

PD-113-57
83813

INSTITUTE FOR POLICY REFORM
Cooperative Agreement No. PDC-0095-A-00-1126-00
Quarterly Program Performance Report
April 1 - June 30, 1993

I. Introduction

In the third quarter, with 1993 funding at last in hand for the appointment of Fellows, IPR promptly moved ahead with confirming reappointments of current Senior Research Fellows, discussing their proposed research for this year, holding theme workshops to review proposals with AID counterparts, and providing the green light for the Fellows to pursue their IPR research.

AID recognized IPR's critical underfunding for 1993, and the Agency was able to identify an additional \$300,000 for the IPR program this year. Upon informal notification to IPR of the availability of these funds appointments of eight new Senior Research Fellows, previously on hold for lack of funding, were implemented in the third quarter.

The delays encountered within the Agency in formalizing a three-year extension of the cooperative agreement require, as an interim measure, a one-year "no cost" extension into FY 1994. In turn, IPR has been obliged to set aside from the FY 1993 allocation sufficient funds for the first quarter operations in 1994. The use of the \$300,000 for the current year program has been reduced to \$60,000

The uncertainty of the funding level and the delay in obligating 1993 funds to IPR, and the need to set aside 1993 funds for early 1994 operations, have significantly delayed implementation of the Fellows program and curtailed related activities, as noted in previous reports to AID.

However, with the funding in place albeit at a reduced level, IPR was able to make significant strides during the third quarter in implementing the research program.

II. Accomplishments

Program activities during the third quarter pursued the formal appointment of current Senior Research Fellows initiated at the end of the second quarter, forwarding invitations to eight candidates selected earlier in the year as new Senior Research Fellows, and discussions with each fellow on their proposed research. A series of workshops were held, each involving several IPR Fellows and AID counterparts, discussing individual research proposals under a broad policy research theme.

A two-day conference on financial markets, co-sponsored with Ohio State University for the AID Research & Development Bureau was held in May.

IPR pursued potential collaborative activities with specific AID bureaus, in response to bureau inquiries and also research areas initiated by IPR.

The Advisory Board held a one-day meeting in Washington, involving discussions with AID senior officials on AID priorities and reviewing the longer-term strategy for the Institute's development.

Specific accomplishments:

Fellows Program

Attachment A lists the fellows' research projects for 1993. Efforts are underway to compensate for delays in appointing the fellows. Approximately one-third of the papers are scheduled for delivery by the end of the fiscal year. Two-thirds will be completed in the first four months of FY 1994.

Eight candidates selected for appointment as Senior Research Fellows have all accepted IPR's invitation. They are:

Robert Bates, Duke
Paul Milgrom, Stanford
Tom Sargent, Hoover Institute
Andrei Schleifer, Harvard
Henry Bienen, Princeton
Charles McLure, Hoover Institute
Alan Krueger, Princeton
Dani Rodrik, Columbia

Since the funding associated with the Junior Research Fellow is modest, IPR confirmed the 1993 Junior Fellows earlier in the year. Invitations for 1994 nominations were mailed to universities, including HBCU's, in the spring. Forty nominations have been received. The selection committee (Vern Ruttan, Paul Romer, Jim Poterba, and Jim Fox on behalf of AID) will activate in the next quarter the process for selecting ten candidates for 1994.

Conference/Workshop Program

A. Theme Workshops.

IPR Fellows and AID economists met at three informal workshops in June to review fellows' research proposals. The workshops were organized by broad research theme to discuss research proposals relevant to the theme. This new process served a

dual role. First, to link more closely those fellows working on similar research topics, and, second, to bring the fellows into direct contact with AID economists whose interests relate to the fellows' research. The theme workshops were well attended with productive discussions between fellows and AID.

"Environmental Policy" (June 9)

- Jim Poterba - Fiscal Policies and Global Warming.
- Todd Sandler - Environmental Treaties and Pacts:
Theory and Empirics
- John Whalley - Developing Country Interests and Trade
and Environmental Linkages

"Structural Reform" (June 15)

- Barry Weingast - Political Impediments to Economic
Reform: Gridlock, Political Risk, and
Credible Commitments
- Sebastian Edwards - Macroeconomic Stabilization and
Structural Reform: Lessons from
Latin America;
Economic Policy During the Transition:
Issues on Sequencing and Institutions.

"Privatization" (June 22)

- David Newbery - Lessons from UK Privatisation for
Eastern Europe
- Pablo Spiller - Contracts, Administrative Law or
Regulatory Specificity
- Nick Stern - Privatisation, Price Distortions and
Taxation.

After the research drafts are available later in the year, a second round of workshops will bring the same participants together, plus other fellows who will be working on aspects of the same themes but who were unable to attend the first round.

B. Informal Meetings

In addition to the theme workshops, informal sessions were arranged in the third quarter for individual fellows to meet with small groups of AID economists:

- . In April, Paul Romer met with AID economists to discuss his forthcoming research related to importing government services in Subsaharan Africa.
- . Also in April, Partha Dasgupta discussed his series of brief papers in process on poverty in Africa.
- . In April, Jean Tirole discussed with AID counterparts his completed paper on "The Internal Organization of Government" and also explored data sources in AID on

banking reform in East European countries which he expects to pursue as an IPR Fellow in 1993.

- . Angus Deaton met with AID economists in May to discuss his forthcoming research related to the Africa region, involving two papers on "Inflation, Growth and Debit in Africa" and "Leadership and Economic Growth in Africa."

C. Conferences

IPR and the Rural Finance Program of the Ohio State University co-sponsored, under the auspices of the R&D Bureau, a conference on "Finance 2000: Financial Markets and Institutions in Developing Countries: Reassessing Perspectives" held on May 27 and 28 in Washington. The purpose of the two-day conference was to evaluate the contributions of research to policymaking and to the design of donor finance programs as well as to identify key issues for investigation during the next decade. The panelists included academic economists and senior economic officials of multilateral institutions. Robert Townsend, IPR Senior Research Fellow, designed the program in concert with Ohio State and AID. IPR panelists and discussants included Robert Townsend, Angus Deaton, Joseph Stiglitz, Christopher Udry, Christina Paxson, Karla Hoff, and Anjini Kochar. More than 100 representatives from AID, multilateral institutions and universities attended the conference. The conference was funded through an "OYB" transfer from R&D to the CA core budget.

D. Meeting of the Advisory Board

The IPR Advisory Board met in Washington, D.C. on June 23. The day's agenda included a briefing by Larry Sainers, of the Directorate for Policy on the priorities of the Agency, a discussion with chief economists of the AID regional bureaus, and a meeting with Ambassador James Michel and Carol Lancaster, Deputy Administrator.

Publications Program

Sixty-two research papers produced by fellows since IPR's inception were in hand by the end of the third quarter. As several papers become available, IPR announces the new publications by flyer to AID economists in Washington and in the missions. There is a growing interest in the Working Paper Series as evidenced by the number of orders received (see Attachment B).

Thirty-eight papers will be produced by Fellows in 1993, plus six due from fellows who received extensions to their 1992 appointments.

Management of the IPR Cooperative Agreement

The urgency of achieving a three-year extension to the cooperative agreement, together with adequate funding, continued to be the focal point of IPR management. As of this writing, the action memorandum prepared by the R&D project office was undergoing further changes required by the R&D program office. R&D has scheduled a review of the project for August 5, with the participation of the regional bureaus.

The no-cost extension, accompanied by the allocation of \$331,000 for FY 1993/94 operations, has been forwarded to the AID Contracts Office but not yet executed.

III. Add-Ons and new initiatives

Although IPR has focused on preserving the stability of the core program in the face of serious funding uncertainties, opportunities are developing for collaboration with AID bureaus and missions through add-ons to the cooperative agreement. The following add-ons are under discussion as of the third quarter:

- . AID/Cairo: "Impacts of Macroeconomic Policies"
- . Africa Bureau: "Economic Growth and Appropriate Sequencing of Human Resource Investments"
- . Europe Bureau: "Trade Policy Analyses and Design Program"
- . AID/Ghana: Institutional strengthening at the University of Lago.

The first three involve longer-term research and data gathering in-country. For such projects, Fellows could provide the conceptual and analytic leadership, but extended effort by Fellows in most cases would be infeasible due to their academic/IPR core responsibilities. IPR recognizes the need to develop a cadre of IPR "affiliates" to be assigned on an individual project basis to provide the needed research support. In some cases, the Fellows may staff up the project directly. Alternatively, IPR would seek potential affiliates among highly professional researchers who might be scholars on sabbatical, or independent economists retired from research careers in IFIs.

IPR is also developing research initiatives as a means of pursuing collaborative ventures with AID, and toward the institutional development of IPR. Such initiatives may have broader appeal to donors outside the Agency, and with the

potential for co-sponsoring with AID in some cases. Research initiatives being explored include ethnic conflict avoidance, contract farming (currently a major CDIE evaluation exercise), institutional building - sequencing and strategy.

IV. Accomplishments versus Goals

Previous reports to AID have documented the potential impact on the IPR research program outputs of the various reduced funding levels under consideration by AID for 1993. The final funding level, once the \$331,000 has been obligated, will be \$988,842. Attachment C compares the original and current outputs planned for 1993. Reduction in outputs impact primarily on the number of fellows papers. The Conference and Workshop program and general publications have also been curtailed.

Both the uncertainty of funding and the delay in obligating funds has seriously hindered the implementation of the scaled-back programs. In place of reappointing fellows in the first quarter and appointing new fellows at the beginning of the calendar year, the final negotiations on appointments and research proposals were still underway in the third quarter. Similarly, plans to schedule workshops in the third and fourth quarters on significant policy reform issues had to be curtailed due to uncertainty of funding.

It is hoped that once the three-year cooperative agreement is in place, it will be possible for AID to indicate a level of funding at the beginning of each year which will be realized. In turn, this will enable IPR to plan and execute the core program effectively and to also focus on potential collaboration with other AID bureaus and missions.

V. Goals for the 4th Quarter (July - September)

- . Pursue resolution of the three-year extension of the cooperative agreement.
- . Pursue the execution of specific add-ons.
- . Initiate review process of 1993 research papers.
- . Select Junior Research Fellows for 1994.
- . Develop annual work plan for FY 1994
- . Plan theme workshops, brown bags, and other activities under the conference/workshop program for the first quarter of 1994.

VI. Financial Status

The financial status of the Institute as of June 30, 1993, is submitted as a companion piece to the Quarterly Program Performance Report. The report is in addition to the cash status reports submitted directly to the OFM/LOC office.

The financial report at the end of the second quarter was presented against a budget level of \$899,000 which included the FY 1993 allocation of \$500,000. The third quarter report includes the final allocation for 1993, although the funds have not yet been formally obligated to the CA. The amount in process is \$331,000 representing the additional \$300,000 for the core program plus \$31,000 as an OYB transfer for the recently held Financial Markets Workshop. From the \$300,000, IPR has been required to set aside \$241,000 for 1994 first quarter operating expenses. A balance of \$60,000 is therefore available toward more adequate support of the 1993 core program. The final budget for 1993 is \$989,000.

Expenditures through the third quarter total \$599,000, or 60% of the \$989,000 budget. Current expenditures include obligations for those fellows agreements which have been fully executed. As a number of agreements are still in process, the rate of direct expenditures in the Fellows Program will increase in the fourth quarter. The publications budget is significantly underexpended, since the papers have not yet been completed. In a normal program year, publication costs would be incurred at the end of the fourth quarter. Due to the delay in appointing Fellows in 1993, most of the papers will not be ready for publication until the first quarter of 1994. IPR will set aside in reserve any unexpended balance in the publication budget at the end of 1993 to cover the subsequent costs of the 1993 papers, since the 1994 budget request includes only the 1994 publication activities.

ATTACHMENT A

1993 FELLOWS REVIEW PROCESS

Research Fellow	Research Topics	Due Date
Robert Bates	The Utility of Institutional Economic for the Study of Development	Jan. 94
Henry Bienen	"Ethnicity and Leadership Succession and Economic Development in Africa"	Sept.
Partha Dasgupta*	"Poverty in Africa"	Sept.
Angus S. Deaton	"Inflation, Growth and Debt in Africa" "Leadership and Economic Growth in Africa"	Nov. Dec.
Sebastian Edwards	"Economic Policy during Transition: Issues on Sequencing and Institutions" "Macroeconomic Stabilization and Structural Reforms: Lessons from Latin America"	Sept. Sept.
Bengt Holmstrom*	"Financing of Investment in EE: A Theoretical Perspective" (second paper to be defined)	July
Richard Just	"Restructuring Political Coalitions to Sustain Environmental Policy Reform"	Oct.
Alan Krueger	"On the Relationship Between Economic Growth and Pollution"	Sept.
Paul Krugman	Waiting for Proposal	
Glenn Loury	Waiting for Proposal	
Charles McLure	Tax Assignment in Brazil, Russia and South Africa: Lessons from Theory and Practice	
Paul Milgrom	Institutional and Temporal Complementarities in Policy Reform	Sept.
David Newbery	"Proposed Optimal Tax Rates During Systemic Reform" "Lessons from UK Electricity Privatization for EE"	Sept. Dec.
Charles Plott*	"Strategies for Using Laboratory Experimental Methods in the Policy Reform Process"	Sept.

4

Research Fellow	Research Topics	Due Date
James Poterba	"Fiscal Policies and Global Warming"	Oct.
Dani Rodrik	Policy Implications of Multiple Specialization on Patterns in High-skill, Low-wage Economies in Transition	Dec.
Paul Romer*	"Importing Government Services in Sub-Saharan Africa" (need proposal)	
Todd Sandler	"Environmental Treaties and Pacts: Theory and Empirics"	Oct.
Thomas Sargent		
Paul Schultz	"Determinants of LDC Mortality Patterns: 1950-1990"	Jan.94
Andrei Shleifer	"Politicians and Firms"	Sept.
Pablo Spiller	"Contracts, Administrative Law, or Regulatory Specificity: Workable Regulatory Frameworks for Developing Economies"	Dec.
Nick Stern	"Tax Reform in Sri Lanka" "Privatization, Price Distortions and Taxation"	July Nov.
Erik Thorbecke*	"Evolution of Transactions and Markets"	Sept.
Jean Tirole*	"Implications of Recent OECD Country Banking Experience for EE Banking Reform" (need proposal)	
Rob Townsend	"Test of Full Risk - Sharing and/or Complete Markets: Thailand"	Oct.
Barry Weingast	"Political Foundations of Economic Reform in China" "Political Impediments to Economic Reform: Gridlock, Risk, Credible Commitments"	Oct.
John Whalley	"Developing Country Interests and Trade and Environmental Linkages"	Oct.
Oliver Williamson	"Public and Private Bureaucracies: Similarities, Differences, and Public Policy Ramifications"	Sept.

JUNIOR RESEARCH FELLOWS

Research Fellow	Research Topics	Due Date
Abhijit Banerjee	"Bureaucratic Corruption and Interaction with Performance"	Sept.
Alessandra Casella	"Does Foreign Aid Accelerate Stabilization?"	Sept.
Susan Collins*	"Do AID Recipients Postpone Devaluation? Determinants of the Timing of Exchange Rate Adjustment"	Sept.
Matt Holt	"Agricultural Growth and Political Instability"	Sept.
Doug Irwin	"Uniform Tariffs and Trade Liberalization"	Sept.
John Litwack	"Transition in the Russian Economy: Solving the Dilemma of Weak Incentives From Fiscal Instability"	Sept.
Jonathan Morduch	"Design of Social Insurance: India and China"	Sept.
Andrew Newman	"Long-run Distribution of Wealth"	Sept.
Christina Paxson	"Savings Behavior: India"	Sept.
Xavier Sala-i-Martin		
Grace Tsiang	"Labor Market Dynamics in Malaysia"	Sept.

* 1992 contracts extended into 1993

ATTACHMENT B

QUARTERLY PUBLICATION DISTRIBUTION

Type of Organization	1991	1992	TOTALS
AID/Washington Requests			
First Quarter	15	2	17
Second Quarter	103	71	174
Third Quarter	79	80	159
Fourth Quarter			
TOTAL	197	153	350
AID/Missions Requests			
First Quarter	0	0	0
Second Quarter	26	82	108
Third Quarter	85	131	216
Fourth Quarter			
TOTAL	111	213	324
IFI Requests			
First Quarter	17	0	17
Second Quarter	10	19	29
Third Quarter	2	17	19
Fourth Quarter			
TOTAL	29	36	65
Universities Requests			
First Quarter	26	0	26
Second Quarter	9	20	29
Third Quarter	8	16	24
Fourth Quarter			
TOTAL	43	36	79
Miscellaneous Requests			
First Quarter	42	0	42
Second Quarter	21	8	29
Third Quarter	1	6	7
Fourth Quarter			
TOTAL	64	14	78
COMPLETE TOTAL	444	452	896

11

Attachment C

Original versus Current Outputs Supported by 1993 Funds

	<u>Approved</u> <u>Coop. Agr.</u> (\$1.377m)	<u>Revised</u> <u>Coop. Agr.</u> (\$1.199m)	<u>Current</u> <u>Coop. Agr.</u> (\$0.989)
Fellows Program			
Senior Research	20*	17	13.5
Policy	5**	3	-
Junior Research	10	10	10
Conference and Workshops			
AID Conference	1	-	1
Seminars	-	1	1
Theme Workshops	4	4	4
Brown Bag Seminars	12	12	7
Colloquia	-	10	8
Advisory Board Seminar	2	1	1
Publications			
Working Papers	60	50	37
Newsletter	4	4	-
Workshop Summaries	4	-	-
Synthesis	1	-	-
Annual Policy Report	-	1	-

* Equivalent of 40 papers - each fellow producing 2 papers

** Equivalent of 10 papers - each fellow producing 2 papers

12