

UNCLASSIFIED

PB 111

Annual Budget Submission

FY 1988

PPC

Office of Economic Affairs



June 1986

**Agency for International Development
Washington, D.C.**

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OFFICE OF ECONOMIC AFFAIRS

Action PlanA. Introduction

The functions of the Office of Economic Affairs are: (1) to provide AID with an economic analytic capability in LDC macroeconomic policy and performance and LDC international trade and finance issues; (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 to:

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. Monitor, analyze and assess for policy purposes:
 - a) LDC macroeconomic policies and performance, including monetary, fiscal and budgetary policies;
 - b) trends and policy actions in international trade involving LDCs;
 - c) trends and policy actions in international financial matters involving LDCs, including debt, international investment, private bank lending, and IMF and IBRD programs;
3. Examine the implications of LDC international trade and financial policies as they relate to economic growth and development.

B. Strategy Recap

The short-run operational objectives identified in the June 1985 Action Plan to help implement the primary objectives set out above were 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.

C. Self-Appraisal

Operational Objective One:

EA's activity in the area of economic stabilization and structural adjustment over the last year included funding a study by Boston University's Latin American Development Center to analyze Costa Rica's 1982-83 stabilization program. EA funded this effort to compare actual events under an IMF standby program with likely events in the absence of IMF involvement. A final report is due in July 1986. Preliminary results imply that, more than previously recognized, Costa Rica implemented effective stabilization measures during the year before the Fund program began and complied consistently with what seems to have been a well-designed Fund program.

EA provided partial funding to the National Bureau of Economic Research to examine the origins, development, and present implications of the debt problem in eight major debtor countries. EA, in concert with ANE/DP, is funding the Philippine component of what will be both a series of country studies and a series of cross-country comparisons. The Philippines has, among other characteristics of special interest to A.I.D., an unusual pairing of multiple failures in structural adjustment with an apparently successful 1984-1985 stabilization program.

EA staff also completed several short analyses of the likely short term consequences, for LDCs, of lower petroleum prices. These consequences involve stabilization programs for the oil exporters and structural adjustments, painful or reparative, for nearly all LDCs. This work was coordinated with the Departments of State and Treasury as well as with the Regional Bureaus in A.I.D.

In view of the seriousness of the debt service problem for a number of developing countries, PPC/EA conducted two in-house analyses. The first study analyzed debt service ratios for a

large number of LDCs in an effort to identify those LDCs most likely to experience significant difficulties; the study also assessed the relative importance of private versus public debt and of interest versus amortization payments. The second study, still in progress, involves an examination of the balance of payments and debt servicing situations of particular LDCs of major interest to AID that confront serious debt servicing difficulties. This study is in the form of a set of country case studies. First drafts of the case studies were completed for Bolivia, Ecuador and Jamaica; studies for Peru and Costa Rica are under preparation.

Operational Objective Two:

With regard to LDC trade policies, EA funded part of a larger study on North-South and other trade issues conducted by the Center for Strategic and International Studies. To date, three meetings have been held under the topic heading "North-South Trade and Economic Relations: New Directions or New Disasters?" Issues that have been identified for further analysis as part of this study include the following:

- How can the LDCs be induced to increase their participation in the multilateral trade negotiations;
- Can the mandate of the GATT and those of other multilateral institutions be extended to address restrictions on direct investment;
- How can the advanced LDCs be differentiated from the less advanced in terms of their integration into the international trade and finance organizations and in terms of their responsibilities for maintaining an open trade and payments system;
- Under what conditions are the most advanced LDCs prepared to reduce their own protectionism;
- How can industrial countries other than the U.S. be induced to increase imports from LDCs?

Operational Objective Three:

The EA research effort in fiscal and tax policy has taken the form of two short-term studies that broadly address issues, and a larger more intensive analysis. EA provided grants for two short-term studies, one of which has been completed: "Tax Policy and Economic Growth in Developing Nations." The preliminary draft of the study was extensively discussed by a

group of public finance experts and the final report has been delivered to EA.

A second project is being arranged that will examine the evolution of the quantitative and qualitative characteristics of the tax systems of up to seven developing countries that have experienced sustained rapid growth in the post war era. This study will distill the experience of high-growth, advanced LDCs. The project is expected to require 8-9 months.

EA is also providing a grant to the Center for International Development Research (CIDR) of Duke University to fund a cross-country analysis of LDC experience with fundamental tax reform. This research project will seek:

- to determine the motivations for reform, the generalizations that can be made concerning the determinants of successful tax reform programs, and the transferability of lessons learned from one country setting to another;
- to identify the types of tax reform that have been associated with increases in economic growth in general and employment in particular, how those that may have enhanced growth and employment related to the broader policy framework, and for those not associated with improved macro performance, whether changes in other policies affected the outcome of tax reform;
- to determine what generalizations can be drawn regarding the contributions of aid donors to tax reform, types of tax reform on which donor support has been helpful, and the difference in the substance and thrust of tax reform when it has been attempted without donor assistance from cases where donors were involved.

The CIDR project is expected to span a period of two years during which 12 to 15 country studies of tax reform efforts will be completed. A conference to present the research findings is planned as a capstone event for the overall effort. Authors of specific research papers will participate, as well as officials and representatives from LDCs, academics, and the private sector. The conference will provide a venue for dissemination and critical review of the findings.

Program Activities:

EA succeeded in establishing the macroeconomic and international economic IQC after producing the RFP and chairing

an inter bureau Technical Review Committee to review contractors' proposals. It is anticipated the AID Acquisitions Office will complete contract negotiations in time to award four contracts in early July, 1986. Under these contracts high quality economic analysis and advising services will be available on a timely basis to users throughout the Agency.

As planned, EA used program funds to contract out preparation of the theme chapter for Development Issues 1985. This chapter added appreciable depth to the report.

D. Forward Plan

Given the kinds of interest in policy analysis expressed over the last year and developments in LDCs, the short-run operational objectives for this ABS are as follows:

1. Continue policy analysis work on LDC fiscal policies, tax reform and growth.
2. Continue policy analysis on economic stabilization and structural adjustment including debt and trade policy issues.
3. Examine the equity implications of market and private sector-oriented policy reforms in LDCs.

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

EA will monitor the use of the macroeconomic IQC over the next year as a means of surveying the extent and nature of the demand for policy analysis in this area. The information will be useful to EA in planning how to continue to improve AID's economic policy analysis capabilities. It is anticipated that EA will also use the services under the IQC to implement policy analysis in one or more of the areas identified above and particularly as a means to respond to requests for short-term analysis not anticipated in this report.

It is anticipated that EA staff will develop preliminary analysis in the area of non-project assistance and conditionality. Some work has already been undertaken

concerning cash transfers using ESP. This activity is intended to generate the basis for policy formulation and possibly further investigation by outside researchers.

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FY 1988 ANNUAL BUDGET SUBMISSION
 TABLE I - LONG RANGE PLAN BY APPROPRIATION ACCOUNT (\$000)
 Country _____

FY 1985	FY 1986	--FY 1987--	FY 1988	-----PLANNING PERIOD-----			
ACTUAL	ESTIMATE	CP ESTIMATE	AAPI.	1989	1990	1991	1992

Selected Development Activities
 Research (Grants)

439	475	425	425	650	900	1,000	1,100	1,200
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FY 1988 ANNUAL BUDGET SUBMISSION
 TABLE III - PROJECT OBLIGATIONS BY APPROPRIATION (\$000)
 Country _____

APPROPRIATION ACCOUNT PROJECT NO. TITLE	L/G	FY 86 ESTIMATE	FY 87 ESTIMATE	FY 88 AAPL
Selected Development Activities				
930 0093 Economic Interdependence and Structural Adjustment	03	475	425	650

PROJECT NUMBER AND TITLE	ESTIMATED U.S. DOLLAR COST (\$000)									
	OBLIG	FY 85	FY 1986	MORTGAGE	FY 1987	FY 88	SPECIAL COO			
DATE	TOTAL COST-	THRU	PIPE-	OBLIG-	EXPEND-	END OF	OBLIG-	EXPEND-	PROPOSED	
INIT #IN	AUTH PLAN	FY 85	LIVE	ATIONS	ITURES	FY 86	ACTION	ITURES		

LECTED DEVELOPMENT ACTIVITIES

PROJECT NUMBER	TITLE	ESTIMATED U.S. DOLLAR COST (\$000)
00095	ECON INTERDEPENDENCE AND STRUCTURAL ADJ SUBCAT: SDPP	AP40:
3 80 C		1196 324 425 330 -1621 425 350 050

APPROPRIATION

TOTAL	---	---	1196	324	425	330	-1621	425	350	---
GRANT	---	---	1196	324	425	330	-1621	425	350	---
LOAN	---	---	---	---	---	---	---	---	---	---

NOTIONAL ACCOUNT

TOTAL	---	---	1196	324	425	330	-1621	425	350	---
GRANT	---	---	1196	324	425	330	-1621	425	350	---
LOAN	---	---	---	---	---	---	---	---	---	---

COUNTRY TOTAL

TOTAL			1196	324	425	330	-1621	425	350	
GRANT			1196	324	425	330	-1621	425	350	
LOAN										

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AID PROGRAM IN FY 1988
ANNUAL BUDGET SUBMISSION
TABLE V - PROPOSED PROGRAM RANKING

DECISION UNIT

RANK	PROJECT	TITLE	NEW/ CONT	LOAN/ GRANT	PROGRAM FUNDING		CUM
					APPROP	(\$000) INCR	
930-0095		Economic Interdependence and Structural Adjustment	CONT	G	SDA	425	425

ANNUAL BUDGET SUBMISSION, FY 1988 :

PPC, OFFICE OF ECONOMIC AFFAIRS

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