

PD-BBF 451

EVALUATION OF COMMODITY IMPORT PROGRAMS

**For the
SEYCHELLES
FY 1982 — FY 1986**



UNITED STATES OF AMERICA

**United States Agency for International Development
Regional Economic Development Service Office
January 1987**

UNCLASSIFIED

SEYCHELLES

EVALUATION OF COMMODITY IMPORT PROGRAMS

FY 1982 - 1986

January 1987
Victoria

UNCLASSIFIED

PROJECT EVALUATION SUMMARY (PES) - PART I

Report Symbol U-44

1. PROJECT TITLE SEYCHELLES COMMODITY IMPORT PROGRAMS	2. PROJECT NUMBER 662-K-601/605	3. MISSION/AID/W OFFICE REDSO/ESA
	4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY) #1 FY 87	
<input type="checkbox"/> REGULAR EVALUATION <input checked="" type="checkbox"/> SPECIAL EVALUATION		

5. KEY PROJECT IMPLEMENTATION DATES			6. ESTIMATED PROJECT FUNDING		7. PERIOD COVERED BY EVALUATION	
A. First PRO-AG or Equivalent FY 82	B. Final Obligation Expected FY 86	C. Final Input Delivery FY 87	A. Total \$9,914,000	B. U.S. \$9,914,000	From (month/yr.) MARCH 1982	To (month/yr.) JANUARY 1987
					Date of Evaluation Review FEBRUARY 1987	

8. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
1.a The US should continue to provide its assistance through a Commodity Import Program.	REDSO/ESA DIRECTOR	4/30/87
1.b In this context, more emphasis should be placed upon discussing economic issues with the Government of Seychelles as part of the CIP design and review process.	PROJECT MANAGER ECONOMIST	4/30/87 4/30/87
2. The eligible commodities under the CIP should continue to be fuel products however, the source and origin requirements for diesel oil should be expanded to Code 935 countries and the permissible uses should be broadened.	REDSO/ESA DIRECTOR	4/30/87
3. The GOS and USAID should redefine and streamline the management and reporting requirements to be sued for the local currency program. These should include: 1) a change from quarterly to semi-annual physical progress reports for local currency projects; 2) the development of an internal DPER system for tracking the financial performance of the CIP financed local currency projects to prevent over expenditure on individual projects; 3) regular exchange of letters between the Embassy - REDSO/ESA - and DPER to approve the allocation modification of allocation, of each year's local currency generations within three months of signing the Project Agreement.	A.I.D.-GOS PROJECT MANAGERS	6/30/87

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS			10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT		
<input type="checkbox"/> Project Paper	<input type="checkbox"/> Implementation Plan, e.g., CPI Network	<input checked="" type="checkbox"/> Other (Specify) FY 1987 CIP PAIP	A. <input checked="" type="checkbox"/> Continue Project Without Change		
<input type="checkbox"/> Financial Plan	<input type="checkbox"/> PIO/T	<input checked="" type="checkbox"/> Other (Specify) FY 1987 CIP PAAD	B. <input type="checkbox"/> Change Project Design and/or		
<input type="checkbox"/> Logical Framework	<input type="checkbox"/> PIO/C		<input type="checkbox"/> Change Implementation Plan		
<input type="checkbox"/> Project Agreement	<input type="checkbox"/> PIO/P		C. <input type="checkbox"/> Discontinue Project		

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles)		12. Mission/AID/W Office Director Approval	
WILLIAM JEFFERS - REDSO/ESA PROJECT OFFICER	STUART CALLISON - REDSO/ESA ECONOMIST	Signature	
JACK SMITH - REDSO/ESA CHIEF ENGINEER	EDWARD WRIGHT - HUMAN RESOURCES SPECIALIST	Typed Name	
		Date	

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REGULAR EVALUATION SPECIAL EVALUATION

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8. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
4. The GOS and USAID should focus the allocations of the counterpart funds on those development projects which will contribute most directly to productive and sustainable economic activity.	A.I.D.-GOS PROJECT MANAGERS	6/30/87

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS <input type="checkbox"/> Project Paper <input type="checkbox"/> Implementation Plan, e.g., CPI Network <input type="checkbox"/> Financial Plan <input type="checkbox"/> PIO/T <input type="checkbox"/> Logical Framework <input type="checkbox"/> PIO/C <input type="checkbox"/> Project Agreement <input type="checkbox"/> PIO/P <input checked="" type="checkbox"/> Other (Specify) <u>FY 1987 CIP PAIP</u> <input checked="" type="checkbox"/> Other (Specify) <u>FY 1987 CIP PAAD</u>	10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT A. <input checked="" type="checkbox"/> Continue Project Without Change B. <input type="checkbox"/> Change Project Design and/or <input type="checkbox"/> Change Implementation Plan C. <input type="checkbox"/> Discontinue Project
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11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles) WILLIAM JEFFERS - REDSO/ESA PROJECT OFFICER STUART CALLISON - REDSO/ESA ECONOMIST JACK SMITH - REDSO/ESA CHIEF ENGINEER EDWARD WRIGHT - HUMAN RESOURCES SPECIALIST	12. Mission/AID/W Office Director Approval Signature _____ Typed Name _____ Date _____
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ABBREVIATIONS AND ACRONYMS

ABS	Annual Budget Submission
AID/W	AID Washington
CIP	Commodity Import Program
DOF	Department of Finance
DPER	Department of Planning and External Relations
ESF	Economic Support Funds
GOS	Government of Seychelles
IBRD	International Bank for Reconstruction and Development
PAAD	Program Assistance Approval Document
PAC	Project Appraisal Committee
PAIP	Project Activity Identification Proposal
PUC-ED	Public Utility Corporation, Electricity Division
RCMO	Regional Commodity Management Officer
REDSO/ESA	Regional Economic Development Services Office/East and Southern Africa
RFMC	Regional Financial Management Center
RFQ	Request for Quotation
SEPEC	Seychelles Petroleum Corporation
U.S.	United States
USAID	United States Agency for International Development

PREFACE

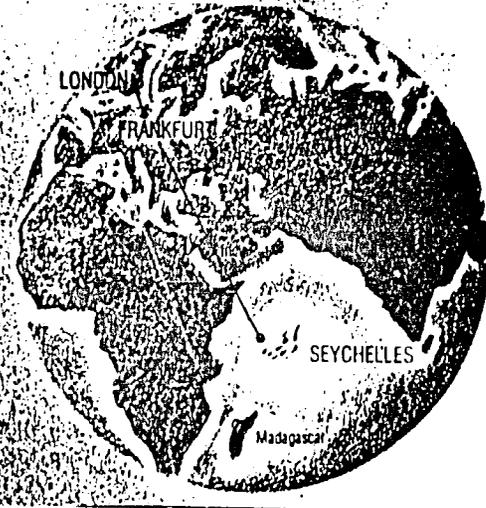
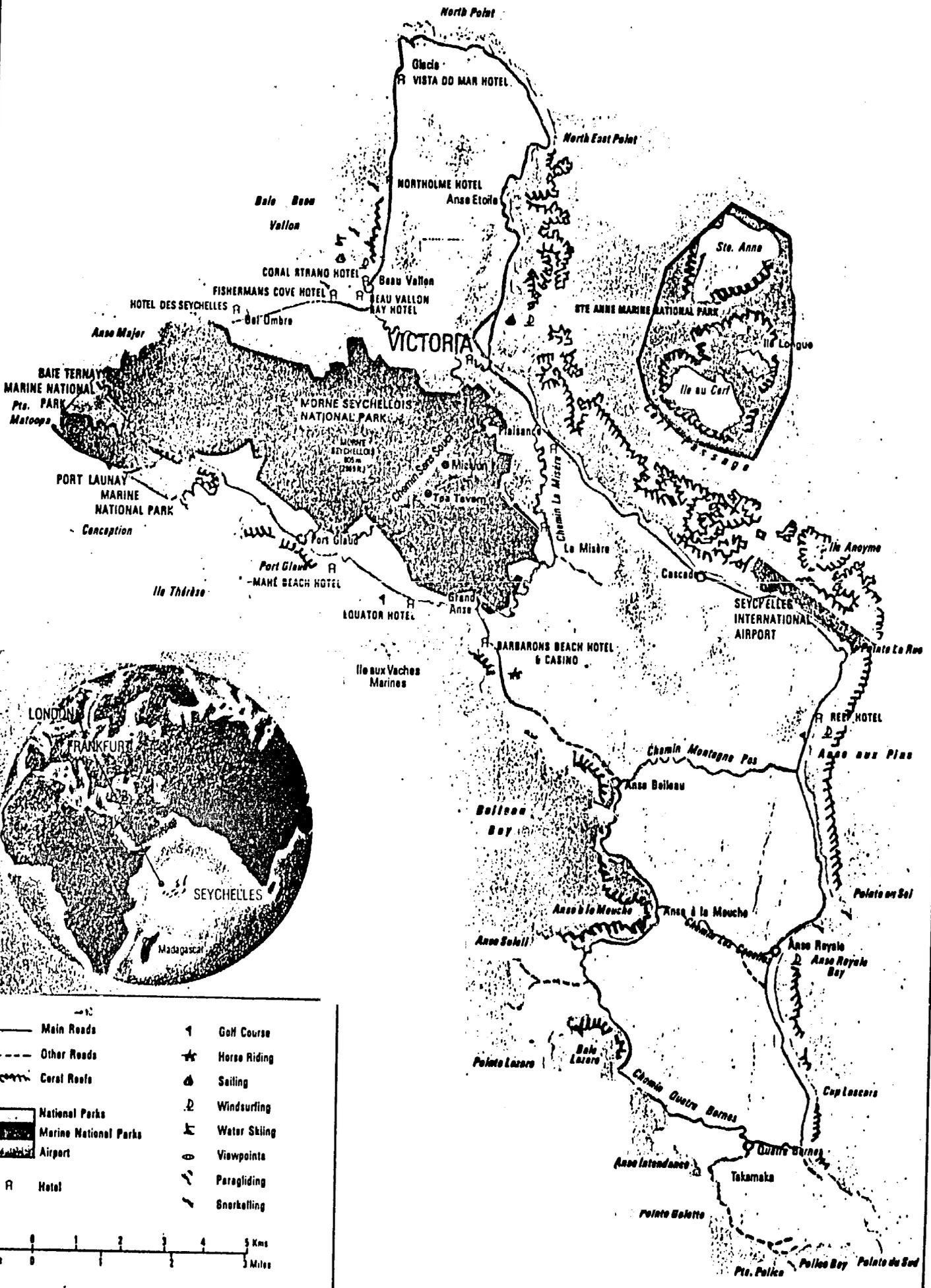
This evaluation of the Seychelles Commodity Import Programs between FY 1982 and FY 1986 is the first formal review of these programs and has been undertaken in accordance with the Congressional requirements set forth in Section 801 of the ISPCA of 1985. In general the evaluation has been expected to: 1) determine the overall impact of AID Commodity Import Programs in the Seychelles; 2) track and summarize the program inputs and outputs; 3) review the specific legislative requirements referenced above; and 4) make recommendations to guide future US assistance programs in Seychelles.

The evaluation was undertaken over a two week period in January 1987. Members of the Evaluation Team included: William A. Jeffers, REDSO/ESA Project Officer (Team Leader), Stuart Callison, REDSO/ESA Chief of the Analysis Division, Jack Smith, REDSO/ESA Chief of the Engineering Division, and Edward Wright, Human Resource Development Specialist. Counterpart participation on behalf of the Government of Seychelles included: Emmanuel Faure, Principal Secretary Department of Planning and External Relations, John White, Undersecretary Department of Finance, Phillip Chong-Seng, Manager of PUC Electricity Division, and Livio Lang, General Manager of the Seychelles Petroleum Company.

The evaluation methodology used by the Team was to: 1) review the program documents and correspondence; 2) collect quantitative data on the economy and the procurement and utilization of CIP financed commodities; 3) interview AID and GOS personnel who have been involved in the implementation and management of the programs; 4) make site visits to selected local currency financed projects to review their progress and impact.

The Team would like to extend its thanks the GOS officials for their courtesy and cooperation during their visit to Seychelles. Special thanks goes to US Ambassador Hicks for providing the excellent logistic support and gracious hospitality.

MAP OF MAHE ISLAND



	Main Roads		Golf Course
	Other Roads		Horse Riding
	Coral Reefs		Sailing
	National Parks		Windsurfing
	Marine National Parks		Water Skiing
	Airport		Viewpoints
	Hotel		Paragliding
			Snorkelling

Scale: 0 to 5 Kms / 0 to 3 Miles

I. EXECUTIVE SUMMARY

The United States Agency for International Development (USAID) has financed five successive Commodity Import Programs (CIP) in Seychelles since 1982. The rationale for these programs is directly related to maintenance of US interests in Seychelles and the larger Indian Ocean region. To date, a total of \$9,914,000 in grant financing from the Economic Support Fund account has been provided to the Government of Seychelles (GOS) for CIPs.

The USAID development assistance strategy for Seychelles is focused upon addressing Seychelles balance of payments problems. Various types and combinations of balance of payments support activities have been considered by USAID including cash transfer programs and commodity import programs based upon different combinations of US and non-US commodity products. In 1982, the decision was taken to establish a commodity import program based upon procuring fuel oil from Kenya, a developing country (Code 941), which would be used to generate electrical power in Seychelles. This decision has been annually reviewed and revalidated based upon the following: 1) the small size of the Seychelles market combined with its historically European oriented trade patterns make it impossible to identify a demand for US commodities in sufficient quantity to fully utilize the annual funding; 2) a single commodity CIP is highly attractive for USAID in relation to minimizing its administrative workload; and, 3) it has been possible to pass on the value added created during the refining process to a developing country.

The performance of the Seychelles Commodity Import Programs has been good. A total of 44,362 metric tons of medium fuel and 11,235 metric tons of diesel oil have been financed by the CIP. All the fuel products ordered under the CIPs have been delivered and paid for, exhausting the remaining foreign exchange available under the CIP Agreement during December 1986. In turn, fuel oils have been sold and the counterpart funds totalling SR 67,544,047 have been deposited in a special account in the Seychelles Central Bank. Ninety six percent of these funds have been allocated to fifty development activities which have been, with only one or two exceptions, well selected and very effectively implemented. Most of these projects have involved improving or expanding upon Seychelles infrastructural stock and can be categorized into six groups: (a) projects related to the port and land reclamation activities of the East Coast Project; (b) road rehabilitation projects; (c) the Praslin Water Supply Project; (d) the Praslin Aerodrome Project; (e) Outer Islands development projects; and, (f) projects related to developing the indigenous fishing industry. These projects have demonstrated the capacity of the GOS to effectivity utilize local

currency resources as illustrated by the fact that over seventy five percent of the available counterpart funds have been disbursed.

The impact of the Commodity Import Program has been favorable with some areas being stronger than others. With respect to the political impact, the CIP must be judged as having a positive impact both to the Government of Seychelles and to the United States. In terms of economic impact, the foreign exchange provided annually under the CIP has been equal to about 2% of Seychelles commodity imports bill. Its impact on the balance of payments and helping Seychelles maintain a satisfactory foreign reserve level during the lean years has been marginal, though certainly not altogether insignificant. Although the power sector is a vital link to almost every economic activity it is incorrect to assume that without the CIP Seychelles would not find alternative financing. In terms of the impact of the local currency projects on development, these activities have been impressive and have a direct link to the US assistance program. The GOS is the only beneficiary of the CIP foreign exchange component while the beneficiaries of the local currency projects include a variety of people ranging from fishermen and boat owners to local contractors and tour operators.

The Evaluation Team has found a number of areas where the management of the Commodity Import Programs can be improved. However, despite its shortcomings the CIP's have been successful as measured by the fact that they have fully disbursed the available foreign exchange, generated the counterpart funds quickly and efficiently, made significant headway in improving the country's infrastructure, and met the minimum reporting requirements. Another impressive feature of the Seychelles CIP's is that they have have been successful without the presence of any resident US direct hire staff.

As a result of this evaluation several issues have been highlighted for discussion between USAID and the GOS. The first of these relate to procurement issues. Presently, the restriction of fuel purchases to Code 941, and Kenya in particular, is significantly reducing the value of the CIP to the GOS. Secondly, the contracting procedures warrant close examination to ensure that the most advantageous prices are being obtained by limiting uncertainties and risks. Third, while the CIP mechanism still looks like the most effective balance of payments assistance program available, there are several critical economic policy reforms which the GOS is examining that may warrant a reconsideration of this position. Fourth, given the current difficulties with the country's foreign exchange position and the introduction of the new budget, there is a need to be more discerning about the priorities for utilizing counterpart funds.

The recommendations of the Evaluation Team are summarized on the PES Facesheet.

II. PROGRAM SETTING

A. Political Relations Between the GOS and the U.S.

The Republic of Seychelles, which became independent in 1976 consists of more than 100 islands with a total land area of only 164 square miles scattered over 400,000 square miles of the Indian Ocean. About 90 percent of the total population of 65,000 is located on the main island of Mahe. One third of the islands are within 22 miles of Mahe and typically have granite mountainous interiors and narrow coastal strips. Annual Per Capita Income for Seychelles is estimated at \$2,400 in 1985.

The Government of Seychelles is a one party state with a constitution which provides for a very strong presidency and which is guided by moderate socialist principles.

The political relationship between the Government of the Seychelles and the United States continues to mature based upon clearly understood common interests and mutual benefits. This relationship is not new. Since 1963 the USG has operated a U.S. Air Force Satellite Tracking Station in the Seychelles. This facility, the most visible and important of the U.S. interests in the Seychelles, provides the U.S. with a strategically located, land based operation while also creating employment and incomes for the Seychelles economy. Were it not for this relationship, there would probably not be an AID program for the Seychelles since its per capita income is above the range of other countries receiving US assistance.

At the same time the USG has sought to maintain friendly and cordial relations with Seychelles given its strategic location in the Indian Ocean. The decision to raise the level of USG representation to the Ambassadorial level was taken in 1982 in part recognizing the importance of the Indian Ocean region and to more vigorously promote U.S. interests and access to the islands. This arrangement has served to broaden the lines of communication between the two countries and has created the environment for more "open" relations as demonstrated by regular port visits by U.S. Naval vessels. The GOS has benefitted by a stronger U.S. presence through increased aid flows from both eastern and western bloc countries as well as from increased commercial contacts.

The United States has maintained the position that its political and security interests in the Seychelles are best served by a growing economy developing in response to market forces and private sector initiatives which can finance higher standards of living for the general population. Over the years the official GOS views towards this position have run both "hot" and "cold." In fact, during the early 1980's the vocal GOS stand has been dissimilar to the U.S. view. Recently the GOS position had been more attuned to practical solutions for

improving the general welfare of the country. Currently, increasing numbers of people both inside and out of the GOS recognize the importance of expanding productive capacity and providing incentives for private initiatives to the future interests of Seychelles. These overlapping interests have provided a basis for expanding dialogue between the GOS and USG.

In international forums the Government of the Seychelles has in most cases opted out the East-west issues by abstaining. However, during 1985 of ten key issues of importance to the US, the Seychelles representative voted yes on the motion to accept Israeli credentials, disagreed on two other issues and abstained seven other times.

B. Economic Background

1. General Economic Situation

Since the early 1970's the Seychelles' economy has undergone a striking transformation from one almost exclusively based on agriculture and fishing with very little external trade to a predominantly service economy oriented toward international tourism. Until 1971 the Seychellois had depended mainly on the production of copra and cinnamon for export and fruit, vegetables and fish for domestic consumption, the latter supplemented by imported rice.

With the opening of the international airport in 1971 the number of tourists increased from about 3,000 in 1971 to a peak of about 79,000 in 1979. The first half of the 1970's was a period of exceptional development not only of tourism, but also in the related construction boom of hotels, roads, water, electricity and transport facilities, as well as in the growth of services ancillary to tourism such as trade, banking, and handicrafts. Preliminary estimates indicate that the direct contribution of the tourism sector to GDP amounted to about 16% in 1985, although it is believed that together with its multiplier effects on demand in other sectors it may have actually contributed as much as 50% or more of total GDP. By contrast, agriculture contributed only 3.8%, fishing 2.7%, and manufacturing 8.4%. Government services comprised 16.6% of the total.

The Government invested heavily in infrastructure, education, health and social services during the early years of its independence, which was granted by Great Britain in 1976; and impressive gains have been made in reducing infant mortality, increasing life expectancy, raising the coverage and levels of education, and achieving a more even distribution of income and greater social justice and equity.

Following an all-time high in tourist arrivals in 1979, the country was faced with a severe recession in tourism from 1981-83 due to a number of factors: recessionary conditions in Western Europe, rising air fares to Indian Ocean locations, and the unsettling effects of the mercenary raid on Mahe in November 1981. It was also partly due to falling hotel conditions and rising costs accelerated by a 15% revaluation of the Seychelles rupee in March 1981. The revaluation was undertaken to reduce domestic inflation, but occurred at a time when competing tourist destinations (e.g. Mauritius and Kenya) were devaluing their currencies. Furthermore, since the rupee was tied to the SDR, in which the U.S. dollar comprises a 42% weight, the value of the rupee followed the dollar upwards in value even more, as discussed below, further reducing the competitiveness and profitability of the Seychelles' tourist industry. Real GDP fell for three years in succession, the current balance of payments deficit, before official transfers, soared to 34% of GDP in 1982 (it was still 21% of GDP in 1985), net official reserves fell from 2 months' worth of imports in 1981 to less than one week's worth in 1985 (foreign reserves continued to decline in 1986), and the fiscal deficit rose rapidly to equal 24% of GDP in 1986.

In response to these adverse developments, the Government increased its intervention in key sectors, mainly through rapid expansion of the parastatal sector and price controls, and promoted policies aimed at diversifying the Seychelles' economy. The tourism sector began to recover in 1983, and it has stimulated production in other sectors, fueling a 3.9% growth in real GDP in 1984 and 6.0% growth in 1985. While GDP estimates for 1986 are not yet available, it is expected they will show continued positive growth in real terms. Gross fixed capital expenditure declined from 34% of GDP in 1981 to 21% in 1983, while overall consumption expenditure rose from 89% to 104.5% of GDP, reflecting the rapid increase in demand from the parastatal sector. As a result, net domestic savings fell from 15% of GDP in 1981 to -2.5% in 1983. Preliminary figures for 1985 indicate gross fixed capital formation recovered to 25% of GDP, while consumption fell to 98% and net domestic savings equalled 6.9%. Inflation has remained modest (0.8% in 1985 and an annual rate of only 1.5% during the first 9 months of 1986), despite the expansionary effects of the large fiscal deficit, due mostly to the continued appreciation of the rupee, declining world market prices of major import commodities, and the deflationary effects of declining official foreign reserves.

External debt tripled during the 1981-85 period and equalled 48% of GDP at the end of 1985. The share of commercial debt rose from 6% to 24% of the rising total, while the share of bilateral debt fell from 71% to 54%. The debt service ratio to exports of

goods and non-factor services rose from 0.5% to 11% during the same period. While projections have not been made public, it is believed the debt service ratio will reach the 18% to 20% range within the next few years, as grace periods on a number of large loans are expiring and the government has recently resorted to considerable commercial borrowing to finance the balance of payments deficit.

2. Policy Context

The year 1985 marked the beginning of implementation of the Fifth National Development Plan (1985-89). The overall strategy of this plan differs from earlier ones, which emphasized social investments. Sectoral priorities under the present plan have been shifted toward the productive sectors (tourism, fisheries, agriculture, and industry) with a view toward economic diversification and improving the revenue base for sustaining social services. The development strategy was deliberately reappraised in response to the worsening balance of payments, rising unemployment, and low productivity in key sectors of the economy. Its primary objectives are listed as:

- creating employment, mostly in the productive sectors,
- improving the balance of payments by reducing imports, increasing exports, and maximizing the economic benefits of tourism,
- re-establishing economic growth by investing in the productive sectors, and
- increasing exports, really part of achieving the first three objectives, is singled out for emphasis, and special mention is made of efforts to increase copra and fishing exports.

The Plan states that "the Government fully recognizes the importance of the role of the private sector and of private investment. Private investors, both local and foreign, will be actively encouraged.."

3. Key Economic Issues

There appear to be four key issues that will affect GOS success in achieving these objectives: wage and employment policies, price controls, the size of the fiscal deficit, and balance of payments constraints.

a) Wage and employment policies.

The National Development Plan lists employment creation as its first objective. Indeed, available data on employment indicate the formal, modern sectors of the economy are not beginning to create enough jobs to keep up with the growing labor force. An August 1985 Employment Survey by the Statistics Division estimated labor force participation rates based on the 1977 Census and a special survey of a subsample of the 1981-2 Census Update. These have been used to estimate the total labor force in Table 1, from which formal employment has been subtracted to determine the size of the residual, "Informally employed, under- and unemployed." (Formal employment data does not include domestic workers (private households), self-employed and family workers.) This gives us an estimate of how well the formal sectors have been doing in providing jobs for the work force. The residual dropped from 33% in 1977 to 30% in 1980 and 82, but then, with the advent of the recession, climbed back to 33%, where it has remained ever since. The 1985 Employment Survey included domestic workers, self-employed and family workers in the "employed" category and estimated unemployment at 22% of the total labor force. However, the GOS feels that this data may under report employment due to the large informal sector. It found that the self-employed and family workers comprise about 12% of total employment, while government jobs are about 31% of the total.

Table II.1
Seychelles: Population,
Labor Force and Employment, 1977-86

Year	Mid-Year Population	Labor Force	Formal Employ- ment	Informally Employed, Net Under and Unemployed migration	
				Number	% of LF
1977	61,786	23,912	16,014	7,898	33.0
1978	62,150	24,384	15,569	8,815	36.2
1979	62,686	24,926	16,830	8,096	32.5
1980	63,261	25,532	17,882	7,650	30.0
1981	64,035	25,859	17,583	8,276	32.0
1982	64,413	26,372	18,475	7,897	29.9
1983	64,335	26,506	17,520	8,986	33.9
1984	64,717	26,882	17,892	8,990	33.4
1985	65,244	27,150	18,229	8,921	32.9
1986	65,775	27,371	18,345*	9,026	33.0

* First 6 months

SOURCE: Statistical Abstract, Rep. of Seychelles

The Government clearly has good reason for making the creation of more productive jobs the first priority of its National Development Plan. The employment record would look even worse without the "escape hatch" of out-migration, which, in net terms, increased from low levels before Independence to an annual average of more than 1% of the total population, equal to more than 2% of the labor force each year from 1977-85.

The average monthly earnings from formal employment for all sectors rose by about 20% during the period 1981-85, in both the private and government sectors. The gap between earnings of various sectors was narrowed during this period as a result of government policy to unify the wage structure in all sectors. Wage increases have been moderate in recent years. Nevertheless, labor costs in the Seychelles look relatively high to foreign investors due to the overvaluation of the rupee, and domestic investors are encouraged to substitute imported equipment and processed inputs for domestic labor for the same reason. Furthermore, to successfully implement an employment-oriented strategy, the Government would need to carefully reconsider some of its employment policies, such as those which restrict the flexibility of management to pursue efficient employment strategies, in order to reduce any disincentives that might discourage investors and entrepreneurs from hiring more labor.

b) Price controls.

Pricing and marketing of most goods and services are monitored by the Seychelles Marketing Board (SMB), which is primarily responsible for ensuring an adequate supply of basic foodstuffs, containing price increases, and limiting imports. On April 1, 1986, the government marketing scheme already in effect for meat was extended to fruits and vegetables. Under this scheme, the Vegetables and Fruits Division of SMB received a monopoly for collecting designated fruits and vegetables produced in the Seychelles and marketing them wholesale. This division also fixes producer, wholesale, and retail prices for the list of designated fruits and vegetables. A similar scheme is planned for the marketing of fish.

There is insufficient time and data available for an analysis of producer price trends and production

incentives. The team has received some indications, however, that producer prices of fruits and vegetables are controlled at levels too low to provide satisfactory incentives to continue and especially to increase production. This could seriously inhibit the success of Government efforts to increase domestic production of such items to reduce imports. Agricultural production typically responds quite dramatically to changes in real prices, either up or down.

c) Fiscal deficit.

The period 1982-86 was characterized by slow growth of government revenue and a rapid expansion of expenditure. While revenues increased by about 17% between 1981 and 1986, government expenditure increased by 74%. As a proportion of GDP, current revenues actually declined from about 41% in 1981 to 39% in 1986, while total expenditure rose from 52 to 63%. There was rapid growth in revenue receipts from turnover and excise taxes and non-tax revenues, while income taxes, taxes on international trade and social security contributions were relatively stagnant.

As a result of these trends, the overall deficit of government operations, including social security, rose from about 9% of GDP in 1981 to 24% in 1986. The recurrent budget surplus of 1981, which amounted to about 10% of GDP, turned into a deficit equivalent to about 8% of GDP in 1986. About 37% of the 1986 overall deficit of RS 304 million was financed by net foreign borrowing, and 63% by net domestic borrowing. The Government took active measures to reduce the fiscal deficit by increasing customs duties and extending the scope of the turnover tax. It has also trimmed expenditures of various ministries and enforced a general freeze on public sector salaries. Finally, it has conducted an intensive review of parastatal finances with a view to reducing their dependence on the public treasury.

The 1987 Budget for the first time integrates the capital budget and its financing into the overall budget document and presents the total in a new format which highlights the overall budget deficit as the excess of total outlays over total receipts (including capital outlays, but excluding public debt amortization), consistent with international government accounting conventions. Total budget

receipts are estimated to increase by 17% over revised 1986 estimates, primarily due to increased trades tax and company income tax revenues, and to a healthy 228% increase in projected dividends from parastatals (up from RS 17.7 million in 1986 to RS40.4 million expected in 1987). Total 1987 outlays, on the other hand, are projected to decline by RS 70 million, or by 9% of the revised 1986 estimates, thus reducing the overall fiscal deficit from 24% of 1986 GDP to 10% of projected 1987 GDP.

Modest expenditure increases are budgeted for most ministries, with a significant decrease in Tourism and Transport and an sizeable increase in the "high priority" area of education. A major cut of RS 28 million is projected in the subvention to Air Seychelles, Ltd.; but outlays to capital projects are to bear the brunt of expenditure cuts, as they are to be reduced by RS90 million, or 50%, "reflecting the Government's intention to link future...new borrowing for development projects to the capacity of the budget and balance of payments to meet the associated debt service payments in subsequent years...priority will be given to consolidating the economic gains from existing and on-going investments..and to ensuring that their potential for contributing positive net foreign exchange earnings is realized quickly."

This new budget document shows an encouraging awareness of the need to contain the fiscal deficit to more manageable levels and a good sense of priorities in combining revenue hikes with expenditure cuts in less important areas. It remains to be seen if the sizeable increase in parastatal dividends will materialize, however, since similar dividends were expected, and were not realized, in 1986. The sizeable reduction in budgetary support to Air Seychelles might also prove to be difficult to sustain unless the needed air connections are indeed restored as expected by other airlines. A government which currently spends over 60% of GDP, however, can probably find other areas in which such spending can be properly judged either excessive or of relatively low priority. (See Table 2 for a summary of public revenues and expenditures.)

Table II.2

Table 2. Seychelles: Consolidated Central Government Budget, 1981-87
(Millions of Seychelles rupees)

Item	Year:	1981	1982	1983	1984	1985	Budget 1986	Revised 1986	Budget 1987
Revenue & grants		420.2	426.1	424.4	456.2	538.4	604.6	492.6	576.9
Revenue		397.8	409.0	390.2	429.0	506.8	573.8	462.6	546.9
Tax*		333.1	346.8	334.4	361.1	405.0	402.7	348.3	373.7
Nontax		64.7	62.2	55.8	67.9	101.8	171.1	114.3	173.2
Grants		22.4	17.1	34.2	27.2	31.6	30.8	30.0	30.0
Expenditure & lending		500.8	573.3	516.1	595.4	745.9	789.1	796.8	726.4
Current*		303.5	375.0	401.8	467.0	563.5	575.1	569.7	601.7
Capital		154.8	155.9	74.3	103.8	144.0	182.2	227.1	124.7
Net lending		42.5	42.4	40.0	24.6	38.4	31.8		
Overall deficit, commitment basis		-80.6	-147.2	-91.7	-139.2	-207.6	-184.5	-304.2	-149.5
Arrears, net change		-4.9	0.2	-16.4					
Overall deficit, cash basis		-85.5	-147.0	-108.1	-139.2	-207.6	-184.5	-304.2	-149.5
Financing:		85.5	147.0	108.1	139.2	207.6	184.5	304.2	149.5
Domestic, net		40.1	22.7	54.8	69.6	139.3	79.7	192.5	217.5
Central Bank		14.7	17.8	18.2	9.1	136.2			
Commercial banks		10.6	-6.4	9.7	18.9				
Savings Bank		1.0	1.3	14.4	0.2	-2.5			
Other		13.8	10.0	12.5	41.4	5.6			
Foreign, net		45.4	124.3	53.3	69.6	68.4	104.8	111.7	-68.0
Gross borrowing		46.7	127.6	66.8	87.8	119.9	182.4	157.4	60.0
Amortization (-)		-1.3	-3.3	-13.5	-18.2	-51.5	-77.6	-45.7	-128.0

Memorandum items:

Net lending & transfers									
to parastatals		46.8	59.6	61.7	82.9	168.4	156.8		
as % of deficit		-54.7	-40.5	-57.1	-59.6	-81.1	-85.0		
Deficit as % of GDP		8.8	15.2	10.9	13.0	17.9	14.9	24.0	10.0
Expenditure & net lending									
as % of GDP		51.5	59.2	52.0	55.4	64.3	63.7	62.9	48.6

* 1981-5 & 86 Budget include social security system, 1986 Revised & 87 Budget do not.
SOURCES:

1981-86 Budget: IMF, 'Seychelles - Recent Economic Developments,' June 25, 1986, p. 19.
1986 Revised & 87 Budget: Rep. of Seychelles, '1987 Budget,' Dec. 1986.

d) Balance of payments.

Since the early 1980s, Seychelles' current account before transfers has shown deficits that fluctuated widely, from a low of SR 200 million (20.5% of GDP) in 1981 and a high of SR 330 million (34.1% of GDP) in 1982. In 1985 it was SR 245 million (21.1% of GDP). (See Table 3.) The pressure on the external account continued throughout 1986 and led to a temporary liquidity problem in July and August, relieved in the 4th quarter after the receipt of a syndicated bank loan. The large trade deficits of the 1980s have been financed by substantial surpluses on the services account (mostly related to tourism) and by large net inflows of public transfers and long-term capital. In 1986 the Government and the Central Bank instituted a package of measures designed to promote savings, inhibit consumption, contain further expansion of the money supply, and relieve the pressure on the balance of payments. These included raising interest rates, floating new issues of Treasury bills and bonds, and requiring banks to maintain a minimum local assets ratio against deposit liabilities. As discussed above, the 1987 Budget is explicitly designed to reduce the fiscal deficit and its concomitant pressure on the balance of payments.

The sharp deterioration on the current account in 1981 and 82 was caused by lower earnings from tourism and related bunker sales to carriers, due to recessionary conditions in Europe, and was exacerbated by the 15% revaluation of the Seychelles' rupee in March 1981. The current account deficits were reduced in 1983 and 84, thanks to a recovery in tourism and a number of measures taken by the authorities to reduce imports. In 1985, however, the current account deficit before official transfers rose again to reach the equivalent of 21% of GDP, despite record earnings from tourism, mainly due to a surge in imports of investment goods for several new development projects.

In 1985 total export proceeds contributed only about 4% of Seychelles' gross foreign exchange earnings. The main commodity exports are fish, copra, and cinnamon bark. Re-exports to carriers are also significant. The major part of foreign exchange earnings come from services, primarily tourism receipts, bunker sales to carriers and passenger

Table II.3

Table 3 Seychelles: Balance of Payments Summary, 1981-85
(Millions of Seychelles rupees)

Item	Year:	1981	1982	1983	1984	1985
-----	-----	-----	-----	-----	-----	-----
Trade account, net		-469.7	-517.8	-469.1	-486.9	-564.5
Exports & re-exports, fob		29.5	25.3	33.9	35.3	29.9
Imports, f.o.b.		-499.2	-543.1	-503.0	-522.2	-594.4
Retained imports, fob		-461.0	-484.7	-428.4	-408.3	-490.3
Imports for resale*		-38.2	-58.4	-74.5	-113.9	-104.1
Services and income, net		287.3	209.1	215.3	296.6	325.3
Receipts		586.3	529.5	537.1	683.4	805.1
Transportation		132.0	128.1	143.1	235.6	294.8
Travel		285.0	220.0	230.0	278.8	329.9
Other		169.3	181.4	164.0	169.0	180.4
Payments		-299.0	-320.4	-321.8	-386.8	-479.8
Shipment		-88.3	-96.2	-89.1	-92.5	-105.2
Other		-210.7	-224.2	-232.7	-294.3	-374.3
Private transfers, net		-16.8	-21.0	-18.8	-16.6	-5.7
Current balance before official transfers		-199.2	-329.7	-272.6	-206.9	-244.9
Official transfers, net		80.6	64.0	96.6	106.7	102.1
Current balance after official transfers		-118.6	-265.7	-176.0	-100.2	-142.8
Long-term capital, net		66.9	162.1	98.3	124.3	114.3
Private long-term, net		17.8	33.8	40.0	42.6	7.8
Public long-term, net		49.1	128.3	58.3	81.7	106.5
Loan drawings		49.7	131.6	71.0	99.4	153.3
Loan repayments		-0.6	-3.3	-12.7	-17.7	-46.8
Other items, net		16.2	71.4	49.2	-36.3	24.4
Commercial bank short-term capital, net		18.9	28.3	-2.7	-12.6	0.6
SDR allocations		1.1				
Errors & omissions, net		-3.8	43.1	51.9	-23.7	23.8
Overall balance		-35.5	-32.2	-28.5	-12.2	-4.1
Memorandum items:						
Official reserves, net		88.3	56.1	27.6	15.4	11.0
GDP at current prices		971.8	969.2	989.4	1074.3	1158.7
Current balance as %GDP:						
Before official trans.		-20.5	-34.0	-27.6	-19.3	-21.1
After official trans.		-12.2	-27.4	-17.8	-9.3	-12.3
Debt service ratio as % of g. & s. exports		0.5	2.2	5.5	6.8	10.9

* Excluding bunker sales

SOURCE: IMF, 'Seychelles - Recent Economic Developments', June 25, 1986, p.32

services; the surplus on services accounts covered about 55% of the trade deficit in 1985 and equalled 28% of GDP.

During the period 1981-85, total merchandise imports (c.i.f.) rose at an average annual rate of 4.5%, reaching the equivalent of 61% of GDP in 1985. Retained imports, net of re-exports and bunker sales, rose sharply in 1985 to SR 577 million, equal to 50% of GDP. Of this total, capital goods comprised 22%, intermediate goods 47%, and consumer goods 31%. The international terms of trade facing the Seychelles declined 15% during the recessionary year of 1982, but recovered in 1984 and 1985 to the highest level since 1980.

The normal process of adjustment to balance of payments difficulties includes a depreciation or devaluation of the foreign exchange rate, to encourage foreigners to buy more goods and services from the Seychelles and to discourage import demand by raising domestic prices for imported goods and services. An analysis of the purchasing power parity of the Seychelles rupee, using trade weights derived from 90.4% of total trade and tourism receipts from 22 major trading partners (and countries of tourist origin) over the 5-year period 1981-85, indicates that, on the contrary, the rupee has been steadily revalued upwards, in real, trade-weighted terms, since independence was achieved in 1976.

The rupee was pegged to the pound sterling until November 1979, when the peg was changed to the SDR and the rupee was fixed at a rate of SR 8.3197 per SDR. On March 16, 1981, it was revalued by 15% in terms of the SDR to RS 7.2345/SDR, a rate that has been maintained since then. The pound sterling has remained the intervention currency.

Due primarily to the appreciation of the U.S. dollar, and its heavy weight (42%) in the SDR basket, the rupee has appreciated substantially in both nominal and real terms against a trade-weighted basket of its trading partner currencies--in nominal terms by 67% since 1976 and 1980, and in real terms by 33% since 1980, 49% since 1976. (See Table 4 for summary indices and Annex C for the actual calculations.)

Table II.4

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Table 4. Seychelles: Real, Trade-Weighted Foreign Exchange Rate Index, 1970-86
(1980 = 100.0)

Ratio	Year:	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
1a. S.Rupee/US\$		5.56	5.48	5.34	5.44	5.70	6.03	7.42	7.64	6.95	6.33	6.39	6.31	6.55	6.77	7.06	7.13	5.99
b. US\$/Rupee		0.180	0.183	0.187	0.184	0.175	0.166	0.135	0.131	0.144	0.158	0.156	0.158	0.153	0.148	0.142	0.140	0.167
c. US\$/R Index		115.1	116.7	119.7	117.5	112.1	106.1	86.2	83.6	91.9	100.9	100.0	101.2	97.6	91.5	90.6	89.6	106.8
2. FC/US\$ Index		119.4	117.2	112.2	104.2	106.6	105.5	116.4	115.9	106.7	102.0	100.0	114.9	131.1	142.6	160.4	176.8	156.4
3. Nominal FC/R		137.4	136.7	134.4	122.3	119.5	111.9	100.3	96.9	98.1	103.0	100.0	116.3	127.9	134.7	145.3	158.4	167.0
4. Seych. CPI		21.9	25.1	30.4	35.9	44.7	53.0	60.9	70.0	78.2	88.1	100.0	110.6	109.7	116.3	120.9	122.0	123.8
5. FC CPI		39.4	41.5	43.8	48.1	55.5	63.1	68.7	75.3	80.7	88.2	100.0	111.3	121.6	130.2	138.6	147.5	155.7
6. S CPI/FC CPI		55.6	60.5	69.4	74.6	80.5	81.0	88.6	93.0	96.9	99.8	100.0	99.4	90.2	89.3	87.2	82.7	79.5
7. Real FC/SR		76.4	82.7	93.2	91.3	96.2	94.0	88.9	90.2	95.1	102.8	100.0	115.6	115.3	120.2	126.7	131.0	132.8
1976 = 100.0		86.0	93.0	104.9	102.7	108.2	105.8	100.0	101.4	107.0	115.7	112.5	130.1	129.8	135.3	142.6	147.4	149.4

Summer*

SOURCES: (1) IMF, International Financial Statistics

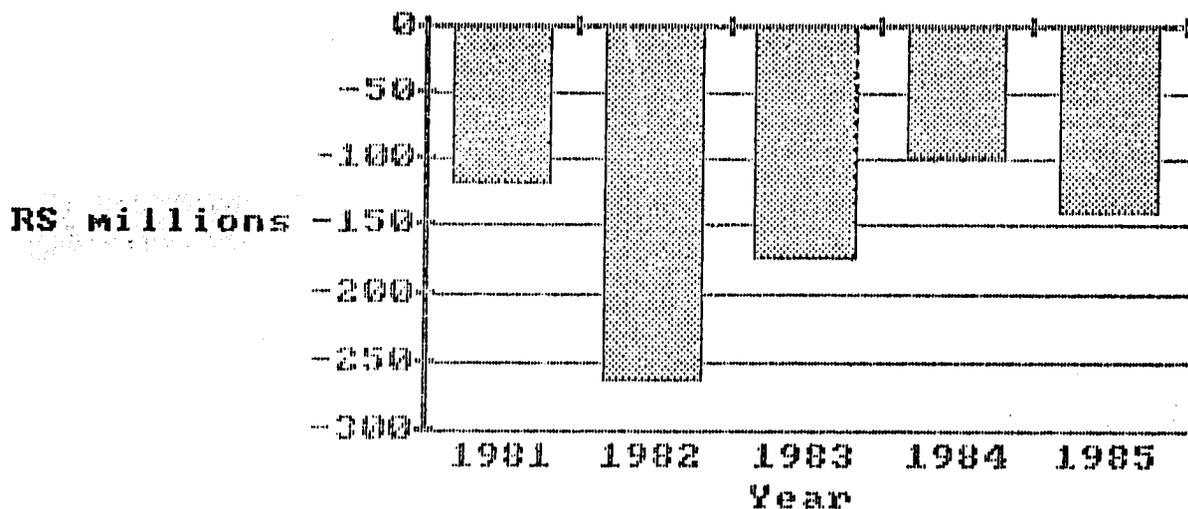
*Latest available data, 5-8/86

- (2) Trade-weighted foreign currency (FC)/US\$ index calculated from dollar exchange rates of 22 major trading partners of Seychelles, which together accounted for 90.4% of reported trade between 1981-85.--IMF, Direction of Trade Statistics and International Financial Statistics.
- (3) Nominal foreign currency/Seychelles rupee index, line (1c) x line (2)
- (4) Seychelles Consumer Price Index, IMF, International Financial Statistics
- (5) Trade-weighted consumer price index of 22 major trading partners of Seychelles, accounting for 90.4% of reported trade between 1981-85.--IMF, Direction of Trade Statistics and International Financial Statistics.
- (6) Ratio of Seychelles' CPI to trading partners' CPI, (4)/(5)
- (7) Seychelles' real, trade-weighted foreign exchange rate index, (3) deflated by (in this case, times) Seychelles' relative inflation rate (6).

In order to restore the rupee to its 1976 purchasing power parity it would have to be devalued by 33%, from its present (Aug. 1986) value of US\$0.1670 (RS 5.99/\$), to \$0.1118 per rupee, or to RS 8.95 per US dollar (in terms of SDRs, from its current RS 7.2345/SDR to RS 10.8083/SDR). In order to restore it to its 1980 purchasing power parity it would have to be devalued by 25% to US\$0.1258/RS (RS 7.95/US\$, or RS 9.6074/SDR). During a period of increasing balance of payments difficulties, when the adjustment process should have pushed the exchange rate in the other direction, the real appreciation of the rupee is exacerbating the problems the country is facing by substantially reducing profits of any economic activity oriented toward tourism or production for export (gross profits of any such activity would be 49% higher at the 1976 purchasing power parity than at present, and net profits higher still). A more realistic exchange rate would encourage tourists to stay longer in the Seychelles and to spend more while in the country on domestic services and products. It would enable hotels to afford better maintenance of current facilities, to provide more and higher quality entertainment for their guests, and to reinvest in expansion or construction of more desirable facilities. All of this would create more employment and increase income in the Seychelles.

Furthermore, since the Government obtains a substantial amount of its revenue from duties on imports, as well as from the profits of tourist activities, restoring the earlier purchasing power parity of the rupee would significantly increase revenue collections, thereby reducing the fiscal deficit. The increased rupee requirements for

FIGURE II.1
SEYCHELLES: Balance of
Payments
on Current Account
(after official transfers)

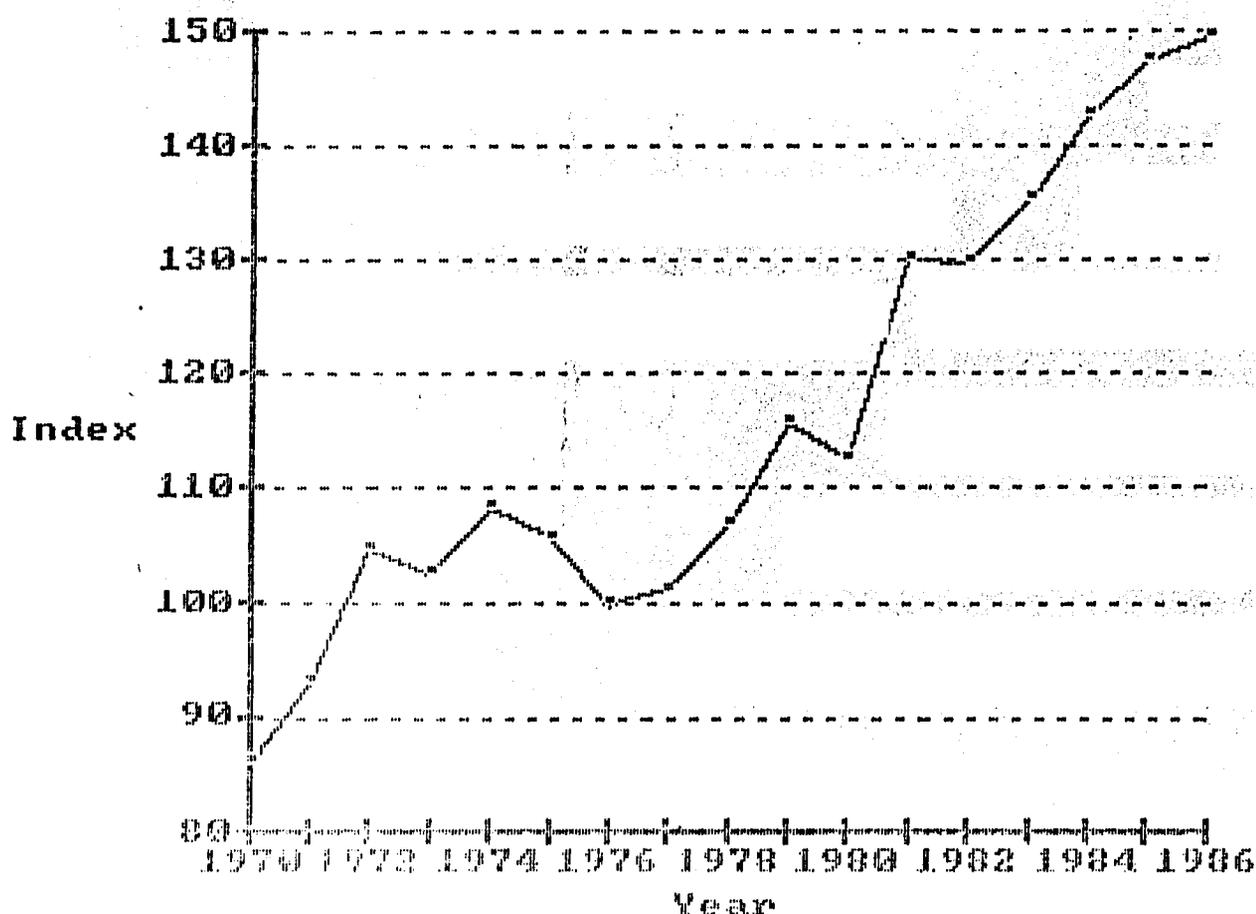


foreign debt service payments should be substantially less than the increased revenues from import duties, since total receipts from the trades tax alone are expected to reach RS 260 million in 1987, while foreign debt service requirements are budgetted at RS 169 million, and a devaluation would cause them both to increase by the same proportion.

The substantial overvaluation of the rupee places a very serious constraint on the achievement of any of the primary objectives of the Fifth National Development Plan. By artificially raising the cost of domestic labor, it reduces incentives to invest in activities which could create more productive employment. It discourages production for export, renders tourism significantly less profitable and less attractive for tourists, and encourages import demand by making imports artificially cheaper, thus worsening the balance of payments problem. By reducing the profitability of exports, tourism, and efficient import substitution activities, it will discourage investment in the key productive sectors and thereby reduce economic growth. It has a particularly dampening effect on export production of all kinds, singled out for special emphasis in the Development Plan.

FIGURE II.2

SEYCHELLES: Real Foreign
Exchange Rate Index
(1976 = 100.0)



Of course, the primary objection to a devaluation of such magnitude is its so-called "inflationary" effect on domestic prices. A devaluation is not inflationary in the true economic sense of the term, causing an increase in domestic demand relative to supply by increasing the money supply. It does raise prices of imports and exportable commodities in inverse proportion to the devaluation (ie., a 50% devaluation, with rupees in the denominator, will cause a 100/50, or 100% increase in the rupee value of foreign exchange, a 22% devaluation will cause a 100/75, or 33% increase in rupee prices, etc.). This is the purpose of a devaluation, and in the Seychelles it would simply be restoring the purchasing-power-parity of the rupee to its economic value of earlier years. It is also a "one-shot" price rise and does not cause expansionary pressures that will cause inflationary price increase to continue into the future.

Since expenditures on imports reduce the domestic money supply, they are deflationary by nature to the extent they exceed expenditures by foreigners on exports (including tourism, etc., as an export of services), which increase the money supply. To the extent these two are in balance, a devaluation has no net effect on the money supply itself, since both streams of expenditures will be increased by the same proportion and will cancel each other out. The external account has a net deflationary effect on the money supply when international reserves decline, and net inflationary effect when reserves increase.

It is nevertheless true that a sudden large increase in import costs can be traumatic and cause political difficulties in the short run, regardless of how beneficial it might be for the economy as a whole in the longer run. For this reason, if the Government did decide that the rupee exchange rate ought to be restored to a more realistic level, it might be politically more expedient to undertake a gradual depreciation over a 2- or 3-year period, to reach whatever parity target is chosen.

4. Relation of CIP's to Economic Issues

While previous CIP's have been based upon sound macro-economic analyses, their focus has been more oriented towards describing general problems rather than highlighting specific issues. A more balanced approach, one which identifies and elaborates on the key issues within the overall economic setting, would appear to be more useful for future CIP programs. The GOS would be the principal beneficiary of this approach in that the additional analyses performed by AID economist would increase the available information upon which the GOS decides its economic policies. For the U.S. this approach would serve to

complement its short term assistance with a medium to long term view of the economy. Discussions on these economic issues should be discussed during the design and evaluation stages of each CIP. During this evaluation, this approach has been productive, and the GOS has been receptive to the points raised above.

C. U.S.-Financed Commodity Import Programs

1. Overview

The first Commodity Import Program agreement with Seychelles was signed in March 1982. The rationale for the first CIP, and the four successive amendments that have followed, is that, balance of payments support is the most appropriate and effective delivery mechanism for U.S. development assistance.

Various types and combinations of balance of payments assistance programs have been considered since 1982. These options have included a CIP of solely U.S. products, a CIP including a range of U.S. and non-U.S. goods, and finally a cash transfer program. Three factors have heavily influenced the design of U.S. balance of payments assistance. First, while single commodity CIP's are desirable from a management standpoint, the small size of Seychelles market provides few opportunities for importing significant volumes of any single commodity. Second, USAID does not have resident staff in the Seychelles and therefore the management requirements have been an important consideration in the selection of the assistance mode. Finally, Seychelles trade links with the U.S. have always been limited due to its geographic location and other historical factors. Both in 1982 and again in 1984 REDSO/ESA staff canvassed the business community in the Seychelles to gauge the market for U.S. products in the Seychelles. In both instances, it became clear that, although there was interest in a limited number of US products (i.e. edible oils, rice, and various manufactured goods) the quantities which were required were extremely small and of marginal value especially vis-a-vis the management time required to effect their procurement and shipping. In considering the possibility of a CIP with a mix of U.S. and non-U.S. products, it became apparent that the largest trading partners of the Seychelles included various European countries and Japan- those countries not normally considered to be participants in a US Commodity Program. With respect to initiating a cash transfer, while it offers clear advantages with respect to minimizing administrative time and effecting quick disbursement of foreign exchange, this type of assistance normally is associated with a policy reform package or emergency assistance, neither of which has been identified as appropriate for the Seychelles. To date, the benefits of

moving to a cash grant have not been judged by the U.S. as sufficient, on their own, to propose a cash transfer program.

In 1982 a decision was taken to establish a commodity import program based upon procuring fuel oil from Kenya, a developing country (Code 941), for the purpose of generating electricity in the Seychelles. The rationale for this decision has provided the basis for five successive commodity import programs, and is founded on the following considerations. First, fuel oil (including both medium fuel oil and diesel oil) is imported by Seychelles in sufficient quantities to utilize the levels of annual funding provided by the U.S. Second, the attraction of an essentially single commodity CIP is that it minimizes the procurement actions required by both the GOS and USG staff. Third, since fuel oil provides the means for producing an intermediate good, vital to foreign exchange earnings particularly in the tourist sector, the end use of the commodity neatly complements the balance of payments objectives which underpin the entire CIP program. Fourth, since the U.S. is a net importer of petroleum products it has also been practical to procure fuel for the Seychelles from a developing country. This has made it possible to generate added value during the refining process which is a net benefit for the developing country, in this case Kenya. Fifth, the fact that the end user is a single, solvent public utility, offered good prospects for the generation and deposit of counterpart currencies. Finally, the program has not required intensive AID management time which is becoming increasingly scarce.

2. Participating Organizations

The principal organizations participating in the program from the USG and the GOS include: USAID (REDSO/ESA and RFMC), US Embassy Victoria, Department of Planning and External Relations (DPER), Department of Finance (DOF), Seychelles Petroleum Corporation (SEPEC), and the Public Utility Corporation, Electricity Division (PUC-ED). A brief description of these organizations and their role in the US Commodity Import Program in Seychelles is provided below.

a) United States Agency for International Development

The Regional Economic Development Services Office of East and Southern Africa (REDSO/ESA) located in Nairobi, Kenya represents the United States Agency for International Development (AID) in Seychelles. In this respect, REDSO/ESA Director and his staff are responsible for designing, negotiating and signing U.S. development assistance programs in Seychelles.

REDSO/ESA responsibilities with respect to the CIP have included annual visits by a Project Officer and Regional Commodity Management Officer to design and prepare the AID documentation for each of the CIP's since 1982. In addition the Regional Commodity Officer assists with preparation and issuance of the Invitation for Bids to procure the fuel oil and collaborates with GOS to select the most favorable bids. The REDSO/ESA Project Officer has the responsibility for monitoring overall CIP activities and ensuring all AID actions are undertaken on a timely basis. It should be noted that REDSO/ESA is a service organization for the 20 countries in East and Southern Africa. The Seychelles is one of four countries of the Indian Ocean where REDSO/ESA has mission responsibility. Because REDSO/ESA primary function is to provide services there are distinct limits on the amount of staff time REDSO/ESA can devote to any one country.

The Regional Financial Management Center (RFMC) also located in Nairobi provides financial management backstop to REDSO/ESA for the Seychelles CIP. Although M/FM is the official accounting station for non-project assistance activity (e.g. CIP), RFMC through Direct Reimbursement Authorization (DRA's) controls and monitors all earmarking, commitments and disbursements under the Seychelles CIP. On behalf of the Government of the Seychelles, RFMC issues Direct L/Cs to suppliers under GOS Host Country Contracts. RFMC is also responsible for reporting to AID/W the quarterly activity of local currency generations deposited to the counterpart fund Special Account (U205 Report). These reports are prepared from financial reports and statements submitted by the GOS.

b) The United States Embassy

The United States Embassy in Victoria oversees all U.S. programs in Seychelles and assists USAID in the in-country management aspects of the program. There are no USAID staff assigned to Seychelles.

c) The GOS Department of Planning and External Relations

The Department of Planning and External Relations (DPER) is the GOS executing organization for the U.S. Commodity Import Programs. The Department of Planning's Principal Secretary and his staff are

responsible for coordinating all GOS inputs into the design and analysis of each CIP, negotiating and signing the final agreement, monitoring and managing the planning and reporting for local currency projects, and forwarding local currency physical project progress reports to REDSO/ESA.

d) The GOS Department of Finance

The Department of Finance (DOF) is responsible for the GOS oversight and control of petroleum products purchased under the CIP. The Under Secretary of Finance DOF collaborates with the REDSO/ESA Regional Commodity Management Officer to issue the Invitation for Bids for fuel oil, oversees its sale to the Seychelles Petroleum Company and subsequent resale to the PUC Electricity Division, and supervises the timely deposit of the counterpart funds generated by the sales.

The Financial Control Division, Accounting Section, a separate unit of the DOF, collects local currency deposits from the sale of the fuel, and in collaboration with the DPER warrants these same funds out to the implementing agencies undertaking the local currency financed development projects, records expenditures, and issues quarterly statements showing the financial status of the local currency accounts.

e) The Seychelles Petroleum Corporation

The Seychelles Petroleum Corporation (SEPEC) is the sole importer for oil products in the Seychelles. In relation to its responsibilities under the US Commodity Import Program, SEPEC provides commodity specifications and technical advice to the DOF to prepare advertising bids for commodities and also acts as its agent to effect shipment and delivery. At the time when the fuel is delivered to Victoria, the GOS sells the fuel to SEPEC, who in turn deposits the local currency equivalent with the DOF and resells the fuel to the PUC Electricity Division.

f) The Public Utility Corporation, Electricity Division

The Public Utilities Corporation, Electricity Division (PUC-ED) is a GOS parastatal charged with providing electrical power to the Seychelles. The PUC/ED is the end user of CIP petroleum products and

provides power to the main island of Mahe, Praslin and La Digue.

3 The CIP Process

a. The Design

The design of the CIP involves annual preparation of two USAID program documents - the Program Activity Identification Proposal (PAIP) and the Program Activity Action Document (PAAD). Based upon the review and approval of the Annual Budget Submission (ABS) AID/Washington determines budgetary levels available for the CIP. Upon the notification by AID/Washington of these funding levels, REDSO/ESA makes arrangements for a Project Officer and a Regional Commodity Officer to collaborate with the GOS to: 1) review the prior year's program with respect to the use of the fuel oil and the progress of projects utilizing counterpart funds; 2) program the priority uses for the following year's foreign exchange allocation; and 3) prioritize activities for utilizing additional local currencies which would be generated under the new CIP.

This process usually takes 10 to 14 days and normally has occurred in the month of March. For the first three CIP's the PAIP was approved in AID/Washington and the PAAD's were authorized in Nairobi by the Director, REDSO/ESA. For the FY 1985 and FY 1986 CIP's both the PAIP and the PAAD were approved by the REDSO/ESA Director. Thereafter, the REDSO/ESA Director has signed the Grant Agreement or Grant Agreement Amendments in Victoria. Table II.1 provides a summary of the authorizing actions and funding levels for the FY 1982 - FY 1986 Seychelles Commodity Import Programs.

Table II.5

Authorizing Actions and Funding Levels
Seychelles CIPs FY 1982 - FY 1986
(U.S. Dollars)

<u>Year</u>	<u>Authorized PAIP</u>	<u>Authorized PAAD</u>	<u>Funding Level</u>
1982	AID/Washington	REDSO/ESA	\$ 2,000,000
1983	AID/Washington	REDSO/ESA	\$ 2,000,000
1984	AID/Washington	REDSO/ESA	\$ 2,000,000
1985	REDSO/ESA	REDSO/ESA	\$ 2,000,000
1986	REDSO/ESA	DSO/ESA	\$ 1,914,000
<u>Total</u>			\$ 9,914,000

b) Procurement

After the Grant Agreement has been signed the preparation of the Invitation for Bids (IFB) for the required fuel products is initiated. Prior to 1986, negotiated procedures were used for procuring fuel oil and a Request for Quotations (RFQ) was used. For the 1986 program formal competitive procurement procedures (an IFB) were used. The draft solicitation is cabled to Victoria for concurrence before being issued in Nairobi. Bids/offers are received in Nairobi on behalf of the GOS and carried to Victoria by the RCMO where they are opened and evaluated. The HCC contracts are then awarded by the SEPEC with the concurrence of the GOS and the RCMO (representing AID).

The following represents a summary of the procurement history of the Seychelles CIP programs between 1982 and 1985.

Table II.6

Procurement Volumes, Values, and Bids
Seychelles CIPs FY 1982 - FY 1986

<u>Year</u>	<u>RFQ Number</u>	<u>Commodity</u>	<u>Value</u>	<u>Quantity</u>	<u>Bids</u>
1982	662-K-60101	Medium Fuel Oil	\$1,911,797	9,410 MT	2
1983	662-K-60102	Medium Fuel Oil	\$1,954,708	9,996 MT	2
1984	662-K-60103	Medium Fuel Oil	\$1,850,934	10,005 MT	2
1985	662-K-60104	Medium Fuel Oil	\$1,687,283	9,984 MT	3
1986	662-K-60586	Medium Fuel Oil	\$ 403,507	4,967 MT	5
		Diesel Oil	\$2,105,771	11,235 MT	6
Total			\$9,914,000	55,597 MT	

Once the HCC contract with the successful bidder is complete SEPEC, acting as an agent of the GOS, arranges the appropriate delivery times and shipping details. The following table provides shipping details on the fuel products (including shipping surpluses and losses) purchased under the CIP program.

Table II.7

Delivery of Fuel Oils
Seychelles CIP Fy 1982 - 1986

<u>Date</u>	<u>Commodity</u>	<u>Amount Shipped</u>	<u>Surplus/(Loss)</u>
28/10/82	MFO	4239 MT	(52.08) MT
5/5/83	MFO	5170 MT	(8.676)
4/11/83	MFO	4501 MT	+ 11.675
6/4/84	MFO	5495 MT	+ 53.344
27/11/84	MFO	5006 MT	(25.188)
13/2/85	MFO	4999 MT	(31.135)
22/6/85	MFO	4988 MT	+ 1.57
11/24/86	MFO	4996 MT	+ 2.18
11/6/86	Diesel	4997 MT	(16.781)
26/6/86	Diesel	5639 MT	+ 39.22
14/10/86	Diesel	600 MT	+ 7.149
14/10/86	MFO	4967 MT	(12.78)
	Total	55597	(31.502)

Fuel is off loaded into the SEPEC storage tanks which are adjacent to the PUC/ED Mahe Power Station. Fuel from these tanks are fed directly into the power station. The consumption figures based on twelve month periods since the first shipment of CIP-financed medium fuel oil arrived is as follows:

For the first four Commodity Import Programs medium fuel oil was the only commodity financed. This situation was in response to the PUC-ED's decision to utilize more of the inexpensive medium fuel oil, and less of diesel oil, as a strategy for reducing its fuel bills. While this strategy was successful during the first three CIP's, by 1985 the heavier and more impure MFO resulted in increased maintenance problems for the generating equipment which was nearing the end of its productive life. At this time the PUC-ED was forced to reduce its consumption of medium fuel oil, despite the substantial increase in operating costs, until the new generators were installed in the last quarter of 1986. In the meantime the GOS and SEPEC were required to find uses for the residual of medium fuel oil not used by PUC-ED to prevent spoilage and added inventory costs. The decision was taken to use the MFO for the bunkering (fuelling) of the local fishing fleet. The FY 1985 PAAD recognized this problem and estimated the residual to be 1,300 MT in 1985. Since the beginning of the US Commodity Import

Programs about 4500 - 5000 metric tons of medium fuel oil has been used for bunkering primarily during the periods March-April 1985 and and March - August 1986. This corresponds to a monetary value of \$350,000 to \$400,000 in 1986 prices. A residual of slightly more than 6,000 MT of medium fuel oil and 5,000 MT diesel oil are being held in inventory by SEPEC.

c) Generation and Utilization of Counterpart Funds

Counterpart funds generated by the sale of fuel oil from the GOS to SEPEC are deposited in three equal monthly installments after the date of delivery in Victoria. This formula is in lieu of a more complex arrangement which would include interest and storage charges for holding inventories. This system has worked efficiently and a review of the records shows that all installments have been timely with the exception of one shipment in 1985. This modification can be explained by the fact that the former oil importer for the Seychelles, Shell of the Seychelles, was bought out by SEPEC at this same period of time and during this transition the DOF permitted SEPEC to pay its local currency deposits over a period of four rather than three installments.

These deposits are held in a special account at the Central Bank. This special account is non-interest earning and in reality acts as subsidiary account, (completely separate and controlled by AID-GOS agreement) on the GOS Development Fund, the capital account of the GOS budget. The GOS does not receive interest from the Central Bank nor does it use commercial banks for its deposits. The Evaluation team questioned the GOS on the possibility of using an interest bearing account at a commercial bank for the CIP special account. It was explained that GOS policy is to keep funds at the Central Bank and that to do otherwise would also create a significant increase in administrative and accounting time required to provide the entry, monitoring and management of these accounts. A summary of local currency deposits is provided below.

Table II.9

Deposit of Counterpart Funds
Seychelles CIP Program

<u>Date of Fuel Arrival</u>	<u>Dates of Deposit</u>	<u>Amount SR Rupees</u>
28/10/82	28/11/82	1,886,849.52
	28/12/82	1,886,849.52
5/5/83	28/1/82	1,886,849.52
	5/6/83	2,387,839.18
	5/7/83	2,387,839.18
4/11/83	5/8/83	2,387,839.18
	5/12/83	2,007,474.11
	4/1/84	2,007,474.11
6/4/84	3/2/84	2,007,474.11
	25/5/84	2,492,521.86
	26/6/84	2,492,521.86
27/11/84	26/7/84	2,492,521.86
	27/12/84	2,236,379.07
	25/1/85	2,236,379.07
13/2/85	27/2/85	2,236,379.07
	13/3/85	2,304,684.61
	12/4/85	2,304,684.61
	13/5/85	2,304,684.61
22/6/85	6/1/85	12,403.56
	30/9/85	1,544,742.81
	31/10/85	1,544,742.81
	29/11/85	1,544,742.81
24/11/85	31/12/85	1,544,742.81
	24/12/85	1,975,731.53
	24/1/86	1,975,731.53
11/6/86	24/2/86	1,975,731.53
	11/7/86	1,934,973.03
	11/8/86	1,934,973.03
	11/9/86	1,934,973.03
26/6/86	28/7/86	2,197,253.89
	26/8/86	2,197,253.89
	26/9/86	2,197,253.89
14/10/86	14/11/86	1,027,183.93
	15/12/86	1,027,183.93
	15/1/87	1,027,183.93
Totals		SR 67,544,047.00

Once the DOF indicates that the counterpart funds have been deposited, the DPER is responsible for programming the local currencies within the agreed categories established during the design of PAAD. Actual allocation of CIP counterpart funds within the GOS are determined by the Project Appraisal Committee (PAC) which is responsible for the allocation of all capital development funds. The PAC meets once a month to review and appraise capital projects proposed in the GOS development plan for the public sector (including parastatals). The President chairs the PAC, which includes the Ministers for National Development, Labor and Education; the Secretary of States for Planning, Manpower, Office of the President and Finance; the Principal Secretaries for Planning, Industry, and Agriculture; the Director of Research of the Central Bank; the General Manager of the Development bank, and the DOF Financial Controller. Once the PAC has reached a decision on the allocation, the DPER requests AID concurrence of the PAC decision. Once AID concurs (with or without modifications) in the decision of the PAC, the GOS is authorized to utilize the counterpart.

In the cases where alterations in the agreed AID-GOS counterpart budget changes are required, those changes are proposed by the GOS to AID for their concurrence.

A list of all projects financed from CIP counterpart funds between 1982 and 1986 is listed in Section III-C. A more detailed account of these projects can be found in Annex A.

d) Reporting and Monitoring

The tracking of the performance of the Seychelles CIP is accomplished through a monitoring and reporting system designed to provide financial data related to the foreign exchange and counterpart funds as well as physical progress on the arrival and end uses of the commodities and local currency projects.

Since financing the procurement of fuel oil is under a direct Letter of Commitment, the financial monitoring and record keeping is done by RFMC. The DOF keeps its own set of records which can be used as a check on the RFMC figures.

The Accounting Section of the DOF Division of Financial Control monitors and reports on the financial status of the counterpart funds and allocations made for local currency projects to REDSO/ESA.

The DPER prepares and forwards physical progress reports on the individual local currency projects to REDSO/ESA. In turn REDSO/ESA undertakes an annual inspection of these projects prior to preparing the following year's CIP documentation.

III. FINDINGS OF THE EVALUATION

A. Political Impact of the CIP

The U.S. assistance provided through Commodity Import Programs between 1982 and 1986 have been framed within the context and conditions of the U.S. - GOS political relationship. Except for that relationship the AID Program would probably not be of its present magnitude given Seychelles high per capita income relative to other countries in the region. Financing for the CIP's has been provided from the Section 501 Economic Security Fund Appropriation.

The political impact of the U.S. Commodity Import Programs in the Seychelles is best explained from the perspective of the two parties involved. First and foremost, the GOS sees the Commodity Import Program as a reciprocal arrangement for U.S. access and utilization of facilities in the Seychelles. The U.S. development assistance program also represents to the GOS a measure of U.S. long term commitment to the Seychelles and the Indian Ocean region in general. To date, the GOS has been satisfied with the U.S. Commodity Import Programs, which must be interpreted as having a favorable political impact on their part.

While the U.S. political relationship with the Seychelles is largely determined by factors outside of its development assistance program, it is nevertheless important to point out that the keen interest and commitment with which the GOS has utilized the CIPs has demonstrated to the U.S. the practical and effective approach the GOS has taken to running its domestic affairs. The U.S. has preferred to deliver its assistance through an economic development program in keeping with its position that long term economic growth and prosperity based upon market mechanisms and private initiative best serve its interests in the Seychelles. From another perspective, the CIP Program has allowed the U.S. to enter into a collaborative

relationship with the GOS in steering its development assistance program which looks at long-term issues as well as current problems. Furthermore the CIP provides a mechanism for demonstrating to the GOS the value the U.S. places on it keeping its non-aligned position. Based upon these factors the Commodity Import Program would appear to have a politically satisfactory impact on U.S. relations.

From the perspective of both the GOS and the US the CIP has also provided the opportunity for expanding the relations and broadening exchanges between both countries at the political and civil servant level. While the political benefits of this increased government exchange is difficult to quantify, it is nonetheless generally believed to have a positive impact on U.S. - Seychelles relations.

B. Economic Impact

During the last few years the AID CIP program has provided foreign exchange equal to about 2% of Seychelles' commodity import bill, or 5% of its current account deficit before official transfers. Its impact on the balance of payments and helping Seychelles maintain a satisfactory foreign reserve level during the lean years has been marginal, though certainly not altogether insignificant. Together with official transfers from other donors, which covered 42% of the current account deficit in 1985 and in which it comprised about 12%, the AID grant CIP program has helped provide substantial support to the external sector. The use of local currency generations to support development projects, as discussed below, is no doubt providing major benefits to the economy.

While the Seychelles economy has been fairly successful in developing its tourism industry as a major source of employment, income, and foreign exchange, one nevertheless cannot help but wonder why it did not put itself on an even more satisfactory growth path and have avoided some of its current problems with a somewhat different set of macroeconomic policies. To the extent foreign donor assistance, including that of AID, has enabled the Government to sustain fiscal and current account deficits without adjusting its policies to stimulate more rapid export production, further development of tourism, efficient import substitution, and the consequent income and employment generation such activities can create and sustain, the assistance can be said to have been counter-productive to achieving the desired pattern of economic growth.

With respect to its impact on the growth of the private sector, any possible positive effects attributable to the slightly

greater availability of foreign exchange have been swamped by the adverse effects of pricing (including foreign exchange rate), wage and employment, and fiscal policies which have dominated, reduced and otherwise controlled economic opportunities available to the private sector. The use of CIP funds to purchase fuel oil for the electric generators cannot be said to have had any economic impact other than the provision of additional foreign exchange, since there is no question but that without such assistance the fuel required to generate the same amount of electricity would have been purchased anyway. And the provision of additional foreign exchange has simply allowed the Seychelles to sustain a slightly higher level of imports without incurring additional foreign debt.

C. Development Impact

1. Overview

The development objectives of the U.S. Commodity Import Programs in the Seychelles have always played a secondary and largely undescribed role in comparison to the central objective of balance of payments support. This is not to say that the CIP has not had a development impact. Quite the contrary, the contributions of the counterpart funds for financing local currency projects has resulted in a significant improvement in the nation's infrastructure which is discussed more fully below.

2. The Development Impact of Fuel

The development impact attributed to the specific fuel products imported under the Seychelles CIP is not easily discerned. While the impact of the electrical power sector touches upon almost every sector of the economy, it is incorrect to believe that without the CIP, Seychelles would not find alternative financing. However, one could argue that to the extent that the foreign exchange, which is freed up because oil is financed by the US CIP, is used for development purposes there is an indirect development impact which corresponds to the foreign exchange portion of the CIP. This issue is touched upon in the above Economic Impact section.

3. The Development Impact of Local Currency-Financed Projects

The principal development impact of the U.S. Commodity Import Programs has originated from the utilization of the counterpart funds for specific capital development projects in Seychelles. U.S. Commodity Import Program between 1982 and 1986 generated SR 67,544,047 in counterpart funds. A total of SR 65,206,596

has been allocated for over 50 separate development activities organized within 26 project management units. To date, ninety six percent of the counterpart funds have been allocated for specific projects and seventy-three percent have been disbursed.

The Evaluation Team was favorably impressed with the selection of projects financed from the pool of counterpart funds as well as the implementation efficiency demonstrated by the GOS. For the most part, projects financed by the CIP counterpart funds, are related to the improvement of Seychelles infrastructural stock. The largest of the CIP financed projects, both in terms of scope and funding, is the East Coast Project. This project, located on the eastern side of the main island of Mahe, represents a major investment of the GOS (US \$60.0 million) to improve its harbor and port facilities. Specifically, the project provides for dredging of the harbor and major land reclamation, expansion of the commercial port facilities including additional quays and handling equipment, improvement of the fishing port, and the development of facilities to handle the local schooner fleet which provides passenger and freight services between the islands. The East Coast Project is financed by a number of donors including: IBRD (\$6.2 million), African Development Bank (\$6.0 million), The Kuwaiti Fund (\$5.0 million), and BADEA (\$5.0 million). In addition, the GOS contribution to the Project is in the region of \$7.0 million. CIP counterpart funds have been used to undertake a variety of activities integral to the implementation of the project. First, to support an Implementation Unit in DPER which provided for the administrative and logistical requirements of getting the project started. Second, construction of a causeway including culverts for the purpose of expanding access to the port and providing protection for the land reclamation. Third, rock armouring for the port area and along the entire length of the land reclamation. Fourth, the erection of quays in the port area for the inter-island boat traffic. Fifth, the development of improved infrastructure for the local fishing industry. A total of SR 18.8 million have been used from CIP counterpart funds representing almost all of 1984 and 1985 allocations and nearly one third of total funds allocated to date. The project is now nearing completion and already the GOS is beginning to reap returns from this investment in terms of increased harbor traffic and transshipment of cargo.

Other infrastructural projects have included road rehabilitation and development of water supplies. These projects have been equally successful, although more modest, and are described in more detail in Annexes A and B.

The projects financed by counterpart funds have been carried out in a timely and cost effective manner. A great deal of the work has been carried out by the GOS Division of Land Transport, including the East Coast Project. Inputs, including those financed by the counterpart funds, have been used in imaginative and practical combinations. For instance, for the Praslin Water Supply, Japanese donated pipe, has been combined with counterpart financed labor, and supervised by Peace Corp volunteers who are Engineers. At the Praslin Airport runway improvements financed by counterpart funds included the installation of French donated runway lights. These activities impressed the Team as good examples of how donor coordination can take place when the host government is not reluctant to take the initiative.

The Chief REDSO/ESA Engineer undertook site visits to most of the local currency projects as part of this Evaluation and his report is included in Annex B. In summary, he concluded that the local currency projects were well spent on effective and needed projects. In his report he highlighted some of the operational areas which could be improved, both on the part of USAID as well as the GOS. The areas he noted for improvement included: the maintenance of up to date and accurate accounting of project expenditures, the staffing, equipping and financing of maintenance groups, more extensive use of designs, specifications, as-built drawings and construction monitoring.

Table III.

Projects Financed by CIP Counterpart Funds (SR's)

<u>PROJECTS</u>	<u>Allocation</u>
<u>FY 1982</u>	
1. Grand Anse Soil Laboratory	1,300,000
2. IDC Projects	
A. Coetivy cold store complex	1,140,000
B. Farquhar cold store complex	1,140,000
C. Cattle production (Coetivy)	190,000
D. Cattle production (Farquhar)	90,000
E. Maize production (Coetivy)	300,000
F. Maize production (Farquhar)	300,000
G. Pork production (Coetivy)	40,000
H. Pork production (Farquhar)	40,000
I. Agricultural Machinery (Coetivy)	180,000
J. Agricultural Machinery (Farquhar)	180,000
K. Coconut and Pine Replantation Program (Coetivy)	700,000
3. Plaisance/La Misere Road	1,820,000
4. Beau Vallon/Bel Ombre Road	250,000
5. La Misere Water Supply	800,000
6. West Coast Road	1,000,000
7. Victoria/Anse Etoile Road	1,500,000
8. Pointe Larue Drainage	700,000
9. Anse Aux Pins Drainage	500,000
10. Glacis/La Gogue Road	500,000
11. Seychelles Development Bank Loans for Land Acquisition	
12. Special Project Unit Victoria Fishing Port Seawall	536,596
<u>FY 1983</u>	
13. Praslin Water Supply	5,000,000
14. Airport/Anse Aux Pins Road	4,200,000
15. Improvement of Grand Anse Research Station	1,000,000
16. IDC Projects	1,800,000
17. La Digue and Praslin Boat Building Project	1,000,000

FY 1984

18. Praslin Aerodrome Improvement	3,500,000
19. East Coast Project	
A. Causeway (Including armouring)	6,740,000
B. Culverts	690,000
C. Rock Armouring (Airport)	110,000
D. Desilting	860,000
E. Implementation Unit	300,000
F. Production of Boats	300,000
20. Praslin Water Supply (Follow on Project 13)	1,500,000

FY 1985

21. Praslin Water Supply(Follow-on to Projects 13 and 20)	4,000,000
22. East Coast Project (Follow-on to Project 19)	
A. Rock Armouring of Sewage Pond on Newly Reclaimed Land	400,000
B. IDC Quay in Victoria For Outer-Island Transport	1,000,000
C. Plaisance Refuse Area	400,000
D. Fisheries Development for Artisanal Fishermen Under Seychelles Fishing Authority	1,000,000
23. Road Rehabilitation Phase I	3,700,000
A. La Misere-Grande Anse	
B. Intendance Road	
C. Widening of Bends (Quatre-Bolnes, Baie Lazare, Anse La Mouche, Anse Royale)	
24. Craft Village Phase	2,000,000

FY 1986

25. Road Rehabilitation Phase II	
A. Anse Aux Pins-Anse Royale	2,000,000
26. Praslin Aerodrome	1,500,000
27. East Coast Project (Follow-on from Projects 19 and 22)	
A. Rock Armouring of remaining land reclamation	5,000,000
B. Causeway improvement	3,000,000
C. Desiltation	1,000,000

D. Beneficiaries

The beneficiaries of the US Commodity Import Programs in the Seychelles can be categorized into two groups. The first group includes those people who have benefitted through the importation of the petroleum products. The second category includes those people who have benefitted from the activities financed from the counterpart funds. Alongside both these groups are those who have not had the opportunity to benefit from the CIP and where appropriate a brief explanation on this situation is provided.

1. Beneficiaries - Foreign Exchange

The importation of fuel oils for the generation of electrical power is a direct benefit to the Seychelles Petroleum Company, the Public Utilities Corporation, Electricity Division, and the consumers of electricity in Seychelles. The benefits obtained by SEPEC (70 employees) through the U.S. Commodity Import Programs are not straightforward. As a GOS parastatal with a monopoly on oil imports, its participation in the CIP can be seen in the light of "duty" as much or more than anything else. The restrictions of AID procurement regulations combined with the administrative requirement of monitoring and reporting on U.S. commodity aid, offer little in the way of benefits. In terms of financing, the current practice under the CIP is that SEPEC pays the local currency equivalent of the value of the fuel shipment in three equal installments over a period of three months after the arrival of the commodity. In a regular commercial transaction the supplier provides 30 days credit and the buyer arranges an additional 30-60 days commercial credit (at \$7000-\$8000 per month on a \$1,000,000 shipment) to hold the inventories until they are turned over. Whereas the current arrangement for SEPEC are favorable for diesel oil which can be readily turned over in a shorter period of time, the medium fuel oil moves more slowly since the Electricity Division is the principal user. In the initial years of the CIP, when medium fuel oil was the only commodity purchased, SEPEC and its predecessor Shell of the Seychelles were benefitting very little from the financing arrangements. For the FY 1986 program, the larger shipments of diesel oil which can be disbursed more quickly offered financing benefits to SEPEC. For SEPEC the purchase price for fuel oils is not a major factor since in financing is provided and the retail prices and margins are controlled.

The Public Utilities Corporation's Electricity Division's (workforce of 246 persons) benefits from the US Commodity Import Programs are also not readily apparent. In terms of price, since fuel oil prices are controlled, the Electricity

Division pays the same price for fuel regardless of whether it is a US CIP or a commercial purchase. In terms of supplies, the US CIP probably has provided larger reserves of medium fuel oil in country than SEPEC would have stocked on their own. However, since the Electricity Division has never found itself without fuel supplies, this benefit is more speculative than real and is achieved at a cost to SEPEC. Thus, the Electricity Division, like SEPEC, can be seen as mechanisms for delivering the Commodity Import Programs with insignificant direct benefits accruing directly to themselves.

Ultimately, the fuels which are purchased under the US Commodity Import Programs have provided power to 12,209 customers, (number of billed customer units in 1986). During the last year alone over 600 new consumers were connected on the islands of Mahe, Praslin, and La Digue. The proportion of electricity consumed by type of user is estimated as: domestic or residential users (30 percent), Industrial and Commercial users (65 percent), and street lighting (5 percent). Domestic consumers are an advantage over other users with respect to tariffs. This group is charged R 1.33/kwh for the first 50 kwh and R 1.38/kwh for additional consumption beyond that figure. Commercial and Industrial users pay R 1.54/kwh for the first 500 kwh, R 1.45 for consumption between 500-1000 kwh, and R 1.33 for any additional consumption. The GOS is charged a flat fee of R 1.33 kwh for street lighting. About 70-75 percent of the population of Mahe 60 percent of the population on Praslin are connected to the electrical grid. Since it cost only R 300 to be connected to the grid, isolation and not price appears to be the principal reason why some homes are not receiving electricity.

2. Beneficiaries - Counterpart Funds

The principal beneficiaries of the CIP is understandably derived from the development projects financed from counterpart funds. These beneficiaries are described more in qualitative, rather than quantitative terms below due both to the "public good" nature of the counterpart financed projects as well as the shortage of reliable beneficiary data.

a) The East Coast Project

Significant amounts of the counterpart funds for the FY 1984, FY 1985 and FY 1986 CIPs were allocated to the East Coast Project. This project involves a major expansion of the port facilities in Victoria combined with extensive land reclamation works in the port area. CIP counterpart funds have been used to place rock armouring along the entire length of the

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a) The East Coast Project

Significant amounts of the counterpart funds for the FY 1984, FY 1985 and FY 1986 CIPs were allocated to the East Coast Project. This project involves a major expansion of the port facilities in Victoria combined with extensive land reclamation works in the port area. CIP counterpart funds have been used to place rock armouring along the entire length of the

port and land reclamation area, to construct a causeway including large culverts, to desilt interior waterways, and to sponsor pilot fishing activities aimed at improving Seychelles indigeneous fishing industry. The direct beneficiaries of the various activities include: 1) the 50-60 people who have received salaries to undertake the construction activities; 2) the three new industries (tuna processing plant, livestock fodder and feed processing unit, and a fisheries refrigeration plant) which have located in the new port area on the reclaimed land; and 3) the GOS Port Authorities which are earning additional revenues as a result of the heavier port traffic and expansion in the trans-shipment business. Direct benefits which are anticipated in the near future include home owners who will benefit from the construction of residential housing and owners and employees businesses which will use the reclaimed land for new factories and offices.

b) Road Rehabilitation Projects

The road rehabilitation projects associated with eight of the island of Mahe's principal roads, like the East Coast Development Project, are public goods which are difficult to pin down to specific beneficiaries. Because of the relatively small size of the surfaced road system in the country (only 132 kilometres on Mahe) it is not unreasonable to assume that, in the first instance, every vehicle owner obtains benefits from the road improvement. In 1985 the number of vehicles in Seychelles included 3,531 passenger cars, 316 omnibuses, 1061 commercial vehicles, and 146 motorcycles for a total of 4,954 motor vehicles. The benefits to the owners, drivers, and passengers of these vehicles include reduced travel time, reduced vehicle operating cost and an improved environment for safety.

c) Praslin Water Supply Project

The Praslin Water Supply Project has provided direct benefits, in the form of treated, piped water, to the 3,000 residents of Praslin Island (approximately 80% of the population) and hotel facilities for another 1000 people. Similar to the experience of the electricity reticulation system, isolation rather than price is the principal factor preventing the other 20% of the population from benefitting from the newly installed water reticulation system.

d) Praslin Aerodrome

The Praslin Aerodrome Project has expanded the capacity of the airport facilities to serve greater numbers and a larger variety of aircraft while at the same time improving safety standards. The direct beneficiaries of this project are the aircraft owners and their passengers. There are a number of indirect beneficiaries including the additional people who will be employed on Praslin to service the increasing numbers of tourists as well as the owners of tourist facilities who will capture larger revenues.

e) Islands Development Corporation Projects

During the first two US Commodity Import Programs counterpart funds were used to finance production activities aimed at improving the income opportunities for residents of Seychelles outer and more remote islands. The strategy for achieving this objective was to gradually develop the basic infrastructure on the outer islands enabling small communities to exploit the agricultural and sea resources associated with that island. The activities supported by these projects included the establishment of cold stores to support fishing, small scale livestock programs, coconut drying facilities, and land clearing for coconut and pine plantations. The 758 people of these islands have directly benefitted from these activities both in terms of income and increased levels of employment.

f) Others

There are a number of other projects financed by counterpart funds which are not as large as those listed above but have assisted specific groups of beneficiaries. As a group, fishermen are the most prominent of these. Counterpart financed projects have: 1) erected a seawall in the Victoria Harbor which protected land which has been used to create a refrigeration plant for local fishermen; 2) locally constructed prototype fishing boats which are improving the design and supply of vessels for the indigenous fishermen; 3) expanded and improved berthing facilities in Victoria Harbor; and 4) expanding research, training and data support services for local fisherman. These projects have improved the capacity of local fishermen to utilize the ocean resources of the expanded economic zone.

E. Management Assessment

1. Overall Management Systems

a) USAID

The Evaluation Team has examined the structure of the REDSO/ESA management system for the Seychelles CIPs and has found that it has been appropriate for the task of managing the programs between 1982 and 1986. REDSO/ESA has made a real effort since the start of the CIP to keep management time to a minimum so as not to detrimentally affect its other responsibilities in the region. An estimate of the amount of staff time devoted to the CIP over the course of a typical year is as follows:

Table III.2

Time Requirements for
REDSO/ESA Management for Typical Year

<u>Task</u>	<u>Skill</u>	<u>Person Days</u>
Design	Project Officer	14
	Commodity Management	7
	Legal	2
	Analysis	2
	Project Committee	1
Implementation	Commodity Management	7
	Project Officer	4
	Total	37

This represents less than one half of one percent of the available work days annually programmed in REDSO/ESA. With the recent congressional requirement of annual evaluations this figure is likely to increase significantly, if REDSO/ESA must examine the development programs of the GOS as a part of the CIP.

While the REDSO/ESA CIP management system operates on a streamlined basis, there are some areas where more attention is necessary. First, the Project Officer should tighten up the program monitoring system as a means of coordinating the various offices which are producing information on the CIPs. Such a monitoring system should include: quantities of fuel shipped, corresponding payments, fuel utilization records, allocation of counterpart funds, and progress on the

local currency projects. These different bits of information are being generated and recorded by the various organizations but are generally inconsistent with each other. A summary sheet where such differences could be reconciled would be an effective monitoring tool, which could speed up transactions, and minimize mistakes. Second, where major construction projects are proposed for counterpart financing, a REDSO/ESA Engineer should be requested to review the plans prior to REDSO/ESA concurrence on funding.

The Evaluation Team has also found that the numbers of staff, the composition of skills, and the organization of RFMC's management system for the Seychelles CIPs is generally sound. Letters of Commitment, disbursement of payments, and end reporting of local currency accounts have been handled in a straightforward way. The Team did note the need for improving the posting and control of recording, earmarking, commitments, and disbursements in the missions memorandum accounting records so that up-to-date information on financial activity and remaining balances can be obtained more quickly by clients without waiting for the AID/W issued W214 report. For example, during the evaluation a review was made of the GOS Local Currency Accounting Records. This review revealed that disbursements made by AID on behalf of GOS may have exceeded the obligations for the CIP. RFMC performed a detailed review of all requests and noted that vouchers processed by RFMC and administratively approved by REDSO/ESA resulted in overpayments under the CIP grants as follows:

FY 1985	\$ 65.61
FY 1986	<u>4,326.35</u>
	\$ 4,391.96

The overpayment has been discussed with the GOS and the GOS have agreed to refund the overpayment. It is expected that this will be resolved by March 31, 1987.

b) Government of the Seychelles

The Principal Secretary, Department of Planning and External Relations is responsible for the management and coordination of the CIP activities for the GOS. Administration and monitoring is provided by the Economic Cooperation Section while technical

backstopping is supplied by the Economic Section in the Department. The DPER's most important responsibilities for the US CIP's have been related to directing the design of each years program document and programming the local currencies generated by the CIPs. With respect to design, DPER performance has been exceptional and USAID teams have been able to collect and prepare the necessary documentation in 7-10 days, largely due its efficiency. DPER performance on the local currency programs are discussed separately in part 3 of this section.

The Undersecretary Department of Finance is responsible for the assisting USAID in the design and bidding related to the procurement of fuel oils, recording the details of shipment and arrival, and ensuring local currency deposits are deposited in a timely manner. The Financial Control Section of the DOF is responsible for warranting counterpart funds for developing project and keeping financial accounts to record their use. The Evaluation Team, found that the DOF has met its responsibilities in a professional and efficient manner.

While neither SEPEC nor PUC/ED are responsible for the management of the bilateral program between the US and the GOS, the Evaluation Team was impressed with the efficient operations of their organization which reflect good management practices and explain the profits they show on their balance sheets.

2. Effectiveness of Procurement Procedures

The Evaluation Team has examined the procurement procedures for purchasing the fuel oils financed by Seychelles Commodity Import Programs. These have included; 1) the advertising and bidding process; 2) the contracting framework; and, 3) the shipping and delivery system.

a) Advertising and Bidding

During the first four Commodity Import Programs (1982-1985) a single commodity, medium fuel oil, was financed. For these CIP's negotiated procurement procedures were used instead of formal advertising. The justification for adopting this mechanism were that there was only a single importer involved (Shel:

of the Seychelles), it has recognized that the country was too small to attract competitive retailing in fuel, and the quantities of fuel oil involved were too small to attract a large interest among oil companies. The source/origin requirements for the initial CIP were Kenya and Bahrain, thereafter all CIP procurements have been restricted to the developing world (Code 941). For the FY 1986 CIP, diesel oil was included as a second commodity, based upon the shifting fuel mixes of the PUC/ED electrical generating plant and to accelerate the disbursement of funds and generation of counterpart. During that same year, formal competitive procurement procedures were introduced and an Invitation for Bids (IFB) was issued. The number of bidders for the FY 1986 programs included 5 bidders on medium fuel oil and 6 bidders for diesel oil. These figures compare to only two bidders for the 1982-1984 CIPs and three bidders for the 1985 program.

b) Contracts

The most unusual and possibly most difficult issue that must be dealt with in a contract which calls for staggered deliveries of a price-volatile commodity over several months is to provide some form of protection to the potential bidders against possible escalation in the price of the commodity. The terms and conditions of such a contract should be written in such a way as to reduce the risks of price escalation to the potential suppliers while at the same time to ensure that the benefits of a price fall will accrue to the purchaser. From the inception of the Seychelles CIP, the Requests for Quotations and last year's Invitation to Bid have contained a clause which required a fixed price quotation for the first shipment of product and provided for a price escalation/deflation up to 15% (based upon the Platts oilgram prices, a free market price indicator for oil products) of the contract value for subsequent shipments. Since each year the first shipments have been made about one month after contract (a one month forward commitment of the commodity and a one month assumption of price change risk are probably typical for most transactions in the industry) and all shipments are made within 5 to 6 months of contract (prices on futures contracts on world commodity exchanges on oil products would almost never exceed 15% for a delivery 6 months in the future), these clauses have had the effect of protecting the bidders.

against almost any foreseeable rise in the price of the commodity. This arrangement has thus undoubtedly resulted in lower costs to the purchaser than would have been the case if fixed price quotations had been required for all deliveries.

The contracts for purchasing oil from the successful bidder(s) have been financed through AID Direct Letter(s) of Commitment issued by the Regional Finance Management Center in Nairobi on behalf of the GOS. This mechanism has worked well probably because the suppliers have been local (Kenyan) firms and have thus had ready access to REDSO and to RFMC when questions/problems have arisen. It might be necessary to reexamine the financing mechanism should the authorized source/origin be expanded in future years.

c) Shipping and Delivery

The shipping and delivery arrangements have been a major part of the procurement arrangements for the Commodity Import Programs in the Seychelles. This is due to two factors; first, the limited storage capacity for fuel in the Seychelles and, secondly, the complexity of AID requirements with regard to shipping. A minimum of two shipping deliveries have been required for all fuel oil purchases which have undertaken by the US CIPs. Any single shipment of more than 5,000 MT medium fuel oil cannot be stored by the Seychelles facilities. Likewise, since AID requirement for using American shipping are strongly enforced, each CIP has required that REDSO/ESA request AID/Washington to issue certificates of non-availability of US flag vessels for shipping fuel to Seychelles. These certificates have been based upon the fact that there is no scheduled US flag tanker vessels in the Indian Ocean which are available to ship medium fuel oil (and in 1986 diesel oil). The second requirement, is to request Washington to permit the use of Free World (Code 935) sources for shipping. Finally since there is not regular shipping services for fuels to the Seychelles an approval of charter shipping is required.

3. Management of the Local Currency Program

The management of the local currency program - specifically, the allocation of financing and the compilation and drafting of physical progress reports - has been the least impressive

aspect of the CIP implementation. The basic problems here are: 1) finalizing the agreed upon allocation for the uses of the counterpart funds between the GOS and REDSO/ESA has required prolonged periods of time which is delaying counterpart expenditures; 2) on several projects the total expenditures would have exceeded the figures established in original GOS and REDSO/ESA budgets without later budget modification ; 3) physical progress reports for the individual projects have been incomplete and irregular.

The allocation of local currency deposits for development projects begins with the categories developed in the PAAD. The actual deposits resulting from the authorization of that PAAD do not occur for some six to eight months later. It has been the practice of the DPER to await notification by the DOF that the funds have been deposited before processing the proposed allocation through the PAC and to REDSO/ESA for concurrence. While a general budget for the 1985 counterpart funds was approved with an amendment to the 1984 Program this budget provided a minimum of detail. The GOS plans for using the 1986 counterpart was only sent in November 1986. Economizing on information in the GOS requests to REDSO/ESA for concurrence on the counterpart fund budget and being tardy on their submissions, are not make or break issues on the CIP. They are however important in terms of efficiently utilizing counterpart funds which are sitting on deposit at the Central Bank and accelerating the implementation of development projects. To this end, future PAAD's should specify a particular date, say three months after the signing of the Project Agreement, by which the GOS will submit to REDSO/ESA a proposed allocation for the Counterpart funds. This date will then serve as an alarm clock for both the DOP and REDSO/ESA to ensure that this action is taken. Furthermore, the GOS should consider making preliminary allocations before the deposits are placed at the Central Bank as one means of accelerating the process.

Once the counterpart fund budget has been agreed by the GOS and REDSO/ESA for a particular year the contained planned expenditures are expected to be maintained. Since the CIP began in 1982 there have been eight projects whose expenditures have exceeded their allocations as contained in the agreed upon budget. These overruns have occurred for two reasons. First, because DPER has not developed an internal control system which is capable of tracking total expenditures on a project by project basis nor has it fully utilized the DOF system available in the accounting section. Secondly, even where cost overruns were identified, on only one occasion did the DPER request REDSO/ESA to amend the agreed upon counterpart budget. In order to reduce the opportunities for similar situations in the future, the DPER is instituting its own control system in

conjunction with the Treasury for each project activity, ensuring that the budget levels are not exceeded prior to issuing any new warrant. In addition it will reconcile its accounts periodically with those of the DOF Accounting Section.

Reporting on the financial and physical progress of the projects supported from counterpart funds is an indispensable requirement of the USAID agreement with the GOS. Its importance is underscored by the fact that REDSO/ESA has no resident staff in Seychelles which means that it depends almost entirely upon these reports for information on project progress. From the start of the US Commodity Import Programs the issue of progress reports has been a major concern. In 1984 a REDSO/ESA Project Officer and a representative from RFMC worked with the GOS to prepare standard reporting forms which would provide the type of information required by both DOP and USAID. These forms have been used from late 1984. Since that time, the preparation of the quarterly financial reports has been for the most part satisfactory. REDSO/ESA and RFMC appreciate that efforts that are required to prepare final quarterly reports and get them to Nairobi within a fifteen day period after the close of the quarter. Physical progress reports have been less forthcoming and have not included all projects. A list of reports received follows.

Table III.3

Reporting Performance
Seychelles CIP Fy 1982-1986

<u>Period Ending</u>	<u>Commodity Report</u>	<u>Financial Status of Commodities & L/C Projects</u>	<u>Progress Report on L/C Project</u>
12/31/82	N/A	N/A	N/A
3/31/83	N/A	N/A	N/A
6/30/83	N/A	RCD	N/A
9/30/83	RCD	RCD	RCD
12/31/83	N/A	RCD	RCD
3/31/84	N/A	N/A	N/A
6/30/84	N/A	N/A	N/A
9/30/84	N/A	RCD	N/A
12/31/84	N/A	RCD	N/A
3/31/85	RCD	RCD	RCD
6/30/85	N/A	RCD	N/A
9/30/85	RCD	RCD	RCD
12/31/85	RCD	RCD	RCD
3/31/86	RCD	RCD	RCD
6/30/86	N/A	RCD	N/A
9/30/86	N/A	RCD	N/A
12/31/86	N/A	RCD	N/A

N/A = Not available

RCD = Received

There is very little that can be said except that the GOS, and DPER in particular needs to focus more attention on the preparation of reports. Since USAID has itself gone to semi-annual descriptive reporting on projects this would seem appropriate for the CIP reporting as well. Therefore, it is recommended that DOP prepare progress reports at the end of the second and fourth quarter, corresponding to April 30th and September 30th of every calendar year.

F. Congressional Requirement of Section 801 of ISPCA of 1985

While this requirement applies only to FY 1986 CIP's, the replies are generally applicable to all the Seychelles CIPs.

1. Are imports allocated to recipients who are likely to use them in a "productive, employment generating and cost-effective way?"

The electric generating plant is efficient and provides consistent power to the Island of Mahe, which is of course vital to the continued success of the tourism industry as well as other economic activities. On the whole, the Seychelles has done well in developing and utilizing its "comparative advantage" in sunny beaches and clear waters to generate income and employment for its people.

2. Are imports coordinated with GOS Development. Plan?

Yes, since electric power generation is critical to the success and efficiency of most modern economic activities creating employment and generating income, and particularly to the further development of the tourism industry. The primary benefit of the imports is to alleviate, in their small way, the immediate balance of payments constraint, although this benefit must be accompanied by the caveates mentioned above about helping to sustain the undesirable macroeconomic policies that exacerbate the problem itself.

3. Will imports expand agricultural production?

No, fuel oil imports to generate electricity cannot be said to have any significant effect on agricultural production, although they could be important in some agricultural processing activities.

4. Do the CIP imports have broad development impact among economic sectors & geographic regions?

Electricity itself, generated by the CIP fuel oil imports, has a broad and positive development impact in most economic sectors on the Island of Mahe.

5. Are the imports additional to those that would otherwise occur?

Probably not, fuel for the electric generating plant would be purchased as a high priority item without the CIP Program. The AID money simply releases an equivalent amount of foreign exchange from that requirement for other uses.

6. Are local currency generations deposited into a special account consistent with US FAA & are a portion made available to the U.S.?

The Evaluation Team discussed the need for earmarking local currencies for U.S. use with the U.S. Embassy, Victoria. Our mutual decision was not to request counterpart funds for U.S. uses. This decision was based upon three factors. First, A.I.D. does not maintain resident staff in the Seychelles and only one or two trips by REDSO/ESA are planned each year. Second, the costs of setting up and managing a U.S. account is costly in terms of administration and is probably not justified given the small number of development-oriented expenditures which are made each year. Finally, the underlying rationale for providing the assistance in the first place does not fit well with the US reclaiming funds.

IV. EVALUATION ISSUES

A. Procurement Procedures

The first issue raised by the Evaluation Team concerns the mechanics of how the fuel products, financed by the CIP, are purchased. This issue involves two parts: 1) the AID decision to restrict procurement to the developing world (Code 941); and 2) the effects of risk on the contract price;

1. The Cost of Restricting Procurement to Code 941 Countries

Generally, tied assistance is less attractive to the host country recipient than free and fully fungible resources. Given the fact that the Seychelles CIP has always used Kenya market to purchase of medium fuel oil, and diesel oil for FY 1986, the Evaluation Team examined the competitiveness of this market vis a vis other potential sources.

When the CIP was initiated in FY 1982, there was a great deal of discussion on the source and origin of the fuel oils which were proposed for financing. The option of U.S. procurement, the preferred method for a grant program, was considered and

ruled inappropriate because: 1) the U.S. is already a net importer of POL products (and therefore not an eligible AID source for POL products under policy in AID Handbook 15, Appendix B. Part 1); and, 2) due to storage limitation in Victoria, the procurement of fuel oils requires at least two logistically difficult shipment of probably no more than 6,000 MT which is not large enough to attract the interest of US suppliers. Moreover, CIF value of POL products from the US would be prohibitively high and would not serve the US interests in Seychelles. As an alternative, Kenya and Bahrain were proposed since medium fuel oil was available from these sources. As the GOS decided to utilize CIP financing for the purchase of medium fuel oil and that this commodity is an excess product (therefore inexpensive) in Kenya, a Code 941 waiver was approved for the FY 1982 program and every year since. The Evaluation Team has become aware that the fact that the US Embassy, Nairobi was responsible for the Seychelles at that time and also that the management of the Kenyan refinery under Shell was sister organization to the previous sole petroleum importer for the Seychelles were also influencing factors in this decision.

From a cursory examination of Kenyan prices (FOB) for medium fuel oil financed by the Seychelles Commodity Import Program between 1982 and 1986 it would appear that these prices have been competitive and in some cases lower than is available in the Persian Gulf States. This shipping and insurance rates for Kenyan medium fuel oil has ranged between \$20 - \$27, which is also comparable with the prices on from the Gulf (about \$22 per metric ton).

The decision to include diesel oil in the FY 1986 CIP (due to the inability of the PUC-ED to fully utilize medium fuel oil shipments for generating electricity) while at the same time continuing to restrict procurement to Code 941 countries, upset the cost effectiveness record which CIP's up until that time had enjoyed. Underlying this change is the fact that the Kenya market structure for diesel oil is much different than for medium fuel oil. First, the Mombasa refinery is not as technologically efficient as the refineries in the Gulf creating cost disadvantages before the product hits market. Secondly, price margins are greater for serving the interior regions of East Africa (Uganda, Rwanda, Burundi) than for export to Seychelles by sea from Mombasa. The higher prices paid for Kenyan diesel oil are clearly illustrated in the following comparison of costs constructed to show the relative price levels between Kenya and Bahrain (originally considered as a procurement source) for the diesel oil purchased under the FY 1986 CIP.

Table II.4

Cost Comparison for Diesel Oil

A)	Winning quotation ex Kenya CIP May 1986	\$/MT 187.78
B)	Price CIP Mahe based on F.O.B. Arab Gulf price valid on bid date + 22 US\$/MT for freight and insurance	<u>\$/MT 146.13</u>
	Difference	\$/MT 41.65

1A)	First delivery MT 4996.87 B/L 1.6.86 no change on price quoted	\$/MT 187.78
1B)	Price CIP Mahe based on F.O.B. Arab Gulf price valid on B/L date + 22 US\$/MT for freight and insurance	<u>\$/MT 121.75</u>
	Difference	\$/MT 66.03
	Potential Saving	\$329,943

2A)	Second delivery MT 5638.586 B/L 20/6 no change on price quoted	\$/MT 162.78
2B)	Price CIP Mahe based on F.O.B. Arab Gulf price valid on B/L date + 22 US\$/MT for freight and insurance	<u>\$/MT 120.88</u>
	Difference	\$/MT 41.90
	Potential Saving	\$236,256

3A)	Third delivery MT 600 B/L 9/10 no change on price quoted	\$/MT 162.50
3B)	Price CIP Mahe based on F.O.B. Arab Gulf price valid on B/L date + 22 US\$/MT for freight and insurance	<u>\$/MT 123.25</u>
	Difference	\$/MT 39.25
	Potential Savings	\$ 23,550

	Total Potential Savings	\$590,049

These higher costs for Kenya diesel reflect the decrease in value to the GOS of a US CIP Program tied to Code 941. At the same time, for the US they must be weighed against the marginal value of the value added to the Kenyan economy. The Evaluation Team recommends that the authorized procurement sources be expanded to Code 935 for the purchase of diesel oil.

2. The Effect of Risk on Contract Price

The second item which the Evaluation Team considered in terms of the procurement procedures for the Seychelles CIP's involved the effects of risk on contract prices, which more specifically relates to how the procurement contracts can be structured to reduce risks to the bidder in exchange for lower commodity prices.

For the first four CIP's the AID approach to contracting for the purchase of medium fuel oil involved fixing a unit price for the commodity at the time when the contract was awarded with a price adjustment of up to 10% for second and subsequent shipments. Since the delivery of the product was shipped in two or three parts, the timing of which was largely dependent upon the storage capacity in Victoria, there was a great deal of opportunity for product prices to change in the volatile oil market. In the design of the FY 1985 and 1986 CIP, the advantages of basing product prices upon movements in Platts Oil Index was recognized and only the first shipment was based on a fixed price. Later shipments were tied to the above with a maximum price adjustment factor of 15%. This effectively eliminated all risks up to a 15% bidders price fluctuation. Since all of the product was to be shipped within a 5 month period, Bidders who faced with little risk. It has been brought to the attention of the Evaluation Team that, suppliers compensate for assuming risk under a unit price fixed in advance, by hedging on their bids, thereby increasing the final contract costs. It is generally believed that future CIPs would benefit by pricing all future deliveries of fuel products against the Platts Oil Index effective on the day of shipping. The Evaluation Team recommends that for any future CIP the design team should look to reducing risks to suppliers in return for lower prices such as allowing quantities to vary as well as prices. This would reduce unit costs and facilitate complete disbursement of the grant each year.

B. The Appropriateness of the Seychelles CIPs

The economic analysis undertaken for the first Seychelles Commodity Import Program and annually updated since then has provided sufficient justification for balance of payments support to the Seychelles. Furthermore, the performance of the five CIPs has clearly demonstrated that the financing of petroleum products provides a quick and efficient mechanism for interjecting foreign exchange into the Seychelles economy and generating local currency which can be used to reduce the GOS budget deficit. The issue addressed by the Evaluation Team has been whether the CIP mechanism is the most appropriate mode of balance of payments support. Since this is basically a

comparative issue, the Evaluation Team has raised the question of whether other forms of assistance, specifically a cash transfer, would make more sense? Likewise, what are the advantages and disadvantages of staying with a CIP Program?

As was mentioned earlier, AID cash transfer programs are normally associated with policy reform programs or emergency assistance. The Evaluation Team has agreed that these same conditions should govern any consideration of a cash transfer program in Seychelles. Clearly there has not been any basis for emergency assistance, the parameters for tying a cash transfer assistance to a policy reform program have not yet been defined in the Seychelles. To date, US assistance programs in the Seychelles have focused very little on policy dialogue, partly due to the nature of the assistance program for Seychelles, and also due to the fact that REDSO/ESA has assigned a minimum amount of staff time for Seychelles. At the same time, while the GOS officials have always fully participated in the activities associated with the CIPs, it is not clear that the GOS will take the same collaborative stance in addressing basic economic issues. The Economic Background section of this evaluation attempts to set the stage for expanding the policy dialogue between the US and the GOS by identifying key developmental policies and strategies. To the extent that these items provide a basis for productive policy dialogue may provide an environment for developing cash transfer program related to policy reforms.

Hypothetically, a cash transfer assistance program based upon a policy reform package could offer a number of advantages both to the US and GOS. With respect to the US position, most importantly, a policy reform package would be a much more direct and far-sighted approach to achieving US political and economic interests of promoting a "growing economy developing in response to market forces and private sector initiatives." Certain policy reforms, the pricing of foreign exchange, for example, offer potentially high payoffs both with regard to employment levels and profitability of private sector investment. The GOS would also stand to benefit from a cash transfer assistance program by the fact that the value of the assistance program would, in practical terms, increase due to the fact that there are no ties on the use of the foreign exchange (as those that have occurred by limiting to AID Geographic Code 941). For both parties a policy reform focused cash transfer assistance program, while offering much higher potential for developmental impact, would require an increase in the level of time and effort devoted to the US assistance program.

Nevertheless, the advantages of staying with the CIP mechanism for balance of payments support are clear. In addition to the relatively quick disbursement of foreign exchange and generation of local currency, there is also great value to the experience in both the GOS and US offices as to the CIP works. To the extent that solutions are found to the items raised in Issue A above, the CIP will nearly resemble "untied" money with the exception of the monitoring and reporting requirements. The disadvantages of continuing the CIP, from a US perspective, is that the present design provides primarily short term relief to the GOS for financing their balance of payments deficits but does not actively pursue policy adjustments that could reduce or eliminate these deficits in the future. The Evaluation Team recommends that the USAID continues to provide its assistance through a CIP. However, such programs should include a discussion of the economic issues which are most advantageous to making the fullest use of the US Assistance Program.

C. Programming and Managing Local Currency Generations

The quality of infrastructural investments which have been financed with the counterpart funds generated by the FY 1982-86 Commodity Import Programs provide a sound basis for continuing to program counterpart resources in this area. The port development, road rehabilitation programs, airport upgrading, and construction of water reticulation systems have provided the foundation upon which much of Seychelles future investment in fishing, shipping, and tourism will be built.

While the GOS Department of Land Transport provides for the overall management of these activities a large measure of the success of these infrastructural projects must be given to the engineers who are serving tours with Peace Corp Seychelles. They have supplemented the GOS resources to undertake the design, construction, and repair services required under the project in an efficient and timely fashion.

While the Evaluation Team was impressed with the impact of the local currency projects, there are some aspects of the programming process which the Team wished to highlight. As the GOS is becoming increasingly aware, there is an urgent need to prioritize GOS capital investments, since a major sources of the balance of payments deficits are directly attributable to the GOS Budget deficits. In order to be responsive to this need, the Evaluation Team recommends that projects financed by the CIP counterpart funds should be directed at those projects which: 1) either earn income (preferably foreign exchange) or directly support income earning activities; 2) generate productive employment; and, 3) are sustainable with respect to recurrent resource levels. These factors should be examined at the time of project appraisal and continually monitored in the standard physical progress report generally produced for projects financed from counterpart funds.

V. RECOMMENDATIONS

The following recommendations were discussed with the GOS officials on Wednesday, January 28, 1987.

The Evaluation Team recommends the following actions be taken to improve the impact and performance of US assistance programs in Seychelles.

1. The US should continue to provide its assistance through a Commodity Import program although more emphasis should be placed upon discussing economic issues with the Government of Seychelles as part of the design and review process.
2. The eligible commodities under the CIP should continue to be fuel products however, the source and origin requirements for diesel oil should be expanded to Code 935 countries and the permissible uses should be broadened.
3. The GOS and USAID should redefine and streamline the management and reporting requirements to be used for the local currency program. These should include: 1) a change from quarterly to semi-annual physical progress reports for local currency projects; 2) the development of an internal DPER system for tracking the financial performance of the CIP financed local currency projects to prevent over expenditure on individual projects; 3) regular exchange of letters between the Embassy - REDSO/ESA - and DPER to approve the allocation, or modification of allocation, of each year's local currency generations.
4. The GOS and USAID should focus the allocations of the counterpart funds on those development projects which will contribute most directly to productive economic activity.