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CLASSIFICATION

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PROJECT EVALUATION SUMMARY (PES) — PART I

Report Symbol U-

1. PROJECT TITLE	2. PROJECT NUMBER	3. MISSION/AID/W OFFICE
MAURITIUS COMMODITY IMPORT PROGRAMS	642-K-601/604,606	REDSO/ESA
	4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY) #1 FY	
	☐ REGULAR EVALUATION ☐ SPECIAL EVALUATION	

5. KEY PROJECT IMPLEMENTATION DATES			6. ESTIMATED PROJECT FUNDING	7. PERIOD COVERED BY EVALUATION
A. First PRO-AG or Equivalent FY 82	B. Final Obligation Expected FY 86	C. Final Input Delivery FY 87	A. Total $11,914,000	From (month/yr.)
			B. U.S. $11,914,000	To (month/yr.) DECEMBER 1986
				Date of Evaluation Review FEBRUARY 1987

8. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
1. Commodity Import Programs should continue as support to the Government of Mauritius (GOM) efforts to strengthen its financial and economic condition, and should plan to import U.S. edible oils because of the simplicity of procurement and low management requirement.	REDSO/ESA DIRECTOR	4/30/87
2. For all ongoing and future local currency projects, implementation progress reporting and monitoring should be improved, perhaps by the assignment of a GOM staff member to participate in project selection and design, to liaise with participating implementation agencies ministries and to supervise the reporting and monitoring process on behalf of the GOM.	AID-GOM PROJECT MANAGERS	3/31/87
3. While the selection and implementation of local currency projects generally have been good, there have been instances where project objectives have not been clearly stated and the sustainability of projects not fully considered in the PAAD's. Future PAAD's should include specific objectives for local currency projects, and should identify issues which concern the sustainability of those projects.	AID PROJECT MANAGER	4/30/87

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS			10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT
☐ Project Paper	☐ Implementation Plan, e.g., CPI Network	☒ Other (Specify) FY 1987 CIP PAIP	A. ☒ Continue Project Without Change
☐ Financial Plan	☐ PIO/T		B. ☐ Change Project Design and/or ☐ Change Implementation Plan
☐ Logical Framework	☐ PIO/C	☒ Other (Specify) FY 1987 CIP PAAD	
☐ Project Agreement	☐ PIO/P		C. ☐ Discontinue Project

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles)	12. Mission/AID/W Office Director Approval
David McCloud, REDSO/ESA Project Officer	Signature
Pushkar Brahmbhatt, REDSO/ESA Engineer	Typed Name
Edward Wright, Human Resources Specialist	Arthur M. Fell, Director
Pierre Dinan, Economist	Date 23 FEB 1987
Robin Harel, Private Sector Specialist	

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CLASSIFICATION

PROJECT EVALUATION SUMMARY (PES) — PART I

Report Symbol U-4

1. PROJECT TITLE	2. PROJECT NUMBER	3. MISSION/AID/W OFFICE
MAURITIUS COMMODITY IMPORT PROGRAMS	642-K-601/604.606	REDSO/ESA

4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY) #1 FY

☐ REGULAR EVALUATION ☐ SPECIAL EVALUATION

5. KEY PROJECT IMPLEMENTATION DATES
A. First PRO-AG or Equivalent FY____
B. Final Obligation Expected FY____
C. Final Input Delivery FY____

6. ESTIMATED PROJECT FUNDING
A. Total $______
B. U.S. $______

7. PERIOD COVERED BY EVALUATION
From (month/yr.) ______
To (month/yr.) ______
Date of Evaluation Review

8. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
(CONTINUED)		
4. No loan agreement exists between the GOM and the Development Bank of Mauritius (DBM) for the local currency allocation from the FY 1985 CIP for the development of the Vacoas-Phoenix Industrial Estate, nor did the GOM appear to be aware that all funds received in repayment are to be used only for purposes agreed to by the GOM and AID. A loan agreement and a plan for use of loan repayments should be established per the requirements of the grant agreement.	AID PROJECT MANAGER, DBM AND MOF	4/30/87

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS

☐ Project Paper ☐ Implementation Plan, e.g., CPI Network ☐ Other (Specify) ______
☐ Financial Plan ☐ PIO/T
☐ Logical Framework ☐ PIO/C ☐ Other (Specify) ______
☐ Project Agreement ☐ PIO/P

10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT
A. ☐ Continue Project Without Change
B. ☐ Change Project Design and/or
☐ Change Implementation Plan
C. ☐ Discontinue Project

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles)

12. Mission/AID/W Office Director Approval
Signature
Typed Name
Date

MAURITIUS COMMODITY IMPORT PROGRAM EVALUATION

CONTENTS

ACRONYMS

AID	Agency for International Development
CIP	Commodity Import Program
CHA	Central Housing Authority
CSO	Central Statistical Office
CTO	Central Training Organization
CWA	Central Water Authority
DBM	Development Bank of Mauritius
EEC	European Economic Commission
EPZ	Export Processing Zone
FY	Fiscal Year
GDP	Gross Domestic Product
GNP	Gross National Product
GOM	Government of Mauritius
IA	Irrigation Authority
IMF	International Monetary Fund
MEF	Mauritius Employers Federation
MEPD	Ministry of Economic Planning and Development
MEPZA	Mauritius Export Processing Zones Association
MEDIA	Mauritius Export Development and Investment Authority
MOROIL	Mauritius Oil Refineries
MGTO	Mauritius Government Tourist Office
PAAD	Program Assistance Approval Document
RS	Mauritian Rupees
SAL	Structural Adjustment Loan

Financial Year: Refers to the Mauritius financial year which extends from July to June

Tonnes = metric tons

I. Preface

This evaluation report is organized as follows: Section I is an executive summary which includes a review of the purpose and history of the CIP's, the evaluation methodology, and a summary of findings with respect to both CIP management and content as well as design and implementation of the local currency projects. Section II covers in detail the evaluation of the CIP's themselves. It includes subsections on the background to the programs relationship between the CIP's and the economy, the development impact, management of the programs, and lessons learned. As part of the subsection on background to the programs, compliance to Section 801 of the International Security and Development Cooperation Act of 1985 is discussed. Section III presents an evaluation of each of the local currency projects identified. These evaluations are presented in more detail in a project evaluation summary format in the annexes. The set of annexes completes the report.

Note: Exchange rates are presented in Annex Table VI.

I. Executive Summary

1

A. Significant Findings

1. The successful implementation of the Mauritius CIP's since FY 1982 has proven that AID can operate a single commodity/single importer CIP without a direct hire presence in the recipient country.

2. The CIP is also particularly notable for the kind of commodity imported, edible oil, and the method of procurement given the nature of the market for that commodity. The market for edible oil is volatile in terms of price fluctuations, and firms must be able to procure on short notice to take advantage of price changes. In this case, the private sector importer is able to operate following standard commercial practices, with the exception that procurement must be in the U.S. Future AID Regulation I CIP's which intend to deal with similar commodities could use the Mauritian one as an example.

3. Local currency projects in general have been well designed and implemented, and have had significant development impact. Programming local currency generations has management implications which are particularly important in the Mauritian case given the lack of AID direct hire personnel in country, and project selection and monitoring may require greater participation and supervision by host country government personnel.

A summary of major recommendations appears on the facesheet.

B. Purpose and History of CIP's

The purpose of the AID Commodity Import Programs (CIP's) in Mauritius has been to provide both balance of payments and budgetary support to the Government of Mauritius (GOM). A standard CIP has been utilized in each year (1982-1986) for the direct disbursement of funds for the importation of edible vegetable oil by a private sector firm, Mauritius Oil Refineries (Moroil). The local currency equivalents of the grant amounts have been deposited into a Special Account and used by the GOM to support selected development programs mutually agreed upon by AID and GOM during the design of each annual program.

The amounts of the annual CIP grants and the respective local currency generations and disbursements are as follows:

CIP Grants, Local Currency Generations and Disbursements, FY 1982-1986
(as at 12/31/86, including interest)

U.S. FY	U.S. $ (m)	Rs. (m)	Rs disbursements (m)
1982	2.0	28.0	28.0
1982	2.0	28.0	22.0
1984	4.0	64.3	64.1
1985	2.0	27.4	27.4
1986 1/	1.914	13.4	-
TOTAL	11.914	161.1	141.5

The primary purpose of the CIP's has been balance of payments support. From 1976/77 to 1980/81 Mauritius' balance of payments' position deteriorated steadily, as expansionary fiscal and wage policies were maintained from the sugar boom years. Since 1979 the GOM has been working with the IMF and the World Bank on stabilization and structural adjustment programs. AID has provided through its CIP's to date approximately $12 million as support to Mauritius' efforts to strengthen its financial position.

A secondary purpose of the CIP's has been to provide budgetary support to the GOM for agreed upon development projects. Over the five year period FY 1982-86 about Rs. 174.0 million have been allocated to projects. These projects have been in a variety of areas, the major ones being the development of industrial sites for export processing zones and the improvement of water supply systems. This evaluation report covers those projects supported under the FY 1982-1985 CIP's only, since FY 1986 funds were made available only during late October, and no disbursements have yet occurred for ocal currency projects.

The development strategy of the overall AID program for Mauritius is as follows:

1) to support agricultural diversification and sustainable food policies;

2) to promote private sector activities in key development areas such as export processing, manufacturing services and tourism; and

3) to assist the GOM in the provision of essential services (e.g. water, supply) to the poorest elements of the population.

The FY 1984 PAAD further states that the CIP generations would be used primarily to support the second objective of the strategy, that is, to promote private sector activities. This also has been the emphasis of successive programs. The program assistance as a whole is in accord with the GOM's program of structural adjustments.

C. Summary of Findings

1. CIP Content and Management

The choice of a single commodity and single private sector importer is particularly well suited to the realities of the administration of the CIP in Mauritius. AID has no professional staff based in Mauritius, and must rely on program management by REDSO/ESA with assistance from the U.S. Embassy/Mauritius Economic/Commercial Assistant and a PSC secretary. Simplification of CIP management has been essential, and has resulted in the successful implementation of CIP's in the absence of in-country AID staff. A second notable feature of the CIP's is that AID regulations have proved to be sufficiently flexible to allow Moroil, which procures edible oil on a commodity market characterized by transactions on very short notice, to follow standard commercial procedures, with the exception that procurement must be of edible oil from the U.S.

1/ For FY 1986 the rupee equivalent of only 1.0 million has been deposited into the special account since there has been so far only one procurement.

Without the CIP's, the net deficit on the balance of payments could have been Rs. 219.8 million for the period under review, as against an actual figure of Rs. 84 million. thus, the programs have had a significant positive effect on the balance of payments. In addition, the availability of the local currency generations has reduced significantly the GOM's reliance on the banking system for funds to cover what otherwise might have been deficit spending. Finally, it should be noted that the CIP's have provided for the import of a commodity, i.e. edible vegetable oil, which is basic to the diet of all Mauritians.

It is recommended that the CIP's continue as support to the GOM in its efforts to strengthen its financial and economic condition. Continued support is justifiable on at least two grounds. First, the GOM has made significant progress toward reform, but work remains and will require continued donor support. Second, growth in the manufacturing sector has contributed greatly to the stronger economic position, but continued growth is not assured in the absence of diversification from textile industries which dominate (in terms of growth) the recent additions to that sector. Mauritius will require continued support as it attempts to diversify.

Continued ESF support to Mauritius on the basis of balance of payments problems could be challenged by the recent surplus on the current account. However, it is not yet certain that the one year's performance indicates a sustainable trend. Second, the local currencies generated are well utilized to help diversify the single export dependency which has characterized Mauritius until recently. That export earnings now rely on three major items is a significant improvement, and further diversification within the EPZ firms will help ensure a more stable export earning future. Thirdly, the local currencies are utilized for on-budget activities, and as such help to reduce budgetary deficits and public indebtedness. For these reasons, therefore, the CIP in Mauritius should be continued for the near future.

2. Local Currency Generations and Projects

In general, implementation of the local currency projects has progressed well. The projects chosen have supported the GOM's development strategy as well as AID's overall program for Mauritius. The major set of projects, those involving the construction of industrial buildings, has promoted employment generation and manufacturing for export, and thus has stimulated both income generation and foreign exchange earnings. As the next step in the process, the GOM is looking for diversification from textile industries so that socio-economic gains achieved are not lost. This diversification is needed to help raise wage rates and to protect against a possible textile slump or new quota limits. The second major set of projects, those involving the provision of water for both household use and irrigation, is providing important economic and social services to the population. In sum, the projects have been designed to meet the needs of Mauritius, have been implemented in a highly professional manner, and have generally succeeded in meeting, or at least moving toward, their respective objectives. However, as is discussed later, one area which requires improvement with respect to local currency project implementation is that of reporting and monitoring.

Local currency deposits generally have been made promptly, and local currency generations have equalled the CIP grant amounts. One notable feature in this regard is Moroil's agreement with the GOM that the firm pay as local currency equivalent only that amount represented by the world market price of edible oil when that price is less than the U.S. price. Frequently, U.S. oil has been more expensive than equally suitable oil from elsewhere. According to Moroil's agreement, it pays on the basis of the world market price when the U.S. oil is more expensive, and the GOM makes up the difference so that in the end the total local currency generations equal the CIP grant amount.

Over the four year period FY 1982-85, CIP local currency generations have been used to fund projects in the following areas: construction of industrial buildings and the development of one industrial estate, improvements to water distribution systems, promotion of tourism, maintenance of small scale irrigation systems, a small business financing scheme, investment and trade promotion, procurement of computers for improved management, and self-help projects. All but the computer procurement and the self-help projects have been included in this evaluation.

The industrial buildings and industrial estate referred to are part of the Export Processing Zone (EPZ). The EPZ is not a specific physical area, but rather a concept whereby firms which establish manufacturing plants in Mauritius for export production are eligible for various investment incentives and tax benefits. The physical plants can be located virtually anywhere, and one aspect of the EPZ program is to provide employment opportunities for those in rural areas by encouraging the placement of plants in those areas.

D. Evaluation Methodology and Team Composition

There have been annual CIP's since FY 1982. This evaluation covers the entirely of the FY 1982-85 CIP's, and the FY 1986 CIP in terms of specific AID procedural requirements having been met. Both major aspects of the CIP's were evaluated, i.e. the edible oil procurement and the local currency projects.

Data collection was achieved through a combination of reviews of government and non-government documents, statistics, and other relevant studies; interviews with individuals concerned with policy development, project implementation, and related activities in both the public and private sectors; and site visits.

The evaluation team consisted of Pushkar Brahambhatt, REDSO/ESA Engineer; Ed Wright, human resources development consultant; Pierre Dinan, economic consultant; Robin Harel, private sector consultant; and David McCloud, REDSO/ESA Project Development Officer and team leader. In addition, Mr. Abdullah of the GOM Ministry of Finance's Accountant General's office was the team's government liaison, and Mr. Shariff Jathoonia, Economic/Commercial Assistant with the U.S. Embassy in Port Louis, the team's AID liaison. The evaluation was conducted over a two week period, from 2-19 December, 1986.

II. CIP Evaluation

A. Background of the Program

1. The Setting

The island nation of Mauritius covers 720 square miles and has a population of over one million consisting of Hindus, Muslims, Creoles, Sino-Mauritians and Franco-Mauritians. The polyglot population mirrors the island's mixed history of French and British colonialization, and the importation of a large number of Indians as indentured laborers following the abolition of slavery in 1833. Hindus and Muslims of Indian descent constitute 67% of the population; the Creoles, descending from African slaves mixed with other racial strains, make up 29%, whereas the Chinese represent 3% of the population, and those of European origin 1%. Despite the heterogeneity of the population, a distinctive Mauritian cultural identity has emerged. Although English is the official language, French and Hindi are widely spoken, and Creole represents the prevailing language of communication for Mauritians.

While the population density is very high, at about 1,300 inhabitants per square mile, the population growth is a modest 1.2% per annum, largely resulting from a successful family planning program introduced in the 1960's. With an estimated per capita income of $1,130 in 1984, Mauritius enjoys a standard of living comparable to those in middle income countries in terms of nutrition, literacy, health care and educational facilities.

2. Recent political history

Mauritius has an active, multi-party, parliamentary democratic political system. The country has remained a member of the British Commonwealth, and has a governor-general who represents the Queen as head of state, and a prime minister who is head of the government. Prior to becoming a British colony in 1810, Mauritius had been a French colony, and the French influence remains quite strong today.

Since independence from Britain in 1968, there have been a series of coalition governments, a situation resulting from the relatively large number of political parties which have formed around different issues, political philosophies, and individuals. The early 1970's was a stormy political period, when a state of emergency was declared and general elections cancelled. When elections did take place in 1976, the then governing party, the Labor Party, formed a coalition with the Parti Mauricien Social Democrat (PMSD), to achieve a majority of seats over the opposition which consisted primarily of the Movement Militant Mauricien (MMM). The Labor - PMSD coalition continued to 1982, when general elections brought to power the MMM, in alliance with the Parti Socialiste Mauricien (PSM), a breakaway from the Labor Party. The current prime minister, Mr. Aneerood Jugnauth, assumed his position at this time.

Disputes within the alliance caused its breakdown within nine months of the 1982 elections, and the leader of the MMM, Mr. Paul Berenger, moved his party out of government and into the opposition. The prime minister, Mr. Jugnauth, maintained his position and created a new party, the Movement Socialiste Militant (MSM), from his MMM and PSM supporters. However, he soon had to call a general election which took place on August 21, 1983. For this election the MSM, Labor Party, and PMSD joined forces and won 41 of 62 seats. The Organization du Peuple Rodrigues (OPR) also added its two seats to the government side.

This alliance changed significantly in 1984 when, amongst other events, the Labor Party leadership was dismissed from government after disputes between the party leader and the prime minister. Some Labor parliamentarians remained on the government side, and formed a new party, the Rassemblement des Travaillistes Mauricien (RTM). The Labor Party leader came back in 1986 to hold the post of Foreign Minister.

During December - January, 1985/6, a series of events brought about political instability. Among the more significant was a heroin scandal precipitated by the arrest of four alliance deputies at Amsterdam airport. Investigations of drug trafficking continue at the present time. In addition, although not directly related to the scandal, four cabinet ministers resigned during this period. In part due to these recent events, there has been some speculation that an early general election may be called. However, the government has given no official notice that it intends to do so prior to the end of its term in 1988.

3. Economy

Mauritius' economy grew rapidly between 1972 and 1977, thanks to high sugar prices and rapid growth of the manufacturing sector. Generous incentive schemes encouraged manufacturing for export. Sugar prices declined sharply in 1976, however, and combined with the second large increase in petroleum prices in 1979 to reduce Mauritius' terms of trade and balance of payments. Expansionary fiscal policies and generous wage increases in the late 1970's led to budgetary deficits and accelerating inflation. The decline in real GDP growth rate was exacerbated by several severe cyclones and culminated in a real fall in GDP of 10 percent in 1980. Worldwide recessionary pressures and rising protectionism resulted in reduced demand for Mauritian exports and a fall in the number of tourist arrivals. However, the value of manufactured exports rebounded particularly in 1984 and 1985, reflecting the recovery in world trade and more market-oriented foreign exchange and wage policies. While this recovery created a sizeable number of jobs, the level of unemployment is still relatively high and remains an issue of major concern. Annual growth of GDP was only 1.6% in the 1960's but increased to 6.0% annually from 1970 through 1981. A negative growth rate of -9.6% in 1980 significantly reduced the average annual growth rate for the six year period 1980-85 (2.2%), but in four of those six years the annual rate was 4.8% or higher. The 1985 rate was 6.5%. Of the major sectors, manufacturing has experienced the most rapid growth during recent years. Within the manufacturing sector, the Export Processing Zone (EPZ) firms account for an increasing share of production. In 1983, EPZ represented 31% of the manufacturing sector's output in money terms. In 1984, this increased to 37%, and in 1985 provisional figures put the share at 42%. Performance of the agricultural sector, which is dominated by sugar, has not been encouraging. In money terms, output has fluctuated, but it has not yet exceeded its 1982 level. Growth in the other major sectors has occurred, but at low rates.

Equally significant to the manufacturing sector's impact on economic growth is its impact on employment generation. Over the past few years employment in the sugar industry has declined more rapidly than the rest of the economy has been able to create jobs. That, combined with the rapid growth of the labor force due to the relatively high proportion of young people in the Mauritian population, has resulted in a serious problem of unemployment. However, rapid expansion of investment and production in the EPZ is helping to provide a solution. Employment in the manufacturing sector more than doubled from 1975 through 1984, increasing 8.9% annually, while total employment from all sectors rose 1.5% annually. Most recently, substantial gains were registered in 1984 and 1985 in the manufacturing sector. In 1984 employment in large manufacturing establishments grew by 14% over the previous year, and in 1985, it grew by 33%.

During the 10 years prior to 1976, Mauritius had small current account deficits in only two years. Since 1975, deficits have occurred in nine consecutive years totaling nearly $750 million. The crisis was brought on by over-valuation of the currency, high petroleum prices, and low sugar prices. This situation has changed dramatically since 1981, however. With a setback occurring only in 1984, the balance on the current account has steadily improved to the point where the country is now experiencing a modest surplus. This, combined with a moderate surplus on the capital account, has enabled reserves, though still low in absolute terms, to increase from only a few days of import requirements to nearly two months of requirements.

Imports have been managed carefully since 1979 and have not increased in SDR value except for 1980/81. However, in current domestic prices the value of imports rose 10.5% annually. Petroleum was 16.0% of imports in 1984/85. The uses of imports have changed significantly from 1979 through 1983. The share consumed by households declined from 29% to 26% whereas intermediate consumption rose from 59% to 66%. There has been a substantial decline in the share of imports devoted to gross domestic capital formation.

According to IMF statistics, the consumer price index rose 29.6% in 1980, due primarily to the higher cost of imported items resulting from currency depreciation and higher utility and petroleum prices. Annual increases fell steadily thereafter to 1983, when the percentage change was 5.6%. The rate of change then accelerated to 8.3% in 1984, and, according to the Ministry of Economic Planning and Development, fell to 4.3% in 1985.

In 1979 the GOM initiated stabilization and structural adjustment programs with IMF and World Bank support. Since then five consecutive IMF stand-by arrangements have been implemented, supporting policies to adjust the foreign exchange rate, reduce consumer subsidies, restrain wage increases, restrict the growth of credit and the money supply, reduce the overall fiscal deficit, and maintain a liberal system of trade and payments. There have been two IBRD Structural Adjustment Loans. The first, in 1981 for $ 15.0 million, focussed on supply-side measures. The second, in 1983 for $40.0 million, had four objectives: (1) restructuring the sugar industry and agricultural diversification; (2) further promotion of export-oriented industrialization; (3) tourism development; and (4) improved public resource management. In general significant progress had been made in improving fiscal and financial management.

Compared with other countries served by REDSO/ESA, the performance of Mauritius in adjusting to prolonged low export prices and high petroleum prices has been exemplary. It is expected that there will be a balance of trade surplus on the current account by the end of this fiscal year, June 1987. Foreign and local investors are showing considerable interest in investing in the EPZ where employment and production are expanding rapidly. Overall growth of formal sector employment is particularly notable: since 1982, 44,500 new formal sector jobs have been created, representing a 23% increase over this time period. During the past year alone 22,500 new jobs were created, a 10.4% increase over the previous year. As a result of this growth in formal sector employment, the unemployment rate has fallen from a high of 22% in the early 1980s to less than 14% currently. However, as is raised in the evaluation of the industrial estates, how long this growth in investment, and its consequent spin-off effects, will last is not clear. Investment growth may slow, and existing investors may shift their operations elsewhere if more favorable terms are offered. In the absence of continued growth, unemployment will become a more pressing problem, and the level of exports could stagnate or fall.

4. <u>Evolution of Objectives</u>

In each of the years since the program's inception in FY 1982 the primary objective has been to provide balance of payments and budgetary support to the GOM. To achieve this objective a two-stage assistance program was designed in FY 1982 and has continued since. Under the first stage, the CIP was to be utilized for the direct disbursement of U.S. dollars against import requirements of the private sector which would provide to GOM the local currency equivalent to pay for the imports. The commodities imported were to be in select development related areas, such as raw material inputs for local industry and/or manufactured goods to increase private sector productive capacity. Under the second stage, local currency generations would be used by the GOM, as mutually agreed to by GOM and USAID, to support development programs and projects.

During the process of identifying eligible commodities it was decided to limit the CIP to one set of commodities, semi-processed degummed edible vegetable oils. Edible oils are raw material inputs for the local edible oil processor, Mauritius Oil Refineries. Restricting the CIP to edible oils reduced the management demands, and this was (and is) desirable since there are no AID professional staff based in Mauritius and therefore the program must be managed from REDSO/ESA in Nairobi.

The objectives of the local currency programs and projects have been increasingly more clearly specified in the PAAD's over the years. In the FY 1982 PAAD, no specific objectives were identified, only projects. In the FY 1983 PAAD, two objectives identified are to support and promote private sector activities, and to promote agricultural diversification. The most precise identification of objectives appears first in the FY 1984 PAAD. There, the following three aspects of AID's overall development strategy for Mauritius are specified:

a) to support agricultural diversification and sustainable food policies;

b) to promote private sector activities in key development areas such as export processing, manufacturing services and tourism; and

c) to assist the GOM in the provision of essential services (e.g. water supply) to the poorest elements of the population.

The FY 1984 PAAD further states that the CIP generations will be used primarily to support the second objective of the strategy, that is, to promote private sector activities. This also has been the emphasis of successive programs. The program assistance as a whole is in accord with the GOM's program of structural adjustment.

5. Implied and Additional AID requirements

The CIPs have operated under AID Regulation 1 in its entirety and have followed negotiated procurement procedures. GOM's foreign exchange allocation and import licensing procedures were reviewed and a determination made that the AID procedures would not place an undue burden on the system.

To monitor the progress of both elements of the program - draw-downs on the CIP and progress on the use of local currency generations - AID has required specific reports to be compiled and submitted. For all years the following reports were required:

a) CIP
  i) report of letter(s) of credit opened;
  ii) report on disbursements.

b) Local Currency Generations
  i) quarterly and cumulative disbursements by the Ministry of Finance from the Special Account;
  ii) for each program or activity funded from the Special Account, the amount budgeted for the activity, disbursement made during the quarter and cumulative disbursement; and
  iii) a general description of activities, goods, services, structures and/or facilities, etc., financed during the quarter.

Since FY 1984, an additional report has been required as follows:
  iv) for any loan funded from the Special Account, a report on the amount and terms of such loans, the repayment schedules, the proposed use for repaid funds and quarterly reports of repayments actually made.

The following two special conditions are included in the FY 1986 grant amendment:

a) that up-to-date reports on the local currency uses under all previous CIP's be completed prior to disbursement of funds from the FY 1986 CIP;

b) that withdrawals from the FY 1986 CIP Special Account require the joint approval of the MOF and REDSO/ESA; and

Finally, to clarify a misunderstanding, in FY 1986 AID added the following statement to the grant agreement, that to the extent that local currency deposits in the Special Account by private importers are less than the local currency equivalent of the dollar financing made available under the grant, the GOM deposit the difference into the Special Account.

These special conditions have been included to address the following three problem areas: (1) the lack of Ministry of Finance (MOF) quarterly reports; (2) the shortfall of local currency in the FY 1984 CIP Special Account; and (3) the withdrawal of funds from the FY 1983 CIP without starting agreed upon projects.

6. Congressional Requirements of Section 801 of ISDCA of 1985

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

The importation of semi-processed, degummed vegetable oil is cost effective, and leads to employment generation through the need for additional processing in Mauritius. The end recipients are the general population.

b) Are imports coordinated with GOM development plans?

Yes, the importation of vegetable oil supports the GOM's objective of maintaining a steady supply of basic commodities in the country. The importation of semi-processed oil, as mentioned above, also supports the GOM's objective utilizing Mauritian labor whenever possible.

c) Will imports expand agricultural production?

No, historically most arable land in Mauritius has been put to production of sugar cane, which is one of the few crops resistant to the recurrent cyclones in Mauritius, and the production of oil seed crops is not anticipated in the near future, thus the need for edible oil imports. However, a portion of the local currency generations from the various CIP's is being used to expand agricultural production in particular of food crops.

d) Do the CIP imports have broad development impact among economic sectors and geographic regions?

Yes, edible oil is distributed throughout the country, and is used by all income groups.

e) Are the imports additional to those that would otherwise occur?

Trade between Mauritius and the U.S., although growing, is still relatively small. In the absence of the CIP's the total amount of edible oil imported from all sources probably would not have been less, but the amount imported from the U.S. most likely would have been significantly less given the ordinarily higher than world market price charged for U.S. oil. Thus, in addition to providing balance of payments support, the CIP's have enlarged the market for U.S. products.

f) Are local currency generations deposited into a special account and used for agreed economic development activities that are consistent with the FAA and the types of activities for which assistance can be provided under sections 103-106 of the FAA; and is a portion made available to the U.S.?

In accordance with the Grant Agreement, the local currency equivalent of the dollar financing made available under the Agreement is deposited in a Special Account. Local currency generations resulting from the FY 1986 CIP are likely to be used in the following ways:

1) agricultural research for diversification, primarily to increase food crop production;

2) water development on the island of Rodrigues;

3) promotion of industrial development; and

4) land reclamation.

The agricultural research and water development projects fall under Section 103 of the FAA. The promotion of industrial development and the land reclamation projects both follow from the GOM's industrial development policy which aims to create employment opportunities for the rural and urban unemployed in both rural and urban areas, and thus fall under section 103 (rural development) and section 106 (selected development activities - programs of urban development). The Grant Agreement also provides that such portion of the funds in the Special Account as may be designated by AID shall be made available to meet the requirements of the United States. However, in particular since there is no AID direct hire presence in Mauritius and no real need for access to the local currency funds, this provision has not been invoked.

B. Relationship between CIP and Economy

1. Introduction

During the period, 1981-1986, Mauritius has implemented an economic recovery program, in conjunction with stand-by arrangements with the IMF and two World Bank "Structural Adjustment Loans" (SAL). Some significant measure of success has been registered, as evidenced by the following basic macro-economic data (see detailed tables in annexes):

- an average real growth rate of 4.6% p.a. over the past five years;

- a declining annual growth rate of the population so that the real per capita income also has been following an upward trend since 1981;

- a reduction in the overall Government budget deficit from 12.6% of GDP in 1981/2 to an estimated 5.0% in 1986/7, which, in a country like Mauritius with a high propensity to import, has had important implications for the trade balance;

- a gradual improvement in the cover of imports by exports from a low of 65.9% in 1981 to 87.2% in 1985 and 94.8% for the first seven months of 1986;

- a consequent favorable impact on the balance of payments, and particularly on the current account which measures, inter alia, the net result between exports and imports of goods and services: (After years of deficits, both the current account and the balance of payments are expected to register a modest surplus for 1985/6.)

- a reduction of the rate of inflation, as measured by the Consumer Price Index, from 13.4% in 1981-82 to 4.3% in 1985-86, and an estimated 2.09% for the calendar year 1986; and

- a reduction in the unemployment rate from a peak of over 20% five years ago to less than 14% at present.

Employment in "large" enterprises (defined as those employing 10 persons or more) has shown significant growth: 2.6% only between 1975 and 1980, 1.7% between 1980 and 1983, but 5.2% since 1983. The numbers of jobs created in the EPZ enterprises has grown particularly quickly. In September 1983, there were 23,592 jobs in the EPZ enterprises; by June 1986, they were 66,000, i.e. 42,400 jobs have been created within 33 months. The EPZ is now the largest employment sector in Mauritius.

2. Economic Effects of the CIPs

The CIPs have had major economic effects in two areas, balance of payments support and budgetary support to selected GOM programs and projects. These two are discussed separately below.

a) Impact on balance of payments

Vegetable oil imported for refining under the CIP's has totalled 22,223 tons during the period under review, or about 22% of total vegetable oil imports into Mauritius. Similarly, the CIP program has contributed about 22% of the total cost of oil imports over the same time period. This contribution amounts to Rs. 135.8 million. During that period the balance of payments registered deficits in two years totalling Rs. 649 million, and surpluses totalling Rs. 565 million (estimated), giving a net deficit of Rs. 84 million (see annexes). Thus, were it not for the CIP program, the net deficit of the balance of payments could have been 1.6 times higher at Rs. 219.8 million. (Given the frequently lower price of equivalent oil from non-U.S. sources the net deficit in the absence of the CIP's perhaps would not have been as high as stated above, but in any case it would have been significantly higher than the Rs. 84 million level.)

This balance of payments support has been provided at a particularly crucial time for the Mauritian economy, a time when the GOM is promoting structural adjustments in favor of a strengthened export manufacturing sector and reduced dependence on its sugar industry for its foreign exchange earnings.

b) Budgetary support

From 1981/82 through 1985/86 (or FY 1982 through FY 1985), CIP local currency generations totalled Rs 125.5 million. These funds were programmed for expenditure on high-priority projects, and represented an important savings to the GOM in terms of reduced dependence on the banking system for funds. If it is assumed that in the absence of the CIP currency generations the projects would have been financed by the banking system, the borrowing would have reduced the financial resources available to the private sector for other productive investments. One objective of the GOM in conjunction with IMF stand-by arrangements is to reduce the share of bank credit appropriated by the public sector in order to release more resources for the private sector. Over the time period reviewed here the share of public sector bank credit has decreased from 58.9% in December 1982 to 54.1% in March 1986.

C. Development Impact

In the various PAAD's there were no specified development objectives associated with the commodity component of these CIP's other than the macro-economic ones discussed above, i.e. balance of payments and budgetary support. Some objectives have been stated in general terms for the local currency projects, an evaluation of which forms a separate section of this report.

However, it is important to note that the CIP complements a major USAID goal, promotion of the private sector so as to stimulate employment generation and a general increase in productive activity. This is accomplished primarily through the local currency generations and their expenditure on relevant projects such as industrial estates. In addition, the vegetable oil itself is imported in a semi-processed state. Completing the processing involves labor use and adds local value to the final product. In terms of equity considerations, the commodity imported is an essential item which is in demand by those in every segment of the population.

There has been one unintended effect, the transfer of funds from GOM to the Special Account to make up shortfalls in the amount of local currency deposited by the commodity importer, Moroil. The refinery pays the local currency equivalent of the world market price of oil when that price is less than the U.S. price. Through a special agreement the GOM pays the balance. Since all the money in the end goes into GOM priority projects, this procedure has no major development impact except to the extent that it may increase GOM's drawings from the banking system.

D. Management of the Program

1. Organization

There is only limited staff available on the part of the U.S. Government to implement and monitor procurement for the Mauritius CIP's. This was an important consideration in the original design of the CIP, i.e, the importation of a single commodity using negotiated procurement and AID Regulation 1 procedures. There are no AID direct hire staff assigned to Mauritius. The principal backstop officers have been REDSO/ESA personnel. Day-to-day matters have been handled by the Economic/Commercial Assistant at the American Embassy in Port Louis, assisted by an administrative assistant. Relations with the Mauritius government officials appear to be excellent. In consideration of the staffing constraint and resulting need to manage the overall program from Nairobi, program implementation has gone quite well. Particularly commendable is the work performed by the Economic/Commercial Assistant, Mr. Shariff Jathoonia, whose responsibilities include much more than simply the AID program. In sum, the overall design and implementation of the CIP's have proved to be successful and have been well suited to conditions in Mauritius.

During the first couple years, there were some minor difficulties with implementation of the CIP's, but these have been resolved. One of these concerns the lead time necessary for advertising the intended procurement. Under the FY 1982 CIP, the refinery was required to submit a notice of intent to procure the oil 45 days in advance of the date of purchase so that the procurement could be advertised. Due to dissatisfaction with this system on the part of the refinery, whose standard commercial policy is to procure on very short notice so as to take advantage of price changes, a revised system was put into effect and used from FY 1983 on. In accordance with this new system, the refinery advertises its intent to purchase a certain quantity of oil over a specified period of time. Interested U.S. suppliers are asked to convey their interest to the refinery's purchasing agent based in London. When the refinery decides to go on the market, these firms are notified by the agent and asked to submit a bid within 48 hours. The bids are evaluated, and perhaps the top three are asked to resubmit a "best offer", or the refinery may suggest a lower price. In the end the lowest bidder wins the contract.

Except for the fact that procurement is limited to the U.S., ordinary commercial practice is followed for edible oil procurement, in compliance with AID Regulation 1. A review of procurement documentation indicates that the procedures as laid out have been followed, and AID has been informed on a regular basis about individual procurements. However, advertisements could be placed more frequently soliciting firms' interest in participating so as to keep up-to-date the procurement agent's list of interested firms. Evidence of two advertisements over the program's life have been located.

Due to lack of interest on the part of U.S. vessels to handle the oil shipment, a determination of non-availability of U.S. flag carriers was requested and agreed to for each of the years of the program.

During FY 1982 AID used a special letter of credit financing mechanism. During subsequent years a bank letter of commitment mechanism has been used.

2. <u>Local Currency Deposits and Accounting</u>

Each grant agreement has included a section which details the establishment of a Special Account and deposits therein of local currencies. Moroil has made its deposits in a timely and accurate fashion. There have been problems in other areas as discussed below, although most of these have been rectified.

a) Moroil found that the price of U.S. oil was often significantly higher than that of oil from other sources, particularly South America. Thus, to Moroil the CIP was not always a commercially viable proposition. To ensure that the program could continue, an agreement was reached between Moroil and the GOM whereby Moroil is responsible for depositing the local currency equivalent only of the "world market" price of the oil purchased under the CIP. The GOM is responsible for depositing the difference between what Moroil deposits and the local currency equivalent of the total grant. When this system first went into effect in 1984, the Moroil deposits were made promptly but the GOM deposits were not. There was confusion on the part of the GOM as to procedures. The deposit was finally made about eight months late. The system is working smoothly now, and ordinarily only two weeks or less pass before the GOM's deposit is made.

b) Originally the Special Account was maintained at the State Commercial Bank, a government parastatal. This arrangement lasted about one year, during which time there was dissatisfaction with the service being provided. The account was shifted to the Citibank, the only United States bank operating in Mauritius. Citibank provided good service up to the bank's closing its Mauritius operations earlier this year, at which time the account was automatically taken over by the Mauritius Commercial Bank (MCB), a private bank, which assumed Citibank accounts. It has not been decided as yet whether the account will remain in the MCB.

c) In 1985, the FY 1983 CIP Special Account was closed and a balance of Rs. 17.0 million transferred to the GOM's general account. However, two of the 1983 projects had not yet started, and early closure of the account resulted in loss of interest income. This matter was raised to the Ministry of Finance by AID, and as of this writing is in the process of being resolved. It is also the subject of PIL No. 4 for the FY 1983 CIP. Resolving the issue has also involved a reallocation of funds for that year's local currency disbursements. In part due to this problem encountered with the FY 1983 Special Account, the FY 1986 CIP grant agreement sets as a condition that disbursements from the Special Account will be made only upon requests bearing the signatures of the authorized representatives of both the GOM and AID.

d) There was a discrepancy between AID and GOM records of total local currency generations for the FY 1982 CIP. The GOM has since submitted a revised financial status report which agrees with the AID accounts.

e) Finally, the FY 1985 and Fy 1986 grant agreements provide that if any funds from the Special Account are used by the GOM to make loans, all funds received in repayment of such loans shall be reused only for purposes agreed to by the GOM and AID. The entire FY 1985 CIP amount of local currency generated went to DBM as a loan for the development of the Vacoas-Phoenix Industrial Estate (an EPZ estate). The Financial Secretary was not questioned on this matter, but other officials of the Ministry of Finance were not aware of the grant agreement provision regarding loans. The terms of the loan repayment have yet to be determined. Once they are, the Ministry of Finance has been asked to inform AID of the details so that repayment amounts and uses can be monitored. It should be noted that the procedures for accounting for and allocating the loan repayment appear nowhere in AID documentation, and therefore should be conveyed to the GOM in a PIL.

3. Local Currency Project Implementation

In a section below, findings about each local currency project are presented. In this section a topic related directly to program administration is addressed, timely submission of quarterly financial and progress reports and the content of those reports. As discussed above, quarterly financial and progress reports are required for each local currency project in accordance with the Grant Agreement. The Accountant General's office prepares and submits expenditure reports on the respective ministries behalf, and coordinates the submission of progress reports.

As of June 1986, the timeliness and quality of the expenditure reports has improved significantly as the result of both the provision by AID of a computer to GOM for this purpose, and the diligence of the Accountant General's staff member, Mr. Abdullah, responsible for this reporting. However, the implementation progress reports have been deficient in both content and timeliness since the beginning of the program in FY 1982, and continue to be deficient. The general high quality of project implementation in Mauritius has meant that few problems have arisen, but in some cases there have been problems which went unnoticed due to lack of reporting, and thus lack of monitoring. Final reports have been received for most projects which have been completed, but quarterly progress reports were submitted only infrequently, and when submitted rarely provided adequate information for proper project monitoring. The progress reports are particularly important for AID monitoring purposes given the staff time constraints in Mauritius and the fact that project management is the responsibility of REDSO/ESA in Nairobi. In recognition of the existing problem with reporting, AID included as a condition to the FY 1986 Grant Agreement that up-to-date reports on the local currency uses under all previous CIP's be completed prior to disbursement of funds from the FY 1986 CIP.

At the moment AID relies primarily on the Ministry of Finance to enforce the reporting requirement. What should be sought is a way to increase implementation monitoring and improve reporting without further burdening AID and/or Embassy staff. Already AID has moved in this direction by providing the Ministry of Finance with a computer to be used for producing the quarterly financial reports. This, combined with the posting to the job of Mr. Abdullah, a highly capable staff member in the Accountant General's office, has significantly improved the standard of financial reporting. A similar effort is required to improve the implementation reporting. It is recommended that a staff member of the Ministry of Finance, or some other relevant ministry, be appointed by the GOM to monitor project implementation and supervise the preparation of quarterly reports by the individual implementing agencies. Because most of the current agencies are parastatals under the responsibility of specific ministries, this proposal may require some innovative administrative organization. However, such action is necessary if monitoring and reporting are to improve without significant increases in direct AID staff participation. The GOM staff member selected should be involved during the design stage, when implementing agencies and projects are

E. Lessons Learned

1. The successful implementation of the Mauritius CIP's since FY 1982 has proven that AID can operate a single commodity/single importer CIP without a direct hire presence in the recipient country.

2. The CIP is also particularly notable for the kind of commodity imported, i.e. edible oil (the market for which is volatile in terms of price fluctuations), and for the fact that the private sector importer is able to operate following standard commercial practices, with the exception that procurement must be in the U.S. Future AID Regulation I CIP's which intend to deal with similar commodities could use the Mauritian one as an example.

3. Local currency projects in general have been well designed and implemented, and have had significant development impact. What has become apparent, however, is that programming local currency generations has management implications which are particularly important in the Mauritian case given the staffing constraint with respect to USG personnel available to directly monitor the project's implementation. Under these circumstances, it is advisable to have assigned a host country government official to work with participant ministries and agencies during the project identification and design stages, and then to supervise the preparation and submission of the necessary financial and implementation reports.

III. Evaluation of Local Currency Projects

A. Introduction

The following local currency projects were evaluated using the AID project evaluation summary (PES) format:

Vacoas/Phoenix Industrial Estate
Seven rural industrial buildings
CWA rural water program
Francoise River diversion
Tourism promotion
Investment and trade promotion
Small scale irrigation scheme
Small business financing scheme

These evaluations in the PES format appear as annexes to the main evaluation report. In this section major features of the projects are reviewed, along with their development impact and achievement of objectives.

In general, implementation of the local currency projects has progressed well. The projects chosen have supported the GOM's development strategy as well as AID's overall program for Mauritius. The major set of projects, those involving the construction of industrial buildings, has promoted employment generation and manufacturing for export, and thus has stimulated both income generation and foreign exchange earnings. The second major set of projects, those involving the provision of water for both household use and irrigation, is providing important economic and social services to the population. In sum, the projects have been designed to meet the needs of Mauritius, have been implemented in a highly professional manner, and have generally succeeded in meeting, or least moving toward, their respective objectives.

It should be noted that this section and the PES annexes are a compilation of the work of all five team members. Also, a discussion of one important aspect of local currency project implementation, i.e. monitoring and reporting, has been included in an earlier section, Management of the Program (II,D).

B. Seven Rural Industrial Buildings Project and Vacoas/Phoenix Industrial Estate Project

The Seven Rural Industrial Buildings Project cost a total of Rs. 72 million, and was financed partly with Rs. 52.483 million from the AID FY 1984 CIP local currency generations. Its primary purpose was to provide facilities in rural areas for firms which are eligible to participate in the Mauritian Export Processing Zone (EPZ) program. The buildings are now managed by the Mauritius Export Development and Investment Authority (MEDIA), and are fully occupied. The Vacoas/Phoenix Industrial Estate Project cost a total of Rs. 36 million, and was financed partly with Rs. 27.1 million from the AID FY 1985 CIP local currency generations. The primary purpose for building the estate, which was developed by the Development Bank of Mauritius (DBM), was similar to that of the industrial buildings except that the facilities were to be concentrated in one central area rather than spread throughout rural areas. Thus, EPZ firms have access to industrial space in the estate. As with the rural industrial buildings, all available space has been rented, although in the estate not all the firms have actually occupied their space since the estate was only recently completed.

These two projects fit AID's strategy of promoting private sector activities in key development areas. As stated above, the purpose of the projects was to promote expansion of EPZ enterprises by making additional factory space available. Their goal was to assist the GOM in expanding and diversifying the economy in particular to increase exports and generate employment.

Both purpose and goal have been achieved. The buildings have been completed, and the general quality of design and construction is considered adequate. Most of the construction was completed on schedule, and all project inputs were executed in a planned manner.

The Mauritian economy has been both expanded and diversified through the investment which has resulted from the establishment of the firms in the EPZ facilities. For example, exports generated by 20 out of the 23 EPZ factories located in the rural buildings amounted to Rs. 143.9 million for the first ten months of 1986. The three other factories belong to three different respective groups (already established elsewhere in the country) which have registered exports worth Rs. 123.8 million during the same period. Particularly notable is the increase in employment. These projects alone have involved the creation of an estimated 8,500 new jobs in those manufacturing plants which have been newly established. In addition, all the construction was undertaken by private sector firms, and thus resulted in additional economic benefits both to the economy as a whole and to the owners and employees of those firms.

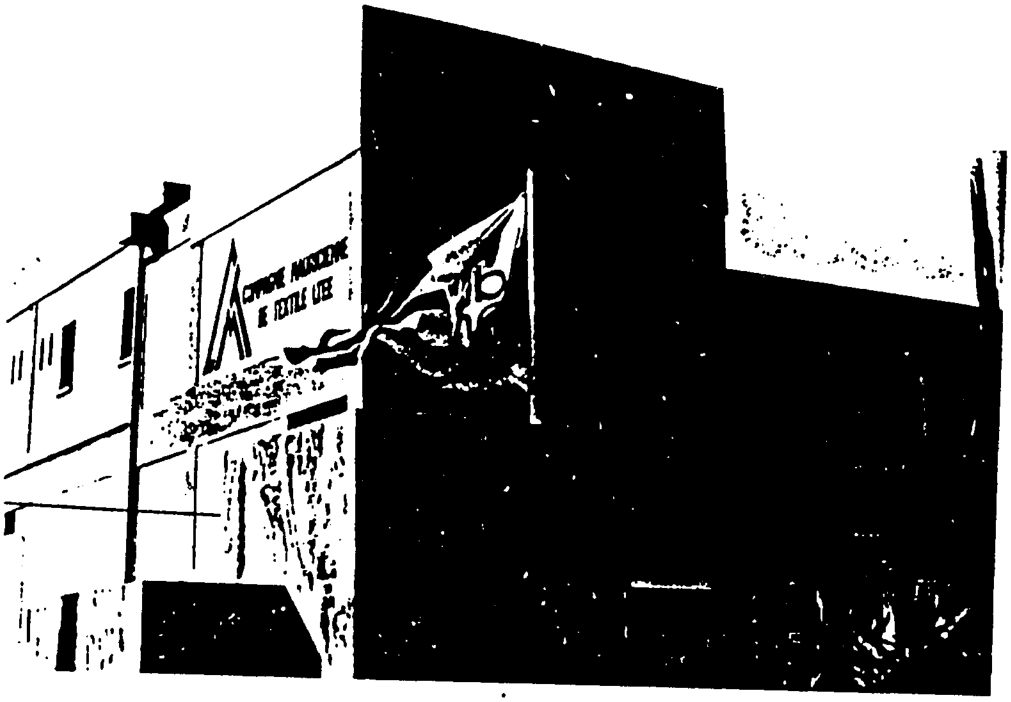
While not meant to be criticisms of the AID local currency projects, two major concerns have been raised about the sustainability of industrial growth through the EPZ concept. First, private and public sector training resources are inadequate to provide the training needed for continued growth. Second, whereas textile industries have provided an important boost to growth and employment generation, diversification to other kinds of industries may be necessary as a hedge against slower growth in this area and increased use of of quotas by developed countries.

C. CWA Water Projects

Three projects have been implemented by the Central Water Authority (CWA): 1) water supply to Central Housing Estates (CHA) and other rural areas (FY 1982, Rs. 20 million); 2) Francoise River Diversion (FY 1983, Rs. 9 million); and 3) CWA Rural Water Program (FY 1983, Rs. 5 million). The purpose of these projects were to provide improved potable water services and improved agricultural production capabilities. The goals were to improve the living conditions in particular of poorer residents, and to increase agricultural diversification and production. Thus, the projects fit AID's strategy of assisting the GOM to provide essential services (e.g. water supply) to the poorest elements of the population, and of supporting agricultural diversification and sustainable food policies.

The purpose and goals are being met both in terms providing improved potable water services and improving agricultural production capabilities. Approximately 30,000 people living in 56 CHA estates, and 20,000 people living in rural areas, are expected to benefit by the improvements to water services provided by these projects. In addition, through the Francoise River Diversion, water for irrigation will be channeled to an area where the potential for increased food crop production is great.

Views of the Vacoas/Phoenix Industrial Estate, inaugurated December 3, 1986



Views of the Vacoas/Phoenix Industrial Estate, inaugurated December 3, 1986

Construction and engineering work has progressed well with one minor exception. More rock blasting than originally anticipated has been necessary for the river diversion, and this has slowed progress by a few weeks. The evaluation team has noted that there have been some difficulties experienced by CWA with regard to rates collections, and supports the view that the CWA should continue and strengthen their attempts to collect water rates from those who are receiving services but not paying the required fees. A proper water rates collection policy will ensure the continued success of the GOM projects to which AID has contributed.

D. Promotion of Tourism

This local currency project has been in the form of general budgetary support to the Mauritius Government Tourist Office (MGTO). An allocation of Rs. 4 million was made in each of the two years, FY 1983 and FY 1984. The purpose of this project was to encourage the GOM to either maintain or increase in real terms its budget allocation for the promotion of tourism. The goal was to assist Mauritius in its attempts to diversify the main source markets for its tourists.

Again, both purpose and goal were achieved. As shown in Annex Table XIV, GOM budget allocations to MGTO have increased substantially between 1982 - 1986. In one year, FY 1984, the local currency contribution to MGTO was withheld by AID because the GOM budget allocations dropped, but the contribution was approved later when the MGTO's budget increased by 40%. Since 1983, the MGTO's budget has increased from Rs. 13.49 million to Rs. 27.46 million. The PES for this project, included as an annex, gives a number of details indicating the growth of tourism over the life of this project, and the diversification which has been achieved. That AID's contribution to the MGTO's budget during this period has been about 20% indicates that some credit can be claimed for the successes in tourism promotion. It is suggested, however, that future assistance in this area be designed to promote greater coordination between Mauritian private sector tourism firms and the MGTO.

E. Investment and Trade Promotion

This project was substituted for another project, assistance to MEDIA, which could not be implemented due to a slow start-up. About Rs. 3.8 million from the FY 1983 CIP local currency generations was spent primarily on consulting fees, missions abroad, and trade fairs. The purpose of these expenditures was to promote increased investment and trade, with the goal being a stronger economy and increased employment opportunities.

As is discussed in other sections of this report, there is evidence of both goal and purpose achievement, but the contribution of this project to these ends cannot be established with any certainty. The project has been a form of budgetary support and as such is difficult to evaluate as a separate component. However, the individual activities funded have kept Mauritius present on foreign markets, and this has been important in view of the continuing development and expansion of the EPZ manufacturing sector.

F. Small Scale Irrigation Project

Rs. 2.0 million of local currency generations from the FY 1982 CIP were allocated to the Irrigation Authority to assist with the development and maintenance of existing small scale irrigation projects by providing funds for the purchase of pumps and other required supplies and labor, and for the training of maintenance personnel. The goal of the project was to address constraints in the agricultural sector, in particular the lack of irrigation facilities for small holder producers of vegetables and other food crops. There are two project areas where a total of 192 farmers are located.

This was the only local currency project in which the evaluation team found major problems. There has been confusion on the part of the Irrigation Authority as to exactly what are allowable expenses for this project, with the result that over 71% of project expenditures, according to the Authority's books, have been spent on headquarter overheads and depreciation. Only a small amount has been spent on actual maintenance work, in great part because little work has been required given the recent construction of the projects. In addition, economic rates are not being charged to the scheme's participants, and as a result the revolving fund for maintenance work, as called for in the original project design, is rapidly being decapitalized.

The Authority management is very willing to discuss this state of affairs with the REDSO/ESA Project Manager, and to make any adjustments and revisions as necessary. It is suggested that a meeting be scheduled with the Authority's director and staff at the earliest possible time. However, to put this into some perspective, this project represents only 0.01% of total local currency generations.

G. Small Business Financing Scheme

The Small Business Financing Scheme (SBFS) was provided seed money of Rs. 7 million total from the FY 1982 and FY 1984 CIP local currency generations. It is an on-going project, its goal being employment generation, and its purpose to extend access to financing to non-industrial small scale entrepreneurs. The FY 1982 CIP PAAD team identified a need for a credit scheme for those who were trying to establish non-industrial businesses; small scale industrial business financing schemes already existed. Thus, the SBSF complements the development bank's on-going efforts to promote the development of the manufacturing sector.

Both purpose and goal are being achieved. The scheme provides loans of up to Rs. 50,000 for a duration of four years at an interest rate of 11% on the first tranche of Rs. 25,000 and 12% on the balance. The target population are small business concerns and service-oriented enterprises, including those in the informal sector, such as retail shops, hawker businesses, transportation businesses, etc. It is particularly significant to note that through the provision of only Rs. 7 million of local currency generations, AID has played a significant role in helping to establish what has become a Rs. 53.2 million program.

It is estimated that each loan gives rise to an average of two jobs. Given that 2,778 loans have been made, an estimated 5,556 jobs have been created as a result of this scheme. Details of the sectors in which loans have been made are included in the PES annex. Thus, not only does the scheme help small entrepreneurs to set up businesses on their own, but also it contributes, in a modest way, to job creation.

The success of the scheme has created some difficulties. Growth in demand for loans has meant that each application may not receive the attention it deserves. Given that the investors are inexperienced and ordinarily have no alternative access to formal investment advice, the success rate of businesses helped by the scheme may be reduced without increased attention to individual project viability. In addition, it was found that school le-vers who were encouraged to use this scheme as a source of employment frequently had not received nor had ready access to relevant and perhaps necessary training. Thus, the scheme has had a positive impact on employment generation in Mauritius, but there are some modifications which may be advisable to ensure its continued success.

IV. Conclusion

The AID Commodity Import Programs in Mauritius have been successful in terms of both commodity procurement and local currency project implementation. The simplification of procurement has resulted in programs which can be well managed despite the lack of AID direct hire presence in Mauritius. The selection of local currency projects has suited both AID development strategy for Mauritius and the Government of Mauritius' development priorities. The already high standard of project design and implementation in Mauritius means that those projects selected are likely to meet their respective purposes and long term goals. In most cases the more immediate purposes have been met already.

Although Mauritius has progressed considerably over the past few years in a number of areas, including economic growth, balance of trade, and employment generation, its continued success in these and other areas is not certain. Much of the recent growth has been due to expansion of investment in the Export Processing Zone, and this investment has been primarily in production of textiles for export. A slack in growth of investment and/or an increase in the use of quotas by developed countries to restrict entry in particular of textiles would endanger much of the progress Mauritius has achieved. Thus continued support is necessary to assist the country to strengthen the foundations laid for economic growth and to diversify its economy so that further growth is possible.