

U N C L A S S I F I E D

~~CONFIDENTIAL~~
FD-AAX-857

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

PROGRAM ASSISTANCE
APPROVAL DOCUMENT
(PAAD)

SOUTH PACIFIC REGIONAL: Fisheries Treaty
Program (879-0011)

June 13, 1988

U N C L A S S I F I E D

<p>AGENCY FOR INTERNATIONAL DEVELOPMENT</p> <p>PROGRAM ASSISTANCE</p> <p>APPROVAL DOCUMENT</p> <p>(PAAD)</p>		1. PAAD Number 879-K-601	
		2. Country South Pacific Regional Development Program	
		3. Category Cash Transfer (CT)	
		4. Date December 14, 1987	
5. To The Assistant Administrator for Asia and Near East		6. OYB Change Number	
7. From John B. Woods, Regional Director Regional Development Office, South Pacific		8. OYB Increase \$10,000,000 To be taken from: Economic Support Fund (ESF)	
9. Approval Requested for Commitment of \$ 10,000,000		10. Appropriation Budget Plan Code QES8-88-37879-KG-31 72-118/91037	
11. Type Funding <input type="checkbox"/> Loan <input checked="" type="checkbox"/> Grant	12. Local Currency Arrangement <input type="checkbox"/> Informal <input type="checkbox"/> Formal <input checked="" type="checkbox"/> None	13. Estimated Delivery Period	
15. Commodities Financed		14. Transaction Eligibility Date	

16. Permitted Source		17. Estimated Source	
U.S. only		U.S.	
Limited F.W. \$1,000,000 (PA)		Industrialized Countries	
Free World		Local	
Cash \$9,000,000 (CT)		Other	

18. Summary Description

Fisheries Treaty Program assistance supports economic development purposes as provided under Part 1 of Schedule 2 of Annex II of the Treaty on Fisheries Between the Governments of Certain Pacific Island States and the Government of the United States of America, and the related Agreement between the Government of the United States of America and the South Pacific Forum Fisheries Agency, both signed at Port Moresby, Papua New Guinea on April 2, 1987.

Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Fisheries Treaty Program for the South Pacific Region involving planned obligations of not to exceed \$50,000,000, subject to the availability of funds, with \$10,000,000 available for FY 1988, in grants funds for cash transfers and project assistance to the treaty nations over a five year period from the date of authorization.

The program and project agreement which may be negotiated and executed by the officers to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall contain terms and conditions consistent with this Program Assistance Approval Document and such other terms and conditions as A.I.D. may deem appropriate.

19. Clearances		20. Action	
DAA/ANE: TReese <i>uf</i>	Date 6/13/88	<input checked="" type="checkbox"/> APPROVED	<input type="checkbox"/> DISAPPROVED
M/FM/PAFD: ESowens <i>uf</i>	6/14/88	Authorized Signature: <i>Julie G. Block</i> Title: Assistant Administrator Bureau for Asia and Near East Date: June 13, 1988	
ANE/DP: PBenedict <i>uf</i>	6/15/88		
ANE/PD: BJodell <i>uf</i>	6/11/88		
ANE/DP/F: DFranklin <i>uf</i>	6/8/88		
GC/ANE: HMorris <i>AM</i>	6/8/88		

FISHERIES TREATY PROGRAM (879-XX88)

PROGRAM ASSISTANCE APPROVAL DOCUMENT -- PAAD

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South Pacific Regional Fisheries Treaty Program (879-XX88)

Program Assistance Approval Document (PAAD)

Executive Summary

On April 2, 1987 the U.S. and "certain Pacific Island countries" signed a "Treaty on Fisheries." The Treaty and a related AID Agreement with the South Pacific Forum Fisheries Agency (FFA) resolve years of disputes over U.S. tuna fishing in the Exclusive Economic Zones (EEZs) of island countries.

All 16 members of FFA -- Australia, Cook Islands, Federated States of Micronesia (FSM), Fiji, Kiribati, Marshall Islands, Nauru, New Zealand, Niue, Palau, Papua New Guinea (PNG), Solomon Islands, Tonga, Tuvalu, Vanuatu, and Western Samoa -- can participate in the Treaty and the Fisheries Treaty Program (FTP). The Treaty becomes effective when the U.S. and ten island countries, which must include FSM, Kiribati and PNG, ratify.

Four developing countries (FSM, Marshall Islands, Nauru, and Palau) have not previously participated in AID's South Pacific Region (879). It is not clear how Australia and New Zealand will participate, but New Zealand may use some cash receipts for Tokelau, three atolls north of Samoa.

Under the Agreement, AID will make five annual cash transfers of \$10 million each to FFA. The Treaty requires these cash payments, and tuna industry payments, before licences to U.S. boats for Treaty waters become effective.

FFA will put these payments in an Economic Development Fund (the Fund). Each year's Fund will be divided: \$1 million for projects and \$9 million for cash distribution to FFA members participating in the Treaty. FFA and AID will agree on a financial management system for the Fund.

At least initially, cash distributions will be made in two stages. Immediately, 15% of the \$9 million (\$1.35 million) will be divided evenly among participating countries. About 16-18 months later, after the amount of tuna taken in each country's waters is known, the remaining \$7.65 million will be distributed according to the value of the catch in each EEZ.

FFA will hold the Fund in bank accounts or securities approved by AID and will earn interest on funds held before distribution to members. Interest earned will be used for the same purposes as the principal amounts. Cash distributions are to be used for non-military, economic development uses.

The FTP has three purposes: i) to fulfill U.S. commitments under the Treaty, ii) to enable island countries to capture a reasonable share of the economic benefit of the renewable tuna resource harvested by U.S. boats, and iii) to increase development cooperation between AID and the island countries.

Economic impacts of the cash payments will vary widely among participating countries. For example, PNG, although a major fishery country, also has other resources and revenues. Impact per person will be relatively light in PNG.

In contrast, Tuvalu, a moderate fishery country, could receive about half of its annual budget under a high estimate of its share of cash distribution. Tuvalu may put its share in a trust fund for future use rather than try to find good current uses. This may improve its highly dependent economic status.

Many island countries see the Treaty as an opportunity to enter or expand participation in other fishery aspects: canning or processing tuna, servicing boats, and fishing for tuna. The Treaty also contributes to a general improvement in business and investment climate for some countries.

Project activity is expected to follow the pattern of the ongoing Fisheries Development Project (879-0009). FFA manages the small activities portion of Project 0009. Mostly fisheries proposals are expected for the \$1 million per year of FTP project activities, but any proposals along DA lines are eligible.

Other benefits are expected from the increased development dialogue between AID and island countries.

GLOSSARY

Agreement	The Agreement signed between the U.S. and FFA April 2, 1987 at Port Moresby, PNG.
AID	The U.S. Agency for International Development; includes Washington headquarters (AID/W) and field missions (USAIDs).
DA	Development Assistance; assistance for economic development purposes only.
EEZ	Exclusive economic zone; usually the 200 nautical mile zone within which the coastal state claims economic rights.
EOPS	End of project status; in the AID logical framework analytical system, the indicator that an activity has achieved its purpose.
ESF	Economic Support Fund; assistance for political, economic or security purposes which may also serve development purposes.
FAA	The Foreign Assistance Act of 1961, as amended.
FFA	The South Pacific Forum Fisheries Agency, Honiara, Solomon Islands; an international organization of 16 Pacific Island countries for technical and economic cooperation on fisheries matters; administrator of island country interests under the Treaty; members are: Australia, Cook Islands, Federated States of Micronesia (FSM), Fiji, Kiribati, Marshall Islands, Nauru, New Zealand, Niue, Palau, Papua New Guinea (PNG), Solomon Islands, Tonga, Tuvalu, Vanuatu, and Western Samoa.
FSM	The Federated States of Micronesia.
FTP	The South Pacific Regional Fisheries Treaty Program, 879-XX88.
Fund	The Economic Development Fund established by FFA to carry out the purposes of the FTP.
GDP, GNP	Gross domestic product, gross national product; indicators of the magnitude of a national economy.
NZ	New Zealand.

PAAD Program assistance approval document; an AID document describing and justifying non-project assistance.

PNG Papua New Guinea.

RDO/SP The AID South Pacific Regional Development Office, Suva, Fiji.

SPC The South Pacific Commission, Noumea, New Caledonia; an international development cooperation organization of island and donor countries.

Treaty The Treaty on Fisheries signed April 2, 1987 at Port Moresby, PNG between the U.S. and Certain Pacific Island Countries.

USAID An AID field mission; the AID Regional Development Office for the South Pacific (RDO/SP) in Suva, Fiji.

I. BACKGROUND

A. The Treaty.

On April 2, 1987 the United States and "Certain Pacific Island States" signed the "Treaty on Fisheries" at Port Moresby, Papua New Guinea.

The Treaty establishes means to end years of disputes over tuna fishing by U.S. boats in the Exclusive Economic Zones (EEZs) of the island countries. Among other provisions, the Treaty calls for economic cooperation between the U.S. and the island countries and for certain payments by the U.S. Government and U.S. tuna boats to obtain licences to harvest tuna in designated EEZ areas.

All 16 members of the South Pacific Forum Fisheries Agency (FFA) -- Australia, Cook Islands, the Federated States of Micronesia (FSM), Fiji, Kiribati, Marshall Islands, Nauru, New Zealand, Niue, Palau, Papua New Guinea (PNG), Solomon Islands, Tonga, Tuvalu, Vanuatu, and Western Samoa -- can sign and ratify the Treaty.

The Treaty will become effective when ratified by the U.S. and ten island countries, of which three must be FSM, Kiribati and PNG. About 12-14 FFA members are expected to ratify initially.

B. Legislative Status.

The Senate has given its advice and consent to ratification of the Treaty. The U.S. Instrument of Ratification will not be deposited with the Government of Papua New Guinea until implementing legislation has been passed by the Congress. This legislation is necessary to authorize responsible U.S. Agencies to carry out Treaty undertakings and to establish appropriate jurisdiction of the District Courts.

AID is affected by a clause to permit Economic Support Fund (ESF) funds to be used for Treaty purposes notwithstanding any provision of law relating to cash transfers. This permits compliance with the undertakings when the Treaty was signed.

Among possible exemptions from normal AID assistance requirements for the Fisheries Treaty Program (FTP) are:

- i) Six countries (Australia, FSM, Marshall Islands, Nauru, New Zealand, and Palau) not included in AID's South Pacific Region (879) may participate in the Treaty,
- ii) Fiji may participate (bilateral assistance has since been suspended), and

- iii) Accounting for cash transfers will not include maintenance of special accounts by recipient countries.

C. The AID-FFA Agreement.

Part 1 of Schedule 2 of Annex II of the Treaty refers to payments from the U.S. side under the Related Agreement with the South Pacific Forum Fisheries Agency (FFA) signed at the same time as the Treaty. This Agreement calls for five annual U.S. Government "cash Payments" of \$10 million each to FFA. Annex II, paragraph 3 of the Treaty requires these annual AID payments before licences to U.S. boats take effect.

The Agreement requires FFA to establish an Economic Development Fund (the Fund), to agree with AID on a financial management system, and to use \$1 million of each year's payment for projects. The remaining \$9 million will be used for economic development purposes by island countries participating in the Treaty.

D. Prior AID Fisheries Projects.

Since the late 1970's AID has participated in the development of fishery resources for the benefit of island countries and U.S. tuna interests.

Two Development Assistance (DA) grants to the South Pacific Commission (SPC) constituted U.S. contributions to multi-donor data collection activities to establish the extent of the tuna resource in waters around Pacific Island countries. These data served both to confirm a resource of interest to U.S. tuna boat operators and to give island governments a more realistic appraisal of their resources.

While negotiations for the Treaty were in progress, AID started the Economic Support Fund (ESF) Fisheries Development Project (879-0009) for the majority of FFA members. This established development relationships with most of the concerned fishery authorities and with FFA. These cooperative relationships helped maintain a negotiating spirit to resolve final Treaty issues between the U.S. and island countries.

Project 0009 also established that there are many areas in which the U.S. can help island countries realize the potential of their renewable fishery resources for national development. This project assistance model will be continued under the Project Component of FTP.

II. NARRATIVE LOGICAL FRAMEWORK

A. Goal.

The goals of the Fisheries Treaty Program (FTP) are:

- i) To advance cooperative relations between the U.S. and the Treaty countries, and
- ii) To enable the Treaty countries to apply fishery harvest resources to their economic development needs.

Indicators of goal achievement would be cooperation in fields other than tuna boat licencing and rising incomes of Treaty countries. Achievement can be verified through assessment of the state of U.S.-Treaty country relations and of overall Treaty country development.

Goal achievement assumes that the Treaty will resolve disputes over tuna boat operations in EEZs, the worst previous impediment to closer relations. It also assumes the Treaty countries will use the resources received for development.

B. Purpose.

The purposes of the FTP are:

- i) To carry out U.S. Government undertakings under the Treaty,
- ii) To capture a reasonable share of the value of tuna harvested by U.S. boats in the EEZs of Treaty countries for their economic development, and
- iii) To increase development cooperation among AID, FFA and the Treaty countries.

Indicators of purpose achievement (End Of Program Status -- EOPS) are:

- i) AID disburses all payments the Treaty requires to the complete satisfaction of the Treaty countries and FFA,
- ii) Treaty countries capture more economic benefits from tuna harvested in their EEZs by U.S. boats,
- iii) FTP projects benefit Treaty countries,

- iv) Treaty countries use FTP cash transfers for economic purposes, and
- v) AID, FFA and Treaty countries cooperate for development purposes beyond the requirements of the Treaty.

EOPS achievement can be verified by USAID and FFA records of Fund uses, evaluation reports, and agreements or reports of other economic development cooperation activities.

EOPS achievement assumes that only economic uses are made of Fund resources, that Treaty countries will continue to seek greater development cooperation with AID, and that the AID South Pacific Regional Program has sufficient resources to support increased cooperation with Treaty countries.

C. Outputs.

Outputs will be Projects and Cash Transfers financed by the Fund after meeting FFA operation and administration costs. The Project Component will finance projects averaging less than \$100,000 per country per year for fishery or other development purposes.

The Cash Transfer Component will transfer dollars to governments of Treaty countries for non-military, economic development purposes. Amounts transferred are expected to vary with the amount of tuna harvested in each country's EEZ. The range may be from a minimum of \$60-90,000 to about \$5 million per country in any year.

Indicators and verification of output achievement will be through USAID and FFA reports of payments from the Fund and progress of project and cash transfer uses of the Fund.

Output achievement assumes the Treaty countries and FFA agree on formulae for division of Fund benefits and FFA is able to administer the Fund accordingly.

D. Inputs.

The inputs are five annual payments of \$10 million (total \$50 million) from ESF grant funds to the Economic Development Fund established by FFA.

Achievement of inputs assumes availability of funds and AID-FFA agreement on financial management of the Fund.

III. ECONOMIC ANALYSIS

A. The Different Economies.

The developing countries expected to benefit from the FTP have a great variety of economic circumstances. [It is not clear how Australia and New Zealand will participate. New Zealand is expected to use some payments it receives for Tokelau, three atolls north of Samoa with 1,700 inhabitants.]

Table ONE summarizes basic economic information about possible relative economic impact on participating developing countries. The table estimates a high annual payment under the probable distribution of cash transfer funds according to the tuna catch in the countries' Treaty waters. Catches will vary widely with natural and commercial conditions, and actual payments may be higher or lower in any year.

The differences among the economies are illustrated by the extreme situations of PNG and Tuvalu.

1. Papua New Guinea (PNG). Population 3.44 million; GNP \$2.42 billion or \$705 per person; and high estimated cash payment \$5 million or \$1.45 per person.

Due to the major tuna resource within its Treaty waters, PNG is likely to be the largest initial recipient of FTP cash payments. Because PNG is relatively large and endowed with other resources, these payments will be proportionately less to PNG's economy or budget than to most other recipients.

Thus, FTP will help PNG diversify its economic base and strengthen the share fisheries resources contribute to the total economy and budget while greater macro-economic effects may result from ending disputes over tuna boat operations and from increased economic development dialogue.

2. Tuvalu. Population about 7,700; budget \$2.73 million or \$354 per person; and high estimated cash payment \$1.5 million or \$194.81 per person.

As the smallest independent economy, but a moderately large initial recipient, Tuvalu could be heavily impacted by the FTP cash transfer.

Tuvalu may place cash transfers in a trust fund rather than spend them at once. This could reduce Tuvalu's need for basic budget support from other donors. Thus, the FTP may lay a groundwork for significant improvement in the economic status of a highly dependent country.

Table ONE

ECONOMIC IMPACT OF HIGH CASH TRANSFERS

"Transfers" are high estimates of annual cash transfers for early years of the Treaty; actual payments may be higher or lower.

"Indicators" are GDP, GNP or budget per person as available for contrast with the magnitude of the cash transfer per person. Absent better information, a value of 1,000 is assigned the indicator for FSM, Marshall Islands and Palau.

Data are most recent available in Suva at the time the PAAD is drafted.

COUNTRY	POPULATION 000	TRANSFER \$ 000	TRANSFER/ PERSON \$	INDICATOR/ PERSON \$	TRANSFER % INDICATOR
Cook Islands	17.2	200	11.63	1,100	1.0
Fiji	710	2,500	3.52	1,900	0.2
FSM	82.4	4,000	48.54	1,000	4.9
Kiribati	65.1	2,500	38.40	350	11.5
Marshall Islands	32.8	1,500	45.73	1,000	4.6
Nauru	8.4	800	95.24	5,779	1.6
Niue	3.2	200	62.50	2,121	2.9
Palau	12.4	1,000	80.65	1,000	8.1
PNG	3,440	5,000	1.45	705	0.2
Solomon Islands	279	800	2.87	380	0.8
Tokelau (NZ)	1.7	400	236.69	1,262	18.8
Tuvalu	7.7	1,500	194.81	354	55.0
Vanuatu	140	400	2.86	935	0.3
Western Samoa	160	800	5.00	550	0.9

3. Other Recipients. Other countries still range widely in size and potential impacts (Table ONE).

Other Treaty countries vary in the degree of importance to the total economy of the fishery resource. Direct economic impacts for other recipients include reduction of balance of payments or debt problems, increased revenue base for financing national budgets, and fishery and other development project benefits.

Indirect economic impacts may flow from Treaty-related business and investment climate improvement and activities with the U.S. tuna industry. With the Treaty, Western Samoa hopes to process tuna for canning in American Samoa. Tuna is already the Solomon Islands largest export (none now to the U.S.).

B. The Tuna Resource.

The tuna resource on which FTP is based is skipjack and yellowfin tuna. About \$100 million of these varieties are expected to be harvested annually by U.S. purse seine operations in Treaty waters.

These species are highly migratory and highly prolific. They can be harvested in far greater than presently expected quantities without depleting the renewable resource. They migrate over great distances, and their abundance varies with oceanographic conditions. Therefore, the best grounds for harvesting vary from year to year.

C. U.S. Tuna Interests.

U.S. purse seine boats are very efficient in harvesting tuna near the surface. Currents near the Equator bring nutrients for the tuna food-chain toward the surface near islands and reefs. The Treaty countries' EEZs include many of the best grounds for operation of U.S. tuna boats.

The U.S. is the principal market for most of the volume of tuna harvested. Other harvesting methods are required for the tuna used in Japan which is of higher value per ton.

The variability of the resource in a given area over time is compounded by variations in other factors affecting commercial operations of U.S. boats. These include:

Market prices for tuna harvested vary with supply and demand.

Operating costs for the boats vary.

The relative advantages of operating under U.S. registry vary.

These commercial considerations limit forecasts of economic value of the tuna resource to the U.S. and Treaty countries over time. At the time the Treaty was signed, the landed value of the U.S. boats' catch was estimated at \$100 million per year. The price (in American Samoa) has risen considerably since then.

These commercial considerations also make it more reasonable to enter into a five-year, regional agreement than to seek shorter-term agreements country by country. The Treaty spreads risks to both Treaty countries and U.S. tuna boat operators.

D. Treaty Effects.

Without the Treaty, U.S. and island country positions on tuna fishing in EEZs differ over the highly migratory nature of the tuna. The U.S. legal position held that countries should not control tuna fishing in their EEZs, and U.S. laws penalized countries enforcing tuna controls on U.S. boats by banning tuna imports from them.

By establishing a regional agreement for tuna harvesting by U.S. boats, the Treaty opens the way for more orderly economic development of the resource. The Treaty removes, for five years, the disincentive to investment in tuna operations in the Treaty countries due to possible loss of access to the U.S. market.

A number of Treaty countries hope to capture economic benefits of increased operations -- harvesting, servicing boats and canning tuna -- the Treaty may encourage.

For the Treaty countries, the benefit of a large catch in their waters is more assured under the Treaty while they can still expect some benefit when their catch is less than hoped.

For the U.S., there is access at reasonable cost to the tuna resource in Treaty waters and an end to the foreign relations and economic costs of disputes over that access.

IV. INSTITUTIONAL ANALYSIS

A. The FFA.

The South Pacific Forum Fisheries Agency (FFA) is an international intergovernmental organization founded in 1979 in Honiara, Solomon Islands. It serves as a specialized agency of the regional governments for economic, technical and financial aspects of fisheries, especially the migratory species.

The 16 current members are Australia, Cook Islands, Federated States of Micronesia (FSM), Fiji, Kiribati, Marshall Islands, Nauru, New Zealand, Niue, Palau, Papua New Guinea (PNG), Solomon Islands, Tonga, Tuvalu, Vanuatu and Western Samoa.

The FFA serves as Administrator of certain interests of member governments under the Treaty including those in the FFA-AID Agreement.

B. Analysis of FFA.

Because success of the FTP depends on the ability of FFA to carry out Treaty functions, USAID contracted for an analysis of its management capabilities by the MAS Consulting Group, Inc. of Seattle. The MAS analysis was completed in December, 1987. Its findings, and USAID experience with FFA in prior implementation of the Fisheries Development Project (879-0009), are the basis for this institutional analysis.

The MAS analysis found "the FFA has strong and comprehensive administrative policies, systems and practices already in existence which will likely insure the successful administration of its responsibilities for the Treaty." The MAS report commented on the high state of staff competence and morale, state-of-the-art business tools and communications practices.

MAS suggests increased budget provision for contingencies under the Treaty (principally unforeseeable travel expenses), for management training of technically competent professionals, and for further staff to handle Treaty financial accounts and travel arrangements. USAID and FFA will seek budgetary provisions to carry out MAS' recommendations.

Based on USAID experience with the Fisheries Development Project, FFA is able to satisfy AID project management and accounting requirements. This experience was in dealing with a much smaller scale of AID resources (FFA only managed the small activities portion of that Project). Therefore, MAS recommends a review of experience of FFA management under the Treaty within a year, and USAID will conduct such a review.

V. ENVIRONMENTAL CONCERNS

Most of the resources in the FTP will be cash transfers without identifiable environmental effects. The Project Component will probably be divided into annual shares of less than \$70,000 per country and used for research, training, technical assistance or commodity assistance without significant environmental effect.

However, review procedures similar to those for the existing Fisheries Development Project (879-0009) will be in effect and will include review for possible environmental concerns.

VI THE ECONOMIC DEVELOPMENT FUND

A. Treaty and Agreement Provisions.

Article 2 of the AID-FFA Agreement requires FFA to establish an Economic Development Fund with AID payments. Annex II, paragraph 3 and Schedule 2, Part 1, paragraph 2 of the Treaty require these payments before licenses become effective for U.S. tuna boats.

Article 3 of the Agreement requires FFA to ensure that the Fund is used "to support economic development purposes in accordance with section 531 (e) of the Foreign Assistance Act..." which provides that Economic Support Fund (ESF) funds "...shall be available for economic programs and may not be used for military or para-military purposes."

Article 3 also requires FFA to agree with AID on a financial management system. Article 5.2 provides that the first annual grant not be made before the Fund has been established and the financial management system has been developed.

B. The Fund.

The FTP will amplify these provisions to establish the Economic Development Fund as an operation of the FFA to fund:

- i) operating and administration costs of FFA under the Fund
- ii) cash transfers from the Fund to FFA member governments, and
- iii) projects in member countries.

FFA has the responsibility to seek the agreement of member governments participating in the Treaty to arrangements for its costs and for distributing other benefits from the Fund. Neither the Treaty nor the Agreement require AID participation in arriving at these arrangements.

FFA will inform AID at the start of each Treaty year of intended uses of that year's payment to the Fund, and FFA will report actual uses made of the Fund.

C. Method of Financing.

AID payments to the Fund will be made by:

- i) Direct Letter of Commitment;
- ii) Cash payment (Treasury check or electronic funds transfer); or
- iii) Other mutually agreeable method.

AID prefers the Direct Letter of Commitment method. At least initially, FFA may collect and hold the annual U.S. Government payment in cash. This will represent full control by Pacific Island countries over proceeds of tuna boat licensing under the Treaty.

D. Financial Management.

1. Financial Management Objectives. Portions of the Fund held in cash by FFA will be managed: first, securely; second, to reduce or postpone U.S. balance of payments effects; and, finally, to invest balances held for more than immediate operations to earn maximum returns consistent with the first two objectives.

2. Custody of Fund. Except for local operating accounts approved by the USAID Controller, cash will be held in bank accounts and securities approved by AID. FFA will seek maximum safe return consistent with the period funds are held before use.

Under the expected initial cash transfer system, \$7.65 million will be held by FFA 18 months before distribution to member governments. Interest in the range of \$500,000 to \$1 million may be earned during this period.

3. Disposition of Interest. Interest earned on funds paid to FFA to achieve FTP purposes will be put to the same uses as the principal amount invested.

4. Accounting for the Fund. Each year's \$10 million AID payment into the Fund will immediately be split into a Cash Transfer Component (\$9 million) and a Project Component (\$1 million). A reservation of funds for FFA operation and administration costs will be made before Cash Transfer Component funds are reserved for any other use.

Before any other use is made of funds, FFA will advise USAID of the uses planned for that year, and when those uses are expected to be made of the Fund.

USAID will promptly advise FFA of any planned use of the Fund which AID is not permitted to finance. If possible, FFA will advise USAID of planned uses of the Fund in advance of the annual AID payment.

Within the Cash Transfer Component, FFA will account separately for each sub-activity for each member country.

5. Time Limits for Fund Use. FFA and USAID will establish appropriate means of communication and periods for providing notice to one another before planned uses of the Fund are considered mutually approved. They will also agree each year on a fixed date from which the FTP Year will run.

If any funds are unused one year after the end of a FTP Year, FFA will consult USAID about the circumstances delaying its use. Unless AID otherwise agrees, funds remaining two years after the start of a FTP Year will be disposed as follows:

- a. Cash Transfer Component funds not distributed because of a dispute or question about distribution among two or more member countries will continue to be held in the Fund until the dispute or question is resolved, and
- b. All other funds will be used for agreed economic development activities of FFA (e.g., research, training or technical assistance) or will be returned to the U.S. Treasury.

6. Financial Reports. FFA will report the financial status of the Fund monthly. FFA will make available to USAID all bank statements or other reports from custodians of Fund assets.

VII. CASH TRANSFER COMPONENT

A. First Year Distribution Plan.

FFA will obtain the agreement of participating countries to each year's division of the Fund. We expect two distributions from the \$9 million Cash Transfer Component in the first FTP Year.

1. Initial 15% Distribution. The first distribution, immediately on establishing the Fund, will be 15% of the \$9 million, or \$1.35 million. This will be divided equally among the participating countries. Each will receive \$90-135,000 (at least ten but no more than 15 countries will share in this distribution).

This distribution allows every participating country, regardless of the catch in its EEZ, to gain some cash from the Agreement. It also allows for a cash distribution as soon as the Agreement becomes effective.

2. The Second Distribution. The remainder of the \$9 million Cash Transfer Component, \$7.65 million, will be distributed after the actual catch in each participating country's EEZ is tabulated. The second distribution will be proportional to the value of the catch in each country. This formulation allows countries with more valuable tuna areas to gain more than other participating countries.

It will require 16-18 months to compute the second distribution. Because \$7.65 million of the Fund will be intact for so long, interest on this sum is significant (between \$500,000 and \$1 million).

3. Potential Problems. A number of problems may arise over computation of the catch in the various EEZs. There may be incomplete, illegible or lost records of the catch or of the boat's location at the time a catch is taken. Other questions or disputes may arise over conflicting claims of EEZ boundaries among FFA members.

To avoid such problems, USAID and FFA will require unsettled claims to be paid out of other than AID funds to the extent possible. There are annual U.S. industry license fees (\$1.75 million in the first year) which may be held by FFA like the second distribution from the Fund. FFA may be able to use the Fund for unquestioned distributions by carrying unsettled claims against these non-AID funds.

B. Other Possible Distributions.

Many Island governments seek funds as soon as possible. Over time finance authorities interest in immediate receipt of Treaty benefits may result in pressure for distribution of all cash at the start of each year. Also, over time, experience with catch data may suggest acceptable ways to divide the payments among the participating countries.

C. Uses of Cash Transfers.

1. Budget Support. The Agreement foresees budget support for all but the military and para-military uses prohibited by section 531 (e) of the Foreign Assistance Act. Section 531 (e) is the only reference in the Agreement to the FAA or other restriction on use of cash payments.

Most Treaty countries expect to use cash transfers for budget support. Table TWO indicates that even high estimated cash transfers can be absorbed within most budgets without attribution to purposes AID is not permitted to finance.

2. AID Preferred Uses. USAID has indicated that AID prefers that cash transfers be used:

First, for purchases of goods and services exported from the U.S.,

Second, to pay interest or principal owed to U.S. persons or to international development institutions such as the World Bank or the Asian Development Bank or other donors,

Third, to pay host government costs of development projects of AID, international development institutions or other donors,

Fourth, for other national budget expenditures, and

Fifth for a trust fund for future use for the above purposes.

Over time USAID hopes for voluntary FFA and recipient country agreement to these priorities. Also there is an administrative incentive to follow AID's first three preferences. Because budget support uses will require reports of both planned and of actual budget expenditures, the recipients and FFA will have to track them for over a year and report them to AID.

Sums used for AID's preferences can be documented in much shorter time. This gives recipients incentives to use cash transfers to benefit the U.S. balance of payments or for development uses.

3. Negative List. USAID has also requested that cash transfers not be used for purposes AID is not permitted to finance. The restrictions in Handbook 1, Supplement B section 4D are provided as a negative list. Generally this negative list covers military or para-military uses; police, prison or law enforcement uses; abortion uses; luxury goods; commodities or activities of communist countries; or servicing debt incurred for these purposes.

USAID will ask that other funds be substituted for cash transfer funds used for these purposes and that the AID funds then be used for permitted purposes. USAID expects that recipients will find it easy to use cash transfers for purposes AID is permitted to finance. Inadvertent uses for negative list purposes can be adjusted amicably and easily.

Table TWO

CASH TRANSFERS AS BUDGET SUPPORT
High Estimated Cash Transfer

Country	Budget in \$000	Transfer in \$000	Transfer % Budget	Budget % Ineligible
Cook Islands	35,320.7	200	0.6	1.8
Fiji	318,408	400	0.1	7.6
Kiribati	11,262.8	2,500	22.2	9.8
Nauru	48,543.7	800	1.6	1.4
Niue	6,788.4	200	2.9	0.4
Papua New Guinea	768,165.7	5,000	0.07	13.5
Solomon Islands	38,470	800	2.1	8.1
Tokelau (NZ)	2,133.3	400	18.8	0.3
Tuvalu	2,727.9	1,500	55.0	4.5
Vanuatu	35,706	400	1.2	7.8
Western Samoa		800		

Most recent expenditure budget data available in Suva.

The budget percent ineligible is the portion identifiable as for military, police, prisons or similar purposes.

NOTE -- countries not shown: it is not clear how Australia and New Zealand will participate; New Zealand is expected to participate on behalf of Tokelau; Tonga is not now participating in the Treaty; and the Federated States of Micronesia, Republic of the Marshall Islands and Republic of Palau receive much of their budgets from other U.S. Agencies, but can be estimated to have the following cash transfers:

FSM	4,000
Marshall Islands	1,500
Palau	1,000

4. Special Case: Tuvalu. Table TWO shows that Tuvalu could be heavily impacted by the magnitude of cash transfers compared to the total budget.

Tuvalu currently seeks donor support for a trust fund, interest on which would replace annual budget support from donors. Donors have not found projects likely to provide as good a return as investment in a trust fund.

Other donors are adopting the trust fund approach, but AID has not participated. The trust fund option for use of FTP cash transfers would offer Tuvalu an opportunity to contribute its own resources to a joint effort with donors to reduce its extreme economic dependence.

An administrative burden, but a development opportunity, arises from the trust fund approach. FFA and Tuvalu will have to track and report to AID FTP funds in the trust fund until used for a purpose AID is permitted to finance. At the same time, AID will have an opportunity to engage Tuvalu in development dialogue over uses of the trust fund.

5. Special Cases: Compact Countries. FSM, Marshall Islands and Palau, the former Trust Territory of the Pacific countries, have substantial budget receipts from other U.S. Government Agencies under Compact agreements and U.S. legislation.

It would be inappropriate to attribute FTP cash transfers to the same budget items. If this is the case, these countries take enough U.S. exports or owe enough debt service to U.S. creditors to use all FTP cash transfers.

VIII. PROJECT COMPONENT

A. Eligible Project Activities.

The AID-FFA Agreement does not specify what project uses may be made of the \$1 million annual Project Component. USAID expects an even division of funds for this component among participating FFA members. USAID, FFA and recipients have discussed about \$70,000 per recipient per year as likely project funding.

Because the national fisheries authorities have been involved in the Treaty and because FFA is a fisheries agency, emphasis on fisheries is inevitable in the early stages of implementation. However, USAID has made clear that any project activity along Development Assistance lines will be eligible.

USAID will screen project activity proposals for feasibility, development merit and appropriateness for AID financing. FFA successfully administered the small activities component of the Fisheries Development Project (879-0009). Similar screening of project proposals is planned under FTP.

B. Initial Fisheries Emphasis.

Informal sampling of tentative project ideas include annual fisheries research grants (PNG) and training provincial fisheries staff and fishermen, supporting rural fish marketing activities and developing an observer program for the local tuna industry (Solomon Islands). In both cases these are seen as five-year activities (i.e., up to \$350,000).

These countries and others with experience under the USAID Fisheries Development Project (879-0009) should have no trouble finding appropriate fisheries development uses for FTP project funding. These activities generally have good prospects of increasing incomes and of making wise use of renewable resources.

C. Other Treaty Recipients.

Recipients without previous AID project experience may already have planned project uses, particularly for fisheries purposes. FFA is an excellent intermediary to introduce these countries to AID's development style. FFA, like AID, follows a flexible and collaborative style of working with the member countries.

USAID welcomes the opportunity to expose additional countries to these development approaches.

1. The Compact Countries. The AID-FFA approach and new development relationships may be more important to the Compact countries than the relatively modest amount of FTP project resources (relative to other funding from the U.S. Government).

2. Very Small Countries. Tuvalu, and possibly other very small countries, may not be able to find worthwhile (positive rate of return) project activities that are not already funded by other donors. USAID will only accept this conclusion on the basis of analysis of the economic policy rationale for it, including that of other donors.

If FFA and USAID conclude that no worthwhile project opportunity is open in a given Treaty Year, they may agree to use of a very small country's share of the Project Component for a trust fund as described under the Cash Transfer Component for Tuvalu.

IX. OTHER DEVELOPMENT BENEFITS

A. Treaty Provisions.

In addition to the U.S. Government cash payments to be provided by the FTP, the Treaty and Agreement specify annual tuna boat licence fees (guaranteed \$1.75 million for 35 boats in the initial year with possible increases if tuna prices rise) and \$250,000 of U.S. tuna industry technical assistance over the Treaty period.

In addition both documents call on the parties to increase economic development cooperation in other unspecified ways. USAID views this a a great opportunity for development dialogue with more Regional countries. From this dialogue can come ways to use more AID resources in the Region and, even if more resources are not available, to use AID resources in the Region more effectively.

B. Implementation Climate.

The chances for achieving these unspecified benefits will be enhanced if USAID and FFA are able to implement the FTP without friction over interpretation of implementation arrangements. Experience with the earlier Fisheries Project (879-0009) indicates a good start toward this objective.

C. Development Cooperation Mechanisms.

To increase prospects for unspecified benefits USAID and FFA will seek to increase formal and informal consultation with participating countries on FTP implementation and on evaluation of FTP effects. This consultation may include an annual meeting of the parties or may be an adjunct to travel of USAID and FFA personnel on other business.