

UNCLASSIF

Annual Budget Submission

FY 1987

**BUREAU FOR PROGRAM AND
POLICY COORDINATION**

OFFICE OF ECONOMIC AFFAIRS



JUNE 1985

Agency for International Development
Washington, D.C. 20523

UNCLASSIFIED

PPC

OFFICE OF ECONOMIC AFFAIRS

Action Plan

A. Introduction

The functions of the Office of Economic Affairs are: (1) to provide AID with an economic analytic capability in the areas of international trade and finance relative to LDCs and LDC macroeconomic policy and performance; (2) to provide policy advice and related information on these areas to AID policy makers for use in developing and evaluating AID programs and projects, AID policies and strategies, and AID positions on relevant international economic issues addressed in an interagency or international context. The EA office also contributes to implementing the Administrator's directive to increase and improve economic analysis capabilities in AID.

Objectives of the Action Plan are:

1. Improve the Agency's understanding of and ability to address the problems of economic stabilization, structural adjustment and long-term economic growth in the developing world.

2. Increase the capability of the Office to monitor, analyze and assess for policy purposes:

- a) LDC macroeconomic performance and policies;
- b) trends and policy actions in international trade involving or impacting on LDCs;
- c) trends and policy actions in international financial matters involving or impacting on LDCs, including debt, international investment, private bank lending, and IMF and IBRD programs.

3. Maintain an active program analyzing the interaction between trade, finance and development and translating the analysis into policy recommendations.

B. Strategy Recap

The short-run operational objectives identified in the June 1984 Action Plan to help implement the primary objectives set out above were as follows:

1. fill vacant staff positions;
2. prepare documents on trade and development, economic stabilization in LDCs, and LDC economic adjustment efforts;
3. provide analytical input on policy issues in these areas and work with other U.S.G. agencies on such matters;

4. increase staff capability to utilize microcomputers.

C. Self Appraisal

The first of these objectives has been fully realized; all positions are now filled. The second has been implemented through the completion of several external research papers on IMF conditionality and the relationship between IMF and A.I.D. programs as well as an external paper on the role of A.I.D. in the process of U.S.G. trade policy formation. EA staff has also prepared a series of documents on the areas noted, which contributed to realization of the third objective as well as the second. EA has worked closely with State, USTR, Treasury and others on a variety of macroeconomic policy issues. With respect to microcomputers, the office has upgraded its hardware and several staff members have received training in the use of specialized software packages. EA is now providing statistical services to other parts of the Agency on a regular basis.

Last year's Action Plan referred to EA's role in implementing the Administrator's initiative to upgrade economic analysis in the Agency and noted specifically a contribution to the Agency's effort to prepare a handbook for economic analysis of projects. Georgia Tech will undertake the work in close collaboration with an informal working group of AID economists. A similar exercise

for revision of the financial analysis section in the A.I.D. Handbook has been initiated. This project will be financed jointly by the Regional bureaus and PPC as in the economic analysis project. Missions have responded favorably to the idea of reworking the Handbook financial analysis guidelines. A final draft of a contract scope of work is being prepared by the economists' working group.

Reference was also made to the planning, coordinating and financing by EA of the prospective first conference of A.I.D. professional economists. The conference took place in November 1984 and was regarded as a valuable professional experience by participants. Publication of the proceedings is anticipated by mid-1985. This document will make a contribution of considerable interest and use to A.I.D. and other practitioners in the field of development economics.

D. Forward Plan

In light of the progress made, the short-run operational objectives are revised as follows:

1. Prepare studies and analyses on economic stabilization and structural adjustment in LDCs:

2. Undertake analysis of LDC trade policies in the context of a new round of multilateral trade negotiations.
3. Prepare a series of studies on LDC fiscal and tax policies with emphasis on incentives to work, save and invest.

The objective of each of these activities will be to increase understanding of the subject concerned and to contribute to the formulation of A.I.D. policy and programs. Results of these and related efforts will also contribute to cooperation with other U.S.G. agencies on international economic issues of importance to A.I.D.

E. Program Activities

To increase A.I.D.'s capacity to conduct economic policy analysis, EA has initiated establishment of an IQC category for macroeconomic policy and international economic analysis. It is anticipated that the services of five firms will be obtained through the IQC. Any A.I.D. Mission or Bureau may use their services. The \$50,000 retainer fee (\$10,000 per firm) is included in the EA Annual Budget Submission although under the terms of an IQC arrangement this amount will decrease as clients use the IQC firms; thus, expenditure will be less than the \$50,000 obligation

and may be zero. The EA office, however, anticipates using one or more of the IQC firms to conduct external studies in FY 86 and FY 87.

As a preliminary step to learn about recent developments in the area of fiscal policies in LDCs, EA funded a literature survey of the topic in FY 85. This is a first step in a longer term effort to examine the relationship between LDC fiscal policies and economic growth in order to help formulate A.I.D. policies in this important area. EA plans to extend this effort through FY 87.

EA staff developed a study proposal to analyze the economics of simultaneous stabilization and structural adjustment programs with the intention of funding work in FY 85. This has not been possible but, given the progress that has been made, EA anticipates funding outside work on the topic in FY 86. EA will also undertake a small-scale empirical survey of private capital flows to A.I.D. host countries as part of the overall effort to stimulate private sector growth in LDCs. Depending on the outcome of the FY 86 work, the analysis may be extended through FY 87.

EA has been given responsibility for the annual preparation of Development Issues. Program funding will be used to generate substantive background material and for technical production support. It is expected this activity will continue through FY 87.

In FY 87, EA plans to contract for a small external study of terms and trends in U.S. Economic Assistance. EA staff will start development of the study design in FY 86.

FY 1987 ANNUAL BUDGET SUBMISSION
 TABLE I - LONG RANGE PLAN BY APPROPRIATION ACCOUNT (\$000)
 Country _____

FY 1984 FY 1985 --FY 1986-- FY 1987 -----PLANNING PERIOD-----
 ACTUAL ESTIMATE CP ESTIMATE AAPL 1988 1989 1990 1991

 Selected Development Activities -
 Research (Grants)

101 300 450 425 450 475 500 525 550

FY 1987 ANNUAL BUDGET SUBMISSION
TABLE III - PROJECT OBLIGATIONS BY APPROPRIATION (\$000)
Country _____

APPROPRIATION ACCOUNT		FY 85	FY 86	FY 87
PROJECT NO. TITLE	L/G	ESTIMATE	ESTIMATE	AAPL
Selected Development Activities				
930 0095 Economic Interdependence and Structural Adjustment	C	300	425	450

FY 1987 ANNUAL BUDGET SUBMISSION
TABLE IV - PROJECT BUDGET DATA

COUNTRY _____

PROJECT NUMBER AND TITLE	ESTIMATED U.S. DOLLAR COST (\$000)										PEACE CORPS	ITEM NO.		
	OBLIG DATE	INIT	FIN	AUTH	-TOTAL COST- PLAN	OBLIG THRU FY 84	FY 84 PIPE-LINE	-----FY 1985----- OBLIG- ATIONS	EXPENDI- TURES	-----FY 1986----- OBLIG- ATIONS			EXPENDI- TURES	FY 87 AAPL
9300095	Economic Interdependence and Structural Adjustment													
6 80 C						757.0	51.0	300.0	163.0	425.0	330.0	450.0		
.01	Macroeconomic Policy and Economic Development													
								-	-	100.0	75.0	100.0		
.02	US-LDC Trade													
								-	-	50.0	50.0	-		
.03	Project Economic Analysis Handbook													
								25.0	25.0	-	-	-		
.04	Survey of Literature on Public Finance in LDCs													
								8.50	8.50	-	-	-		
.08	Macroeconomic Policy and International Economic Policy Analysis (IQC)													
								50.0	50.0	50.0	20.0	50.0		
.09	Economics of Cargo Preference													
								10.0	10.0	-	-	-		
.10	AID Economists' Conference													
								57.4	57.0	-	-	-		
.11	Financial Analysis for AID Handbook													
								2.50	2.50	-	-	-		
.12	International Trade, Aid and Economic Development													
								10.0	10.0	45.0	30.0	100.0		
.13	LDC Fiscal Policies and Economic Growth													
								-	-	70.0	60.0	100.0		
.14	Studies for Development Issues													
								-	-	40.0	30.0	40.0		
.15	Analysis of Simultaneous Stabilization and Structural Adjustment Programs													
								-	-	50.0	45.0	-		
.16	Private Capital Flows to LDCs													
								-	-	20.0	10.0	30.0		
.17	Teres and Trends in U.S. Economic Assistance													
								-	-	-	-	30.0		

AID PROGRAM IN FY 1986
ANNUAL BUDGET SUBMISSION
TABLE V - PROPOSED PROGRAM RANKING

DECISION UNIT		PROGRAM FUNDING				
RANK	PROJECT TITLE	NEW/ CONT	LOAN/ GRANT	APPROP	INCR	CUM
1	Macroeconomic and International Economic Analysis (IQC)	C	G	SD	50	50
2	US-LDC Trade	N	G	SD	50	100
3	LDC Fiscal Policies and Economic Growth	N	G	SD	70	170
4	Studies for Development Issues	N	G	SD	40	210
5	Macroeconomic Policies and Economic Development	N	G	SD	150	360
6	International Trade, Aid and Economic Development	N	G	SD	45	405
7	Private Capital/Resource Flows to LDCs	N	G	SD	20	425

AID PROGRAM IN FY 1987
TABLE V - PROPOSED PROGRAM RANKING

1	Macroeconomic and International Economic Analysis (IQC)	C	G	SD	50	50
2	LDC Fiscal Policies and Economic Growth	C	G	SD	100	150
3	International Trade, Aid and Economic Development	C	G	SD	100	250
4	Macroeconomic Policies and Economic Development	C	G	SD	100	350
5	Studies for Development Issues	C	G	SD	40	390
6	Private Capital/Resource Flows to LDCs	C	G	SD	30	420
7	Terms and Trends in U.S. Economic Assistance	N	G	SD	30	450