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UNCLASSIFIED

Annual Budget Submission

FY 1987

INDIAN OCEAN STATES

COMOROS
MAURITIUS
SEYCHELLES

BEST AVAILABLE

May 1985

Agency for International Development
Washington, D.C. 20523

UNCLASSIFIED

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COMOROS: ACTION PLAN

A. Strategy Recap: The long range objectives for AID in the Comoros are twofold: (1) to establish a development presence on behalf of the USG as a sign of support for the Government of the Comoros in its politically Western-oriented stance and (2) to accomplish limited development objectives with an absolute minimum of investment of AID management. From AID's perspective, the installation of CARE in the Comoros serves both these long term objectives.

B. Self-Appraisal of Benchmark Achievement: The following benchmarks were established for FY 1985

1. Physical establishment of CARE/Moroni HQ: Accomplished

2. Signature of sub-project activity agreements between CARE/GOC: Accomplished

3. Initiation of technical assistance to strengthen institutions targeted at improved land conservation and vehicle maintenance: Both sub-projects proceeding.

4. Initial evaluation with CARE/REDSO after one year of implementation: To take place in December 1985 in conjunction with the growing season.

C. Forward Plan:

1. Operational objectives: Assist CARE to continue sub-project activities in land conservation and garage management.

2. Management steps: Assure CARE of any necessary additional procurement waivers to implement the project.

3. Benchmarks: CARE will continue to implement both the garage/vehicle maintenance sub-projects and the land conservation sub-project. Revised detailed benchmarks will become available as a result of the proposed evaluation in December, 1985.

D. Policy Dialogue Plan: Because of the small size of the AID program, the predominant political rationale, and the fact that AID has no staff in residence, the opportunity for policy dialogue is modest. However, the economy is fast becoming overwhelmed with external debt. Debt service in 1985 is expected to be about $5 million, 45% of export earnings, and to rise to $8.5 million or more by 1989. The very small AID PVO project provides limited dialogue on issues related to land conservation and vehicle maintenance.

E. Evaluation Plan: CARE/REDSO will evaluate both sub-project activities after one year of implementation - probably in December, 1985. Such evaluation will follow a PES format and can provide mid-course corrections for this new bilateral development activity.

E. Local Currency Use Plan: No local currency is available or expected to be generated during the action plan period.

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TABLE I: LONG RANGE PLAN BY APPROPRIATION ACCOUNT ($000)1/

Country: Comoros

APPRO ACCT	FY1984 ACTUAL	FY1985 ESTIM.	FY1986 CP	FY1986 ESTIM.	FY1987 AAPL	PLANNING PERIOD 1988	1989	1990	1991
DA ARDN	780	400	750	750	700	700	300	300	300

1/ The LOP cost of the CARE OPG in $3.5 million for FY 84-88. Table I shows $3,330,000 will be provided. The additional $170,000 needs to be programmed in either FY 86, FY 87 or FY 88 to fully fund the project.

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TABLE III: PROJECT OBLIGATIONS BY APPROPRIATION ($000)

Country: Comoros

APPROPRIATION ACCOUNT PROJECT NO. TITLE	L/G	FY 85 ESTIMATE	FY 86 ESTIMATE	FY 87 AAPL
DA-ARDN				
CARE OPG (602-0001)	G	400	750	700

5.

FY 1987 ANNUAL BUDGET SUBMISSION

TABLE IV: PROJECT BUDGET DATA

Country: COMOROS

						ESTIMATED U.S. DOLLAR COST ($000)										
		OBLIG DATE				OBLIG	FY 84	FY 1985		FY 1986						
Proj. No. and Title	G L	INIT	FIN	TOTAL AUTH	COST PLAN	THRU FY 84	PIPE-LINE	OBLIG-ATIONS	EXPEND-ITURES	OBLIG-ATIONS	EXPEND-ITURES	FY 87 AAPL	SUB CAT	% PVO	PEACE CORPS	ITEM NO.
CARE (OPG) 602-0001	G	84	88	3500	35000	780	780	400	650	750	1550	700		100	N/A	

FY 1987 ANNUAL BUDGET SUBMISSION

Table VI: Expenditures of Local Currency Generations
(all in the U.S. dollar equivalents, and in $ millions)

COMOROS

Source/Purpose	1984 ACTUAL	1985 ESTIMATE	1986 PLANNED	1987 PROPOSED
I. ECONOMIC SUPPORT FUND				
A. Public Development Activity				
B. Private Sector Programs				
C. Public Sector Recurrent Budget				
D. AID Operating Expense				
II. DEVELOPMENT ASSISTANCE				
SUBTOTAL ESF & DA	-	-	-	-
III. PL 480				
A. Public Development Activities				
B. Private Sector Programs				
C. Public Sector Recurrent Budget				
D. AID Operating Expenses (Trust Funds)				
TOTALS	-	-	-	-

NOTE: There are no local currency generations under Comoros programs. Comoros receives no PL-480. The sole AID activity is an operational Program Grant to CARE for vehicle workshop training and soil conservation funded under the DA account.

MAURITIUS: ACTION PLAN

A. Strategy Recap: U.S. interests in Mauritius are political and strategic. U.S. strategic interests are served by GOM willingness to receive U.S. Navy ships at Port Louis, store fuel at Port Louis, and moderate residual claims to Diego Garcia. U.S. political interests are served by GOM's advocacy of democratic principles in spite of stormy confrontations during the elections in June 1982 and August 1983. Beginning with a modest $2.0 million CIP program in 1982, emphasis has been on achieving both political and development objectives and optimum development impact by integrating CIP and PL 480 local resources. Local currency generations from CIP grants have been used to support economic development goals, but the PL 480 contribution, since 1979, was accounted for in the aggregate without identifying specific uses. During FY 1985, PL 480 Title I procedures were revised to introduce consistent and rational self-help measures, establish an accounting system, and focus specific self-help projects on a central purpose along with CIP local currency.

GOM has undertaken a series of difficult economic adjustments to stabilize the economy, a process made more difficult by periodic natural disasters (cyclones), a worldwide recession, low sugar prices, and sluggish tourism receipts. The performance of the GOM in coping with low sugar prices and high petroleum prices in the late 1970's, which resulted in serious balance of payments and debt service problems, has been good. The increase in the debt service ratio from 1 percent in 1976 to 29 percent in 1984/85 alarmed those accustomed to the GOM's usual prudent and conservative economic performance. However, these problems have been brought under control by five successive standby arrangements and collaboration with IBRD and IMF on policy reforms. Imports of food and other commodities have been reduced and inflation and fiscal deficits have declined substantially. Exports have become more competitive because of currency depreciation and conservative wage policies and employment and investment in the EPZ are expanding rapidly. The balance of payments is expected to have a surplus of SDR 30 million in 1984/85 and SDR 15 million in 1985/86 after $170 million of cummulative deficits during five successive years. These achievements indicate the capacity and willingness of GOM to make necessary policy and program adjustments during continued unprecedented low sugar prices which are expected to continue for some time. IBRD estimates that $99 million of external capital is required for 1985 with gross disbursements of $120 million to allow a small increase in reserves.

U.S. assistance strategy supports stabilization through modest amounts of ESF financing in the form of a Commodity Import Program and foodstuffs under PL 480 Title I. CIP and PL 480, Title I provide balance of payments support needed for stabilization and generate local currency which is programmed to support economic development. In line with A.I.D. priorities and long term development needs, local currencies have been used to finance:

1. agricultural diversification and sustainable food policies.

2. private sector activities in key development sectors, such as agriculture, export processing, manufacturing, tourism, and services.

3. essential services (e.g. water supplies) to the poorest segment of the population.

The GOM's budget is tight because of ceilings under the IMF stabilization program to control inflation and, in the absence of local currency resources, urgent development expenditures would be postponed.

B. <u>Self-Appraisal of Benchmark Achievement</u>: The August, 1983, elections, returned a government similar in political and economic philosophy to the pre-1982 governments. Since then the GOM has maintained membership and credibility in the non-aligned movement with a pro-Western bias. GOM has voted favorably on issues of interest to the U.S. at the U.N. While maintaining claims to Diego Garcia, GOM has muted the previous government's criticism of the U.S. military presence in the Indian Ocean.

Commodity Import Programs have emphasized procurement of U.S. degummed edible oil for the Mauritius Oil Refineries (MOROIL), a private firm. The FY 1982 and 1983 CIPs were rapidly disbursed. Disbursement of the FY 1984 CIP was delayed by the reluctance of MOROIL to purchase U.S. edible oil because prices were above oil prices in the rest of the world. This problem is being resolved, however, and the first purchase of $2 million has been completed. Similarly, the FY 1985 CIP is expected to be disbursed within 12 months after signing the Grant Agreement.

The development impact of the local currency generated by the FY 1982 CIP has been substantial. Over 60 thousand households in 56 estates have acquired access to clean, reliable central water supplies. Some 260 small scale irrigation schemes also received assistance. The local currency generated by the FY 1983 CIP was used for similar purposes and for support of tourism. Local currency from the FY 1984 CIP ($4.0 million) will be used for industrial estate development, loans for small business and industry, and continued support of tourism. Local currency is financing the construction of seven rural industrial buildings (350,000 sq. ft.). All of the space has already been booked by new or expanding industries. Because of the success of this construction program, the $2.0 million of local currency generated under the 1985 CIP will be used to finance another industrial estate (150,000 sq. ft.).

Precise measurement of benchmark achievements under PL 480, Title I, from 1979 through FY 1983, is difficult because of the past USG/GOM practice of allocate local currency proceeds (equivalent of $11.8 million) to the agriculture sector. GOM, has credited capital receipts with the rupee equivalent of the annual Title I loan value. Disbursements, not identified by funding source, were made for budgeted requirements. The GOM has complied with the Title I Agreement clause requiring certification of annual disbursements, FY 1979-83, self help activity.

With the FY 1985 Agreement, local currency will be deposited in a special account to fund discrete projects, designed collaboratively by AID and GOM technicians. The projects, financed by title I local currency proceeds, support self-help measures identified in each annual Agreement to: (1) undertake food crop production projects to promote agricultural diversification; (2) provide essential services and employment opportunities to the rural population; and (3) develop indigenous sources of energy to benefit rural residents.

C. Forward Plans: AID plans to provide balance of payments and local currency support for priority development needs into the immediate future. Accordingly, Commodity Import Programs are projected for FY 1986 and FY 1987 at $4.0 million and $3.0 million, respectively.

Concerning PL 480 Title I, in FY 1986 and 1987, a $3.5 to $4.0 million program to import edible oil and wheat flour is planned. Procedures are in place to use local currency to support stronger and more narrowly focussed self-help policy measures, and projects will be mutually designed according to these criteria.

D. Policy Dialogue Plan: AID's plan for policy dialogue is to reinforce GOM's development strategy adopted in collaboration with IMF and IBRD. Policy reforms have been rigorous and effective. Local currency has been used similarly to support the development strategy, particularly by strenthening production and EPZ exports.

With reversal in the terms of trade during 1976-79 for sustained growth of output and employment and a viable balance of payments in the medium term, exports had to be promoted and diversified, and import-substitutes for food and energy encouraged. Given the small domestic market, export growth was vital.

In 1979, GOM initiated stabilization and structural adjustment programs with IMF and IBRD. Since 1979, five consecutive stand-by arrangements have been implemented. These programs have included policies to adjust the exchange rate, reduce consumer subsidies, restrain wages, restrict credit and money, reduce the overall fiscal deficit, and maintain a liberal system of trade and payments. In spite of a world-wide recession, adverse weather conditions and continued deterioration of the terms of trade, progress under the stand-by arrangements has been good.

In 1979 and 1981, the rupee was devalued 30% and 20%, respectively. In February 1983, GOM changed the peg of the rupee from the SDR to a trade-weighted basket of currencies. Since then, GOM has followed a flexible exchange rate policy which, with wage restraint, has been effective in increasing export competitiveness. Between February 1983 and June 1984, the nominal and real trade-weighted exchange rates depreciated against the basket of currencies 7.6 and 9.0%, respectively.

A fifth stand-by arrangement for eighteen months for SDR 49.1 million was approved by IMF on March 1, this year. The new program continues the policies of the previous stand-by arrangements with further fiscal adjustment, restraint of expansion, a flexible exchange rate policy, and a cautious wage policy.

A first structural adjustment loan for $15.0 million in 1981 focussed on supply side measures. Energy planning capacity was strengthened, the medium term public investment program was reduced and rationalized, and policy reforms in agriculture and industry were initiated. A financing package was arranged when foreign exchange reserves were completely exhausted.

The second structural adjustment program for $40.0 million in late 1983, has four objectives; (1) restructuring of the sugar industry and agricultural diversification (2) further promotion of export-oriented industrialization, (3) tourism development and (4) improvement in public resource management.
A restructuring program for the sugar industry was announced by GOM last July. The program aims at: (1) monitoring the long term financial viability of large estates; (2) rationalizing milling operations, and rehabilitating equipment; (3) raising the productivity of small planters; (4) improving the utilization of by-products; and (5) diversifying agricultural activities.

The following policy reforms were included in the 1985/86 IMF standby arrangement.

1. Sugar. A change in the export tax structure allowing higher tonnage exemptions and a shift to marginal tax rates will be implemented before April 30, 1985, retroactive to July 1, 1984. A plan for rationalization, modernization and centralization of sugar mills, which may include closure of certain mills, will be completed and agreed with the World Bank by end-February 1985, and significant progress towards implementation of the plan will be made before June 1985.

2. Fiscal Policy. As a measure to increase revenue, a 10% surcharge on import taxes was imposed in the 1984/85 budget. Increase in total expenditure held to 4%. In addition, administrative improvements which were made in the past year with the Fund's technical assistance, will continue to be pursued vigorously.

3. Exchange Rate. Flexible exchange rate policy will continue to be pursued to ensure further improvement in competitiveness.

4. Wage Policy. The 1984/85 wage discussions were concluded with an average settlement being about one-half of the increase in the cost of living index in the previous year. The authorities will continue to pursue a cautious wage policy during the program period.

5. Credit Policy. Guidelines governing sectoral allocation of credit were implemented in August 1984. Banks are required to allocate at least 50% of credit expansion to high priority sectors and at most 25% to low priority sectors. Total credit expansion will not exceed 5.9%, implying an increase in private sector credit of 17.5%. A liberal interest rate policy will be maintained.

6. <u>Foreign Borrowing</u>. Through the end of June 1985 no new external commercial loans will be contracted or guaranteed by the government in the 1-12 year maturity range and the outstanding amount of short-term (less than one year) external borrowing by the Central Bank will not exceed $30 million at any time.

7. <u>Exchange and Trade System</u>. An undertaking not to impose new or intensify existing restrictions on trade and payments for current international transactions. Elimination of all remaining quantitative restrictions on imports by the end of 1984.

8. <u>Pricing Policy</u>. Except for no more than 12 goods, all maximum price controls eliminated by end-1984.

E. <u>Evaluation Plan</u>: REDSO/ESA and the American Embassy/Port Louis regularly monitor the local currencies generated by the CIP and PL 480 programs. Beyond routine monitoring, no special evaluations are planned.

F. <u>Local Currency Use Plan</u>: Local currencies generated by the FY 1985 and FY 1986 CIP and PL 480 programs will continue, under the integrated procedures outlined above, to finance priority development needs similar to those supported in the past (see Section B, Self-Appraisal of Benchmark Achievement).

Commodity Import Program IV 642-0007
ESF: Dollars 4,000,000 (Grant) FY 1986

Purpose: To provide balance of payments support and development financing to the Government of Mauritius through a Commodity Import Program.

Background/Problem: The Mauritian economy is undergoing major adjustments. Economic difficulties intensified during the past five years, partly because of adverse weather. Worldwide recession, with adverse impact on sugar prices, tourism, and access to markets, compounded the problem.

Significant progress has been made since 1979 in reducing fiscal and financial imbalances through five successive IMF standby arrangements and an IBRD structual adjustment program. The current account deficit has declined from 15.5% of GDP to 2.5%, a more manageable level. The budget deficit has declined from 12.9% of GDP in 1981/82 to 6.3%. Subsidies for food and education and current expenditures on housing and public health have been curtailed. Public utility prices have been adjusted to minimize budgetary transfers to parastatals and prevent distortions in resource allocation. Public investment projects with low economic rates of return have been eliminated from the capital budget. Since 1978, the foreign exchange rate has depreciated 63.9%. Despite recovery in 1984, growth remains modest and unemployment high (17%). In 1985, large debt service obligations are due. The debt service ratio, including IMF repayments, is expected to peak at 29% in 1985, but decline thereafter. Policies in 1984/85 and 1985/86 are aimed toward achieving real annual growth of 4% in the nonsugar sectors. Potential for growth has been demonstrated by large increases in investment and production in the Export Processing Zone (EPZ).

Despite progress, debt servicing threatens economic growth. Large debt service payments in 1984/85 and 1985/86, will peak in 1984/85 at about 29% of goods and nonfactor services, but decline to 20% in 1986/87. Although the overall balance of payments is projected to have a surplus in 1984/85, in part because of drawing a $40 million Eurocurrency loan, a financing gap remains because of repurchasing SDR 48 million from IMF. Official international reserves also have declined substantially to two weeks' imports at the end of 1983/84. Given the risks of damage to the sugar crops by cyclones, reserves should be at least one month's imports.

Although the share of sugar in GDP has fallen below 10%, sugar production is vital, accounting for 50% of merchandise exports in 1983/84. Export duties on sugar have provided 15% of government revenue, declining to 10% in 1984/85. Firms have had financial losses while the industry as a whole has suffered from poor crops and falling investment. After intensive study, a restructuring program has been adopted and the new Sugar Authority established. The restructuring program includes rationalization of operations, diversification into nonsugar agriculture, energy production from cane byproducts, measures to increase productivity, and an adequate return for sugar producers.

IBRD concludes that despite higher rates of growth during 1985-1990 the balance of payments situation is manageable if a structural adjustment strategy is continued. A 13% annual growth in exports of goods and in non-factor services, such as tourism, in current prices is feasible for the rest of the decade. The current account deficit of the balance of payments, however, would increase. External debt liabilities and current account deficits need to be offset by commitments from the international community. The debt service ratio, excluding IMF repayments, would stabilize around 20%.

The fifth IMF standby arrangement for 18 months was signed March 1 for purchase of SDR 49 million, 91.4% of Mauritius quota of SDR 53.6 million. The GOM also is expected to purchase SDR 7.5 million under the compensatory financing facility relative to the export shortfall in the year ending August 31, 1984. During the new standby arrangement repurchases will exceed purchases by SDR 16.0 million which would reduce IMF credit outstanding to SDR 141.6 million on July 30, 1985.

FY-1986 CIP: The objectives of the FY-1986 Commodity Import Program are: (1) balance of payments support during a period of foreign exchange scarcity; and (2) development financing for the GOM to provide local currency to finance priority investments. The FY 1986 CIP will save foreign exchange for the GOM. Focusing on a single commodity group requires minimal management by the GOM, the U.S. Embassy/Port Louis, and REDSO/ESA.

Local currency from by the sale of commodities will be deposited in a special account to support development activities mutually agreed by the U.S. and the GOM. Counterpart generations are an important source of development finance for the GOM and, in their absence, urgent development expenditures would be deferred. Local currency has been used to finance domestic water supplies, assist small scale irrigation schemes, and support tourism. The 1984 CIP assistance was provided to industrial estates and a loan fund for small business and industry. Local currency from the FY 1986 CIP will be used for similar purposes.

Commodity Import Program V 642-0008
ESF: Dollars 3,000,000 (Grant) FY 1987

Purpose: The purpose of this program is to provide balance of payments support and development financing to the Government of Mauritius through a Commodity Import Program.

Background/Problem: Mauritius is making major economic adjustments. Economic difficulties intensified during the past five years, in part because of adverse weather. The impact of worldwide recession on sugar prices, tourism, and access to markets compounded the problem.

GOM has made determined efforts since 1979 to cope with the economic problems, including two major devaluations, three rounds of price increases to reduce subsidies on rice and flour, increases in interest rates, the imposition of credit ceilings, limits on government budget deficits and a restrictive wage policy. GOM has entered into the fifth IMF standby arrangement and is cooperating with IBRD on a structural adjustment program. In spite of difficulties, progress has been good.

IMF projects an overall balance of payments surplus through 1986/87 with small deficits the following three years. Given the scheduled repurchases due to IMF the annual financing gap is about SDR 30 million from 1987/88-1989/90. The ratio of debt service payments to exports of goods and nonfactor services declines from 28% in 1984/85 to 20% in 1986/87. IMF concludes that the balance of payments deficit can be financed without major debt service difficulties but the projections allow no build-up of reserves after 1984/85.

The objective of the fourth, post-independence development plan for 1984-1986, (MDP), released in March, is to reinforce structural adjustments, redress balance of payments deficits, and support growth with equity. Through export-led industrialization, tourism, and agricultural diversification, the GOM aims to increase foreign exchange earnings and provide the structure for expansion of output and employment.

Since prospects for sugar prices are not encouraging either in the protected EEC market or the world market, and sugar production is not expected to exceed 700,000 tons, the manufacturing sector is the best prospect for increasing export earnings and productive employment. An intensive campaign is under way to attract foreign direct investment and improve access to foreign markets and technology. GOM industrial policy is to provide the necessary infrastructural, financial, and fiscal incentives.

The MDP plans annual growth of real GDP of 4.5% during 1984-1986, higher than IMF projections. Sugar production is projected at 585,000 tons in 1984, 650,000 tons in 1985, and 700,000 tons in 1986. The projection assumes no increase in acreage and an increase in yield per hectare to offset any decrease in area under cultivation. Real value-added in manufacturing, excluding sugar milling, in 1983, was 12.8% of GDP at factor cost. Real manufacturing output is projected to grow 7.1% annually with the share of GDP increasing to 16.7% by 1986.

The EPZ is the key to growth of manufacturing. At the end of 1983, the EPZ employed 25,526 persons and produced 36% of manufacturing output, which is expected to rise to 44% with 17,000 new jobs created during the plan period. Real EPZ output is expected to grow 13.8% annually and tourism 10% annually.

From 1981 to 1983, Gross Domestic Fixed Capital Formation (GDFCF) in constant 1979 prices fell 6.2% annually. MDP plans growth of real fixed investment by 6.0% annually. Capital formation in machinery and other equipment is to grow 5.6% annually, primarily for new machinery, particularly in the sugar industry. GDFCF in agriculture is to grow 10% annually.

FY-1987 CIP: The objectives of the FY 1987 Commodity Import Program are: (1) balance of payments support during a period of foreign exchange scarcity; and (2) development financing for the GOM to finance priority investments. The FY 1987 CIP will provide balance of payments support by financing the importation of essential goods. This financing through the FY 1987 CIP saves foreign exchange for the GOM. Focusing on a single commodity requires minimal management by the GOM, the U.S. Embassy/Port Louis, and REDSO/ESA.

The local currency generated by the sale of commodities will be deposited in a special account to support development activities mutually agreed by the U.S. and the GOM. Given the budgetary constraints, counterpart generations represent an important source of development finance for the GOM and, in their absence, urgent development expenditures would have to be deferred. In the past these currencies have been used to provide domestic water supplies, assist small scale irrigation schemes, and support tourism. The 1984 CIP assistance was provided to industrial estates and a loan fund for small business and industry. Local currency proceeds from the FY 1985 CIP will be used for similar purposes.

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TABLE I: LONG RANGE PLAN BY APPROPRIATION ACCOUNT ($000)

Country: Mauritius

APPRO ACCT	FY1984 ACTUAL	FY1985 ESTIM.	FY1986 CP	FY1986 ESTIM.	FY1987 AAPL	PLANNING PERIOD 1988	1989	1990	1991
DA	—	—	—	—	—	—	—	—	—
ESF									
Total	4,000	2,000	4,000	4,000	3,000	3,000	3,000	2,000	2,000
Grants	4,000	2,000	4,000	4,000	3,000	3,000	3,000	2,000	2,000
Loans	—	—	—	—	—	—	—	—	—
PL-480									
Title I	3,500	3,500	—	3,500	3,500	3,500	3,500	3,500	3,500
Title II	—	—	—	—	—	—	—	—	—

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TABLE III: PROJECT OBLIGATIONS BY APPROPRIATION ($000)

Country: Mauritius

APPROPRIATION ACCOUNT PROJECT NO. TITLE	L/G	FY 85 ESTIMATE	FY 86 ESTIMATE	FY 87 AAPL
ECONOMIC SUPPORT FUND				
642-0006 COMMODITY IMPORT PROGRAM IV	G	2,000	--	--
642-0007 COMMODITY IMPORT PROGRAM V	G		4,000	--
642-0008 COMMODITY IMPORT PROGRAM VI	G	--	--	3,000
TOTAL		2,000	4,000	3,000
GRANTS		2,000	4,000	3,000
LOANS		--	--	--

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TABLE IV: PROJECT BUDGET DATA

Country: MAURITIUS

Proj. No. and Title	G/L	OBLIG DATE INIT FIN	TOTAL AUTH	COST PLAN	OBLIG THRU FY 84	FY 84 PIPE-LINE	FY 1985 OBLIG-ATIONS	FY 1985 EXPEND-ITURES	FY 1986 OBLIG-ATIONS	FY 1986 EXPEND-ITURES	FY 87 AAPL	SUB CAT	PEACE CORPS	ITEM NO.
SDA														
642-0002 Housing TA Grant	G	79/80	250	250	250	201	--	134	--	67	--	SDHU	--	12,441
ESF														
642-0005 CIP-III	G	84/84	4,000	4,000	4,000	4,000	--	4,000	--	--	--	ESCI	--	11,194
642-0006 CIP-IV	G	85/85	--	2,000	--	--	2,000	--	--	1,900	--	ESCI	--	9,590
642-0007 CIP-V	G	86/86	--	4,000	--	--	--	--	4,000	--	--	ESCI	--	12,444
642-0008 CIP-VI	G	87/87	--	3,000	--	--	--	--	--	--	3,000	ESCI	--	
Total			4,000	13,000	4,000	4,000	2,000	4,000	4,000	1,900	3,000	--	--	
Grant			4,000	13,000	4,000	4,000	2,000	4,000	4,000	1,900	3,000	--	--	
Loan			--	--	--	--	--	--	--	--	--	--	--	
DA and SSA Total			4,250	13,250	4,250	4,201	2,000	4,134	4,000	1,967	3,000	--	--	
Grant			4,250	13,250	4,250	4,201	2,000	4,134	4,000	1,967	3,000	--	--	
Loan			--	--	--	--	--	--	--	--	--	--	--	
Housing Inv. Guar. 642-HG-001	L	85/87	6,000	6,000	--	--	3,000	--	--	3,000	--	--		

ESTIMATED U.S. DOLLAR COST ($000)

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Table VI: Expenditures of Local Currency Generations
(all in the U.S. dollar equivalents, and in $ millions)

MAURITIUS

Source/Purpose	1984 ACTUAL	1985 ESTIMATE	1986 PLANNED	1987 PROPOSED
I. ECONOMIC SUPPORT FUND				
A. Public Development Activity	2.0	2.5	1.4	3.0
1. Pilot Drip Irrigation	.4	-	.4	
2. Francoise River Diversion	.4	-	.4	
3. CWA Rural Water Program	.7	-	-	
4. Investment and Trade Promotion	.2	-	-	
5. Tourism Promotion	.3	.3	-	
6. 3 Rural Industrial Bldgs	-	2.2	.6	
B. Private Sector Programs	-	1.5	.6	1.0
1. Vacoas/Phoenix Industrial Estates	-	1.2	.6	
2. Small Business and Industry Loan Scheme	-	.3	-	
C. Public Sector Recurrent Budget	-	-	-	-
D. AID Operating Expense	-	-	-	-
II. DEVELOPMENT ASSISTANCE	-	-	-	-
SUBTOTAL ESF & DA	2.0	4.0	2.0	4.0
III. PL 480				
A. Public Development Activities	-	3.5	3.5	3.5
B. Private Sector Programs	-	-	-	-
C. Public Sector Recurrent Budget	-	-	-	-
D. AID Operating Expenses (Trust Funds)	-	-	-	-
TOTALS	2.0	7.5	5.5	7.5

Country/Office: Mauritius

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TABLE XI

PL 480 TITLE I/III REQUIREMENTS

(Dollars in Millions, Tonnage in Thousands)

	Actual*/ FY 1985 $	Actual*/ FY 1985 MT	Estimated FY 2986 $	Estimated FY 2986 MT	Projected FY 1987 $	Projected FY 1987 MT
COMMODITIES						
Title I						
Vegetable oil	3.5	4,600	3.5	4,600	3.5	4,600
Total						
of which Title III						
Total						

COMMENTS:

*/ Pending negotiation

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TABLE X11

Country/OFFICE Mauritius

PL 480 TITLE I/III

Supply and Distribution
(000 Metric Ton)

STOCK SITUATION	FY 1986	Estimated FY1987
Commodity - Vegegtable Oil		
Beginning Stocks	1,300	900
Production	0	0
Imports		
Concessional	4,600	4,600
Non-Concessional	13,000	13,000
Consumption	18,000	18,000
Ending Stocks	900	900

Commodity - ______		
Beginning Stocks		
Production		
Imports		
Concessional		
Non-Concessional		
Consumption		
Ending Stocks		

Commodity - ______		
Beginning Stocks		
Production		
Imports		
Concessional		
Non-Concessional		
Consumption		
Ending Stocks		

Comment:

FY 1987 ANNUAL BUDGET SUBMISSION

Country: Mauritius

TABLE A: PIPELINE/MORTGAGE ESTIMATES FY 1984-1991
($000s)

PROJ. NO AND TITLE	CURRENT AUTH LOP	PROPOSED AMENDED LOP	FY 84 PIPE LINE	FY 85 PIPE LINE	FY 86 PIPE LINE	FY 87 PIPE LINE	MORTGAGE-REMAINING LOP OBLIGAS. FY 88-BEYOND	PACD
A. Dev. Assist Projects (by Approp. Acct.)								
542-0002 (Housing TA Grant)	250	--	201	67	--	--	--	12/31/86
B. ESF Projects								
642-0005 CIP-III (FY 84)	4,000	--	4,000	--	--	--	--	
642-0006 CIP-IV (FY 85)	2,000	--	--	2,000	--	--	--	
642-0007 CIP-V (FY 86)	4,000	--	--	4,000	--	--	--	
642-0007 CIP-VI (FY87)	3,000	--	--	--	--	3,000	--	

TABLE B: OVERALL BUDGET ANALYSIS: MOTRGAGE BY FY AS PERCENT OF OYBS

FY	OYB LEVEL	MORTGAGE AS PERCENT OF OYB
FY 85	2,000	0
DA	—	—
ESF	2,000	0
FY 86	2,000	0
DA	—	—
ESF	2,000	0
FY 87	3,000	0
DA	—	—
ESF	3,000	0

SEYCHELLES: ACTION PLAN

A. Strategy Recap The A.I.D. strategy for achieving GOS development targets and U.S. objectives were stated in the Seychelles Small Program Strategy Statement and the FY 1986 Congressional Presentation. The U.S. had primarily political and strategic reasons for providing assistance to the Seychelles in the past at a level of $2.0 million ESF grant funds. The U.S. maintains a satellite and space vehicle tracking station on Mahe, the main island. Nearly 100 U.S. personnel have worked at the tracking station since the 1970's. The U.S. investment in equipment and infrastructure is large. Maintenance of a good relationship with the GOS is important and has been enhanced by an ESF program.

U.S. interests have been promoted by strengthening the economy, helping it to diversify, and encouraging developments which respond to market forces and private sector initiatives. Growth and development are threatened, however, by balance of payments imbalances and budgetary deficits. The AID Commodity Import Program (CIP) has provided significant assistance for relief of balance of payments problems which hinder development prospects. The program minimizes administrative demands on the Government of Seychelles (GOS), the U.S. Embassy in Victoria and the AID Regional Economic Development Services Office (REDSO/ESA). Given the nature of U.S. interests, the needs, size and absorptive capacity of the economy, and U.S. limited financial and managerial resources, an Economic Support Fund (ESF), Commodity Import Program is the most appropriate assistance vehicle. However, the Approved Assistance Planning Level (AAPL) for FY 1987 onwards does not include funding for ESF programs beyond FY 1987 and, therefore, no further ESF assistance is planned beyond that date.

B. Achievements: Over the last three years, the GOS has continued a moderate, non-aligned foreign policy and abstained on a number of key issues at the United Nations, where previously its policy was to support the USSR and its allies. In December, 1983, the GOS dropped requirements which had prevented visits by U.S. Navy ships to Victoria. A number of potentially contentious issues regarding the U.S. presence also have been dropped. The GOS should recognize that development prospects rely significantly on western tourism and aid flows may have encouraged a more moderate foreign policy.

The Commodity Import Programs have focussed on procurement of medium fuel oil for electricity generation by the Seychelles Electricity Corporation (SEC). All SEC medium fuel oil needs have been supplied through the CIP, which is well known by the populace. Medium fuel oil is an essential commodity which is used quickly and effectively. Both the FY 1983 and FY 1984 procurements of medium fuel oil have been completed. The SEC deposits the local currency equivalent of $2.0 million with the GOS in a special account immediately upon delivery of the medium fuel oil.

Local currency generated by the delivery and sale of the medium fuel oil is used for selected development activities throughout the islands. Selection of activities is made jointly by the GOS, U.S. Embassy Victoria, and REDSO/ESA. Disbursements have been made rapidly for highly visible projects, such as road rehabilitation, water supply systems, and agriculture research infrastructure. FY 1985 and FY 1986 CIP local currency generations will be used to support the East Coast Development Project. This involves construction of a new fisheries port and expansion of the commercial port. U.S. assistance will be combined with that of the World Bank, BADEA, ADB, and Norwegian Aid.

C. <u>Forward Plans</u>: AID plans to continue balance of payments support through the Commodity Import Program for the on-going diversification of the economy only through FY 78, probably for financing procurement of medium fuel oil from a CODE 941 source. The GOS and REDSO/ESA have continually looked for other commodities which are available from the U.S.A. and are required in sufficient quantities to minimize the number of procurement actions necessary. To date, however, no other suitable commodity has been identified.

This situation could, however, change with the implementation of the FY 1986 and FY 1987 Commodity Import Programs. The GOS has begun implementation of a multi-donor financed, $50.0 million East Coast Development Project which emphasizes diversification of the economy through fisheries and commercial port development. This project may permit procurement of U.S. equipment with CIP financing. Both the U.S. Embassy/Victoria and REDSO/ESA plan to monitor progress of the East Coast Development Project closely to identify opportunities.

D. <u>Policy Dialogue Plan</u>: With a modest CIP program, no AID resident staff in the country, and predominantly political reasons for an assistance program, AID is not engaged in a major dialogue with GOS regarding macroeconomic policy reform. Nevertheless, in contacts with the GOS and in designing the local currency program, AID stresses the need to encourage exports and economic growth through private investment and production. The new national development plan for 1985-89 recognizes that the economy is deficient in producing food grains, traditional exports such as coconut and copra, and fish products such as tuna. Over 50% of foreign exchange earnings and 50% of cash wages are from the tourist industry. Thus, when tourist arrivals and average expenditure declined substantially in 1980-82, the economy was seriously damaged and real imports declined over 30%. The Seychelles Marketing Board has full control of all imports, exports, and marketing in the country. The U.S. does not favor such heavy reliance on the public sector and parastatal enterprises, which are expected to absorb 50% of total investment during 1985-89.

E. Evaluation Plan: REDSO/ESA and the American Embassy/Victoria regularly monitor the utilization of local currencies generated by the Commodity Import Programs. Beyond routine monitoring, and a site visit in early FY 1986, no special evaluations are planned.

F. Local Currency Use Plan: At current exchange rates, the FY 1986 and FY 1987 Commodity Import Programs will generate over 20 million rupees in local currency. The U.S. Embassy/Victoria and REDSO/ESA plan to use these currencies mainly for the East Coast Development Project. The project has substantial local currency requirements (87 million rupees in 1985 and 1986) which the GOS cannot provide in a non-inflationary manner from budget resources. At the same time, the project is an important step to reduce excessive dependence upon tourism. This use of the local currency is consistent with the U.S. strategy of support for the economy which is growing and diversifying.

FY 1987 ANNUAL BUDGET SUBMISSION

TABLE I: LONG RANGE PLAN BY APPROPRIATION ACCOUNT ($000)

Country: Seychelles

APPRO	FY1984	FY1985	FY1986		FY1987	PLANNING PERIOD			
ACCT	ACTUAL	ESTIM.	CP	ESTIM.	AAPL	1988	1989	1990	1991
ESF (grant)	2000	2000	2000	2000	1000	--	--	--	--
AMDP	--	90		90	90	90	90	90	90
PL-480 Title II	200	250		220	214	216	200	200	200

FY 1987 ANNUAL BUDGET SUBMISSION

TABLE III: PROJECT OBLIGATIONS BY APPROPRIATION ($000)

Country: Seychelles

APPROPRIATION ACCOUNT PROJECT NO. TITLE	L/G	FY 85 ESTIMATE	FY 86 ESTIMATE	FY 87 AAPL
CIP	G	2000	2000	1000
AMDP	G	90	90	90
PL-480, Title II		250	220	214

TABLE IV: PROJECT BUDGET

untry: SEYCHELLES

						ESTIMATED U.S. DOLLAR COST ($000)										
		OBLIG DATE				OBLIG	FY 84	FY 1985		FY 1986						
oj. No. id Title	G L	INIT	FIN	TOTAL AUTH	COST PLAN	THRU FY 84	PIPE-LINE	OBLIG-ATIONS	EXPEND-ITURES	OBLIG-ATIONS	EXPEND-ITURES	FY 87 AAPL	SUB CAT	% PVO	PEACE CORPS	ITEM NO.
RICULTURE, RURAL DEV. AND NUTRITION																
520002 FOOD CROP RESEARCH	G	79	81	1520	1520	1520	87	--	87	--	--	--	FNEX			12445
TOTAL				1520	1520	1520	87	--	87	--	--	--				
GRANT				1520	1520	1520	87	--	87	--	--	--				
LOAN				--	--	--	--	--	--	--	--	--				
JNCTIONAL ACCOUNT																
TOTAL				1520	1520	1520	87	--	87	--	--	--				
GRANT				1520	1520	1520	87	--	87	--	--	--				
LOAN				--	--	--	--	--	--	--	--	--				
CONOMIC SUPPORT FUND																
520005 CIP III	G	84	84	2000	2000	2000	2000	--	1900	--	100	--	FNSA			11250
620006 CIP IV	G	85	85	2000	2000	--	--	2000	2000	--	--	--	FNSA			9593
620007 CIP V	G	86	86	--	2000	--	--	--	--	2000	2000	--	FNSA			12448
520008 CIP VI	G	87	87	--	2000	--	--	--	--	--	--	1000				
TOTAL				4000	8000	2000	2000	2000	3900	2000	2100	--				
GRANT				4000	8000	2000	2000	2000	3900	2000	2100	--				
LOAN				--	--	--	--	--	--	--	--	--				
A AND SSA																
TOTAL				5520	9520	3520	2087	2000	3987	2000	2100	--				
GRANT				5520	9520	3520	2087	2000	3987	2000	2100	--				
LOAN				--	--	--	--	--	--	--	--	--				
OUNTRY TOTAL																
TOTAL				5520	9520	3520	2087	2000	3987	2000	2100	--				
GRANT				5520	9520	3520	2087	2000	3987	2000	2100	--				
LOAN				--	--	--	--	--	--	--	--	--				

FY 1987 ANNUAL BUDGET SUBMISSION

Table VI: Expenditures of Local Currency Generations
(all in the U.S. dollar equivalents, and in $ millions)

SEYCHELLES

Source/Purpose	1984 ACTUAL	1985 ESTIMATE	1986 PLANNED	1987 PROPOSED
I. ECONOMIC SUPPORT FUND	1.11	2.0	2.0	1.0
A. Public Development Activity	1.11	2.0	2.0	1.0
1. E. Coast Fisheries Project	0.5	2.0	2.0	1.0
2. Water Systems & Road Rehabilitation	0.6	-	-	
B. Private Sector Programs	-	-	-	-
C. Public Sector Recurrent Budget	-	-	-	-
D. AID Operating Expense	-	-	-	-
II. DEVELOPMENT ASSISTANCE	-	-	-	-
SUBTOTAL ESF & DA	1.11	2.0	2.0	1.0
III. PL 480	-	-	-	
TOTALS	1.11	2.0	2.0	1.0

There are no PL-480 programs in Seychelles that generate local currency.

PL 480. TITLE II:
SUMMARY OF CRS SEYCHELLES
FY 1986 PLAN OF OPERATIONS

MCH program: In order to mitigate and prevent malnutrition in pre-school age children, GOS has encouraged mothers to attend organized clinics monthly with their under five children, where the following method of operation has been adopted.

1. At each monthly clinic held in health centers, a simplified individual assessment of the child's health status is obtained. The indicator card shows the relationship of the child's weight plotted against the desired weight curve at his/her particular age.

2. The health indicator is kept by the mother so that she will have the benefit of its value as visual aid and in time see the direct relationship between health and proper nutrition.

3. Appropriate individual advice is provided by a nurse and noted on the health indicator.

4. Necessary immunizations as well as any required medical treatment are given and noted on the health indicator.

School feeding: Instead of food sent to each school and a meal prepared there, with more or less regularity and cooking skill, GOS had central kitchens built, one in Victoria, one in Anse Royals, and one in Anse Boileau. These kitchens were given qualified staff and modern equipment such as electric pressure cookers. Cups, plates, utensils, tables and benches were also provided by GOS. Dining rooms werebuilt to seat 200 to 400 children. The budget was increased for school feeding permitting preparation of complete meals. Fish or chicken and vegetables were bought to go with the rice prepared with creole sauces. The meal is well prepared at the central kitchens and vehicles are immediately available to carry the meal to the different schools. Bulgur was unknown and not accepted. The shift from bulgur to rice, approved by AID, helped tremendously in school lunch improvement and acceptance by local children, who now eat familiar dishes. Besides, the phase in of the GOS support for equipment, personnel, and central kitchens, the Ministry of Education has started a program of self-supported school lunch. Vegetable gardens have been started in five main schools and pig and chicken raising in two schools. This program is being extended to other rural schools, and vegetables gardens will be expanded wherever possible, to replace PL 480 rice with locally produced sweet potatoes, bread fruits, and other local vegetables.

Other child feeding: Previously, child feeding served only the Sisters Orphanage and day care centers (about 200 children). Because of GOS priority for children health [illegible] welfare, the Ministry of Education has taken over day care [illegible] children under school age. It has built and is building [illegible] care centers and staffs. The need for these day care centers evolves from an increased number of working mothers. [illegible] from home, mothers cannot take care of their children. [illegible] mothers can now leave under-school-age children at the centers where they are under good care and the school mid-day meal [illegible] served as for school children. 2,000 children are now [illegible] in these centers and the number will increase as other [illegible] are created.

Welfare cases: CRS is adding again this year 250 needy recipients--old people, widowed mothers, families with [illegible] more children (22% of all families), and families with [illegible] income of 500 rupees a month (19% of families). CRS [illegible] very slowly and prudently into this category and may [illegible] discontinue support if the GOS creates laws and mea[illegible] for welfare cases.

FY 1987 ANNUAL BUDGET SUBMISSION
TABLE XIII
PL 480 TITLE II

I. Country: Seychelles

Sponsor's Name: Catholic Relief Services

A. Maternal and Child Health.........Total Recipients 9,000

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
9,000	NFDM	216	23,760
9,000	Rice	216	64,800
9,000	Vegoil	54	47,250
Total MCH		484	135,810

B. School Feeding...................Total Recipients 13,000

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
13,000	Rice	146.2	43,860
13,000	Vegoil	23.4	20,475
	NFDM	9	990
Total School Feeding		178.6	65,325

C. Other Child Feeding............... Total Recipients 2,000

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
2,000	NFDM	9	990
2,000	Rice	22.5	6,750
2,000	Vegoil	3.6	3,150
		35.1	10,890

D. Food for Work.................... Total Recipients

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
Total Food for Work			
Total Food for Work			

E. Other (Specify) Several Relief - Total Recipients 250

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
250	Rice	10.8	3,240
250	Vegoil	1.2	1,050
Total Other		12.0	4,290

Commodity Import Program Amendment (CIP-V: 662-0007)
ESF: DOLLARS 2,000,000 (Grant) FY 1986

Purpose: The purpose of this program is to provide support to the Government of the Seychelles (GOS) to ameliorate its difficult balance of payments and domestic budgetary situations.

Background/Problem: The United States has strong political and security interests in the Seychelles. These interests can clearly be promoted through support for an economy that is growing and developing in response to market forces and private sector initiatives, an approach which elements of the GOS strongly support.

Given the Seychelles geographic location and resource base, it is the future growth of the tourist industry and continued efforts to diversity the economy which constitute the key elements in the country's development equation. These key elements currently face two major difficulties which are likely to persist over the next several years.

First, the country faces a tight balance of payments situation which, while not yet a crisis, could easily become one in the absence of external assistance and support. Such a crisis could force the GOS to reduce imports to levels at which the tourist industry could not be viably maintained. It would also bring about the imposition of foreign exchange controls, the absence of which has made the Seychelles an attractive locus for foreign investment.

Second, there is a difficult domestic budgetary situation which renders the GOS dependent upon external assistance not only for financing the overall development plan but for financing its own capital budget in a non-inflationary fashion as well. A shortfall in donor support in this area could lead the GOS to resort to borrowing from the banking system to an inappropriate degree with undesirable consequences in terms of inflation and economic stability. The East Coast Development Project, a large new development project focusing on economic diversification through fisheries and commercial port development will require 92 million rupees (dollars 13.5 million) in local currency over the period 1984-1986. The GOS would find it difficult to mobilize such resources in a non-inflationary fashion in the absence of external assistance.

The Commodity Import Program proposed herein will make a significant contribution to the amelioration of both these problems through the foreign exchange it will provide and the local currency it will generate. While the amount of resources (dollars 2.0 million) is not large in absolute terms, it is large relative to the small population and economy of the Seychelles and is thus capable of making a significant contribution.

FY 1986 CIP Amendment: AID ESF funds will be used to procure dollars 2.0 million in imports critically needed by the Seychelles economy. Probably these will be in the form of medium fuel oil (MFO) from Code 941 sources. Financing of MFO to be used in the generation of electricity by the Seychelles Electric Corporation has worked well in past CIP's as they have proven to be quick disbursing (MFO is a high priority procurement for the GOS) and have entailed a minimum administrative burden on the GOS, the U.S. Embassy/Victoria and REDSO/ESA. MFO also has an advantage in that it will probably originate in Kenya, a Code 941 country in which the U.S. has strong economic and political interests.

The GOS and REDSO/ESA have continued to look for commodities which are available from the U.S. and simultaneously required by the small Seychelles economy in sufficient quantities that the number of transactions could be held to a minimum. With respect to the FY 1982-FY 1984 Commodity Import Programs this search was not successful. Some possibility for such procuremnt may emerge however, in connection with the FY 1985 CIP as the result of the implementation of the multi-donor, East Coast Development project. Probably this would involve procurement of refrigeration and ship repair equipment. If such procurement turns out to be possible with respect to the FY 1985 CIP, it may be possible to continue it into the FY 1986 program.

The East Coast Development project will require 62 million rupees in local currency financing in 1986 alone. This project has a very high priority to the GOS and is critical to the diversification of the economy away from overdependence upon tourism. The 13 million rupees generated under this CIP will, accordingly, largely be directed towards support of this project.

Commodity Import Program Amendment (CIP-VI 622-0008)
ESF: Dollars 1,000,000 Grant for FY 1987

Purpose: Support to the Government of the Seychelles (GOS) to help ameliorate its difficult balance of payment and domestic budgetary situations.

Background: The FY 1987 CIP is to be reduced to $1 million from $ 2 million in the FY 1985 and FY 1986 amendments. As shown in the Small Country Strategy Statement, the amended program will continue to support U.S. strategic and political interests in the Seychelles.

FY 1987 CIP Amendment: The ESF Grant of $1.0 million for the amended FY 1987 CIP probably will again be used to procure critically needed medium fuel oil (MFO) for use in electricity generation. Financing of MFO procured from Code 941 sources has worked well in the past, with quick disbrusements and minimal administrative requirements from the U.S. Embassy, the GOS, and REDSO/ESA.

Both the GOS and USAID will continue to look for alternative commodities which could be procured under the CIP.

Local currency generations under the CIP will probably still be used to support local cost components of the East Coast Development Project, but the final decision will be jointly made by the GOS, U.S. Embassy and REDSO/ESA.