

PSBBL655

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CLASSIFICATION

AID 1120-1		AGENCY FOR INTERNATIONAL DEVELOPMENT		1. PROGRAM NO. 603-K-601
PAAD		PROGRAM ASSISTANCE APPROVAL DOCUMENT		2. COUNTRY Djibouti
3. TO:		Satish P. Shah Acting Director, REDSO/ESA		3. CATEGORY Cash Transfer (Non-Project Assistance 603-0022.00)
4. FROM:		Monica K. Sinding Chief, REDSO/ESA/PRJ <i>MKS</i>		4. DATE April 1988
5. APPROVAL REQUESTED FOR COMMITMENT OF		\$3,000,000		5. OVERCHARGE NO. N/A
6. TYPE FUNDING		<input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT <input type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input checked="" type="checkbox"/> NONE		6. OVER INCREASE N/A
7. LOCAL CURRENCY ARRANGEMENT				7. TO BE TAKEN FROM N/A
8. ESTIMATED DELIVERY PERIOD		May 1988		8. APPROPRIATION 72-118/91037 GES8-88-31603-KG31
9. COMMODITIES FINANCED		None		9. TRANSACTION ELIGIBILITY DATE May 1988

10. PERMITTED SOURCE	11. ESTIMATED SOURCE
U.S. only:	U.S.:
Limited F.W.:	Industrialized Countries:
Free World:	Local: \$3,000,000
Cash: \$3,000,000	Other:

A \$3 million cash grant will be provided from the Economic Support Fund as budget support, to assist the Government of Djibouti to reduce its deficit, thereby supporting economic and political stability in the country. Eligible uses of the cash grant dollars include: (1) multi-lateral debt service payments, (2) eligible international debt service payments and (3) U.S. imports of commodities and services for the Public Sector. Two conditions precedent to disbursement of the grant will require: (1) evidence that an interest bearing Special Account for tracking the cash grant has been established in a commercial bank and (2) Government submission of a request letter to A.I.D. proposing specific uses for the cash grant dollars for REDSO/ESA approval. No local currency deposit will be required. The cash transfer will be disbursed by A.I.D. in one payment. It is projected that the cash transfer will occur in May 1988. GROD disbursements from the Special Account may continue through May 1990.

Best Available Document

19. CLEARANCES	20. ACTION
REDSO/PRJ: D. Prindle <i>4/20/88</i>	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
REDSO/RLA: B. Barrington <i>4/20/88</i>	<i>Satish P. Shah</i> <i>4/20/88</i>
REDSO/APD: R. Mahoney/R. Burke <i>4/20/88</i>	AUTHORIZED SIGNATURE DATE
RFMC: A. Hulliang <i>4/20/88</i>	Acting Director, REDSO/ESA
OAR/D: R. Friedline <i>4-5-88</i>	
FUNDS AVAILABLE M/FM/PAFD/ State 122218 4/19/88	

RFMC US/IN/KENYA
DATE: 04/13/88

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Djibouti
FY 1988 Cash Grant Program

Table of Contents

	<u>Page</u>
I. Summary and Recommendations.....	1
A. Principal Program Features.....	1
B. Program Justification.....	1
C. Program Risks.....	1
D. Management and Staffing.....	1
E. Statutory Requirements.....	2
F. Conditionality.....	2
G. Recommendation.....	2
II. Program Background and Rationale.....	3
A. Context/Political Overview.....	3
B. GROD Development Strategy.....	3
C. U.S. Assistance Strategy.....	4
III. Macro-Economic Background and Analysis.....	6
A. Economic Background.....	6
B. Balance of Payments.....	7
C. GROD Budget.....	8
D. Concerns.....	9
E. Other Donor Assistance.....	10
IV. Program Description	12
A. Program Activity.....	12
B. Cash Grant.....	12
C. Illustrative Budget.....	12
V. Program Implementation.....	13
A. Responsibilities.....	13
1. Government of Djibouti.....	13
2. American Embassy/Djibouti.	13
3. A.I.D.....	13
B. Implementation Arrangements and Procedures.....	14
C. Program Monitoring, Reporting, and Evaluation..	14
D. Illustrative Implementation Schedule.....	15
VI. Special Considerations.....	16
A. Environmental Examination.....	16
B. Grant Conditions and Negotiating Status.....	16

Annexes

- A. GROD Request for Assistance
- B. Economic Analysis and Supporting Tables
- C. PAIP Approval Cable
- D. Statutory Checklists
- E. Initial Environmental Examination Determination
- F. AA/AFR Action Memo on Eligible Debt Service Payments
- G. Cables Approving Decision Not to Generate Local Currencies
- H. Draft Grant Agreement

I. SUMMARY AND RECOMMENDATIONS

A. Principal Program Features

Under the Non-Project Assistance Program (NPA), an ESP cash grant of three million dollars will be provided to Djibouti for budget support. The \$3.0 million will be used to retire a portion of the Government's debt to multilateral development banks (first priority) and debt owed to entities included in A.I.D. Geographic Code 935 (second priority). Importation from the U.S. of commodities and services for the public sector will also be an eligible use for the cash grant dollars. The GROD will submit a letter proposing specific uses of the cash grant dollars to REDSO/ESA for approval as a C.P. to disbursement.

To the extent that dollar disbursements are linked to debt service payments, documentation needed for dollar tracking can be minimized.

B. Program Justification

The justification for the program rests on overall U.S. political and strategic interests, as Djibouti's location and its facilities are important for U.S. security interests in the Horn of Africa and the Middle East. Djibouti's airfield is used by U.S. Navy anti-submarine patrol aircraft; its port is the closest Free World exit from the Red Sea and is used by French and U.S. navy ships. The NPA mechanism will enable A.I.D. to continue to support Djiboutian development, while scaling back on the level and cost of maintaining an A.I.D. presence in the country.

C. Program Risks

Djibouti achieved independence just over ten years ago. Despite its efforts at development, it remains heavily dependent on external technical assistance (largely French) and budget support. Its institutions are developing but not yet strong; nor is trained Djiboutian manpower adequate to take over full responsibility for managing its own development. Therefore there is some risk associated with the A.I.D. decision to switch from project assistance managed by a USDH, two PSCs, two PSNs, and two A.I.D.-financed technical assistance teams, to non-project assistance. The transition may take place at the expense of on-going A.I.D. activities which may not be continued, at least not without considerable disruption.

D. Management and Staffing

The NPA will be managed by REDSO/ESA Nairobi. Reducing the A.I.D. presence from its current status as a Schedule B Mission to a single individual located in the Embassy, but on personal services contract to REDSO, will be considered. This would require considerable support from the REDSO Projects Division, at least initially. At the outset it would be necessary to: (1) scale back the Djibouti A.I.D. office; (2) identify a contractor to assist the Djibouti Government to make the transition from receiving project assistance to non-project assistance; and (3) help current technical assistance teams to make the transition from A.I.D.- to GROD-financing, if Djibouti chooses to continue the fisheries and energy activities. If needed, this PSC would be funded by a separate ESF allocation.

E. Statutory Requirements

The statutory checklist is attached and no legal issues have been identified.

F. Conditionality

The conditions precedent to disbursement of the cash grant include (1) a requirement for GROD establishment of an interest bearing Special Account for deposit and tracking uses of the cash grant dollars, and (2) a requirement for GROD submission of a letter proposing specific uses of the cash grant dollars for REDSO/ESA review and approval.

For the environmental determination, a categorical exclusion is attached. A delegation of authority to approve the IEE was provided to the REDSO Director (STATE 323416).

A.I.D./W approved the NPA PAIP in FY 1986 (see approval cable, Annex A), leading to the development of the NPA PAAD in FY 1987-1988. Authority to approve the PAAD was delegated to the REDSO Director (STATE 219661). Assuming PAAD approval by the REDSO Director, the NPA should be ready for obligation during the third quarter of FY 1988.

G. Recommendation

Despite the reservations reflected in Section I. C. "Program Risks" above, the design team considers implementation of the NPA feasible as designed. It is therefore recommended that A.I.D. authorize \$3.0 million of ESF funds to be supplied in the form of a cash grant to support U.S. political and strategic interests in Djibouti by helping to meet GROD debt servicing and public sector import requirements.

5

II. PROGRAM BACKGROUND AND RATIONALE

A. Context / Political Overview

Djibouti, formerly the French territory of the Afars and Issas, became independent in 1977. Situated between two aggressive neighbors with a history of belligerence toward one another, Djibouti's strategic location and facilities make it important to U.S. security interests in the Horn of Africa and the Middle East.

Djibouti is virtually devoid of natural resources and lacks trained manpower. The country has no permanent surface water flow; thus land under cultivation is limited to a few small garden plots and experimental tracts. There is some artisanal fishing (largely fostered by A.I.D.'s project in this sector) and nomads herd livestock in the hinterlands. However, practically all food and other commodities are imported. The service sector dominates the economy, providing about three-quarters of the gross domestic product, while agriculture, livestock, fisheries, and industry together account for the balance.

The country faces an immediate and continuing need for budgetary support. Since 1983, Djibouti has run recurrent budget deficits, amassed an increasing public debt, and exhausted almost all of the country's free foreign exchange reserves. The budget deficits are attributable to stagnation in tax revenues and modest budget increases in a period of regional economic slow-down. Despite a variety of budget and administrative reforms which the Government (GROD) undertook in 1984-85, continued serious shortfalls in funds are projected, caused by inevitable spending increases attributable to debt servicing, local counterpart fund contributions to development projects, and the need to replace French technical advisors with Djiboutian personnel.

As a former French colony, Djibouti retains close military and economic ties with France. French forces assure the security of the State, while French technical assistants remain essential to the continuing operation of the government and the economy. However, France hopes to reduce aid levels and phase down budget support. There has been no recent increase in Arab grant assistance.

B. GROD Development Strategy

Although Djibouti does not have a development plan, the Ministry of Finance has committed itself to establishing a planning unit over the next several years with the assistance

6

of French advisors. Its aim is to institute a planning process which will result in a plan for the 1989-1993 period.

Given its paucity of resources, Djibouti's development strategy apparently aims at further expanding the service sector through manpower development and infrastructural upgrading. In November 1983, the Government proposed to the donor community a \$500 million investment program for 1984-88, which included a shopping list of seventy-two projects. Investment was to be focused on the primary and secondary sectors -- water resources, agriculture, livestock and fisheries, and a number of agro-industrial and import substitution small- and medium-scale manufacturing enterprises. The World Bank subsequently recommended, however, that the development projects be scaled back considerably, in part as a result of falling reserves in 1982-83 and the initiation of a financial recovery program to reduce the resource gap. A donors' conference attempted to raise pledges worth \$180 million, in addition to bilateral aid for programs already underway. New developments have included the opening of a container port in 1985. The main emphasis of the donors, however, remains on prudent financial management and efforts to maintain aid flows at the level needed to sustain a viable and expanding economy.

C. U.S. Assistance Strategy

The A.I.D. strategy in Djibouti is based on overall U.S. political and strategic interests in the country, as Djibouti's facilities and its location are important for U.S. security interests in the Horn of Africa and the Middle East. The GROD follows a moderate foreign policy, seeking to play a peace-keeping role in the region. It has had some recent success in that regard by fostering the establishment of the Intergovernmental Authority on Drought and Development (IGADD) in Eastern Africa and facilitating face-to-face discussions between Somali and Ethiopian leaders. Further, Djibouti is strategically located on the Bab el Mandeb Straits and the Government accords the U.S. Navy use of its port and airfield for refueling. Djibouti's airfield is used by U.S. Navy anti-submarine patrol aircraft; its port is the closest Free World exit from the Red Sea and is used by French and U.S. navy ships. Therefore, it is considered important to the U.S. to limit the risks of political instability arising from any potential budget crisis in Djibouti.

The United States has encouraged Djibouti to assess its own situation objectively and exploit potential strengths. Prior to the decision to move toward non-project assistance, A.I.D. financed specific project activities, including:

- (1) Fisheries: Strengthening the artisanal fishing industry by improving production and marketing techniques of a fishing cooperative (including exports by air to Reunion), in association with IFAD.
- (2) Energy: Institution building, prototype development, and education to promote energy conservation techniques and energy-efficient construction.
- (3) Urban Infrastructure: Upgrading urban housing through financing residential sites and services, in cooperation with the World Bank.
- (4) Manpower Development and Training: Short- and medium-term training to upgrade the capability of Djiboutians to manage their national development programs.

More recently, A.I.D. has sought to modify its assistance strategy by moving away from financing projects, and focusing, instead, on alleviating Djibouti's budget constraints through non-project assistance (NPA) which is scheduled to begin in FY 1988. The change will increase the flexibility of A.I.D.'s support to Djibouti with minimal A.I.D. management requirements.

Though U.S. strategic and political interests provide the primary rationale for the A.I.D. program in Djibouti, providing budget support through the NPA assistance mechanism will have a positive developmental impact, without requiring A.I.D. involvement in macro-economic policy reform. NPA assistance will ease the way for continued IMF/GROD dialogue on economic policy reform.

8

III. MACROECONOMIC BACKGROUND AND ANALYSIS

A. Economic Background

Contraction of Djibouti's transport based service economy was offset in the early 1980s by an expansion in the urban real estate sector. However, by the mid 1980s this expansion resulted in an oversupply of residential and commercial properties, and finally, a general contraction in the real estate sector. As a result, growth within the Djiboutian economy, never especially strong and self-reliant, slowly ground to a halt. Since 1984, real GDP has been stagnant or contracting. With a population growth rate estimated at three percent per year, the contraction in real, per capita GDP has been even more pronounced.

During the same time, the country has faced increasing financial imbalances. The trade deficit remains large while the surplus on the services account is diminishing. The overall deficit is softened by high levels of both unrequited official transfers and long-term official capital inflows. Without this flow of external assistance, the country would be insolvent. On the budget side, the picture is equally bleak. Unable to fund its development budget out of domestic resources, the Government of the Republic of Djibouti is also unable to fund its recurrent budget in its entirety. The ratio of budget deficit to Gross Domestic Product is high. After a short-term reduction to 11 percent of GDP, the deficit soared to 18 percent of GDP. This increasing deficit has adverse implications for public sector indebtedness, as well: external foreign debt more than tripled between 1983 and 1987, and increased by a factor of five between 1982 and 1987. Dramatic changes, in the nature of expenditures and the collection of revenues, are required to move the budget into a more balanced position.

Finally, the Djiboutian franc is pegged, at a fixed exchange rate, to the US dollar. This has generated a series of difficulties for the country over the last few years. As the dollar appreciated and then depreciated markedly, the Djiboutian franc value of French franc-denominated aid flows became unstable in spite of fairly constant French aid levels. This instability exacerbated the already difficult budgetary deficit. The Government of Djibouti is looking into this problem in conjunction with the IMF and is considering a move to an exchange rate determined by a basket of currencies.

B. Balance of Payments

It should be noted that the Djiboutian government does not yet collect statistics which can be used for balance of payments estimates and analyses. Balance of payments problems exist, but the government does not have the administrative resources to collect and analyze such statistics. To remedy this situation, the Government has requested technical assistance from the IMF to institutionalize the collection and analysis of statistics in the country.

In spite of the lack of basic data, estimates for the balance of payments are prepared on an annual basis by the IMF's Article IV Consultation Team. The most recent estimates are presented in Table 1, Annex B. An analysis of these statistics shows that while the deficit on the trade account has been relatively stable, or indeed diminishing, over the last five years, there have been reductions in the volume of imports to, and re-exports from, Djibouti. The trend of declining re-exports is highlighted by the fact that, in percentage terms, re-exports for 1987 are expected to be only 73 percent of the 1983 level. This is consistent with the observations that port and rail activities, especially those services directed at providing flows of goods to Ethiopia, have diminished as the Assab port and rail line have become operational. As re-exports have diminished, imports have also fallen in percentage terms. For 1987, the nominal level of imports, valued f.o.b., is estimated at just 79 percent of the 1983 level. As most investment goods as well as consumer goods are imported into Djibouti, the contraction of the import account reflects declining real investment and consumption.

On the services account, the picture is no more promising. Though still in a surplus situation, the balance is falling; for 1987, the nominal net value on the services account is estimated to be just 70 percent of the 1983 level. This decline has followed reduced sales of services to the large expatriate military and civilian communities in the country, and diminished investment income. As the reduction in service inflows has fortunately been matched by falling freight and insurance charges, the overall impact on the services surplus has been softened.

Unrequited transfers, essentially French assistance payments and debt forgiveness, have remained fairly constant over the last five years. The capital account, on the other hand, has shown tremendous variation concomitant with the strong fluctuations in both short and long term capital flows.

In general, the overall balance has worsened over the last five years. In 1983, the overall balance was sufficient to generate slight increases in the country's reserve position. For 1987, however, even increased levels of unrequited transfers will be insufficient to generate an overall balance. As a result, reserves are being drawn down. Reserves are now sufficient to finance just over 17 weeks of the diminished level of imports now in effect.

C. GROD Budget

During the past five years, the combined capital and recurrent budgets for Djibouti have been nearly constant in nominal terms, but this constancy belies a growing shift in favor of the recurrent budget. In 1983, the proportion of the total budget attributable to recurrent activities was 66 percent, leaving 34 percent for the capital budget. In the 1987 budget proposal, the recurrent budget's share of the total budget was 73 percent. This left only 27 percent for the development budget. On the recurrent budget, most expenditures are associated with personnel costs. Indeed, wages and salaries accounted for approximately 60 percent of the recurrent budget over each of the last five years.

Overall revenues increased by approximately five percent over the last five years. This increase was led by a 6.5 percent increase in tax revenues. Non-tax revenues, principally customs charges and user fees, fell by nearly four percent, thereby offsetting much of the gain in tax revenues. As noted earlier, combined tax and non-tax receipts are insufficient to cover the government's recurrent budget. Therefore, budgetary assistance from external sources and public sector borrowings supplement the revenue requirements. This external reliance generates two problems.

The first problem is the reliance on external, unrequited transfers for recurrent budget support. France, since 1980, has been the major source of such financing. Although budgetary shortfalls were made up by contributions from France and Saudi Arabia for 1987, the French government plans to eliminate such budgetary support by 1990, and Saudi Arabia does not plan to make annual contributions to the recurrent budget. Thus, in the very near future, the GROD must face the problem of covering recurrent budget shortfalls by reducing costs, increasing revenues, or increasing borrowing.

The second problem is the increasing reliance on foreign external debt to finance budget expenditures. The overall budget deficit is high when compared to GDP: it rose from 11.2 percent of GDP in 1985 to 17.6 percent of GDP in 1986. This is

considerably greater than the normally accepted levels of four to five percent. Should the GROD maintain such deficits in the face of diminishing unrequited transfers, the country will be forced to increase its debt. For 1987, external foreign debt is estimated to be 340 percent greater than 1983, and 500 percent greater than 1982. As a result of this rapid expansion, the ratio of outstanding external debt to GDP rose from seven percent in 1982 to 36 percent in 1986. The debt service ratio also expanded rapidly over this same period, rising from 2 percent in 1982 to 6 percent in 1986.

External debt attributable to public enterprises has also grown rapidly, and by 1987 accounted for 62 percent of public debt and interest payments. The major loss-making enterprises are the national airline - Air Djibouti, the airport, a state-owned hotel in Djibouti, and the Society des Eaux de Tadjourah which produces and bottles mineral water.

The principal development projects currently represented in the development budget are the Djibouti-Tadjourah road, school construction, urban development, tube wells, agropastoral research, geographic/geologic mapping, and geothermal exploration. Combined, these activities are expected to require over two million dollars of financing in 1987.

D. Concerns

Three major concerns are apparent in examining Djibouti's economic health. First, the sustained budgetary deficit undermines the country's capacity to plan for its development needs and to seek funding for these needs in a consistent and effective manner. In an effort to approach this problem directly, the public sector has undertaken a series of austerity measures over the last few years which include restrictions on new hiring, elimination of wage increases, and reduction of capital and development expenditures. Further steps are required to reduce costs (e.g. by reducing the number of civil servants and military personnel and divesting the major loss-producing parastatals) and to increase revenues (from both tax and non-tax sources). As part of its efforts to control and rationalize its expenditures and to bring extra-budgetary activities on-budget, the Government is establishing a planning capacity within the Ministry of Finance. This GROD effort will be supported by A.I.D.'s decision to change its development assistance package from extra-budgetary project assistance to an on-budget, non-project assistance mechanism.

Related to the deficit is the problem of public indebtedness. Djibouti is forced to borrow to cover both operating and

development expenditures. In addition, public debt is increasing to cover parastatal losses and inefficiencies. The combined impact of this borrowing has been to increase the value of public sector indebtedness by a factor of five over the 1982 to 1987 period. Efforts to reduce the recurrent budget and parastatal deficits are required to ensure that borrowings are used only for those activities which generate a positive return for the country's development.

Finally, there are structural problems apparent in the balance of payments statistics. With its natural resources constraints, it is difficult for Djibouti to increase exports to move towards a more balanced position on the trade account. Rather, the country has historically looked towards the services sector to generate the surpluses required to pay its import bill. For this to continue, Djibouti must expand its services sector. This comes at a difficult time, given the construction by Ethiopia of the Assab port and related railroad. Further opportunities appear to exist for the expansion of financial services, thus taking advantage of Djibouti's stable political and financial atmosphere, and her convertible currency, in an otherwise unstable region. Government officials are now trying to familiarize potential investors with the advantages of operating in Djibouti, and these efforts should continue.

E. Other Donor Assistance

Djibouti's reliance on foreign aid flows for both recurrent and capital budget expenditures results in a high level of aid per capita. By 1984, total bilateral and multilateral aid flows amounted to over \$100 million, or approximately \$250 per capita. This is an amount almost equal to per capita GDP (estimated by the IMF at \$299 per person in 1985). Over the period 1980 to 1984, roughly 80 percent of foreign aid flows to Djibouti were from bilateral sources. The major bilateral donor, France, has contributed an average of \$35 million, or 60 percent, of bilateral aid flows annually during these years. French assistance has been utilized for budgetary subventions, development activities, technical advisors, and military assistance. The second largest bilateral donor is the OPEC group, led by Saudi Arabia. Saudi Arabia has provided general budgetary support, financed the Tadjourah mineral water plant, and been the major donor financing the country's first earth satellite station. The USA and Federal Republic of Germany are near equal contributors to Djibouti, with average annual assistance programs of two to five million dollars. Other bilateral donors include China, which will construct a national stadium financed by a long term loan, and Japan, which will fund rice imports for the refugee population and a road

maintenance program. Iraq and Kuwait have also pledged support for a cement works and dairy, respectively.

Multilateral assistance has amounted to approximately 20 percent of foreign assistance flows over the 1980s. Though OPEC has recently been the source of increased assistance levels, the UNHCR has been Djibouti's main multilateral funding source during the 1980s. Related to Djibouti's refugee problem, the FAO has been the recent source of food aid for the refugees. The European Community, through the Lome III convention, has also been a large multilateral donor. In addition, the World Bank Group, through IDA, has been funding a series of activities in Djibouti throughout the 1980's. These activities include technical assistance for planning and statistics (1982), highway development (1983), geothermal exploration (1984), urban development (1984 in conjunction with A.I.D.), and support for education (1985). Combined, these activities represent \$31.35 million in IDA credits, of which \$18.55 million remained undisbursed as of April 30, 1987. The GROD has no IMF debt.

The most recent event in multilateral assistance has been the establishment of the Djibouti-based Intergovernmental Authority on Drought and Development (IGADD). In addition to Djibouti, members include Ethiopia, Kenya, Somalia, Sudan, and Uganda. IGADD is beginning to attract funds from the donor community, mainly from Italy, for anti-desertification activities within the member countries. A.I.D. plans to allocate \$300,000 for support to IGADD in FY 1988.

A summary of donor assistance levels appears in Annex B.

IV. PROGRAM DESCRIPTION

A. Program Activity

The FY 1988 \$3 million cash grant will help the GROD meet its international debt servicing and public sector procurement requirements.

B. Cash Grant

A.I.D. will make a dollar grant to the GROD for budget support. First priority will be assigned to servicing the GROD's debt to multilateral development banks, with second priority to debt to U.S. Geographic Code 935 entities. Public sector purchases of commodities and services from the U.S. will also be eligible uses of cash grant dollars.

Three million dollars will be deposited into an interest-bearing Special Account in a commercial bank of the Government's choosing. With A.I.D. approval, these funds will be used to service a portion of the Government's external debt and/or for U.S. imports for the public sector. Immediately following utilization of the grant proceeds, the Government will document their usage, to fulfill A.I.D.'s tracking requirements.

Local currencies will not be generated by the cash grant. The dollar grant assistance provided as direct budget support by the NPA will help alleviate Djibouti's current budget problems. A requirement for the transfer of funds from the operating budget to a special local currency account for the financing of development activities previously funded by A.I.D. would negate the essence of that budget support, and might overtax limited GROD managerial capacities. This justification for not generating local currencies from the NPA cash transfer was accepted by the African Bureau. (See cables 87 Djibouti 3464 and 87 State 338220 in Annex G.)

C. Illustrative Budget

International Debt Servicing &	\$3,000,000
Public Sector Importation- Cash Grant	

TOTAL

\$3,000,000

V. PROGRAM IMPLEMENTATION

A. Responsibilities

1. Government of Djibouti

The grant will be negotiated with the Ministry of Foreign Affairs and Cooperation which will determine which portion of Djibouti's debt to multi-lateral banks and U.S. Geographic Code 935 entities and/or which public sector importation of U.S. commodities and services will be retired with the cash grant. A commercial bank of the Government's choosing will be the repository for the cash grant. It is anticipated that dollar assistance will be tracked to end use through monthly bank statements on this account, supported by supplementary payment verification submitted to A.I.D. on a quarterly basis by the GROD. The GROD may choose to assign implementation responsibilities to the Ministry of Finance.

2. American Embassy/ Djibouti

In response to the Embassy's concerns about U.S. assistance to Djibouti, A.I.D. has agreed to consider hiring a US PSC with a separate ESF allocation, to help with the transition from project assistance to the NPA. The Embassy would administratively support this PSC.

3. A.I.D.

REDSO/ESA, with the assistance of the American Embassy in Djibouti, will have primary responsibility for administration of the cash grant. A REDSO Project Committee, chaired by a Project Development Officer, will backstop implementation of the program. The REDSO Project Development Officer (PDO) will monitor NPA implementation and assist with host country negotiations during TDY's in Djibouti as needed.

A US PSC may be hired by A.I.D. to work out of the American Embassy, Djibouti, to assist the GROD to make the transition from receiving project to non-project assistance for up to 18 months. This individual would be on contract to REDSO/ESA financed with a separate ESF allocation. He/she would be supervised by the REDSO Project Development Office, but would be supported directly by the Embassy, including the provision of housing, office space, local staff support, and local transportation services. The U.S. PSC and local staff's PSC contracts would include adequate funding for these costs, in addition to salary, differentials, benefits, shipping, and the cost of periodic travel to Nairobi to consult with the REDSO Project Committee.

B. Implementation Arrangements and Procedures

The program will be obligated by grant agreement by the end of April 1988 with funds disbursed upon satisfaction of conditions precedent (see Section VI.C.). The proceeds of the grant will be placed in an interest-bearing Special Account in a commercial bank of the Government's choosing. The Government will request A.I.D. approval to use the proceeds for international debt servicing, and possibly public sector purchase of U.S. commodities and services, and will report to A.I.D. on a periodic basis, with a summative report when the dollar Special Account has been liquidated. There will be no requirement for local currency generations. The grant agreement will require that interest earnings be retained in the Special Account and be used in the same manner and for the same purposes as the U.S. dollars granted under this agreement.

An illustrative implementation schedule appears on the following page.

C. Program Monitoring, Reporting, and Evaluation

A.I.D. will monitor the progress of the NPA. This will include creation of a Special Account for the cash grant which will be followed to the point of end use for international debt servicing, and possibly importation of public sector commodities and services. The NPA will be monitored through periodic visits to Djibouti by the REDSO PDO and other staff, as needed, and possibly on a day-to-day basis by a U.S. PSC.

Reporting will be submitted by the commercial bank which is the repository of ESF cash grant proceeds through the GROD Ministry of Finance (MOF). The bank will provide the Government and A.I.D. with monthly statements reporting all deposits and withdrawals until such time as the cash grant is fully utilized and closed. As appropriate, the MOF will provide one or more quarterly reports on the Special Account until it has been liquidated.

REDSO will evaluate the NPA before the end of FY 1988 as part of the process of preparing a PAIP and PAAD for the anticipated FY 1989 NPA. Inasmuch as the evaluation is planned to be an in-house management review, no funds from the grant have been budgeted for this purpose.

In addition to providing for an annual evaluation, A.I.D. will retain the right to audit and inspect the NPA, including verifying how the cash grant was utilized.

D. Illustrative Implementation Schedule

<u>DATE</u>	<u>EVENT</u>	<u>RESPONSIBLE PARTY</u>
January 1988	Advertise for US PSC	REDSO/ESA
April 1988	PAAD Approved	REDSO/ESA
April 1988	Grant Obligated	REDSO/ESA/GROD
May 1988	US PSC Selected	REDSO/ESA
May 1988	Special Account Established for Grant	GROD
May 1988	CPS Met and Specific Uses of Cash Grant Dollars Approved	GROD/REDSO/ESA
May 1988	Cash Grant Disbursed	REDSO/ESA
June 1988	1st Bank Statement Sent*	GROD
September 1988	US PSC moves to Djibouti	REDSO/ESA/Amembassy Djibouti
September 1988	1st Quarterly Financial Report on Cash Grant Sent*	MOF
October 1988	FY 88 NPA Review / FY 89 PAIP Preparation	REDSO/ESA/AmEmb/Γ

* Thereafter, monthly bank statements and quarterly financial reports will be prepared and forwarded to A.I.D. until the cash grant is fully disbursed.

18

VI. SPECIAL CONSIDERATIONS

A. Environmental Examination

A Categorical exclusion is attached as Annex E.

B. Grant Conditions and Negotiating Status

Two special conditions precedent will be included in the grant, as follows:

- (1) Prior to the disbursement of the cash grant, the Government will provide A.I.D. with evidence that it has opened an interest bearing Special Account in a commercial bank of its choosing into which the proceeds of the grant will be deposited; and
- (2) Also prior to disbursement of the cash grant, the GROD will submit a letter proposing specific uses for the cash grant dollars to REDSO/ESA for approval.

Initial agreement has been reached between A.I.D., on the one hand, and the GROD and American Embassy/Djibouti, on the other, on all major aspects of the NPA. These include proposed uses for the cash grant, and arrangements for possibly maintaining an A.I.D. presence in Djibouti.

No serious problems are anticipated in either signing the Grant Agreement as soon as funds are made available, or in implementing the program.

ANNEX A

GROD REQUEST FOR ASSISTANCE

Ministère des Affaires étrangères
et de la Coopération

LE MINISTRE

N° 55/Amb/88 /MAEC

Djibouti, le 5 FEV. 1988

وحدة - مساواة - سلام

وزارة الخارجية والتعاون

الوزير

رقم

جيبوتي في

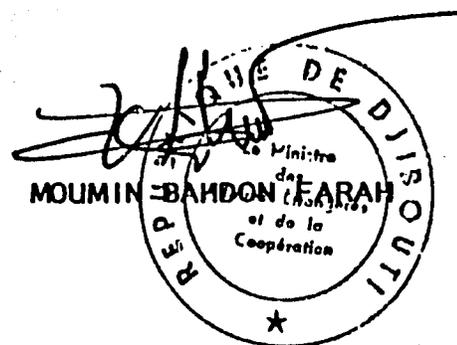
Monsieur le Chargé d'Affaires,

J'ai l'honneur de porter à votre connaissance que le Gouvernement de la République de Djibouti souhaite obtenir du Gouvernement des Etats Unis d'Amérique une subvention d'assistance non-projet d'un montant de 3 millions de dollars américains dans le but soit de poursuivre les projets en cours ou de soutenir la balance des paiements.

Vous serez informé de la destination définitive dans les prochaines semaines.

D'autre part, en relation avec cette subvention, le Gouvernement de la République de Djibouti vous demande en plus de rendre disponible les fonds nécessaires pour maintenir la présence de l'A.I.D. à Djibouti au moins pour une période de quatre ans.

Je vous prie de croire, Monsieur le Chargé d'Affaires, à l'expression de ma haute considération.



A :-

MONSIEUR LE CHARGE D'AFFAIRES
DE L'AMBASSADE DES ETATS UNIS
D'AMERIQUE A DJIBOUTI

Ministry of Foreign Affairs
and Cooperation

The Minister

No. 55/AMB/88 MAEC

Djibouti-15 February 1988

Mr. Charge d'Affaires,

I have the honor to bring to your attention that the Government of the Republic of Djibouti wishes to obtain from the Government of the United States of America a grant of non-project assistance in the amount of three million American dollars for the purpose of pursuing the type of activities already in progress or to support the balance of payments.

You will be informed in the coming weeks how the money will be spent.

Moreover, concerning this grant, the Government of the Republic of Djibouti requests you in addition to make available sufficient funds to support the presence of A.I.D. in Djibouti for a period of four years.

Please accept Mr. Charge d'Affaires, the expression of my high consideration.

(signed) Moumin Bahdon Farah

22

ANNEX B

ECONOMIC ANALYSIS AND SUPPORTING TABLES

	1983	1984	1985	1986 Est.	1987 Proj.
Total revenue	19011	19542	20738	18900	19966
Tax revenue	16372	16900	17744	17041	17428
Nontax revenue	2639	2642	2994	1859	2538
Total expenditure and net lending	29935	26584	27381	29267	29818
Current budgetary expenditure	19783	19831	20984	23640	21826
Of which: wages and salaries	11540	11949	12580	13158	13025
goods and services	6679	5910	6982	8304	6512
Capital expenditure	10186	6810	6611	5867	9184
Of which: extrabudgetary expenditure	4590	3988	3900	4060	7691
Net lending	-34	-57	-21	-240	-192
Overall surplus (+)/deficit (-) on a commitment basis (before grants)	-10924	-7042	-6643	-10367	-9852
Changes in arrears (reduction -)	22	76	689	3052	-1564
Overall deficit (cash basis)	-10902	-6966	-5954	-7315	-11416
Grants	4738	3095	3334	2740	5532
Overall surplus(+)/deficit (-) (after grants)	6164	-3871	-2620	-4572	-5884
Financing	6164	3871	2620	4575	5884
Foreign	501	2218	2201	2326	4811
Drawings	531	2366	2486	2865	5490
Amortization	-30	-148	-285	-539	-679
Domestic	5663	1653	419	2249	1073
Change in treasury deposits (increase-)	5374	981	-434	2278	1270
Nonbank financing	225	45	190	-197	-197
Other 3/	64	627	663	168	
Memorandum item:					
Overall deficit (commitment basis) as a percentage of GDP	18.2	11.7	11.2	17.6	16.3

Sources: IMF Staff estimates; Data provided by the Djibouti authorities; and staff estimates and projection

1/ Includes settlement of cross-debt arrears by public enterprises.

2/ Reimbursement of principal and interest previously paid to the French Caisse Centrale de Cooperation Economique.

3/ This is a residual item comprising unidentified financing and, more significantly, adjustments required to make financing data (12-month basis) conform to revenue and expenditure data (15 months)

Table Ia. Djibouti: Financial Operations of the Central Government, 1983-87
(US Dollars millions, Df 177.72 = US \$ 1)

B-2

	1983	1984	1985	1986 Est.	1987 Proj.
Total rev	107	110	117	106	112
Tax rev	92	95	100	96	98
Montax	15	15	17	10	14
Total exp	168	150	154	165	168
Current	111	112	118	133	123
Of wh	65	67	71	74	73
Capital	38	33	39	47	37
Capital	57	38	37	33	52
Of which: extrabudgetary					
exp	26	22	22	23	43
Net len	0	0	-1	-1	-7
Overall surplus (+)/deficit (-) on a commitment basis (before)	-61	-40	-37	-58	-55
Changes i	0	0	4	17	-9
Overall d	-61	-39	-34	-41	-64
Grants	27	17	19	15	31
Overall surplus(+)/deficit (-) (after)	35	-22	-15	-26	-33
Financing	35	22	15	26	33
Foreign	3	12	12	13	27
Drawn	3	13	14	16	31
Amort	0	-1	-2	-3	-4
Domesti	32	9	2	13	6
Change in treasury deposits					
(in	30	6	-2	13	7
Nonb	1	0	1	-1	-1
Othe	0	4	4	1	...

Memorandum item:

Overall deficit (commitment basis)

a 18.2 11.7 11.2 17.6 16.3

Sources: IMF Staff estimates; Data provided by the Djibouti authorities; and staff estimates and projection

- 1/ Includes settlement of cross-debt arrears by public enterprises.
- 2/ Reimbursement of principal and interest previously paid to the French Caisse Centrale de Cooperation Economique.
- 3/ This is a residual item comprising unidentified financing and, more significantly, adjustments required to make financing data (12-month basis) conform to revenue and expenditure data (13 months).

	1983	1984	1985	1986 Est.	1987 Proj.
Total revenue	100%	103%	109%	99%	105%
Tax revenue	100%	103%	108%	104%	106%
Nontax revenue	100%	100%	113%	70%	96%
Total expenditure and net lending	100%	89%	91%	98%	100%
Current budgetary expenditure	100%	100%	106%	119%	110%
Of which: wages and salaries	100%	104%	109%	114%	113%
goods and services	100%	88%	105%	124%	97%
Capital expenditure	100%	67%	65%	58%	90%
Of which: extrabudgetary expenditure	100%	87%	85%	88%	168%
Net lending	-100%	-168%	-629%	-706%	-3506%
Overall surplus (+)/deficit (-) on a commitment basis (before grants)	-100%	-64%	-61%	-95%	-90%
Changes in arrears (reduction -)	100%	345%	3132%	13873%	-7109%
Overall deficit (cash basis)	-100%	-64%	-55%	-67%	-105%
Grants	100%	65%	70%	58%	117%
Overall surplus(+)/deficit (-) (after grants)	100%	-63%	-43%	-74%	-95%
Financing	100%	63%	43%	74%	95%
Foreign	100%	443%	439%	464%	960%
Drawings	100%	446%	468%	540%	1034%
Amortization	-100%	-493%	-950%	-1797%	-2263%
Domestic	100%	29%	7%	40%	19%
Change in treasury deposits (increase-)	100%	18%	-8%	42%	24%
Nonbank financing	100%	20%	84%	-88%	-88%
Other 3/	100%	980%	1036%	263%	...
Memorandum item:					
Overall deficit (commitment basis) as a percentage of GDP	18.2	11.7	11.2	17.6	16.3

Sources: IMF Staff estimates; Data provided by the Djibouti authorities; and staff estimates and projections.

1/ Includes settlement of cross-debt arrears by public enterprises.

2/ Reimbursement of principal and interest previously paid to the French Caisse Centrale de Cooperation Economique.

3/ This is a residual item comprising unidentified financing and, more significantly, adjustments required to make financing data (12-month basis) conform to revenue and expenditure data (15 months)

26

Table 2a. Djibouti: Balance of Payments, 1983-87

(In millions of US Dollars)

	1983	1984	1985	1986e	1987p
(1 SDR = X1 US \$)	1.069	1.025	1.015	1.173	1.261
Balance of trade	-89.3	-96.7	-83.3	-79.5	-89.1
Exports, f.o.b. 1/	98.8	91.9	87.3	82.1	85.1
Imports, f.o.b.	-188.0	-188.6	-170.6	-161.7	-174.2
Services (net)	24.2	22.1	20.6	18.8	20.0
Freight and insurance	-33.1	-33.3	-30.2	-28.5	-30.8
Other transportation	12.2	13.3	16.3	14.8	16.0
Purchases by non residents 2/	31.9	30.8	28.6	26.6	28.5
Investment income	12.4	10.4	5.6	6.9	7.4
Interest	-1.2	-1.3	-2.2	-3.1	-3.3
Other	2.0	2.4	2.4	2.0	2.5
Balance on goods and services	-65.0	-74.5	-62.6	-60.8	-69.1
Unrequited transfers (net)	32.1	21.8	26.6	19.0	34.0
Official	32.2	21.9	26.7	19.1	34.0
Private	-0.1	-0.1	-0.1	-0.1	-0.1
Current account	-32.9	-52.6	-36.0	-41.8	-35.1
Capital account	10.0	52.0	35.0	33.9	37.4
Long-term official capital	12.5	38.4	29.9	19.4	28.6
Drawings	15.6	41.4	31.6	23.6	37.1
Amortization	-3.1	-3.0	-1.7	-4.2	-8.4
Short-term, including errors and omissions	-2.5	13.5	5.2	14.5	8.8
Overall balance	-22.9	-0.6	-1.0	-7.9	2.4
Financing	22.9	0.6	1.0	7.9	-2.4
Reserves	22.9	0.6	1.0	7.9	-2.4
Memorandum items:					
Gross official reserves					
In millions of US Dollars	63.1	62.4	61.3	53.5	NA
In weeks of imports	17.4	17.2	18.7	17.2	NA
Djibouti francs					
per SDR (period average)	189.98	182.17	180.45	208.50	224.08

Sources: IMF Staff estimates; Data provided by the Djibouti authorities; and staff estimates and projections

Table 2c. Djibouti: Balance of Payments, 1983-87

(Index values)

	1983	1984	1985	1986e	1987p
Balance of trade	-100.00%	-112.93%	-98.20%	-81.20%	-84.67%
Exports, f.o.b. 1/	100.00%	97.08%	93.07%	75.76%	73.05%
Imports, f.o.b.	-100.00%	-104.60%	-95.51%	-78.34%	-78.57%
Services (net)	100.00%	95.58%	89.82%	70.80%	70.35%
Freight and insurance	-100.00%	-104.84%	-95.81%	-78.39%	-78.71%
Other transportation	100.00%	114.04%	141.23%	110.53%	111.40%
Purchases by non residents 2/	100.00%	100.67%	94.63%	76.17%	75.84%
Investment income	100.00%	87.07%	47.41%	50.86%	50.86%
Interest	-100.00%	-118.18%	-200.00%	-236.36%	-236.36%
Other	100.00%	121.05%	126.32%	83.47%	105.26%
Balance on goods and services	-100.00%	-119.57%	-101.48%	-85.20%	-90.13%
Unrequited transfers (net)	100.00%	71.00%	87.33%	54.00%	90.00%
Official	100.00%	71.10%	87.38%	54.15%	89.70%
Private	-100.00%	-100.00%	-100.00%	-100.00%	-100.00%
Current account	-100.00%	-166.56%	-115.26%	-115.58%	-90.26%
Capital account	100.00%	539.36%	367.02%	307.45%	315.96%
Long-term official capital	100.00%	320.51%	251.28%	141.03%	194.02%
Drawings	100.00%	276.71%	213.01%	137.67%	201.37%
Amortization	-100.00%	-100.00%	-58.62%	-124.14%	-231.03%
Short-term, including errors and omissions	-100.00%	573.91%	221.74%	539.13%	304.35%
Overall balance	-100.00%	-2.80%	-4.67%	-31.31%	9.88%
Financing	100.00%	2.80%	4.67%	31.31%	-8.88%
Reserves	100.00%	2.80%	4.67%	31.31%	-8.88%
Memorandum items:					
Gross official reserves					
Index value	100.00%	103.22%	102.37%	77.29%	NA
In weeks of imports	17.4	17.2	18.7	17.2	NA
Djibouti francs per SDR (period average)	189.98	182.17	180.45	208.50	224.98

Sources: IMF Staff estimates; Data provided by the Djibouti authorities; and staff estimates and projections

- 1/ Consists almost entirely of re-exports, since exports of domestic origin are insignificant
- 2/ Sales of services to expatriate civilian and military personnel.
- 3/ Includes reimbursement of debt service payments (SDR 6.3 million) on debt canceled by France.

Table 3: Gross Official Development Assistance
(\$ mn)

	1980	1981	1982	1983	1984
Bilateral	65.1	51.3	47.4	54.0	83.0
of which:					
France	27.0	31.4	40.4	36.2	38.2
USA	3.0	3.0	3.0	2.0	5.0
West Germany	3.5	2.7	1.9	2.8	2.5
Opec Countries	31.0	13.1	1.7	11.4	33.5
Multilateral	8.6	14.6	12.6	13.1	20.3
of which:					
Arab Opec agencies	0.0	0.8	2.2	2.2	9.8
UNHCR	4.4	4.4	3.4	3.8	3.3
EC	2.7	4.4	2.4	1.5	2.5
Total	73.7	65.9	60.1	67.1	103.3
of which grants:	56.1	63.8	54.8	52.9	71.4

Source: The Economist Intelligence Unit; Djibouti Country Profile, 1986-87.

Table 4: Djibouti: Relations with the World Bank Group (concluded)
 Status of Bank Group Operations in Djibouti
 IDA Credits (as of April 30, 1987) 1/

Year	Purpose	US\$ million 2/	
		Credit	Undisbursed
1982	Technical assistance for planning and statistics	3.40	1.31
1983	Highway	7.45	1.58
1984	Geothermal exploration	7.45	0.03
1984	Urban development	6.39	4.60
1985	Education	6.66	6.02
	Total	31.35	18.55
	Of which: has been repaid	(--)	

Sources: World Bank.

1/ Djibouti has received no Bank loan

2/ At exchange rate of SDR 1 = US\$1.30626 (as of April 30, 1987).

ANNEX C

PAIP APPROVAL CABLE

UNCLASSIFIED STATE

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33

ANNEX D

STATUTORY CHECKLIST

SC(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Suppo. Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1988 Continuing Resolution Sec. 526.

Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

No.

2. FAA Sec. 481(h). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government), has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without

Not applicable. Djibouti is not a major drug-producing or drug transit country.

Congressional enactment, within 30 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, and to prevent and punish drug profit laundering in the country, or that (b) the vital national interests of the United States require the provision of such assistance?

3. Drug Act Sec. 2013. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

Not Applicable.

4. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government? No.
5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? No.
6. FAA Secs. 620(a), 620(f), 620D; FY 1988 Continuing Resolution Sec. 512. Is recipient country a Communist country? If so, has the President determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism? Will assistance be provided directly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification? (a) No
(b) N/A
(c) No
(d) No
7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? The country has not permitted such damage.
8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC? No

9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (a) No
(b) If so, has any deduction required by the Fishermen's Protective Act been made? (b) Not Applicable
10. FAA Sec. 620(q); FY 1988 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (a) No.
(b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1988 Continuing Resolution appropriates funds? (b) Not Applicable
11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.) Yes, taken into account by the Administrator at the time of approval of Agency OYB.
12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? (a) No.
(b) Not Applicable.

34

13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)
- (a) Current through end of 1987
- (b) Yes
14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism?
- No
15. FY 1988 Continuing Resolution Sec. 576. Has the country been placed on the list provided for in Section 6(j) of the Export Administration Act of 1979 (currently Libya, Iran, South Yemen, Syria, Cuba, or North Korea)?
- No
16. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?
- No
17. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?
- No
18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)
- (a) No
- (b) No
- 291

19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? No
20. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.) (a) Yes (b) Taken into account by the Administrator at the time of Agency OYB.
21. FY 1988 Continuing Resolution Sec. 528. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? No.
22. FY 1988 Continuing Resolution Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? (a) No (b) Not Applicable
23. FY 1988 Continuing Resolution Sec. 543. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin? Yes

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

(a) N/A

(b) Not Applicable

FY 1988 Continuing Resolution Sec. 538. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

N/A

2. Economic Support Fund Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?

(a) No

(b) Not Applicable

FY 1988 Continuing Resolution Sec. 549. Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking?

YES

3(A)2 - NONPROJECT ASSISTANCE CHECKLIST

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

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

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1988 Continuing Resolution Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project. Congressional committees have been informed through the Congressional Presentation and subsequently through advice of program change. A Congressional Notification was sent to the Hill, and letter was cleared without objection on 2/8/88.
2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance? N/A
3. FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs. N/A

4. FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to:
(a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.
By reducing Djibouti's outstanding debt, financing for commercial audit and international trade will be enhanced.
5. FAA Sec. 601(l). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
N/A
6. FAA Secs. 612(b), 636(h); FY 1988 Continuing Resolution Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.
The U.S. does not own excess Djiboutian currency.
7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?
No.
8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?
Competitive procedures will be utilized to recruit and hire PSC position.
9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?
N/A

43

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? Yes

b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities? No

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (a) No (b) Not Applicable

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

e. FY 1988 Continuing Resolution. If assistance is in the form of a cash transfer: (a) are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account to be used in accordance with FAA Section 609 (which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA (a) Yes (b) N/A

44

would themselves be available)? (c) Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

(c) Yes

f. FY 1988 Continuing Resolution. Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA been deposited in a special account established by that government, and are these local currencies available only for use, in accordance with an agreement with the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U. S. Government?

N/A

2. Nonproject Criteria for Development Assistance

a. FAA Secs. 102(a), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

N/A

b. FAA Secs. 103, 103A, 104, 105, 106, 120-21. Is assistance being made available (include only applicable paragraph which corresponds to source of funds used; if more than one fund source is used for assistance, include relevant paragraph for each fund source):

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

N/A

46

(2) [104] for population planning under Sec. 104(b) or health under Sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

N/A

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant; especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

N/A

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

N/A

(i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

(ii) concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster and programs of disaster preparedness;

(v) for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

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

(5) [120-21] for the Sahelian region; if so, (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multi-donor development plan which calls for equitable burden-sharing with other donors; (b) has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom)?

c. FAA Sec. 107. Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

N/A

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

N/A

e. FAA Sec. 101(a). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

N/A

ANNEX E

INITIAL ENVIRONMENTAL EXAMINATION DETERMINATION

INITIAL ENVIRONMENTAL EXAMINATION

Project Country: Djibouti

Project Title and No: Non-Project Assistance (603-0022)

Funding: \$3.325 million FY: 1988

IEE Prepared by: Dr. Edward McGowan, Regional Environmental
Officer

Environmental Action Recommended: Categorical Exclusion

Justification: This activity is a cash grant for structural and budget support, which will be used for payment of external debt or procurement of goods and services from the U.S. The portion of the cash grant which will be spent for repayment of debt falls within Section 216.2(c)(1) Reg. 16, as an activity with no effect on the natural environment. It thus is within a class eligible for an exclusion from further environmental review notwithstanding provisions of 216.2(c)(3). As for any portion of the grant which may be used for commodity imports, (where assistance is provided under a commodity support program) the activity would fall under the exclusion category 216.2(c)(2)(IX) - again not withstanding Section 216.2(c)(3).

Approved by:

Stice

Date: 4/20/88

Clearance:

Belinda Baumgarten, RLA

Date: 7 April 1988

ANNEX F

AA/AFR ACTION MEMO ON ELIGIBLE DEBT SERVICE PAYMENTS

ACTION: AID-3 INFO: ECON RLO

VZCZCNA0547
 OO RUEHNR
 DE RUEEC #7871 0820033
 ZNR UUUUU ZZB
 O 220030Z MAR 88
 FM SECSTATE WASHDC
 TO RUEHNR/AMEMBASSY NAIROBI IMMEDIATE 7655
 INFO RUQMEJ/AMEMBASSY DJIBOUTI IMMEDIATE 7784
 BT
 UNCLAS STATE 087871

22-MAR-88 TOR: 04:23
 CN: 04261
 CHRG: AID
 DIST: AID
 ADD:

MAR 22 1988

AIDAG, NAIROBI FOR REDSO/ESA

E.O. 12356: N/A

DJIBOUTI NON-PROJECT ASSISTANCE (603-0022)

ON MARCH 18, 1988 THE AA/AFR APPROVED THE USE OF U.S. DOLLAR DISBURSEMENTS FROM THE FY 1988 ESF CASH TRANSFER TO DJIBOUTI TO SERVICE DEBT OWED BY THE GOVERNMENT OF DJIBOUTI TO MULTILATERAL DEVELOPMENT BANKS AND A.I.D. GEOGRAPHIC CODE 935 ENTITIES AS FOLLOWS:

CREDITOR	PURPOSE	US DOLLARS
ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES FUND (OPEC FUND)	OIL IMPORTS, AGRICULTURAL DEV., AND GEOTHERMAL	367,969
IFAD	ARTISANAL FISHERIES	21,922
ARAB ECONOMIC AND SOCIAL DEV. FUND (FADES)	CATTLE FEED PROCESSING	721,790
ISLAMIC DEVELOPMENT BANK (IBD)	FISH PIER STUDY	39,029
AFRICAN DEV FUND (FAD)	GEOTHERMAL	9,994
BID	IRRIGATION	62,570
BID	INDUSTRIAL DEV. STUDIES	5,866
IFAD	ARTISANAL FISHERIES II	6,485
CALABRESE (ITALIAN SUPPLIER)	URBAN SANITATION EQUIPMENT	243,757
IBRD/IDA	PLANNING	21,224

REDSO	Action	Info
DIR		<input checked="" type="checkbox"/>
D/DIR		
AGR		
ANA		<input checked="" type="checkbox"/>
RCMO		
RCO		
ENCR		
FFPO		
PEJ		<input checked="" type="checkbox"/>
RLA		<input checked="" type="checkbox"/>
LIBRARY		
KASAI		
RFMC		<input checked="" type="checkbox"/>
EXC/PER		
ADMIN		
CHRON		<input checked="" type="checkbox"/>
REPLY DUE		3/22
ACTION TAKEN		
DATE		
INITIALS		

53

ASSISTANCE

IBRD/IDA	ROAD MAINTENANCE	56,655
IBRD/IDA	GEO THERMAL	46,245
IBRD/IDA	URBAN DEVELOPMENT	26,434
IBRD/IDA	SCHOOL CONSTRUCTION	38,038
EQUATOR BANK NAIROBI	PURCHASE OF BOEING 727 FOR AIR DJIBOUTI	567,010
FAD	URBAN SANITATION	43,202
	SUBTOTAL	2,278,190

PUBLIC ENTERPRISE/PARASTATAL DEBT

CREDITOR	PURPOSE	US DOLLARS
FADES	PORT DEVELOPMENT	536,491
EUROPEAN INVESTMENT BANK	ELECTRICAL NETWORK EXTENSION	134,903
AFRICAN DEV. FUND (FAD)	URBAN WATER SYSTEMS	48,638
ISLAMIC DEV. BANK (IBD)	ELECTRICAL PLANT EXPANSION	333,706
	SUBTOTAL	1,053,738
	GRAND TOTAL	\$3,331,928

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**ANNEX G:
CABLES APPROVING DECISION
NOT TO GENERATE LOCAL CURRENCIES**

ACTION: AID-3 INFO: ECON RLO

VZCZCNA0635
RR RUZHR
DE RUQMDJ #3464/01 3141330
ZNR UUUU ZZE
R 101252Z NOV 87
FM AMEMBASSY DJIBOUTI
TO RUEHC/SECSTATE WASHDC 7408
INFO RUEHR/AMEMBASSY NAIROBI 0327
BT
UNCLAS SECTION 01 OF 02 DJIBOUTI 3464

12-NOV-87 TOR: 15:01
CN: 25655
CHRG: AID
DIST: AID
ADD:

0398 EXPECTED MCN

NOV 12 1987

AIDAC

DEPT FOR AF/E AND AF/EPS

WASHDC FOR AID/W

NAIROBI FOR REDSO

E.O. 12356, N/A

SUBJ: DJIBOUTI-NONPROJECT ASSISTANCE (603-0022) PAAD DESIGN

REFS: A) NAIROBI 36255, B) STATE 338220

1. IN A 12/27 MEETING WITH THE GROD DIRECTOR OF THE PRESIDENTIAL CABINET AND THE GENERAL SECRETARY OF THE MINISTRY OF FOREIGN AFFAIRS, THE REDSO NPA TEAM AND THE AID REP WERE INFORMED THAT THE GROD STILL PREFERS DEVELOPMENT PROJECT ASSISTANCE TO PROGRAM ASSISTANCE, AND THAT THERE IS DISAPPOINTMENT WITH THE DOLS 3 MILLION LEVEL OF OYB CURRENTLY UNDER DISCUSSION.

2. IN VIEW OF DJIBOUTI'S LOW PER CAPITA INCOME, ITS STRATEGIC IMPORTANCE, AND PRESSING HUMAN RESOURCE DEVELOPMENT NEEDS, AFTER ONLY TEN YEARS OF INDEPENDENCE, IN ADDITION TO ITS DISAPPOINTMENT WITH RESPECT TO THE PROPOSED CHANGE IN THE FORM AND SUBSTANCE OF AMERICAN ASSISTANCE, AS WELL AS THE CLOSING OF THE AID OFFICE AND THE TERMINATION OF THE DEVELOPMENT ASSISTANCE THAT THAT OFFICE HAS PROVIDED OVER THE YEARS, THE GROD REQUESTS A SUBSTANTIALLY HIGHER OYB.

3. AS THE GROD CONSIDERS THE OYB ALREADY TO BE TOO LOW, IT WOULD NOT BE WILLING TO SEE A PORTION OF THAT FINANCIAL ASSISTANCE GO FOR PAYING THE EXPENSES OF A PSC HIRED TO ASSIST THEM WITH THE MANAGEMENT OF AN ALTERNATIVE AID DEVELOPMENT PROGRAM, A FUNCTION THEY SEE AS A SUBSTITUTE FOR THE CURRENT AID OFFICE.

4. ON THE OTHER HAND, THE GROD REPRESENTATIVES IDENTIFIED ABOVE RECOGNIZED THAT AN NPA PROGRAM GEARED TO SERVICING DJIBOUTI'S INTERNATIONAL DEBT WOULD BE A VALUABLE AND ESTIMED FORM OF ASSISTANCE, WHICH WOULD BE APPRECIATED BY THE GROD. THEY NOTED THAT DOLLAR GRANT ASSISTANCE TO SERVICE DJIBOUTI'S INTERNATIONAL

REDSO	Action	Info
DIR		✓
D/DIR		
AGR		
ANA		✓
RCMO		
RCO		
ENGR		
FFPO		
PRJ	✓	
RLA		✓
LIBRARY		
KAGAI		
RFMC		✓
EXO/PER		
ADMIN		
CHRON		✓
REPLY DUE	11/18	
ACTION TAKEN	rel	
DATE	12/18/87	
INITIALS	RF	

56

DEBT WOULD BE PARTICULARLY WELCOME AS ASSISTANCE OF THAT NATURE WOULD HELP ALLEVIATE DJIBOUTI'S CURRENT BUDGET PROBLEMS. (FYI AT THE 10/18 EXTRAORDINARY MEETING OF THE COUNCIL OF MINISTERS ON THE 1988 BUDGET, THE SERVICING OF INTERNATIONAL DEBT, ALONG WITH THE GOVERNMENT PAYROLL AND RECURRENT OPERATIONS, WAS CITED BY THE MINISTER OF FINANCE AS A PRINCIPAL BURDEN ON THE 1988 BUDGET.

5. THE GROD OFFICIALS OBSERVED THAT DOLLAR ASSISTANCE TOWARD THE PAYMENT OF INTERNATIONAL DEBT WOULD CONSTITUTE DIRECT BUDGET SUPPORT, BUT THE TRANSFER OF FUNDS FROM THE OPERATING BUDGET TO A SPECIAL LOCAL CURRENCY ACCOUNT FOR THE FINANCING OF DEVELOPMENT ACTIVITIES PREVIOUSLY FINANCED BY AID WOULD NEGATE THE ESSENCE OF BUDGET SUPPORT. THEY OBSERVED FURTHER THAT CLOSURE OF THE AID OFFICE AND WITHDRAWAL OF DIRECT AID PROJECT TECHNICAL ASSISTANCE WOULD DEPRIVE THE GROD OF ESSENTIAL MANAGEMENT ASSISTANCE REQUIRED TO CONTINUE EFFECTIVELY SUCH DEVELOPMENT ACTIVITIES.

6. IN SUMMATION, THE GROD OFFICIALS GAVE TESTIMONY TO THE VALUE OF THE ONGOING AID PROJECTS AND THE DESIRE TO SEE SAID ACTIVITIES CONTINUE ALONG WITH THE AID OFFICE, BUT THAT THE GROD WOULD NOT TURN UP ITS NOSE AT BUDGET SUPPORT IN THE FORM OF DEBT SERVICING. THEIR FINAL PLEA WAS THAT, IF INDEED, THE USG CHOOSES FOR ITS OWN REASONS, TO ALTER ITS ASSISTANCE TO DJIBOUTI TO THAT OF DEBT SERVICING, PLEASE DO SO WITHOUT COMPLICATING SAID ASSISTANCE WITH OTHER MANDATORY APPENDAGES, PARTICULARLY IN SUCH FASHION AS TO TAX THE GROD'S LIMITED MANAGERIAL CAPACITIES.

7. PARAGRAPH 3, REFTEL B, CITES A GC/AFR OPINION TO THE EFFECT THAT AS LONG AS THERE ARE SOUND PROGRAMMATIC REASONS FOR NOT GENERATING LOCAL CURRENCIES, SECTION 531(D) DOES NOT REQUIRE IT. THE SAME REFERENCE GOES ON TO INDICATE THAT ON POLICY GROUNDS THE AFRICA BUREAU HAS NO OBJECTION TO NOT GENERATING LOCAL CURRENCY IN DJIBOUTI.

8. NEVERTHELESS, PARAGRAPH 5, REFTEL C, SUGGESTS THAT THE PAAD WILL REQUIRE THE GENERATION OF LOCAL CURRENCY AND THE TRACKING OF SAME.

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9. GIVEN BOTH THE AID/W AND GROD POSITIONS INDICATED ABOVE, IT WOULD APPEAR APPROPRIATE THAT, IN LIEU OF MANDATORY CONDITIONS, THE PAAD MERELY SUGGEST THAT THE GROD WILL, PERHAPS, EVENTUALLY DECIDE UNILATERALLY TO CONTRIBUTE VOLUNTARILY TO THE CONTINUATION OF DEVELOPMENT INITIATIVES ORIGINATING WITH THE PFIOP AID PROGRAM. PAAD LANGUAGE COULD GO ON TO INDICATE THAT ASSURANCES TO THAT EFFECT ARE IMPOSSIBLE, GIVEN THE PROBLEMATIC STATE OF DJIBOUTI'S BUDGET, AS WELL AS THE GROD'S LIMITED CAPACITY TO CONTINUE SUCH INITIATIVES WITHOUT DIRECT MANAGERIAL AND TECHNICAL ASSISTANCE TO THAT END.

10. THE GROD'S INCLINATION TO GENERATE LOCAL CURRENCY FROM THE NPA DOLLAR GRANT WOULD, ALSO, BE TEMPERED BY THE EVENTUAL MAGNITUDE AND TIMING OF THE LATTER.

11. FURTHERMORE, IF WE REQUIRE THE GROD TO GENERATE LOCAL CURRENCY TO FUND DEVELOPMENT THE GROD TO GENERATE LOCAL CURRENCY TO FUND DEVELOPMENT ACTIVITIES, WE WOULD BE LEAVING OURSELVES OPEN TO GREATER CRITICISM, THAN OTHERWISE, WERE THE IMPLEMENTATION OF THOSE ACTIVITIES TO RUN INTO DIFFICULTY FOR ANY OF A VARIETY OF REASONS, E.G., INSUFFICIENT FUNDING MAGNITUDE, UNTIMELY AVAILABILITY OF FUNDS, LACK OF MANAGERIAL CAPABILITY, ETC.

12. IN SEQUENCE TO THE ABOVE, IT IS RECOMMENDED THAT G.A. LANGUAGE GO NO FURTHER THAN TO INVITE THE GROD TO CONSIDER LOCAL CURRENCY GENERATION AS A MEANS BY WHICH IT MAY WISE TO CONTINUE UNILATERALLY DEVELOPMENT ACTIVITIES INITIATED BY THE FORMER AID PROGRAM. THE GROD IS LIKELY TO BALK AT ANY CONDITIONALITY OF NPA MORE DEMANDING.

13. ESSENTIALLY, THE BASIC IDEA OF THE NPA DOLLAR GRANT IS TO MAKE A POLITICAL GESTURE OF FRIENDSHIP. FOR INTERNAL MANAGEMENT POLICY REASONS, WE ARE NOT GIVING THE GROD WHAT THEY WANTED IN THE FIRST PLACE, I.E., PROJECT ASSISTANCE AND THE DEVELOPMENT DIALOGUE INTRINSIC TO THE CONTINUATION OF THE AID OFFICE. WE SHOULD STRIVE, THEN, TO MAKE AS PALATABLE AS POSSIBLE OUR UNILATERALLY CHOSEN ALTERNATIVE, WHICH IN FACT COULD STIMULATE GROD SATISFACTION, IF PRESENTED ATTRACTIVELY

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58

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FOR HIM/HER IS UNACCEPTABLE. RATHER, LOCAL CURRENCY GENERATIONS SHOULD BE USED FOR THE PSC.

4. THIS CABLE COMMENTS ONLY ON SECTION 531(D). NO OTHER CURRENTLY APPLICABLE STATUTE WOULD REQUIRE GENERATION OF LOCAL CURRENCY IN THIS SITUATION. SHULTZ

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UNCLASSIFIED STATE 339220

ANNEX H
DRAFT GRANT AGREEMENT

A.I.D. Grant No.:

AGREEMENT

BETWEEN

THE GOVERNMENT OF THE REPUBLIC OF DJIBOUTI

AND

THE GOVERNMENT OF THE UNITED STATES OF AMERICA

ACTING THROUGH

THE AGENCY FOR INTERNATIONAL DEVELOPMENT

Date:

62

AGREEMENT, dated _____ between the Government of the Republic of Djibouti ("Grantee") and the Government of the United States of America, acting through the Agency for International Development ("A.I.D."), together referred to as the "Parties."

ARTICLE I

The Grant

Section 1.1 The Grant

For the purpose of assisting in the reduction of the budget deficit and thereby supporting the economic and political stability of Djibouti, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, hereby grants to the Government of the Republic of Djibouti under the terms of this Agreement not to exceed Three Million United States Dollars (U.S. \$3,000,000) (the "Grant").

ARTICLE II

Conditions Precedent to Disbursement

Section 2.1 Conditions Precedent to Disbursement

Prior to the disbursement of the Grant, or the issuance by A.I.D. of documentation pursuant to which disbursement will be made, Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., the following:

(a) An opinion of counsel acceptable to A.I.D. that the Agreement has been duly authorized by, and executed on behalf of, the Grantee and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms.

(b) A statement by the Grantee representing and warranting that the person (or persons) named therein have the authority to act as the representative (or representatives) of the Grantee pursuant to Section 6.2, together with a specimen signature of each person certified as to its authenticity.

(c) Evidence that the Grantee has established a separate interest-bearing Special Dollar Account in a commercial bank of the Grantee's choosing into which the Grant funds under this Agreement are to be disbursed by A.I.D.

(d) A letter from the Grantee to A.I.D. containing the proposed specific uses of the Grant funds provided by this Agreement for A.I.D.'s approval.

Section 2.2 Notification

When A.I.D. has determined that the conditions precedent specified in Section 2.1 have been met, it will promptly notify the Grantee.

Section 2.3 Terminal Date for Meeting Conditions Precedent

If the conditions specified in Section 2.1 have not been met within ninety (90) days from the date of this Agreement, or such later date as A.I.D. may specify in writing, A.I.D., at its option, may terminate this Agreement by written notice to the Grantee.

ARTICLE III

Disbursement

Section 3.1 Disbursement of the Grant

(a) After satisfaction of the conditions precedent and upon receipt of a Financing Request (FR), A.I.D. will deposit in a bank designated by Grantee, the sum of Three Million United States Dollars (U.S. \$3,000,000).

(b) Unless otherwise agreed by A.I.D., the Grant funds under this Agreement will be allocated to (1) payment of Djiboutian debt service to multilateral banks; (2) payment of Djiboutian debt service to eligible entities in countries included in A.I.D. Geographic Code 935; and (3) the public sector for the importation from the United States of technical assistance, raw materials, intermediate and capital goods, and spare parts.

Section 3.2 Date of Disbursement

Disbursement by A.I.D. will be deemed to occur on the date A.I.D. makes the deposit in accordance with Section 3.1 herein.

by

Section 3.3 Interest on Disbursed Funds

In the event the U.S. Dollar funds deposited into the Special Dollar Account earn interest prior to their disbursement by the Grantee for eligible transactions, such interest earned shall be retained in the Special Dollar Account and be used in the same manner and for the same purposes as the U. S. Dollars granted under this Agreement.

Section 3.4 Terminal Date for Requesting Disbursement

If the Grantee has not requested disbursement of funds provided herein within one hundred eighty (180) days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Grantee.

ARTICLE IV

Covenants

Section 4.1. Use of Funds

Grantee agrees that the funds provided under this Grant shall not be used to finance military or paramilitary requirements of any kind, including the procurement of commodities and/or services for these purposes, or for luxury goods, or for the repayment of military debt.

Section 4.2 Separate Account; Commingling

Grantee agrees that the Special Dollar Account established pursuant to Section 2.1(c) of this Agreement shall be maintained as a separate account and, except for interest which may be earned on Grant funds deposited into the Account, as indicated in Section 3.3 of this Agreement, no funds other than the U.S. Dollar funds disbursed under this Agreement shall be deposited into this Account.

Section 4.3. Books and Records

Grantee will maintain, or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, such books and records relating to the Special Dollar Account as are necessary to show adequately, without limitation, the deposit into, and disbursement of funds

65

from, the Account by the Grantee for agreed upon purposes. The specific records to be maintained by the Grantee to support allocations of funds from the Special Dollar Account will be prescribed by A.I.D. Such books and records will be audited regularly and in accordance with generally accepted auditing standards, and shall be maintained for three (3) years after the date of last disbursement under this Grant.

Section 4.4 Right of Inspection and Audit

A.I.D., or any of its authorized representatives, shall have the right to inspect and audit at all reasonable times the books and records maintained by the Grantee relating to the Special Dollar Account.

Section 4.5 Refunds

In the event A.I.D. determines that any disbursement from the Special Dollar Account has been made for a use other than as authorized under the terms of this Agreement, or for a transaction which does not meet the requirements of this section, or which is unsupported by valid documentation as required by A.I.D., or which is in violation of United States law, the Grantee will redeposit into the Special Dollar Account a sum in U.S. Dollars equal to the amount of such disbursement within sixty (60) days after receipt of a request therefor from A.I.D. This right of refund shall continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement of U.S. Dollar Grant funds under this Agreement.

Section 4.6 Reports

The Grantee will provide quarterly reports on disbursements into and out of the Special Dollar Account, monthly bank account statements, and such additional information as A.I.D. may request from time to time relating to the activities financed from the Account. These reports will contain such information and include such supporting documentation as may be required by A.I.D.

Section 4.7 Taxation

This Agreement and the amount granted hereunder shall be free from any taxation or fees imposed under any laws in effect in the Republic of Djibouti.

60

ARTICLE V

Suspension, Termination and Cancellation

Section 5.1 Suspension

If, at any time,

(a) the Grantee fails to comply with any provision of this Agreement; or

(b) An event occurs that A.I.D. determines to be an exceptional situation that makes it impossible for the purpose of the Grant to be attained, or for the Grantee to be able to perform its obligations under this Agreement; or

(c) Any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.,

then A.I.D. may suspend disbursement of Grant funds under this Agreement by giving notice to the Grantee. In the event of suspension, the Parties agree to consult with each other in order to discuss the reasons therefor and to resolve any differences there may be between the Parties. If, within sixty (60) days from the date of any suspension of disbursements, the cause or causes thereof have not been corrected, A.I.D. may cancel any part of the Grant which has not been disbursed.

Section 5.2 Termination

Either party may terminate this Agreement by giving the other party thirty (30) days written notice. This Agreement may also be terminated by mutual agreement of the Parties at any time.

ARTICLE VI

Miscellaneous

Section 6.1 Implementation Letters

From time to time, for the information and guidance of both Parties, A.I.D. will issue Implementation Letters describing the procedures applicable to the implementation of the Agreement. Except as permitted by particular provisions of this Agreement, Implementation Letters will not be used to amend or modify the text of this Agreement.

67

Section 6.2 Representatives

For all purposes relevant to this Agreement, Grantee will be represented by the individual holding or acting in the Office of Minister of Foreign Affairs and Cooperation and A.I.D. will be represented by the individual holding or acting in the office of Director, Regional Economic Development Services Office (REDSO/ESA), Nairobi, each of whom, by written notice, may designate additional representatives for all purposes.

The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 6.3 Communications

(a) Communications submitted by either party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following addresses:

To the Grantee: Ministry of Foreign Affairs and Cooperation

To A.I.D.: REDSO/ESA
C/O American Embassy
Djibouti

(b) All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of written notice.

Section 7.4 Amendment

This Agreement may be amended by the execution of written amendments by the authorized representatives of both Parties.

68

IN WITNESS WHEREOF, Djibouti and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

GOVERNMENT OF THE
REPUBLIC OF DJIBOUTI

UNITED STATES OF AMERICA

By: _____

By: _____

Title: Minister of Foreign
Affairs and Cooperation

Title: A.I.D. Representative
Djibouti

ACTION: RFMC - 5

VZCZCKAC977
OO RUEHNR
DL RUEHRC #4946 1957140
ZNR UUUUU 271
C 042140Z APR 69
FM SECSTATE WASHDC
TO RUEHNDJ/AMBASSY DJIBOUTI IMMEDIATE 7859
INFO RUEHNS/AMBASSY NAIROBI IMMEDIATE 8242
BT
UNCLAS STATE 104946

05-APR-69 TGT: 08:20
CR: 0943E
CIRC: RFMC
DIST: RFMC
ADD:

*not entered
(cash trip)*
\$

ALLAC, NAIROBI FOR RFMC

E.O. 12856: N/A

SUBJECT: ESF ALLOANCE

1. APPROPRIATION 72-118/91037, FUDGET PLAN CODE G158-88-31623-1331 (ALLOWANCE 870-61-603-02-03-01) ESTABLISHED FOR DOLLARS 2,000,000 FOR PROJECT 603-2022, PROGRAM SUPPORT GRANT (CASH TRANSFER). GRANT NO. 603-1-0011 AFFLITS.

*D80030
4/5*

~~2. APPROPRIATION 72-118/91037, FUDGET PLAN CODE G158-88-31623-1339 (ALLOWANCE 870-61-603-02-03-01) ESTABLISHED FOR DOLLARS 200,000 FOR PROJECT 603-2022, PROGRAM SUPPORT GRANT (TECHNICAL ASSISTANCE). GRANT NO. 603-1-0011 AFFLITS.~~

~~WEITHEAD
FI
#4946~~

*D80031
4/5*

NNNN

UNCLASSIFIED STATE 104946

Memo
✓

Best Available Document

4/5

ACTION: RFMC - 5

RFMC File

VZCZCNA0647

19-APR-88

TOR: 02:22

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CN: 14932

DE RUEEC #2218 1100038

OFFICIAL FILE

CHRG: RFMC

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C 190036Z APR 88

ADD:

FM SECSTATE WASHDC

TO AMEMBASSY NAIROBI IMMEDIATE 8837

BT

UNCLAS STATE 122218



ADM AID CONTROLLER

E.O. 12356: N/A

TAGS: N/A

SUBJECT: PAAD FOR DJIBOUTI FY88 CASH TRANSFER PROGRAM--ISF, GRANTS (603-K-601)

REF: A) NAIROBI 10330 B) STATE 104946

M/FM/PAFD CONFIRMED FUNDS AVAILABILITY FOR SUBJECT PAAD FOR DCLS 3,000,000. PLEASE PLACE FM CLEARANCE ON PAAD FACE SHEET, AND PLACE GRANT NO. 603-K-601 ON FACE SHEET OF GRANT AGREEMENT. IN ORDER TO RECORD RESERVATION AND OBLIGATION, MISSION MUST CABLE M/FM/PAFD WHEN PAAD SIGNED AND AGAIN WHEN GRANT AGREEMENT SIGNED. WHEN REQUESTING FOR CASH TRANSFER, PLEASE PROVIDE INFORMATION REQUIREMENT ON ESP CASH TRANSFERS STATED IN STATE 063298. IN ADDITION SEND COPIES OF BOTH DOCUMENTS TO M/FM/PAFD, ROOM 700, SA-2, ATTENTION LOUIS LYLES.

SEULIZ

BT

#2218

NNNN

UNCLASSIFIED STATE 122218

DATE	
4-19	
DEPLY DUTY	
4-19	
ACTION TO	
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RHDO	
RIG/A	
RIG/II	
R'NO	
P'NO	
HRD	
PRJ	
PH	
AGR	
EXO	
PBB	
GBO	
BE	
OHROH	
CAB	
UMD	

ACTION COPY

Action taken;

No action necessary.....

(Initials)

(Date)