

PDWAE 307

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

Marty F.

MEMORANDUM

February 2, 1982

TO: AA/S&T, Dr. J. Robins
FROM: S&T/N, M. J. Forman *Martin J. Forman*
SUBJECT: Inter-Bureau Advisory Committee on Consumption
Agricultural Policies

Since the beginning of our activities in this area an inter-bureau committee has provided overall policy guidance and has reviewed project progress. The attached minutes of the last meeting should give you an idea of the representation on this Committee and the issues it addresses.

With the creation of Sector Councils I have considered how this committee fits in. It performs a function that the Councils also address, but neither the Agriculture Council or the Nutrition Council could perform the functions of this Committee with their present membership. I therefore propose that we continue this specialized committee (it meets 2 or 3 times a year) and have its reports submitted to both the Agriculture and Nutrition Sector Council for their information and for any questions they may wish to raise or any action they may wish to take.

In this way, this project will still receive the attention of people chosen for their competence and interest in the specific subject matters and the Sector Councils will retain their functions of review and coordination.

Seems a reasonable resolution.
JSR

FEB 05 1982

FILE 931-1171

GENERAL

INTER-BUREAU ADVISORY COMMITTEE

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON 20540

MEMORANDUM

December 4, 1981

TO: See Distribution

FROM: S&T/N, Nicolaas Luyck *Nick Luyck*

SUBJECT: Minutes from September 30 Inter-Bureau Advisory Committee

The Minutes from the September 30, 1981 Inter-Bureau Advisory Committee are attached for your information. Also attached is a copy of the Honduras project evaluation report.

We plan to hold another meeting of the Inter-Bureau Advisory Committee early in January 1982. The Tanzania short-term policy impact evaluation will be completed by the end of January. The draft report will be reviewed with Tanzanian decision makers and policy analysts and planners during the second week of December. The study findings and the results of the in-country seminars will be discussed at our January meeting along with the results of the Honduras evaluation.

Attachments

DISTRIBUTION:

AFR/DR:D. Brown/K. Nurick
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S&T/RAD:D. Miller
S&T/PO:F. O'Quinn/A. Silver
USDA/OICD:R. van Haeften ✓

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MINUTES
INTER-BUREAU ADVISORY COMMITTEE
SEPTEMBER 30, 1981

The Inter-Bureau Advisory Committee met on September 30, 1981 to bring committee members up-to-date on the activities underway under the "Consumption Effects of Agricultural Policies (CEAP)" and "Subsidized Consumption" projects and to review the project paper for the second phase of the CEAP project. Representatives attending included: Emmy Simmons (PPC/PDPR), Felipe Manteiga and David Jessee (LAC/DR), Karen Nurick, Wendell McMillian and Bob Adams (AFR/DR) Dick Suttor (S&T/AGR), Duncan Miller (S&T/RAD), Art Silver (S&T/PO), Nick Luykx (S&T/N), Roberta van Haeften, Gary Smith, Charlotte Miller and Patricia Rader (Nutrition Economics Group). Martin Forman (S&T/N) chaired the meeting.

Subsidized Consumption Project - Egypt

Martin Forman and Roberta van Haeften reported to committee members on the current status of the Egypt study. The contractor, the International Food Policy Research Institute (IFPRI) had just finished task 1 and submitted to AID a draft of its report -- "Egypt's Food Subsidy and Rationing System: A Description." Committee members were reminded of the IFPRI seminar scheduled for Monday, October 5 and were asked to indicate whether they wanted copies of the draft report. According to van Haeften, the questionnaire for the household survey was in the final design stage and the survey was scheduled to begin late fall.

Felipe Manteiga asked about the relationship between the contractor and the Government of Egypt, and indicated his belief in the necessity of close communications between the contractor and the Government during the life time of the study if it is to have maximum impact. van Haeften indicated some of the people in the Government with whom close ties have been developed. USAID/Cairo is also very supportive of the project having contributed LE 60,000 to cover some of IFPRI's in-country costs. Floyd O'Quinn asked whether S&T/N planned to subject the IFPRI reports to some type of technical review prior to final publication and submission to the Government. Forman indicated that several types of reviews were planned.

Forman asked committee members whether they thought it would be useful to prepare a brief review of public food distribution programs in developing countries which countries have such programs, what type they are, who they reach, how much they cost, how much information is available on them, whether they have been evaluated, etc. Some concern was expressed about the advisability of identifying countries with subsidy programs given the current anti-subsidy sentiment without at the same time providing information on the costs and benefits of such programs. The Subsidized Consumption project paper, as it was also noted, already contains a brief listing of countries and types of programs. van Haeften reported on the numerous requests from USAIDs for information on food stamp programs (how to design, implement and administer them) and suggested that it might be useful to undertake a more formal review of various countries' experiences with these type programs. Forman suggested that the Nutrition Economics RSA organize a small group, including Emmy Simmons and Floyd O'Quinn, to review his suggestion and recommend how best to proceed.

CEAP - Short-Term Policy Impact Evaluations

van Haeften gave a brief summary of the current status of the short-term policy impact evaluations in Latin America and Africa. Three contractors were selected in

September 1980 to undertake the six studies: The Center for Research on Economic Development (CRED) was contracted to do the studies in Cameroon and Senegal, Research Triangle Institute (RTI) was contracted to do the studies in Sudan, Tanzania, and Panama (originally Botswana); and Development Assistance Corporation (DAC) to do the study in Jamaica. Forman also reviewed the procurement history of the project.

A question was raised about S&T/N's plans for evaluating contractor reports. Forman indicated that plans were to ask both in-house staff and outside experts to review them for technical merit. Forman also indicated that the mid-project seminar proposed in Phase II of the project could provide another vehicle for assessing the relevance and utility of the contractor's reports and analytical methods.

CEAP Project -- Honduras

van Haeften also reported to committee members on the background and progress to date on the project with the Center for Studies on Development and Integration (a research unit under the Central American Common Market Secretariat) in Honduras. The first evaluation was scheduled for the second week in October and committee members were promised additional information on the status of this project subsequent to the evaluation. A copy of the evaluation plan was passed out to all committee members.

CEAP -- Project Paper Covering Phase II

Committee members were asked for comments on Phase II of the project. Forty-five percent of the \$1,488 million budgeted for in Phase II (or \$665 thousand) will be used to provide technical assistance in response to USAID and developing country requests. Thirty-three percent (or \$488 thousand) is earmarked for a second series of short-term policy impact evaluations, primarily in Asia and Latin America. An additional \$200 thousand is set aside for other outreach activities which will involve USAID and host country personnel including workshops, seminars and an information network.

Several questions were raised about the technical assistance activities contemplated under CEAP. No technical assistance activities have been funded under Phase I of the CEAP project. The technical assistance included in Phase II of the project is planned to follow and complement the short-term studies but is not limited to countries in which studies have been or will be undertaken. A variety of technical assistance has already been made available to USAIDs and developing countries through the Nutrition Economics RSSA with USDA. This is expected to complement the technical assistance which will become available under CEAP Phase II. For example, some of the RSSA technical assistance was provided to countries to help them prepare themselves to undertake consumption/nutrition impact analyses either on their own or under auspices of the CEAP project. Other RSSA technical assistance was provided to USAIDs to assist them to improve their own programs advising them on how to incorporate consumption/nutrition concerns into their program planning, sector analysis and project design and evaluation activities.

Comments were made on the need to collect additional consumption data and the need to improve the quality of the data collected. Funds will not be available under CEAP Phase II to help countries improve their data bases. Some technical assistance will be available to countries under the RSSA, however, to help them design household consumption surveys, budget expenditure surveys with a food consumption dimension and/or integrated rural data systems with a food consumption/nutrition component and to help them process and analyze the data which is produced

by such surveys. Forman also indicated that CEAP contractors were expected to comment in their reports on the quality and utility of the data they found in each country and make recommendations on how countries can improve this data.

Various members of the committee offered suggestions for improving the wording in parts of the project paper. Forman stressed the need for a rapid decision on the project paper and asked committee members to send him their decisions on approval in writing.

SUMMARY OF PROJECT EVALUATION

1. Project Title: Consumption Effects of Agricultural Policies
2. Project No.: 931-1274
3. AID/W Office: S&T/N
4. Evaluation Number: 1 (Regular)
5. Key Project Implementation Dates:
 - A. Grant Agreement Signed August 27, 1980
 - B. Conditions Precedent Met January 8, 1980
 - C. Project Scheduled for Completion January 30, 1983
6. Estimated Project Funding:
 - A. Total: \$759,300
 - B. U.S. : \$600,000
7. Period Covered by Evaluation:
 - From: April 1981
 - To: October 1981
- Date of Evaluation Review: October 12-17, 1981
8. Action Decisions Recommended by Evaluation Team:

	<u>Officer Resp. for Action</u>	<u>Date Action to be com- pleted</u>
-Hire Licda. Magdalena Garcia as Principal Investigator	Mario Ponce	Nov. 1981
-Expand Consumption/Expenditure Sample Data	Magdalena Garcia	April 1982
-Classify Households by Socio-Economic Characteristics, Refine Household Level Model to Reflect Linkages among Levels of Agricultural Production	Daniel Salcedo	April 1982
-Specify Methodology for Modelling Relationships between Regional and National Models	Daniel Salcedo	March 1982
-Initiate Socio-Economic Analysis of Consumption/Expenditure Data and Specification of Appropriate Demand Model	Magdalena Garcia	March 1982
-Prepare Study of Policy/Planning Process in Honduras Emphasizing Development Priorities and Current Rural Development Programs and Projects	Mario Ponce	March 1982
-Organize Second Evaluation	Gary Smith	April 1982

SÉCRETARIA PERMANENTE

DEL

TRATADO GENERAL DE INTEGRACION
ECONOMICA CENTROAMERICANA

EFFECT OF AGRICULTURAL DEVELOPMENT POLICIES ON FOOD CONSUMPTION IN
CENTRAL AMERICA

SIECA/ECID - CONSUPLANE - MRN

FIRST EVALUATION OF THE PROJECT

Tegucigalpa, Honduras

13-16 October, 1981

Notes prepared by:*

- Eric Thorbecke
- Terry Roe
- Grant M. Scobie

The notes attempt to synthesize the reactions of the reviewers.
They were written by Grant M. Scobie.

ESTUDIO DE LOS EFECTOS DE POLITICAS DE DESARROLLO AGRICOLA
EN EL CONSUMO DE ALIMENTOS DE LA POBLACION CENTROAMERICANA

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INTRODUCTORY REMARKS

The review team wishes to congratulate the project director and his staff for the progress that has been made in setting up the project. The arrangements that have been made for office accommodation and - support services together with the close linkages to GOH are important steps that have placed the project on a sound footing. In addition, significant progress has been made with some of the analytical tasks, and the team noted a high degree of professionalism among the small but competent group of project staff.- The evaluation was conducted in a open and frank manner. Finally the team extends their thanks to the director, his staff and the representatives of the GOH for their generous hospitality.

The team's remarks are organized around the following topics. It should be stressed that the comments are addressed to those points where we felt further attention is needed.- A very large part of what has been proposed undertaken or is planned meet with general consensus and is not therefore the focus of the team's comments.

1. Farm Models
2. Regional Models
3. National Model
4. Demand Analysis
5. Policy Analysis
6. The need for an overview
7. Access to reference materials
8. Organization of reviews.

1. FARM MODELS.

- 1.1 These LP models form the basic building blocks of the study. They emphasize the dual nature of the farm firm as both producers and consumers.
- 1.2 Rather than simply introduce nutrient constraints the model incorporates a calorie income relation which allows for the marginal propensity to consume calories to vary as income changes, reflecting expenditures on other goods. A possible draw back is that the objective function has to be defined in such a way that shadow prices do not have their usual useful interpretation.
- 1.3 There was general agreement that the models should cover a range of farm types, including possibly small coffee producers who form a large proportion of the total number of small holders. Representatives of GOH also stressed the need to handle the Cooperative farm types established under the agrarian reform program although it is noted that numerically this is not a large group.
- 1.4 The need to carefully examine the criteria for forming categories of prototypical farms was highlighted. Specifically it was felt that size alone would not be adequate. Farms of 0-5 has. would encompass a wide range of ecological conditions, geographic zones, product mixes, income levels, access to markets etc.
- 1.5 The models presented were for illustrative purposes only, and the level of detail was deliberately restricted. It is understood that greater disaggregation especially with respect to months/season has already been incorporated, and the team reinforced the need for this.

- 1.6 It was felt that some more explicit attention to risk may be warranted. While the model handles some aspects of this implicitly some attempts to incorporate measures of variability in the technical coefficients were deemed warranted. In relation to this some elaboration of the role of intercropping would be useful.
- 1.7 As presently formulated the supply of family labor is infinitely elastic up to the maximum available. The need was foreseen to incorporate a variable restriction to reflect a positive income elasticity of demand for leisure. The allocation of household time to have production, market work and leisure has been of central theme of recent modeling of the agricultural household and some further attention to these aspects may be justified.
- 1.8 At points along the calorie-income function the composition of the goods consumed will change. It seems important that this be made as explicit as possible. The problem is that without introducing many additional activities/restrictions there is a limit to the extent that these dietary choices can be captured in a programming framework. The model does have variable restraint on the amount of basic grains consumed and contemplates treating other goods as a composite. This may be satisfactory at the individual farm level when prices are given. But at the regional/national -- level relative prices can be expected to change, making the use of a composite good less satisfactory.

2. REGIONAL MODEL.

- 2.1 It is presently envisaged that only 2 or 3 of these will be built. The data (and the time) will not permit models to be built for each region of the country.

- 2.2 The principal concern that arose among the team was the problem of the relation of a regional model with the rest of the economy (and the foreign sector) and the relationship between regional models. One could treat each region in isolation, assuming that there were no flows of goods or products between them. The maximization of producer and consumer surpluses would generate the equilibrium price/quantity relation for the particular region. But this would obviously be an extreme assumption and would greatly limit the usefulness of the model for the analysis of policies.
- 2.3 As a consequence the need was foreseen for more attention to be given to the specification of supply and demand relations facing a given region. Given these one could envisage linking a given regional model to the rest of the sector or with the use of a spatial equilibrium model linking 3 regional models , the remainder of the economy and an exogenous foreign sector.
- 2.4 Economic growth stems principally from the creation of new sources of income streams whether through expanded human capital (education, health), physical capital, or improved technologies. This flow of income generated from the creation of new sources will be reflected in expanded levels and new patterns of consumption.

It would seem important therefore that the effects of income growth generated by technical change be adequately captured. Specifically the mechanism whereby regional/national aggregate demand curves are displaced by changes in income is seen as vital link requiring attention in the next stage of the project.- It is clear that at the level of the farm models changes

resulting in increased income are translated into increased demand for foods and through the variable restrictions the changing dietary compositions is captured at least in a crude manner. However the manner in which these changes are aggregated to regional demand shifts for various foods is yet to be fully specified.

2.5 . Once these aggregate effects are incorporated, the review of any of the policies envisaged will be to alter relative prices. This raises a potentially messy complication. The calorie income relation is a reduced form defined for a given set of prices. This can be clearly seen as follows.

$$\text{Max. } U = U(\underline{Q}) \quad (1)$$

$$\text{s.t. } \underline{P}\underline{Q} = Y \quad (2)$$

$$\underline{Q} = \underline{Q}(\underline{P}, Y, \underline{Z}) \quad (3)$$

$$C = c'Q \quad (4)$$

$$C = c'Q(\underline{P}, Y, \underline{Z}) \quad (5)$$

$$\text{or } C = c(Y/\underline{P}, \underline{Z}) \quad (6)$$

Where U = Utility

P = Vector of prices

Q = vector of quantities

Y = scalar income

c = vector of calories per unit quantity

C = scalar calories

Z = vector of other factors shifting demand.

The maximization of (1) subject to (2) gives the demand system (3) which can be transformed linearly to calories by (4) and then written as (5). Finally (6) restates the calorie income relation in the terms used in the model, but makes explicit that prices are a shifter of that relation.

Changes not only in the relative market prices but in the internal household prices of goods and time will shift this function. It is of course an empirical question as to the extent of the shift. Some further work to justify the present assumption that the effect is negligible may be warranted.

- 2.6 The grouping of regional models may well need to allow for interregional labor flows by season. A change in policies affecting producers of a certain crop in one region may shift the derived demand for labor including changes in labor flows and wage rates with consequences for production incomes and food consumption.

3. NATIONAL MODEL.

- 3.1 Little time was devoted to discussion of this aspect. The team felt that any attempt at constructing a full scale national sector model at a level of disaggregation sufficient to be useful would likely require more resources than the project could supply.- Experience in many other countries (Korea, Thailand, Venezuela, Nigeria) has repeatedly confirmed that these are expensive undertakings.
- 3.2 However some way must be sought to provide a national framework with which to analyze the impact of broad changes in policies on the food consumption of different groups. The principal concern is that such a framework should be internally consistent even it has a minimum of behavioural underpinning. Some system of food balance accounting or form of social accounting matrix may be helpful.

4. DEMAND ANALYSIS.

- 4.1 Discussions focussed principally on the problem of data and staffing that the project has encountered. Both appear to be close to a solution.
- 4.2 There are two principal sources of data.
- a. National household income - expenditure survey (1976-77) with 5,668 households. The analysis of this has had a chequered career, but apparently a tape containing the basic data has been developed and which is believed to contain cleared and checked information although some farther verification may be required. The data is available and computing facilities are not a restriction. The original analysis proposed the production of 60 basic tabulations of which 47 have been completed. For the purposes of the project these may need to be supplemented with further cross tabulation.
 - b. A household food consumption survey of 210 households in each of 3 regions visited twice in 1979-80. No comments were made of the state of this data.
- 4.3 In designing the format of any additional tabulations it would be helpful if the type of stratification planned in the production models would be followed as closely as possible. This would then facilitate the estimation of demand parameters needed for the various groupings of farm types.
- 4.4 However, it would appear that the demand analysis could now proceed relatively independently of the farm modeling; the results would stand alone and themselves make a useful contribution of the study.

- 4.5 One of the most important steps will be the definition of the socio-economic groups on which to base the demand analysis. It is unlikely that stratification by income alone, as discussed in the planning documents will be sufficient or satisfactory. Any given income group includes those whose observed income at the moment of the survey fell in that category. As a consequence the observations include transitory components which may or may not be strongly related to the observed consumptions patterns. These are generally thought to depend more on measure of permanent income. Further, such an income group will include a wide variety of households from different sectors, regions, product mixes etc. Each can be expected to face different prices, have different consumption patterns, etc.
- Work in Mexico for example classified households by size, age of head, rural or urban and thru occupational classes.
- 4.6 The household food consumption survey has only 210 observations per region and the extent of the disaggregation by strata may well be rather limited.
- 4.7 Both the income-expenditure and food consumption surveys involve a level of product disaggregation that is truly outstanding. The first involves somewhere approaching 300 categories of expenditure on different foods (ej. 11 categories of fish, 15 types and forms of maize), while the second apparently has over 100 categories. These will require careful grouping into a manageable number of food commodities.
- 4.8 The extent of the price variation in the food consumption survey is not known exactly, and should be explored. The survey does cover 3 regions and is a sub-sample of the Income Expenditure Survey and was taken at 2 points in time using weekly diaries.

5. POLICY ANALYSIS.

5.1 Both in the documents and the discussions a very wide range of possible policies were mentioned. These include:

- Precios de sustentación
- Subsidios a los consumidores
- Reforma Agraria
- Obras Públicas
- Cambios Tecnológicos
- Políticas de exportación e importación
- Políticas de crédito
- Subsidios a insumos agrícolas
- Fortalecimiento de cooperativas
- Investigación y divulgación
- Extensión de la frontera agrícola

The review team felt that such a wide reaching range of policies could not all be handled within the present project. The models being built are essentially static and many of these issues involve complex dynamic reactions that could not reasonably be expected to be computed.

5.2 The team felt that it would be important to restrict these to some key policies and that the choice of these should be a — product of discussions with the representatives of GOH to the project. Preliminary discussions seemed to indicate that:

- Farm price policies
- Credit
- Technical change

were among the policies of best interest to the government agencies.

5.3 However the exact specification of the nature of each of these policies would require careful attention, and will involve some work outside the scope of the formal models. For example a farm support policy will involve such questions as

- for what products
- for what regions
- at what prices
- With what limit on purchase given storage facilities
- at what resale price
- over what periods of the year, etc.

The discussions made it abundantly clear that there will be more involved in the analysis of policies than simple adjustments to some coefficients if meaningful results are to emerge.

6. THE NEED FOR AN OVERVIEW.

6.1 From the outset of the discussions it became apparent that a background paper closely oriented to the needs and goals of the project would be most useful. It would cover:

- Structure and performance of the Agricultural sector.
- The nature and extent of government policies affecting food production and consumption.

Existing document from AID, IBRD, BID, IICA and GOH may well provide all the material necessary, and a synthesis of these is perhaps all that is required.

In the absence of such information it was difficult to separate out the most important policies and their effects.

For example the GOH imports wheat and milk powder and these represent 15 percent of import expenditures. They are apparently sold at subsidized prices. Changes in the food import

policy are potentially important instruments to alter food consumption and should presumably fall within the purview of the project. Similarly, questions of the trends in real farm prices both absolute and relative would be important in considering possible future policies.

- 6.3 The team recommends that some mechanism be sought to bring together this information in a form that would be a useful guide to the project.

7. ACCESS TO REFERENCE MATERIAL.

- 7.1 The team noted the isolation of the project staff from access to reference material and strongly recommends that a small sum be allocated to immediately acquiring some of the key studies, texts and papers that relate to their work.

8. ORGANIZATION OF REVIEWS.

- 8.1 For future 6 monthly reviews it might be possible to use outside consultants in dual role. First as reviewers but limiting the presentations of the team to one day and relying on prior reading of project progress reports. Second using the remaining time for collegial interactions and substantive discussions on methodological and policy issues.