PDBBM 337

CLASSIFICATION:

AID 1120-1

PAAD

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO. 662-K-607

2. COUNTRY SEYCHELLES

3. CATEGORY COMMODITY FINANCING STANDARD PROCEDURE

4. DATE MARCH, 1988

5. TO: SATISH P. SHAH
ACTING DIRECTOR, REDSO/ESA

6. OYB CHANGE NO. N/A

7. FROM WILLIAM A. JEFFERS
PROJECT OFFICER, REDSO/ESA

8. OYB INCREASE NONE

TO BE TAKEN FROM: N/A

9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 2,800,000

10. APPROPRIATION - 72-118/91037
GES8-88-31662-KG32

11. TYPE FUNDING: ☐ LOAN ☒ GRANT

12. LOCAL CURRENCY ARRANGEMENT: ☐ INFORMAL ☒ FORMAL ☐ NONE

13. ESTIMATED DELIVERY PERIOD: 4/30/88 - 7/1/89

14. TRANSACTION ELIGIBILITY DATE GRANT SIGNATURE DATE

15. COMMODITIES FINANCED

Medium Fuel Oil and Diesel Oil.

16. PERMITTED SOURCE

U.S. only:
Limited F.W.: $ 1,200,000
Free World: $ 1,600,000
Cash:

17. ESTIMATED SOURCE

U.S.:
Industrialized Countries: $ 1,600,000
Local:
Other: KENYA OR MADAGASCAR-$1,200,000

18. SUMMARY DESCRIPTION

The FY 1988 Seychelles Commodity Import provides $2,800,000 million from the ESF account which will be used to purchase and transport medium fuel oil from Geographic Code 941 and diesel fuel from Code 899 sources.

The local currency equivalent ($2,800,000 in Seychelles Rupees) will be used to finance agreed upon economic development activities in Seychelles.

19. CLEARANCES

	DATE
REDSO/PRJ:MSinding	3/25/88
REDSO/RLA:BBarrington	3-24-88
REDSO/APD:RBurke	3-24-88
REDSO/CMO:BStader	3-24-88
RFMC:STATE CKemner	4/19/88
119796	

20. ACTION

☒ APPROVED ☐ DISAPPROVED

Satish P. Shah 4/19/88
AUTHORIZED SIGNATURE DATE

ACTING DIRECTOR, REDSO/ESA
TITLE

CLASSIFICATION:

1

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ABBREVIATIONS AND ACRONYMS

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

I. SUMMARY AND RECOMMENDATIONS

A. Title : Seychelles FY 1988 Commodity Import Program

B. Amount : $2,800,000

C. Type of Funding : Economic Support Fund (ESF) Grant.

D. Term of Program : Twenty-three months

E. Executing Agency : GOS, Department of Planning and External Relations

F. Program Justification:

The justification for a U.S. development assistance program in FY 1988 remains essentially the same as in previous years' programs - the need to maintain U.S. political and strategic interests in Seychelles. The FY 1988 assistance will be a Commodity Import Program aimed at assisting the GOS to ameliorate its balance of payments problems, increase its foreign exchange reserves, and reduce its budgetary shortfalls.

G. Program Description:

This document proposes to authorize a Commodity Import Program for Seychelles which provides $2,800,000 for FY 1988 to finance fuel necessary for the generation of electricity and other domestic requirements. The design of the FY 1988 CIP is based upon six previous years of experience with Commodity Import Programs in Seychelles and the recommendations contained in recent program evaluations and, reflects the following conditions:

1. Opportunities for US exports to Seychelles are extremely limited;

2. The Seychelles private sector is small and imports few bulk commodities. Petroleum, one of Seychelles most critical bulk commodity imports, is the responsibility of the Seychelles Petroleum Company, a parastatal.

3. Limited USAID resources to implement and monitor the Seychelles Program necessitate that the administrative burden of implementing the CIP be minimized;

4. Utilizing U.S. assistance for fuels, primarily for power generation, supports productive activities and is easily monitored. To the maximum extent possible, the mix of fuels financed by this year's CIP will be determined by the consumption requirements for electricity generation of the Public Utilities Corporation, Electricity Division (SEC). However, based upon past experience, it is impossible to determine with any certainty the exact fuel requirements of the Electricity Division. It is anticipated that any diesel fuel which is excess to the needs of SEC will be used by the Seychelles Public Transportation Company (SPTC) to provide fuel for busses. Likewise, any medium fuel oil which is excess to the needs of SEC will likely be used by the Seychelles Bunkering Company (SEBCO) to provide fuel to the indigenous fishing fleet; and,

5. Because of the unavailability of MFO from the normally authorized source (Code 000), the procurement of MFO under this year's CIP will be limited, as in past years, to Code 941. In order to maximize the amount of fuel that can be financed with the available money, since diesel fuel is not available at reasonable price from AID Code 941 sources in the Indian Ocean area which function as a normal source of supply for Seychelles, as in last year's program the authorized source/origin for diesel fuel will be expanded to AID Code 899.

The GOS Project Appraisal Committee (PAC) is proposing that the local currency generated by the sale of the medium fuel oil and diesel fuel to be used to support: continued investment in the East Coast Project, a Phase IV of road rehabilitation; a project to support U.S. based training, a project to assist in the GOS takeover of the PL-480 feeding program, and the construction of a National Library, Cultural Center, and the La Digue Water Supply. As recommended in the Evaluation the GOS will submit a final local currency budget allocation to REDSO/ESA for its approval within three months of the date which the amendment to the Grant Agreement is signed.

The FY 1988 CIP for Seychelles is expected to finance 100% percent of the fuel requirements of the Public Utilities Corporation's Electricity Division for the coming year. Based upon information provided by SEPEC, program financed commodities will represent approximately 50 percent of the total medium fuel oil and 14.5 percent of all the diesel

fuel requirements of the country. With respect to the financial impact of the FY 1988 CIP, the U.S. $2.0 million represents a significant infusion of foreign exchange. In comparison to Seychelles foreign exchange reserves, the value of the U.S. grant is the equivalent of 20% of the average 1987 level. Likewise, the estimated SR 15.0 million which will be generated by the CIP represents over 7 percent of the total projected GOS capital expenditure for FY 1988.

H. Program Implementation:

1. Institutions: The institutional relationships for the FY 1988 CIP are:

   a) The GOS, Ministry of Planning and External Relations is responsible for the overall coordination of the Program and the allocation of counterpart funds. The GOS, Department of Finance is responsible for overseeing the implementation of the commodity procurement and collecting and warranting counterpart funds.

   b) The United States Agency for International Development (USAID) is the financing institution;

   c) The Seychelles Petroleum Company (SEPEC) is the import agent of the GOS for all petroleum products in Seychelles; and,

   d) The Seychelles Electricity Corporation(SEC) is the primary end user of the program financed petroleum products.

2. Procurement Arrangements: The medium fuel oil and diesel fuel will be purchased using an Invitation for Bid (IFB) issued by the SEPEC acting as agent for the GOS, Department of Finance. The IFB will be prepared with the assistance of the REDSO/ESA, RCMO. Specifications for the medium fuel oil and diesel fuel will be provided by SEPEC and reviewed by PUC/ED, the end user of the commodities. The IFB will be distributed by the RCMO on behalf of the GOS to all of the operating oil companies in Kenya, and made available by SEPEC to other potential suppliers.

3. Financing Arrangements: Payment will be made to the selected supplier(s) under an AID Direct Letter of Commitment to be issued by the RFMC/Nairobi upon issuance of a DRA from AID/W. An AID Direct Letter of

Commitment has been chosen as the desirable financing mechanism in order to eliminate unnecessary banking charges. It is anticipated that no more than two Direct Letters of Commitment and no more than four partial payments will be required for the entire program.

4. Program Management Requirements: The REDSO/ESA management and monitoring of the CIP will utilize the GOS program reports established under the previous CIP's. These reports include: the quarterly Commodity Report detailing the arrival and disposition of AID-financed imported commodities; the quarterly Finance Report which provides information on the allocation and expenditure of local currency generated by the Program; and, the semi-annual Progress Report which outlines the progress being made in implementing the local currency-financed projects. In addition, the RCMO will visit Seychelles to assist in the selection of the successful bidder(s) and subsequent award of contract. No other REDSO/ESA management time is anticipated.

H. Program Evaluation:

A Program Evaluation is planned by the GOS and REDSO/ESA approximately twelve months after the signing of the Grant Agreement Amendment.

II. PROGRAM JUSTIFICATION

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

The Republic of Seychelles, which became independent in 1976 consists of more than 100 islands with a total land area of only 164 square miles scattered over 400,000 square miles of the Indian Ocean. About 90 percent of the total population of 65,000 is located on the main island of Mahe. One third of the islands are within 22 miles of Mahe and typically have granite mountainous interiors and narrow coastal strips. Annual Per Capita Income for Seychelles is estimated at $2,800 in 1986.

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

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

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

The United States has maintained the position that its political and security interests in the Seychelles are best served by a growing economy developing in response to market forces and private sector initiatives which can finance higher standards of living for the general population. Over the years the official GOS views towards this position have run both

"hot" and "cold." In fact, during the early 1980's the GOS stand had been contrary to the U.S. view. Recently the GOS position has been more attuned to practical solutions for improving the general welfare of the country. Currently, increasing numbers of people both inside and out of the GOS recognize the importance of expanding productive capacity an providing incentives for private initiatives for the future economic growth of Seychelles. These overlapping interests have provided a basis for expanding dialogue between the GOS and USG.

B. Macro-Economic Overview

1. General Economic Situation

Since the early 1970's the Seychelles' economy has undergone a striking transformation from one almost exclusively based on agricultural and fishing, with very little external trade, to a predominantly service economy oriented toward international tourism. The first half of the decade was a period of exceptional development. The construction of a new international airport in 1971 opened Seychelles's previously untapped tourism potential. There was a construction boom of hotels, roads, water, electricity and transport facilities, as well as an expansion of services ancillary to tourism such as trade, banking, and handicrafts. This trend has continued, albeit with some starts and stops, and now tourism represents Seychelles principal economic activity. Preliminary estimates indicate that the direct contribution of the tourism sector to GDP amounted to about 16% in 1986, although it is believed that together with its linkages to other sectors it may have actually contributed as much as 28% or more of total GDP. By contrast, agriculture contributed only 3.8%, fishing 2.0%, and manufacturing 8.7%. Government services comprised 15.9% of the total.

Following an all-time high in tourist arrivals in 1979 of 79,000 persons, the country was faced with a severe reduction in the numbers of tourists from 1981-83 due to a variety of factors: recessionary conditions in Western Europe, rising air fares to Indian Ocean locations, and the unsettling effects of the mercenary raid on Mahe in November 1981. It was also partly due to deteriorating hotel conditions and rising costs exacerbated by a 15% revaluation of the Seychelles rupee in March 1981. The revaluation was undertaken to reduce domestic inflation, but occurred at a time when competing tourist destinations (e.g. Mauritius and Kenya) were devaluing their currencies. Furthermore, since the rupee was tied to the SDR, in which the U.S. dollar comprises a 42% weight, the value of the rupee followed the dollar upwards in value even more, as

discussed below, further reducing the competitiveness and profitability of the Seychelles' tourist industry. Real GDP fell for three years in succession, the current balance of payments deficit, before official transfers, soared to 34% of GDP in 1982 (it was still 24% of GDP in 1986), net official reserves fell from 2 months' worth of imports in 1981 to less than one week's worth in 1985, and the fiscal deficit continued to rise.

In response to these adverse developments, the Government increased its intervention in key sectors, mainly through rapid expansion of the parastatal sector and price controls, and promoted policies aimed at diversifying the Seychelles' economy. The tourism sector began to recover in 1983, and it has stimulated production in other sectors, fueling a 3.9% growth in real GDP in 1984, 6.0% growth in 1985, and slightly more than 2% growth for 1986. Gross fixed capital expenditure declined from 34% of GDP in 1981 to 21% in 1983, while overall consumption expenditure rose from 89% to 104.5% of GDP, reflecting the rapid increase in demand from the parastatal sector. As a result, net domestic savings fell from 15% of GDP in 1981 to -2.5% in 1983. Preliminary figures for 1986 indicate gross fixed capital formation recovered to 23% of GDP, while consumption fell to slightly more than 100% of GDP.. Inflation has remained modest, 1.2% in 1985 and an annual rate of only 0.8% during 1986. These low rates have been maintained despite the expansionary effects of the large fiscal deficit, due mostly to the continued appreciation of the rupee, declining world market prices of major import commodities, and the deflationary effects of declining official foreign reserves.

Large fiscal and current account deficits have been sustained by external borrowing which more than tripled during the 1981-86 period and equalled 54% of GDP at the end of 1986. The debt service ratio to exports of goods and non-factor services rose from 0.5% to 16.8% during the same period. While projections have not been made public, it is believed the debt service ratio will reach the 18% to 20% range within the next few years, as grace periods on a number of large loans are expiring and the government has recently resorted to considerable commercial borrowing to finance the balance of payments deficit.

2. GOS Policy Context

Since it's independence from Britain in 1976, the Government has invested heavily in infrastructure, education, health and social services and impressive gains have been made in reducing infant mortality, increasing life expectancy, raising the coverage and levels of education, and achieving a more even distribution of income.

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

- creating employment, mostly in the productive sectors,

- improving the balance of payments by reducing imports, increasing exports, and maximizing the economic benefits of tourism,

- re-establishing economic growth by investing in the productive sectors, and

- increasing exports, really part of achieving the first three objectives, is singled out for emphasis, and special mention is made of efforts to increase copra and fishing exports.

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

3. Key Economic Issues

Four key issues were identified in the 1987 Evaluation of the Seychelles Commodity Import Programs between 1982- 1986 that have an important bearing on the GOS's success in achieving the development objectives highlighted above. These include wage and employment policies, price control, the size of the fiscal deficit, and balance of payments constraints. These issues represent the current agenda for REDSO/ESA's dialogue with the Government of Seychelles on economic policy. During the design of this PAAD these issues were discussed with GOS officials and re-examined in light of current circumstances. The background to these issues and the GOS's action related to these issues are described below. While it is not intended, to make the CIP conditional upon the GOS achieving specific goals related to the identified economic issues, (since neither the circumstances nor the nature of the program lend themselves to such an approach) such a review helps to define the scope of the economic problems the GOS is facing.

a) Wage and employment policies.

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

The employment record would look even worse without the "escape hatch" of out-migration, which, in net terms, increased from low levels before Independence to an annual average of more than 1% of the total population, equal to more than 2% of the labor force each year from 1977-86.

The average monthly earnings from formal employment for all sectors rose by about 20% during the period 1981-85, in both the private and government sectors. The gap between earnings of various sectors was narrowed during this period as a result of government policy to unify the wage structure in all sectors. Wage increases have been moderate in recent years and in 1986 average earning oif all formal employees increased a little more than 1 percent in real terms..

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

Year	Mid-Year Population	Labor Force	Formal Employment	Informally Employed, Under and Unemployed		Net Out-migration % of LF
				Number	% of LF	
1977	61,786	23,912	16,014	7,898	33.0	-2.2
1978	62,150	24,384	15,569	8,815	36.2	-2.0
1979	62,686	24,926	16,830	8,096	32.5	-3.2
1980	63,261	25,532	17,882	7,650	30.0	-2.6
1981	64,035	25,859	17,583	8,276	2.0	-3.4
1982	64,413	26,372	18,475	7,897	29.9	-4.3
1983	64,335	26,506	17,520	8,986	33.9	-3.6
1984	64,717	26,882	17,892	8,990	33.4	-2.7
1985	65,244	27,150	18,229	8,921	32.9	-2.1
1986	65,653	27,371	18,259	9,112	33.2	-2.1
1987	n.a.	n.a.	n.a	n.a.	n.a.	n.a

SOURCE: Statistical Abstract, Republic of Seychelles

During 1987, the GOS has not made any significant changes in its wage and employment policies. Labor costs in the Seychelles continue to look relatively high to foreign investors (in part due to the overvaluation of the rupee) and domestic investors are encouraged to substitute imported equipment and processed inputs for domestic labor for the same reason. To successfully implement an employment-oriented strategy, the Government still needs to carefully reconsider some of its employment policies, such as those which restrict the flexibility of management to pursue efficient employment strategies, in order to reduce any disincentives that might discourage investors and entrepreneurs from hiring more labor.

b) Price Controls

Pricing and marketing of most goods and services are monitored by the Seychelles Marketing Board (SMB), which is primarily responsible for ensuring an adequate supply of basic foodstuffs, containing price increases, and limiting imports. On April 1, 1986, the GOS marketing scheme already in effect for meat was extended to fruits and vegetables. Under this scheme the Vegetables and Fruits Division of SMB received a monopoly for collecting designated fruits and vegetables produced in Seychelles and marketing them to wholesalers.

During 1987, the GOS liberalized the fruit and vegetable marketing system by permitting producers to sell direct to retailers and institutions (hotels). By most accounts this policy has promoted increased vegetable production. Observers indicate that a in addition to the larger quantities of vegetables in the local market, there is also a wider variety.

c) Fiscal deficit.

The period 1982-86 was characterized by slow growth of government revenue and a rapid expansion of expenditure. While revenues increased by about 30% between 1981 and 1986, government expenditure increased by 60%. There was some growth in revenue receipts from turnover and excise taxes and non-tax revenues, but income taxes, taxes on international trade and social security contributions were relatively stagnant. As a result of these trends, the overall deficit of "government operations", including social security and debt amoritization, rose from about 9% of GDP in 1981 to 25% in 1986. The recurrent budget surplus of 1981, which amounted to about 10% of GDP, turned into a deficit equivalent to about 9% of GDP in 1986. About 57% of the 1986 overall deficit of RS 304 million was financed by net foreign borrowing, and 43% by net domestic borrowing.

In 1987, the Government took active measures to reduce the fiscal deficit. Total budget receipts increased by 11% over revised 1986 estimates, primarily due to increased trades tax and company income tax revenues, and to a healthy 285% increase in dividends from parastatals (up from RS 24.3 million in 1986 to RS69.4 million in 1987). Total 1987 outlays, on the other hand, declined by RS 33 million, or by 4% of the 1986 actual expenditure. Thus the fiscal deficit (before including debt repayments) was reduced by 37% from SR 251.8 million in 1986 to SR160.5 million in 1987. This deficit reduction represented a drop from 22% of 1986 GDP to 13% of estimated 1987 GDP.

The GOS plans to reduce the fiscal deficit even further in 1988. Total GOS receipts are expected to increase by 21% from SR 605.2 million in 1987 to SR 733.2 million in 1988. A large part of this increase will be financed by a Trades Tax (SR 41.9 million) and increased grants. Modest expenditure increases are budgeted for most ministries, with a significant decrease in the Presidents Office, the Ministry of

Finance and the Ministry of Education, Information, and Youth resulting in an overall budget reduction of 3% for ministries and departments. Subventions to parastatals are also expected to fall 53% including a major cut of RS 20 million to Air Seychelles, Ltd. Outlays for capital projects are expected to grow by SR 104 million or 82% after having been reduced dramatically in 1987. The principal capital investment areas include: the East Coast Project (SR 63 million), Transport Projects (SR 23 million) and Water Projects (SR 50 million). This budget document shows an encouraging awareness of the need to contain the fiscal deficit to more manageable levels and a good sense of priorities in combining revenue hikes with expenditure cuts in less important areas. (See Table II.2-4 for a summary of public revenues and expenditures.)

d) Balance of payments.

Since the early 1980s, Seychelles' current account before transfers has shown deficits that fluctuated widely, from a low of SR 200 million (20.5% of GDP) in 1981 and a high of SR 330 million (34.1% of GDP) in 1982. In 1986 it was SR 286.2 million (24% of GDP). The pressure on the external account led to a temporary liquidity problem in July and August 1986 which was relieved at the end of that year by a syndicated bank loan The large trade deficits of the 1980's have been financed by substantial surpluses on the services account (mostly related to tourism) and by large net inflows of public transfers and long-term capital. In 1986, the Government and the Central Bank instituted a package of measures designed to promote savings, inhibit consumption, contain further expansion of the money supply, and relieve the pressure on the balance of payments. These included raising interest rates, floating new issues of Treasury bills and bonds, and requiring banks to maintain a minimum local assets ratio against deposit liabilities. As discussed above, in 1987, the GOS was also able to significantly reduce the fiscal deficit and its concomitant pressure on the balance of payments.

In 1986 total export proceeds contributed almost 6% of Seychelles' gross foreign exchange earnings, up from 4% the year before. The main commodity exports are fish, copra, and cinnamon bark. Re-exports to carriers are also significant. The major part of

foreign exchange earnings come from services primarily tourism receipts, bunker sales to carriers and passenger services; the surplus on services accounts covered about 51% of the trade deficit in 1986 and equalled 26% of GDP.

During the period 1981-85, total merchandise imports (c.i.f.) rose at an average annual rate of 4.5%, reaching the equivalent of 60% of GDP in 1985. During 1986 merchandise imports (c.i.f) were lower representing 55% of GDP. However, retained imports, net of re-exports and bunker sales, increased slightly in 1986 to SR 554 million, which represents a value equal to 46% of GDP.

The normal process of adjustment to balance of payments difficulties includes a depreciation or devaluation of the foreign exchange rate, to encourage domestic producers to devote more resources to production for export and to discourage import demand by raising domestic prices for imported goods and services. An analysis of the purchasing power parity of the Seychelles rupee, using trade weights derived from 90.4% of total trade and tourism receipts from 22 major trading partners (and countries of tourist origin) over the 5-year period 1981-85, indicates that, on the contrary, the rupee has been steadily revalued upwards, in real, trade-weighted terms, since Independence was achieved in 1976. (See Analysis in FY 1987 Seychelles CIP PAAD)

The rupee has appreciated substantially in both nominal and real terms against a trade-weighted basket of its trading partner currencies--in nominal terms by 67% since 1976 and 1980, and in real terms by 33% since 1980, 49% since 1976. During 1986 and 1987 some minor downward adjustments were made vis a vis the rupee's values with other major currencies.

TABLE II.4 SUMMARY OF 1988 BUDGET

	(1)	(2)	(3)	(4)	(5)	
	1986 ACTUAL	1987 BUDGET	1987 REVISED	1988 BUDGET	VARIANCE (4) - (3)	
	Rm	RM	RM	RM	RM	%
RECEIPTS						
Current Receipts	515.6	546.8	579.2	621.5	42.3	7%
Grants	31.7	30.0	26.0	111.7	85.7	330%
TOTAL RECEIPTS	547.3	576.8	605.2	733.2	128.0	21%
OUTLAYS						
Ministries/Departments	359.4	379.8	374.1	362.1	(12.0)	-3%
Pension/Grats	11.2	11.5	12.1	16.3	4.2	35%
Debt Interest	82.9	111.7	128.4	143.9	15.5	12%
Social Security Contr.	26.0	31.5	32.0	66.6	34.6	108%
Training Levy	0.0	0.0	0.0	0.0	(1.0)	0%
Subventions	59.4	27.7	36.7	17.1	(19.6)	-53%
Other Cent. Payments	32.6	39.4	32.7	39.8	7.1	22%
CURRENT OUTLAYS	571.5	601.6	618.1	645.8	27.7	4%
Development Grants	17.6	5.7	6.2	12.6	6.4	103%
Land Acquisitions	15.0	27.0	27.0	17.1	(9.9)	-37%
Capital Projects	163.0	90.0	90.0	194.9	104.9	117%
CAPITAL OUTLAYS	195.8	122.7	123.2	224.6	101.4	82%
NET LENDING	31.8	2.0	24.4	4.8	(19.6)	-80%
BTL Advances						
- Parastatals	17.7	0.0	14.7	1.0	(13.7)	-93%
- Others	1.9	0.0	4.3	0.0	(4.3)	-100%
Equity Participation	12.2	2.0	5.4	3.8	(1.6)	-30%
TOTAL OUTLAYS	799.1	726.3	765.7	875.2	109.5	14%
CURRENT DEFICIT/(SURPLUS)	56.9	54.8	38.9	24.3	(14.6)	-38%
BUDGET DEFICIT/(SURPLUS)	251.8	149.5	160.5	142.0	(18.5)	-12%
FINANCING						
- Foreign, gross	(175.8)	(60.0)	(64.0)	(59.7)	4.3	-7%
- Amortisation	30.4	128.0	76.1	92.2	16.1	21%
Foreign, Net (a)	(145.4)	68.0	12.1	32.5	20.4	169%
- Domestic, gross	(127.7)	(238.2)	(194.8)	(197.2)	(2.4)	1%
- Amortisations	21.3	20.7	22.2	22.7	0.5	2%
Domestic, Net (b)	(106.4)	(217.5)	(172.6)	(174.5)	(1.9)	1%
TOTAL FINANCING (a) + (b)	(251.8)	(149.5)	(160.5)	(142.0)	18.5	-12%

SOURCE: GOS 1988 BUDGET

TABLE II.2 GOS BUDGET OPERATIONS

	(1) 1986 Actual	(2) 1987 Budget	(3) 1987 Revised	(4) 1988 Budget	(5) Variance (4) - (3)	
	Rm	Rm	Rm	Rm	Rm	%
Current Receipts	515.6	546.8	579.2	621.5	42.3	7
Grants	31.7	30.0	26.0	111.7	85.7	330
TOTAL RECEIPTS	547.3	576.8	605.2	733.2	128.0	21
Current Outlays	571.5	601.6	618.1	645.8	27.7	4
Capital Outlays	195.8	122.7	123.2	224.6	101.4	82
Net Lending	31.8	2.0	24.4	4.8	(19.6)	-80
TOTAL OUTLAYS	799.1	726.3	765.7	875.2	109.5	14
OVERALL DEFICIT	251.8	149.5	160.5	142.0	(18.5)	-12
FINANCING						
Foreign - net	145.5	(68.0)	(12.1)	(32.5)	20.4	169
Domestic - net	106.4	217.5	172.6	174.5	(1.9)	1
G D P	1188.9	1224.5	1224.5	1250.0	25.5	2
Deficit as % of G D P	21.2	12.2	13.1	11.4	-	-

SOURCE: GOS 1988 BUDGET

TABLE II.3 DEBT FINANCING

	(1) 1986 Actual	(2) 1987 Budget	(3) 1987 Revised	(4) 1988 Budget	(5) Variance (4) - (3)	
	Rm	Rm	Rm	Rm	Rm	%
Overall Deficit (net)	251.8	149.5	160.5	142.0	(18.5)	-12
Add Debt Amortisation Payments	51.7	149.7	98.3	114.9	16.6	17
OVERALL DEFICIT	303.5	299.2	258.8	256.9	(1.9)	-
FINANCING						
Foreign (gross)	175.6	60.0	64.0	59.7	(4.3)	-7
Domestic (gross)	127.7	238.2	194.8	197.2	2.4	1

SOURCE: GOS 1988 BUDGET

TABLE II.5a

Seychelles: Merchandise Exports, Excl. Re-Exports
(Million Dollars and Metric Tons)

	1982	1983	1984	1985	1986
Total Exports FOB	3.86	5.01	5.01	4.65	4.51
Copra	1.35	1.68	1.16	1.06	0.64
Volume	2126	2686	1766	1632	2539
Unit Price ($/Kg)	0.64	0.62	0.66	0.65	0.25
Cinnamon Bark	0.46	0.48	0.16	1.34	0.41
Volume	811	877	307	794	1133
Unit Price ($/Kg)	0.56	0.55	0.53	0.43	0.37
Fish	1.11	1.36	1.49	1.48	0.92
Volume	618	741	676	753	368
Unit Price ($/Kg)	1.80	1.83	2.20	1.97	2.49
Re-Exports, Excl. Sales to Int'l Carriers	0.56	1.52	2.11	1.63	2.38
Other	0.37	-0.03	0.08	0.14	0.16

TABLE II.5b

Seychelles: Imports in Current Rupees
(Million U.S. Dollars)

	1982	1983	1984	1985	1986
Total Imports CIF	97.87	87.79	85.83	98.71	106.14
Food and Live Anicals	17.78	13.67	14.83	14.58	16.06
Beverages and TOB.	2.20	1.94	1.63	2.00	3.55
Crude Materials	1.42	1.21	0.95	0.93	1.26
Mineral Fuels, etc.	19.69	21.94	25.51	25.85	18.57
Animal and Veg. Oils	0.96	1.06	1.27	1.08	1.05
Chemicals	6.30	4.95	5.13	5.76	6.02
Manufactured Goods	16.21	13.05	12.23	13.27	19.64
Mach & Transport Equipment	21.75	20.07	16.32	25.13	28.98
Misc. Manufacturers	10.64	9.58	7.62	9.64	10.72
Other	0.93	0.33	0.34	0.46	0.29

TABLE II.5c

Seychelles: Tourism Receipts
(Million U.S. Dollars)

	1982	1983	1984	1985	1986
Number of Visitors	47280	55867	63147	72642	66782
Average Stay (Days)	9.7	10.7	10.8	10.9	11.4
Av. Exp. Per Day	73.22	56.86	57.91	58.39	72.64
Total Receipts	33.6	34.0	39.5	46.2	55.3

TABLE II.5d

Seychelles: Balance of Payments
(Million U.S. Dollars)

	1982	1983	1984	1985	1986
Exports, FOB	3.9	5.0	5.0	4.6	4.5
Imports, FOB	-82.9	-74.3	-74.0	-83.7	-91.0
Freight and Ins.	-14.7	-13.2	-13.1	-14.8	-16.1
Other Transport	14.5	14.4	21.5	25.6	17.4
Tourism Income	33.6	34.0	39.5	46.2	55.3
Foreign Travel	-7.1	-6.4	-6.9	-9.[illegible]	-9.6
Investment Inc. Net	-4.0	-4.8	-5.8	-5.9	-8.8
Other Serv. Official	1.6	0.0	-0.6	-0.9	-0.5
Other Serv. Private	7.1	6.4	5.9	1.5	2.4
Transfers	6.6	11.5	12.8	13.5	11.4
Private	-3.2	-2.8	-2.4	-0.8	-5.1
Official	9.8	14.3	15.1	14.3	1.64
Current Account Excl. Off. Transfers	-51.2	-41.6	-30.8	-35.6	-51.4
Current Account Incl. Off. Transfers	-41.5	-27.3	-15.6	21.3	-35.0
Capital Account	33.6	15.9	16.1	16.5	31.5
Official Loans, Net	24.1	10.4	11.9	15.3	23.7
Commercial Banks	4.3	-0.4	-1.8	0.1	-0.6
Private Inv., Net	5.2	5.9	6.0	1.1	8.4
Errors & Omissions	7.5	9.0	-1.7	4.4	1.7
Allocation of SDRs		0.0			
Change in Net International Res. (- Increase)	0.4	2.4	1.3	0.3	1.7

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

Yet, the GOS continues to believe that devaluation of the rupee is not appropriate. In his Budget Speech for 1988, the President of Seychelles indicated that: "Some people advocate a devaluation of the rupee: others that we should impose foreign exchange control policies: others still, that we should do both. These have been considered and rejected. We have chosen instead to pursue a two-pronged adjustment in monetary and fiscal policy." In this respect the GOS intend to slow the growth of credit mobilization by the introduction of the 60 percent Local Asset Ratio for commerical banks and higher interest rates and, with respect to fiscal policy, cutting fiscal expenditure.

C. US Assistance Objectives

U.S. interests in Seychelles are: (1) the continued operation of the U.S. Satellite and Space Vehicle Tracking Station; (2) access to Seychelles ports for U.S. ships; and, (3) the maintenance of good relations between the Government of Seychelles and the Government of the United States of America.

These interests are best advanced by supporting the GOS's efforts to: (1) improve its balance of payments position; (2) increase the country's foreign exchange resources; and, (3) finance those capital investments contained in the National Development Plan which will facilitate sustained economic growth.

D. Evaluation of Prior Commodity Import Programs

The initial Seychelles Commodity Import Program (CIP) was authorized in FY 1982 in the amount of US $ 2.0 million. Subsequently, this program was expanded by means of Grant Agreement amendments in FY 1983, FY 1984, and FY 1985 which, in each case, provided an additional annual increment of $ 2.0 million. In FY 1986, $1,914,000 was granted for continuing the CIP. In FY 1987, $2,375,000 additional funding was provided for the CIP. To date, a total of $12,289,000 has been provided for Commodity Import Programs in Seychelles. During January 1987 REDSO/ESA and the Government of Seychelles undertook an evaluation of the CIPs between 1982 and 1986. This evaluation indicated that the Seychelles Commodity Import Programs had been performing very well. The details of these former programs can be obtained from that evaluation.

With respect to the FY 1987 Commodity Import Program, a limited evaluation of the required Section 801 criteria and the individual local currency projects has been undertaken by the REDSO/ESA Chief Engineer, prior to the review of this document.

1. Congressional Requirement of Section 801 of ISPCA of 1985

While this requirement applies only to the FY 1987 CIP, the replies are generally applicable to all the Seychelles CIPs.

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

The electric generating plant is efficient and provides consistent power to the Island of Mahe, which is of course vital to the continued success of the tourism industry. On the whole, the Seychelles has done well in developing and utilizing its "comparative advantage" in sunny beaches and clear waters to generate employment for its people. The electric generating plant is also supporting the east coast project, one of whose aims is to develop an export fishing industry. In order to develop the fishing industry there are large power demands.

Are imports coordinated with GOS Development plan?

Yes, since electric power generation is critical to the success and efficiency of most modern economic activities creating employment and generating income, and particularly to the further development of the tourism and fishing industries. The primary benefit of the imports is to alleviate, in their small way, the immediate balance of payments constraint.

Will imports expand agricultural production?

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

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

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

Are the imports additional to those that would otherwise occur?

No, fuel for the electric generating plant would be purchased as a high priority item without the CIP Program. The AID money simply releases an equivalent amount of foreign exchange from that requirement for other uses.

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

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

E. Other Donors

Although funding from multilateral sources and export credits are increasingly being secured, nearly ninety percent of development assistance to Seychelles has been provided through bilateral programs, mainly from the United Kingdom, France, and the U.S. The amount of development assistance appears to have diminished about twenty-five percent since 1980, having declined from US $21.8 million to US $15.3 million in 1984. Over the same time period, the share of grants has increased from 62.4 percent to 88.1 percent. In recent years France has

replaced the U.K. as the largest donor. Multilateral financing, has been available from the African Development Bank, the Kuwait Fund for Arab Economic Development, and the Arab Bank for Economic Development of Africa. Development financing data from Eastern Bloc countries is not available, but is estimated to be much less than the amounts from Western and OPEC bilateral and multilateral sources.

2. Programming of 1987

The GOS proposed the following projects of 1987 local currency financing:

a.	Craft Village	2.0	million rupees
b.	Road Rehabilitation	5.0	" "
c.	Seychelles Fishing Authority Building	3.0	" "
d.	Dept of Planning and External Relations	0.5	" "
e.	Seychelles Development Bank	2.0	" "

*Reprogrammed from savings on SFA Building and Seychelles Development Bank proposal.

Construction of the Craft Village, the road rehabilitation work on both Mahe and Prasline, and construction of Seychelles Fishing Authority building is well underway. In the case of the Craft Village and the Fishing Authority building, designs were prepared by local engineers and architects and construction is being done under their supervision. The road rehabilitation is being supervised by the Land Transport Division of the Ministry of Transport and Tourism, which is staffed with a number of capable civil engineers. Construction is carried out by private sector contractors. The construction is described in more detail in Annex 1.

The support to the Department of Planning and external relations would finance consultancies to the Division of Economic Planning to: 1) Monitor and report on going development projects; 2) Assist in feasibility studies and project preparation; 3) Improve donor coordination. To date there have been no expenditures for this activity.

The local currencies for the Seychelles Bank have not been utilized by the GOS and are currently being reprogrammed by the GOS and REDSO/ESA

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III. PROGRAM DESCRIPTION

A. Proposed Assistance

This Program Assistance Authorization Document(PAAD) proposes to provide an additional US $2.8 million grant from FY 1988 ESF funds for the purpose of financing an amendment to the existing Seychelles Commodity Import Program Grant Agreement.

B. Commodity Procurement:

1. Procurement Under Previous CIP's:

The 1982-1985 CIP Programs in Seychelles financed approximately 10,000 Metric Tons (MT) of medium fuel oil each year. For the 1986 program diesel fuel as well as MFO was made eligible and because of lower world prices for petroleum products the 1986 program was able to finance the importation of 10,000 MT of diesel fuel and 5,000 MT of medium fuel oil. In 1987 the program financed 7,000 MT of Diesel Fuel and 10,605 MT of MFO. The decision to limit procurement to MFO and diesel fuel was based upon the following:

a) With no AID Mission in country, the program had to be kept simple to minimize monitoring and implementation requirements;

b) Since medium fuel oil and diesel fuel are the primary fuels used to generate electricity on the islands, financing these commodity contributed directly and in a significant way to productive activity in the country;

c) Very little opportunity exists to finance the importation of US products into Seychelles. US trade with this country is extremely limited and for geographic and historical reasons is unlikely to grow;

d) Foreign exchange disbursements for medium fuel oil have flowed to AID Geographic Code 941 countries in East Africa (Kenya and Madagascar). Thus AID financing of medium fuel oil has contributed to strengthening an intra-regional trading relationship in keeping with AID strategy in this area of the world.

2. Selection of Commodities for the FY 1988 CIP:

Since the above mentioned factors continue to be valid reasons for limiting the program to a simple procurement of bulk commodities, the FY 1988 Seychelles CIP will again finance the importation of both medium fuel oil and diesel fuel. Most of these fuels will again be used by the Seychelles Public Utilities Corporation, Electricity Division to generate electricity.

Because medium fuel oil derived from the refining of crude petroleum is available as a surplus product in several Code 941 countries in the Indian Ocean region, procurement of MFO will be limited to AID Code 941 source/origin. However, research into current market prices and into historical price information indicates that diesel fuel is available at 25-30% less cost from Code 899 sources than from Code 941 sources of supply in the Indian Ocean area. Moreover, any diesel fuel exported from code 941 countries in this area of the world has to be replaced by importations of additional crude petroleum or of refined diesel fuel from Code 899 (non-Code 941) sources. Since the price of diesel fuel from Code 941 is unreasonably high when compared to world market prices, and since diesel fuel exported from Code 941 countries in this region of the world must be replaced by a reimportation of product from a Code 935 source, Code 941 source. Thus, under this year's program, the authorized source/origin for diesel fuel will again be expanded to permit AID-financing of this commodity from any free world country.

It is impossible for the Public Utilities Corporation, Electricity Division to predict with a high degree of certainty the proportion of medium fuel oil and diesel fuel that will be required to generate electricity for the country. Moreover, under previous CIPs AID has financed MFO in quantities which were in excess to PUC/ED annual requirements. Thus, AID has for the past several years agreed with the GOS on other permissible uses of the petroleum products imported under the program. Therefore, any MFO financed under this year's program which is excess to the needs of the PUC/ED may be sold by SEPEC to the Seychelles Bunkering Company and used to provide fuel to the local fishing fleet which is licensed to operate in Seychelles' waters. Excess diesel fuel may be sold by SEPEC to Seychelles Public Transportation Company (SPTC) and used to fuel the company's busses which provide public transport on Praslin and Mahe. Any Diesel fuel which is excess to the needs of both the PUC/ED and to the SPTC can be sold in the SEPEC retail fuel stations for public use. Last year the SPTC used 1,176 MT of diesel fuel and 1,551 MT was sold to the general

public in SEPEC's retail outlets. However, should there be any unforeseen maintenance problems with the generation equipment, the proportion of diesel fuel used would increase. However, the principal user of the fuels imported under the program will continue to be the PUC/ED.

Below is a year by year summary of fuel use by the Electricity Division.

Table III.1

Consumption of Fuels for Generating Electricity in Seychelles

Time Period	Diesel	Fuel Oil	Total
Oct 82-Sept 83	2,991 MT	9,909 MT	12,900 MT
Oct 83-Sept 84	4,944 MT	7,833 MT	12,777 MT
Oct 84-Sept 85	6,576 MT	7,113 MT	13,687 MT
Oct 85-Sept 86	9,589 MT	4,841 MT	14,430 MT
Oct 86-Sept 87	4,609 MT	11,139 MT	15,748 MT
Oct 87-Dec 87	1,765 MT	2,587 MT	4,352 MT
Total	30,474 MT	43,422 MT	73,896 MT

In 1988 the PUC/ED anticipates using approximately 12,000 MT of medium fuel oil and 6,000 MT of diesel fuel. As of this writing (early February) it is anticipated that the program will finance the two commodities in about equal proportions. At present market prices, the foreign exchange available should be able to finance about 10,000 MT of each commodity. However, the question of the exact proportion of MFO to diesel fuel may be modified prior to the issuance of the IFB.

C. Use of Local Currencies

1. Process for Generating Local Currencies:

The generation of local currencies begin when SEPEC off loads the fuel products from the tanker vessel. It is at this point at which the title of the fuel passes from the suppplier to SEPEC. SEPEC is expected to deposit the local currency equivalent of the dollar value of each shipment with the Department of Finance in three consecutive and equal monthly installments after receiving the fuel. This deposit is calculated at the U.S. $/SR exchange rate prevailing on the day the fuel is received and represents the sale prices against which actual counterpart deposits are measured. This arrangement provides the most cost effective and expeditious manner of collecting counterpart deposits. Since the majority of the fuel oil is used by the Public Utilities Corporation

Electricity Division, the local currencies could be collected at the time they are used for generating power. This alternative approach would: 1) be administratively difficult since CIP financed fuels are comingled with other SEPEC fuels; 2) delay the collection of counterpart deposits since fuels take time to draw down; and 3) not provide a neat way of paying for the valid administrative services of SEPEC. These problems would be compounded by additional management and administrative requirements in those instances where fuels are used for other domestic purposes such as ship bunkering and servicing local transportation systems.

Deposits made by SEPEC are placed in a special account with the Seychelles Central Bank. This account is part of the Development Fund, which finances GOS capital investments. The GOS does not pay any interest on the counterpart funds held in the Special Account. The GOS's position on the payment of interest on these funds is that such payment is contrary to the existing national laws as long as funds remain in the Development Fund and that to place these funds in a commercial bank would result in a net loss of funds available for Government and run counter to one of the principal objectives of the grant - reducing the fiscal deficit. The GOS Public Finance Act requires any interest earned from the investment of Development Fund monies, which are not required for immediate use for development purposes, to be returned to the Consolidated Funds. Furthermore, should the GOS keep the counterpart funds on deposit with a local commercial bank, the result would be a net loss for government which would necessitate an increase in the already heavy borrowing required to finance GOS operations. Allocations from this account, for the purposes of financing local development projects, is made by the Project Appraisal Committee which includes: the President; the Ministers of National Development, Manpower and Social Security, and Education; the Principal Secretaries from the Office of the President, the Ministries of Planning, and Manpower and Social Security and the Department of Finance; and, individual technical personnel as needed. The US Embassy, Victoria and REDSO/ESA review and concur in the allocation decisions of the Project Appraisal Committee. These arrangements for establishing and allocating counterpart funds have worked reasonably well during previous CIP's. For the FY 1988 Program, these same procedures will be followed.

2. Programming of Local Currency Generations

The GOS has tentatively proposed to use the projected SR 15,000,000 in local currency generations from the FY 1988 CIP for the following activities.

a) East Coast Project- SR 5.0 Million

The first priority for the use of counterpart funds gererated by the sale of the fuel oils will be for the completion of the East Coast Project. This project, which has received considerable investment from counterpart generations under previous CIP's, involves the final engineering works for the commercial port and additional costs associated with the fishing port. This project is has included financing from the African Development Bank, the Kuawait Fund, and BADEA. Counterpart funds generated by the FY 88 CIP Program will be used as the GOS contribution on the ADB Project. Specifically, counterpart funds will be allocated for civil works (SR 3.5 million), fendering (SR .7 million) and buildings (SR .8 million)

b) Road Rehabilitation Phase IV- SR 3.0 Million

The GOS has successfully used counterpart funds generated by previous CIPs as its contribution to the World Bank Transport Project. In 1988 the GOS is proposing that periodic maintenance of paved roads and local surfacing works on the roads in Praslin Island be added to the Project. In a World Bank Aide-Memorire from November 1987, these projects were recommended for funding based upon (i) the present levels of traffic on these roads ar 300-1000 vehicles per day; (ii) the present condition of the road which indicates that periodic maintenance is required; and, (iii) the projections of tourist development on Praslin. Six roads have been proposed for rehabilitation on Praslin these include: (i)Cote D'Or; (ii) Vallee de Mai; (iii) Grand Anse; (iv) Mont Plasir; and, (v) Anse Kerlan. CIP generated counterpart funds would be used as the GOS contribution for these roads. The total allocation is SR 3.0 million.

c) La Digue Water Supply- SR 1.0 Million

Counterpart funds from the FY 1988 CIP will be used to begin the construction of the La Digue Water Supply Project. The Project will provide treated, piped water to the 5,000 residents of the La Digue Island. Besides the major health benefit

of the water system to the local residents, the project will have a major impact on the tourist trade on the island. Total project costs are estimated at SR 8.3 million. The foreign exchange component of the project is estimated at almost SR 6.0 million and will be financed through French AID. The GOS is requesting that SR 500,000 from FY 87 CIP counterpart funds and SR 1.0 million from FY 88 CIP counterpart funds be allocated to this project to cover local costs.

d) National Library- SR 2.0 Million

The National Library Project aims to construct a new 5,000 square meter Seychelles National Library building on a centrally located site in Victoria. This new library will provide lending services, reference services, and support for continuing education and research support services. Total project costs are estimated at between SR 13-15 million. A substantial portion of these costs will be foreign exchange costs. The GOS has requested that SR 2.0 million from the FY 1988 CIP counterpart funds be allocated to the National Library Project as a first contribution to the Project and as an incentive for other donors to participate in the Project. This project was a special topic of the State President in his 1988 Budget speech.

e) Renovation of St Josephs Historical Building- SR 2.0 Million

The primary aim of this project is to expand the range of local attractions and facilities available for tourists. This project is closely related, both in purpose and in location, to the Creole Craft Village which was funded from FY 1987 CIP counterpart funds. The project will restore St Joseph's Villa which was constructed at the end of the 18th Century on a copra plantation. The villa is located 19 kms from Victoria and just a few kilometers from one of the largest hotels and the international airport. The St Joseph's project is planned as a promotion of the cultural heritage of Seychelles. The facility will house the headquarters for the Seychelles Creole Institute which is involved in promotion of Creole culture and language as well as offering a museum of historical furniture and artifacts. The

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contribution of the CIP counterpart funds will complement German financing which has already been obtained. The facility will be managed by the Department of Tourism.

f) GOS Takeover of PL-480 Program- SR 1.0 Million

The USAID-financed PL-480 Program, which supports feeding programs at schools and clinics, has been implemented through the Catholic Relief Services. This Program will be completed during 1989. The World Food Program is absorbing the school feeding activities into its program. The GOS will be responsible for continuing the feeding programs at the 24 clinics in the country. Over the last year, as CRS began to reduce its assistance to the Seychelles, the numbers of mothers and children receiving food was reduced by half. In order to maintain the level of rations, the eligible target groups were restricted to children up to two years of age and their mothers. Previously, children up to five years of age and their mothers were eligible. The Government is concerned that the attendance figures at the clinics have dropped significantly with the new feeding policy. When the full ration feeding programs were in place almost every Seychellois child under five years was provided regular check ups and the percentage of underweight children dropped from 17 percent in 1979 to 7 percent in 1987. The GOS has requested that CIP-generated local currency be used to bridge the GOS takeover of the program which provides feeding at the Maternal and Child Health facilities. The GOS intends to increasingly assume the responsiblility for the procurement of the rice, milk, and oil provided now through CRS and to train local staff in ordering supplies.

3. Monitoring and Controlling Local Currency Generations

An independent review of the GOS host government accounting system for the control of the receipts and disbursements of the local currency generated by the CIP Programs was performed by Price Waterhouse in 1987. Overall, Price Waterhouse indicated that the current accounting system was adequate to track and control receipts and disbursements from the local currency special account. The system provides REDSO/ESA and the GOS sufficient information to administer the local currency accounts. The review also reported that from the eight categories they had established to measure the adequacy of the

local currency accounting system the GOS rated a fair or good in all categories.

There are, however, certain components of the local currency accounting system which can be improved. The report noted that in some cases the programming of the local currency exceeded the agreed upon levels. This usually occurred because the GOS estimates were understated, particularly on construction projects which involved cost overruns. REDSO/ESA and the GOS became aware of this problem during the 1987 Evaluation of the CIP (which was subsequently noted in the PW report) and agreed to allocate SR 500,000 from the FY 1987 CIP to strengthen DPER accounting control and local currency end-use. One activity financed by these funds is a computerized financial management system in the DPER which tracks all allocations and expenditures by the individual project. REDSO/ESA will continue to monitor the effectiveness of this approach to improve the local currency accounting in FY 1988. This will be covered as part of the evaluation of local currency projects planned for early 1989.

D. Environmental Consideration

REDSO has requested from the BEO, in Nairobi 05867, a negative determination concerning the commodities to be imported under the FY 88 CIP, and a categorical exclusion as to the projects which will be financed by local currencies generated by the importation of CIP commodities. AID/W granted the requested action in State 086732.

Regulation 16, AID's environmental review procedures, do not apply to host-country owned local currency activities. However, AID is concerned that local currencies generated through AID projects and programs not be expended on environmentally-unsound activities. Draft guidelines currently under review in AID/W (State 66242) would require AID to review for environmental soundness activities financed with host country-owned local currencies generated in connection with cash transfers, commodity imports, and PL 480 Title I programs. Although these guidelines are not yet in force, the PAAD design team believed it important to review the proposed uses of local currency to be generated by the FY 88 Seychelles CIP for environmental soundness.

One of the proposed local currency projects; the clinic feeding program, will have no foreseeable environmental impact. Two of the proposed projects, the remodelling of St. Joseph's and the construction of the National Library, will have minimal and very temporary negative effects on the environment, comprising noise and dust pollution from ongoing construction. The St. Joseph's activity involves renovation of an existing building:

the Library project involves construction of a new building on a vacant lot in downtown Victoria to which all necessary utility connections have already been provided.

The remaining three projects: the road rehabilitation project on Praslin, the East Coast (port rehabilitation) Project, and the La Digue Water Supply Project, will all have some environmental consequences. All three projects, however, are being planned and carried out by other major donors: the IBRD, the ADB, and the French Government, respectively, who are providing supervisory construction and engineering support. Under the guidelines for programming local currencies contained in 87 State 327494, A.I.D. may take into consideration, in determining whether a local currency project has been designed in accordance with sound technical, financial, and environmental practices, the fact that projects are funded and monitored by other donor with their own procedures for technical, financial, and environmental review. Moreover, the REDSO REO has reviewed the project proposals for these three projects, and finds them to be environmentally sound. In addition, all local currency projects in the Seychelles are monitored on an annual basis by a REDSO Engineer for environmental impact. Taking the foregoing into consideration, the PAAD design team believes that the environmental consequences of the proposed projects have been considered and negative environmental impacts will be minimized.

For further descriptions of all these projects, see Section 2 above.

E. Impact of the FY 1988 CIP

According to figures provided by the PUC/ED, the FY 1988 CIP will finance all of the diesel fuel requirements of the PUC/ED and a large portion of those of the SPTC for the coming year. The CIP would also finance a large portion of the projected MFO requirements of the PUC/ED. Information from the Seychelles Petroleum Company (SEPEC), the sole importer of petroleum products in Seychelles, indicates that the program-financed commodities will represent approximately 50 percent of the total medium fuel oil and 14.5 percent of the total diesel fuel requirements of the country.

With respect to the financial impact of the FY 1988 CIP, the US $2.8 million foreign exchange represents 6 percent of the current account deficit. The approximately SR 15.0 million of counterpart funds which will be generated by this CIP will be equivalent to about 7 percent of the total projected GOS capital expenditures for FY 1988. The Program can thus be expected to make a significant contribution to fostering economic development in Seychelles.

IV. PROGRAM IMPLEMENTATION

A. Implementation Responsibilities:

Overall coordination responsibility for the program will fall upon the office of the Principal Secretary of the Ministry of Planning and External Relations. The implementation responsibility for procurement actions and for collecting and warranting counterpart funds rests with the Principal Secretary, Department of Finance. As in last year's program, the Seychelles Petroleum Company, (SEPEC) will act as agent fo the Ministry of Finance in effecting the procurement and receiving the medium fuel oil and diesel fuel. REDSO/ESA will oversee the implementation of the program to ensure compliance with AID requirements.

B. Commodities To Be Purchased:

As noted above, the foreign exchange made available under the Program will finance the procurement of approximately 10,000 MT of medium fuel oil and 10,000 MT of diesel fuel.

C. Procurement Arrangements:

The medium fuel oil and diesel fuel will be purchased using an Invitation for Bid (IFB) issued by the SEPEC acting as agent for the GOS Department of Finance. The IFB will be prepared with the assistance of the REDSO/ESA RCMO. Specifications for the medium fuel oil and diesel fuel will be provided by SEPEC and reviewed by PUC/ED, the end user of the commodities. The IFB will be distributed by the RCMO to all of the operating oil companies in Kenya and by SEPEC to other potential suppliers. Sealed bids will be received at the REDSO/RCMO office in Nairobi. A bid opening will then be held at the Department of Finance offices in Victoria a few days after the bid deadline. It is anticipated that the IFB will call for bids on 10,000 MT of medium fuel oil and 10,000 MT of diesel fuel, plus or minus thirty percent of each individual quantity in order to provide flexibility on the amounts ordered and to fully utilize the funds available.

D. Financing Arrangements:

Payment will be made to the winning supplier(s) under an AID Direct Letter of Commitment to be issued by the RFMC/Nairobi upon issuance of a DRA by AID/W. An AID Direct Letter of Commitment has been chosen as the financing mechanism in order to eliminate unnecessary banking charges. It is anticipated that no more than two Direct Letters of Commitment and no more than four partial payments will be required for the entire

program and, thus, AID direct financing will not cause an undue burden on RFMC.

The terminal dates for the FY 1988 CIP Program will be set, dating from the signing of the Grant Agreement Amendment, as follows:

1.	Terminal Date for Requesting Disbursement Authorizations	15 months
2.	Terminal Shipping Date	20 months
3.	Terminal Disbursement Date	23 months

E. Program Implementation Schedule:

The following schedule is also referenced to the date of the the signing of the Grant Agreement Amendment:

1.	IFB Prepared	7 days
2.	DRA Obtained from AID/W	60 days
3.	IFB Issued	21 days
4.	AID approves L/C Budget	75-90 days
5.	Bids Received	45 days
6.	Bid Opening/Contract Award	50 days
7.	Shipments of Fuel	First- 75-120 days Second- 150-200 days
8.	L/C deposited in Special Account	180-260 days
9.	Final Payment	240-300 days

F. Receipt and Utilization:

The fuel financed under the Program will be received by the SEPEC as agents for the Government of the Seychelles. Plans call for the fuel to be received in two shipments: all of the diesel fuel and one half of the medium fuel oil in June or July 1988 and the remainder of the medium fuel oil in November or December 1988. Two shipments are indicated since SEPEC has storage capacity for only 6,400 M.T. of medium fuel oil and 9,000 M.T. of diesel fuel. A charter party has been used by

the winning bidder on past CIP's to effect shipment of MFO from the source countries (Madagascar or Kenya) and a similar scenario is likely under this year's program. It is also likely the the diesel fuel financed under this years program will originate from the Persian Gulf since this area is usually the lowest cost supplier to Seychelles. Given the relatively small amounts of product that SEPEC can accept and store at any one time, it is also likely that shipments from the Persian Gulf would also be accomplished under a charter party arrangement. After arrival, most of the medium fuel oil and diesel fuel will be sold to the Seychelles Electricity Corporation a government-owned parastatal. Deposits to the special account will be made by SEPEC in three equal monthly installments beginning 30 days after receipt of the fuel. As has been noted above, should the amount of diesel fuel imported under the program be in excess to the needs of PUC/ED, the excess fuel will be sold by SEPEC to the Seychelles Public Transportation Company and used for fuelling the Company's busses. Should the amount of MFO financed under the program be in excess to the needs of PUC/ED, the excess MFO will be sold by SEPEC to the Seychelles Bunkering Company and used to fuel local fishing boats licensed to fish in Seychelles' waters.

G. Reporting Requirements:

Reporting requirements under the previous CIP's will be continued. Three types of reports are required: the Commodity Report detailing the arrival and disposition of AID financed imported commodities; the Finance Report which provides information on the allocation and expenditure of local currency generated by the Program; and, the Progress Report which outlines the progress being made in implementing the local currency-financed projects. These reports have been adequate to effectively monitor past activities. Changes to these reporting procedures are, thus, not necessary.

H. Program Evaluation:

An Evaluation of the FY 88 CIP will be undertaken by the GOS and REDSO/ESA approximately twelve months after the signing of the Grant Agreement Amendment.

I. Waivers:

As in past CIP's in Seychelles, the following waivers/ determinations are necesssary:

1. A waiver from AID Geographic Code 000 to AID Geographic Code 941 to permit purchase of medium fuel oil from a Code 941 country.

2. a waiver to permit the purchase of the diesel fuel from AID Geographic Code 899 source/origin

3. A determination of non-availability of U.S. Flag Vessels. U.S. Flag vessels are not available for charter shipment to Seychelles.

4. A waiver to permit shipping on Code 935 vessels.

5. Authorization for use of a chartered shipping arrangement without prior AID/W approval of the specific charter.

V. NEGOTIATING STATUS AND COVENANTS

The PAAD team discussed the contents of this document with both the Ministry of Planning and External Relations and the Department of Finance. During these discussions all substantive issues have been resolved.

A principal concern of the design team has been to ensure that the procurement of the commodities is done in the most cost effective way and to ensure that CIP local currency resources generated by the program are used effectively. Our conclusions and those of the evaluation teams which have evaluated the programs are that the six previous CIP's have been by every measure successful, and that the implementation and monitoring procedures are working in a satisfactory manner.

The Grant Agreement Amendment has been prepared and is ready to be signed by the REDSO/ESA Director in Victoria as soon as the project is authorized and funds become available.

UNCLASSIFIED STATE

ACTION: AID-3 INFO: ECON RLO

REDSO FILE

VZCZCNAO214
RR RUEHNR
DE RUEHC #6633 0890549
ZNR UUUUU ZZH
R 290551Z MAR 88
FM SECSTATE WASHDC
TO AMEMBASSY NAIROBI 7955
BT
UNCLAS STATE 096633

29-MAR-88 TOR: 05:51
CN: 06851
CHRG: AID
DIST: AID
ADD:

AIDAC

E.O. 12356: N/A

SUBJECT: SEYCHELLES FY 1988 CIP AMENDMENT TRANSPORTATION WAIVERS

REF: NAIROBI 4948

1. REF REQUESTED A DETERMINATION OF NON-AVAILABILITY (DNA), WAIVER FROM CODE 000 AND PRIOR APPROVAL OF ANY RESULTING CHARTER PARTY FOR FOUR SHIPMENTS OF MEDIUM FUEL OIL (MFO) AND DIESEL EACH OF APPROXIMATELY 5,000 M/T TO SEYCHELLES.

2. SINCE THE PAAD CONTAINS A SOURCE/ORIGIN TO CODE 941 FOR MFO AND TO 899 FOR DIESEL, THE AUTHORIZED GEOGRAPHIC CODE FOR TRANSPORTATION WOULD AUTOMATICALLY REVERT TO CODE 941 RATHER THAN CODE 000, SEE HB 1, SUPPLEMENT B, PARAGRAPH 7B. HOWEVER TO ACHIEVE REASONABLE COMPETITION AS REQUESTED, A WAIVER TO CODE 935 WOULD APPEAR TO BE APPROPRIATE.

3. WHILE AID/W GENERALLY SUPPORTS SUCH A WAIVER, IT WOULD NOT OVERCOME THE CARGO PREFERENCE REQUIREMENT THAT FIFTY PERCENT MUST BE SHIPPED ON U.S. FLAG VESSELS. IN ORDER TO COMPLY WITH THIS REQUIREMENT, A DNA MUST BE ISSUED BY A.I.D/W. IF A.I.D. WERE TO ISSUE A DNA NOW, THE MARITIME ADMINISTRATION WOULD COUNT THIS CARRIAGE AS FOREIGN FLAG. IF A.I.D. WAITS UNTIL SHIPPING DATES AND LOAD PORTS ARE ESTABLISHED, WE CAN ISSUE A NOTICE ON THE TRANSPORTATION NEWS TICKER (TNT) SOLICITING OFFERS. WHEN THERE IS NO RESPONSE FROM U.S. CARRIERS (AS ANTICIPATED), A.I.D. CAN ISSUE A DNA AND APPROPRIATE WAIVER. THIS THEN WOULD NOT COUNT AS FOREIGN FLAG BY MARAD FOR PURPOSES OF THE CARGO PREFERENCE ACT. REGRET OP/TRANS IS UNABLE TO COMPLY WITH REDSO REQUEST FOR DNA/ADVANCE WAIVER. HOWEVER, BASED ON REQUIREMENT AND OUR EXPERIENCE WITH U.S. TANKERS MARKET, WE BELIEVE THAT PROSPECTS FOR DNA/WAIVER AUTHORIZATION AT TIME OF MOVEMENT ARE EXTREMELY HIGH.

4. SUGGEST OP/TRANS BE ADVISED WHEN SOLICITATION IS ISSUED PROVIDING EXPECTED SOURCE, COMMODITY, QUANTITY AND TIME FRAME TO PERMIT US TO ISSUE NOTICE ON TNT AS

Best Available Document

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DESCRIBED PARAGRAPH 2 ABOVE. BOTH U.S. AND FOREIGN FLAG VESSELS SHOULD BE SOLICITED. IF AS EXPECTED, NO U.S. FLAG VESSELS RESPOND TO OUR NOTICE, A DNA/WAIVER WILL BE CABLED ASAP.

5. RE REQUEST FOR WAIVING PRIOR APPROVAL OF CHARTER PARTY; SER/OP/TRANS WOULD BE INCLINED TO WAIVER PRIOR APPROVAL OF SIGNED CHARTER PARTY, PROVIDED A TELEX OF BOOKING CONFIRMATION TERMS COULD BE SENT AT TIME BOOKING IS MADE WHICH CONFIRMS THAT TOTAL COMMISSION PAID DOES NOT EXCEED 2.5 PERCENT. SHULTZ
BT
#6633

NNNN

ANNEX A
GOS FINANCING REQUEST

DEPARTMENT OF PLANNING AND EXTERNAL RELATIONS

P.O. Box 656, National House, Victoria, Republic of Seychelles
Telex: 2260 MINAE SZ Telephone 24041

Please address all correspondence to the Principal Secretary:

Your Ref:
Our Ref: *ERC/110/8/6*
Enquiries To:
Telephone Ext:
Date: *18th February 1988*

H.E. Mr. Moran
Ambassador of the USA
American Embassy
P.O. Box 251
Victoria

FEB 23 1988

Excellency

US/SEYCHELLES COMMODITY AID AGREEMENT 1987 - 88

I wish to express Seychelles Government's gratitude for the Commodity Aid worth 2.375 m US $ which was made available by your Government for the fiscal year 1987.

This intervention contributed positively to our balance of payments and the counterpart funds generated therefrom have allowed the financing of several very important projects in many fields. I believe that both our Governments have been satisfied with the prompt and efficient utilisation of the funds and with the system of quarterly reporting.

It is in this context that I would like to request 3 m US $ for the coming fiscal year. Seychelles Government wishes to continue the existing programme of buying petroleum products and selling to Seychelles Electricity Corporation to generate counterpart funds. Of this amount, we request that 2.8 m US $ be provided through CIP mechanism. In addition we would like to use 200,000 US $ for foreign exchange financing for training.

In anticipation of your favourable consideration of our request, please accept your Excellency, the assurances of my highest consideration.

Danielle de St. Jorre (Mrs)
Secretary of State

	Action	Info
REDSO		
DIR		
D/DIR		
AGR		✓
ANA		
RCMO		
RCO		
ENGR		
FFPO		
PRJ	✓	
PLA		✓
LIBRARY		
KAGAN		✓
EFMC		
EXC/PER		
ADMIN		✓
CHRON		
REPLY DUE	2/01	
ACTION TAKEN		
DATE		
INITIALS		

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DEPARTMENT OF PLANNING AND EXTERNAL RELATIONS
P.O. Box 656, National House, Victoria, Republic of Seychelles
Telex: 2260 MINAE SZ Telephone 24041

Please address all correspondence to the Principal Secretary:

Your Ref:
Our Ref: PPC/110/8/6/2/8
Enquiries To:
Telephone Ext:
Date: 18th February 1988

His Excellency
Mr J. Moran
Ambassador
Embassy of the United States of America
Victoria House
Victoria

FEB 23 1988

Your Excellency

PROGRAMMING OF LOCAL CURRENCIES GENERATED UNDER THE FY 1988 AID COMMODITY IMPORT PROGRAM

It gives me great pleasure to inform you that the Seychelles Government would like to utilise the estimated local currency generated from the FY 1988 ESF programmes for the following projects.

(a) East Coast Project - SR5,000,000

(b) Road Rehabilitation Programme - SR3,000,000

(c) La Digue Water Supply - SR1,000,000

(d) National Library - SR2,000,000

(e) St Joseph Renovation - SR2,000,000

(f) Feeding Programmes for Schools and Clinics - SR1,000,000

Project proposals are attached to this letter.

I would like to take this opportunity to express Seychelles Government's deep appreciation for the assistance it is receiving from your Government and in particular the increase in the allocation.

Thanking you for your personal intervention, please accept, Your Excellency, the assurances of my highest consideration.

Danielle de St Jorre
SECRETARY OF STATE

	Action	Info
REDSO		
DIR		✓
D/DIR		
AGR		✓
ANA		
RCMO		
RCO		
ENGR		
FFPO		✓
PRJ	✓	
RLA	✓	
LIBRARY		
KAGAI	✓	
EXO/PER		
RFMC		
ADMIN	✓	
CHRON		
REPLY DATE	3/8	
ACTION TAKEN		
DATE		
INITIALS		

47

ANNEX B
INITIAL ENVIRONMENTAL EXAMINATION

UNCLASSIFIED
AID 02/24/88
REDSO:ADIR:KHANSEN
PRJ:WJEFFERS:SKM KH
ADDIR:MKSINDING
REDSO 6 RF ECON WJ

AMEMBASSY NAIROBI MKS
SECSTATE WASHDC
INFO AMEMBASSY VICTORIA

AIDAC

DEPARTMENT FOR AFR/TR/PRO, ENVIRONMENTAL
OFFICER (B. BOYD)

E.O. 12356: N/A
SUBJECT: SEYCHELLES - FY 1988 COMMODITY IMPORT
PROGRAM INITIAL ENVIRONMENTAL EXAMINATION

REF: 86 STATE 220673

1. REQUEST AFR ENVIRONMENTAL OFFICER
CONCURRENCE IN THE IEE FOR THE SEYCHELLES, FY
1988 COMMODITY IMPORT PROGRAM. REDSO/ESA IS
PREPARING PAAD WHICH IS EXPECTED TO BE APPROVED
THE FIRST OF MARCH, 1988.

2. INITIAL ENVIRONMENTAL EXAMINATION SUMMARY:

- A) COUNTRY : SEYCHELLES
- B) TITLE : COMMODITY IMPORT
- - - : PROGRAM
- C) NUMBER : 662-0009
- D) PROJECT FUNDING : FY 88 DOLS 3.0
- - - MILLION
- E) IEE PREPARED BY : WILLIAM A. JEFFERS
- - - PROJECT DEVELOPMENT
- - - OFFICER
- F) ENVIRONMENTAL ACTION RECOMMENDED:
- NEGATIVE DETERMINATION; CATEGORICAL
- EXCLUSION

- G) ACTION REQUESTED BY: SATISH SHAH,
- ACTING DIRECTOR, REDSO/ESA

3. DESCRIPTION OF THE PROGRAM AND PROCUREMENT: A COMMODITY IMPORT GRANT OF UP TO DOLS 3.0 MILLION IS PLANNED FOR FY 1988 TO PROVIDE BALANCE OF PAYMENT AND BUDGETARY SUPPORT TO THE GOVERNMENT OF SEYCHELLES THROUGH A COMMODITY IMPORT PROGRAM (CIP).

THE CIP COMPONENT OF THE PROGRAM WILL FINANCE THE PROCUREMENT OF MEDIUM AND DIESEL FUEL OIL FOR GENERATING ELECTRICITY FOR GENERAL CONSUMPTION AND FOR BUS TRANSPORT ON THE ISLANDS. THE FUEL PRODUCTS ORDERED UNDER THE CIP AGREEMENT WILL BE SOLD AND THE COUNTERPART FUNDS WILL BE DEPOSITED IN A SPECIAL ACCOUNT IN THE SEYCHELLES CENTRAL BANK. MOST OF THESE FUNDS WILL BE ALLOCATED TO DEVELOPMENT ACTIVITIES WHICH INVOLVE IMPROVING OR E)PANDING INFRASTRUCTURE IN THE SEYCHELLES. IT IS ANTICIPATED THAT THESE COUNTERPART FUNDS WILL BE USED BY THE GOVERNMENT OF THE SEYCHELLES FOR:

- A) THE CONSTRUCTION OF PORT FACILITIES
- B) ROAD REHABILITATION
- C) CONSTRUCTION OF THE LA DIGUE WATER
- SUPPLY
- D) CONSTRUCTION OF A NATIONAL LIBRARY
- E) RENOVATION OF A HISTORICAL BUILDING
- FOR TOURISM
- F) SUPPORT FOR CLINIC AND SCHOOL FEEDING
- PROGRAMS

WHILE A.I.D. WILL REVIEW AND APPROVE THE GENERAL USES PROPOSED FOR COUNTERPART FUNDS, IT WILL NOT BE INVOLVED IN THE DEVELOPMENT OR APPROVAL OF THE PLANS, SPECIFICATION OR SCOPES OF WORK FOR THE SPECIFIC ACTIVITIES FINANCED FROM SUCH FUNDS NOR WILL A.I.D. CONTROL HOW THESE SPECIFIC ACTIVITIES ARE CARRIED OUT. ALL PLANNING, PROCUREMENT, AND IMPLEMENTATION ACTIVITIES ARE CARRIED OUT BY GOS IN ACCORDANCE WITH GOS PROCEDURES AND WILL NOT BE SUBJECT TO REVIEW AND APPROVAL BY A.I.D.

PREVIOUS LOCAL CURRENCY-FINANCED ACTIVITIES UNDER THE PROGRAM HAVE NOT APPEARED TO HAVE ANY SIGNIFICANT ADVERSE EFFECT ON THE ENVIRONMENT BASED ON THE 1987 EVALUATION. THE EVALUATION TEAM MEMBERS DID NOT DETECT ANY SIGNIFICANT ENVIRONMENTAL IMPACTS DURING THEIR FIELD WORK IN FEBRUARY 1988. NO PESTICIDES OR CHEMICALS WILL BE PURCHASED UNDER THE PROPOSED PROGRAM.

4. RECOMMENDED ENVIRONMENTAL ACTION

A) BASED ON THE ABOVE, IT IS RECOMMENDED THAT YOU (1) APPROVE A NEGATIVE DETERMINATION WITH REGARD TO THE COMMODITY IMPORT PORTION OF THE PROGRAM SINCE THE COMMODITIES TO BE FINANCED AND THEIR ANTICIPATED USES WILL NOT HAVE SIGNIFICANT ADVERSE EFFECT ON THE ENVIRONMENT; AND (2) THAT YOU CATEGORICALLY EXCLUDE THOSE ACTIVITIES FINANCED FROM THE HOST COUNTRY-OWNED LOCAL CURRENCIES GENERATED UNDER THE PROGRAM FROM FURTHER ENVIRONMENTAL REVIEW SINCE A.I.D. WILL NOT BE INVOLVED IN, APPROVE, OR CONTROL THE DETAILS OF THE SPECIFIC ACTIVITIES CONDUCTED BY THE GOS UNDER THIS PORTION OF THE PROGRAM, WITH THE UNDERSTANDING THAT THE ENVIRONMENTAL EFFECT OF THESE ACTIVITIES AND THE GOS'S CAPACITY AND SYSTEM FOR ENVIRONMENTAL ASSESSMENT AND MONITORING WILL BE EXAMINED AS PART OF THE REGULAR REDSO/ESA MONITORING AND EVALUATION OF THESE ACTIVITIES.

END TEXT IEE.

5. REQUEST BEO PRIORITY CONCURRENCE OR, ALTERNATIVELY THAT CONCURRENCE AUTHORITY BE DELEGATED TO REO WITH RLA CLEARANCE. CONSTABLE#.

ACTION: AID-3 INFO: ECON RLO

VZCZCNA0306
OO RUEENR
DE RUEHC #6732 0811210
ZNR UUUUU ZZH
R 191210Z MAR 88 ZDK CTG SVC 0010
FM SECSTATE WASHDC
TO RUEHSD/AMEMBASSY NAIROBI 7622
RUFHMVI/AMEMBASSY VICTORIA 1980
BT
UNCLAS STATE 086732

24-MAR-88 TOR: 14:59
CN: 05009
CHRG: AID
DIST: AID
ADD:

MAR 24 1988

AIDAC, FOR REESO/ESA

C O R R E C T E D COPY FOR TEXT AND TWO ADDEES ON SAME LINE

E.O. 12356: N/A
TAGS:
SUBJECT: SEYCHELLES - FY 1988, COMMODITY IMPORT PROGRAM
REF: (A) NAIROBI 05867
(B) STATE 066242
(C) NAIROBI 07631

1. BUREAU ENVIRONMENT OFFICER CONCURS WITH RECOMMENDED NEGATIVE DETERMINATION.

2. HOWEVER, SOME ACTIVITIES PLANNED MAY HAVE ENVIRONMENTAL CONSEQUENCES. A.I.D. CANNOT DISASSOCIATE ITSELF FROM SERIOUS ENVIRONMENTAL CONSEQUENCES OF THESE ACTIVITIES ON THE GROUNDS THAT THEY ARE FINANCED BY LOCAL CURRENCY WHEN APPROVAL IS REQUIRED, AND PROVIDED, IN ORDER TO USE THE LOCAL CURRENCY FOR THE ACTIVITY.

3. SEE REFTEL B FOR GUIDANCE AND THE AGENCY COMMITMENT TO SOUND ENVIRONMENTAL REVIEW OF ACTIVITIES FUNDED BY LOCAL CURRENCY. SHULTZ
BT
#6732

NNNN

REDSO	Action	Info
DIR		✓
D/DIR		
AGR		
ANA		✓
RCMO		
RCO		
ENGR		
FFPO		
PRJ	✓	
RLA		✓
LIBRARY		
KAGAI		
RFMC		✓
EXO/PER		
ADMIN		
CHRON		✓
REPLY DUE	3/30	
ACTION TAKEN		
DATE		
INITIALS		

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ANNEX C
STATUTORY CHECKLIST

48

5C(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 Support 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 N/A

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? N/A

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? — No
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? — N/A
Will assistance be provided directly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? — No
Will assistance be provided to Afghanistan without a certification? — 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? — No

8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC? — Yes

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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? (b) If so, has any deduction required by the Fishermen's Protective Act been made?

No

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? (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?

No

No

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 at the time of approval of 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?

No

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.) — No

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.) — No

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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.)	The Administrator took this into account at the time of OYB approval.
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?	No
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

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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?	No
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 performace 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?	No

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?	No
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?	N/A

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?	Yes
	HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?	Yes

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.	Congress has been notified of this program on the FY 1988 Congressional Presentation.
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?	None Required.
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.	No, the program is best suited and designed as a bilateral activity. There are no direct effects of this program on regional development programs.

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.	The CIP involves significant amounts of petroleum products purchased on the International markets. Since these products are available in Seychelles, the net effect of the CIP on International Trade is small. The CIP will also provide fuel for electicity for private sector firms and excess diesel may be used for the Seychelles fhsinging fleet. The CIP will not directly discourage monopolistic practices nor strengthen Unions.
5.	FAA Sec. 601(b). 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).	U.S. suppliers may participate in the provision of petroleum products.
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.	None owned.
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?	Yes
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

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? — Yes

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? — Yes

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? — Yes

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? — Yes

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 currences 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. governnent 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 — N/A

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?

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. This program is supported by ESF.

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

(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 outrearch. 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)? N/A

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

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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 D
DRAFT GRANT AGREEMENT

AID Grant No. 662-K-607

AID Program No. 662-0009

AMENDMENT NO.7

TO

THE PROGRAM GRANT AGREEMENT

BETWEEN

THE REPUBLIC OF THE SEYCHELLES

AND

THE UNITED STATES OF AMERICA

FOR

COMMODITY IMPORTS (FY 88)

Dated: _____ March 1988

APPROPRIATION:

BPC:

RESCTLNO:

OBL DOC NO:

AMOUNT:

The Grant Agreement between the United States of America, acting through the Agency for International Development ("A.I.D."), and the Republic of Seychelles (the "Grantee") for commodity imports, dated March 19, 1982, as amended on July 1, 1983, June 6, 1984, March 28, 1985, Marcl 15, 1986, April 16, 1987, and August 11, 1987, (the "Agreement"), is hereby further amended to make available to the Grantee an additional grant of Two Million Eight Hundred Thousand United States Dollars (Dols. 2,800,000) to meet the foreign exchange costs of commodities and commodity-related services needed to promote economic development and stability

1. Accordingly, Article 1 of the Agreement is amended by deleting the words and figures "Twelve Million Two Hundred and Eighty Nine Thousand United States Dollars (Dols 12,289,000) (the "Grant")" and substituting therefor "Fifteen Million Eighty Nine Thousand United States Dollars (Dols 15,089,000) (the "Grant")".

2. Unless otherwise agreed by A.I.D. in writing, the commodities eligible for financing under this Amendment shall be medium fuel oil and diesel fuel oil, as further described in commodity procurement instructions which will be issued to the Grantee.

bb

3. Medium fuel oil financed by the additional grant funding provided by this Amendment shall have its source and origin in countries included in A.I.D. Geographic Code 941, unless otherwise agreed by A.I.D. in writing. Diesel fuel oil financed by additional grant funding provided by this Amendment shall have its source and origin in countries included in A.I.D. Geographic Code 899, unless otherwise agreed by A.I.D. in writing.

4. No letter of commitment or other disbursement authorization relating to the additional funding provided by this Amendment shall be issued in response to a request received after fifteen (15) months and no disbursement of funds granted by this Amendment shall be made against documentation submitted after twenty three (23) months from the date of this Amendment, except as A.I.D. may subsequently agree in writing.

5. All commodities financed by the additional funding provided by this Amendment shall be shipped within twenty (20) months from the date of this Amendment, unless otherwise agreed by A.I.D. in writing.

6. Currencies of the Republic of Seychelles generated by the sale of imported commodities financed by the additional funding provided by this Amendment shall be placed in the special account established pursuant to Section 5.6 of the Grant Agreement. The deposited currencies shall be used only for mutually agreed upon economic development purposes, except that the Grantee shall make available to the United States Government such portion of the amount deposited in the special account as may be necessary for requirements of the U.S. Government.

7. Except as amended herein, the Grant Agreement of March 19, 1982, as previously amended, is unchanged and remains in full force and effect.

8. IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representative, have caused this Amendment to be signed in

their names and delivered as of the day and year first above written.

THE REPUBLIC OF SEYCHELLES

By:_____

Danielle de St. Jorre
Secretary of State
Ministry of Planning and
External Relations

UNITED STATES OF AMERICA

By:_____

James Moran
Ambassador of the
United States of
America

1012v

ANNEX E
EVALUATION OF THE FY 1987 CIP PROGRAM

Local Currency Financed Construction Activities

In the past the Seychelles has devoted a significant percentage of local currencies to construction activities. A number of local currency projects were reviewed during this trip including road rehabilitation activities, the East Coast Project and the Creole Craft Village. The projects included some that had been completed under previous programs, some still under construction and some proposed for construction. It is difficult to review construction on an annual basis however. One can evaluate the design and contracting procedures and come to some general conclusions about the construction contractor but it is difficult to come to anything but general conclusions about the construction itself.

Road rehabilitation is carried out by the Land Transport Division of the Ministry of Transport and Tourism. In 1985 rehabilitation activities included asphalt and concrete overlays, road widenings and improved drainage **(Table 1)**. Typically roads on Mahe especially south of the airport are old and the thin bituminous surface has deteriorated. About 3.7 million rupees in local currency were allocated and the work has been completed. A number of projects were visited including the Intendance - Grand Police Road (2 km) Anse Soleil Road (0.3 km), Anse Gaulettes, Anse a La Mouche, Anse Forban Roads. The construction is usually done by local private sector contractors. Typical designs are used unless there is a significant structure to be constructed in which case a unique design is produced. Bills of quantity are drawn up by ministry engineers and the contractors are paid at the unit prices quoted. The quality of the work is good especially

considering the steep slopes and sharp dropoffs along the mountainous roads. Road widenings in some case involve the construction of concrete columns and slab foundations since the road is on the side of a mountain. Rock and concrete retaining walls are constructed in many areas and drainage structures are numerous.

In 1986 the major rehabilitation project was the resurfacing of about 10 km of the Anse Aux Pins - Anse Royale Road which connects the airport and Victoria with the Southern part of the island and which is one of the most heavily travelled roads in the Seychelles. In addition to a 10 - 22 mm layer of asphalt, the road was widened in two locations, a couple of culverts installed and two lay byes constructed. The work has been completed and the ride now is quite smooth. The widenings have improved the alignment along the road. There is one private sector contractor that does asphalt paving and there is one asphalt plant on the island. The project compliments a $6.0 million World Bank road rehabilitation project in the Seychelles.

A number of 1987 local currency projects are underway including the St Louis - Bel Air Road and the Cote d'Or Road on Praslin. The other major project, the Val d'Endor Road rehabilitation, should start within a month. A total of 5.0 million rupees is committed. The St. Louis - Bel Air Road includes a curve widening that projects off the side of a hill. Concrete columns, a foundation and retaining walls were built to support the road at the curve.

In general the Ministry of Transport and Land Development is well organized to carry out minor road rehabilitation projects. In addition to road rehabilitation, the Ministry is responsible for other construction activities in the transport sector. There are civil engineers on the staff along with a Peace Corps engineer. Seychellois private sector construction contractors are quite able to carry road maintenance and construction activities. Projects seems to go through the bidding into construction to completion fairly quickly. Evidence of this is that no road work remains to be done from the 1985 and 1986 CIP allocations.

The roads are maintained fairly well. Main roads are maintained by private sector contractors who are responsible for pothole repairing, culvert cleaning and repairs to retaining walls etc. Secondary roads are maintained using labor intensive methods.

Examples of both types of maintainance were visible. Retaining walls were being repaired and a number of women were cutting grass along the roadway. For maintenance along the major roads the private sector contractors have incentive contracts in which they guarantee the quality of the road rather than being paid on a unit price basis. This gives the contractor an incentive to repair the road before major problems, such as large potholes, develop.

Local currency funds have been used on the east coast project since 1984 (Table 2). The East Coast Project is a major land reclamation, fishing and commercial port project funded by a

number of donors including the World Bank, African Development Bank, Arab Bank for Economic Development in Africa, and the Kuwait fund. Major activities that have been supported with local currency include the construction of a causeway, rock armouring to prevent erosion, and desiltation in a canal between the Land Reclamation site and the mainland.

The rock armouring work protects some 120 hectares of reclaimed land from erosion. Approximately 5.0 million rupees were expanded during the phase financed from the 1986 CIP. The armouring is well constructed and should prevent erosion of the shoreline. The granite for the rock armouring was taken from the hillsides in two locations about two miles away. These hillsides now resemble strip mines. There are plans to reforest the area. Hopefully this will soon be done to prevent subsequent erosion and to improve the appearance of what once was a completely forested area.

The final phase of the causeway improvement project is out to bid and construction should start shortly completion is scheduled for the end of the year. This is a 2.8 million rupee sub-project activity financed under the 1986 CIP.

The desilting sub project has run into difficulties. Desilting using a submersible pump was not successful and consultants are now proposing other methods. About 1.0 million rupees has been allocated to this activity. There is a danger of flooding unless flows in the canal are maintained.

Under the East Coast project a number of activities are being financed to help develop both the fishing industry and the off shore islands in the Seychelles. These include the development of a quay for local inter island fishing and other trading vessels, development activities for local artisanal fishermen, and the construction of a new Seychelles Fishing Authority headquarters.

Construction of the quay, which was financed under the 1985 CIP, will be completed by the middle of the year. The Ministr of Transport and Development is responsible for this activity and the construction is being done by Fairclough, the contractor on the commercial part.

The development activity for artisanal fishermen includes repairs to the old port, support to the Fisheries Development Project funded by the Japanese and African Development Bank and breakwater protection. This activity, which was financed under the 1985 CIP local currency generations, will be completed in late 1988. The Seychelles Fishing Authority is responsible for implemention.

The construction of the new headquarters for the Seychelles Fishing Authority has begun. The design was done by local engineering firms and quantity surveyors and construction is by a private sector contractor. The foundation is completed and ground floor is partially completed. The construction (concrete center columns and concrete block walls) appears sound. The construction should be completed mid to late 1988.

The last activity under the East Coast Project is local currency support to the commercial port portion of the project. This is a major construction activity using an international construction contractor (Fairclough Int.) with design and supervision by Norplan, a Norwegian engineering firm. The length of the commercial quay was extended, a commecial fishing quay constructed, and facilities installed for the discharge of bulk oil and cement. Ancillary post facilities such as fuel and water tanks, pipe lines, parking and storage areas, lighting etc were also constructed. The overall construction activity is 66 million rupees and the local currency will support the final phase of the construction which should be completed by the end of 1988. There have been claims of about 10 million rupees and these will have to be dealt with in 1988.

Construction at the Creole Craft Village is has picked up markedly in the last few months. The main house is about 60 percent complete and the six craft workshops that will house 12 artisans are also about 60 percent completed. The foundation and some of the walls for the restaurant have been built. The quality of the work is excellent. Architectural plans have been drawn up and a local firm is doing the construction.

About 2.0 million rupees of the 4.0 million total remain to be spent and construction should be completed within the next six months. The craft village was supported with a two million rupee allocation in 1985 and an additional two million in 1987. A concession has been awarded to run the restaurant and workshops will be leased to local artisans. Hopefully the village will become a major tourist attraction.

Summary

The local currency projects that seem the most successful are the infrastructure projects. The road rehabilitation activities, the Praslin water project, which was very quickly inspected, and support to the east coast project all have gone well. Project proposals contain fairly detailed technical and cost information. There are good Seychellois engineers in the Public Utilities Commission and the Division of Land Transport. They are supported by expatriate, Peace Corps and other technical assistance, local consulting engineers and quantity surveyors, and local contractors capable of undertaking small projects (up to $2-3 million).

Table 1

Road Rehabilitation

1985		Amount	Status
1.	La Misere-Grande Anse	3,700,000	All sections completed
2.	Inten dance		
3.	Widening of Bends (Quatre-Bolnes, Baie Lazare Anse La Mouche, Anse Royale		
1986			
1.	Anse Aux Pins - Anse Royale	2,000,000	completed.
1987			
1.	St Louis-Bel Air	1,500,000	under construction mid 1988 completion
2.	St Louis-Bel Air asphalt Overlay	600,000	mid 1988 completion
3.	Capucins Road	300,000	mid 1988 completion
4.	Val Dendor/Pame le Roi Road	1,000,000	mid March start
5.	La Salette Road	220,000	tendering for construction
6.	Green Estate	120,000	Still in planning
7.	Cote d'Or (Praslin Island)	2.000.000	construction started 12/88 completion

Table 2

East Coast Project

1985	Amount	Status
1. Rock Armouring of Sewage Pond	400,000	completed
2. IDC Quay in Victoria	1,000,000	construction start 5/88
3. Plaisance Refuse Area	400,000	completed
4. Fisheries Development for Artisanal Fishermen	1,000,000	about 70% complete
1986		
1. Rock Armouring	5,000,000	completed
2. Causeway improvement	2,800,000	under construction 12/88 completion
3. Desiltation	1,000,000	still experimenting with methods
1987		
1. Seychelles Fishing Authority Building	1,500,000	under construction mid 1988
2. Commercial Port Project	1,500,000	completion mid 1988

WAIVER CONTROL NO.: 662-88.C.78

ACTION MEMORANDUM FOR THE ACTING DIRECTOR, REDSO/ESA

From: Robert R. Stader, REDSO/RCMO

Date: March 9, 1988

Subject: Request for a procurement source/origin waiver from AID Geographic Code 000 (U.S. only) to AID Geographic Code 941 (Selected Free World) in order to permit the procurement of medium fuel oil under the FY 88 Commodity Import Program for the Seychelles.

A.	Cooperating Country	:	Seychelles
B.	Authorizing Document	:	PAAD No. 662-K-607
C.	Program Name	:	FY 1988 Seychelles CIP (662-0009)
D.	Nature of Funding	:	ESF Grant
E.	Description of Commodity	:	Approximately 10,000 MT Medium Fuel Oil
F.	Estimated Value of Commodity	:	1,400,000
G.	Probable Source/Origin	:	Kenya or Madagascar

Discussion and Justification: The FY 1988 Seychelles CIP provides $3 million from ESF to assist the Government of the Seychelles (GOS) meet a shortfall in its balance of payments and to provide budgetary support. The GOS has requested that A.I.D. finance medium fuel oil and diesel fuel in the approximate projected ratio of use by the Seychelles Public Utilities Corporation Elecrticity Division to generate electric power. The GOS rationale for choosing these commodities is: 1) the medium fuel oil and diesel fuel are required to generate electricity for use in all sectors of the Seychelles' economy; 2) CIP funds can be utilized and disbursed rapidly; 3) the procurement of these commodities will minimize the administrative burden on all concerned parties: i.e. AID, the GOS and the U.S. Embassy/Victoria; and 4) because of the limited trade between the U.S. and Seychelles, a more broadly based CIP financing the importation of U.S. products is not feasible.

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These two fuel oils are critical commodities with regard to productive activities on the islands, and imports of these fuels are a major drain on foreign exchange resources of the Government of Seychelles.

This request for a waiver covers only the MFO to be financed under the FY 88 CIP. A separate source/origin waiver is being requested with regard to diesel fuel to be procured under the program.

Under established AID procurement policies, the authorized source/origin for commodities procured for assistance programs in Seychelles (which is not an RLDC) would ordinarily be AID Geographic Code 000 (U.S. only). However, while medium fuel oil is produced in small quantities in the U.S., the U.S. is a net importer of petroleum products. Moreover, given the small quantities of medium fuel oil to be financed and the limited storage available in Seychelles for liquid fuels which will necessitate at least two small (by industry standards) and logistically difficult shipments, there is no possibility of interest on the part of U.S. suppliers in this procurement. Procurement from the U.S., if it were otherwise feasible, would be unreasonably expensive when compared with procurement from the Seychelles' traditional Code 941 sources of supply for medium fuel oil, Kenya and Madagascar, and would thus decrease the amount of fuel oil which can be procured under the CIP, and run counter to program objectives, which are to maximize the amount of foreign exchange available to the Seychelles and maximize assistance to the productive sector of the Seychelles economy.

HB 1B, Chapter 5B4a(7), provides that a change in the authorized source/origin for commodities may be approved for "such..... circumstances as are determined to be critical to the success of program objectives." For the reasons cited above, the test of HB 1B has been met. Under Delegation of Authority 551, you have the authority to approve source/origin waivers for commodities up to a value of $5,000,000 per transaction. This waiver falls within your authority.

Recommendation: That by your signature below, you approve a source/origin waiver from AID Geographic Code 000 (United States) to Code 941 to permit the procurement of approximately $1,200,000 of medium fuel oil under the FY 88 Seychelles CIP.

Approved: Joseph L. Shaw

Disapproved: _____

Date: April 19, 88

Drafted:REDSO/RCMO:RBStader _____ Date 3/3/88

Clearances:

REDSO/RLA:B.Barrington _____ Date 3/10/88

REDSO/PRJ:BJeffers _____ Date 3/14/88

REDSO/ADD:MSinding _____ Date 3/24/88

Waiver Control Number: **662-88.C.79**

ACTION MEMORANDUM FOR THE DIRECTOR, REDSO/ESA

From: Robert B. Stader, REDSO/ESA/RCMO

Date: March 9, 1988

Subject: Request for a procurement source/origin waiver from AID Geographic Code 000 (US only) to AID Geographic Code 899 (Free World) to permit the procurement of diesel fuel under the FY 88 Seychelles CIP.

A.	Cooperating Country	: Seychelles
B:	Authorizing Document	: PAAD No. 662-K-607
C.	Program Name	: Seychelles FY 1988 CIP (662-0009)
D.	Nature of Funding	: ESF Grant
E.	Description of Commodity	: 10,000 MT Diesel Fuel
F.	Estimated Value	: $1,600,000
G.	Probable Source/Origin	: AID Geographic Code 899

Discussion and Justification: The FY 1988 Seychelles CIP provides $3 million of ESF grant funds to assist the Government of Seychelles (GOS) meet a shortfall in its balance of payments and to provide budgetary support. The GOS has requested that A.I.D. finance medium fuel oil and diesel fuel in the approximate ratio of use of the Seychelles Public Utilities Corporation to generate electric power.

The GOS rationale for choosing these commodities is: 1) the medium fuel oil and diesel fuel are required to generate electricity for use in all sectors of the Seychelles' economy; 2) CIP funds can be utilized and disbursed rapidly; 3) the procurement of these commodities will minimize the administrative burden on all concerned parties: i.e. AID, the GOS and the U.S. Embassy/Victoria; and 4) because of the limited trade between the U.S. and Seychelles, a more broadly based CIP financing the importation of U.S. products is not feasible.

These two fuel oils are critical commodities with regard to productive activities on the islands, and imports are a major drain on foreign exchange resources of the Government of Seychelles.

Under established AID procurement policies the authorized source/origin for commodities procured for assistance programs in Seychelles (which is not an RLDC) would ordinarily be AID Geographic code 000 (U.S. only). However, diesel fuel is not readily available from the U.S. at a reasonable price.

Although small quantities of diesel fuel are produced in the U.S., the United States is a net importer of petroleum products. Moreover, given the small quantities (by industry standards) of diesel fuel that will be financed under the CIP, it is extremely unlikely that any supplier would be interested in meeting the requirement from U.S. source/origin. The greater shipping distance for the small quantities of products involved makes it even more unlikely that U.S. source/origin products could in any way be cost-competitive with products from Indian Ocean area countries.

Moreover, diesel fuel is not available at a reasonable price for export to Seychelles from other countries or areas included in AID Code 941. Under the FY 86 Seychelles CIP, the authorized source/origin for both medium fuel oil and diesel fuel was AID Geographic Code 941. Under that program, a total of six bids were received offering to supply the diesel fuel required. One of these bids had to be rejected because the diesel fuel offered was from an AID Code 935 (non-Code 941) source/origin country. The lowest priced bid from an authorized (Code 941) source/origin country was $187.78 per MT. The bid from an AID Code 899 (non-Code 941) source/origin that had to be rejected was $147.40 per MT. Under the program two years ago AID financed 10,000 MT of diesel fuel (approximately the same amount as will be financed under the FY 88 CIP.) In FY 86, the cost of procuring diesel fuel oil from Code 941 countries meant that $400,000 more was spent on diesel than would have been spent had Code 899 been the eligible source/origin for procurement, or that over 2700 MT of additional fuel could have purchased by GOS had Code 899 been the authorized procurement code. Moreover, diesel fuel exported from Code 941 countries in the Indian Ocean area would have to be replaced in those source countries by importations from Code 899 sources in order to meet the domestic needs of the Code 941 Indian Ocean States.

Further research, including contact with several industry sources, indicates that diesel fuel at a reasonable CIF price is simply not available for export to Seychelles from any potential Code 941 source. In answer to an RCMO inquiry last year about possible Code 941 sources of diesel fuel for export to Seychelles, Omisa Oil Management SA cabled from Geneva, Switzerland, "Of the countries eligible as source which you

have indicated to us (Code 941) only Kenya, India, Pakistan, Tanzania, Sri Lanka and Indonesia (have refineries and) are within reasonable shipping distance from Seychelles. All these countries except Indonesia are net importers of crude and therefore will not generate surplus quantities for re-export at a competitive price." Conversations with Mr. Livio Lang, the managing director of SEPEC, a man with over 30 years experience in the oil industry, indicated that even Indonesia refines crude in country into finished petroleum products only for domestic consumption. Singapore (a Code 935 country) is the processing and export center for refined Indonesian petroleum products. Recognizing the nonavailability of diesel fuel for export to Seychelles at reasonable cost from the U.S. or other Code 941 countries, last year the authorized source/origin for the Seychelles CIP was expanded to Code 899 for diesel fuel.

HB 1B, chapter 5B4a(7), provides that the authorized source/origin of commodities may be expanded for "such..... circumstances as are determined to be critical to the success of program objectives." Given the fact that diesel fuel at a reasonable cost is not available from either from the United States or from any other Code 941 Country which could serve as a source of supply for Seychelles, the test of HB 1B has been met. Under DOA 551, you have the authority to approve source/origin waivers for commodities up to a value of $5 million per transaction. This waiver falls within your authority.

Recommendation: I recommend that by your signature below you 1) approve a change in the authorized source/origin from Code 000 to AID Geographic Code 899 for the procurement of approximately 10,000 MT of Diesel Fuel for the 1988 Seychelles CIP; and, 2) certify that exclusion of procurement from free world countries other than the cooperating country and countries included in Code 941 would seriously impede attainment of U.S. foreign policy objectives and objectives of the foreign assistance program.

Approved: Satish P. Shah

Disapproved: _____

Date: April 12, 88

Drafted: REDSO/RCMO RBSTADER	RBS	Date	3/3/88
Clearances: REDSO/RLA BBarrington	BEB	Date	3/10/88
REDSO/PRJ BJeffers	WSJ	Date	3/14/88
REDSO/ADDIR MSinding	[illegible]	Date	3/24/88

ACTION MEMORANDUM FOR THE DIRECTOR, REDSO/ESA

FROM: William A. Jeffers, Project Officer

SUBJECT: Seychelles: Determination Not to Follow AID's Preference for Interest Bearing Accounts for the Counterpart Funds Generated Under the FY 1988 Commodity Import Program

I. ACTION REQUESTED:

Your approval is required to make the determination not to follow AID's preference for interest bearing accounts for the counterpart funds generated under the FY 1988 Commodity Import Program.

II. DISCUSSION:

A. Background

A.I.D. has been financing Commodity Import Programs in Seychelles from the Economic Support Fund for the last six years. The initial CIP was authorized in 1982 in the amount of U.S. $2.0 million. Subsequently, this program was expanded by means of Grant Agreement amendments in 1983, 1984, and 1985 which provided $2.0 million incremental funding each year. In 1986, $1,914,000 was provided. In 1987, this figure climbed to $2,375,000 and it is proposed to obligate approximately $3.0 million in 1988.

The Seychelles Commodity Import Programs have financed petroleum products, including diesel oil and medium fuel, for the Government of Seychelles (GOS) which is used to generate electrical power. The GOS procures these products through the Seychelles Petroleum Company (SEPEC), a fully government owned parastatal which is given monopolistic authority to import petroleum products for Seychelles. SEPEC, in turn, sells the CIP financed products to the Public Utilities Corporation/Electricity Division (another fully owned government parastatal) which uses the product to generate electricity.

At the time SEPEC receives the CIP financed petroleum products, a local currency value of the shipment is calculated by the GOS Department of Finance based upon the prevailing dollar/rupee exchange rate for that day. SEPEC is responsible for

depositing this amount of local currency into the CIP Special Account which has been established at the Central Bank. This Special Account is maintained and accounted for separately but falls under the general umbrella of the GOS's Development Fund- which represents the GOS's stock of capital financing for development investments.

B. Issue of Interest Bearing Accounts for Special Accounts

A.I.D. Policy Determination Number 5 - Programming PL 480 Local Currency Generations of February 1983 which was extended to cover CIPs in 1984 requested that:

> "Missions consider depositing the sales proceeds into an interest bearing commercial bank account established to help finance development activities not agreed upon during negotiations or not yet ready for implementation; both principal and interest can later be used for funding such activities."

Supplemental Guidance on Programming Local Currency Generations issued by A.I.D. on October 21, 1987, via State 327494, placed increased emphasis on using interest bearing accounts for local currency generations. Specifically, this guidance reported that:

> "Jointly programmed local currency should be disbursed as quickly as is consistent with sound programming and prevailing economic conditions in the recipient country, taking into account the conditions of an economic stabilization program which may have been negotiated. However, delays do occur on occasion unavoidably. Therefore, A.I.D. policy favors that local currency be placed into an interest bearing account in a deposit-taking institution, with any interest earned programmed as if it were principal, so long as such accounts are permitted under host country law and regulation and do not undermine internationally supported stabilization agreements and sound monetary policy."

Local currency generated from A.I.D. programs in Seychelles are not placed in interest bearing accounts based upon two of the reasons cited in the referenced cable, namely that the existing Seychelles laws do not permit interest income on such funds to be used for development purposes and that a change of the GOS laws to meet A.I.D. policy regarding interest bearing accounts would not produce any significant increase in financing available for the development budget and may in fact reduce such financing.

To date, local currency generated under the Seychelles Commodity Import Programs has been placed in a non-interest bearing Special Account with the GOS Central Bank. During the last twelve months REDSO/ESA has discussed, on several occasions, A.I.D.'s preference for depositing local currency generations in an interest bearing account with the GOS. Based upon these discussions the following points have been raised.

1) Currently, the Public Finance (Controls and Management) Act Section 29(3) requires that interest earned from the investment of the Development Fund Monies (to which the CIP Special Account belongs), not required for immediate use for development purposes to be paid into the Consolidated Fund (recurrent budget). While increased funds for the recurrent budget might lead to more funds being available for the development budget, such a response will not necessarily be automatic. Therefore, the present GOS laws do not permit the growth of development assets envisioned in the A.I.D. supplemental local currency guidance and would need to be amended to meet A.I.D.'s interest bearing account policy.

2) An analysis of the current arrangements where the local currency is held in an non-interest bearing account with the Central Bank indicates that these funds provide the GOS with what amounts to an interest free overdraft facility on its Development Fund which is used to cover the uneven matching of revenue and expense over time. Moving these funds to a commercial bank would likely eliminate this facility or at the very least would require procedural and administrative changes that will not be without their own costs and delays. The commercial banks will not provide such a service. In this case, the financial costs to the government for managing this uneven flow of revenues and expenses will likely rise from zero to potentially more than could be earned from the interest earning local currency deposit. Thus, the current local currency arrangements appears to provide at least as many benefits (if not more) as would a deposit in an interest bearing account in a commercial bank.

REDSO/ESA staff have reviewed these points and have decided that it is appropriate for A.I.D. to waive the requirement for an interest bearing account for the local currency generated under the FY 1988 CIP.

III. AUTHORITY

The Supplemental Guidance on Programming Local Currency Generations of October 21, 1987 provides for the "highest

A.I.D. official at post" to make a determination not to follow A.I.D.'s preference for an interest bearing account.

IV. RECOMMENDATION

That you sign this Action Memorandum and thereby make a determination that the local currency generated under the FY 1988 Commodity Import Program not be deposited in an interest bearing account with a deposit-taking institution since such a requirement would be contrary to the existing GOS laws and that it would not be of any financial benefit to the Seychelles.

APPROVED: Satish P. Shah

DISAPPROVED: _____

DATE: April 12, 88

Attachments:

GOS Letter from Department of Finance

Drafter: REDSO/PRJ:WJeffers: 3/14/88 WJ

Clearances:

REDSO/RLA:BBarrington:	(Draft)	Date:	3/14/88
REDSO/APD:BSevern:	(Draft)	Date:	3/14/88
REDSO/PRJ:MKSinding	(Illus	Date:	3/24/88
RFMC:PKramer	(Draft)	Date:	3/14/88

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PRESIDENT'S OFFICE
DEPARTMENT OF FINANCE
ADMINISTRATION DIVISION
P.O. Box 313, Central Bank Building, Victoria, Republic of Seychelles
Telex: 2363 FINTUR SZ Telegrams: MINFIN, Seychelles, Telephone: 21790

Please address all correspondence to the Secretary of State

Your Ref:
Our Ref: FIN/U/2
Enquiries To:
Telephone Ext:
Date: 18th February 1988

Mr W Jeffers
US Aid Mission
c/o US Embassy
Victoria House
Mahe

Dear Mr Jeffers

Further to our recent conversation I was deeply disturbed to learn that the question of charging interest to the Government in respect of deposited US Commodity Aid counterpart funds was still being pursued.

Apart from the fact that such a requirement would mean a change in policy it would also mean a change to the Public Finances (Control and Management) Act as section 29(3) requires the interest from the investment of Development Fund monies which are not required for immediate use for development purposes to be paid into the Consolidated Fund.

Furthermore, as has been explained before, any charge against recurrent revenues for interest would simply mean less monies available from local resources for the funding of projects. Thus it would simply mean more work with no benefits.

The suggested alternatives of depositing these funds with a commercial bank would mean even less monies for development. The rate of interest received from a bank would be less than the bank would in turn expect from its subsequent investment, which would undoubtedly be in Government securities. Hence, the only beneficiary would be the commercial bank. Therefore, because of the difference in interest rates the Government would have less monies to appropriate for development.

Unfortunately, the independent evaluation carried out last year does not appear to address the true position. The deposit of monies with the Development Fund and hence the Central Bank assists the Government in maintaining a reasonable cash position not the bank. In fact it reduces the Government's borrowing needs for working capital for the Development Fund.

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In the circumstances I would urge that there be no change in the present system. Should your authorities still not be convinced, which I sincerely trust will not be the position, we would be only too happy to make a more detailed submission about the adverse effects for the Government.

Yours sincerely

J W White
for Ag. SECRETARY OF STATE

JWW/cg