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ORGANISATION DE L'UNITE
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CM/780(XXVIII)Rev. 2

Addendum 1

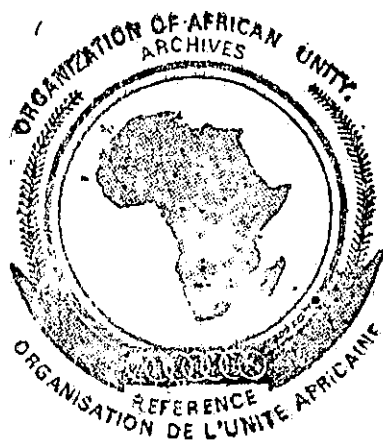
COUNCIL OF MINISTERS

Thirty-Second Ordinary Session

NAIROBI, Kenya

23 February - 3 March 1979

REPORT OF THE OAU ADMINISTRATIVE SECRETARY-
GENERAL ON THE REVIEW OF THE OAU SCALE OF ASSESSMENT



FA/353/13

NOTE NO. 7/78

The Ministry of Foreign Affairs and Tourism of the Republic of Seychelles presents its compliments to the General Secretariat of the Organization of African Unity and, with reference to its telegrams No. FA 13 of 12 January 1978 and No. FA 35 of 6 February 1978, has the honour to enclose herewith two copies of a paper concerning Seychelles' Application for a Reduction in the Percentage of Assessment for Budget and Other Contribution Purposes.

The Ministry requests that the General Secretariat take all necessary action to have this item inscribed in the agenda of the 30th Session of the Council of Ministers, as originally requested in its telegram No. FA 13 of 12 January 1978.

The Ministry of Foreign Affairs and Tourism of the Republic of Seychelles avails itself of this opportunity to renew to the General Secretariat of the Organization of African Unity the assurances of its highest consideration.

VICTORIA

8 February, 1978.

SEYCHELLES; APPLICATION FOR REDUCTION IN PERCENTAGE
OF ASSESSMENT FOR BUDGET AND OTHER CONTRIBUTION PURPOSES

GENERAL FINANCIAL POSITION OF GOVERNMENT

Seychelles achieved independence in June 1976 without any financial reserves. The Government was then and still remains in receipt of assistance for its recurrent budget. Its Ordinary Budget deficit at 31 December 1976 was Rs.5,730,145 (US Dollars 764,020). Subject to audit, this had risen to Rs. 15,580,145(US Dollars 2,077,350) at the end of 1977. Despite the curtailment or postponement of many necessary services in 1978, it is estimated that by the end of this year the deficit will have reached Rs.30,122,445 (US Dollars 4,016,330). Since 1976 Government has incurred expenditure in entirely new fields such as Defence and Foreign Affairs, but this expenditure, as will be readily appreciated, is an unavoidable concomitant of independence. There has been no irresponsible expansion of Government spending.

2. The state of the Government's finances has meant that almost all capital for new investment and development purposes of whatever kind has come and will continue to have to come from overseas, whether from private sources, foreign governments or international organizations, though efforts to generate and utilise domestic savings are being energetically pursued.

3. It also has to be remembered that, in Seychelles:-

- (a) there are no local authorities or governments, and virtually all services are provided by the national government;

- (b) the scattered nature of the country - the islands farthest from Victoria, the country's capital, are 650 miles away - make administration and the provision of basic services expensive by comparison with a country of the same population concentrated in one small, physical area; and
- (c) in 1976, Government consumption expenditure cost US Dollars 230 per head of the population.

4. SCALE OF ASSESSMENT

The scale of assessment currently in force requires Seychelles to contribute 1.55% of the OAU Ordinary Budget expenditure. This percentage also determines contributions to at least some Special Funds.

5. It is the view of the Seychelles Government that when this scale of assessment (based on gross domestic product (GDP) and population factors) is translated into actual contributions, it results in an undue financial burden on Seychelles. For this reason, Seychelles seeks a reduction in its assessment in respect of the Ordinary Budget and, insofar as the scale of assessment determines contribution to Special Funds, in respect of those Funds also. In 1977/78, Seychelles known contributions are as follows:-



<u>ITEM</u>	<u>US DOLLARS</u>
Ordinary Budget	160,984
Special Fund, Liberation Committee	52,095
Drought Emergency Relief Fund	10,732
Financial Assistance to Djibouti	15,500
	<u>239,311</u>

The sum of US Dollars 239,311 itself represents 0.87% of the total estimated Government expenditure of US Dollars 27,365,880 in 1978.

6. In support of this application for a reduction in the percentage at which it is assessed, Seychelles puts forward the following for consideration:-

LIMITATIONS FOR GDP COMPARISONS AND MEASUREMENT

(a) The limitations of using GDP to make international comparisons are well known. Seychelles has no subsistence production. Such production in bigger countries or in countries where subsistence production is a large and significant item tends to be understated, so that GDP comparison between Seychelles and such countries may well be misleading and adverse to Seychelles. For example, a staple food of Seychelles is rice, which has to be imported. In recent years, the country's supply has come from Australia. Consequently, the landed cost reflects a high proportion of shipping and related charges. The resulting market price (even though strictly controlled by Government) is probably several times the value put on subsistence production of rice or other cereals in other countries. Further, Seychelles also lacks any other form of domestic production of cereals which makes it entirely dependent upon imports of rice and flour. This dependence inflates the cost of living and makes Seychelles' GDP figure misleading by comparison with other countries in which the basic cereal or

carbohydrate foodstuffs are produced by its own subsistence and/or domestic producers at lower than world market prices.

EFFECTS OF IMPORTATION OF COMMODITIES AND GOODS

(b) A very large percentage of commodities and goods required by Seychelles has to be imported as they just cannot be produced in Seychelles. The size of the orders for each (which are relatively small because of the size of the population) and the long distances over which they have to be imported mean that the landed unit cost is high. This has also meant that in recent years Seychelles has been very open to the importation of world inflation. In the face of this inflation incomes have had to rise to assist the people in their endeavours to maintain their standard of living. In effect, whilst the monetary value of incomes in Seychelles may be higher than quite a number of other developing countries, its real value is not necessarily greater.

EFFECTS OF FOREIGN AID AND PRIVATE CAPITAL

(c) As mentioned above in paragraph 2, virtually all capital for new investment and development has to come from abroad, whether in the form of foreign aid or private finance. This inflow, which helps to inflate Seychelles GDP, was estimated to have been about Rs.120 per head in 1976 or nearly 40% of GDP and was responsible for most of the construction activity in the country. Such capital inflows are welcome, but it must also be understood that they are very volatile.

INEQUITIES OF THE GDP PER CAPITA FORMULA

(d) From Annex I of document CM/780(XXVII) Rev.1, the following comparisons may be drawn:-

COUNTRY	GDP US\$1000's	POPULATION 1000's	GDP P/HEAD	CONTRIBUTION AS % OF OAU BUDGET
Seychelles	21,693	60	362	1.55%
Somalia	320,454	3,170	101	0.69%
Senegal	590,143	4,985	118	0.96%
Uganda	1,033,117	11,550	89	1.18%
Madagascar	917,243	7,520	122	1.23%

The above are a few examples only, but they show that Seychelles is being called upon to pay a larger contribution to the Regular Budget and the Special Funds than, say, Madagascar and Uganda whose populations are over 100 times bigger. Thus, the formula used for assessment purposes does not recognise the very significant differences in total GDP between member countries and, in consequence, discriminates in a particularly unfair way against a small state which happens to have an above average level of GDP per capita. As to actual figures, document CM/843(XXX) provides illustrations of the amounts Seychelles is called upon to pay by comparison with those countries quoted above, solely for illustrative purposes.

CATEGORISATION AS A LEAST DEVELOPED COUNTRY

(e) Recognition of the distortion sometimes afforded by pure figures is evidenced by the acceptance of Seychelles as a least developed country at the joint ACP/EEC Council of Ministers Meeting in April 1977 and by the UN General Assembly by resolution 32/101 on 13 December 1977.

7. It is therefore requested that Seychelles' percentage in the scale of assessment for Budget and Special Funds purposes be reduced to 0.50% with effect from and including 1977/78.

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Report of the OAU Administrative Secretary-General on the Review of the OAU Scale of Assessment

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