

**SECRET**

0710-75 (75-511)

CLASSIFICATION

Att 1 to Proj. 10, 11, 3, PB 4

AID 102-11 10 181  <b>PAAD</b>	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT  PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. COUNTRY SEYCHELLES  2. CATEGORY Commodity Financing-Standard Procedure  3. DATE
4. TO Mr. John V. Keating, Director, REDSO, ESA		5. DATES None
7. FROM Project Committee REDSO/ESA		6. TO BE TAKEN FROM
8. APPROVAL REQUESTED FOR PAYMENT OF \$ 2,000,000.00		9. APPROPRIATION - ALLOTMENT FSV
10. PROJECT TITLE, OBJECTIVES, AND ARRANGEMENTS POL (Medium Fuel Oil - 150 centistokes)	11. ESTIMATED DELIVERY PERIOD 9/83-12/84	12. THE TITLE OF THE PROJECT OR THE TITLE OF THE PROGRAM UNDER WHICH IT IS BEING FINANCED Continuation of Program Grant Agreement

POL (Medium Fuel Oil - 150 centistokes)

13. REQUIRED CASH US \$- Selected: Code 941 \$1,750,000 Interest: Code 935 \$320,000 (Financing) Cash:	14. ESTIMATED SOURCE US Financing Countries: 320,000 Local Code 941 \$1,650,000
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This program is justified on the grounds of easing the Government of Seychelles' (GOS) difficult balance of payments situation. The \$2.0 million FSV will be used to purchase POL (medium fuel oil) from Geographic Code 941 sources. The POL will be used by the Seychelles Electricity Corporation to power its electric generators.

The local currency equivalent (\$2.0 million in Seychelles Rupees) will be used to finance mutually agreed-upon development activities. The GOS Ministry of Planning and External Relations has proposed that the local currency generations from the sale of the medium fuel oil be used to support: (a) implementation of a strengthened and intensive road maintenance program on Mahe; (b) potable water supply and distribution schemes on Mahe and Praslin; (c) a revolving home improvement loan fund to finance household sewage disposal; and (d) modest improvements at the Grand Anse agricultural research station.

15. CLEARANCES REC. DP REC. DC <i>Pring</i> <i>01/4/82</i> AA. EC J. COM. <i>G. Bidet</i> <i>6/2/82</i> <i>1/1/82</i> <i>1/1/82</i>	16. APPROVALS 17. APPROVED <i>[Signature]</i> <i>[Signature]</i>
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CLASSIFICATION

**OFFICIAL PROJECT DOCUMENT**

## SEYCHELLES FY 1983 COMMODITY IMPORT PROGRAM

### I. SUMMARY AND RECOMMENDATIONS

- A. Title: Seychelles FY 1983 Commodity Import Program
- B. Amount: \$2,000,000
- C. Type of Funding: ESF Grant
- D. Term of Program: Eighteen (18) months, from June 1983 to December 1984
- E. Executing Agency: Ministry of Planning and External Relations
- F. Summary Program Description:

In January-February 1983, the Ambassador and REDSO/ESA reviewed options for the FY 1983 AID program in Seychelles. Options included (a) a follow-on commodity import program (CIP); (b) a program (cash) grant; and (c) a traditional development project. The basic economic justification for both options (a) and (b) is the Government of Seychelles' (GOS) increasingly difficult balance of payments situation which, in effect, argues convincingly against either an extension to the on-going Food Crops Research project or initiation of a similar technical assistance project. Given the GOS's continued requirement for medium fuel oil, which is being financed under the FY 1982 CIP, and a more assured accountability of the use of funds, the Ambassador and REDSO/ESA agreed that a follow-on CIP is the most appropriate mode for FY 1983 assistance.

As essentially an extension of the FY 1982 program, in FY 1983 ESF monies will be used to procure \$2.0 million of medium fuel oil from a Code 941 country. The medium fuel oil will be used by the Seychelles Electricity Corporation to power its electric generators. The local currency equivalent, approximately Seychelles Rupees (SR) 13.0 million (\$1.00 equals SR 6.5), will be used to finance mutually agreed-upon development activities. The GOS Ministry of Planning and External Relations has proposed that the local currency generations from the sale of the medium fuel oil be used to support the following development activities:

- (a) implementation of a strengthened and intensive road maintenance program on Mahe;
- (b) potable water supply and distribution schemes on Mahe and Praslin;
- (c) a revolving home improvement loan fund to finance household sewage disposal; and
- (d) modest improvements at the Grand Anse agricultural research station.

The total cost of financing these activities, an estimated SR 99.3 million, greatly exceeds the approximately SR 13.0 million which will be generated under the CIP, so that further prioritization on the part of the GOS, the Embassy and REDSO/ESA will be required over the coming months. It is also possible that alternative activities may be proposed for financing.

Because of the absence of a resident AID staff and only a small U.S. Embassy staff (three officers) in Seychelles, it has been considered essential to finance a commodity, or commodities, which requires a minimum number of transactions and which imposes the least administrative and management burden. The purchase of \$2.0 million of medium fuel oil under the FY 1982 CIP was successfully negotiated in a single procurement action, and the success and relative ease of implementation of that program argued strongly for its continuation in FY 1983. Additional advantages include: (a) medium fuel oil is a high priority procurement and is required to generate electricity for the Seychelles power station; (b) funds can be utilized and disbursed quickly; (c) as in FY 1982, the procurement source will probably be a developing country (Kenya or Uganda); (d) the GOS cannot identify large purchases of alternative commodities totalling \$2.0 million which can be procured from the U.S. in the short term; and (e) minimal difficulties in complying with AID Regulation 1 for competitive procurement since the importer (Shell Company of the Islands, Ltd.) has prior experience with the procurement process. It is expected that there will be up to three shipments of oil: in September 1983, in January 1984 and in May 1984.

The Program Approval Identification Paper (PAIP) was submitted to AID/W on February 25, 1983 (Nairobi 5922). State 97600 (April 9, 1983) notified REDSO/ESA and the Embassy of its approval and concurred with preparation of this Program Assistance Approval Document (PAAD) for authorization by the REDSO/ESA Director.

G. Issues: None

H. Requirements for Waivers: Concurrent with approval of the PAIP, AID/W approved (1) a source/origin waiver from AID Geographic Code 000 to 941 to permit procurement of the commodity, medium fuel oil, from Code 941 sources; (2) negotiated procurement by the host country; and (3) the use of Code 935 vessels to transport the medium fuel oil financed by this grant and a waiver of the requirement for prior approval of the use of charter vessels.

I. Legal and Regulatory Requirements: The Congressional Notification was made and the waiting period expired on May 5, 1983 without objection. An environmental categorical exclusion was approved concurrent with approval of the PAIP (per State 97600). The Statutory Checklists are attached as Annex B.

J. Recommendation: It is recommended by REDSO/ESA and the U.S. Ambassador that an ESP grant of \$2.0 million be authorized for a FY 1983 commodity import program for Seychelles.

II. BACKGROUND

A. Political Update and U.S. Objectives

In August 1982 President Rene's government, already beset by threats of invasion from exile political groups, was rocked by a serious Army mutiny. Although ostensibly not aimed at Rene's overthrow, the mutiny underscored his fragile political base in the islands. Most importantly, the mutiny was another factor which has resulted in decreased tourist revenues, the mainstay of Seychelles' economy.

In November 1982 the President announced a major government reshuffle to restore a measure of "non-aligned" balance in Seychelles' external policies and to reassure businessmen and the middle class that there is a role for the private sector in his socialist government. The Minister of Planning and External Relations has sought recently to emphasize his government's desire for improved relations with the West, in general, and with the United States specifically. At the United Nations, the GOB absented itself on six issues of importance to the U.S. in 1982-3, in marked contrast to previous years when its voting pattern against our interests exceeded even those of Libya and the USSR. Outstanding issues regarding the U.S. Air Force satellite tracking station have been quietly dropped, as well as charges that the U.S. Embassy had been distributing propaganda inimical to the government's interests. Negotiations have also been initiated to allow the return of U.S. Navy vessels to Seychelles for port calls.

These recent policies are aimed, in the first instance, to attract more financial support from potential Western donors. Sweden, France, Great Britain, Germany and others have been approached to increase grant and/or loan assistance. Secondly, the GOS recognizes that its financial future is tied inextricably with Western tourism. While international tourism accounted for 78,000 tourists in 1979, only about 48,000 tourists visited in 1982, a graphic demonstration of the instability of tourism as a source of foreign exchange earnings. Although tourism made a slight recovery during November 1982-January 1983, the future is problematical, and much will depend on the world economic recovery, especially in Western Europe. Similarly, foreign aid flows have been affected by the Middle East political and OPEC situations and worldwide inflation and recession rather than on factors over which Seychelles has control. As a result, the GOS has had to delay and revise its development plans and social programs.

U.S. national security interests in Seychelles are based on the operation of a U.S. Air Force satellite tracking station on Mahe and the strategic location of the Seychelles archipelago. The decision to raise the level of representation to that of a resident ambassador in late 1982 was taken, in part, in recognition of Seychelles' importance to our interests in the Indian Ocean and to seek a reduction of Soviet influence and access to the islands.

Seychelles is strategically important to the United States for the following reasons:

- its geographic location on the supertanker routes in the western Indian Ocean;
- its proximity to Diego Garcia for either military basing or surveillance activities;
- its geographic location between Diego Garcia and both the Persian Gulf and the friendly states in East Africa and the Arabian Peninsula which grant U.S. access to their military facilities; and
- its potential as a transit point for projecting military power from the Asian land mass to the southwest Indian Ocean island states and to the mainland states of East and Southern Africa.

U.S. objectives in Seychelles continue to be the unhindered operation of the tracking station and the denial of military bases to other powers. By supporting pragmatic components of

the GOS National Development Plan (1982-86), the U.S. advances its interests in a developing country which recognizes its dependency on tourism and foreign aid and the consequent value of a moderate, non-aligned foreign policy. U.S.G. assistance will underpin these objectives and hopefully provide a basis for a longer term shift in Seychelles' political alignment toward views more in line with U.S. interests.

B. Government of Seychelles' Strategy

The rolling National Development Plan, 1982-1986 states the following GOS objectives:

- (1) to create a more equitable society;
- (2) to improve the general well-being of all Seychellois in terms of a higher level of per capita income, nutrition, education, health and social advancement;
- (3) to achieve a high degree of self-sufficiency in food production;
- (4) to make optimum use of available human and physical resources;
- (5) to preserve the natural environment; and
- (6) to broaden the country's overall economic base.

To achieve these development objectives, in 1980 the GOS initiated a restructuring program based on the separation of economic and administrative functions within the government. To a large extent, economic functions have been assumed by fourteen parastatal companies and corporations. According to the GOS, separation of economic functions into individual parastatals, answerable to their own boards and, in turn, to the GOS, enables rational decisions to be taken regarding pricing, staffing, investment and scale of operations. Generally speaking, the productive parastatals are also expected to be financially independent over the long term. During the Plan period, however, parastatals are allocated 45% of the proposed investment budget, reflecting "the important role the Government accords the State in the economic and social development of this country." It is the GOS's formal position that the establishment of parastatals does not presage any general nationalization of private enterprises or imply that there is no room for private enterprise in the future development of

Seychelles. The GOS has emphasized that acquisition of private companies is by negotiation of a fair price and not by nationalization.

The Plan estimates investment requirements of almost \$200 million during the 1982-86 period, of which less than \$50 million will come from domestic revenues. By implication, external resources must provide the balance, although the Plan states that "any estimate of the total finance that will be available for the country's development programmes becomes a highly conjectural exercise." Even discounting implementation of several projects in the Plan, Seychelles' dependence on continued high levels of external assistance is evident.

Foreign aid flows have continued to increase in recent years, with more than \$30 million expected in 1982. This has resulted in one of the highest per capita assistance figures in the world (approximately \$500). Great Britain and France vie for ranking as the largest donor, followed by a number of other European countries and international organizations. Because of these high assistance levels, the GOS has been able to finance most of its capital investment budget as well as several recurrent cost programs with external resources. Whether or not Seychelles will continue to receive increased levels in the future is uncertain.

C. Status of U.S. Assistance Programs in Seychelles

A modest bilateral AID program in Seychelles was initiated in FY 1979 with the design and approval of the Food Crops Research project (662-0001). Implemented under a contract with the Southeast Consortium for International Development (SECID), the project is focussed on adaptive and applied research on Seychelles' vegetable and fruit crops, agricultural extension and pest and plant disease protection and control. SECID is providing a mix of long- and short-term technical services in horticulture, plant pathology, soils science and entomology, plus short-term participant training in these fields as well as plant protection and quarantine and agricultural research methodology. The SECID contract will expire on March 31, 1984, and the Project Assistance Completion Date is June 30, 1984. Life-of-project funding is \$1,520,000, which was provided incrementally in FY 1979, FY 1980 and FY 1981.

In FY 1982 an ESF grant for a \$2.0 million commodity import program was authorized. The ESF monies have been used to date to procure approximately \$1.8 million of medium fuel oil from Kenya, which has been delivered in two shipments in November

1982 and April 1983. It is anticipated that the balance of the FY 1982 grant will be used to finance partially another shipment in September 1983 with the balance of that shipment financed from the FY 1983 CIP. Procurement and storage arrangements have been made through Shell Company of the Islands Ltd.

The \$2.0 million equivalent in Seychelles Rupees generated from the sale of the fuel oil financed under the FY 1982 CIP will be used by the GOS to finance: (a) establishment of a plant and soils analysis laboratory at the Grand Anse research station (complimentary to the Food Crops Research project); (b) support to the Islands Development Company Ltd. for production improvements on Coetivy and Farquhar Islands (cold storage complex for fish harvests, cattle/pork production, maize production, coconut and pine replantation and purchase of agricultural machinery); (c) establishment in the Seychelles Development Bank of a modest fund for small farmers for land acquisitions; (d) road repair and reconstruction; (e) water drainage and flood control improvements on two low-lying plateaus; and (f) installation of a rural potable water supply system on Mahe. As of April 1983, a total of SR 5,600,548 (\$826,039) had been deposited in a Separate Special Account for expenditure on the above activities. It is estimated that disbursements will be completed by September 1984.

In addition to the Food Crops Research project and the FY 1982 CIP, activities have been supported under the Ambassador's Self-Help Fund (\$89,000 in FY 1982), and one scholarship in tax administration will be financed in FY 1983 under the African Manpower Development project. Catholic Relief Services has been administering a PL 480 Title II program for many years; non-fat dry milk, rice and vegetable oil are provided for school feeding, child feeding at day care centers, mother-child health care and general welfare (destitute) relief. Eight Peace Corps Volunteers are working in computer programming, management training, nutrition education, education and civil engineering. USIS also has a modest cultural affairs and exchange program.

D. Determination of Commodity Procurement under this CIP

In January 1983 a REDSO/ESA team visited Seychelles to discuss with the GOS and Embassy whether or not (a) a follow-on CIP would be the most appropriate mode for FY 1983 assistance and, if so, (b) a limited number of procurements of homogeneous industrial or agricultural commodities totalling \$2.0 million could be identified and subsequently furnished by one or two U.S. suppliers. Following discussions with the Ministry of Planning and External Relations, the Department of Finance and

Industry, the Central Bank of Seychelles and the Embassy. It was concluded that the purchase of medium fuel oil, which was the commodity selected for procurement under the FY 1982 CIP, was again advisable. This decision is based on the following factors:

- (1) Seychelles' 1982 imports totalled \$64.3 million, and historical trade patterns with the U.S. indicate that less than \$2.0 million is imported annually, representing a very wide range of goods;
- (2) given the lack of foreign exchange controls, the relatively small private sector continues its traditional pattern of importing from preferred sources for product standardization (e.g., Japanese automobiles);
- (3) the GOS policy is also to standardize imported equipment to the maximum extent possible, and other developed countries have already established markets in Seychelles (e.g., the Seychelles Electricity Corporation has standardized on power generators manufactured in the U.K.); and
- (4) the GOS has no large-scale capital investment projects in the short-term which require funding of large homogeneous commodities which could be procured in the U.S.

With this arrangement, the ESF funds can be disbursed rapidly; the administrative burden on the GOS, AID and the Embassy is minimized; and it is probable that the foreign exchange will flow to either Kenya or Uganda, both countries which are presently recipients of AID assistance.

As stated above, the GOS has again requested AID to finance medium fuel oil (MFO), specifically MFO 180 centistokes. MFO 180 cs is substantially cheaper than gasoil (diesel) and will continue to be used by the Seychelles Electricity Corporation (SEC) to generate electricity. The Shell Company of the Islands Ltd. has installed a 6,000 MT tank to store the MFO, and SEC has two storage tanks with capacities of 1,000 MT and 250 MT. SEC has estimated an average annual requirement of 17,000 MT of MFO, although consumption projections for 1983-84 may decrease to 11,000-16,000 MT given the decline in tourism. Because of

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recent decreases in the price of oil on the world market, it is estimated that the \$2.0 million ESF grant will finance approximately slightly less than a year's requirement at the SEC power station. Given the limited total storage capacity of 7,150 MT and the requirement to maintain a reserve, the medium fuel oil must be delivered to Seychelles in three shipments approximately four months apart.

### III. ECONOMIC BACKGROUND AND PROGRAM JUSTIFICATION

#### A. General Economic Background

##### 1. Macro-Economic Setting

Seychelles is a middle-income country with a population of about 65,000. Its sea and land territory, based on about one hundred islands, extends over an area almost as large as Madagascar. Mahe and the two nearby islands, Praslin and La Digue, total about 200 square kilometers and account for 98 percent of the total population and 45 percent of the land area. Until the early 1970's the island's development prospects were limited. A few agricultural commodities were exported to finance rice imports, but in general international economic exchanges were limited.

Major changes occurred with development of a tourism industry, shifting the islands to a service-oriented economy. Agricultural production has accounted for about 7 percent of Gross Domestic Product (GDP) in recent years and is relatively stagnant. Manufacturing is limited to about 50 small-scale operations. Private sector employment constituted 57 percent of the 17,800 people employed in December 1980. There has since been a decline in the number of people in formal employment to 15,500 in June 1982, and public sector employment has become more important than the private sector. Large numbers of school leavers have been deferred from starting work by inscription in the National Youth Service (NYS), although the first wave of NYS "graduates" will enter the job market in 1983.

The economy expanded rapidly in the late 1970's with the growth in tourism. The Gross Domestic Product, which was SR 366 million in 1976, rose to SR 799 million in 1979, then levelled off at SR 930 million in 1980 and 1981. The 1982 figure is not yet available but will have dropped slightly, reflecting the decline in tourism income.

Relative to other developing countries, the standard of living is high. The population growth rate is only about 2.1 percent per annum. The birth rate showed an encouraging drop of 3 points per thousand in 1982. The current death rate is under 7

per thousand, reflecting the excellent level of health services. Annual visits to fixed health facilities now exceed 8 per capita. The nutritional status of the population is good. Universal education has been attained, and in 1982 it was decided to integrate pre-primary education with primary education; 37 kindergartens/day care centers were opened in 1982. Social services (broadly defined) now constitute 35 percent of the GOS's total recurrent budget.

## 2. Recent Economic Trends

In 1982 the domestic economy remained depressed, with the external account continuing under pressure because of a further decrease in tourism revenues and a continued high level of imports. The balance of payments deficit slowed in the second half of 1982 compared with the first two quarters, so that the net loss for the year was estimated to be SR 30 million, or the same level as 1981.

As indicated above, the past year was disastrous for the tourist industry. In the peak year of 1979, about 79,000 tourists came to Seychelles; the following years declined to 72,000 in 1980 and 60,000 in 1981. The 1982 statistics show a further drop to 48,000, though the average expenditure per tourist in 1982 remained basically constant at SR 4,800 (\$740.00). The decline in tourism has been due to a combination of factors: unfavorable publicity following incidents indicating political instability, rising costs due to revaluation of the Seychelles Rupee, higher air fares and the world recession. The GOS launched a major tourism marketing campaign in Europe in September 1981 to try to counteract this downward trend. However, the most recent negative factor, plans by two major airlines to discontinue regular flights to Seychelles, will be more difficult and potentially expensive for the GOS to overcome.

In the external trade sector, imports were higher in the first half of 1982 than in the same period in 1981. The March 1981 currency revaluation discouraged domestic exports, which had been slipping for some time, and for the first three quarters of 1982, export receipts were almost 40 percent below the same period in 1981.

Stagnation of agricultural production is of major concern to the Government. The current National Development Plan (1982-86) continues to emphasize the potential growth of both agriculture and fisheries, but this may be difficult to achieve. Copra production has been slowly declining, although in 1981 export earnings were cushioned by higher world prices. Similarly,

export earnings from cinnamon crops (bark and oil) were expected to be higher in 1982 than in 1981. Frozen fish constitutes the second most important export, but 1981 statistics indicate a drop in both the quantity and value to only half that of the prior year. In spite of substantial foreign assistance in the fishing sector, its potential for cost-effective development may be limited. Because food accounts for about one sixth of all imports, the Government is encouraging expansion of domestic food production. As an incentive to farmers, prices of most fertilizers and insecticides were reduced in June 1982.

For the past three years, the level of development expenditure has increased from SR 165 million in 1980 to about SR 200 million in 1981, and 1982 was expected to show an additional increase. With a tightening of foreign aid, it will become increasingly difficult to sustain this level of development expenditure from domestic sources. Estimated 1983 government revenues by source projected a 7 percent decrease from 1982 level, while total expenditure estimates from the all ministries and departments had increased by 12 percent. About one-third of the expenditure estimates can be classified as irreducible commitments for pensions and gratuities, public debt and centralized payments.

The future for the Seychelles' economy does not appear to be brightening. The high level of government expenditure in 1982 increased employment in the public sector, but private sector employment has decreased, particularly in the tourism sector. While inflation slowed in 1981 and 1982, and Seychelles has been referred to as a middle-income country because of a GNP of about \$1,400 per capita, the GOS will find it increasingly difficult to sustain the social services enjoyed by the population.

The National Development Plan (1982-1986) proposes to stop the current deterioration of the economy by diversifying, through greater emphasis on agriculture and fisheries, while at the same time supporting tourism. A total investment of SR 2.323 billion (at 1982 values) is envisaged. About 26 percent is allocated to the production sector, compared with only half that amount in the previous rolling plan (1981-85). Of the total budget, utilities are allocated 24 percent, 18 percent for social services and 9 percent for housing. The parastatal sector is allocated 45 percent of total planned investment.

The Development Bank of Seychelles (DBS) was established in 1977 to finance projects in agriculture, fisheries, tourism and small business. Credit advanced by the DBS declined from SR 11.8 million in 1979 to SR 6.4 million in 1980 and SR 5.8 million in

1981. However, during the first nine months of 1982, the volume of commitments rose dramatically to SR 12 million for 153 loans. In 1983 the DES is planning to extend an additional SR 12 million in new loans. Most of the loans to date have supported projects been in the agricultural sector.

The Seychelles Monetary Authority (SMA) assumed responsibility for all Central Government banking operations in 1982, assuming the General Accounts and collection accounts which had been previously held by Barclays Bank. A program to modernize the coinage was completed in 1982. In January 1983, the SMA became the Central Bank of Seychelles (CBS).

In the third quarter of 1982, the commercial banking sector held over 80 percent of all outstanding credit. During this quarter, commercial credit fell by SR 22 million and deposits declined by SR 28 million, causing a severe liquidity shortage. The SMA attempted to restore stability by raising the minimum reserve requirements applicable to banks from 5 to 7 percent, limiting all refinancing to priority sectors, and tightening credit to parastatals. Credit to parastatals had increased by 200 percent, to SR 35.1 million, between December 1980 and December 1981. By June 1982 it had increased at an all-time-high of SR 74 million.

Money supply or currency with the public and in demand deposits (M1), which had risen from SR 139 million in 1980 to SR 143 million in 1981, dropped to SR 128 for the second half of 1982. Quasi-money, or time deposits plus savings deposits, showed a steady decline from SR 155 million in 1980 to SR 150 million by the end of 1981 and a further decline to SR 140 at the close of 1982. This meant that broad money (M2), M1 plus quasi-money, fell by more than 8 percent between the end of 1981 and the end of 1982. It was likely that the money supply, defined in its broadest sense (money supply plus quasi-money plus government deposits, or M3), had stagnated in 1981 and was likely to show a decline in 1982.

Inflation has slowed significantly in the past two years, largely as a result of the 15 percent revaluation of the rupee in March 1981, which reduced prices of imported goods. However, secondary factors include the introduction of strict price controls on all imported goods in August 1981, plus a wage and salary freeze imposed for most of 1981. The recessionary conditions in much of the private sector also helped slow the inflation rate which had peaked at 16.2 percent in May 1981. The average rate of inflation in 1982 was only 0.4 percent. In 1980 retail prices rose 13.5 percent over the 12 months, but had dropped substantially, to 5.8 percent, by 1981.

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B. Economic Program Justification

1. GOS Budget

(a) Expenditures

In his 1983 budget address, the President stated that "The Government intends to pursue a careful and restrictive approach to public expenditure in general. In setting expenditure allocations this year, the Government will pursue a policy of maximum efficiency in the public services and will ensure that the costs of the various services are kept under strict control."

The following table presents the 1982 approved expenditures and the 1983 estimates as presented (but not approved) for the major Government departments and ministries. Caution should be exercised in evaluating the estimates for 1983. For example, in late 1982, a new Ministry of National Development was created with three departments: Lands, Physical Planning and Survey; Infrastructure; and Agriculture. The 1983 presented estimates only allocate an initial quarter figure of SR 5 million. Upon inquiry, however, it was stated that the final request would be about SR 22.2 million, of which SR 14.7 million would be for agriculture and SR 7.5 million for lands, physical planning and survey. It would appear that this increase of SR 17.2 million will have to be drawn from the General Contingency (SR 22 million in 1982) or from Centralized Payments.

The various ministries and departments received 1982 approved estimates of SR 262 million. The largest share of the total budget, 30 percent, was allocated to Education and Information. The next most important ministries were Youth and Defense, with 20 percent, and Health, which received 16 percent. It appears that there will be little change in the share of the proposed 1983 expenditures allocated to these major categories.

Pensions and gratuities were approved for SR 14 million in 1982; in 1983 only SR 11 million was requested. The public debt is expected to double, from SR 28.5 million in 1982 to SR 39 million in 1983. Centralized payments represented 28 percent of total 1982 approved expenditures, which amounted to SR 409 million or almost \$63 million.

(b) Resources

In 1982 collection of import and excise duties contributed 38 percent of total revenue. Income tax was the second largest source, representing 24 percent of the total; one third was collected from companies and corporate bodies and the remainder from individuals.

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ESTIMATES OF RECURRENT EXPENDITURES  
SR 000's

<u>Category</u>	<u>Approved Estimates 1982</u>	<u>Presented Estimates 1983</u>
President's office and household	5,320	6,921
Department of administration	6,439	7,543
Department of transport	2,000	3,500
Department of finance and industry	15,992	30,833
Ministry of youth and defense	51,616	51,684
Department of legal affairs	1,931	2,148
Judiciary	2,100	2,556
Department of audit	840	840
Ministry of education and information	79,435	80,000
Ministry of Planning and external relations	-	9,551
Ministry of labor and social security	3,784	3,860
Ministry of health	40,954	40,954
Ministry of national development	-	5,000
Min. of Agriculture	10,827	-
Min. of foreign affairs	8,053	-
Min. of planning and development	14,318	-
Min. of transport and civil aviation	<u>20,446</u>	-
Sub Total	<u>262,057</u>	<u>245,445</u>
Pensions and gratuities	13,908	11,210
Public debt	18,473	38,952
Centralized payments	<u>114,155</u>	<u>143,302</u>
Grand Total	<u>408,593</u>	<u>438,908</u>

Categories in which 1983 revenue estimates will probably be lower than 1982 include dividends from investment, down to SR 17.4 million from SR 32.6 million, and aviation landing fees, where a SR 6 million decline is predicted. Categories in which the 1983 revenue estimate may be increased over 1982 include a SR 26 million increase in import duties, a SR 12 million increase in excise duties, and a SR 9 million increase in individual income tax collections.

(c) Financing the Government Deficit

Although the GOS's estimated recurrent budget expenditures and revenues have been presented, changes will occur before the final accounting is completed for 1982. Dividends from investments for 1982, which were expected to reach SR 32.6 million, were probably closer to SR 23 million, a marked drop. A cut of about 5 percent was made in most administrative and recurrent expenditures. For 1983, the GOS contribution to development projects is expected to be halved, from SR 30 million to SR 15 million. In 1981, SR 23 million was allocated to the Development Fund to finance capital expenditure. In 1980 recurrent revenue exceeded expenditure by SR 6.9 million. Based on provisional estimates, in 1981 the surplus was a similar amount. However, after 1981, revenue from and expenditures on the parastatal companies and corporations are not included in the recurrent budget. The parastatal budgets are now included in the capital expenditure program. In 1979 net losses from parastatals amounted to about SR 39 million, the latest year for which financial data is available. Although the GOS recurrent revenue exceeded recurrent expenditure in 1981 and probably in 1982, the margin is likely to be less in 1983. Expenditures increased faster than revenues between 1980 and 1981 (by 15 percent and 7 percent), and this trend is continuing. However, it is public sector investments which dominate the GOS budget, increasing from SR 135 million in 1979 to about SR 200 million in 1981. This increase in capital expenditure has depended largely on foreign aid flows, which totalled SR 108 million in 1980 and SR 87 million in 1981. Estimated flows for 1982 are not yet available, but it is clear that foreign aid for financing public sector investment is increasingly difficult to find.

2. Balance of Payments

The first two quarters of 1982 indicated balance of payments deficits of RS 20 and 24 million respectively. By the third quarter the deficit was substantially less, RS 13 million.

although the goods and services account suffered the largest recorded quarterly deficit. However, this was partly offset by inflows of official and private capital of RS 42 million. The fourth quarter presented a slightly more optimistic outlook; export receipts reached the highest level of the year and tourism receipts improved over the previous two quarters.

In his budget address for 1983 President Rene said, "There is an urgent need to reduce the balance of payments deficit and the level of Government borrowing." Recently the GOS has met its balance of payments problem by undertaking a marked increase in foreign debt. In the past three years foreign debt has more than doubled, from SR 135 million in 1980 to SR 301 million in 1982. In 1980 total export earnings, which are dominated by revenues from tourism, were sufficiently high, SR 365 million, so that the debt service ratio was insignificant. By 1981, with export earnings alone down by 13 percent and amortization payments just starting, the debt service ratio was only 1 percent. The major change has occurred in the past two years. Between 1981 and 1982, export earnings dropped by 23 percent and interest plus amortization on foreign loans tripled so that the debt service ratio rose to 3 percent. Even if the numbers of tourists in 1983 increase by 10 percent and the average per capita revenue from tourists remains at 1982 levels, and with an estimated increase of SR 5 million in domestic exports, the debt service ratio will rise to about 8 percent. The full impact of the substantial rise in foreign debt will be felt in 1983, with amortization payments and interest rising to SR 21 million. If one could assume that Seychelles would not need to incur additional foreign debt after 1982, the debt service ratio could then remain stable (see Table).

(a) Current Account

(1) Foreign Earnings

Foreign exchange receipts present a deteriorating picture. In 1980 total receipts were SR 598 million; by 1981 there had been an 8 percent drop due to a decrease in both domestic export earnings and tourism receipts. Although final figures for the fourth quarter of 1982 are not yet available, assuming the total receipts for the year were about SR 480 million, this represents a drop of about 13 percent from 1981.

By far the most important factor in the foreign exchange situation is the income earned from tourism, which contributes over half of foreign earnings. In the peak year of 1979 a

NATIONAL DEBT AND DEBT-SERVICING

(January 1983)

I. National Debt

Amounts Outstanding	SR Million (end of year)		
1980	1981	1982	
Local 103.8	72.0	98.0	
Foreign	<u>135.4</u>	<u>190.7</u>	<u>300.8</u>
Total <u>239.2</u>	<u>262.7</u>	<u>398.8</u>	

II. Interest Servicing Costs

SR Million (during period)			
1980	1981	1982	
On local debt	5.48	5.74	8.06
On foreign debt	<u>.75</u>	<u>2.05</u>	<u>5.62</u>
Total <u>6.23</u>	<u>7.79</u>	<u>13.68</u>	

III. Amortization of Loans Due

SR Million (during period)			
1980	1981	1982	
Local *	*	*	
Foreign	-*	0.53	1.86

\*Not available

IV. Foreign Official Loans Drawn

SR Million (during period)			
1980	1981	1982	
Cash Loans	46.2	34.5	65.8
Other *	<u>20.8</u> (X)	<u>44.3</u>	
Total	<u>55.3</u>	<u>110.1</u>	

(X) Excludes SR 29 drawn by SMA

V. Debt Service Ratio

	SR Million (during period)		
	1980	1981	1982
Interest plus amortization on foreign loans	*	2.58	7.48
Total export earnings (including tourism)	365.5	322.1	247.6
Debt-service ratio		0.8%	3.0%

VI. Forward Forecast Debt Service Ratios

	1983	1984	1985	1986	1987
Interest	6.4	6.05	7.05	6.96	6.42
Principal due	<u>15.00</u>	<u>17.63</u>	<u>19.50</u>	<u>19.55</u>	<u>19.60</u>
Total	<u>21.40</u>	<u>25.68</u>	<u>26.55</u>	<u>26.51</u>	<u>26.02</u>

Assuaptions:

	1982+10%	15%	25%	15%	10%
Returns from Tourism	245	282	352	405	445
Export earnings	<u>30</u>	<u>35</u>	<u>40</u>	<u>45</u>	<u>50</u>
Total	<u>275</u>	<u>317</u>	<u>392</u>	<u>450</u>	<u>495</u>
Debt service ratio (est.)	7.8%	8.1%	6.8%		

Notes: Assumption that no new debt will be incurred in 1983 (or after) is probably not realistic, so debt service ratios not carried beyond 1985.

Tourism earnings based on percentage increases in numbers of tourists noted after 1983 are relatively conservative, as is figure for average earnings per tourist (\$K 4,700 or average from 1982)

Export earnings are expected to rise by SR 5M per annum.

total of 79,000 tourists visited the islands. Since then, the decline has been steady: down to 60,000 tourists in 1981 and 48,000 in 1982. There was some optimism over a 13 percent increase in the number of tourists arriving in the first 3 weeks of January 1983 over the same period in 1982. However, this should be balanced against the negative effects of the stoppage of service by two major airlines (Lufthansa and British Airways) by April 1983, plus anticipated losses to be incurred by making alternative charter arrangements. Another key factor in the tourist industry is the average revenue gained per tourist, and this was better than expected in 1982, being equal to the prior year. However, again, the future looks less optimistic as package tour sales (including transport and hotel) by external companies represent a larger percentage of tourist arrivals because the gain by the Seychelles economy is a lower amount per tourist.

In September 1982 the Government mounted a major marketing and promotion campaign designed to attract increased numbers of tourists, especially from Europe where about 60 percent of the tourists originate. Tourists from African countries represent about 16 percent of the total, although Asian visitors, becoming increasingly important, will probably exceed African visitors in 1982. American tourists amount to only 5 or 6 percent of the total market.

Export proceeds channelled through the banking system rose to SR 9 million in the fourth quarter of 1982, but for the year's total export earnings represented a 24 percent decrease from the previous year, continuing the steady decline since 1978 when export earnings were almost double the 1982 figure.

#### (2) Foreign Payments

In the third quarter of 1982 payments abroad on current account were SR 165 million, marginally more than the previous quarter. The fourth quarter was expected to record a decrease from the three prior quarters due to the lowered level of imports, which account for over 65 percent of total current payments. Imports peaked in 1980, then decreased by 10 percent in 1981, and decreased a further 8 percent in 1982. It is interesting to note that imports in Seychelles are closely linked to tourism figures.

Expenditures on account of foreign travel, which are derived from the exchange record, have been slowly declining and were expected to total SR 47 million in 1982.

The steadily worsening position of the net current account from 1977, when it showed a deficit of SR 24 million, to 1981, when it reached SR 164 million, should be noted. Figures are not yet available for 1982, but the following table, Summary of Exchange Record, indicates that further weakening of the net current account is expected in 1982.

(b) Capital account

External loans utilized by the Government reached their peak in 1980. The most important source was Great Britain which provided both a development loan and resources through the Commonwealth Development Corporation. Germany and China also made loan funds available in 1981. On the multilateral side, the African Development Bank and Fund have made loans. More recent loans have been obtained from the Abu Dhabi Fund and BADEA (Arab Bank). Official capital inflows in 1982 were expected to total about SR 94 million, an increase over the SR 83 million total for the prior year.

As shown in the debt-servicing tables, due to conservative financial management in the past, interest plus amortization on foreign loans only became a significant factor in 1982 when SR 7.5 million was due; but by 1983 this figure will almost triple to SR 21 million. At this level it will be close to the amount earned by domestic exports in 1982.

Net private investment in the second and third quarters of 1982 was about SR 15 million, but went almost entirely into the hotel industry. With the completion of one major new hotel and the stoppage, prior to its completion, of another hotel (due to financial problems), it is unlikely that recent favorable private investment inflows will continue.

Commercial banks recorded an increase in their assets in 1980 of about SR 13 million; by 1981 this had turned into a loss, or drop, of SR 19 million. Final figures for 1982 are not available, but in the third quarter there was a major decline in commercial bank deposits (by SR 28 million) accompanied by a decrease of SR 22 million in credit which caused a severe liquidity shortage

IV. PROPOSED USE OF LOCAL CURRENCY GENERATIONS

A. Proposed Areas of Concentration

Based on discussions with the Ministry of Planning and External Relations, the Embassy and REDSO/ESA have preliminarily been requested to consider support for several development

SUMMARY OF EXCHANGE RECORDSeychelles 1980-1982

R million during period

	1980	1981	1982	1981				1982			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Receipts of which:	598	550	*	155	140	126	129	131	116	108*	
Exports	(35)	(33)	(25)	(10)	(5)	(11)	(7)	(3)	(6)	(7)	(9)
Tourism	(331)	(289)	(223)	(86)	(66)	(70)	(67)	(67)	(50)	(48)	(58)
Payments of which:											
Imports	(482)	(453)	(418)	(114)	(112)	(109)	(118)	(118)	(109)	(107)	(84)
Travel	( 51)	( 50)	( 47)	( 13)	( 12)	( 13)	( 12)	( 15)	( 12)	( 10)	(10)
Deficit	-64	-122	*	-22	-30	-30	-40	-44	-48	-47	*
Official capital	108	83	94	10	30	18	25	25	13	32	24
Private capital, net	3	0	*	-3	-7	-1	-11	-3	5	10	*
Loss on rupee reevaluation	-	-20	-	-20	-	-	-	-	-	-	-
Change in external reserves	-47	55	*	35	7	13	0	20	24	13	*

Minus sign indicates increase in reserves

\* No data available yet.

activities. The total local currency funding requirements greatly exceed the SR 13.0 million which will be available as the FY 1983 CIP generations, so that further establishment of priorities on the part of the GOS, the Embassy and REDSO/ESA will be required over the coming months.

A summary of the proposed activities and their local currency implementation costs follows:

(a) Mahe road maintenance program	SR 6.0 million per year
(b) Mahe and Praslin potable water supply and distribution	84.5 million
(c) loan fund for household sewage disposal	7.0 million
(d) improvements at the Grand Anse agricultural research station	1.8 million
Total	SR 99.3 million

It is important to note that each development activity has been designed for implementation commensurate with the availability of funds from one or more financing sources, including the GOS's own annual operating and investment budgets. In this way, AID's \$2.0 million in local currency generations (SR 13.0 million) can be used to finance one or more activities and/or partially finance several activities.

B. Summary Descriptions of Proposed Activities

1. Mahe Road Maintenance Program (SR 6.0 million equals \$923,000 per year)

A combination of heavier-than-normal rains over the past two years and increasingly heavy vehicular traffic (both in numbers and weight) have resulted in a seriously deteriorating roads system on Mahe. The Ministry of Transport has recently been concentrating on emergency patchwork, but recognizes that a full-scale, long-term road maintenance program must be implemented to lower yearly recurrent maintenance costs, prolong vehicle life and improve road safety. The Ministry has, therefore, prepared a road maintenance plan (June 1982) which details rolling (annual) maintenance requirements for

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different categories of roads (major arteries, minor arteries, rural roads and earth roads). The plan establishes priorities for road sections on Mahe which will require short-term maintenance (minor improvements) and/or long-term rehabilitation. The latter category includes those roads which have now exceeded their design life and which will require major reconstruction, including replacement of foundations, edge-walling and resurfacing.

The Ministry of Transport contracts with Works Enterprises Ltd./ Civil Construction (a GOS parastatal) for bitumen work, but solicits tenders from private contractors for blasting, drainage and bridge work. The Ministry has estimated that SR 10.0 million will be required on a yearly basis to undertake its rolling maintenance plan. Of this amount, the Ministry anticipates receiving an allocation of SR 4.0 million from the GOS 1984 budget and requests that AID consider contributing the balance of SR 6.0 million.

Implementation of the Ministry's rolling maintenance plan has been initiated with the allocation of SR 6.27 million from the FY 1982 CIP local currency generations. An estimated seven maintenance activities will be undertaken, including major and minor road rehabilitation and flood and storm drainage control works. The next highest priority is reconstruction of the major arterial section between the airport and Anse Royal, linking Victoria with the south and west coasts of Mahe. It is probable that the Ministry of Planning and External Relations will request an allocation of local currency generations to finance a portion of the total cost of undertaking this road work.

2. Mahe and Praslin Potable Water Supply and Distribution (SR 84.5 million equals \$13.0 million)

In an effort to improve the population's health and economic productivity and to attain the goal of the International Water Decade to provide safe water to the population by 1990, the Seychelles Water Authority Ltd. (SWAL) has planned a comprehensive program to convert and/or expand the reticulation systems on Mahe and Praslin to provide treated water. The program includes a number of discrete systems on Mahe, one of which is being financed under the FY 1982 CIP. Each scheme involves the construction of a small barrage from the stream source, installation of a small-scale treatment facility (grit tank and filter), a water storage tank and distribution to the consumer (household, school, clinic, etc.). The schemes are designed to be 95% gravity-fed to minimize pumping requirements.

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On Praslin, all water supplies are presently untreated. Installation of a potable water system which will extend over the island will be undertaken on a phased basis. The first phase will include tapping surface and groundwater sources and installing a piped distribution system. The second phase will require the construction of an impounding reservoir and further extension of the distribution system. The total estimated cost of Phase I is SR 33.0 million of which SR 7-8.0 million will be provided by Japan for the procurement of most of the required materials and equipment. The balance of Sr 25-26.0 million will be for primarily local costs, a requirement which exceeds SWAL's budgetary availabilities. It is important to note that SWAL's recurrent operating and maintenance costs associated with improving Seychelle's water supply and distribution are met by metered charges based on consumption.

3. Loan Fund for Household Sewage Disposal  
(SR 7.0 million equals \$1.08 million)

This proposed activity represents the most critical component of the African Development Fund-financed "Greater Victoria Sewerage Project." Under the terms of an ADF loan totalling \$12.2 million (ADF: \$8.0 m.; GOS \$4.2 m.) signed in December 1981, approximately 7,000 urban households will be provided with access to waterborne sewage disposal. Scheduled to start in May-June 1983 with the arrival of the contractor, the ADF project will include expanding the capacity of the existing sewage treatment works and pumping stations, laying main sewer lines and extending sewer lines from the main to the householder's property line.

The GOS/SWAL has requested complementary AID capitalization of a revolving loan fund for householders to connect their houses to the sewer lines. The loan fund will be administered by the Seychelles Housing Development Corporation, using the same procedures and terms which are presently in effect for long-term home improvement loans. A householder will use the loan funds to purchase the required fittings and either install them himself or contract with a private firm for their installation. In both cases, design and construction standards will be enforced by SWAL, which will supervise and inspect all installations. SWAL estimates that the average cost of installing or modifying a household sewerage system will be SR 1,000 (\$153.85). For 7,000 households, the loan fund should be capitalized at SR 7.0 million. SWAL's recurrent operating and maintenance cost associated with the sewerage system will be financed totally with recurrent revenue from user charges.

4. Improvements at the Grand Anse Agriculture Research Station (SR 1.8 million equals \$276,000)

As a result of the GOS's ministerial reorganization in November 1982, the former Ministry of Agriculture and Land Use is now the primary functional department within the new Ministry of National Development. The Chief Agricultural Research and Development Officer will present to the Ministry a proposal for modernization of the Grand Anse research station. Improvements would include installation of a perimeter fence and small-scale irrigation system, as well as procurement of some additional agricultural machinery and two pick-ups to replace deadlined vehicles. Support of this activity would reinforce implementation of the on-going Food Crops Research project. In conclusion, the aboved described activities have been discussed with the implementation agencies and with the Ministry of Planning and External Relations. It is possible, however, that GOS priorities may shift between the time of authorization of this CIP and the time when the local currency generations are on deposit for allocation. These activities, therefore, may subject to modification and/or replacement with alternative activities for local currency financing. Any such proposed modification and/or replacement would require REDSO/ESA's prior approval.

V. PROGRAM IMPLEMENTATION

A. Procurement and Contract Arrangements

As discussed in Section II.D., approximately 10,000 MT of medium fuel oil will be AID-financed under this CIP. Pursuant to authorization from AID/W (State 86361), procurement will be competitively negotiated with the local affiliates of seven multinational oil suppliers (Caltex, Mobil, Esso, Shell, BP, Total and Agip) which are incorporated in Kenya. Shell Company of the Islands, Ltd. will act as agent for the GOS in effecting the procurement. The suppliers will provide price quotations for shipments from Mombasa or other Code 941 source which will be CIF Victoria, Seychelles. The REDSO/ESA Supply Management Advisor has assisted with preparation of the Request for Quotations and will oversee the negotiated procurement. A source/origin waiver to permit the procurement of the medium fuel oil from Code 941 countries was approved concurrently with approval of the PAIP.

The contract between the GOS and the selected supplier of the MFO will be reviewed and approved by REDSO/ESA. AID's standard Commodity Financing Procedures, as set forth in Regulation 1,

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will be followed as applicable. Given the non-availability of U.S.-flag shipping, the use of Code 935 vessels to transport the fuel to Seychelles was also approved concurrently with approval of the PAIP. In order to provide continuity with the MFO shipments now in progress under the FY 1982 CIP, the \$2.0 million of FY 1983 ESF should be committed by July 1983 and totally disbursed by December 1984. The quantity of medium fuel oil to be financed under this CIP will represent approximately an 8-10 month supply of SEC's requirements. It is expected to be provided in up to three shipments: in September 1983, in January 1984 and possibly in May 1984. REDSO/ESA foresees no implementation problems related to procurement, shipment and payment within the timeframe outlined above.

B. Financial Arrangements

This CIP is designed to facilitate the flow of financial resources (foreign exchange) to the GOS to enable it to meet its foreign exchange shortfall as discussed above in Section III., Economic Background and Program Justification. Selection of medium fuel oil for purchase under this CIP will meet both AID and GOS objectives.

Use of an AID Direct Letter of Commitment (L/Comm) will be the simplest and cheapest financing mechanism to purchase the MFO. If, for any reason, the AID Direct L/Comm procedure is unacceptable to the supplier, then, utilizing the commercial system, AID will follow a Bank L/Comm and Letter of Credit procedure to effect payment. In any event, payment for the MFO will be made promptly, following AID financing procedures.

The MFO procured under this CIP will be sold by the GOS to the Shell Company of the Islands, Ltd. (Seychelles). Upon delivery of the MFO to Victoria, the GOS will immediately deliver the fuel oil to Shell. Shell will pay the GOS in Rupees for the oil in three equal monthly installments following delivery, and the GOS will deposit these proceeds in a Separate Special Account (SSA). Funds from the SSA will be disbursed and accounted for by the Department of Finance and Industry to finance mutually agreed-upon activities. Reporting requirements are discussed below in Section C.3.

C. Program Monitoring

1. A.I.D.

REDSO/ESA will be primarily responsible for monitoring this CIP. REDSO/ESA has the requisite technical, contractual and legal capability to prepare all necessary legal and contracting documents and to oversee implementation. Since the program will involve only one procurement action, no implementation problems are foreseen which could not be managed or resolved by REDSO/ESA. Approximately \$200,000 of funding remains uncommitted under the FY 1982 CIP because of lower-than-anticipated costs for MFO and the inability to ship more fuel oil due to shipping and storage constraints. Financing of a third shipment for this amount is not practical due to the small volume involved. It is anticipated that this financing will be used to finance partially the first shipment under the FY 1983 program, and the RFQ for the FY 1983 program will contain a provision permitting the GOS to increase the amount of oil to be delivered by up to 25% to permit ordering additional oil to fully utilize all financing under both the FY 1982 and FY 1983 programs. Utilization of the balance of the FY 1982 CIP will require an extension of the terminal commitment date under the FY 1982 CIP and may also require a source/origin waiver if the source of oil of the low bidder on the FY 1983 CIP procurement is other than Kenya or Bahrain. (The authorized source/origin under the FY 1983 CIP is the broader Code 941.)

2. Government of Seychelles

The GOS executing agency will be the Ministry of Planning and External Relations. Implementing agencies of the proposed activities which may be financed with the local currency generations are the Ministry of Transport, the Seychelles Water Authority Ltd. and the Ministry of National Development. Reporting requirements will also be met by the Department of Finance and Industry.

3. Reports

Reporting requirements established under the FY 1982 CIP will be continued. The reports will be submitted to the Embassy and forwarded to REDSO/ESA for review. Three types of reports will be required:

(a) Commodity Report

Commencing with receipt of the first shipment of medium fuel oil and quarterly thereafter, the Department of Finance and Industry should submit a report which provides quarterly and cumulative data on the receipt and utilization of the MFO. The report should be forwarded within 15 days after the end of a reporting quarter.

(b) Financial Report

A financial report should be submitted by the Department of Finance and Industry on a calendar quarter basis, commencing with the calendar quarter within which Seychelles Rupees are deposited into the Separate Special Account. The report should include quarterly and cumulative financial data for deposits in and disbursements from the SSA. Disbursements from the SSA should be identified by specific development activity.

(c) Progress Report

This report, a combination of progress and financial reporting, should be submitted quarterly by the COS implementing agency which has received Seychelles Rupees from the SSA to finance a specific activity. The report should be submitted to the Department of Finance and Industry, with copies to the Embassy/REDSO, within 15 days after the end of the reporting quarter.

The reports (one for each activity) should indicate quarterly and cumulative receipts from the SSA as well as detailed quarterly and cumulative expenditures. The implementing agencies are expected to maintain satisfactory records and receipts to substantiate expenditure statements.

The report should also describe the activity's implementation progress to date; problems encountered or foreseen; and actions taken or required to resolve implementation problems. The report should include any additional information which will be useful to the COS Ministry of Planning and External Relations so that it may more efficiently and effectively execute its responsibilities under the Grant.

VI. NEGOTIATING STATUS - CONDITIONS AND COVENANTS

There are no outstanding issues which will impede timely negotiation and signature of a grant agreement with the COS. Procurement planning is now in process in order to avoid disruption of on-going shipping schedules.

It is anticipated that the FY 1983 funding will be provided by means of an amendment to the FY 1982 Commodity Import Grant Agreement as the commodity to be financed is the same and most of the terms and conditions for use of the funds will be identical to those under the FY 1982 program. Although an informal understanding has been reached with the GOS on proposed uses of the local currency generations, the specific uses will be subject to AID review and approval as provided in the grant agreement. Agreement provisions will also require the establishment of a special account for local currency proceeds, and the development activities financed from the account will be subject to audit and inspection.

The \$2.0 million for the CIP will be obligated following AID/W advice that the Congressional Notification and Apportionment Request processes have been completed.

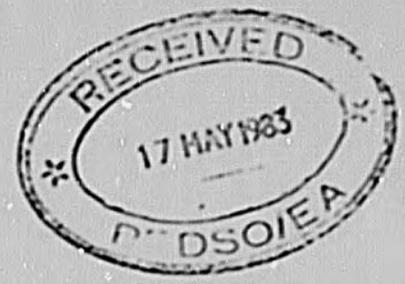
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ANNEX A  
1/1/83  
FOR APR 83



Redso / EA



ERC/110/8/6

NOTE NO: 16/83

The Ministry of Planning and External Relations of the Republic of Seychelles presents its compliments to the United States of America and has the honour to refer to the Economic Support Funds for the year 1983 - 84.

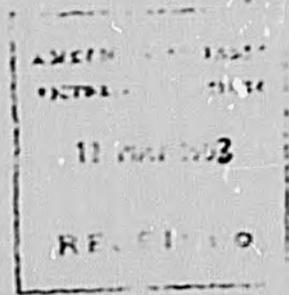
The Ministry should be grateful if the Embassy would consider a new grant of Economic Support Funds for the current year. This type of assistance is very useful in that it can cover a package of projects, thence touching on a range of sectors rather than just concentrating on one. In this way, the most prioritized projects in various sectors can benefit from one grant.

The Ministry wishes to thank the Embassy for all the past assistance provided by the Economic Support Funds.

The Ministry of Planning and External Relations of the Republic of Seychelles avails itself of this opportunity to renew to the Embassy of the United States of America the assurances of its highest consideration.

VICTORIA  
10 MAY 1983.

THE EMBASSY OF THE UNITED STATES OF AMERICA  
VICTORIA HOUSE  
VICTORIA.



3A(1) - COUNTRY CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Funds and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

A. GENERAL CRITERIA FOR COUNTRY

1. FAA Sec. 481; Second CR FY 83 Sec. 133.  
Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully? No.
  
2. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government? No.
  
3. FAA Sec. 602(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control or property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligation toward such citizens or entities? No.
  
4. FAA Sec. 620(f); FY 82 App. Act Secs. 512 and 513. Is recipient country a Communist country? Will assistance be provided to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia, or Laos? No.

5. FAA Sec. 602(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action of U.S. property? No.
6. FAA Sec. 620(1). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason? Yes. See Taking into Consideration Memorandum from Van Orman, GC to the Administrator, dated 1/28/83.
7. FAA Sec. 620(o): Fishermen's Protective Act, Sec. 5 If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters, Seychelles has not seized or imposed penalties or sanctions against U.S. fishing activities in international waters. See Taking into Consideration Memorandum, Van Orman, GC to the Administrator, dated 1/28/83
- a. has any deduction required by Fishermen's Protective Act been made?
- b. has complete denial of assistance been considered by AID Administrator?
8. FAA Sec. 620(q): FY 82 App. Act Sec. 517. (a) Is the recipient country in default for more than six months on interest or principal of any AID loan to that country? (b) Is country more than one year in default on interest or principal on any U.S. loan made pursuant to program for which the appropriation bill appropriates funds? (a) No.  
(b) No.
9. FAA Sec. 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? Has the Administrator taken into consideration the amount of foreign exchange or other resources which the country has spent on military equipment? Level of military expenditures were taken into consideration by Administrator in the memorandum of 1/28/83, supra.

10. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No.
11. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? The status of Seychelle's U.N. obligations has been considered by the Administrator in the memo of 1/28/83, supra.
12. FAA Sec. 620A; FY 82 App. Act Sec. 520. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism? Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime? No.
13. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? No.
14. ISDCA of 1981, Sec. 720. Was the country represented at the meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? The position of the COS on this matter has been taken into account by the Administrator. Taking into Consideration Memo of 1/28/83.

**B. FUNDING CRITERIA FOR COUNTRY**

**1. Economic Support Fund Assistance Country Criteria.**

a. FAA Sec. 502B. Has the Department of State made findings which indicate that the country has engaged in a consistent pattern of gross violations of international recognized human rights? If so, is program in accordance with policy of this Section?

No.

b. FAA Sec. 531. Is the Assistance to be furnished to a friendly country, organization, or body eligible to receive assistance?

Yes.

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

Yes.

**2. Development Assistance Country Criteria**

a. FAA Sec. 102(c), (d). Have criteria been established, and taken into account, to assess commitment and progress of country in effectively involving the poor in development, on such indexes as: (1) small-farm labor intensive agriculture, (2) reduced infant mortality, (3) population growth, (4) equality of income distribution, and (5) unemployment.

N/A.

b. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State made findings which indicate that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights?

N/A.

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Funds and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

CROSS-REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY.  
HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 82 Approp. Act Sec. 523, FAA Sec. 634A, Sec. 653(b); Second CR FY 83, Sec. 101(b)(1).

a. Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the non-project assistance;

This program included in the CP FY 83 Annex 1, page 498. An additional CH was made and expired without objection on 5/5/83

b. Is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than \$1 million over that amount)?

Yes.

c. If the proposed assistance is a new country program or will exceed or cause the total assistance level for the country to exceed amounts provided to such country in FY 82, has notification been provided to Congress?

N/A

d. If proposed assistance is from the \$85 million in ESF funds transferred to A.I.D. under the second CR for FY 83, for "economic development assistance projects", has the notification required by Sec. 101(b)(1) of the Second CR for FY 83 been made?

N/A

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No further legislation is required.

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3. FAA Sec. 209, 619. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral plans to the maximum extent appropriate?
- The assistance cannot be more efficiently and effectively provided through international organizations.
4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade;(b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce, and (f) strengthen free labor unions.
- N/A
5. FAA Sec. 601(b). Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
- N/A in this Program.
6. FAA Sec. 612(b), Sec. 636(h); FY 82. Approp. Act Sec. 507. Described steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services in lieu of dollars.
- Local currencies generated by this program will be used to finance development activities in the Seychelles. The U.S. does not own any excess foreign currency.

7. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release? No.
8. Faa Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes.
9. FY 82 Approp. Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative and is such assistance likely to cause substantial injury to U.S. producers of the same or similar competing commodity? The assistance is not for the production of any commodity for export.
10. FAA 118(c) and (d). Does the program comply with the environmental procedures set forth in AID Regulation 16? Does the program take into consideration the problem of the destruction of tropical rain forests? Pursuant to AID Reg 16 the program was determined to be categorically excluded from detailed environmental analysis. This determination was approved by the Bureau Environmental Officer (STATE 97600).

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Funds.

- a. FAA Sec. 531(a). Will this assistance support promote economic or political stability? To the extent possible, does it reflect the policy directions of FAA Section 102? Yes
- b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? No.

c. FAA Sec. 534. Will ESF funds be used to finance the construction or the operation of maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives?

No.

d. Second CR FY 83, Sec. 101(b)(1). If ESF funds to be utilized are part of the \$85 million transferred to A.I.D. under the Second CR for FY 83 for "economic development assistance projects", will such funds be used for such projects and not for non-development activities including balance of payments support, commodity imports, sector loans, and program loans?

N/A

2. Nonproject Criteria for Development Assistance.

a. FAA Secs. 102(c), 111, 113, Sec. 281(a). Extent to which activity will (1) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?

N/A

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [include only applicable paragraph -- e.g., a, b, etc. -- which corresponds to sources of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source].

N/A

(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;

N/A

(2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor; extent to which assistance gives attention to interrelationship between (A) population growth and (B) development and overall improvement in living standards in developing countries. Is activity designed to build motivation for small families in programs such as education in and out of school, agriculture production, rural development, and assistance to urban poor?

N/A

(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;

N/A

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:

(a) to help alleviate energy problem;

(b) reconstruction after natural or manmade disaster;

(c) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

N/A

(d) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.

c. FAA Sec. 113. Extent to which assistance reflects appropriate emphasis on integrating women into the recipient country's national economy.

N/A

d. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

N/A

e. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

N/A

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3. Nonproject Criteria for Development Assistance (Loans only).

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

N/A

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

N/A

c. Second CR FY 83, Sec. 134. If the recipient country has an annual per capita gross national product greater than \$795 but less than \$1285, will the loan be repayable within 25 years following the date on which funds are initially made available? If it has an annual per capita GNP greater than or equal to \$1285 within 20 years?

N/A

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3A(3) - STANDARD ITEM CHECKLIST

Listed below are statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by exclusion (as where certain users of funds are permitted, but other uses not).

These items are arranged under the general headings of (A) Procurement and (B) Other Restrictions.

A. PROCUREMENT

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed? This procurement is not suitable for small business participation.
  
2. FAA Sec. 604(a). Will all commodity procurement financed be from the United States except as otherwise determined by the President or under delegation from him? Yes.
  
3. FAA Sec. 604(b). Will all commodities in bulk be purchased at prices no higher than the market price prevailing in the United States at time of purchase? Yes.
  
4. FAA Sec. 604(c). Will all agricultural commodities available for disposition under the Agricultural Trade Development & Assistance Act of 1954, as amended, be procured in the United States unless they are not available in the United States in sufficient quantities to supply emergency requirements of recipients? N/A
  
5. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the United States on commodities financed? Yes.

6. FAA Sec. 604(e) ISDCA of 1980  
Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? N/A
7. FAA Sec. 604(f). Are there arrangements whereby a supplier will not receive payment under the commodity import program unless he/she has certified to such information as the Agency by regulation has prescribed? Yes.
8. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items? N/A
9. MMA Sec. 901(b). Sec. 603, FAA.  
(a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. AID/W has determined that U.S. flag commercial vessels are not available at fair and reasonable rates.
10. International Air Transport and Fair Competitive Practices Act, 1974.  
If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available? Yes.

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11. FY 82 Approp. Act, Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

The U.S. Government will not be a party to a procurement contract under this program.

12. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

This project will not finance technical assistance.

#### B. OTHER RESTRICTIONS

1. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of communist-bloc countries contrary to the best interests of the United States?

Yes.

2. FAA Sec. 605(i). Is financing prohibited from use, without waiver, for purchase, long-term lease, exchange, or guaranty of sale of motor vehicle manufactured outside the United States?

Yes.

3. FAA Sec. 122(b). If development loan funds, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?

N/A

4. Will arrangements preclude use of financing:

a. FAA Sec. 114, 104(f), FY 82 Approp Act Sec. 525. to pay for performance of abortions or involuntary sterilization or to motivate or coerce persons

- to practice abortions? to pay for performance of involuntary sterilizations as method of family planning or to coerce or provide any financial incentive to any person to practice sterilizations? or to lobby for abortions? Yes.
- b. FAA Sec. 620(g). to compensate owners for expropriated nationalized property? Yes.
- c. FAA Sec. 660. to finance police training or other law enforcement assistance, except for narcotics programs? Yes.
- d. FAA Sec. 662. for CIA activities? Yes.
- e. FY 82 Approp. Act. Sec. 503. to pay pensions, etc., for military personnel? Yes.
- f. FY 82 Approp. Act. Sec. 506. to pay U.N. assessments? Yes.
- g. App. Sec. 107. to carry out provisions of FAA Sections 209(d) and 251(h)? (transfer to multilateral organization for lending). Yes.
- h. FY 82 Approp. Act. Sec. 510. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? Yes.
- i. FY 82 Approp. Act. Sec. 511. To aid the efforts of the government to express the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? Yes.
- k. FY 82 Approp. Act. Sec. 515. To be used for publicity or propaganda purposes within U.S. not authorized by Congress? Yes.