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Program Assistance Initial Proposal (PAIP) for the
South Pacific Fisheries Access Support Program

I. Problems Addressed

The USG has been negotiating for access by American tuna boats to fishing grounds within the Exclusive Economic Zones (EEZs) claimed by the South Pacific island nations. The negotiations have been conducted with the South Pacific Forum Fisheries Agency (FFA), representing fourteen South Pacific island nations, since 1984.¹ The South Pacific Fisheries Treaty of October 1986 provides the framework for an agreement between the U.S. and the participating Pacific States, as well as an accompanying supporting aid agreement between A.I.D. and the FFA. The Treaty has been finalized and is now the subject of State Circular 175 processing.

Under the assistance agreement, A.I.D. will provide grant Economic Support Fund assistance to the participating Pacific states through the FFA. The assistance will support U.S. political and economic objectives by securing fishing rights for U.S. boats and by providing additional resources to the region for non-military uses.

II. Economic Considerations

The economies of the Pacific island nations are heavily dependent on sea-based resources, agricultural commodities and minerals. Agricultural commodities on the average contribute 25-35 percent of GDP. The economies of the islands are characterized by substantial subsistence farming activity and a coexisting cash economy, with the latter becoming more important to the relatively larger and more well developed islands.

¹Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Solomon Islands, Tonga, Tuvalu, Vanuatu and Western Samoa.

A. Balance of Trade

Generally, the islands' export earnings are dependent on a few natural resource-based commodities. Foremost among exports is copra. Three countries export gold and timber; two export sugar. Several earn foreign exchange from developing tourist industries. With the exception of Papua New Guinea, each of the Pacific island economies is small, with export income subject to external commodity price fluctuations.

Additionally, Pacific island countries import 100% of their petroleum requirements. Since the lowering of world oil prices, current operating deficits in Pacific island nations have been reduced in some cases. However, future increases in the price of oil will have a major impact on Pacific island nations' balance of trade. Balance of payments deficits will also be exacerbated by any future increase in petroleum prices, if prices for commodities now exported by Pacific island nations remain depressed.

Trade balances have been negative for almost every island country, ranging in 1984 from a \$173 million deficit in Fiji to a very small (\$26,000) surplus in the Solomon Islands.

Balance of payments figures have also been negative for most countries, although remittances and foreign aid provide some countries with positive current account balances. More recent figures are not available for most countries, but recent figures for Fiji, for example, indicate that the balance of trade and balance of payments both deteriorated in 1985 and 1986.

The economic stagnation in Fiji is characteristic of the other island economies as well. The prognosis for most island economies is for an erratic balance of trade performance, determined primarily by fluctuating prices of key commodity exports, and subject to periodic dislocation from the frequent natural disasters such as cyclones and earthquakes that visit the area. In general, chronic deficits are expected for most countries for the foreseeable future.

B. Budget Considerations

The domestic economies of most island countries are highly dependent on foreign assistance. Indeed, most countries would be running large budget deficits but for foreign assistance receipts. In the early 1980's, official sources indicated that foreign aid comprised from 3 percent to 36 percent of national incomes of South Pacific island countries, and from 8 to 65 percent of government expenditures. Even with such assistance, many countries have large budget deficits, including Vanuatu, the Solomon Islands, Papua New Guinea, Kiribati and Fiji.

III. Assistance Proposed

As part of the Treaty package, FFA and USG have agreed that the USG will provide cash grants of \$10 million annually through A.I.D. for five consecutive years (\$50 million total), after the Treaty becomes effective, to the Pacific island nations which participate in the Treaty arrangement. It is also agreed that the U.S. tuna industry will provide a total of about \$8.75 million more over the 5-year period. The negotiators agreed that the A.I.D. funds would be administered by the FFA to support economic development purposes, with one million dollars of each annual grant to be "projectized" and used to fund identifiable development activities.

It is proposed that the assistance package be structured as follows:

A. General Support Assistance

Nine million dollars of each annual grant will go into the fund and will not be identified with specific activities or transactions. The first grant will not be made before the Treaty has entered into force, and until the FFA has established an economic development fund with terms and conditions adequate to meet the need; a financial management system has been agreed to; and State has advised A.I.D. it is due and payable under the treaty. Arrangements anticipated for managing the assistance include:

- (1) Transfer of funds to FFA in agreed tranches for allocation to the island nations and FFA administrative expenses, with at least 15 percent of the funds expected to be transferred to FFA and passed to island nations immediately upon meeting conditions precedent;
- (2) Management of funds by FFA in a special account;
- (3) Allocation of funds by FFA to each Pacific island nation in accordance with an FFA member country agreed-upon formula, based on tuna catches by licensed American fishing boats in the treaty fishing areas;
- (4) Foreign exchange funds (and/or local currency generated from the sale of free foreign exchange) would be attributed to each country's non-military budget;
- (5) Data on non-military budget expenditures at least equal to funds received from FFA passed from each country to FFA for submission to A.I.D. as required.

Certain other arrangements will govern the administration and use of the funds, including the following conditions, which in substance will be incorporated into the grant agreements and constitute conditions to disbursement:

- For both the general support component and the activity assistance component described below, the FFA will provide A.I.D. with a list of countries eligible to receive assistance under the program. The list will be reviewed by A.I.D. to ensure that the countries are acceptable under the terms of the Treaty and U.S. legislation governing Economic Support Fund appropriations.
- The FFA will advise A.I.D. of the allocation of funds to the participating South Pacific island nations. Adequate assurances will be obtained by FFA that funds will be used for economic programs and not for military or paramilitary purposes, and that funds transferred to each nation will not exceed the non-military and non-paramilitary (e.g., police) budget for each nation.

- The FFA will maintain an effective financial management system acceptable to A.I.D. to administer and account for the funds. It is anticipated that the \$9 million will be disbursed by direct letters of commitment or will be deposited with a U.S. bank in an interest-bearing account. It is expected that interest on this account will be returned to the U.S. Government.

As soon as possible, funds which are to be added to foreign exchange reserves will be transferred from the account to the Central Bank or other designated financial agency of each participating South Pacific island nation. (Note: It is expected that no transfer to any island nation will exceed the \$5 million level which requires detailed cash transfer accounting procedures under the 1987 appropriation law.)

The system will also include a reporting procedure adequate for A.I.D. to assure that funds have been transferred to the participating nations consistent with the agreed formula for allocating the funds.

B. Activity Assistance

One million dollars of the annual cash payments will be used for development activities in the South Pacific Region formulated by FFA. We expect these activities may include academic training in the U.S. or the region, in-country short courses, workshops or seminars, small construction activities, consultant assistance, research grants, and commodities.

Activity proposals will be screened by the USAID Regional Development Office/South Pacific (RDO/SP) for consistency with each island nation's development priorities and for technical, economic, social, and financial soundness. The RDO/SP has considerable experience with the implementation of small projects, and the arrangements being set up with the FFA and South Pacific island nations for the Fisheries Development Project will expedite the implementation of the activities proposed under this program.

Activity assistance will be managed using regular A.I.D. project implementation procedures, and funds will be committed through PILs, LCs, and/or other standard project documentation. It is expected that this assistance might be provided through an amendment to the existing South Pacific Fisheries Project (897-0009) through a PP supplement and Project Agreement amendments.

IV. General Considerations

The above assistance proposal meets the Treaty objective of access for U.S. tuna boats and current requirements governing ESF appropriations. The proposal is structured to minimize the USAID management burden and the possibilities of unnecessary political friction. The program will provide for regular consultations between A.I.D. and the FFA to ensure smooth implementation consistent with objectives. At this time, it is not envisioned that additional manpower resources will be required to supplement the RDO/SP's existing management resources in monitoring this program.

Analysis of absorptive capacities of the South Pacific island nations indicates that the modest increment of assistance proposed under this program can be readily absorbed by the region. Recent non-military development budget expenditures by the South Pacific island nations are shown in Table I in conjunction with the annual import requirements from the U.S. and elsewhere.

Because total ESF cash transfers to the FFA-administered fund each year will not exceed \$9 million for all nations covered by the Treaty, the figures show that funds transferred to the individual island nations respectively can be attributed to non-military development budgets as long as the larger countries receive the greatest allocations, as is expected.

As noted above, FFA is expected to administer both the activity assistance component and the general support assistance component. FFA will provide a proposal to A.I.D. indicating how it will accomplish this in terms of administrative arrangements and staffing, and this proposal will be reviewed by A.I.D. for administrative soundness in the PAAD. Any incremental costs to FFA to properly administer the program will be funded under the assistance.

V. Issues

A. Funding Contingent on Treaty

It may not be possible to ratify the Treaty in FY 1987. Funds will not be obligated before the Treaty comes into force. Timing, the most appropriate approach for obligating and disbursing funds, and necessary U.S. Congressional action will be described in the PAAD.

B. Eligible Countries

Eligibility of various South Pacific countries for assistance under this grant may become an issue unless it is clearly delineated in the Treaty or other legal documents. Eligibility will be defined or specified in the PAAD.

C. Transfer of Funds

Timing of disbursements is still unclear. FFA is entitled to payments before licenses become effective but will not want to transfer the bulk of the funds to participating countries until allocations have been decided at the end of or late in the license year.

Pursuant to USG fiscal management rules, A.I.D. may not make disbursements before payment is required. Moreover, if dollar funds generate interest while under FFA control arrangements will be made for the recapture of interest unless the Treasury Department agrees otherwise. Initial discussions with FFA on the interest issue indicate acceptance of the requirement to return any interest to the U.S. Treasury. These concerns must be resolved during development of the PAAD.

D. Monitoring

AID monitoring arrangements will have to be worked out during the development of the PAAD. For the cash transfer, we will be interested primarily in assuring that funds are used for non-military purposes by participating countries. At a minimum, this will require a reporting system to A.I.D. on the areas of each country's budget to which funds have been attributed. The PAAD will have to designate these areas and describe a reporting system to monitor compliance.

For the development activity assistance, a different monitoring system will be needed along the lines of the existing Fisheries Project. There may be an issue on the acceptability of these procedures to the FFA for assistance tied to the Treaty, however, early discussions indicate there should be no major problems.

E. Audit Rights

Audit rights for this assistance are expected to conform to standard A.I.D. requirements.

F. Further Preparations

The RDO/SP will complete the PAAD for this assistance package. A PAAD is expected to be completed by April - May and the timing for completion of negotiations on the A.I.D. agreement will depend on progress in finalizing and ratifying the Fishing Rights Treaty.

Table 1. South Pacific Nations 1984
 Non-Military Budget Expenditures
 and Import Requirements
 (U.S. \$ 000)

	<u>Cook Islands</u>	<u>Fiji</u>	<u>Kiribati</u>	<u>Papua New Guinea</u>	<u>Solomon Islands</u>	<u>Tonga</u>	<u>Vanuatu</u>	<u>Western Samoa</u>
<u>Expenditure (current)</u>	13,961	281,500	10,397	625,000	34,933	8,920	26,000	15,800
<u>U.S. Imports</u>	-	18,000	-	1,714,000	2,400	-	-	4,000
<u>Other Free World Imports</u>	18,000	432,000	17,900	4,548,000	68,200	35,000	29,000	62,000