that to be truly cooperative the workplan and methodology had to be developed jointly in the Philippines. The RAC decision was to fund the planning activity, and review the project as developed through this process. The project presented here is the result of that process. It was discussed at a RIGC meeting on December 3, and forwarded to RAC with the specification that two additional statements be prepared. One was a review of the status of the other two projects on Diversification and Trade. The other dealt with anticipated ways in which progress on and the results of this work would be brought to the attention of other interested parties. These statements were provided.

The original project was reviewed at length in February and June 1974. It was determined that good progress had been made to date but that numerous unanticipated problems i.e. high staff turn-over and significantly reduced rice production in the Philippines etc. had retarded progress. Initial review by RIGC and RAC in 1971 indicated concern for the size of the task and funding requested.

It was jointly determined in June of 1974 that original goals and objectives remained valid but additional professional inputs would be required to complete the original objectives and give adequate consideration to numerous additional policy alternatives which have been proposed since the project was initiated. That professional input is being provided currently by USDA-ERS consultants. The consultants report will be filed November 1974. Staffing and participant training has been scheduled to insure necessary professional capacity to utilize the research products on a continuing basis. The plan is presently being prepared by BAE, USAID/Manila, and USDA-ERS.

The project will be reviewed at regular intervals both on-site and in Washington based on published materials and reports and personal inspection. An evaluation will be conducted at the conclusion of the project.

7. Research Design, Methodology and Plans

The research design and methodology specified in the original project statement February 1972 remain valid for the period July 1, 1975 - June 30, 1976. Analytical procedures developed during the first phases of the project will be expanded where necessary to test their applicability to a variety of agricultural policy issues using several often conflicting objective functions. Ancillary computer software will be developed i.e. matrix generator, report writer, small scale simulation etc. to facilitate efficient day to day utilization of the research product.

The work plan for FY 75 included herein provides the rationale for the work plan FY 76 covered by this project statement.

A work plan for FY 1975 and 1976 is outlined below, together with the expected time schedule. A proposed budget for the PASA is presented following the work plan statement. In addition to one fulltime resident economist, the proposal provides for a total of 235 man-days for consultants.

Several of the problems (noted in the preceding section) have slowed progress and the present development of the project is several months behind the originally planned schedule. However, the solution of the problem of developing suitable land classification information and the improvement in staffing has permitted a substantial increase in the rate of development in recent months. The proposed schedule outlined below appears attainable.

July

- Incorporate recommendations of the review panel.
- Further develop the paper on problems to be analyzed with the programming model, limitations of analysis and identification of problem areas related to the project objectives which may require different approaches.
- Discuss and develop the proposal by Leo Gonzales for thesis integration with the programming model.

August

- Provide a draft outline of the final report to W. A. Faught (ERS).
- Begin a 6-week TDY of a consultant or consultants that has had experience in developing and using programming analysis in less developed nations to review model plans; to evaluate input data; to advise on model manipulation for specified policy options; to assist and appraise uses and limitations of the model for general policy analysis; and review the work plan.
- Complete the demand analysis and derive separable demand functions.
- Complete specification and begin a review by knowledgeable persons of productivity levels by commodity, by season, by land class, and by type of enterprise where relevant for base period analysis.
- Associate required inputs to obtain levels of putput specified.

September

- Provide TAB with an outline of the final report for review and approval.
- Complete estimation and collection of transfer costs and miscellaneous other data for the model.
- W. A. Faught (ERS-TDY) to discuss and review consultants recommendations. Plans should also be made at this time for subsequent visits of consultants.
- Luther Keller of University of Tennessee (TDY) to be involved with discussion of model direction and agreement on plans for integration of Leo Gonzales dissertation work into the model.
- Bring in local consultants to help develop needed analysis for investment activities in the model.

October

- Integration of suggestions made by consultants for model and completion of model specification. Develop revised work plan if required.
- Begin deriving projections and develop other analysis needed for 1980 period as well as intermediate periods if required.

November

- Complete coding and punching of data for base period analysis and initiate debugging.
- Obtain trail runs for base period runs.
- Specifications of work on model while D. E. Kunkel is on home leave.
- Complete draft write-up of demand analysis and projections.
- Complete draft write-up of historical supply response analysis.

January

- Complete assembly of 1980 data, code and punch.
- Training begins for four ADAM personnel.

February

- D. E. Kunkel 10 days in Washington for consultation with USDA and TAB on progress of the project; return to Manila around February 15.
- Complete the analysis of base period runs.

March

- Begin trial runs for 1980 period of specified policy options in working paper "A Programming Model of Philippine Agriculture" and pre-recommendation of consultant.
- Mid-March consultant returns for up to 4 weeks to review program development and help in completing necessary runs.

April-May

- Complete analysis of computer results, make additional runs as required and begin write up.

June

- Obtain services of a consultant to assess all work under Project ADAM and means of combining for simulation or other types of analysis in additional work areas.
- Develop plans for any additional analysis to be undertaken in FY 76.
- Complete draft write-up of results from programming model analysis to date.

July-August

Conference involving Philippine participants, consultants from USAID, and other interested parties to review results and develop recommendations for additional computer analysis in near future as well as longer run analyses needed.

October

- Complete additional computer analysis suggested at conference.

December

- Revised draft of report summarizing results of all research undertaken by all participants of project ADAM.

January 1 through June 30, 1976

Cooperate with Philippine colleagues in refining and modifying model and using it in analyses to appraise changing conditions or additional policy options; and to complete internalization process necessary to firmly establish use of approach in the Philippines. Report to AID incorporating major results from Project ADAM; appraisal of methodology; evaluation of institution-building achievements; and possible future utilization of approach in the Philippine and other less developed countries. Present seminar on procedures, results and utilization.

FORMAT FOR WORKPLAN/CONTRACT BUDGET AND LIFE-OF-PROJECT COST ESTIMATE

<u>INPUTS</u>	<u>First Two Fiscal Years</u>				<u>FY 1976</u>
	<u>Man</u> <u>Mos.</u>	<u>Est'd</u> <u>Cost</u>	<u>Man</u> <u>Mos.</u>	<u>Est'd</u> <u>Cost</u>	
1. Salaries	12	30,000**			
2. Consultants	6	24,000**			
3. Fringe Benefits		3,000**			
4. Overhead 25%		37,500**			
5. Travel and Trans.		23,000**			
6. Allowance		2,500**			
7. Other Dir. Costs					
8. Equip., Vehicles Materials & Supplies		25,000**			
9. Publications		1,000**			
10 Subcontracts					
11 Other Direct Costs		4,000**			
Total Costs by Inputs		150			150

**Illustrative

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