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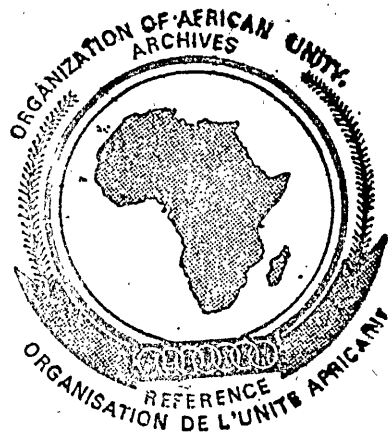
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APPLICATION FOR REDUCTION IN SCALE OF
ASSESSMENT FOR BUDGET AND OTHER
CONTRIBUTION PURPOSES



ORGANISATION OF AFRICAN UNITY
30TH SESSION OF THE COUNCIL OF MINISTERS

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 Re.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 organisations, 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 farthestmost 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

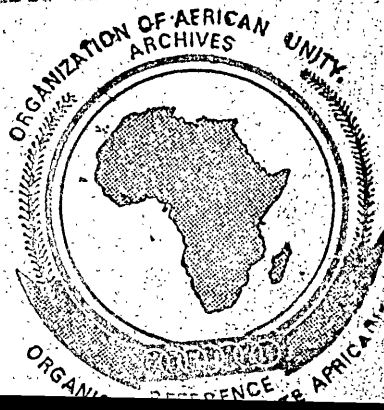
(a) The limitations of using GDP to make international comparisons are well known. Seychelles has no subsistence production. Such production in bigger countries or in countries where subsistence production is a large and significant item tends to be understated, so that GDP comparison between Seychelles 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.



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