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MAY 21 1983

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approved
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ACTION MEMORANDUM

TO: John W. Koehring, Director, REDSO/ESA

FROM: James Dempsey, Project Officer, REDSO/ESA

SUBJECT: Authorization of Mauritius FY 1983 CIP Grant (642-0004)

Problem: Your approval is required to authorize a $2,000,000 grant to the Government of Mauritius (Mauritius CIP II).

Discussion: The purpose of the program is to provide balance of payments assistance and budgetary support to the Government of Mauritius (GOM). Based on an analysis of the structure of trade and aid in Mauritius, the design team has concluded that the most appropriate form of assistance is direct balance of payments support for goods imported from the United States. A two-phased assistance program is planned drawing upon the positive experience of the similar program from last year's CIP: First, $2.0 million of grant funds will be made available to finance the dollar costs of commercial imports from the U.S. for productive sector commodities using the CIP mechanism and Special Letter of Credit procedures. We anticipate that this will entail financing the commercial importation of approximately 4,200 tons of degummed vegetable oil. Second, the estimated Rs. 22 million in local currency that will be generated under this program will be deposited in a separate government account available to support mutually agreed upon development-related activities. The four activities that have been proposed are described below.

1) Pilot Irrigation Project. Local currency funds would support government efforts to diversify agricultural production on a pilot irrigation project in the Northern Plains area. The pilot scheme would entail putting 185 hectares of land under subsurface drip irrigation which would permit inter-line cropping of vegetables and other crops with sugar, increase sugar cane yield, and thus free up land for production of other agricultural crops. The Irrigation Authority would manage the scheme and Rs. 11 million would be allocated to this activity. AID agreement on this project will depend upon obtaining a favorable determination from AID/W on Policy Determination 71, as further explained below.

2) To enable Mauritius to expand its tourism promotion activities, and thus attract additional tourism revenues, an increase in the budget of the Mauritius Government Tourist Office (MGTO) is required. Rs. 4 million would be allocated from local currency generations to support expanded MGTO activities.

3) Investment and Trade Promotion. In support of Ministry of Commerce and Industry efforts to stimulate additional investment and trade through a new entity, MEDIA, charged with expanding traditional promotional activities as well as development of a one-stop investment center, an allocation of Rs. 3.5 million is proposed.

4) Village Potable Water. Rs. 3.5 million would be allocated to support a GOM program to provide potable water to villages currently serviced by irrigation canals, streams or inadequate service lines. The Central Water Authority would develop and manage the program.

Conditions and Covenants: No special conditions or covenants are proposed for inclusion in the Project Grant Agreement. Furthermore, no problems are foreseen in the negotiation of the Agreement. The project team has sent a memorandum of understanding to the Ministry of Finance and the Ministry of Planning describing the program and outlining the proposed uses of the local currency generations. The GOM has responded by sending us a formal request for U.S. assistance of $2 million to finance commercial sector imports of development related commodities from the U.S. and to use the local currencies generated under the program to support agreed upon programs.

Policy Determination 71: In accordance with the requirements of PD-71, AID/W is reviewing the impact of local currency expenditures for the Pilot Irrigation Activity on U.S. sugar producers. If it is determined that the U.S. sugar sector may be harmed by the activity, then the local funds allocated to that activity, Rs. 11.0 million, will be used to expand support to the other three activities.

Environmental Analysis: A categorical exclusion determination has been provided by AID/W and is attached to the PAAD as Annex E.

Program Implementation: The proposed program will be implemented by the Ministry of Finance in coordination with the Ministry of Economic Planning and Development. Individual activities financed with local currency generations will be implemented by the governmental entities charged with their development and implementation. Discussions have been held with all entities participating in this program, including the private sector importer of edible oil, and agreement on program implementation has been reached.

REDSO/ESA, with the support of the American Embassy in Mauritius, will be responsible for program monitoring. The principal REDSO backstop officer is David Cowles, Supply Management Officer; additional assistance will be provided by a REDSO program implementation committee composed of James Dempsey and Kathleen Hansen. The committee will maintain contact with AID/PRE with respect to the possibility of complementary grant support for tourism promotion and investment and trade development.

Recommendation: On the basis of the Delegation of Authority 140, Revised, it is recommended that you sign the attached PAAD face sheet, thus authorizing the FY 1983 Mauritius Commodity Import Program.

Attachment: Project Assistance Authorization Document

Best Available Document

CLASSIFICATION: Unclassified

AID 1120-1 (8-66)

PAAD

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE
APPROVAL DOCUMENT

1. PAAD NO.
642-0004

2. COUNTRY
Mauritius

3. CATEGORY
Commodity Financing

4. DATE
May 16, 1983

5. TO:
John W. Koehring
Director, REDSO/ESA

6. OYB CHANGE NO.
N/A

7. FROM:
Jim Dempsey John Dempsey
REDSO/ESA - ~~Projects Division~~

8. OYB INCREASE
N/A

TO BE TAKEN FROM:
N/A

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

10. APPROPRIATION - ALLOTMENT Appr.72-1131037,GESA-83-31642-KG32(Allot.337-61-642-00-59-31)

11. TYPE FUNDING: [ ] LOAN [X] GRANT

12. LOCAL CURRENCY ARRANGEMENT: [ ] INFORMAL [X] FORMAL [ ] NONE

13. ESTIMATED DELIVERY PERIOD: June 1983 - May 1984

14. TRANSACTION ELIGIBILITY DATE: May 24, 1983

15. COMMODITIES FINANCED

All items listed in the AID Commodity Eligibility Listing - 1981 Edition ill be eligible for financing. It is anticipated, however, that the rocurement will consist entirely of bulk importation of degummed vegetable oil.

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:	Code 000	U.S.:	$2,000,000
Limited F.W.:	-	Industrialized Countries:	-
Free World:	-	Local:	-
Cash:	-	Other:	-

18. SUMMARY DESCRIPTION

This grant program will support U.S. political and strategic objectives in the region by providing necessary balance of payments and budgetary support to the Government of Mauritius (GOM). Based on an analysis of the structure of trade and aid in Mauritius, and given the successful implementation of the FY 82 CIP, the design team and the Embassy have concluded that the most appropriate mode of assistance is a continuation of direct balance of payments support to permit importation of necessary commodities from the United States. It is proposed that the counterpart funds generated from the importation of U.S. commodities will be used to support GOM programs in agricultural diversification tourism, investment and trade promotions, and rural water supply. Funding of these local currency activities is subject to final agreement by AID and the GOM. Disbursement of foreign exchange is conditioned only on the routine conditions precedent of submission of a legal opinion, representative signatures, and a procurement plan.

19. CLEARANCES

		DATE
D/DIR.	Jim Graham in draft	
RLA	Kathleen Hansen in draft	
RSA	Art Laemmerzahl in draft	
ECON	Helen Soos in draft	
PROJ	Larry Hausman in draft	
AA/DFPE		

20. ACTION

[X] APPROVED [ ] DISAPPROVED

JWKoehring

AUTHORIZED SIGNATURE

MAY 21 1983

DATE

Director, REDSO/ESA

TITLE

CLASSIFICATION:

Core File

ANNEXES

I. SUMMARY AND RECOMMENDATIONS

The following are the principal features of the proposed commodity import program:

Activity: Mauritius FY 1983 CIP 642-0004 (CIP II)

Terms and Conditions: ESF grant funding for $2,000,000

Authorized Source: AID Geographic Code 000 (U.S. only)

Program Justification: This program will support U.S. political and strategic objectives in the region by providing necessary balance of payments and budgetary support to the Government of Mauritius (GOM). Based on an analysis of the structure of trade and aid in Mauritius, and given the successful implementation of the FY 82 CIP, the design team and the Embassy have concluded that the most appropriate mode of assistance is a continuation of direct balance of payments support to permit importation of necessary commodities from the United States.

Program Description: A two-phased assistance program is proposed, drawing upon the positive experience of the similar program from last year's CIP. First, $2.0 million will finance specific import requirements of the private commercial sector using the CIP mechanism and Special Letter of Credit procedures. Grant funds will be made available to finance the dollar costs of commercial imports from the U.S. for productive sector commodities. We anticipate that this will entail financing the commercial importation of approximately 4,000 tons of degummed vegetable oil. Second, the estimated Rs. 22 million in local currency that will be generated under this program will be deposited in a separate government account available to support four mutually agreed upon development-related activities.

These activities are described in somewhat greater detail in the PAAD than is normally the case, largely to offset the absence of AID personnel assigned to Mauritius who would otherwise be involved in more frequent monitoring of the program. The activities are:

1) Pilot Irrigation Project. Local currency funds will support government efforts to diversify agricultural production on a pilot irrigation project in the Northern Plains area. The pilot scheme will entail putting 185 hectares of land under subsurface drip irrigation which will permit inter-line cropping with sugar, increase sugar cane yield, and thus free up land for production of other agricultural crops. The

Irrigation Authority will manage the scheme and Rs. 11 million will be allocated to this activity.

2) Tourism Promotion. To enable Mauritius to remain competitive vis a vis other tourist destinations in the region and to attract additional tourism revenue will require an increase in promotional efforts and an accompanying increase in the budget of the Mauritius Government Tourist Office. Rs. 4 million will be allocated to this activity.

3) Investment and Trade Promotion. In support of Ministry of Commerce and Industry efforts to stimulate additional investment and trade through a new entity, MEDIA, charged with expanding traditional promotional activities as well as development of one-stop investment center, an allocation of Rs. 3.5 million is planned.

4) Village Potable Water. Rs. 3.5 million will be allocated to support a GOM program to provide potable water to villages currently serviced by irrigation canals, streams or inadequate service lines. The Central Water Authority will develop and manage the program.

Program Implementation: The proposed program will be implemented by the Ministry of Finance in coordination with the Ministry of Economic Planning and Development. Individual activities financed with local currency generations will be implemented by the governmental entities charged with their development and implementation. Discussions have been held with all entities participating in this program, including the private sector importer of edible oil, and agreement on program implementation has been reached.

REDSO/ESA, with the support of the American Embassy in Mauritius, will be responsible for program monitoring. The principal REDSO backstop officer is David Cowles, Supply Management Officer; additional assistance will be provided by a REDSO program implementation committee composed of J. Dempsey and K. Hansen.

Disbursement Period: The PAAD team recommends a period of 12 months for commitment and 18 months for disbursement of all foreign exchange resources. We anticipate that disbursement of all local currency proceeds will occur within a period of two years.

Policy Determination: In accordance with the requirements of Policy Determination 71 (PD-71), AID/W is reviewing the impact of the Pilot Irrigation Activity on U.S. sugar producers. If it is determined that U.S. producers may be injured by the increased sugar yields in the pilot project, then the local currency, Rs. 11 million, will be used to expand support for the other three activities.

<u>Congressional Notification:</u> The waiting period after Congressional notification expired April 23 without comment.

<u>Statutory Checklist</u>: Satisfied (See Annex D)

<u>Environmental Analysis</u>: A categorical exclusion determination was provided by AID/W and is attached as Annex E.

<u>Negotiating Status and Conditions</u>: the PAAD design team has held numerous discussions with interested ministries and public and private sector entities and organizations to ascertain the appropriateness of the proposed program and to resolve any outstanding issues. Agreement has been reached on the commodity to be imported and on the uses of the CIP local currency proceeds

Given our experience under the first CIP and the familiarity of the parties with AID procurement procedures and regulations, and barring unforeseen mishaps, we are confident that the implementation of CIP II (642-0004) will proceed smoothly.

No special conditions or covenants are proposed for inclusion in the Project Grant Agreement. Furthermore, no problems are foreseen in the negotiation of that agreement. A request for assistance from the GOM is included as Annex A.

<u>Recommendation</u>: It is recommended by the PAAD team that a grant commodity import program in the amount of US$2,000,000 be authorized for Mauritius

<u>PAAD Committee</u>:

Laurence Hausman, Project Officer/Team Leader, REDSO/ESA
James Dempsey, Project Officer, REDSO/ESA
Helen Soos, Economist, REDSO/ESA
David Cowles, Supply Mgmt Officer, REDSO/ESA
Kathleen Hansen, RLA, REDSO/ESA
Shariff Jathoonia, Asst. Commercial/Economic Officer, AmEmbassy Mauritius

II. PROGRAM BACKGROUND AND RATIONALE

A. Setting

The island nation of Mauritius is 720 square miles and has a population of almost one million. This population, consisting of Hindus, Muslims, Creoles, Franco-Mauritians and Sino-Mauritians, superficially portrays a cohesive, heterogenous society. The polyglot population mirrors the island's mixed history of Dutch, French and British domination and the importation of a large Indian population as indentured laborers following the abolition of African slavery in 1833. Whites, mostly of French descent, constitute one percent of the population and control most of the sugar production, the mainstay of the island. Chinese, mostly shopkeepers and small businessmen, constitute about three percent of the population. Creoles descending from African slaves mixed with other racial strains comprise 28 percent, and the remaining 68 percent are Hindus and Muslims of Indian descent, who dominate the government, agricultural and industrial sectors. Although population density is fairly high at 840 persons per square mile, the growth of population is a modest 1.7 percent per annum, largely resulting from a successful family planning program introduced in the 1960's. Despite the heterogeneity of the population, a distinctive Mauritian cultural identity has emerged. Although English is the official language, French, Creole and Hindi are more widely spoken.

With an estimated per capita income of $1120 in 1982, Mauritian enjoys standards of living comparable with middle income countries in terms of nutrition, literacy, health care and educational facilities. However, the distribution of income is relatively more unequal then in other developing countries owing to the dominance of sugar estates. Household surveys in 1975 showed that the lower 50% of the population earned about 20% of total income. While poverty is found in both rural areas and urban concentrations on the island of Mauritius, it is particularly rampant on the island dependency of Rodrigues, where about 30,000 persons live at very low standards. The development problems on Rodrigues resemble rural poverty in much of Africa, including deteriorating crop land, high population growth, and inadequate social and physical infrastructure.

B. Political Overview

The Mauritian political system is a parliamentarian one within the Commonwealth, with the Queen of England presiding as titular head of state. Independence in 1968 saw the advent to power of a Labor Party and Social Democratic Party alliance. In June, 1982, this alliance was displaced as a coalition of the Mauritian Militant Movement and the Socialist Party of Mauritius won all contested seats.

Mauritius is the only country in the Organization of African Unity to have changed government democratically through an election. The new government has remained committed to both the democratic process of government and a policy of strict non-alignment. The government has reaffirmed its commitment to democracy by firmly establishing a constitutional requirement to hold elections every five years. The government has also solicited the cooperation of the private sector in an effort to rejuvenate the economy and has officially sought out private sector views on major economic and tax programs.

In the sphere of foreign policy, the Government has generally pursued a policy of genuine non-alignment and reiterated its desire to maintain and improve its relations with such traditional friends as the U.S., the U.K., France, India, the EEC, Australia, Canada, and the Scandinavian countries. Economic relations with South Africa have continued, with South African Airways and Air Mauritius flights to and from South Africa being maintained. Mauritius' claim to Diego Garcia has been revived, but the new government has made clear that this is an issue which involves only Mauritius and Britain, although at the same time stressing its disapproval of the American military presence on that island. The Government has also stressed regional cooperation within the Indian Ocean. Along with Madagascar and Seychelles, Mauritius regards as a major objective the establishment of an Indian Ocean zone of peace. However, Port Louis has remained open to all military vessels, including those of the U.S. The government's objective of genuine non-alignment in foreign policy is reflected by moderation in East/West issues, and a low-key presence in the U.N., where the few votes in which Mauritius has participated have demonstrated a commitment to non-alignment.

C. GOM Development Strategy

The government in Mauritius has set out a development strategy which has as its goal economic self-reliance. At the same time, the GOM realizes that as a small, isolated country, it does not have the resources or markets to develop without substantial foreign trade. Government officials and a recent White Paper, "Towards Increasing Self-Reliance," acknowledge the comparative advantage and crucial role of sugar production and export processing. Thus, the government's major development objectives are:

-- "to enable the country to attain a degree of greater self-reliance which will minimize the adverse effect of world economic instability on the national economy."

-- "to achieve a high rate of economic growth which will raise incomes and standards of living of all citizens while providing productive employment to the large backlog of unemployed and to newcomers of the labor market."

The most serious affronts to self-reliance and sustained economic growth are the recurrent balance of payment deficits and the heavy external borrowing required to finance government. As part of its strategy the GOM has instituted a series of marcro-economics policies and programs to bring the national economy into a balance for sustained economic growth. These policies and programs are discussed in the Economic Overview (Section IIIA), but it is important to note that the government's long term development strategy depends on the success of short term measures to cut government fiscal deficits, balance of payments, and external borrowing. The GOM is primarily relying on the IMF stand-by credit arrangements and the World Bank's structural adjustment loan, as well as further Eurocurrency borrowings, to help them through the period of economic adjustment. Significant donor assistance is also required.

The new government has taken a very pragmatic approach to structural adjustment and economic development. It realizes that historically the economic success which Mauritius has experienced has been based on a free market approach to development. It has chosen to emphasize and depend upon private, productive sector development to get the economy moving again. Achievement of the longer term goal of self-reliance will require diversification and development of agriculture, export processing and light industries. All of these areas are dominated by the private sector and are the most productive and growth oriented in the economy.

To increase self-reliance and to achieve economic adjustment, Mauritius must make its fertile land more productive and more effective for national development. These lands are almost wholly under cultivation with 90% under cane (100,000 ha.). Some adjustment of present land use is required to limit dependence on sugar production and increase production of food crops. The GOM has proposed a vigorous program of agricultural diversification to reduce food imports (presently accounting for 25% of total imports) and to extend the role of agriculture as a major foreign exchange earner. The program seeks to maximize food production, to optimize sugar production, to rationalize tea and tobacco production, to develop high-value export crops, and to promote local livestock production.

Making more resources available for foodcrops does not necessarily mean that sugar production will be reduced. The objective of the government is to increase yields and sugar processing efficiency to keep sugar production at marketable levels, while at the same time utilizing cane interline cropping and crop rotation to expand foodcrop production. Improved technologies will be the key to increased production with perhaps the most important of these new techniques being effective irrigation systems which conserve water utilization. Direct substitution of foodcrops for sugar might occur in the long term, but it will probably be limited to a small fraction of the lands under cane.

In the industrial sector which is primarily composed of light industries in the Export Processing Zone (EPZ), the strategy is to diversify production and markets to limit dependence and to enhance the possibilities for expansion.

The GOM will also promote the establishment of new activities in the recently created Export Service Zone (ESZ). The plan is to attract off-shore banking facilities, international insurance services and transhipment operations. The export zones offer the best opportunity to create new jobs and to generate the foreign exchange required to sustain the economy.

Although expansion of the export zones will depend to a large extent on recovery of the world economy, the GOM can attract industry through well-planned export and investment promotion campaigns which show the international competitiveness of export industries in Mauritius. An important aspect of the industrial sector strategy is the establishment of the Mauritius Export Development and Investment Promotion Authority (MEDIA) to conduct and follow-up on the proposed campaigns.

Tourism represents another GOM development objective. In order to tap new markets and diversify away from traditional ones, expenditures on tourism promotion campaigns will be increased. As the third largest foreign exchange earner, tourism has the potential to add substantially to the economic development of Mauritius. Although the focus of the economic adjustment program is on the revitalization of the productive sectors, the GOM will continue to finance social programs at approximately the present levels (37.5% of recurrent budget). Expenditures for health, education and other social services will have to be examined closely with a view to ensuring that they are cost-effective and that they do not prejudice future growth. Fiscal discipline will be required throughout the economic adjustment period.

D. U.S. Assistance Strategy

Mauritius has received modest bilateral U.S. assistance since independence. After independence, U.S. assistance was limited to a PL 480 Food for Work program and the Ambassador's Self Help

Fund. In recent years, PL 480 programs under both Title I and Title II were initiated. In 1980, a HIG program was approved but has not been drawn down owing to high interest rates in the U.S., and GOM limitations on investments in housing.

Due to recent economic difficulties, the U.S. Department of State proposed a $2 million Economic Support Fund grant in FY 1982, and has proposed another in the same amount for FY 1983. The rationale for these grants is based upon the political importance of Mauritius to U.S. strategic interests in the Indian Ocean, Mauritius' willingness to receive U.S. naval ships at its port facilities, democratic principles and practices within the Mauritian political system, and residual claims on Diego Garcia. None of these conditions has altered with the recent election. On the contrary, the necessity of maintaining good relations has become more urgent.

The strategy for the present AID program of PL 480, ESF and a modest training program is four-pronged:

(1) To support agricultural diversification, and sustainable food policies,

(2) To promote private sector activities in key development sectors such as agriculture, export processing, energy manufacturing, services and tourism,

(3) To assist the GOM to provide essential services (e.g. water supply) to the poorest elements of the population, and

(4) To strengthen management and institutional development within key GOM ministries and private sector entities.

The first objective is pursued primarily through the PL 480 program, although modest contributions can occasionally be made from ESF local currency generations. ESF generations are also targetted at private sector development and the provision of water to the poorest elements of the population. Training through AMDP supports all elements of the U.S. assistance strategy to Mauritius.

The design teams for the FY 82 CIP and the proposed FY 83 CIP have explored opportunities for providing modest assistance which could play a catalytic role in energy, export/investment promotion and tourism. In the energy sector, the U.S. has developed a technological advance in the pelletization of the sugarcane by-product, bagasse, in Hawaii. While a pilot activity in the pellatizatin process is presently being funded by another donor (France), the U.S. will provide training in the process through AMDP funds. If modest interventions for CIP generations or for direct importation can be identified in future years, U.S. assistance should give these interventions favorable consideration, not only because bagasse energy represents significant resource conservation and foreign exchange savings for the economy, but also because the U.S. continues to provide the technological lead in this field, and would probably be the best source of equipment for a major follow-on investment.

In the services, manufacturing/export and tourism sectors, U.S. assistance is geared to strengthening GOM institutional capacity to encourage private sector participation (e.g. tourism promotion, investment and trade), and in the provision of modest lines of credit intended to serve as catalysts for subsequent larger credit programs.

III. Economic Background and Program Justification

A. Summary and Conclusions

1. Prelude to Present Economic Situation

Mauritius' current economic problems date from the short-lived sugar boom of 1974-75, which was accompanied by increased government expenditures for social services and investments, and expansionary wage policies. Despite the subsequent downturn in sugar prices, GOM expenditure patterns did not change to reflect the reduction in revenues. Given the high propensity to import within both the public and private sectors, expansionary fiscal, monetary and wage policies rapidly led to balance of payments deficits beginning in 1976-77. Poor economic management continued as real wages increased faster than productivity, and the government was ineffective in curbing its expenditures on social programs or improving the efficiency of its operations. These problems were compounded by the impact of adverse weather on sugar production between 1979 and 1981. Thus, both balance of payments and budgetary deficits have prevailed on a cumulative scale since 1976.

GOM stabilization efforts began in 1979, when GOM reserves were almost fully drawn down. With IMF approval, the GOM embarked on a two-year stabilization program which included a 23 percent devaluation and numerous other austerity measures. The stabilization program had to be abandoned when severe cyclones struck the island in 1979-80 and reduced the sugar crop by about one-third. Heavy emergency rehabilitation expenditures were required, as government revenue, highly dependent on sugar production, fell. The following year, 1980-81, a drought struck the northern plains and reduced the sugar crop by about 18 percent below normal levels. In September 1981, the GOM and IMF reached agreement on a second stabilization program, including a further 20 percent devaluation. The program is being successfully implemented. The GOM is presently negotiating an additional IMF agreement, and is working closely with both the IMF and the World Bank to extricate itself from the difficult economic past.

2. Prospects for Economic Adjustment

Mauritius is presently faced with major economic adjustment difficulties. These difficulties have intensified over the past three years, owing primarily to adverse weather. 1981/82 is the first normal year for the pervasive sugar industry since economic stabilization measures were initiated. The measures have thus had marginal impact on basic underlying economic factors, such as the budget and balance of payments deficits. The public debt has grown to such dimensions during the past three years that drastic measures are now required to improve economic performance. These measures involve the reduction of the budget deficit and increases in productive output for both the domestic and export markets. These measures cannot be judiciously implemented in less than five to seven years, assuming continued good economic performance and no unusually adverse weather conditions.

Mauritius' current debt burden dictates that economic recovery can only be achieved through conservative economic management and a recognition by the GOM that appropriate policies rather than budgetary resources must serve as the catalyst for recovery.

Worldwide recessionary conditions will undoubtedly render economic recovery more difficult. The world price of sugar is already low, and tourism worldwide has slowed owing to the economic downturn in Europe and the U.S Reduced world consumption affects the demand for Mauritius' manufactured exports. Thus, GOM efforts must anticipate adverse international conditions and compete effectively for limited markets, tourists, and investments.

Mauritius' economic performance in 1981/82 reflects the best year since 1978/79; the present year, 1982/83, is also projected to be a good year. In 1981/82, GDP growth in real terms was 5.6 percent, which brought the GDP back to 1979 levels in real terms, after the 10.6 percent decline in 1980. The merchandise trade deficit also declined from about $80 million the previous year to $37 million. However, the government budget deficit on current account increased by nearly 50 percent, and the overall deficit by 17 percent. The budget deficit as a proportion of GDP declined slightly from 12.9 percent to 12.4 percent. The overall balance of payments deficit declined from 14 percent of GDP to 4 percent. Both budget and balance of payments deficits are projected to continue for several years.

The reduction of the deficits in both the government budget and the balance of payments to acceptable and sustainable levels is expected to take at least five to seven years, assuming good economic performance and no natural disasters. The public debt stood at over $120 million in December 1982, or about 42 percent of recurrent government revenue for 1982/83. Over 60 percent of the public debt is external. Thus, debt amortization payments will continue to burden both the government budget and the balance of payments over the medium term. Borrowings from the IMF and Eurocurrency markets are expected to continue at substantial levels to offset debt service payments and import requirements associated with economic recovery.

3. GOM Economic Performance

Mauritian authorities have made determined efforts since 1979 to promote economic adjustment. Their efforts include two major devaluations; three rounds of price increases to reduce subsidies on rice and flour; increases in interest rates; the imposition of credit ceilings; limits on government budget deficits; and, the successful implementation of a restrictive wage policy. The first round of these stabilization measures was set back by the devastating impact of a series of cyclones which damaged both sugar exports and property. Increased government expenditures coupled with decreased tax revenue annulled the effects of the stabilization program, resulting in a redefinition of performance criteria and a second stand-by agreement. Under the second agreement, all performance criteria were generally met, although the budget deficit and balance of payments deficit were larger than anticipated owing to reduced sugar production.

The GOM is presently negotiating another agreement with the IMF. While stabilization efforts to date have been significant, they have not yielded all of the expected results. Thus the adjustment effort will have to be intensified to improve the situation, rather than merely containing it. Doing so will require increases in production, diversification of production in both agriculture and manufacturing, and expansion of exports. Since this can only be achieved over the medium term, substantial improvements in the economy cannot be expected in less than a five to seven year framework.

4. Economic Program Justification

There are three economic rationales which justify the proposed Commodity Import Program: 1) budgetary support for the GOM to reduce its budget deficit; 2) balance of payments support during a period of unprecedented shortage of foreign exchange; and 3) local currency generations to finance priority investments in the productive sectors of the economy.

Although the proposed level of assistance is not substantial, the CIP will provide $2 million of budgetary support for the GOM in the form of a grant. The funds will be utilized to finance expenditures of both a recurrent and investment nature in areas which have been jointly identified by AID and the GOM. The selected areas reflect GOM priorities for which scarce budgetary resources would not otherwise be available. They also reflect areas in which the GOM has committed itself to expand expenditures through a World Bank Structural Adjustment Programme. Thus, the grant represents a direct budgetary transfer to the GOM.

Secondly, the program will provide direct balance of payments support for the GOM through the financing of the importation of degummed vegetable oil from the U.S. This commodity is purchased primarily from the U.S., and constitutes a necessary consumption item within the Mauritian economy. Thus, the CIP provides scarce foreign exchange to cover a portion of the annual requirements for this commodity. This represents a direct savings of foreign exchange for the GOM.

Third, the local currency generations from the sale of this commodity have been programmed jointly by the GOM and AID to finance priority investments in the productive sectors of the economy. A portion of these funds will be allocated to expanding government expenditure in the tourism sector, which in turn is expected to generate additional foreign exchange as well as employment in Mauritius. Another allocation will support GOM efforts to attract foreign investment, which will stimulate the productive capacity of the economy, expand employment, increase the government's revenue base through taxation of salaries and the reduction of unemployment benefits, and increase foreign exchange earnings through the expansion of exports. The net returns for the GOM's promotional efforts cannot be estimated; however, there are expected to be benefits for each of the categories cited above.

Another planned local currency allocation will support an experimental drip irrigation scheme in the northern plains. This scheme is a necessary prerequisite for a major investment in irrigation to which the African Development Bank and other donors have already committed funds in principle. The experiment will stress the conservation of water, an extremely scarce resource for agricultural production. It will also promote the diversification of agricultural production through the introduction of a more efficient planting system for sugar cultivation which allows for alternative crops to be inter-lined. Many small farmers in Mauritius, who are concentrated the area of northern plains, are expected to become more productive and to increase their incomes, through more efficient utilization of water.

The provision of rural water supply to villages which lack potable water constitutes the final activity to be supported by local currency generations. This allocation extends last year's successful program in water supply.

In summary, the proposed CIP will support government efforts to reduce the budget deficit and the balance of payments deficit, while improving the productive capacity of the economy through priority investments. All of these impacts fall within and directly support the measures prescribed by the IMF and World Bank adjustment programs.

B. Economic Background

1. Economic Overview

Mauritius has a small island economy with limited resources for economic development. Its primary resource is agricultural land and a favorable climate which is marred only by severe cyclones. Owing to these cyclones, sugar cane has proven to be the main viable crop during three hundred years of experimentation and experience. Thus, Mauritius' economy is dominated by the sugar industry, which in 1982 accounted for 76% of agricultural production. Sugar also contributed 60% of exports, and accounted for about 30% of employment including both agricutural and factory labor. The status of the sugar industry is fundamental to the economic and social well-being of Mauritius.

Apart from sugar, the agricultural economy produces limited quantities of tea, fruit, vegetables, tobacco, meat, fish and some rice. Agricultural diversification away from sugar has been greatly promoted during recent years. However, most activities are undertaken by 21 sugar estates which control much of the arable land. The island is self-sufficient in some vegetables, with irregular exports to neighboring islands. It is generally accepted that agricultural diversification will take place in conjunction with sugar, rather than in lieu of sugar. Annual crops such as beans, potatoes, maize and onions can be grown inter-lined between the time of sugar harvest and the overgrowth of cane. Considerable experimentation is already occurring with agricultural diversification, including beef and venison, which is raised in non-arable forest areas. Since crops do not compete successfully with imports, especially from South Africa, the success of agricultural diversification will be gradual and will depend on efficent production.

The manufacturing sector has grown significantly during the past decade, principally owing to the Manufacturing Export Processing Zone (MEPZ). Since the mid-1970's, the MEPZ has successfully established new export markets for textiles, knitwear, electronic equipment, food processing and metal products. Companies involved in import substitution hold

Development Certificate (DC) status, which entitles them to tax and investment incentives and exemption from duties for imported inputs on the same basis as MEPZ firms. About 110 firms operate under the DC scheme and about 95 firms under the MEPZ scheme, primarily in textiles and knitwear. The MEPZ sector accounts for over 21,000 jobs, or 60% of employment in manufacturing and 11% for the economy as a whole. Prospects for the expansion of the manufacturing sector have improved since 1979, owing to slower cost increases attributable to wage restraint and improved port facilities, and to higher rupee prices for exports resulting from two devaluations. The Government has also introduced additional tax incentives, increased its promotion efforts and encouraged the diversification of products and markets. The number of DC and MEPZ applications processed during 1982 increased to over 175, with 68 approvals.

The tourism industry constitutes another growth industry in Mauritius, and is the third largest foreign exchange earner after agriculture and manufacturing. The main sources of tourists are neighboring Reunion, South Africa, France and other European countries. The average annual growth rate for tourist arrivals was 15% between 1975 and 1979, the peak year to date. Tourist arrivals since 1979 have averaged about 8% below the peak year, although gross earnings were not been similarly affected, with \$40.6 m in 1979; \$46.7 m in 1981; and \$41.1 m in 1982.

2. Recent Economic Developments1/

a. Sectoral Growth of GDP

The national accounts data presented in Table 1 of Annex B underscore the critical role of sugar production for the Mauritian economy. As sugar production declined in 1980 and 1981, sugar milling in turn depressed the manufacturing sector and the GDP declined by 10.6 percent. GDP rebounded by only 8.3 percent in 1981. As sugar production returned to normal levels in 1982, the agricuture sector also returned to the average level of the late 1970's. The primary growth sectors of the economy since 1976 have been manufacturing (29%); trade, restaurants and hotels (22%); government services (23%); communications (31%); and real estate and business-related

1/ The reader is referred to Annex B for all tables discussed in this section.
This section draws heavily from the forthcoming Mauritius Economic Bulletin, GOM, December 1982 and Mauritius Economic Memorandum: Recent Developmnents and Prospects, I.B.R.D., draft of November 1982.

services (24%). These growth trends reflect the diversification policies of the GOM and the expansion of government services. Since 1976, agriculture has remained relatively stagnant in real terms, and declined from 22.5 percent of GDP to 19.5 percent. Sugar milling has declined marginally and may decline further as greater efficiency is introduced. Construction has also declined steadily after peaking in 1978.

Although the world market for sugar is not favorable at the present time, Mauritius has traditionally found protected markets for most of its sugar exports. The EEC purchases about 80 percent of its sugar, and the exportable quantity is expected to increase slightly under the new International Sugar Agreement. Thus GOM officials place a high priority on attaining an average annual production level of 700,000 tons per annum, which was reached only once previously.

b. Employment

The slowdown in economic activity has been associated with a decline in employment, as evidenced by Table 2 in Annex B. At the end of 1982, official registered unemployment stood at over 75,000 persons, or about 23 percent of the labor force, up from 16 percent a year earlier. It is generally accepted that official employment statistics underestimate the true situation, since some prospective workers fail to register. Between 1979 and 1981, employment declined by over 3 percent in absolute terms, according to the Ministry of Finance Bi-Annual Survey of Employment.

The employment outlook for the near future offers little hope for improvement. Few new industries are expected to be initiated, and new infrastructure activities are not expected to generate additional job opportunities over present levels. Advance notification of lay-offs in the private sector increased by 67 percent between 1981 and 1982, to over 4400 jobs. At the same time, there is a general shortage of unskilled labor, as educated youth seek more challenging and remunerative employment.

The stagnant employment situation reflects economic adjustment problems within Mauritius and throughout the world economy. The drastic fall in capital formation in Mauritius reflects this uncertain economic situation and relates directly to reduced growth in employment. Gross Domestic Fixed Capital Formation declined by about 40 percent between 1978 and 1982, at constant prices.

c. Government Finances

The government's current account budget has shown persistent deficits since 1976/77 (See Table 3 in Annex B). Beginning in 1979/80, the government improved tax revenue collection and slowed down ordinary expenditures. Thus the current account deficit was reduced to about 24 percent of the previous year's level. However, the hurricanes experienced in 1980/81 required substantial emergency expenditures while severely reducing the revenue base of the sugar producers, with the result that the deficit increased more than four-fold. The 1981/82 budget also showed another 28 percent increase in the current account deficit (See Table 4). Ministry of Finance projections released in March 1983 indicate a 16 percent reduction in the current account deficit for 1982/83, and up to a 50 percent reduction for 1983/84.

The capital account has continually shown large deficits, with small revenues only partially offsetting large capital investments. Thus, the overall deficit surpassed Rs 1.3 billion (over $100 m) in 1980/81 and 1981/82, and is projected to decline to Rs 1.2 billion in 1983/84, according to Ministry of Finance data presented in Table 4 of Annex B. This level of deficit for 1983/84 constitutes an estimated 8.5 percent of GDP, down from 11.3 percent in 1981/2.

World Bank projections for consolidated central and local government deficits are presented in Table 5 of Annex B. Developed in November 1982, these projections show a positive current account balance beginning 1982/83. The data also show the significant growth in the cost of amortization on the public debt from $20 m. in 1981/82 to $56 m. in 1985/86. Capital expenditures are also projected to increase significantly, from $90 m. in 1981/82 to $160 m. in 1985/86, in order to stimulate the economy. These projections also show an optimistic increase in government revenue of nearly 100 percent between 1981/82 and 1985/86. Should revenue fall short of this increase, expenditures would have to be cut accordingly.

Subsidies for staple food products, although recently reduced, continue to burden the government budget. In 1981/82, food subsidies cost about $27 million, including the hidden cost of the preferential exchange rate. In 1982/83, food subsidies are projected at $22 million. Lower food prices on the world market could reduce this figure marginally.

The most striking aspect of both Ministry of Finance projections (Table 4) and World Bank projections (Table 5) is agreement that the situation is bleak and that the necessary improvements are yet to come. Should adverse weather or political necessity dictate postponing improvement, then the Mauritian economy will continue to experience problems with budget deficits, inflation, unemployment and balance of payments difecits.

d. Balance of Payments

Mauritius' balance of payments has deteriorated progressively since 1976/77, initially in the wake of expansionary fiscal and wage policies carried over from the sugar boom period, and subsequently owing to unfavorable weather conditions resulting in poor sugar harvests, coupled with continued fiscal deficits (See Table 6). The overall deficit was contained at 5 percent of GDP in 1979/80, but increased to 14 percent the subsequent year. Preliminary estimates for 1981/82 show an overall deficit of $35 million, or about 4 percent of GDP. The deficit is expected to increase to about $55 million or 5.5 percent of GDP in 1982/83 (See Table 7); by 1990, it is projected to decline to 1 percent of GDP.

Sugar constitutes Mauritius' major export earner, accounting for almost 60 percent of exports in 1981/82. The Manufacturing Export Processing Zone (MEPZ) accounts for another 33 percent of exports, while other exports constitute the remaining 7 percent (See Table 7). Sugar has been declining steadily as a proportion of total exports, even during good harvest years, owing to the growth of MEPZ exports, which have added about two percent points to their export share each year since 1975. The steady growth of the MEPZ has become critical to Mauritius' export performance as well as the maintenance of domestic employment.

Sugar exports are critical for Mauritius' balance of payments just as sugar production effects the entire domestic economy. As a traditional sugar producer, Mauritius exports about 500,000 tons of sugar annually to the European Common Market where it receives a preferential price. The balance of sugar is sold on the free market, primarily to the U.S. and Canada. In addition to exports to the EEC, the International Sugar Agreement, allots Mauritius an annual export entitlement of 175,000 tons, provided the world price remains above a floor level of $0.11 per pound.

In May 1982, a revised sugar import quota system for the U.S. market allotted Mauritius a quota of 30,000 tons (equal to 1.1 percent of imports). This compares very unfavorably with the 130,000 tons which Mauritius had planned to export to the U.S. in 1982. Mauritius was twice disadvantaged by the new quota system: first, a low ceiling on exports and second, a requirement that shipments be made quarterly, resulting in inefficient shipping practices. In 1982, Mauritius lost its second quarter quota owing to the small size of the shipment, which could not be economically shipped unless coordinated with another exporter.

The world market situation for sugar at the present time is not advantageous for producers. From a peak of 410 pounds sterling per ton in November 1980, there was a steady decline to £ 148 in 1981, and a further decline to £ 95 per ton by June 1982. These price trends reflect excessive production, with world stocks equalling 35 percent of annual consumption levels in 1982. In view of this situation, export prices are unlikely to increase for Mauritius's excess sugar production in the near future.

Manufactured exports produced in the MEPZ have risen from 11 percent of export earnings in 1975 to 33 percent in 1981/82. Unfortunately, the introduction of quotas by some industrial countries, including the U.S., have restrained the potential growth of the MEPZ. Mauritian exporters have had to limit production of textiles and to seek other products to manufacture for export. Access to markets is becoming an issue of extreme concern for manufactured exports as well as sugar. Imported goods utilized for the processing of exports accounted for 58 percent of the value of MEPZ exports in 1981/82.

Mauritius' imports include a variety of consumer goods, food products, petroleum products, and inputs for the MEPZ. In 1981/82, rice and flour accounted for nearly 10 percent of imports, petroleum for 19 percent, inputs for the MEPZ for 15 percent, and other imports for 56 percent (See Table 7). Since world prices for cereals and for petroleum have been declining, the import bill may also decline marginally during 1982/83. Recent increases in the food prices may also encourage lower consumption, resulting in a small decline in that import item.

On the service account, freight and insurance constitute the largest deficit, with investment income close behind. Travel produces a healthy surplus owing to the inclusion of tourism.

On the capital account, government loans constitute the major item. In 1981/82, debt service payments were relatively low, while credits were substantial. Thus, there was a net inflow of Rs 326 million, or about $33 million. This situation will reverse dramatically in 1982/83, as debt service payments triple and net inflows decline to less than $4 million (See Table 7). However, this estimate excludes the $40-45 million World Bank Structural Adjustment Loan which is expected to be signed in June 1983. The debt service line item alone is capable of explaining the weakening of the balance of payments for 1982/83 to a deficit of $55 million, compared to $35 million the previous year.

Foreign exchange reserves stood at about $83 million in December 1982, about 40 percent higher than one year earlier. This amounts to the value of 1.4 months of imports, or less than one month of total foreign exchange requirements. The GOM target is to increase reserves to the value of about 3 months' of imports.

In November 1982, a World Bank team developed balance of payments projections through 1987 (See Table 8). The projection is based on the assumptions that GDP grows at 4 percent per annum in real terms, food imports decline by 2 percent p.a. in volume terms, higher flour and rice prices reduce consumption, lower petroleum prices negotiated with Kuwait prevail, the export sector grows by 8 percent p.a., tourism grows by 10 percent, and additional foreign aid materializes. Even under these assumptions, the projections show a trade deficit through 1986 and current account deficits throughout the entire period. Capital requirements from external sources are anticipated to average $147 million per annum from 1983 and 1987. These capital inflows may derive from donors, lendors, or investors, and represent significant increases over current levels if government borrowings are excluded. Debt amortization is forecast to peak in 1985 at $68.4 million, but will remain at extremely high levels compared with 1982.

As with the government budget, it is clear that the difficult adjustment still lies in the future, and that significant improvements have not been reflected on an adequate scale in the performance of the balance of payments. Along with inflation, balance of payments deficits constitute a natural companion of fiscal deficits which generate internal demand without providing the goods which are demanded. Improved fiscal austerity would automatically impact upon the balance of payments through reducing purchasing power for imports. Until a reduced fiscal deficit is achieved, other artificial restraints will be required to bring the balance of payments into adjustment. Under present conditions, no significant improvement in the balance of payments is is anticipated until 1987, at the earliest.

e. Exchange Rate Policy

In a world of varying inflation rates and changing terms of trade, the exchange rate becomes a key tool for regulating the balance of payments. As expansionary wage and fiscal policies resulted in high inflation in Mauritius during the late 1970's, it became necessary to adjust the exchange rate. Mauritius devalued by 23 percent in October 1979. However, the Mauritian rupee remained linked to the SDR, which is strongly influenced by the U.S. dollar. As the dollar rose and the Mauritian economy remained in trouble, it became necessary to adjust the Mauritian rupee again through a 20 percent devaluation in September 1981.

Two key factors determine optimal exchange rates: 1) purchasing power parity, which is based on relative inflation rates, and 2) the terms of trade, which are based on relative price changes of imports and exports irrespective of inflation. In addition to these two factors, it is also necessary to consider special circumstances such as periods of heavy budget deficits resulting in high domestic demand, and poor weather resulting in lower export earnings: special circumstances may require one-time measures to facilitate adjustment.

An analysis of purchasing power parity for Mauritius vis-a-vis its main trade partners is included as Table 9 in Annex B. The analysis shows that Mauritius has maintained almost exact purchasing power parity in real terms during the past decade, although the Rupee has been devalued by about 10 percent in real terms since the mid-1970's. The devaluation of October 1979, while resulting in an improvement of about 7 percent, did not improve the "real" exchange rate between 1979 and 1980, when it should have had its maximum impact, owing to a poor sugar harvest and resulting budget and balance of payments deficits. The effect of the first devaluation was reinforced by a second devaluation in September 1981. The combined effect of the two devaluations has brought Mauritius back to the purchasing power parity which prevailed in 1972. As noted in Table 9, the analysis was based on Mauritius' trade patterns for four years between 1978 and 1981. The 13 trade partners which accounted for 83.4 percent of trade were analyzed in terms of trade-weighted exchange rates compared to inflation rates.

Detailed data on Mauritius' terms of trade are not available. Other relevant data are included as Table 10 in Annex B. This analysis is therefore based on a comparison of unit values for exports and imports. A shortfall of such a comparison lies in its failure to take into account changes in the composition of imports and exports. Thus, it can only be used as a rough proxy for terms of trade. Line 1 sets forth the average price which Mauritius has received for its major export, sugar, through 1978. Mauritius has received a better price for sugar than the average import price of the European Economic Community. Thus, it may be assumed that Mauritius' export price for sugar has continued to increase since 1978, following the trend of EEC sugar import prices.

The unit value of exports is set forth in line 3 of Table 10. Overall exports have increased in value at a faster rate than sugar exports, underscoring the importance of the MEPZ, which enables Mauritius to export products which maintain their value on the world market to a greater extent than sugar. The increasingly large share of manufactured exports accounts for the consistent and growing gap between the unit value of exports and the average value of sugar exports. To the extent that MEPZ exports constitute an increasingly important component of Mauritius' exports, the unit value of exports will maintain closer parity with imports.

The average unit value of imports for Mauritius is shown in line 4 of Table 10. Until 1977, Mauritius' exports were increasing in value at a higher rate than its imports. Line 5 sets forth the unit value of exports divided by the unit value of imports, which is used as a proxy for term of trade. This ratio shows that Mauritius' terms of trade peaked in 1975 during the coincidence of a sugar boom coupled with exceptionally high levels of production. Since then they have declined steadily. Beginning in 1978, the terms of trade began to turn against Mauritius, and by 1980, they were 44 percent below the 1975 peak and 10 percent below the 1972 level. This deterioration occurred while purchasing power parity was maintained. There is therefore a case to be made for further devaluation on the grounds of the eroding terms of trade.

Apart from purchasing power parity and terms of trade considerations, it is also necessary to consider underlying economic conditions and policies. In the recent past, Mauritius' economy has suffered from expansionary fiscal and wage policies. Beginning with the IMF Stand-by Agreement of 1979, wage policies have gradually reduced real wages. Excessive government budget deficits have been more difficult to control. Although some improvements have been made, deficits continue to fuel domestic demand, causing both inflation and balance of payments deficits. These problems have been compounded by two consecutive years of adverse weather conditions characterized by poor harvest.

These additional pressures on the economy could be mitigated by further depreciation of the exchange rate, which would automatically provide more rupees for exports, or alternatively allow competitive price reductions without a loss of revenue in terms of rupees. A devaluation would also inhibit the demand for imports. However, it should be noted that in an economy as open as that of Mauritius, devaluation can stimulate inflation if expansionary pressures on the economy are not effectively mitigated to reduce domestic demand. A devaluation would facilitate the adjustment process through relative incentive to produce for export as well as reduce imports. Once the adjustment has been made, and adjustments always hinge on the ability to reduce real consumption to correspond with real production, then the exchange rate could be allowed to return to levels consistent with purchasing power parity and terms of trade considerations. In an economy which relies upon effective demand and duties rather than quotas or foreign exchange allocations to mitigate the demand for imports, the failure to compensate for changes in the terms of trade or government-induced excessive demand has rendered structural adjustment problems more difficult.

Recently, the GOM has implemented a change in exchange rate policy which could result in an effective devaluation. On February 28, 1983, the GOM untied the rupee from the SDR, and entered into a "Managed Float". The official rationale for this step was the fact that the U.S. dollar, which accounts for 45 percent of the SDR's weight, has been rising while the pound sterling has been falling. Since Mauritius' exports are primarily to the EEC, GOM officials sought to prevent the erosion of the value of exports, and to increase the weight of the Pound Sterling through a higher weight for the European Currency Unit (ECU). In short, the GOM sought "to reward exporters and to penalize importers." Basically, the formula is consistent with a devaluation, which can be allowed to occur gradually. During the first two weeks of this managed float, the rupee depreciated against the U.S. dollar by less than one percent.

The eventual effects of a downward float, if it is "managed" downward, would be to increase the price of petroleum and food imports, as well as of capital equipment and consumer goods. The price of petroleum has already been falling, and the GOM does not intend to pass the decrease on to the consumer. Food prices have also been declining, effectively reducing government subsidies. Depreciation of the rupee would increase the cost of imported food, which could be handled either by an increase in the subsidy or be passed on to the consumer. Increased costs of capital goods would discourage new investments or the upgrading of existing capital equipment. However, the export price for goods produced, as well as the cost of competitive imports would also increase. At the present time, the refusal of the GOM to assume exchange risks for capital equipment loans probably discourages capital investment more than the possibility of a devaluation. Even for World Bank and other donor loans, the GOM presently passes along the exchange risk to the investor. On the positive side, a downward float of the Mauritian rupee would increase revenue from sugar taxes and from tourism, and increase the cost of consumer imports. It would also enhance rupee-denominated earnings for the troubled sugar industry, as well as other exporters.

There is also a case to be made for a floating exchange rate, so long as fluctuations are not excessive. Under such a system, the government would be absolved of responsibility for changes in the exchange rate, since market demand would regulate the rate. During periods of shortages of foreign exchange or excessive demand for imports the exchange rate would automatically depreciate, tempering the demand for imports, and conserving foreign exchange. When there is an abundance of foreign exchange relative to the demand for imports, the exchange rate would appreciate. The floating system would automatically take into account special circumstances such as debt servicing. Rather than relying on imperfect analysis of purchasing power parity and terms of trade which represent the total supply/demand scene in an incomplete way, the system would automatically assist in the adjustment process of reducing the balance of payments deficit until the external debt has been serviced. The rate would then appreciate, since the demand for foreign exchange would decline as debt service liabilities are eliminated from the equation.

f. Debt Servicing

The public debt in December 1982 stood at over $120 million, or about 42 percent of recurrent government revenue in 1982/83. Debt amortization payments are expected to total over $37 million in 1982/83, or about 13 percent of recurrent revenue and one third of the overall budget deficit. Government borrowings during 1982 averaged about $3.5 million per month including $1.4 million from the Euro-currency market. External borrowings are projected to increase over present levels through 1985/86 (See Table 5).

Over 60 percent of the public debt is external, and over 85 percent of government borrowing over the next three years is expected to derive from external sources. Thus, amortization of the public debt will burden the balance of payments for the foreseeable future. Amortization of the public debt reached a peak of 12.9 percent of GDP in 1980/81, and declined slightly to 12.4 percent the following year. It is projected to decline gradually to 5.9 percent by 1985/86 (see Table 5).

Debt service obligations increased to US$ 48 million in 1981, or 9.3 percent of export earnings. By December 1982, it rose to over $74 million, or over 18 percent of export earnings. This level of debt service ratio is high by most standards. For Mauritius, it is more serious for several reasons: 1)

Mauritius is an extremely open economy, with exports accounting for nearly 40 percent of GDP; 2) Mauritius depends excessively on one export crop which suffers from price fluctuations and variable weather; and 3) Mauritius has insufficient foreign exchange reserves to face the effects of another cyclone. Thus Mauritius must intensify its efforts to improve its balance of payments and to monitor its external debt situation.

C. Other Donor Assistance

Mauritius receives substantial aid from both multilateral and bilateral donors. The World Bank continues to be the major multilateral donor, owing in part to significant structural adjustment assistance. The European Community is also a significant donor, followed by the African Development Bank and UNDP. Bilateral donors include France, the United Kingdom, India, West Germany, Canada, Australia, China, Japan, South Africa, various Arab donors and the U.S.

In 1982/83, grant assistance is projected to be $12 million, up from $1.2 million two years earlier. However, loan assistance is just over $80 million, down from $120 million 1980/81. Assistance from the World Bank is anticipated at about $25 million from the 1982/83 budget, to which may be added a $40-45 million Structural Adjustment Loan. Other major donors with which the GOM has negotiated assistance since the June election include the European Community, African Development Bank, IFAD, France, Germany, the U.S., and India.

IV. PROGRAM DESCRIPTION

A. Program Activity

The purpose of the $2.0 million ESF grant is to provide balance of payment and budgetary support to the Government of Mauritius through a Commodity Import Program. Foreign exchange will be provided to the GOM which will then make it available to the private sector for the purchase of U.S. commodities. The private sector firms will pay for the imports in local currency and a special account will be established to monitor local funds. The Rupees will be drawn down from the account for local development activities which have been mutually agreed upon by the GOM and USAID.

A key objective in the use of the local currencies is to support and promote private sector activities, both domestically and internationally. Specifically, there are four programs which are expected to receive assistance from the estimated 22 million rupees generated by the Commodity Import Program. Assistance for these activities is subject to final agreement by AID and the GOM.

Activity	Amount (Rs)
1. Agricultural diversification: Northern Plains Pilot Irrigation Project	11,000,000
2. Tourism promotion	4,000,000
3. Export development and investment promotion	3,500,000
4. Rural household water supply	3,500,000
	22,000,000

First, agricultural diversification will be promoted through the provision of up to 11.0 million rupees for the support of a pilot subsurface drip irrigation scheme in the Northern Plain. The activity on 185 ha. will provide a test of the technology and organization required to operate successfully a drip irrigation system on small, medium and plantation size farming operations. Nearly all of the equipment and technology will be imported from the U.S. The scheme will contribute to the GOM's agricultural diversification objectives by increasing food crop production through inter-row cropping in sugar and the rotation of sugar fields into vegetable production. Sugar production will be maintained through increased yields. The pilot activity will give results which will be the basis for a larger investment financed by the African Development Bank and the World Bank, inter alia, to expand irrigation throughout the Northern Plain. Secondly, CIP generated local currencies of 4.0 million rupees will be provided for the expansion of the Mauritian Government Tourist Office (MGTO) budget from Rs. 6.0 million to Rs. 15.0 million in FY 1983-84. Although this is more than a doubling of the budget, in fact, it represents only an adjustment that will bring the MGTO budget back to 1978 levels in real terms. The increased funding will be used to expand or improve nearly all activities of the MGTO, including promotional campaigns in Europe, Asia and the U.S. Thirdly, the Ministry of Commerce will receive 3.5 million rupees for support of specified export development and investment promotion activities, including the establishment of the Mauritian Export Development and Investment Promotion Authority (MEDIA). An important aspect of this program will be the production and distribution of brochures, films and slides on the investment opportunities and exports products available in Mauritius, as well as promotional travel with private sector representatives.

The final activity is the provision of Rs. 3.5 million to the Central Water Authority to finance a portion of its Minor Works Program which connects small villages to central water supplies. This assistance is a continuation of the very successful water supply for rural housing activity funded last year through the CIP. However, rather than focusing an existing housing estates, the scheme will expand water services to small villages.

B. FY 82 CIP Implementation

In FY 1982, Mauritius received it first Commodity Import Program Grant ($2.0 million) which was used to purchase U.S. degummed edible oil by the Mauritius Oil Refineries Ltd., a private edible oil processor. The firm was alloted $2.0 million in foreign exchange for the purchase of approximately 4200 tons of oil. The procurement was made on a timely basis, required a minimum of AID or State Department supervision, and except for some minor transfer problems, was a simple operation for the refinery to transact. Local currency payment for the oil was deposited in a special account at the State Commercial Bank and transferred to the GOM implementing agency per their disbursement schedule requirements.

The original allocation and disbursements to date for the local currency account are as follows:

Implementing Agency and Activity	Funds Allotted (000 Rs)	Funds Disbursed (Apr. 15, 1983) (000 Rs)
1. CWA: Rural Water Supply	16,000	17,000
2. Irrigation Authority (IA): Small Scale Irrigation	2,000	1,000
3. DBM: Development Bank of Mauritius Small Enterprise Service Sector Finance	2,000	500
	20,000	18,500

The original allocation of 20 million rupees was based on local currency generations using the rupee value before devaluation. Actual payments by the Mauritius Oil Refineries Ltd. into the special account have been Rs 22,088,678. AID and the Ministry of Finance have agreed to use any unallocated funds for expansion or continuation of the original three activities. Since CWA has implemented its program the most expeditiously, it will receive the balance of funds. A sum of Rs 17.0 million was earmarked for the supply of water to individual families living in rural housing estates. Six thousand sixty one households in 56 estates have been connected to clean, central water supplies. The Central Water Authority (CWA) through a local contractor has completed the construction and hook-ups on time and for Rs 14.0 million which is approximate 2.0 million rupees under the original estimate. AID and the CWA have agreed to use the balance of the unused funds, 3.0 million rupees, to expand and improve the water systems in rural villages. The CWA is in the process of planning this work and it should be completed by October of 1983.

The Irrigation Authority has placed one million rupees transferred from the Ministry of Finance into a revolving account for small scale irrigation development. Although disbursements have been slow, only 166,000 rupees to date, there are several rehabilitation and new projects which are in advance stages of planning. The pace of disbursement is expected to increase as experimental pilot activities develop.

The Development Bank of Mauritius has established a small scale business loan program to promote trade, services and artisanry. This program combines funds and local commercial bank monies in joint loans to small businesses. This innovative approach stretches the DBM's limited resources and mobilizes private commercial bank money for small enterprise development. Establishing these procedures has taken more time than planned, but the new programs now has its loan procedures established and financing is expected to go quickly. An advertising campaign to let small entrepreneurs know about the loan program was successful. Loan requests are numerous and the first application were approved last month for a total 171,000 rupees. The DBM expects to request allotment of the full 2.0 million rupees within the next few months and disburse all funds to the target clients by the end of the calendar year.

C. Commodity Import Component

1. Import Market Analysis

a. U.S. Trade with Mauritius

Trade between Mauritius and the United States, although still limited, has been growing steadily at an average rate of 30% during the past five years, as shown in the Table 1 attached. Imports from the US amounted to approximately $26 million in 1982, or approximately 5% of total Mauritian imports.

It is significant to note, however, that an estimated 50% of total U.S. imports (defined as having at least 50% of value added in the U.S.) do not come directly from the United States, but are shipped from U.S. affiliated companies or from representatives in Europe or South Africa. This indirect trade pattern is attributable to the small volume of trade and the great distance separating the countries. As a result, or perhaps because of this, there is no direct shipping connections between the two countries.

b. Composition of Import Market

The largest category of imports from the United States in 1981 was food which accounted for nearly 32% of all imports. It included mainly rice, wheat, flour, milk/cream and almonds. $5.5 million worth of rice and flour, however, came in under PL 480 program.

The second largest category was animal and vegetable oils (25%) which consist primarily of soya bean oil which is refined locally into cooking oil, with the by-products utilized for the soap industry. Chemical were the third largest category (19%). These are imported for the fertilizer industry or as plant ripeners, herbicides, insecticides and fungicides. Other imported chemicals include those used in plastic, paint, photography and rubber industries, as well as detergents and pharmaceuticals.

Machinery and transport equipment also represents a major category (11%) and includes electrical apparatus, telecommunications equipment, mechanical handling machinery and equipment, construction machinery, motor vehicle parts, computers, liquid and air pumps and compressors, machine tools, food processing machinery, printing machinery and supplies, agricultural machinery and irrigation equipment, air conditioners and steam engines.

The private sector is the largest user of US imported materials and equipment. As the backbone of the agricultural sector and hence of the entire economy, the sugar industry is the major client for fertilizer and crop related imports and for agricultural machinery. This being the case, US goods are reasonably assured of a stable market in Mauritius, since many sugar-related imports constitute annual requirements for the sugar industry.

c. Absorptive Capacity

Despite an average reduction of 8% in the volume of total Mauritian imports during the past two years and following severe import restriction measures taken by the Government, imports from the US have not been affected in any significant way. The value of imports in 1982 managed to reach the same level as that of 1981 which itself represents a 23% increase over that of 1980. This is explained that by the fact that the major imports from the US fall under the essential goods category (capital goods, raw materials for industry, and agricultural inputs) and are therefore exempt from the import restrictions. There is no doubt that the proposed CIP Grant, by bringing in foreign exchange, will further help to sustain imports from the US.

Based on the past records of regular importers of US goods and their purchase plans for the coming year, we have no doubts about the Mauritian requirements and capacity to absorb the full amount of the proposed program. For example, Mauritius Oil Refineries Ltd. imports annually an average of 10,000 tons of crude vegetable oil worth $5 million from the US. This Company alone has therefore the capacity to absorb twice the amount of the CIP Grant proposed.

TABLE 1
IMPORTS FROM THE UNITED STATES
(CIF Value in Million Rupees)

	1976	1977	1978	1979	1980	1981	1982
Food and Live Animals	0.7	2.0	6.8	36.4	49.3	85.6	
Beverages and Tobacco	3.8	10.1	5.8	9.8	9.2	9.3	
Crude Materials, inedible, except fuel	1.2	1.8	1.8	2.2	2.6	2.3	
Minerals fuels, lubricants etc.	0.2	0.3	0.3	0.5	0.6	0.8	
Animal and vegetable oils	0.1	-	25.0	15.4	33.3	67.0	
Chemicals	13.1	13.9	18.6	27.6	28.3	50.6	
Manufactured goods	5.6	5.3	4.8	7.5	12.4	11.3	
Machinery and Transport equipment	40.3	32.6	25.3	34.9	59.8	29.9	
Miscellaneous Manufactured goods	5.8	9.4	8.5	15.8	18.5	9.0	
Other Commodities	1.4	0.6	0.4	1.8	0.1	0.01	
TOTAL	72.2	76.0	97.3	151.9	214.1	265.8	264.8

2. Commodity Procurement

Two million dollars in grant funds will be made available through the government to the private sector to finance the cost of commercial imports from the U.S. The foreign exchange could be used to finance a variety of commercial imports including irrigation equipment, agricultural equipment and spare parts, fertilizer, and other agricultural chemicals, but the design team and Embassy recommended the purchase of degummed edible oil. Last year the CIP provided the necessary foreign exchange for the Mauritius Oil Refineries Ltd. to purchase approximately 4200 tons of edible oil from the U.S. The rational for again using the foreign exchange to purchase edible oil is as follows:

(a) Given the limited staff available to implement and monitor the grant, the purchase of oil is most attractive because it places the minimum administrative and logistic burden on the Embassy and REDSO/ESA. Only two consignments, each of approximately 2000 tons of oil, will be required to utilize fully the $2.0 million.

(b) Because of the high demand for edible oil and the efficiency and financial strengths of the Mauritius Oil Refineries Ltd., local currency repayments will be made immediately upon shipment of oil and presentation of shipping documents. The local currency is expected to be generated by a 2000 tons ($1,000,000) purchase in July and shipped in September and a similar size procurement starting in October. Shipping of the oil will be financed by the refinery itself.

(c) Mauritius Oil Refineries now has experience with AID Regulation One's informal procurement procedures and the company will be able to conduct the transaction with little additional burden to its usual purchasing operations.

(d) There is a strong ongoing demand for edible oil from the U.S.; Mauritius Oil Refineries imports an average of $5 million worth of vegetable oil from the U.S. annually.

(e) Refining the crude oil in Mauritius provides domestic value added, thus generating local employment and increasing benefit to the economy.

D. Use of Local Currency Generations

The local currency generated under the CIP will be used by the GOM to support activities mutually agreed upon by the GOM and AID. The following four programs are proposed for support:

1. Agricultural Diversification - Pilot Irrigation Scheme

Last year Mauritius' food import bill exceeded $100 million. This was equal to two-thirds of the foreign exchange earned by the country's principal export, sugar. It also represented 25 percent of total imports. The GOM has become increasingly concerned about the growing dependence on food imports and has already initiated a program of agricultural diversification.[1/] Among the action targets for the next five years are: (a) to reach self-sufficiency in selected food crops, and (b) to develop all lands to the limits of their productiveness. The basic theme underlying the plan

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1/ White Paper on Agricultural Diversification, GOM, February 1983.

i('self-reliance.' However,

> ...to avoid any misunderstanding, it should be stated that it is not our intention to take any undue risks for the economy by carrying out our programme of agricultural diversification at the expense of sugar production. Sugar remains the crop which we can produce most efficiently and...probably provides the country with the best comparative return per (acre) of cultivated land. As a matter of fact, because of land constraint, a great part of he diversification will be on sugar land interline and by means of rotational crops."

As part of a related effort, beginning in 1974, the GOM initiated the first stage of a three-stage irrigation project on 2128 hectares of sugar lands in the Northern Plains area. Overhead sprinkler irrigation was introduced on generally shallow and permeable lands that had been previously irrigated by furrow-surface method or else had been rainfed. Stage II of the scheme, involving an additional 2500 hectares of land under sprinkler irrigation, was scheduled to begin in 1979. Two factors held up Stage II: the rapid rise in projected costs and, perhaps more importantly, the advent of the more economic and efficient system of subsurface drip irrigation.[2/] To determine the most appropriate next steps for implementing Stage II in light of the above, a detailed feasibility study is being carried out.

In the interim, the GOM has determined to embark on a pilot activity involving 185 hectares of land to be put under subsurface drip irrigation. The purpose of the pilot scheme is to provide Government with practical, field-tested results for use in determining how best and at what pace to proceed with the larger Stage II of the Northern Plains Irrigation project.

2/ This method of irrigating sugar cane was largely developed over the past decade in Hawaii,-where acreage under drip increased to more than 60,000 acres in 1980. Because water is provided directly and steadily to the plant's root structure, both the water application and the water efficiency ratios are much higher than other methods of irrigation.

What is especially noteworthy of the pilot activity is that it is the first instance involving an estate, large planters and small holder growers into a single management unit. Management of the Scheme will be by the Irrigation Authority (IA) in coordination with the Ministry of Agriculture.

The purpose of this pilot activity is experimental. Although significant increases in cane yield have occurred using drip irrigation on experimental plots (over 50% greater yield than furrow irrigated cane; less so for sprinkler irrigated cane), a large-scale trial will be necessary to: (a) determine the difficulties of installing subsurface irrigation equipment in ratoon cane; (b) test several different types of subsurface tubing under field conditions; (c) investigate costs of operating such equipment, including how costs are best allocated; (d) determine yield increase for different sized holdings; and (e) determine optimum water requirements for sub-surface irrigation.

In addition to sugar cane, however, the 185 hectare area will experiment with interline cropping, mixing cane with food crops, e.g. peanuts, french beans, maize, etc. Since subsurface irrigation equipment is more expensive than sprinkler equipment and substantially more than furrow irrigation, additional revenues must be generated by the same land. Given the current low price for sugar on world markets, increasing sugar cane yield alone would make investments in drip irrigation equipment questionable. Only by combining cane with other crops can sufficient revenues be generated to warrant the extra investment. As noted previously, this concept is congruent with national plans for agricultural diversification.

The project itself will entail installation of filtration and chlorination plants supplied from a pressurized water main, connected through a network of distribution pipes to low pressure plastic tubes running underneath the cane roots either "cane style" or "pineapple style". The latter is more advantageous for interline cropping, because between each double row, there are wide spaces which are not covered over by the cane for a longer period. The longer "growing season" leads to higher yields and a greater variety of crops that can be grown in the interlines. It is expected that more than half the project area will be developed using pineapple spacing.

Other advantages of the drip method are that the irrigation water can be supplied daily, and that liquid fertilizers and ripeners can be added to the water. It is anticipated that operating cost savings could be substantial, although this will be confirmed during operation of the pilot scheme.

Of particular interest is the technological lead which the U.S. has both in the testing and manufacture of drip irrigation equipment. In fact, it is estimated that as much as one-half the equipment required for this activity will be purchased from the U.S. The impact of successful large scale adoption of subsurface irrigation on U.S. trade opportunities is obvious. Furthermore, replication of he Hawaii and Mauritius experience with subsurface irrigation in other sugar producing countries in Africa and elsewhere could prove significant in terms of increased U.S. exports.

The total capital and installation cost of this activity is estimated to be Rs. 13.1 million ($1.2 million), of which the CIP generated local currencies would contribute Rs. 11 million ($1.0 million). Initial work on the scheme would begin later this year, with installation completed by December 1984. Approximately 120 small planters (with more than half the land area) and several larger planters will be the primary beneficiaries of this pilot scheme. Given the potential for substantial benefits to the economy from the successful implementation of this activity, AID participation is fully justified.

2. Tourism Promotion

Prior to 1952, Mauritius had only a single hotel of 12 rooms. Just over 1,000 tourists visited the island annually. Thirty years later there are 51 hotels with almost 4500 beds. More than 120,000 tourists visit Mauritius annually and tourism has become the country's third largest earner of foreign exchange. Despite the growing importance of tourism as a source of revenue and as an employer of more than 3,300 people, promotion expenditures have not kept pace. The 1982 budget of the Mauritius Government Tourist Office (MGTO), the entity charged with promoting tourism overseas, has remained the same as it was in 1979, notwithstanding two devaluations and substantial world-wide inflation.

To enable Mauritius to remain competitive vis a vis other tourist destinations in the region, i.e. Seychelles, Madagascar, Reunion and Kenya, as well as to attract additional tourism revenue, will require an increase in promotional efforts and an accompanying increase in expenditures. In developing its structural adjustment program, the World Bank also recognized the importance of increased promotional efforts. Agreement was reached with the Government to increase the 1983/84 budget of the MGTO in current terms to at least the equivalent of the pre-devaluation budget in 1979, i.e. approximately Rs. 15 million ($1.35 million). This is a significant increase from MGTO's 1982/83 budget of Rs. 6 million, but fully warranted and comparable to expenditures in other tourist centers.

The increased resources would be utilized to upgrade MGTO promotional campaigns in the principal European tourist market--the U.K., France, Germany and Italy. In addition, new promotional campaigns are being developed to diversify the sources of tourism and expand into new markets, including the U.S. (as a tie-in with long-haul, East and Southern African destinations, principally Kenya and RSA) and Switzerland (to complement new airline routings). Funds would also be used to print additional tourist brochures and enhance Mauritius' participation at travel trade fairs and exhibitions.

The current leadership of the MGTO has accomplished a great deal over the past years, particularly in view of budgetary constraints. To assist the MGTO in further rationalizing its tourism planning and market analysis efforts, the GOM will utilize World Bank resources to provide technical assistance for two studies and training of MGTO staff. In line with AID/W PRE consideration of assistance, discussions have been held with the GOM about the possibility of AID providing short-term technical assistance (up to six months, on a grant basis) for tourism development. The GOM/MGTO are now reviewing the question of whether and how best to utilize those proposed services. Implementation follow-up visits by REDSO staff will further pursue the matter.

The PAAD design team has reviewed the operations of the MGTO and discussed tourism promotion efforts with the Association of Mauritian Hoteliers and Restauranteurs (AHRIM), a private sector group representing the tourism industry. We are of the opinion that promotional efforts to date have been vigorous and successful and also that additional resources are necessary to enhance the ability of the MGTO to carry out its objectives. In view of the importance of tourism to the economy, we propose that Rs. 4.0 million ($360,000) of local currency generations be allocated to the 1983/84 budget of MGTO to support its tourism promotion activities.

3. Export and Investment Promotion

The expansion of the export-oriented industrial sector will continue to receive GOM priority in development planning. The Mauritius Export Processing Zone (MEPZ) is contributing to the maintenance and growth of the national economy through employment generation and foreign exchange earnings. However, it relies on a single industry, the garment industry and by and large one market, the EEC. Firms exporting from Mauritius to member countries of the EEC receive a preferential tariff. The contribution of EPZ production to the domestic economy as local value added is limited, by and large, to the wage component of domestic labor. These structural criticisms of the EPZ are not to deny its importance to the Mauritian economy in general, but only to highlight the need for additional investment to diversify production and new markets to reduce EEC dependence. Notwithstanding, the structural problems of the EPZ, its expansion is fundamental to the urgent requirement of providing substantial new employment opportunities to a labor force that has largely opted out of agriculture.

The structural adjustments and continued growth of the export manufacturing sector depends, in part, on a vigorous and well planned export and investment promotion campaign. Given the accomplishments of the past decade, it is surprising that as much trade and new investment were generated with so little promotional effort and expenditure. In responding to this weakness, the Government has decided to establish the Mauritius Export Development and Investment Promotion Authority (MEDIA) with the following responsibilities:

(i) to promote, assist and develop exports from Mauritius;

(ii) to engage in investment promotion activities designed to promote Mauritius as an attractive base for the establishment of export-oriented industries and services;

(iii) to plan, implement and review programmes of action for the development of export and investment in private sector industries manufacturing for export;

(iv) to advise Government on all matters relating to the development of exports and investment promotion.

The organization will be an autonomous statutory body reporting to a Board of Directors composed of private and public sector representatives. The MEDIA will absorb some of the export and investment promotion function of the Ministry of Commerce, Industry, Prices and Consumer Protection, in addition to starting new programs in line with their responsibilities. It will advise potential foreign investors and importers, provide them will all necessary information and put them in contact with local businessmen. In establishing a "one-stop investment center", MEDIA will enable the prospective investor to deal with only one agency in order to obtain the clearances and approvals to start and operate an industry.

Legislation to establish MEDIA is now in the process of final approval by the Parliament and the plan is to hire staff and open the office before September 1983. The initial year operating budget is estimated at Rs. 1.7 million with an estimated Rs. 4.0 million required for specific promotional campaigns.

In addition to reviewing the MEDIA plans, the PAAD team has examined the on-going aspects of the Ministry's promotional program and is in general agreement with them. Specifically, the investment and trade promotion brochure and the U.S. promotion tour are items that are strongly supported.

In light of the financial requirements of both the on-going and proposed new programs and the positive economic benefits that can be expected, Rs 3.5 million will be allocated from local currencies for export and investment promotion. The funds will be used for general support of the promotion programs.

4. Village Water Supply

Mauritius has been generally successful in providing basic social services to its citizenry. In terms of percentage of population receiving basic health services and education, it ranks among the highest in Africa. Notwithstanding the overall good record, there is one service which has not yet been provided on an island-wide basis -- potable water. Although more than 70 percent of the population has access to potable water, a number of villages are not currently linked to any adequate, secured water supply. People in those villages rely on shallow, easily polluted wells or irrigation canals for their water, either because safe sources are no longer adequate, the source has shifted and the village is no longer connected to a system, or no provision was made for hook-up to the system. As expected, incidences of water-borne disease are substantially higher in these areas.

The Central Water Authority (CWA) has responsibility for the provision of potable water. However, most of its resources have gone into large-scale capital projects (reservoirs, pumping stations, dams) that serve the bulk of the population. Resourses for village water supply have been minimal. Over the years, CWA has undertaken a number of village water projects that has ameliorated the problem. AID supported a similar program (supporting water to Central Housing Authority estates) under the previous CIP. The World Bank is providing additional funds to continue that program. However, upwards of 80 communities remain without an adequate supply of potable water.

It is intended that a modest portion of the local currency generations under this program be utilized to support the CWA program. The Rs. 3.5 million ($ 320,000) would enable approximately four villages, involving an estimated 6.000

persons, to have access to potable water. Construction would entail laying pipe from a secured source (usually at least one kilometer away) to a grid or network within the village that would eventually permit individual house connections, as family resources permit. Experiences in other communities indicates that families strongly prefer house connections as a means of avoiding disputes over water use; CWA also prefers this practice to facilitate the collection of water fees. It is CWA policy that operating costs should be met from fee payments. Homeowners are responsible for all costs associated with connecting their individual homes to the village distribution network. The PAAD design team has reviewed CWA's village water program in light of our positive experience under the previous CIP. In addition, CWA planning and implementation practices were examined by a REDSO water engineer in connection with the previous CIP and found acceptable. It is anticipated that CWA will utilize its own staff for design and supervision, while contracting with local contractors for physical works. Although CWA is also responsible for carrying out a number of larger activities, assurances have been provided that adequate organizational capacity exists to undertake this additional work. The design team estimates that work under this program will be completed within 18 months after signing of the agreement.

V. PROGRAM IMPLEMENTATION

A. Implementation Responsibilities

1. Government of Mauritius

Primary responsibility for implementation of the U.S. dollar aspects of the program, including reporting requirements, will rest with the Ministry of Finance. The Bank of Mauritius will act as a clearing house to approve applications for foreign exchange while import licenses will be issued by the Ministry of Industry and Trade.

The Government of Mauritius will deposit the Mauritian rupee equivalent of $2,000,000 into a special government account immediately upon receipt of the Special Letter of Credit. The special account (opened in favor of the Ministry of Finance) will be established in a local bank mutually agreed upon by AID and the Ministry. The funds in this account will be monitored by the Ministry of Finance in consultation with the Ministry of Economic Planning and Development. Disbursements will be made by Finance in a timely manner to the government entities implementing the agreed upon activities. On a periodic basis, the implementing agencies will send to AID progress reports on the programs. These financing and reporting procedures are being used for last year's CIP and no serious problems with them have arisen.

2. AID

REDSO/ESA, with the assistance of the American Embassy, Port Louis, will have primary responsibility for the administration and implementation of the grant. A REDSO Project Committee will be responsible for overseeing the implmentation of this program. The principal REDSO backstop officer will be David Cowles, Supply Managment Officer; other committee members will be James Dempsey (Project Officer) and Kathleen Hansen (RLA).

3. Mauritius Oil Refineries

The Mauritius Oil Refineries will pay to an account specified by the Ministry of Finance, the rupee equivalent of the value of payment documents presented by the U.S. supplier under letters of credit for the supply of soybean oil, when notified by Citibank that said payment documents have been presented.

B. Applicable A.I.D. Regulations and Procedures

1. A.I.D. Regulation 1

A.I.D's standard financing procedures, applying the A.I.D. Regulation 1 in its entirety, will be applicable to all foreign exchange transactions under the grant. After having reviewed the GOM's foreign exchange allocation and import licensing procedures, it is not expected that these A.I.D. procedures will place an undue burden on the system.

2. Eligible Commodities and Related Services

While all items listed in the A.I.D. Commodity Eligibility Listing - 1981 Edition will be eligible for financing under the Grant, it is anticipated that the initial Commodity Procurement Instruction will limit eligible items to those included in Schedule 1 (Animal And Vegetable Products), Schedule 4 (Chemicals and Related Products) and Schedule 6 (Metals and Metal Products, Machinery and Transportation Equipment). Transportation and marine insurance will also beeligible for financing. We expect that the entire $2 million will be used to finance the procurement of edible oil.

3. Authorized Source of Procurement

In accordance with the policy set forth in the A.I.D. Handbook 1, Supplement B, for Economic Support Fund Grants, the authorized source of procurement for commodities and services will be A.I.D. Geographic Code 000 (U.S. only).

4. Policy Determination 71 and Nonavailability of U.S. Shipping

The Northern Plain's Pilot Irrigation Project, which is scheduled to receive support under this program, has as its main objective the testing of new drip irrigation technology for agricultural diversification. However, in so doing, it will also increase sugar yields. According to Policy Determination 71, AID must consider possible injury to U.S. sugar producers before extending assistance to sugar industries of cooperating countries.AID/W is reviewing the impact of this pilot project on U.S. sugar producers. If it is determined that U.S. producer may be injured by the increased sugar yields resulting from the project, then the local currency, Rs. 11 million, will be used to expand support for the other three proposed activities.

Additionally, because no U.S. registered vessels call on Port Louis and freight charges for special routings are excessive, a determination of non availability of U.S. flag carriers will be requested to satisfy 50-50 cargo preference requirements.

5. Value of Transactions

The minimum value of transactions under the Grant will be set at $10,000; however it is anticipated that the entire amount of the CIP will be utilized in procuring a single commodity, edible oil. Only two transactions (of approximately $1 million each) are expected. Should there be any change in this plan, however, the issue of procurement will be subject to further negotation. It is proposed that REDSO review all transactions which exceed 20% of the value of the grant.

6. Methods of Financing

Last year the CIP made use of a Special Letter of Credit (SLC) opened by Citibank against an AID Letter of Commitment, in order to provide the GOM a $2.0 million foreign exchange asset on its books prior to the end of its fiscal year (June 30). The Government requested this arrangement in order to lower its FY 81-82 operating deficit below IMF and IBRD suggested ceilings. The GOM is again in a tight fiscal position, and since the full amount of the grant will not be disbursed in payment for oil prior to June 30, it has again requested that AID establish a SLC procedure.

Although Mauritius Oil Refinerires, Ltd. normally makes payment by direct wire transfers, it will use a bank letter of credit for the CIP procurement. The design team and the Embassy have suggested that Citibank, as the only American bank in Mauritius, be used as the banking agent for the CIP. Both the GOM and Mauritius Oil Refineries, Ltd. have agreed to this. Citibank (Port Louis) has also agreed to reduce its L/C charges so that they are only marginally more than wire transfer charges. If purchases other than oil are made, bank letters of credit from Citibank are expected to be used.

7. Disbursement Period

Based on previous experience, we do not anticipate any significant delay in the timely disbursment of funds under this program. Use of the SLC is expected to result in a rapid draw-down of AID funds; a period of 6 months is provided for this action. Complete disbursement of AID funds is expected within 12 months from the effective date of the agreement. Utilization of all local currency generations is anticipated within a two year period.

C. Government of Mauritius Import Procedures

Severe import controls introduced by the Government in 1981 were intensified in 1982 to help rectify a deteriorating balance of payments position and to insure that available

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foreign exchange was utilized in the best, most productive interests of the country.

Under recent Government regulations, an importer must hold:

i) an import license
ii) an import permit, and
iii) pay a levy of 12% of the c.i.f. value of the goods to be imported before he can place an order. In addition, once the above requirements have been complied with, the participating commercial bank must obtain prior approval from the Bank of Mauritius (Central Bank) before foreign exchange can be released.

However, all these functions are being carried out under established procedures. They have been reviewed by REDSO/ESA staff and determined to be fair and equitable. Accordingly, the funds made available by the Grant will be integrated into normal licensing and allocation procedures.

D. Port Clearance - Status of Port

All Mauritian importers use Port Louis as the port of entry. It is the country's only commercial deep-water port and is administered by the Mauritius Marine Authority, a parastatal body. The port has ten berths capable of taking ships from 4.9 meters to 10.7 meters draft, plus numerous quays. There are also bulk handling facilities for sugar, petroleum products, fertilizer, vegetable oil and cement. Moreover, there is a container terminal for container operations. The port development projects for the near future consist of the construction of:

i) a flour mill and grain complex, and

ii) a container control building.

With the coming into operation of the Bulk Sugar Terminal and facilities offered for the handling of containers at the Container Terminal, waiting time for containerized cargo vessels and other bulk cargo vessels have been reduced to nil. Maximum waiting time for unitized cargo vessels amounts to 10 hours. A net progress has been registered in port productity. Unitized cargo vessels are being loaded/unloaded at a rate of 20-30 tons per gang hour whereas containers are being loaded/discharged at a rate of 5 to 10 tons per gang hour. Once off-loaded commodities are readily hauled to destination.

E. Commodity Arrival and Disposition

No delays are forseen with regard to the handling, discharge and clearance of the bulk commodity to be financed under the program. The Customs and Excises Office has an established system for monitoring the arrival of goods in country for which import permits are issued. Import permits must be presented to customs officials, who note receipt of goods as well as any discrepancies. The Office's investigative branch follows up on any irregularities.

It is anticipated that the importer of the A.I.D. financed goods will promptly clear the items from customs, satisfying AID's standard requirements, and sell or utilize the goods within one year after they arrive in Mauritius.

F. Implementation Schedule

The following implmentation schedule assumes that the Grant will have been authorized by late May 1983.

1. - Grant Agreement signed	1 June 1983
2. - CPs Satisfied	10 June 1983
3. - Special Letter of Credit issued by AID	20 June 1983
4. - Importer(s) commences procurement action	June 1983
5. - First shipment from U.S.	Sept. 1983 (approx.)
6. - Terminal date for requesting disbursing authorizations	31 May 1984
7. - Grant is fully disbursed	30 Nov. 1983
8. - Local currency generations fully disbursed	May 1985

G. Program Monitoring

AID will monitor the progress of both elements of the program -- drawdowns on the CIP and progress on the use of local currency generations -- through financial reports containing the following information, as will be more specifically described in an implementation letter:

1. CIP
   a. Report of letter(s) of credit opened
   b. Report on disbursements

2. Local Currency Generations:
   a. Quarterly and cumulative disbursements by the Ministry of Finance from the Special Account;

b. For each program or activity funded from the Special Account, the amount budgeted for the activity, disbursement made during the quarter and cumulative disbursements; and

c. A general description of activities, goods, services, structures and/or facilities, etc., financed during the quarter.

AID will retain the right to audit and inspect activities financed under the CIP.

VI. OTHER CONSIDERATIONS

A. Impact on U.S. Balance of Payments

The short-run impact of this program on the U.S. balance of payments position will be minimal, since the commodity that is likely to be procured (edible oil) is already generally imported from the U.S. However, over the longer term there is a good potential for increasing U.S. exports to Mauritius since the agricultural diversification sub-activity is expected to utilize U.S.-manufactured commodities and component pieces of equipment (for drip irrigation) in which the U.S. has technological leadership. A successful pilot activity is expected to result in increased U.S. imports of these items.

B. Use of U.S. Government Excess Property

Given the nature of the program, use of USG excess property is not appropriate.

C. Relation to Export-Import Bank Credits

The commodity import program as developed does not nor is it expected to compete with Ex-Im Bank credits.

D. Relation to OPIC Program

The OPIC program is not active in Mauriitus. Furthermore, this CIP is highly unlikely to result in any conflict with that program in the future.

E. Environmental Statement

A categorical exclusion determination is attached as Annex E AID/W per State 133166 (May 13, 1983)

VII. NEGOTIATION STATUS

Program negotiations have been extremely productive and cordial. GOM officials in both the Ministry of Finance and the Ministry of Economic Planning and Development have been forthcoming and cooperative in discussing the implementation of local currency-financed activities under the FY 82 CIF and in presenting and reviewing options for the current proposal. In addition, useful visits were made to the organizations which will backstop each of the four activities proposed for assistance, as well as site visits to provide the PAAD design team with a better understanding of the context in which assistance is being considered. Furthermore, visits were also made to the probable importer of U.S. commodities under this program for the purpose of reaching an early understanding on all import-related procedures. Lastly, meetings were held with several private sector representatives to obtain reaction and comment on the proposed program.

Substantive agreement has been reached on all aspects of the program, including tentative agreement on the commodity to be imported (edible oil) and the proposed uses of local currency generations. No special conditions or covenants are proposed for inclusion in the grant agreement. No particular problems in signing or implementing the program grant agreement are anticipated.

Minister of Finance

Mauritius

Excellency,

In view of the budgeting and balance of payments difficulties encountered by the Government of Mauritius, I have the honour to request financial assistance from the United States Government in the amount of U.S. $2.0 million.

I propose that these funds be utilized to finance commercial sector imports of priority commodities from the United States. I further propose that the Mauritian rupees generated by such imports will be applied to programmes of considerable importance to my government. These include agricultural diversification, trade and investment promotion, tourism promotion, and village water supply. I would appreciate your government's early and favourable response to this request.

Please accept, Excellency, the assurance of my highest consideration.

(Paul R. Berenger)
Minister of Finance

H.E. Mr Robert C.F. Gordon,
Ambassador of the United States
of America,
U.S. Embassy,
Rogers House,
Port Louis.

ANNEX B

Table 1: Gross Domestic Product at Factor Cost: 1976-1982
(in Rupees million)

	1976	1977	1978	1979	1980	1981	1982[1/]
P at current prices	4,165	4,776	5,494	6,540	7,389	8,852	10,270
P at constant 1976 price	4,165	4,455	4,633	4,802	4,292	4,648	4,908
nual growth rate	-	7.0%	4.0%	3.6%	-10.6%	8.3%	5.6%
ral Derivation at Constant 1976 ces							
griculture, forestry, hunting & Fishing	938	938	939	977	643	784	957
Of which sugar cane	(741)	(715)	(723)	(762)	(442)	(569)	(731)
Other	(197)	(223)	(216)	(215)	(201)	(215)	(226)
. Mining and quarrying	7	7	7	7	7	7	7
. Manufacturing	631	666	717	754	688	771	811
Of which Sugar Milling	(228)	(220)	(222)	(230)	(141)	(171)	(203)
Other	(403)	(446)	(495)	(524)	(547)	(600)	(608)
. Electricity, gas, water	70	81	89	97	97	100	103
. Construction	333	381	400	370	307	292	274
. Wholesale & retail trade, restaurants & hotels	472	533	538	582	558	604	575
f which wholesale & retail	(398)	(448)	(444)	(471)	(462)	(498)	(468)
Restaurants and hotels	(74)	(85)	(94)	(111)	(96)	(106)	(107)
. Transport, storage & communications	356	410	431	437	400	436	465
. Finance, insurance, real estate and business services	664	702	734	763	761	794	824
Of which ownership of dwellings (less imputed banking service charges)	(427)	(453)	(478)	(503)	(511)	(536)	(556)
Other	(237)	(249)	(256)	(260)	(250)	(258)	(268)
. Producers of Government Services	497	522	547	563	574	591	609
. Other Services	197	215	231	252	257	269	283

Source: Mauritius Economic Bulletin, December 1982.

1/ Estimates provided by Ministry of Finance

Table 2 : EMPLOYEMENT IN LARGE ESTABLISHMENTS (1)

ITEM	1977		1978		1979		1980		1981	
	MARCH	SEPT.	MARCH	SEPT.	MARCH	SEPT.	MARCH	SEPT.	MARCH	SEPT.
SUGAR (2)	54,391	50,499	51,332	53,982	48,714	52,648	47,493	51,146	47,271	-
OTHER AGRICULTURE (3)	6,993	6,793	7,078	6,785	6,898	6,700	6,521	6,896	6,231	-
MINING & QUARRYING	143	121	120	198	148	148	145	145	147	-
MANUFACTURING (4)	30,941	33,241	31,954	33,077	35,141	35,539	36,172	36,272	36,649	-
UTILITIES	3,304	3,152	3,518	3,601	3,930	4,713	4,639	4,487	4,430	-
CONSTRUCTION	7,309	7,749	8,846	9,765	9,164	9,202	8,144	7,295	6,732	-
TRADE, RESTAURANTS & HOTELS	8,162	8,480	9,058	9,230	9,402	9,506	9,297	9,197	9,118	-
TRANSPORT, STORAGE & COM.	10,217	11,151	9,820	10,487	9,918	8,333	8,656	7,901	7,877	-
FINANCE, INSURANCE ETC.	3,531	3,747	4,059	4,368	4,316	4,372	4,369	4,459	4,576	-
GOVERNMENT (5) (6)	47,398	47,138	49,516	50,541	53,071	52,687	54,117	54,329	54,766	-
OTHER SERVICES	7,185	7,551	8,113	8,280	8,571	8,529	8,595	8,235	8,208	-
DWC	14,433	7,135	11,749	8,071	10,293	6,667	8,118	6,477	6,913	-
ALL SECTORS	194,032	194,762	195,168	198,435	199,629	199,114	197,509	197,139	192,918	-

- NOT AVAILABLE

(1) INCLUDES INDUSTRIAL AND COMMERCIAL ESTABLISHMENTS EMPLOYING 10 OR MORE WORKERS AND SUGAR CANE PLANTATIONS WHERE 25 ARPENTS OR MORE ARE HARVESTED.
(2) INCLUDES EMPLOYEES IN SUGAR FACTORIES
(3) INCLUDES EMPLOYEES IN TEA FACTORIES
(4) EXCLUDES EMPLOYEES IN SUGAR AND TEA FACTORIES
(5) CENTRAL AND LOCAL GOVERNMENT
(6) INCLUDES RELIEF/DEVELOPMENT WORKERS

SOURCE : CENTRAL STATISTICAL OFFICE (CSO)

Table 3: CENTRAL BUDGETARY ACCOUNTS
(IN MILLION RUPEES)

ITEM	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81
CURRENT EXPENDITURES	285.9	495.0	668.9	911.5	1,173.4	1,331.2	1,669.1	1,866.6	2,318.2
CURRENT REVENUES	341.1	455.0	714.5	1,055.3	1,168.2	1,232.2	1,417.0	1,805.7	2,056.7
CURRENT SAVINGS	55.2	-40.0	45.6	143.8	-5.2	-99.0	-252.1	-60.9	-259.5
LENDING - REPAYMENTS	26.7	73.0	68.9	93.2	104.5	176.7	164.8	333.2	410.8
INVESTMENT EXPENDITURES	69.9	93.1	171.2	269.5	352.1	453.4	466.3	504.3	637.0
CAPITAL REVENUE	0.5	0.3	0.9	7.0	-	-	-	-	-
OVERALL BALANCE	-40.9	-205.8	-193.5	-211.9	-461.8	-729.1	-883.2	-898.4	-1,207.3
... FINANCED BY :									
GRANTS	13.8	4.1	7.4	3.0	5.0	1.9	1.0	1.8	13.8
DOMESTIC FINANCING	23.4	182.2	168.3	209.2	416.6	541.8	604.7	280.0	807.0
EXTERNAL FINANCING	15.9	39.4	49.9	39.7	80.1	311.6	329.5	721.0	638.0
AMORTIZATION	-12.2	-19.9	-32.1	-40.0	-39.9	-126.2	-52.0	-104.4	-151.5

SOURCE : CENTRAL STATISTICAL OFFICE

Table 4 : Government Budget Estimates 1981/2 - 1983/4

	1981/82 Actual	1982/83 Gov. Est.	1983/84 Preliminary GOM Estimates
Expenditures	3800	4376	3400
- Recurrent	2782	3176	3400
- Capital	1018	1200	1200
Revenue	2448	3012	3400
- Recurrent	2353	2896	3260
- Dividends	95	116	140
Overall Deficit	1352	1364	1200
GDP (current prices)	11,920	13,580	14,120
Deficit as % GDP	11.3%	10%	8.5%

Table 5: PROJECTED CONSOLIDATED ACCOUNT OF THE GOVERNMENT, 1979/80-1985/86 1/
(millions of Rupees)

	79/80	80/81	81/82	82/83	83/84	85/86
Revenues	1894	2165	2545	3235	3778	4797
Current expenditures	-1852	-2297	-2740	-3096	-3365	-3813
Current account	42	-132	-195	139	407	984
Profits from Public Enterprises	-	-	-	50	100	150
Amortization	-63	-100	-224	-410	-587	-617
Capital expenditures	-837	-1048	-1083	-1272	-1476	-1768
Overall deficit	-858	-1280	-1502	-1493	-1556	-1252
financed by:						
Foreign borrowing	282	821	1012	1234	1281	1165
Net domestic borrowing	576	459	490	259	274	87
Memo item:						
Overall deficit as % of GDP	11.8	12.9	12.4	10.2	9.2	5.9

1/ Central government, local government, and National Pension Fund

Table 6: BALANCE OF PAYMENTS
(US$ MILLION)

ITEM	1973	1974	1975	1976	1977	1978	1979	1980 1/	1981 2/
EXPORTS OF GOODS AND NFS	182.1	372.4	376.5	357.4	402.4	440.5	509.1	578.5	503.8
(EXPORTS OF GOODS, FOB)	138.7	315.3	308.6	264.6	307.6	320.6	377.1	433.3	330.0
(EXPORTS OF NFS)	43.4	57.2	67.9	92.8	94.8	119.9	130.0	145.3	173.8
IMPORTS OF GOODS AND NFS	190.6	333.5	369.5	405.9	490.2	566.2	[illegible]	694.9	627.5
(IMPORTS OF GOODS, FOB)	143.3	267.6	278.7	307.5	368.9	420.1	477.2	515.6	466.9
(IMPORTS OF NFS)	47.2	65.9	90.8	98.3	122.1	146.1	172.3	179.3	160.6
BALANCE OF GOODS AND NFS	-8.5	38.9	7.0	-48.5	-87.7	-125.7	-140.4	-116.4	-123.7
INVESTMENT INCOME (NET)	1.7	1.1	2.5	5.9	-2.6	-7.8	-16.6	-23.1	-35.2
RECEIPTS	5.0	4.6	10.0	14.7	5.2	5.7	3.7	5.1	2.2
PAYMENTS	3.3	3.5	7.5	8.8	7.7	13.5	20.3	28.2	37.4
CURRENT TRANSFERS (NET)	7.2	14.6	11.6	6.3	12.7	13.8	12.2	20.8	19.2
RECEIPTS	9.6	18.1	15.4	10.0	16.4	18.7	19.5	28.7	26.9
(O/W OFFICIAL GRANTS)	2.9	10.9	7.3	3.1	8.5	9.0	9.1	12.0	-
PAYMENTS	2.4	3.5	3.8	3.7	3.6	4.9	7.3	7.9	7.7
CURRENT ACCOUNT BALANCE	0.4	54.5	21.1	-36.4	-77.6	-119.7	-144.9	-118.7	-139.7
LONG-TERM CAPITAL (NET)	2.6	3.9	4.8	7.2	8.5	12.2	10.0	6.0	23.3
DIRECT INVESTMENT	0.4	4.2	5.5	3.6	3.0	4.6	1.7	1.2	0.9
OTHER LONG-TERM CAPITAL (1)	2.2	-0.4	-0.7	3.6	5.5	7.7	8.3	4.8	22.4
GOVERNMENT M.L.T. LOANS (NET)	2.0	6.0	7.6	3.4	6.8	66.8	71.5	64.1	35.8
DISBURSEMENTS (2)	3.5	7.0	9.3	4.6	10.5	69.0	75.6	75.7	48.6
AMORTIZATION	1.5	1.1	1.7	1.2	3.6	2.3	4.1	11.6	12.9
SHORT-TERM PRIVATE ... ... CAPITAL MOVEMENTS (NET)	-7.4	-6.7	29.9	-57.9	2.4	13.0	7.3	47.2	-27.8
S.D.R. ALLOCATION	-	-	-	-	-	-	3.4	3.6	3.1
OTHER NET CAPITAL MOVEMENTS	0.2	-1.9	-2.7	2.5	11.8	-4.6	-	-	-
NET ERRORS AND OMISSIONS	-1.7	8.2	-2.7	6.7	10.2	12.4	0.3	22.9	-2.6
CHANGE IN NET RESERVES (- = INCREASE)	3.9	-64.0	-50.1	74.4	37.9	19.9	52.2	-25.1	107.9
MEMO ITEMS									
USE OF S.D.R.	-	4.4	0.2	-0.9	-0.5	-0.8	1.1	0.8	-
USE OF IMF CREDIT	-	6.3	-	-	12.7	-	40.8	41.1	64.3
EXCHANGE RATE AS PER US$	5.4	5.7	6.0	6.7	6.6	6.1	6.4	7.7	9.1

(1) INCLUDES PRIVATE AND PARASTATAL BODIES LOANS.

(2) FOR 1978 INCLUDES EURO-DOLLAR LOAN OF US$ 37 MILLION, FOR 1979 INCLUDES EURO-DOLLAR LOAN OF US$ 50 MILLION AND FOR 1980 INCLUDES EURO-DOLLAR LOAN OF US$ 45 MILLION.

1/ Provisional

2/ Estimates

Table 7: Balance of Payments: Projections for 1982/1983
(in Rupees million)

	1981/82 1/		1982/83 2/	
	Credit	Debit	Credit	Debit
Current Account	-	654	-	755
Merchandise	-	402	-	575
Exports (f.o.b.)	3,853	-	4,150	-
Sugar	2,312	-	2,350	-
MEPZ	1,258	-	1,450	-
Other	283	-	350	-
Imports (f.o.b.)	-	4,255	-	4,725
Imports (c.i.f.)	-	4,972	-	5,550
Rice and Flour	-	483	-	450
Petroleum	-	952	-	1,050
MEPZ	-	730	-	875
Other	-	2,807	-	3,175
Services	-	484	-	540
Freight and Insurance	20	657	20	780
Other	510	350	600	410
Travel	444	208	520	225
Investment Income	43	536	50	610
Other	485	235	575	280
Transfers	232	-	360	-
Capital Accounts (net)	259	-	155	-
Government Loans	476	150	529 3/	488
Other	45	112	114	-
SDR Allocations	-	-	-	-
Errors and Ommissions	6	-	-	-
Overall deficit	-	389	-	600

1/ Provisional estimates, Ministry of Finance

2/ Preliminary forecasts, Minsitry of Finance

3/ Excludes potential receipts under Structural Adjustment Loan II to be negotiated shortly.

Table 8: Balance of Payments: World Bank Projections: 1981-87

(in U.S.$ Million)

	81	82	83	84	85	86	87
Exports of GNFS (1)	494.8	506.0	565.6	660.5	767.6	861.9	967.5
Imports of GNFS	619.0	546.3	657.2	747.9	810.9	880.6	961.4
Resource Gap	-124.2	-40.3	-91.6	-87.4	-43.3	-18.7	+ 6.1
Factor Services Net (2)	-44.1	-45.9	-56.7	-61.7	-68.4	-72.9	-79.0
Net Transfers	17.3	28.9	31.2	35.0	38.5	42.3	46.5
Current Balance	-151.8	-57.2	-116.4	-114.2	-73.3	-49.3	-26.4
Repayments on debt (3)	-17.0	-24.7	-55.0	-61.7	-68.4	-59.8	-66.7
Reserve requirements	38.9	-28.3	3.8	4.0	-1.9	-17.2	-30.0
Total Capital Requirement	129.9	110.2	167.6	171.9	143.6	126.3	123.1

(1) GNFS - Goods and non-factor services.

(2) Excludes IMF repayments, except Trust Fund.

(3) Includes financing to be obtained from various sources including IMF and financial institutions.

Source: IBRD,

Table 9: MAURITIUS: REAL, TRADE-WEIGHTED FOREIGN EXCHANGE RATE
1972-1982
(1975 = 100.0)

	1972	1975	1976	1977	1978	1979	1980	1981	1982
1. Rupee Exchange Rate per $U.S.	5.34	6.03	6.68	6.60	6.14	6.40	7.69	9.09	10.94
2. Rs Exchange Rate Index	88.56	100.00	110.88	109.51	101.89	106.22	127.59	150.83	181.48
3. Trade Partners Exchange Rate Index	97.22	100.00	113.88	115.53	107.15	101.24	96.68	110.40	127.37
4. Nominal Trade Partners/Rs Currency Index (3 ÷ 2)	109.78	100.00	102.71	105.50	105.16	95.31	75.77	73.19	70.18
5. Mauritius Consumer Price Index	59.40	100.00	112.90	123.30	133.80	153.20	218.60	249.00	282.00
6. Trade Partners CPI	69.60	100.00	112.20	126.20	137.10	151.40	172.70	193.00	212.20
7. Mauritius CIP / Trade Partners CPI (5 ÷ 6)	85.34	100.00	100.62	97.67	97.57	101.14	126.61	129.05	132.91
8. Real Foreign Exchange Index (4 x 7)	93.69	100.00	104.88	103.04	102.61	96.40	95.93	94.45	93.28
9. Real F/X Index (1972 = 100.00)	100.00	106.74	111.99	109.98	109.52	102.89	102.39	100.81	99.56

Sources: 1) International Financial Statistics, IMF
2) Derived from line 1
3) Direction of Trade and IFS, IMF. Trade Partners were based on trade patterns for four years between 1978 and 1981. Trade weighted exchange rates per U.S.$ were calculated on basis of 13 major trading partners which accounted for 83.4 percent of total reported exports and imports.
4) Nominal trade partners/Rupees index was derived by dividing line 3 by 2.
5) IFS, IMF.
6) Trade-weighted CPI based on weighted consumer price indexes for 13 major trade partners.
7) Derived by dividing line 5 by line 6.
8) Mauritius real, trade-weighted foreign exchange index (line 4), deflated by ratio of inflation rates for Mauritius relative to trade partners.
9) Derived from line 8.

Table 10: Terms of Trade for Mauritius
(1972 = 100)

	1972	1975	1976	1977	1978	1979	1980	1981
1. Average Sugar Export Price	100	375	290	271	272	-	-	-
2. Average EEC Price	100	380	219	184	223	267	329	311
3. Unit Value of Exports	100	384	314	306	300	354	488	-
4. Unit Value of Imports	100	240	266	290	307	373	545	-
5. Terms of Trade (3÷4)	100	160	118	106	98	95	90	-

- Data not available

Source: IMF, International Financial Statistics, 1982 Yearbook

(1) Average Mauritian export price for sugar IFS, p 315

(2) Average EEC import price for sugar, IFS, p 81

(3) Average Unit Value of Exports, IFS, p 315

(4) Average Unit Value of Imports, IFS, p 315.

Derived from line 3 and 4:

(5) Average unit value of exports divided by average unit value fo imports

UNCLASSIFIED

ANNEX C

[illegible]
RR RUEHNR
DE RUEHC [illegible] 0782495
ZNR UUUUU ZZH
P [illegible]Z MAR 83
FM SECSTATE WASHDC
TO RUEHNR/AMEMBASSY NAIROBI PRIORITY 0782
RUEHNC/AMEMBASSY PORT LOUIS PRIORITY 3194
BT
UNCLAS STATE 078951

AIDAC, NAIROBI FOR REDSO

Best Available Document

E.O. 12356: N/A
TAGS:
SUBJECT: MAURITIUS FY 83 CIP: PAIP

REF: A. NAIROBI 28925 B. NAIROBI 05182
C. NAIROBI 01611

1. [illegible] APPROVED SUBJECT PAIP ON MARCH 8, 1983 AT [illegible] LEVEL OF DOLS. TWO MILLION NPT TWO MILLION. REDSO/ESA AND AMEMBASSY MAY PROCEED WITH DEVELOPMENT OF PAAD FOR AUTHORIZATION BY REDSO/ESA DIRECTOR. ACTION [illegible] C, SEEKING APPROVAL FOR THE UTILIZATION OF LOCAL CURRENCY GENERATION IN THE AMOUNT OF U.S. DOLS. [illegible] TO FINANCE MAURITIUS SUGAR INDUSTRY STUDY [illegible] IN DEVELOPING THE FY 83 CIP PAAD AND FUTURE YEAR PROGRAMS, AID/W REQUESTS REDSO/ESA AND AMEMBASSY CONSIDER THE POINTS RAISED IN PARA 2 THIS CABLE.

2. SEVERAL POINTS WERE RAISED AT ICPR WHICH SHOULD BE TAKEN INTO CONSIDERATION BY REDSO AND AMEMBASSY IN PAAD DEVELOPMENT AND FUTURE YEAR PROGRAMMING.

A. GIVEN THE PER CAPITA INCOME OF MAURITIUS AND THE COUNTRY'S GENERAL LEVEL OF DEVELOPMENT IN RELATION TO OTHER AFRICAN COUNTRIES, ICPR SUGGESTS THAT CONSIDERATION BE GIVEN TO LOAN FUNDING FUTURE YEAR PROGRAMS RATHER THAN CONTINUING TO GRANT FUNDING THEM.

B. THERE APPEARS TO BE A CONSIDERABLE NEED AND DESIRE ON THE PART OF THE GOM FOR SOME TECHNICAL ASSISTANCE ESPECIALLY IN THE AREAS OF TOURISM AND TRADE PROMOTION. EARLIER DISCUSSIONS HAVE SUGGESTED THAT THE GOM MAY WANT TO SUPPLEMENT TOURIST AND TRADE PROMOTION ACTIVITIES FUNDED WITH LOCAL GENERATIONS FROM THIS CIP. ICPR SUGGESTS THAT [illegible] TEAM EXPLORE THE NEED AND DESIRE FOR SHORT TERM CONSULTANTS IN THESE AREAS AND [illegible] POSSIBILITY OF [illegible] OPTION OF CIP FUNDS TO FINANCE THE PROCUREMENT OF [illegible] SERVICES. SHOULD SUCH COURSE OF ACTION PROVE NOT TO BE FEASIBLE, AFR AND [illegible] BUREAUS WILL ASSIST, AS POSSIBLE, IN IDENTIFYING AND PROVIDING SUPPLEMENTAL RESOURCES TO [illegible] ACTIVITIES [illegible] BY LOCAL [illegible]ATIONS [illegible] CIP.

C. [illegible] U.S. GOVERNMENT HAS ASSISTED [illegible] GOM [illegible] A [illegible] OIL [illegible] UP AND [illegible] POSSIBLY [illegible]

[illegible]TATIONS, [illegible] SUGGEST AN EXAMINATION OF THE
[illegible] EFFECT SUCH LEVELS OF IMPORTS OF OIL MAY HAVE
ON DOMESTIC OIL PRODUCTION OR THE POTENTIAL FOR
[illegible] OIL PRODUCTION.
3. [illegible] BEING PREPARED FOR SUBMISSION [illegible] OF MARCH 13,
[illegible]. [illegible] AND ALLOTMENT BEING REQUESTED.
[illegible] WILL ADVISE [illegible] WHEN AUTHORIZATION AND
[illegible] MAY BE INCURRED. SHULTZ
BT

[illegible]

COUNTRY AND ESF CHECKLIST
MAURITIUS COMMODITY IMPORT PROGRAM

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to the Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481. Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?

   No

2. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?

   No

3.	<u>FAA Sec. 620(e)(1).</u> If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?	No
4.	<u>FAA Sec. 532(c), 620(a), 620(f), 620D; FY 1982 Appropriation Act Secs. 512 and 513.</u> Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver?	The GOM is not a communist country and no assistance will be provided the countries listed.
5.	<u>ISDCA of 1981 Secs. 724, 727, 728 and 730.</u> For specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restrictions on assistance to El Salvador, see Secs. 727, 728 and 730 of the ISDCA of 1981.	N/A
6.	<u>FAA Sec. 620(j).</u> Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property?	No
7.	<u>FAA Sec. 620(k).</u> Does the program furnish assistance in excess of $100,000,000 for the construction of a	No

productive enterprise, except for productive enterprises in Egypt that were described in the Congressional Presentation materials?

8. <u>FAA Sec. 620(l).</u> Has the country failed to enter into an agreement with OPIC? — No

9. <u>FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5.</u> (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? — No

(b) If so, has any deduction required by the Fishermen's protective Act been made? — N/A

10. <u>FAA Sec. 620(q); FY 1982 Appropriation Act Sec. 517.</u> (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds? — (a) No (b) No

11. <u>FAA Sec. 620(s).</u> If contemplated assistance is developed loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? Reference may be made to the annual "Taking into Consideration" memo: "Yes, taken into account by — Yes

the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

12.	<u>FAA Sec. 620(t)</u>. Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?	No
13.	<u>FAA Sec. 620(u)</u>. What is the payment status of the country's U.S. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget?	Mauritius has paid its 1982 contribution to the UN budget
14.	<u>FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520</u>. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?	No
15.	<u>FAA Sec 666</u>. Does the country object, on the basis of race, religion, national origin or sex,	No

to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

16. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan).

No

17. FAA Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account?

Representatives from Mauritius attended this Session of the General Assembly. Their actions have been recorded by US UN and these have been taken into account by the Administration in evaluating Mauritius' eligibility for foreign assistance.

18. FAA Sec. 721. See special requirements for assistance to Haiti.

N/A

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the

No

country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

b. FAA Sec. 620B. If ESF is to be furnished to Argentina, has the President certified that (1) the Govt. of Argentina has made significant progress in human rights; and (2) that the provision of such assistance is in the national interests of the U.S.? — N/A

c. ISDCA of 1981, Sec. 725(b). If ESF assistance is to be furnished to Chile, has the President certified that (1) the Govt. of Chile has made significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the Govt. of Chile is not aiding international terrorism and has taken steps to bring to justice those indicated in connection with the murder of Orlando Letelier? — N/A

C. PROJECT CRITERIA SOLELY FOR ECONOMIC SUPPORT FUND

a. FAA Sec. 531(a). Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy directions of FAA Section 102?

Yes, by improving the well being of small-holder farmers in Mauritius. The CIP supports the policies of FAA Section 102.

b. FAA Sec. 531(e). Will assistance under this chapter be used for military, or paramilitary activities? No

c. FAA Sec. 534. Will ESF funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives? No

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? Yes

ANNEX E

CATEGORICAL EXCLUSION DETERMINATION
(Under AID Reg. 16)

Project Country: Mauritius

Project Title: Commodity Import Grant (642-0004)

Funding: 2 Million Dollars

Period of Funding: FY 83

IIE Prepared by: Murl Baker, AFR/PD/EAP and Lily Willens, AFR/EA/ICS

Action Recommended: Categorical Exclusion under Regulation 216.2 (c)(2)(ix)

Determining Officer: Glenn Patterson, DAA/AFR

Date:

Bureau Environmental Officer:

Concur: George Thompson, AFR/TR/SDP

Clearance: GC/AFR: DRobertson (Draft)
AFR/EA: BKline
AFR/EA:ESpriggs

Examination of Nature, Scope and Magnitude of Environmental Impacts

I. Description of the Project

The project proposes to provide a commodity import grant of $2 million to the Government of Mauritius from Economic Support Funds on standard A.I.D. terms. The primary purpose of the grant is to provide balance of payments assistance by financing commodities which contribute to export earnings, and to supporting the government's agricultural diversification programs.

Commodities will be selected from the list of eligible commodities (Handbook 15, app b). No pesticides will be imported under the proposed project and the Mission will inform the Government of Mauritius of any potentially hazardous materials or uses once these become known.

II. Recommended Environmental Action

In accordance with A.I.D. Regulation 16 Section 216.2 (c)(2)(ix) assistance under a Commodity Import Program is eligible for categorical exclusion from environmental procedures when, "prior to approval, A.I.D. does not have knowledge of the specific commodities to be financed and when the objective in furnishing such assistance requires neither knowledge, at the time the assistance is authorized, nor control during implementation, of the commodities or their use in the host country."

As the subject assistance fulfills both the qualifications cited above it should be granted a categorical exclusion.