

PD-AAU-277

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AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES AID MISSION TO PERU

C/O AMERICAN EMBASSY

LIMA, 1 PERU

TELEPHONE: 286200

CABLE: USAID/LIMA

June 27, 1986

Eng. Carlos Amat y León
Director
Centro de Investigación
Universidad del Pacífico

Subject: CIUP - Model for measuring policy impacts on
Agricultural variables

Dear Eng. Amat y León:

Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, the Agency for International Development (hereinafter referred to as "A.I.D." or "Grantor") hereby grants to the Centro de Investigación, Universidad del Pacífico (hereinafter referred to as "CIUP" or "Grantee"), the amount of \$70,000 to support a research project to develop policy analysis and decision-making analytical tools that quantitatively predict impacts of alternative sector and macro policies on selected economic variables of the agricultural sector and of individual farm firms; as more fully described in Attachment 1, "Schedule" and Attachment 2, "Program Description".

This Grant is effective and obligation is made as of the date of this letter and shall apply to commitments made by the Grantee in furtherance of stated objectives during the period beginning with the effective date and ending June 30, 1987.

This Grant is made to CIUP on the condition that the funds will be administered in accordance with the terms and conditions as set forth in Attachment 1, "Schedule", Attachment 2, "Program Description", Attachment 3, "Mandatory Standard Provisions" for Non-US Non-governmental Grantees (AID Form 1420-53 (1-85))", and Attachment 4, "Optional Standard Provisions" for Non-US, Non-Governmental Grantees (AID Form 1420-54 (1-85))", which have been agreed to by your organization.

Please sign all six (6) copies of this letter to acknowledge your receipt of the Grant, and return five (5) copies to A.I.D.

Sincerely yours,

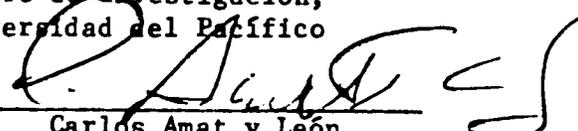

John A. Sanbrailo
Director

Attachments:

1. Schedule
2. Program Description
3. Mandatory Standard Provisions (AID-1420-53-1-85).
4. Optional Standard Provisions (AID-1420-54-1-85)
5. CIUP Proposal

ACKNOWLEDGED:

Centro de Investigación,
Universidad del Pacífico

By: 
Carlos Amat y León

Title: Director

Date: June 27, 1986

FISCAL DATA:

Appropriation	: 72-1161021
Budget Plan Code	: LDAA-86-25527-AG13
Project Number	: 527-0000
Total Estimated Amount	: \$70,000
Total Obligated Amount	: \$70,000
Funding Source	: USAID/Perú

SCHEDULEA. Purpose of Grant:

The purpose of this Grant is to support the Centro de Investigacion, Universidad del Pacifico (CIUP) in developing an analytical and evaluative system for formulating and selecting policies affecting the agricultural sector. In order to achieve this purpose, CIUP will do agricultural sector and firm level impact analyses, and adapt a currently functioning macro-economic model (known as SIMUL) to simulate impacts of selected policy variables related to economic, development, profitability and growth in the agricultural sector.

B. Period of the Grant:

1. The effective date of this Grant is the date of its signature. The expiration date of this Grant is June 30, 1987.

C. Amount of Grant and Payment

1. A.I.D. hereby obligates the amount of \$70,000 for purposes of this Grant.

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

D. Financial Plan

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

GRANT BUDGET
(12 months, US\$ Equivalent)

I. Personnel

a. Principal Researcher (US\$1500/month, 12 months)	US\$18,000
b. Assistants (4) (12 months each)	19,800
Sub-Total	<u>US\$37,800</u>

II. Field Work Services Contracts	15,000
III. Travel in Peru	5,000
IV. Automatic Data Processing Services	4,000
V. Office Supplies and Materials	1,200
VI. Secretarial Services	2,000
VII. General & Administrative Expenses	5,000
Sub Total (B)	<u>US\$32,200</u>

Grand Total (A) + (B)	US\$70,000 *****
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E. Reporting and Evaluation

1. Within fifteen (15) days of completion of the activities financed under the Grant (June 15, 1987), Grantee shall submit to USAID, five copies in Spanish of a detailed report of the research carried out and the conclusions and recommendations formulated.

2. Grantee shall provide written quarterly technical progress and work plan reports to the Office of Agriculture of USAID/Peru, followed by consultations with the project manager and AID Staff to mutually determine if modifications are needed to the work plan.

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

F. Special Provisions

1. Prior to disbursement of the initial advance under this agreement, USAID/OARD and CIUP will agree on specifications for the analytical scope and methodologies of the research.

2. The Optional Standard Provisions, Attachment 4 for Non-U.S. Non-Governmental Grantees/A.I.D. Form 1420-54 (1-85) apply as follows:

- 1, Payment-Periodic Advance;
- 3, Air Travel and Transportation;
- 4, Ocean Shipment of Goods;
- 5, Procurement of Goods and Services;
- 6, Ineligible and Restricted Goods and Services;
- 8, Local Cost Financing with U.S. Dollars;
- 20, Cost Sharing.

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PROGRAM DESCRIPTION

A. Purpose of Grant

The purpose of this Grant is to support the Centro de Investigacion, Universidad del Pacifico (CIUP) in developing an analytical and evaluative system for formulating and selecting policies affecting the agricultural sector. In order to achieve this purpose, CIUP will do agricultural sector and firm level impact analyses, and adapt a currently functioning macro-economic model (known as SIMUL) to simulate impacts of selected policy variables related to economic, development, profitability and growth in the agricultural sector.

B. Background

It generally is recognized that growth in the peruvian agricultural sector has stagnated for the past several years. Consequences are 1)high rural to urban population migrations, 2)inability of national agricultural production to supply urban demand with resulting rapid increases in imported foodstuffs, and 3)structural inflationary pressures.

One hypothesis for explaining why agricultural sector growth has stagnated is that agricultural profitability is significantly lower than that for urban economic activities, and this lower agricultural profitability is brought about largely by macro and sector level policies that result in rural-urban terms of trade that increase costs and/or reduce returns to agricultural activities.

The strategy underlying USAID/Peru's proposed agricultural development assistance program for 1987-1990 is premised on the hypothesis specified above. This premise is supported by some analytical evidence such as the Schuh Report (December, 1982), David Franklin Report (February, 1985), and the Missions' own analysis, and is confirmed by a comprehensive analysis undertaken in 1985 by CIUP to measure relative terms of trade trends over time and correlate them to specific policy interventions.

In order to pursue the USAID/Peru strategy and achieve a macro and sectoral policy structure that promotes more balanced rural-urban terms of trade, it is desirable to have available a functioning mechanism (or model) for policy analysis and formulation that can quantitatively measure positive and negative impacts of selected policy options on key determinants of agricultural profitability and investment levels. Such a model should be able to provide quantified information to policy formulators and decision-makers that responds to the following

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question: What macro-economic and sector policy package is required to create the economic conditions to 1) assure profitability to enterprises operating within the agricultural production, processing and marketing (PPM) system, 2) create the stability required for accelerated capitalization of that system, and 3) increase system productivity and competitiveness in both internal and external trade.

The model, appropriately supplemented by partial analyses, also should be able to provide information to enterprises operating in a given macro-economic and sectoral policy environment that will help such enterprises establish and implement business strategies that increase production and real returns to agricultural factors of production, recognizing the heterogeneity of the enterprise forms that exist in Peru in the agricultural PPM system, as well as the diversity of production ecologies. The follow-on research proposed by CIUP is expected to make a major contribution in responding to these questions.

C. Characteristics of the Study

This study will: 1) analyze impacts of selected policies on representative agricultural production and processing enterprises and, based on that analysis, project income optimization and output growth strategies at the firm level, and 2) adapt and expand an existing macro-economic model (known as SIMUL) to simulate selected economic impacts of policy alternatives, .

The study will include, but not be limited to, the following components:

1. With regard to firm level modelling:

a) select at least seven typical agricultural production firms representative of the following categories:

- medium size (20-50 has.) private commercial farms with flexibility to change cropping patterns.
- small private coastal size farms (less than 15 has)
- small private sierra farms (less than 5 crop hectares)
- coastal production cooperatives (other than sugar cooperatives)
- sierra SAIS
- sierra "comunidades campesinas"
- high jungle medium size private commercial farms

b) construct a firm model for the above listed types of agricultural production units, that will measure internal economic and financial relations and test the impact of a set of macro and sectoral policies (i.e. exchange rate, interest rate, controlled prices, subsidies, taxes, tariffs, salary policy, etc.) on key firm-level economic and financial performance variables such as profitability, savings, capitalization rates, cash flows, etc.

c) the firm-level models based on field data will be designed to permit simulations of alternative farm management strategies within a given economic policy environment.

d) CIUP will take steps to reach an agreement with ONA to carry out this work as a joint effort.

2. With regard to the up-dated (1985 data) SIMUL model, it will be expanded to:

- a) disaggregate the demand component by socioeconomic groups and include agricultural sectoral demand as an endogenous variable;
- b) disaggregate the investment and savings block to consider separately the agricultural sector components;
- c) disaggregate the monetary-financial block to permit evaluation of agricultural credit policies, including cost of capital as an instrumental variable;
- d) disaggregate the international trade block to include equations on major agricultural commodities, such as wheat, corn and on agricultural non-traditional exports;
- e) disaggregate the prices block so as to include separately the dynamics of local farm gate prices, consumer food prices, and imported food prices;
- f) disaggregate the employment block so as to include rural and agricultural employment;
- g) include the disaggregated Peruvian Government agricultural budget as an instrumental variable.

Advisory Peer Group

CIUP will establish a study advisory peer group for purposes of reviewing study progress and providing advice and suggestions concerning issues that arise in model adaptation and expansion, in the methodology for partial analyses, and in drawing conclusions from the study. This group will meet periodically at the request and under the chairmanship of the Study Director to discuss such issues as are presented by the Study Director.

Reports and Dissemination

CIUP will prepare periodic working papers for distribution to USAID, advisory peer group members, and other interested parties (such as the policy analysis group-GAPA, of the Agricultural Planning and Institutional Development project, the agro-economic staff of INIPA, MEF economic affairs office, etc.) A detailed final report of the research carried out, the conclusions reached, and the recommendations formulated, will be prepared at the end of the study. This final report will be widely publicized through normal CIUP channels.

CIUP also will take steps to make available to, and introduce into the policy analysis and formulation activities of the Ministry of Agriculture, Ministry of Economy and Finance, and/or INP, the SIMUL model and firm level analysis methodology. The objective will be to incorporate this model and analytical methodology into the on-going policy analysis and formulation process of the Ministry of Agriculture, and of the GOP in general, for macro and sector policies significantly impacting on the agricultural sector.

CIUP will use all means at its disposal, including Inter-Campus meetings, seminars, publications, personal briefings, etc. to seek to achieve this objective.

APAD:FMann/JMálaga:rov
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