AGENCY FOR INTERNATIONAL DEVELOPMENT

Fiscal Year 1976
Submission to the Congress

By Appropriation Accounts

OPERATING EXPENSES
FOREIGN SERVICE RETIREMENT FUND

VOLUME VIII

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A.I.D. OPERATING EXPENSES BUDGET

A.I.D. requests the authorization and appropriation of $194.6 million for its FY 1976 Operating Expenses budget to meet the essential costs of planning, managing, overseeing and carrying out foreign assistance programs authorized by the Congress. A.I.D. introduced the worldwide operating expenses concept in FY 1974 for two reasons:

-- to develop more accurate operational cost data for management control and decision making;

-- to inform the Congress, in meaningful functional categories, of the total costs of planning, administering and supporting A.I.D. programs and projects.

This new approach to modern cost-accounting principles has been refined during the past two years as A.I.D. managers and staff acquired more experience with the concept and became more familiar with proper categories of budget estimates and expenditures.

The A.I.D. Operating Expenses budget consists of salaries and supporting costs in Washington and overseas associated with the functions of:

-- policy formulation;
-- program planning;
-- program management;
-- program evaluation;
-- program coordination;
-- program support;
-- administrative management;
-- personnel support.

The operating expenses concept presents in a single budget, not only traditional "administrative" costs, but also significant costs incurred for the management and direct support of approved programs and projects:

-- About 29% of the A.I.D. Operating Expenses budget relates to technical planning and management of specific projects and programs;

-- An additional 17% goes for project and program support services, such as:

** contracting;

** commodity procurement;

** engineering services;

** participant training services.

To present a complete picture of A.I.D. Operating Expenses, the presentation includes all costs which fit the definition of operating expenses, even though about 5% of these costs are met from nonappropriated funds.

To provide a comparable base for analysis, comparative transfers have been incorporated in the data for FY 1974 and FY 1975. These data are detailed in Table 1.

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Table 1

A.I.D. OPERATING EXPENSES

Analysis of Funding Sources and Comparability Adjustments

($ Million)	FY 1974	FY 1975	FY 1976	INTERIM QUARTER
Total Operating Expenses Unadjusted for Comparability	213.2	235.8	214.2	57.9
Activities funded by other agencies in FY 1974 but included in the A.I.D. FY 1975 and FY 1976 budget				
Charges for office space previously funded by GSA	4.5			
Comparability adjustment for October 1973, October 1974 and October 1975 pay raises	11.2	5.4		
Recategorization of personnel and related support costs from project expenses as the concept was refined	10.4			
Total Operating Expenses Adjusted for Comparability	239.3	241.2	214.2	57.9
Less: Local currency trust funds	24.8	17.3	8.7	1.9
Nonappropriated dollars	1.6	1.7	1.8	.5
Appropriated funds required	212.9	222.2	203.7	55.5
Less: Reimbursements and Recoveries	2.2	2.1	2.8 1/	-
Charges to IPR			6.3	
Comparable Budget Authority Totals	210.7	220.1	194.6	55.5
Budget Authority Requested			194.6 2/	55.5

1/ Excludes salary and travel costs of employees detailed to the Interagency Task Force for refugee resettlement. Such costs, estimated at $3.3 million, are to be reimbursed to A.I.D. and are not considered part of A.I.D. operating expenses.

2/ Includes estimates requirements for October 1975 pay raise of $4.0 million for FY 1976 and $1.4 million for the Interim Quarter.

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A.I.D. Operating Expenses continue to decline despite the substantial inflation factor affecting both overseas and U.S. costs. As shown in Table 1, on a comparable basis, A.I.D.'s total estimated FY 1976 operating expenses are $27.0 million less than estimated FY 1975 requirements and $25.1 million less than the comparable FY 1974 costs. These reductions are illustrated in Chart A.

Operating Expenses are grouped by functional categories which represent the major operational and management responsibilities of the Agency. These functional categories are shown in Table 2. Their approximate share of the estimates for FY 1976 Operating Expenses are:

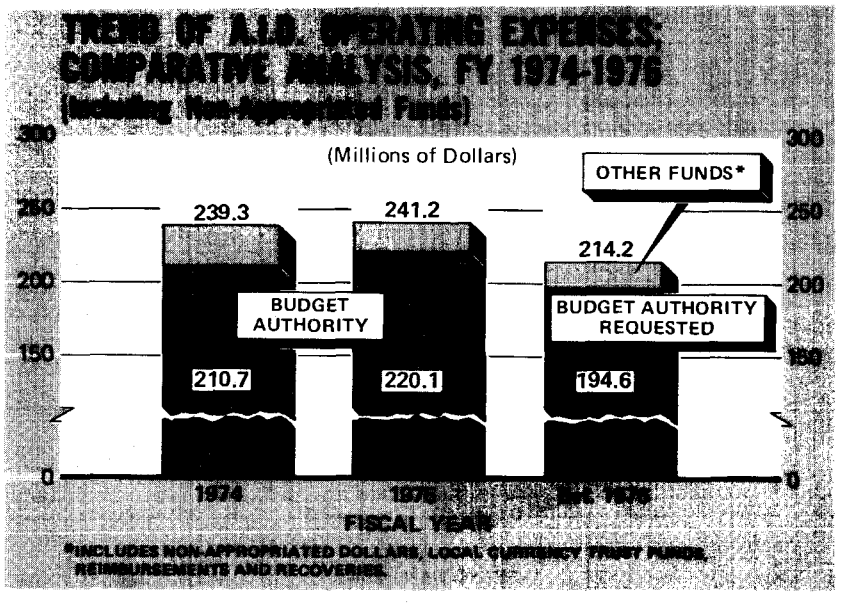
-- Executive Direction; top policy formulation and direction of the Agency, (11%);

-- Program Planning and Budgeting; identification of development needs, setting priorities for resource use and resource allocation, (16%);

-- Technical Direction and Management; technical planning and review of programs and projects, project management, program evaluation and monitoring project implementation, (29%);

-- Central Backstopping of Overseas Operations; program and administrative coordination between overseas missions and A.I.D. Washington country desks in each of the Regional Bureaus, (4%);

-- Administration of Special Programs; management of American Schools and Hospitals Abroad,



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International Disaster Assistance, Food for Peace and Private and Voluntary Cooperation programs, (3%);

-- Legal Services; provision of legal advice and services to all elements of A.I.D. in Washington and overseas, (2%);

-- External Relations and Information; legislative liaison and public affairs activities, including bicentennial related activities, (1%);

-- Audit and Inspection Services; comprehensive internal audit programs and investigation of alleged irregularities and deficiencies relating to compliance and integrity of operations, (6%);

-- Program Support Services; functions directly supporting individual A.I.D. programs and projects; i.e., commodity management, contract services, engineering services and participant training services, (17%);

-- Financial Management Services; functions of accounting, statistics, internal financial control, advice and assistance on financial practices and procedures and financial reporting, (11%);

Chart B illustrates the distribution of operating expenses between the major functional categories.

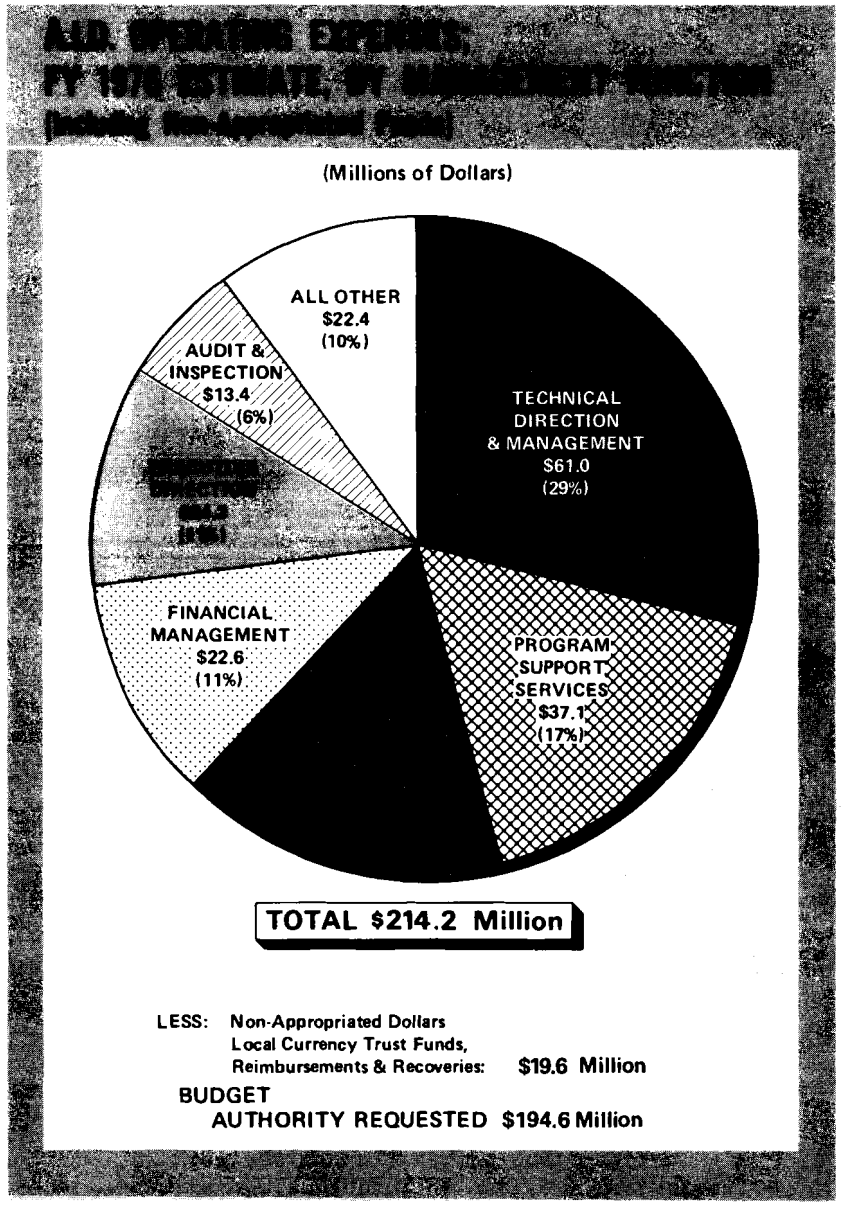

Table 2

A.I.D. OPERATING EXPENSES

By Management Function

($ Million)

Function	FY 1974 ACTUAL	FY 1975 ACTUAL	FY 1976 ESTIMATE
Executive Direction			
A.I.D. Washington	4.4	5.3	6.4
Overseas	16.6	18.3	17.9
Total	21.0	23.6	24.3
Program Planning and Budgeting			
A.I.D. Washington	8.9	12.2	14.1
Overseas	18.0	18.3	19.3
Total	26.9	30.5	33.4
Technical Direction and Management			
A.I.D. Washington	22.6	26.7	24.9
Overseas	36.6	42.9	36.1
Total	59.2	69.6	61.0
Central Backstopping of Overseas Operations			
A.I.D. Washington	9.1	10.4	8.8
Overseas	-	-	-
Total	9.1	10.4	8.8
Administration of Special Program			
A.I,D. Washington	6.5	6.5	3.4
Overseas	3.4	3.2	3.4
Total	9.9	9.7	6.8
Legal Services			
A.I.D. Washington	2.3	2.9	2.7
Overseas	1.6	1.8	1.5
Total	3.9	4.7	4.2
External Relations			
A.I.D. Washington	2.1	2.2	2.6
Overseas	-	-	-
Total	2.1	2.2	2.6
Audit and Inspection			
A.I.D. Washington	4.2	4.7	4.2
Overseas	13.4	10.4	9.2
Total	17.6	15.1	13.4

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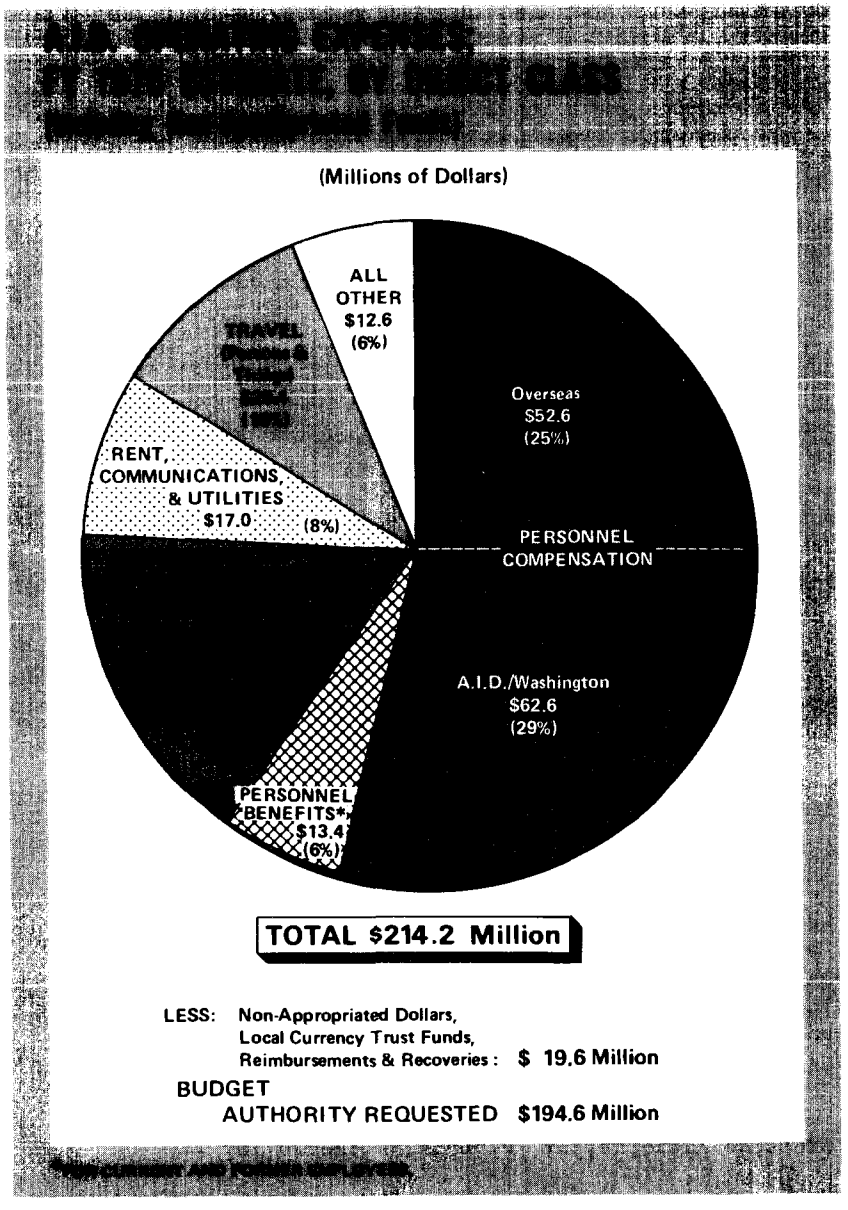
Table 2 - Continued

Function	FY 1974 ACTUAL	FY 1975 ACTUAL	FY 1976 ESTIMATE
Program Support Services			
A.I.D. Washington	16.7	21.0	17.4
Overseas	22.1	23.7	19.7
Total	38.8	44.7	37.1
Financial Management			
A.I.D. Washington	9.8	10.7	9.6
Overseas	14.9	14.6	13.0
Total	24.7	25.3	22.6
Summary			
A.I.D. Washington	86.6	102.6	94.1
Overseas	126.6	133.2	120.1
Total	213.2	235.8	214.2
Less: Nonappropriated Dollars, Local Currency Trust Funds, Reimbursements and Recoveries	28.6	20.8	19.6
Comparable Totals	184.6	215.0	194.6
Budget Authority Requested			194.6



Operating Expenses by type of cost, grouped by the traditional object classifications, are shown in Table 3. The estimated distribution by object class for the FY 1976 budget is illustrated in Chart C.

There is a need for flexibility in funding Operating Expenses. Many variables which cannot be projected with complete certainty affect total requirements for operating expenses, such as:

-- New Programs; the need from time to time to start new programs, (e.g., Egypt, Syria, Portugal). Operating expenses for such programs are very difficult to determine and sometimes requirements cannot even be foreseen at the time the budget is prepared;

-- Major Disasters; the need to strengthen mission capability to respond quickly to major disasters which cannot be predicted in advance. Recent examples include:

** the earthquake in Nicaragua;

** floods in Pakistan and Bangladesh;

** Hurricane Fifi in Honduras;

** the drought in the Sahelian region of Africa.

-- Inflation; substantial inflationary pressure in most of the developing countries in which A.I.D. operates necessitates local employee pay increases and causes other local costs to rise. The effect upon various cost elements of our budget is frequently uneven and unpredictable. For example, the median price increase in the developing countries during the most recent 12-month period, as compiled by the International Monetary Fund, was about 30%. Frequent fluctuations in currency valuations in developing countries are another variable which affects cost estimates.

-- Diminishing local currency-generating programs; as programs which generate country-owned local currency are reduced, the availabilities of local currency trust funds provided by host countries trend downward unpredictably. This, in turn, may increase the requirements for appropriated dollar funds to meet essential operating expenses.

-- Reduction-in-Force; extra costs associated with present efforts to reduce the size of direct-hire staff are difficult to forecast.

Every effort has been made to incorporate all known factors in the FY 1976 request and to present requirements as accurately as possible. The presentation herein furnishes in detail the total estimated operating expenses, including those funded from nonappropriated dollars and local currency trust funds, as well as from appropriated dollars.

A.I.D. Operating Expenses are funded from three major funding sources; appropriated dollar funds, non-appropriated dollar funds, and local currency trust funds. Details of these sources of funds are shown in Table 4.

Table 3

A.I.D. OPERATING EXPENSES

By Object Class

($ Millions)

Object Class	FY 1974 ACTUAL	FY 1975 ACTUAL	FY 1976 ESTIMATE
11 Personnel Compensation			
A.I.D. Washington	65.2	66.2	62.6
Overseas	59.6	62.3	52.6
Total	124.8	128.5	115.2
12 Personnel Benefits			
A.I.D. Washington	4.6	5.6	4.0
Overseas	8.7	7.2	9.4
Total	13.3	12.8	13.4
13 Benefits - Former Personnel			
A.I.D. Washington	-	.4	.7
Overseas	1.6	3.8	1.1
Total	1.6	4.2	1.8
21 Travel and Transportation - Persons			
A.I.D. Washington	3.7	10.1	4.9
Overseas	7.5	8.4	8.8
Total	11.2	18.5	13.7
22 Transportation of Things			
A.I.D. Washington	.2	2.0	1.1
Overseas	5.1	6.4	5.6
Total	5.3	8.4	6.7
23 Rent, Communications, Utilities			
A.I.D. Washington	3.4	7.0	7.5
Overseas	10.2	9.2	9.5
Total	13.6	16.2	17.0
24 Printing and Reproduction			
A.I.D. Washington	.7	.9	.8
Overseas	-	.1	.1
Total	.7	1.0	.9
25 Other Services			
A.I.D. Washington	7.6	9.5	11.6
Overseas	23.5	23.8	24.0
Total	31.1	33.3	35.6

Table 3 - Continued

Object Class	FY 1974 ACTUAL	FY 1975 ACTUAL	FY 1976 ESTIMATE
26 Supplies and Materials			
A.I.D. Washington	.5	.7	.6
Overseas	5.6	4.9	2.8
Total	6.1	5.6	3.4
31 Equipment			
A.I.D. Washington	.6	.2	.2
Overseas	2.4	4.5	4.1
Total	3.0	4.7	4.3
32 Lands and Structures			
A.I.D. Washington	-	-	-
Overseas	-	.2	.2
Total	-	.2	.2
41 Grants, Subsidies, and Contributions			
A.I.D. Washington	-	-	-
Overseas	2.4	2.4	1.9
Total	2.4	2.4	1.9
42 Insurance Claims and Indemnities			
A.I.D. Washington	.1	-	.1
Overseas	-	-	-
Total	.1	-	.1
Summary			
A.I.D. Washington	86.6	102.6	94.1
Overseas	126.6	133.2	120.1
Total	213.2	235.8	214.2
Less: Nonappropriated Dollars, Local Currency Trust Funds, Reimbursements and Recoveries	28.6	20.8	19.6
Comparable Totals	184.6	215.0	194.6
Budget Authority Requested			194.6

TABLE 4

FUNDING SOURCES FOR A.I.D. OPERATING EXPENSES

($ Millions)

U.S. DOLLAR FUNDS	FY 1974 ACTUAL	FY 1975 ACTUAL	FY 1976 ESTIMATE	INTERIM QUARTER
Functional Development Assistance	99.2	119.4	174.6 1/	49.9 1/
Indochina Postwar Reconstruction	38.6	46.8	6.3	-
Security Supporting Assistance	4.4	2.2	22.6 2/	5.5 2/
Disaster Relief Assistance	-	5.1	-	-
American Schools and Hospitals Abroad	.2	.2	.2	.1
Refugee Relief (Bangladesh)	1.1	-	-	-
A.I.D. Administrative Expenses	43.3	43.1	-	-
Total Appropriated Funds	186.8	216.8	203.7	55.5
Nonappropriated Funds:				
Housing Guaranty Fund	1.1	1.2	1.3	.4
Excess Property Fund	.5	.5	.5	.1
Total U.S. Dollar Funds	188.4	218.5	205.5	56.0
Local Currency Trust Funds	24.8	17.3	8.7	1.9
TOTAL OPERATING EXPENSES	213.2	235.8	214.2	57.9

1/ Includes estimated requirements for October 1975 pay raise of $3.5 million for FY 1976 and $1.2 million for the Interim Quarter.

2/ Includes estimated requirements for October 1975 pay raise of $0.5 million for FY 1976 and $0.2 million for the Interim Quarter.

$16.7 million is requested to cover the FY 1976 annual installment required to cover the unfunded liability of A.I.D. Foreign Service employees under the Foreign Service Retirement and Disability System.

-- A.I.D. Foreign Service personnel were transferred to the Foreign Service Retirement and Disability System by Section 625(k) of the Foreign Assistance Act of 1973.

-- The Foreign Service Act of 1946 (Title VIII) establishes the System and provides that any statute which authorizes extension of the System to new groups of employees is deemed to authorize appropriations to the Fund to finance the unfunded liability created by that statute.

-- Under normal budgetary practice, annual installments to cover the unfunded liabilities are the responsibility of the Department of State for the Foreign Service Retirement System and of the Civil Service Commission for the Civil Service Retirement System.

-- In FY 1974, payment of the first installment of the unfunded liability for A.I.D. Foreign Service employees was made by the Department of State.

-- In FY 1975, the State Department Appropriations Act (P.L. 93-433) included $15,600,000 for payment to the Fund to cover the second installment due on the unfunded liability incurred as a result of including A.I.D. Foreign Service employees in the System.

-- However, the State Department-USIA Authorization Act, FY 1975 (P.L. 93-475) in Section 5, specifically prohibited the use of appropriations made under the authorities of that Act to meet the unfunded liability created by including A.I.D. employees in the System.

-- The FY 1975 Foreign Assistance Appropriations Act (P.L. 94-11) provided for the transfer to A.I.D. of the funds previously appropriated to the State Department to cover the installment due in FY 1975 and provided further that an additional $480,000 from funds made available for development assistance for FY 1975 should be used to cover the additional unfunded liability arising from the October 1974 pay raise.

-- In order to comply with the intent apparent in Section 5 of the State Department-USIA Authorization Act, FY 1975 (P.L. 93-475) which prohibited the use of funds appropriated under the Act to meet the unfunded liabilities attributable to A.I.D. Foreign Service employees, the amount for FY 1976 ($16.7 million) has been included in the FY 1976 Foreign Assistance Appropriations request.

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