PD BAW 559

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JUN 12 1985

A C T I O N M E M O R A N D U M

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

FROM: James Dempsey - Project Development Officer, REDSO/ESA

SUBJECT: Authorization of Mauritius FY 1985 Commodity Import Program (CIP) Grant (642-K-604)

Problem: Your approval is required to authorize a $2,000,000 CIP grant of FY 1985 Economic Support Funds to the Government of Mauritius.

Discussion: The purpose of the program is to provide balance of payments assistance and local currency support to the Government of Mauritius (GOM) to assist in its economic adjustment program. Based on an analysis of the structure of trade and assistance 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. Two types of assistance are planned, drawing upon the positive experience of the similar programs in 1982 through 1984. First, $2.0 million of grant funds will be made available to finance the dollar costs of commercial imports from the U.S. for private sector commodities using the CIP mechanism. We anticipate that this will entail financing the commercial importation of approximately 3,000 tons of degummed vegetable oil. Second, the estimated Rs.32 million in local currency which will be generated under this program will be deposited in a separate government account available to support mutually agreed upon development activities. It is expected that from the special account, Rs.32.0 million would be lent to the Development Bank of Mauritius (DBM) on concessionary terms to complete construction of the Industrial Estate in the Vacoas/Phoenix area. The loan funds will be used to construct 140,000 sq. ft. of factory rental space.

Conditions: The PAIP was approved by you, under special delegation of authority, on March 18th, 1984. No special conditions or covenants will be required. However, pursuant to Section 609 of the FAA, the grant agreement will require local currencies generated from the grant to be deposited in a Special Account, to be used for programs agreed to by the GOM and AID. The agreement shall further provide, as required by Section 609, that if funds from the Special Account are used by the GOM to make loans (e.g. to the DBM for industrial estate development and/or or the DBM's Small Business and Industry Revolving Fund), all funds received in repayment of such loans

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shall be reused only for such purposes as shall have been agreed to between the GOM and AID.

No problems are foreseen in the negotiation of the Agreement. The GOM has sent the Embassy 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.

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

Congressional Notification Status: The announcement of this Program was made in the Congressional Presentation Fiscal Year 1985, Annex 1, Africa, page 225. No further notification is required.

Program Implementation: The proposed program will be implemented by the Ministry of Finance in co-ordination 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 officers will be Jim Dempsey, Project Officer, and Lyn Dunn, Commodity Management Officer.

Recommendation: Pursuant to Africa Bureau Delegation of Authority 140, Revised, it is recommended that you sign the attached PAAD face sheet, thus authorizing the FY 1985 Mauritius Commodity Import Program.

Attachment: Program Assistance Approval Document

Clearances:

P. Scott:REDSO/RLA: (Draft)
Lyn Dunn:REDSO:RSO: (Draft)
H. Smith:REDSO:ANYLSIS: (Draft)
G. Eidet:RFMC: (Draft)
Art Fell:REDSO:D/DIR: (AP)
J. Graham:REDSO:PRJ: (Draft)

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AID 1120-1 (9-66)

PAAD

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE
APPROVAL DOCUMENT

1. PAAD NO.: 642-K-604

2. COUNTRY: Mauritius

3. CATEGORY: Commodity Financing

4. DATE: Per Authorization Signature

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

6. OYB CHANGE NO.: N/A

7. FROM: James 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: 72-1151037; GESA-85-31642-KG32

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

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

13. ESTIMATED DELIVERY PERIOD: June 1985-May 1986

14. TRANSACTION ELIGIBILITY DATE: Date of Signature

15. COMMODITIES FINANCED

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

16. PERMITTED SOURCE

U.S. only:	Code 000
Limited F.W.:	-
Free World:	-
Cash:	-

17. ESTIMATED SOURCE

U.S.:	2,000,000
Industrialized Countries:	-
Local:	-
Other:	-

18. SUMMARY DESCRIPTION

This grant program will support U.S. political, strategic and economic 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 assistance in Mauritius and given the successful implementation of the past three Commodity Import Programs (CIP), the design team and the Embassy have concluded that the most appropriate mode of assistance is another CIP which provide 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 (Rs.32.0 million) be used to support the Development Bank's industrial estate at Vacoas-Phoenix. Funding of this local currency activity 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
REG/DP	PROJ: Jim Graham	12 Jun 85
REG/GC	RLA: Paul Scott (draft)	12 Jun 85
AA/PC	RSA: Lyn Dunn (draft)	12 Jun 85
A/CONT	ECON: Hadley Smith (draft)	12 Jun 85
AA/MR	RFMC: Gary Eidet (draft)	12 Jun 85
AA/DFPE	D/DIR: Art Fell	12 Jun 85

20. ACTION

[X] APPROVED [ ] DISAPPROVED

JWKoehring
AUTHORIZED SIGNATURE

JUN 13 1985
DATE

DIRECTOR, REDSO/ESA
TITLE

CLASSIFICATION:

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Mauritius: FY 1985 CIP Program Grant (CIP IV)

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I. SUMMARY AND RECOMMENDATIONS

The following are the principal features of the proposed Commodity Import Program (CIP) for Mauritius:

Activity: Mauritius FY 1985 CIP 642-K-604 (CIP IV)

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

Authorized Source: AID Geographic Code 000 (US only)

Program Justification: This program will support US political, strategic and economic 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 assistance in Mauritius, and given the successful implementation of the 1982 through 1984 CIPs, 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 through the private sector of necessary commodities from the United States.

Program Description: A two-phased assistance program is proposed, drawing upon the positive experience of similar programs from the previous three years. First, $2.0 million of CIP grant funds will finance edible oil procurements by the private firm, Mauritius Oil Refiners, the only edible oil refinery on the island. We anticipate that this will entail financing the commercial importation of approximately 3,000 tons of degummed vegetable oil from the US. Second, the estimated Rs. 32 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 planned use of the funds is for the development of Vacoas-Phoenix Industrial Estate (140,000 sq ft) by the Development Bank of Mauritius (DBM).

PAAD Issues

1. Edible Oil Price

The most important issue is that of GOM price control on the sale of edible oil. Although the government has raised the retail price of oil from Rs 7.25/litre in late 1979 to Rs 12.25/litre at present, an increase of nearly 70 percent, the rupee price of foreign exchange has increased by over 100 percent. The local price adjustments have not kept pace with the devaluation of the rupee and, thus, in foreign exchange terms, the oil is actually sold at a lower price today. Further, the world price of oil has moved from the $400/ton range in 1982 to the $700/ton prices during the past year. The market is highly volatile and the most recent purchase (May 1985) by the Mauritius Oil Refiners was at nearly $800/ton.

Not surprisingly, the financial position of Moroil is precarious (see annex G). It has threatened to close operations. Difficult and politically sensitive negotiations are presently taking place between Moroil management and the GOM. As part of the policy dialogue, AID following the lead of the IMF and IBRD, has encouraged an end of price controls, especially on edible oil. However, since there is no local production of oil, there is no question of a price disincentive for local producers, the main problem with price controls in most countries. The reason for oil price control is the social objective of insuring that it is sold at a price affordable to all Mauritians.

The GOM cannot allow the Moroil facility to close since it is the only one on the island. Further the GOM realizes that the firm's operations and marketing of oil have been highly efficient. USG direct involvement in the negotiations is inappropriate. The design team believes that some accomodation will be reached that keeps Moroil in business, meets the social objective and is effective and efficient.

2. Ownership of Factory Space

The planned program for industrial estate development by DBM includes both preparation of sites and services as well as factory construction for rent. Given the private sector objective of both AID and the GOM itself, why is the DBM, as an agent of the GOM, planning to develop and possibly operate the industrial park? To what extend can the private sector construct its own buildings or develop estates for rent to the new and expanding industries?

First, the GOM and DBM encourage, to the extent feasible, private sector development of industrial space. The DBM finances the construction of factory buildings by the manufacturer/operator as part of many of its EPZ start-up loans. The GOM has leased or sold land at concessionary rates to attract companies which will be constructing their own buildings. However, the garment industries, which make up most of the new or expanding firms in Mauritius, prefer to rent rather than build. At present, there is a shortage of space because of the recent upsurge in demand. The GOM is modifying the Development Certificate (DC) laws so industrial site developers will receive special tax advantages and other benefits. For the present, however, no developer is moving forward quickly enough to meet the immediate demand. One particular problem causing this delay is that private sector developers have been hesitant to construct new space for garment industry firms which have a history of transiency from country to country. The GOM believes that, although the financial returns to the private sector may make investment unattractive, the high economic returns, especially in relation to employment generation, make it an attractive investment for the public sector.

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 Moroil and the DBM, 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 officers are Jim Dempsey, Project Development Officer and Lyn Dunn, Supply Management Officer; additional assistance will be provided by a REDSO program implementation committee. At the Embassy, S. Jathoonia, Commercial/Economic Assistant will handle the day to day matters.

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.

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Congressional Notification: The announcement of this Program was made in the Congressional Presentation Fiscal Year 1985, Annex 1, Africa, page 225. No further notification is required.

Statutory Checklists: All required checklists have been completed and are included in Annex D to the PAAD.

Negotiations Status and Conditions: 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.

The grant agreement will provide for the use of a Special Account for local currency proceeds and that if any funds from the Special Account are used by the GOM to make loans, all funds received in repayment of such loans shall be reused only for purposes agreed to by the GOM and AID. A request for assistance from the GOM is included as Annex A.

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 IV (642-K-604) will proceed smoothly.

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

PAAD Committee:

James Dempsey, Project Officer, REDSO/ESA
Hadley Smith, Economist, REDSO/ESA
Lyn Dunn, Supply Mgmt. Officer, REDSO/ESA
Shariff Jathoonia, Economic/Commercial Specialist, US Embassy, Mauritius
Jack Smith, Engineer, REDSO/ESA
Clare Cavoli, Economic/Commercial Officer, US Embassy, Mauritius

II. PROGRAM BACKGROUND AND RATIONALE

A. The Setting

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

While the population density is very high, at 1,333 inhabitants per square mile, the population growth is a modest one percent per annum, largely resulting from a successful family planning program introduced in the 1960's. With an estimated per capita income of $1,240 in 1983, Mauritius enjoys a standard of living comparable to those in middle income countries in terms of nutrition, literacy, health care and educational facilities. However, the income distribution is relatively more uneven than in other developing countries owing to the historical dominance of the sugar estates and the rapid growth of a new industrial class. In 1980-81, the median monthly income of households was $150 as compared to $92 in 1975. While poverty is found in both rural areas and urban concentrations on the island of Mauritius, it is particularly prevalent on the other islands, the most import of which is Rodriques.

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, represented by a governor-general. Since Independence in 1968, Mauritius has been governed by democratically elected political parties and coalitions which have generally espoused non-alignment, with a pro-Western bias in foreign policy and a mixed economy domestically. The major trade partners are Western countries such as France, U.K. and the U.S.

During a nine-month period in 1982-83 when the Mauritian Militant Movement (MMM) dominated the government, the MMM developed a more strictly defined non-alignment which was not as favorable to US and Western interests. Since the August 1983 elections, which brought in a government more similar in political and economic philosophy to the pre-1982 governments, the GOM has maintained its membership and credibility in the Non-Aligned Movement, but with a distinctly pro-Western bias. The current government has voted favorably to US interests in the UN on such key issues as the Soviet invasion of Afghanistan, the exclusion of the Puerto Rico question from the agenda, and the UN consideration on Central America. The GOM's

1984 UN voting was excellent in terms of U.S. interests. While it has maintained its claims to Diego Garcia, it has significantly muted the previous MMM government's criticism of the US military presence in the Indian Ocean. Indeed, the current government to help it solve it's unemployment problem is permitting Mauritian laborers to work on operations/maintenance contracts for the US military facilities at Diego Garcia. The Mauritian government also has expressed the desire to sell fresh fruits and vegetables to the US fleet and provides for the storage of fuel for U.S. ships and other equipment.

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 unemployment 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 development. As part of its strategy, the GOM has instituted a series of macroeconomic 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, improve the balance of payments, control external borrowing and finance debt repayment. The GOM is primarily relying on the IMF standby credit arrangements and the World Bank's Structural Adjustment Loan 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.

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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% devoted to sugar cane. Some adjustment of present land use is required to limit dependence on this one crop 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, where feasible, to extend the role of agriculture as foreign exchange earner. The program seeks to maximize food production, to increase sugar yields, to rationalize tea and tobacco production, to develop high-value export crops other than sugar, 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. As part of its economic structural adjustment, the GOM issued in early 1985 the Plan for The Sugar Industry 1985-1990. This plan has as its objectives the revitalization of the industry to keep it competitive in the world markets. Increased productivity, factory rationalization, agricultural diversification and energy production from waste are specific objectives that will be supported by projects and investments.

In the industrial sector, which is composed of light industries, primarily the garment manufacturers in the Export Processing Zone (EPZ), existing companies are expanding and new industries are coming to Mauritius. This new interest in Mauritius results primarily from:

1. the world-wide economic recovery;
2. Mauritius' special access to the EEC markets through the Lome Convention;
3. the low local labor costs which are now below most countries in the Far East ;
4. high labor productivity; and
5. GOM and private sector promotion of the EPZ.

Although the long term strategy is to diversify the type of industry in Mauritius, because of the overwhelming unemployment problem, the GOM is vigorously encouraging the expansion of the garment industry in the EPZ. With the high employment requirements of garment manufacturing, the GOM sees expansion of this industry as the primary means of solving the most serious economic and social problem in Mauritius, high unemployment. At the same time, the GOM is not ignoring the need to attract non-textile foreign investment.

The growth of the EPZ during the last 18 months has been remarkable. Approximately 1,000 new jobs per month have been added in the sector. Present exports from the EPZ amount to $156 million, 42 percent of export earnings, and are expected to surpass sugar as the major foreign exchange earner in 1987.

One of the key impediments to the immediate expansion of the EPZ is the lack of industrial space for manufacturing and appropriate sites for factory construction. The GOM believes that public and private sector action in these areas is needed immediately and is placing highest priority on factory construction and supporting infrastructure development on industrial estates.

Tourism development represents another objective of the GOM's economic structural adjustment. 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 same level as previous years (25-30% 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. US Assistance Strategy

Mauritius has received bilateral US assistance since its independence in 1968. In the late sixties and early seventies, US 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 have been implemented. In 1980, a HIG program was approved but was not drawn down owing to high interest rates in the US, and GOM limitations on investments in housing.

Due to economic difficulties, the US provided a $2 million Economic Support Fund grant in FY 1982 and the same amount in FY 1983 while rising to $4.0 million in 1984. Two million dollars as an ESF grant is proposed in this document. A technical assistance grant which complements the H/G loan is being used and during 1985 the GOM plans to draw $2-4 million of the commercial loan. The rationale for these grants is based upon the political importance of Mauritius to US strategic interests in the Indian Ocean; Mauritius' willingness to receive US naval ships at its port facilities; the democratic principles and practices within the Mauritian political system; and residual claims on Diego Garcia. None of these conditions has altered with the elections in August 1983. On the contrary, the necessity of maintaining good relations has become more urgent as the GOM has become more supportive.

The strategy for the present AID program of PL-480, ESF and a modest training program is three-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, manufacturing, tourism promotion, and services; and

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

III. MACROECONOMIC BACKGROUND AND ANALYSIS 1/

A. Summary Findings and Conclusions

1. Summary Conclusions:

Compared with other countries served by REDSO/ESA, the performance of Mauritius in adjusting to prolonged low export prices and high petroleum prices has been exemplary. The exchange rate has been depreciated sufficiently to maintain real purchasing power and real wages have declined somewhat, increasing the competitiveness of manufactured exports. Foreign and local investors are showing considerable interest in investing in the EPZ where employment and production are expanding rapidly. IMF standby arrangements after the current one probably are unnecessary and GOM will be able to repay obligations to IMF during the next few years.

The chief problem areas are unemployment, rehabilitation of the sugar industry, and revision of the tariff structure to remove bias in favor of import substitution, at the expense of exports and inputs to produce exports, and to reduce unevenness in incentives to import substitution industries. Policy reforms have been initiated in collaboration with IBRD under the structural adjustment loan. Tax reform is needed to phase out export and other taxes which discourage production to earn foreign exchange. Employment in the sugar industry has declined more rapidly than the rest of the economy has been able to create jobs. However, rapid expansion of investment and production in the EPZ is the best solution to redundant labor in agriculture and could lead to agricultural labor shortages rather quickly if projected growth in manufacturing is achieved. Manufacturing employment more than doubled from 1975 through 1984, increasing 8.9% annually, while total employment rose 1.5% annually. At this rate of increase, manufacturing employment would reach 105,000 in 1993, 45% of total employment, offsetting past and likely future declines in agricultural employment, creating labor shortages, pushing up real wages, and encouraging mechanization.

To provide the real capital formation for this growth, imports may need to grow in the medium term more than the 7.5% annual rate in current prices envisioned by IMF. To provide adequate financing to the private sector for rapidly increasing economic growth and exports, the loanable resources of the Development Bank of Mauritius need to be increased substantially to utilize fully its capacity to facilitate economically sound investments.

2. External Sector Crisis:

During the 10 years prior to 1976, Mauritius had small current account deficits in only two years. Since 1975, deficits have occurred in nine consecutive years totalling nearly $750 million. The crisis was brought on by over-valuation of the currency, high petroleum prices, and low sugar prices. IMF expects the deficits to continue through 1990 but the size of the deficits has been brought down to about $25 million annually, which is considered manageable.

1/ For a more complete analysis with statistical tables see Annex B.

Imports have been managed carefully since 1979 and have not increased in SDR value except for 1980/81. However, in current domestic prices the value of imports rose 10.5% annually. Petroleum was 16.0% of imports in 1984/85.

The uses of imports have changed significantly from 1979 through 1983. The share consumed by households declined from 29% to 26% whereas intermediate consumption rose from 59% to 66%. Most significant was a substantial decline in the share of imports devoted to gross domestic capital formation.

2. Policy Reforms:

With reversal in the terms of trade during 1976-79, for sustained growth of output and employment and a viable balance of payments in the medium term, exports had to be promoted and diversified, and import-substitutes for food and energy encouraged. Given the small domestic market, export growth was vital.

In 1979, GOM initiated stabilization and structural adjustment programs with IMF and IBRD. Since 1979, five consecutive stand-by arrangements have been implemented. These programs have included policies to adjust the exchange rate, reduce consumer subsidies, restrain wages, restrict credit and money, reduce the overall fiscal deficit, and maintain a liberal system of trade and payments. In spite of a world-wide recession, adverse weather conditions and continued deterioration of the terms of trade, progress under the stand-by arrangements has been good.

In 1979 and 1981, the rupee was devalued 30% and 20%, respectively. In February 1983, GOM changed the peg of the rupee from the SDR to a trade-weighted basket of currencies. Since then, GOM has followed a flexible exchange rate policy which, with wage restraint, has been effective in increasing export competitiveness. Between February 1983 and June 1984, the nominal and real trade-weighted exchange rates depreciated against the basket of currencies 7.6% and 9.0%, respectively. A fifth stand-by arrangement for eighteen months for SDR 49.1 million was approved by IMF on March 1, this year. The new program primarily continues the policies of the previous stand-by arrangements with further fiscal adjustment, restraint of expansion, a flexible exchange rate policy, and a cautious wage policy.

A first structural adjustment loan for $15.0 million in 1981 focussed on supply side measures. Energy planning capacity was strengthened, the medium term public investment program was reduced and rationalized and policy reforms in agriculture and industry were initiated. A financing package was arranged when foreign exchange reserves were completely exhausted.

The second structural adjustment program for $40.0 million in late 1983, has four objectives; (1) restructuring of the sugar industry and agricultural diversification (2) further promotion of export-oriented industrialization, (3) tourism development and (4) improvement in public resource management.

A restructuring program for the sugar industry was announced by GOM last July. The program aims at (1) monitoring the long term financial viability of large estates, (2) rationalizing milling operations, and rehabilitating equipment, (3) raising the productivity of small planters, (4) improving the utilization of by-products, and (5) diversifying agricultural activities. Energy policies were not included in the second structural adjustment program.

With the decline of sugar prices, stagnation of sugar production, and rapid growth of EPZ exports the share of sugar exports dropped from 86% in 1974 to 62% in 1983 while the share of EPZ exports rose from 8% to 30%. Net exports are about 37.0% of total EPZ exports.

4. National Accounts:

GDP data in constant 1976 prices indicate significant trends since 1960. Annual growth of GDP was only 1.6% in the 1960's but increased to 6.0% annually from 1970 through 1981. In spite of the relatively high overall rate of growth, agricultural output declined 3.4% annually, offsetting much of the high growth rates in smaller sectors including construction, mining, electricity, transport, and trade. The contrast between the two decades is illustrated by the shift in growth of gross domestic investment from a negative 6.7% to a positive 7.8% annually.

Preliminary information released by GOM in April indicates that GDP grew 4.2% during 1984, much more than the 3.1% expected in September last year. The main sectors which have grown more rapidly than expected are agriculture other than sugar, EPZ, and tourism. Other agriculture, which includes foodcrops, livestock and fishing, rose 13% in volume over 1983 compared with a predicted rise of 5%. Tea production, increasing 13% in volume and 80% in price, contributed most of higher growth of GDP. Data on imports, exports and employment indicate that EPZ value added grew about 21% rather than the expected 16%. Tourism grew 14% rather than 10%.

Final consumption expenditure increased 9.8% over 1983 in nominal prices and 3.1% in real terms, compared with 1.8% real growth in 1983. Consumption was 82.0% of GDP at market prices. The ratio has declined steadily from 90.0% in 1980. However, real GDFCF growth in 1984 was substantially lower than expected, growing 6.6% rather than 8.4% expected last year. By contrast, real public sector investment grew 10% while private sector investment rose only 4%. The ratio of gross domestic savings to GDP at market prices rose to 18% from 17.0% in 1983 and 15% in 1981 and 1982. The decline in growth of GDFCF and low growth of private investment in 1984 is a source of concern for growth in later years.

5. Prices:

Since 1980, when the consumer price index rose 42%, inflation diminished steadily to 5.6% in 1983, rising to 7.3% in 1984. The increase in 1984 was attributable to the higher cost of imported items because of currency depreciation and higher utility and petroleum prices. Among the commodity groups comprising the index, the prices of medical care, food and non-alcoholic beverages, and fuel and lighting increased the most.

6. Employment:

The latest survey of employment and earnings shows that between September 1983 and September 1984, total employment rose 6,615 (3.3%) to 200,442. Manufacturing sector employment increased 10,208, almost exclusively in wearing apparel industries. The increase was mainly the result of new enterprises in the Export Processing Zone (EPZ) where total employment rose more than 10,000. Monthly earnings, on average, increased 4%. Employment in agriculture continued to decrease, because of mechanization in the sugar estates and declining sugar

production during the last two years. Total male employment decreased 1,259 while female employment rose 7,876 mainly from new employment in the EPZ. Female workers are 80% of EPZ employment.

7. External Debt and Debt Service:

After 1974, public external debt outstanding, including undisbursed, quadrupled from $120.3 million to $542.9 million at the end of 1983, of which $332.5 million (61.2%) was disbursed. Multilateral sources provided $283.7 million (52.2%) and bilateral sources $155.0 million (28.5%). The remaining 19.3% was suppliers credits and commercial bank loans. The World Bank group provided 34.9% of total outstanding credit. France is the largest bilateral creditor (9.6%), followed by the United Kingdom (4.7%), and Kuwait (3.5%). Outstanding disbursed public debt was 29.0% of GNP.

As borrowing from commercial banks increased after 1977, average terms hardened. In 1983, average maturity was 17 years with 4 years grace and an interest rate of 10%. GOM plans to limit new concessional borrowing through mid-1986 with maturity of less than one year to $30 million and to incur no new loans with 12 years maturity or less. Debt service payments rose from $3.0 million in 1974 to $83.7 million in 1983, about 16% of export earnings and 7.3% of GNP.

8. Progress In Economic Structural Adjustment:

Significant progress has been made in reducing fiscal and financial imbalances. The current account deficit has declined from 15.5% of GDP to 2.5%, a more manageable level. The budget deficit has declined from 12.9% of GDP in 1981/82 to 6.3%. Subsidies for food and education and current expenditures on housing and public health have been curtailed. Public utility prices have been adjusted to minimize budgetary transfers to parastatals and prevent distortions in resource allocation. Public investment projects with low economic rates of return have been eliminated from the capital budget. Despite recovery in 1984, growth remains modest and unemployment high (17%). In 1985, large debt service obligations are due. The debt service ratio, including IMF repayments, is expected to peak at 29% in 1985, but decline thereafter.

IBRD recommends that, beginning in 1986, economic policies should switch to a more growth-oriented development strategy. For more rapid growth during 1986-1990, less restrictive policies are needed to permit imports to expand gradually. Investment needs to be increased, low priority investments in infrastructure discouraged, and growth of private investment in productive sectors accelerated. A high growth/low unemployment program requires effective structural adjustments.

Despite progress, debt servicing threatens economic growth. Large debt service payments in 1984/85 and 1985/86, will peak in 1984/85 at about 29% of goods and non-factor services, but decline to 20% in 1986/87. Although the overall balance of payments is projected to have a surplus in 1984/85, in part because of drawing a $40 million Eurocurrency loan, a financing gap remains because of repurchasing SDR 48 million from IMF. Official international reserves also have declined substantially to two weeks' imports at the end of 1983/84. Given the risks of damage to the sugar crops by cyclones, reserves should be at least one month's imports.

Although the share of sugar in GDP has fallen below 10%, sugar production is vital to the economy, accounting for 50% of merchandise exports in 1983/84. Export duties on sugar have provided 15% of government revenue, declining to 10% in 1984/85. Firms have had financial losses while the industry as a whole has suffered from poor crops, and falling investment. After intensive study, a restructuring program has been adopted and the new Sugar Authority established. The restructuring program includes, rationalization of operations, diversification into non-sugar agriculture, energy production from cane by products, measures to increase productivity, and an adequate return for sugar producers.

In 1984/85, the overall budget deficit as a proportion of GDP will be reduced, for the fifth year in a row, to about 6.3% of GDP, in spite of reduction in the export tax and unexpected increases in expenditure because of exchange rate depreciation. Dollar appreciation increased interest payments on external debt, and, together with increases in international prices, in higher payments for rice and flour imports.

IBRD concludes that despite higher rates of growth during 1985-1990 the balance of payments situation is manageable if a structural adjustment strategy continues. A 13% annual growth in exports of goods and in non-factor services, such as tourism, in current prices is feasible for the rest of the decade. The current account deficit of the balance of payments, however, would increase. External debt liabilities and current account deficits need to be offset by commitments from the international community. The debt service ratio, excluding IMF repayments, would stabilize around 20%.

9. Sugar:

Declining investment and profitability in the sugar industry are serious policy problems which must be resolved to avoid declining capacity and reduction of export earnings. The Sugar Authority was established in June 1984 to advise on policy and coordinate changes within the industry. IBRD has been working closely with GOM, the Sugar Authority, and the private sector to prepare a restructuring program with guidelines for reforms and a master plan of specific policies. Restructuring was agreed in principle with IBRD in September 1984, including a rationalization of the milling industry to reduce financial losses and improve efficiency, improve the productivity of smallholders, diversify agriculture, and increase agricultural research. The rationalization plan was accepted by IBRD in February and significant progress is expected by July in implementing the plan. Changes in the export tax were to be introduced by April 30, retroactive to the beginning of FY 1984/85.

10. The IMF Standby Arrangement:

The fifth IMF standby arrangement was signed March 1 for 18 months for purchase of SDR 49 million, 91.4% of Mauritius quota of SDR 53.6 million. The GOM also is expected to purchase SDR 7.5 million under the compensatory financing facility relative to the export shortfall in the year ending August 31, 1984. At the end of CY 1984, IMF holdings of rupees subject to repurchase were SDR 157.3 million consisting of SDR 34.0 under special facilities and SDR 123.3 million under tranch policies. During the new standby arrangement repurchases will exceed purchases by SDR 16.0 million which would reduce IMF credit outstanding to SDR 141.6 million on July 30, 1985. Purchases under the standby after the initial SDR 7.0 million will

be in six quarterly installments contingent on compliance with quarterly performance criteria and two reviews.

Rapid growth of manufacturing exports, import substitutes, and tourism is the main source of increase output and employment. Exports from the EPZ are expected to increase 22% in 1984/85 following a 25% increase in 1983/84. Employment in the EPZ is expected to increase more than 5,000 (25%) to 13% of total employment. At the end of 1983, employment in tourism and supporting industries was 18,000 persons, 6% of total employment and is expected to grow about 10% annually. The large growth in exports and employment is the result of increasing competitiveness from depreciation of the currency and declining real wages.

Tax receipts are expected to rise somewhat but total receipts may decline because of decreases in non-tax revenues and grants. The primary new revenue measure is a 10% surcharge on import duties expected to yield Rs 120 million, 41% of tax revenue. Export tax revenues are estimated to be Rs 62 million less than budget estimates because of revisions in the tax to provide relief to the sugar industry, in spite of exchange rate depreciation.

During CY 1985, the money supply 1984/85 is expected to increase 14% to finance increases in GDP and international trade. Expansion in credit to the private sector is to accommodate growth in investment and production in export and import competing industries. Net credit to the GOM is expected to decline Rs 79 million and private credit to expand 17.5%. Inability to provide sufficient private credit to the EPZ or other manufacturing firms while supplying other demand for credit has prompted the GOM to introduce credit allocations to ensure adequate credit to priority sectors without excessive overall expansion.

11. Economic Prospects:

Although sugar export receipts are expected to decline SDR 20 million (10%) and external interest payments to increase SDR 11 million, IMF estimates the current account deficit probably will increase only slightly in 1984/85 to SDR 28 million. The trade balance is expected to remain unchanged because of an increase in net EPZ exports and a small reduction in other imports.

IMF projects a surplus in the overall balance through 1986/87 with small deficits the following three years. Given the scheduled repurchases due to IMF the annual financing gap remains about SDR 30 million from 1987/88-1989/90. The ratio of debt service payments to exports of goods and non-factor services declines from 28% in 1984/85 to 20% in 1986/87. IMF concludes that the balance of payments deficit can be financed without major debt service difficulties. The projections allow no build-up of reserves after 1984/85.

The objective of the fourth, post-independence development plan for 1984-1986 (MDP), released in March, is to reinforce structural adjustments, redress balance of payments deficits, and support growth with equity. Through export-led industrialization, tourism, and agricultural diversification, the GOM aims to increase foreign exchange earnings and provide the structure for expansion of output and employment.

Since prospects for sugar prices are not encouraging either in the protected EEC market or the world market, and since sugar production is not expected to exceed 700,000 tons, the manufacturing sector is the best prospect for increasing export earnings and productive employment. An intensive promotion campaign is under way to attract foreign direct investment and improve access to foreign markets and technology. GOM industrial policy is to provide the necessary infrastructural, financial, and fiscal incentives. Tourism is a major area for expansion. The objectives of tourism policy are to increase the number of tourist arrivals, maximize foreign exchange earnings from tourism, create direct and indirect employment, and increase value added.

The MDP plans annual growth of real GDP of approximately 4.5% during 1984-1986, much higher than IMF assumptions (Table 35). Sugar production is projected at 585,000 tons in 1984, 650,000 tons in 1985, and 700,000 tons in 1986. The projection assumes no increase in acreage and an increase in yield per hectare to offset any decrease in area under cultivation.Real value-added in manufacturing, excluding sugar milling, in 1983, was 12.8% of GDP at factor cost. Real manufacturing output is projected to grow 7.1% annually with the share of GDP increasing to 16.7% by 1986.

The EPZ is the key to growth of manufacturing. At the end of 1983, the EPZ employed 25,526 persons and produced 36% of manufacturing output, which is expecte to rise to 44% with 17,000 new jobs created during the plan period. Real EPZ output is expected to grow 13.8% annually. Tourism is projected to grow approximately 10% annually. Since 1979, construction has had negative growth except for 1983. Real value added in construction is expected to grow 3% in 1984, 4% in 1985, and 5% in 1986.

The three-year Public Sector Investment Plan (PSIP), FY1985-87, aims at providing infrastructure for the directly productive sectors and essential public services a an incentive to private investors and to increase employment through economic growth. Investments for infrastructure constitute more than 50% of the total. Of 21 new projects, 11 are extensions of on-going projects or improvements of current works. IBRD questions the feasibility of the new Ethanol project which has an economic rate of return between 1% and 4%. A key feature of the new PSIP is restraint in capital spending. The PSIP is about 10% smaller, in real terms, than the previous plan. The new PSIP plans a 11.6% average annual increase in public investments.

B. Other Assistance

From a situation of almost complete dependence at the time of independence on the United Kingdom, the only other source of aid being IBRD (which accounted for only a small fraction of total aid received), Mauritius now receives assistance from a large variety of bilateral and multilateral sources. On the bilateral front, Mauritius is today receiving aid from the OECD countries (UK, France, the USA, the Federal Republic of Germany, Canada, Australia and Japan), oil-exporting Arab countries (Saudi Arabia, Kuwait and Abu Dhabi), communist countries (mainly USSR and the People's Republic of China), and even some large developing countries (especially India). The World Bank and the IMF are the two main international agencies which have brought the largest amounts of external resources to Mauritius in recent years. But other multilateral aid organizations like the European Development Fund, the European Investment Bank, the African Development Bank, the

United Nations Agencies (especially the UNDP and IFAD), the Arab Bank for Economic Development in Africa and the OPEC Fund have brought substantial amounts of concessionary finance to the country. This diversification of aid sources is a good illustration of the country's pragmatic approach to aid mobilization from all sectors of the international community. Annex H contains the GOM description of the mobilization of external resources.

The amount of external resource received in Mauritius has increased tremendously since independence. In FY 80 Rs 1,207 million were actually disbursed as against Rs 52 million in FY 68. Even after allowance is made for the increase in prices (as an indication, the import price index increased six-fold over this period), the increase in real terms has been four-fold. However, the trend has been reversed in the 1980's as external flows have been constantly below the level reached in 1980; only Rs 987 million were mobilized in FY 1983. This change has resulted from the decision on the part of the GOM not to go to private sources for development borrowing. See tables 1 and 2.

TABLE 1

COMPOSITION OF EXTERNAL RESOURCES MOBILIZED (FY 68 - FY 83)
(Rs million)

Type of Resources	FY 68		FY 80 to FY 83	
	Amount	%	Amount	%
Grants	34.6	65.8	225.1	6.4
Concessionary loan	18.0	34.2	2,374.2	67.5
Non-Concessionary loans	-	-	917.7	26.1
TOTAL	52.6	100.0	3,517.0	100.0

TABLE 2
SOURCE OF EXTERNAL RESOURCES MOBILIZED (FY 80 -FY 83)
(Rs million)

Source	FY80	FY81	FY82	FY83	FY80-FY83
Bilateral	244.7	254.3	177.0	339.9	1,015.9
Multilateral	501.4	318.8	232.8	530.7	1,583.7
Private	461.5	450.9	-	5.0	917.4
TOTAL	1,207.6	1,024.0	409.8	875.6	3,517.0

Over a period of less than two decades, Mauritius has moved from a situation where multilateral flows were almost nonexistent to one where they amount to more than 70% of total resources mobilized. This change is, of course, accounted for mainly by the massive borrowings from the IMF, the World Bank and private international sources. But it reflects also the relative stagnation of bilateral aid as a result of economic difficulties encountered by traditional aid donors.

The following quotation is a recent IMF description of the main World Bank effort in Mauritius:

"In May 1981 the World Bank approved a US$ 15 million Structural Adjustment Loan (SAL) for Mauritius. The main objectives of the SAL were to: scale down and restructure the Public Sector Investment Program (PSIP) by placing greater emphas on infrastructure directly linked to production and developing criteria for project selection; to stimulate investment, production, and exports in manufacturing industry; to develop policies and proposals to stimulate agricultural diversification away from sugar and establish a Commission of Enquiry into the sugar industry with the aim of developing policies conducive to the long-term strength of the industry; to draw up a national energy plan, including an assessment of the potential use of bagassse (sugar cane residue after processing) for power generation and establish an energy planning unit; to assess the problems of the tourism industry; to improve the efficiency of the parastatals; and to strengthen public debt management. Most of the policies were implemented, and, although some delays were encountered, the remainder are now in train. In particular, studies on industrial incentives are currently being made, and measures to reform inefficient parastatals have been formulated."*

A second SAL for US$ 40 million was approved in December 1983. Its major objectives are:

> "to reduce the high level of unemployment by encouraging growth based on export processing industries and tourism and--to a lesser extent--to substitute local energy resources for imports and to increase production of certain agricultural and manufactured goods....In view of the scarcity of land for agriculture, the SAL II will place a major emphasis on manufacturing exports, particularly those originating from the Export Processing Zone. To this end, the authorities are embarking on a major review of industrial policy to assess the effectiveness of the current structure of protection and incentives to manufacturing.....the SAL II program (will also continue to) improve the efficiency of the parastatal sector...."**

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 firm(s) will pay for the imports in local currency, estimated at 32 million rupees, and a special account will be established to monitor local funds. The rupees will be drawn from the account for local development activities which have been mutually agreed upon by, the GOM and USAID.

*IMF, "Mauritius - Recent Economic Developments," May 4, 1983, p. 18.
** Ibid., p. 19.

A key objective in the use of the local currencies is to support and promote private sector activities, both domestically and internationally. Specifically, private sector development through the expansion of EPZ will be encouraged by the development of a new industrial estate at Vacoas/Phoenix by DBM. The CIP financed activity will include construction of 140,000 sq. ft. of industrial space for leasing to new and expanding private firms. DBM, which presently owns and manages two other estates, will be the developer for Vacoas/Phoenix. The GOM will loan GIP funds of Rs. 32.0 million to the DBM to complete the site preparation and to construct the buildings in the first phase. The total space that is planned for the estate is 500,000 sq. ft. which will be added as the demand increases.

B. Implementation of 1982, 1983 and 1984 CIPs

In FY 1982, Mauritius received its first Commodity Import Program Grant ($2.0 million) which was used to purchase US degummed edible oil by Mauritius Oil Refineries (Moroil). The disbursement of the grant funds incorporated a spec[illegible] letter of credit which permitted the GOM to draw down funds in May of 1982. Thus, the grant had an immediate balance of payment impact and enabled the GOM to meet foreign exchange targets set by the IMF. The Moroil purchase of 4,200 tons of oil was completed in a timely manner, required a minimum of AID or Embassy supervision, and, except for some minor transfer problems, was a simple operation for all parties. Local currency payments were deposited in a special account at State Commercial Bank (SCB) and were transferred to the GOM general account for disbursement to the agencies implementing the sub-projects listed below. Neither AID nor the Ministry of Finance were satisfied with the accounting and record keeping by the SCB. Thus, for the past two years, the special account has been held at Citibank, Port Louis, the only American bank with an office in Mauritius.

The FY 1982 CIP planned local currency programs worth Rs. 20.0 million; however, Rs. 24.0 million has been generated and disbursed. The development impact of the FY 1982 local currency activities has been substantial. Six thousand sixty-one households in 56 estates have been connected to clean, reliable central water supplies. The Central Water Authority, through a local contractor, completed the construction hook-ups on time and for Rs. 13.4 million, which was 2.6 million rupees under the original estimate. The surplus Rs. 2.6 million, plus an additional Rs. 4.0 million allocation, has been used to improve the water supply system in three other rural areas. The Development Bank of Mauritius, using Rs. 2.0 million from the CIP as seed money, developed a small scale business loan program. Since the program combines the GOM/USAID funds with its own and other commercial bank monies, the program has helped 1,334 small entrepreneurs and tradesmen with Rs. 19.0 million in loan funds. Finally, the irrigation authority has received Rs. 19.0 million for a revolving fund to assist small scale irrigators. To date, 260 small scale irrigation schemes have been assisted.

The special account for the FY 1983 CIP local currencies has been closed and disbursement made to the implementing agencies for the following activities:

1.	Francois River Diversion	14,500,000
2.	CWA Rural Water Programs A. Caroline to Bramsthan Pipeline B. Bramsthan to Camp Ithier Pipeline	3,500,000
3.	Investment and Trade Promotion	3,500,000
4.	Tourism Promotion	4,000,000
		28,000,000

The construction of the Francois River Diversion will be started in June/July with completion scheduled within a year. This diversion will send additional water into the Nicoliere system for irrigation in the dry Northern Plain area. The Caroline to Bramsthan pipe is complete and an adequate supply of dependable potable water is being provided to the Bramsthan area. Completion of the next section of the pipe, scheduled for November, will provide water to the whole region southeast of Camp Ithier. Although the Mauritius Export Development and Investment Promotion Authority (MEDIA) began operation in April of 1985, the Ministry of Industry has utilized all of the funds for investment promotion seminars, brochures and publications, advertisements and the establishment of a "one stop" foreign investment office as well as other promotion activities.

The GOM expanded the budget of Mauritius Government Tourist Office(MGTO) from Rs 6.0 million in 1982-83 to Rs 15.0 million in FY 1983-84. Although it is difficult to estimate the impact of the expanded promotion program on tourism, 1984 was a record year for Mauritius with approximately 145,000 tourist arrivals, 15% above the previous best year.

The 1983 CIP generated rupees were to finance the Souvenir Pilot Drip Irrigation Project in the Northern Plains area. The bids were substantially above the estimates, making the total cost of the project Rs 31.0 million, over 70% higher than the original estimated cost of Rs 18.0 million. The economic feasibility of the project is in question at the higher cost. The Irrigation Authority and the supervisory engineer are doing additional reviews to determine alternative designs and to recalculate economic feasibility. AID and the GOM decided to reallocate the 1983 CIP funds for immediate needs, but if the feasibility of the project is proven, AID will consider using future generations of local currencies to support the project.

Approximately half of the $4.0 million FY 1984 CIP moneys have been utilized for the purchase of edible oil. It is expected that by August all funds will be expended and approximately 60 million rupees will be deposited in the special account at Citibank. The rupees will support:

1.	Construction of Seven Rural Industrial Buildings	Rs50.0m.
2.	Small Business and Industry Loan Fund at the DBM	Rs 5.0m.
3.	Tourism Promotion	Rs 4.0m.
4.	Small Scale Self-Help Projects	Rs 1.0m.
	TOTAL	Rs60.0m.

The construction of all seven rural buildings is nearly complete; two have been turned over to the industrial renters who are moving into the premise. Three hundred fifty thousand square feet in total at the seven sites has been constructed at an average cost of Rs 175/sq. ft (including infrastructure) which is below original estimates. An important program objective was to build and rent industrial space in high unemployment areas. Nearly all of the space has been reserved and plans are progressing to build additional buildings at the more popular sites. At one job created per 50-75 sq. ft of industrial space, the local currency financing of rural building will provide for 4500-7000 new jobs. From just an idea a year ago in May 1984, today, the GOM has nearly completed a successful rural industrial estate development program.

The Rs 5,0 million for the small scale business and industry will help expand two highly successful loan programs at the DBM. The small scale business (SSB) program was originally financed in part from FY 1982 CIP local currencies and has as its objectives the support of service and trading firms as well as providing working capital for small industries. The small-scale industries (SSI) program was started in the mid seventies and has financed primarily capital investments in small industry. From its inception in 1983 to date the SSB loan program has extended 1334 loans for Rs 19.0 million. The SSI program has extended 4166 loans worth Rs 48.7 million from 1974 through 1984. Arrearages are less than 10%. Annex I presents a break-down of the loans of the two programs by client type.

The local currency for tourism promotion will help the GOM expand its support for the MGTO from Rs 15.0 million (FY 1984-85) to a planned level of Rs 22.0 million in 1985-86. The provision of this money has been used as an incentive to the GOM and MGTO to plan and coordinate government tourism promotion expenditures with Air Mauritius.

Finally the plan is to use Rs 1,000,000 for projects submitted to the Ambassadors Self-Help Fund Committee but are not financed because of a shortage of money. The fund ($72,000 in FY 1985) has been 2-3 times oversubscribed with projects which the Committee has judged worthy of assistance. Local currency type projects will be financed with the money.

C. Commodity Import Component

1. Import Market Analysis

Trade between Mauritius and the U.S., although growing, is still relatively small. The increase in trade, however, is mainly in favor of Mauritius whose exports to the U.S. were up from Rs 366 million ($31 million) in 1983 to Rs 642 million ($45.5 million) in 1984, representing a 75% increase. On the other hand, Mauritian imports from the U.S. have stagnated over the last two years: Rs 151 million ($12.9 million) in 1983 and Rs 154 million ($11.2 million) in 1984. Imports from the U.S. represented only 2.4% of total Mauritian imports in 1984. U.S. exports to Mauritius are hindered by a number of factors: (a) the great distance between the two countries (10,000 miles) and the resulting high shipping costs; (b) long-established economic and commercial ties between Mauritius and Europe, particularly England and France, as a result of Mauritius' colonial past; (c) the rise of the U.S. dollar; and (d) the small size of the Mauritian market and the fact that Mauritius remains unknown to American business.

It is significant to note, however, that an estimated 40% of total U.S. imports do not come directly from the United States, but are shipped from U.S. affiliated companies or from representatives in Europe and South Africa. This indirect trade pattern is attributable to the small volume of trade and the great distance separating the countries. The recent opening in March 1985 of a direct shipping service between Mauritius and the U.S. might, however, increase the volume of goods that are shipped directly from the U.S. and, eventually, the volume of imports from the U.S.

b) Composition of Import Market

The largest category of imports from the United States in 1982 was animal and vegetable oils, which accounted for nearly 35% of all imports. It consisted primarily of crude soybean oil which is refined locally into cooking oil, with the by-products utilized for the soap industry. The FY 1983 CIP accounted for approximately half of the imports.

The second largest category was food (17%), including mainly rice, milk/cream and almonds. Most of the milk came in under the World Food Program. Food has dropped down from the first to the second largest category for the first time in 1984, mainly because there was no PL 480 Title I Program for Mauritius that year. Miscellaneous manufactures goods (13%) and machinery and transport equipment (12.8%) were the third and fourth largest categories, respectively. These included 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 U.S. imported materials and equipment. But there is also a strong demand for vegetable oil which is used by all households in everyday cooking. Mauritius has the highest per capita consumption of edible oil in the world. The sugar industry, the backbone of the agricultural sector and, hence, of the entire economy, is the major client for fertilizer and crop-related imports and for agricultural machinery and equipment. Based on the above, U.S. goods are reasonably assured of a stable market in Mauritius.

c) Absorptive Capacity

The major import items from the US fall under the essential goods category - basic food, capital goods, raw materials for industry, and, agricultural inputs - and are, therefore, given priority in the foreign exchange allocations. There is no doubt that the proposed CIP, by bringing in additional hard foreign exchange, will help to sustain imports from the U.S. Based on the past records of regular importers of U.S. goods and purchase plans for the coming year, Mauritian capacity to absorb the full amount of the proposed program is assured. For example, Mauritius Oil Refineries Ltd, alone, imports an average of 18,000 tons of crude soybean oil annual. Provided U.S. prices are competitive, the company's entire soybean oil requirement can be imported from the U.S. This represents approximately five times the amount of the CIP Grant proposed.

TABLE 3

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

	1980	1981	1982	1983	1984
Food and Live Animals	49.3	85.6	100.3	62.3	25.5
Beverages and Tobacco	9.2	9.3	5.2	6.3	5.4
Crude Materials (inedible, except fuel)	2.6	2.3	2.1	1.7	2.3
Mineral Fuels, Lubricants etc	0.6	0.8	1.1	0.8	0.4
Animal and Vegetable Oils	33.3	67.0	65.0	29.8	53.6
Chemicals	28.3	50.6	42.8	12.6	14.9
Manufactured Goods	12.4	11.3	16.4	12.1	12.1
Machinery and Transport Equipment	59.8	29.9	22.6	14.0	19.7
Miscellaneous Manufactured Goods	18.5	9.0	9.2	11.0	20.0
Other Commodities	0.1	0.01	0.3	0.1	0.1
	214.1	265.8	265.0	151.2	154.1

NOTE: Annual Average Exchange Rate
1980: $ 1 = Rs. 7.7
1981: $ 1 = Rs. 9.1
1982: $ 1 = Rs.10.9
1983: $ 1 = Rs.11.7
1984: $ 1 = Rs.13.8

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. As in the past programs, the options of importing commodities from the U.S. other than edible oil were examined. While a variety of commercial imports including irrigation equipment, agricultural equipment, machinery spare parts, fertilizer,

agricultural chemicals remain eligible items for importation, the design team and the Embassy recommend the purchase of degummed edible oil. The rationale 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 one or two consignments 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 3000 tons ($2,000,000 at $666/ton cost estimate) purchase in September and shipped in November or December. Shipping of the oil will be financed by the refinery itself.

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

d) There is a strong ongoing demand for edible oil from the U.S.; Mauritius Oil Refineries imports an average of $5-7 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 Currencies

MOROIL will pay approximately Rs 32.0 million, the equivalent of $2.0 million, into the special interest bearing account held by the GOM at Citibank, Port Louis. The local currency generated under the CIP will be used by the GOM to support activities mutually agreed upon by the GOM and AID. This year all of the local currency is expected to be used for the construction of industrial buildings as part of Phase I of the Vacoas-Phoenix Industrial Estates Development Project of the DBM.

The Vacoas-Phoenix Industrial Estate, so named because it is located close to two towns - Vacoas and Phoenix - is located in the transportation corridor between the capital city, Port Louis, and Plaisance Airport. This is an excellent location for an industrial estate because it will have good access to both the port and the airport.

The Vacoas-Phoenix Industrial Estate will be a major industrial estate built to provide space for the Export Processing Zones. The main objectives of the EPZ program are: (1)to expand and diversify the economy; (2) to lessen Mauritius' dependence on its monoculture, sugar; and (3) to create employment. To attract industries, GOM created Export Processing Zones pursuant to legislation passed in 1970. This was accompanied by a series of legislative and regulatory measures providing for Export Enterprises and Development Certificates. Under this scheme a number of incentives and facilities are available to industries including, inter alia, exemption of import duties and excises on the importation of machinery and raw materials, tax holidays, free repatriation of capital, preferential electric power rates, and the availability of factory buildings for rent within serviced industrial estates.

Under the FY 1984 CIP, local currencies were devoted to the construction of seven mini-industrial estates. They provide the basic infrastructure by way of well-designed buildings with adequate floor space, access roads and utilities that small and medium sized plants require to set up operations rapidly.

GOM's export platform program has been extremely effective having created nearly 50,000 jobs. EPZ exports grew from less than 4% of total exports in 1971 to 44% in 1984 with a corresponding drop in Mauritius' dependence on sugar exports which were reduced from 87% of exports to about 50% during that period. Thus, the program has gone a long way towards diversifying the Mauritian economy, creating new employment and upgrading the skills of many workers. Indeed, some 70% of Mauritians employed in industry work at EPZs and this represents 33% of all Mauritians engaged in productive activities (agriculture, mining, manufacturing, power generation and construction). The EPZ subsector has been and is the main engine of growth of the Mauritian economy and now accounts for 7% of GDP.

Not only has the EPZ program made effective use of Mauritius' best natural resource, an abundant, relatively well-educated labor force, but it has been accomplished at a relatively low investment cost of $2,500 per job. Moreover, for every job created in EPZs, it is estimated that this has generated at least one additional job in other sectors of the Mauritian economy.

The IBRD stated at the most recent Consultative Group Meeting (Paris - May 1985) that export oriented manufacturing offers the strongest potential to foster economic growth and to add to foreign exchange earnings and called for the intensification of the EPZ program. Projection show that there is scope for expanding the program and an estimated 10,000-12,000 new job openings are expected to be created in EPZs in 1985. Further expansion can be expected particularly as Mauritius improves its policy framework.

The Vacoas-Phoenix Industrial Estate will cover 25 acres and in its final stage include industrial buildings with 500,000 sq. ft of floor space. In the first phase, 160,000 sq. ft. will be constructed.

The Development Bank of Mauritius, which pioneered the development of industrial estates in Mauritius, starting with the Plaine Lauzun Estate in 1968 and subsequently the Coromandel Estate (financed by the IBRD), is responsible for the development of the Vacoas-Phoenix Estate. However, the GOM plans to turn the facility and management of it over to a newly created organization set up by GOM, the Mauritius Export Development and Investment Authority (MEDIA), as soon as the construction phase is completed. In fact, MEDIA will eventually take responsibility for all the industrial estates put up by the DBM, including those built in the 1970's by DBM with IBRD assistance.

Although demand for industrial space in the EPZs was somewhat slack during 1982/3, it has picked up since then. DBM reports that even prior to completion of construction, 80,000 sq. ft, of floor space in the Vacoas-Phoenix Estate has been reserved by various industries and strong interest has been shown in the remainder of the space by others.

Renting floor space at 21 rupees per sq. ft, the DBM calculates that it will have a gross return of somewhat over 10% on its investment in the Vacoas-Phoenix Estate estimated to cost about 37.5 million rupees for the first phase of construction. The net rate of return after deduction of expenses and amortization is estimated by DBM to be about 5 to 6%. Experience by DBM, with the Coromandel Estate financed by an IBRD loan, shows that it earns enough money to pay back the concessional construction loan provided by the IBRD. The GOM will loan the local currency to the DBM at a concessional rate that engenders a 5-6% return. The investment in the estate will at least break even financially and may possibly bring a return. More important, despite possible low financial returns, the project will bring high economic returns to the country as a whole. Based on past experience with other estates, the Vacoas-Phoenix Estate will provide on the order of 3,000 to 3,200 new jobs in its first phase of 160,000 sq. ft. and the completed project of 500,000 sq. ft will provide an estimated 7,500 to 10,000 new jobs. When the multiplier effect of each new EPZ job resulting in another new job in other sectors is added to this, the positive impact on the economy of Mauritius of this project will be quite significant.

Construction of the first 4 industrial buildings of about 40,000 sq. ft. each at Vacoas-Phoenix has already started. The first building is expected to be completed by August 1985 with the remaining buildings completed at two months intervals thereafter. Based on a cost estimate of 37.5 million rupees, this project will absorb all of the estimated 32 million rupees that this FY 85 CIP is expected to generate. The additional funds for the project will be provided by DBM.

V. PROGRAM IMPLEMENTATION

A. Implementation Responsibilities

1. Government of Mauritius

Primary responsibility for implementation of the US 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 Trade and Shipping.

A special account, opened in favor of the Ministry of Finance, will be established in the Port Louis branch of Citibank. 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 the same as those used for the last 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 implementation of this program. The principal REDSO backstop officers will be James Dempsey, Project Development Officer and Lyn Dunn, Commodity Management Officer.

3. Mauritius Oil Refineries

The Mauritius Oil Refineries will tender bids for the purchase of degummed oil. When a bid is awarded and the oil received, the firm will then process it and sell it on the open market. The Mauritius Oil Refineries will pay into the special account the rupee equivalent of the value of payment documents presented by the US supplier under letters of credit established for the supply of oil. These payments will be made within three business days of receipt of notification by Citibank, Port Louis, that said documents have been presented.

B. Applicable AID Regulations and Procedures

1. AID Regulation 1

AID's standard financing procedures, applying the AID 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 AID procedures place an undue burden on the system. During the previous CIP, AID Regulation One procedures were seen as compatible with existing commercial procedures.

2. Eligible Commodities and Related Services

While all items listed in the AID Commodity Eligibility Listing - 1983 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). Transportation and marine insurance will also be eligible for financing. We expect that the entire $2 million will be used to finance the procurement of degummed edible oil.

3. Authorized Source of Procurement

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

4. Non-Availability of U.S. Shipping

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 exclude shipments under the grant from 50-50 cargo preference requirements. The determination of non-availability will be requested from AID/W, as done in previous years.

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 one or two transactions are expected. Should there be any change in this plan, however, the procurement procedures to be followed will be subject to further negotiation. It is proposed that AID review all transactions which exceed 20% of the value of the Grant.

6. Methods of Financing

AID will open a Bank Letter of Commitment through Citibank, N.Y. with Mauritius Oil Refineries as the approved applicant. Although Mauritius Oil Refineries, normally makes payment by direct wire transfers, it will use a Bank Letter of Credit for the CIP procurement. US supplier(s) will be paid by letter of credit. Citibank, Port Louis, has agreed to reduce its letter of credit charges so that they are only marginally more than for a wire transfer. 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 disbursement of funds under this program. Use of the Letter of Credit is expected to result in a rapid draw-down of AID funds; a period of 12 months is provided for this action. Complete disbursement of AID funds is expected within 18 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

Import liberalization was one of the main measures recommended by the IMF under its fourth standby arrangement with Mauritius. At the end of 1984, GOM has completely eliminated all quantitative restriction on imports.

Under current Government regulations, before an importer can place an order, he must have an import license and an import permit, as well as pay a levy of 13.2% of the CIF value of the goods to be imported. In addition, once the above requirements have been complied, the participating commercial bank must obtain prior approval from the Bank of Mauritius (central bank) before foreign exchange can be released. Firms in the Export Processing Zone, however, are exempted from all import duties.

All these functions are being carried out under established procedures and in a relatively timely manner. 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. Grant funds will not be used, however, to pay the levy, nor for any other identifiable taxes, tariffs, duties or other levies imposed by the GOM, and the Grant Agreement will contain the standard provision prohibiting such use of AID funds.

D. Port Clearance - Status of Port

All Mauritian importers use Port Louis as the port of entry. It is the only port which provides facilities and services to shipping. The port has 672 meters of aligned deep water quays with depths ranging from 5.5 meters to 11 meters for both containerized and conventional ships up to 195 meters in length. This includes 6 deep-water berths, 3 quays for lighterage operations, and 9 buoy berths for small vessels. There are also bulk handling facilities for sugar, petroleum products, fertilizer, vegetable oil and cement. Moreover, there is a container terminal which consists of a container park and a yard gantry crane for container operations. The construction of a fishing port, comprising one deep-water quay of 160 meters and associated infrastructure, was completed in March 1985. In December 1984, the GOM issued an international prequalification notice to prospective tenders for the implementation of a flour mill and grain complex in the harbor of Port Louis. This project will include, inter alia, the construction of a quay and the installation of equipment for unloading rice in bags and wheat in bulk. Regarding future port development, a Port Master Plan has been prepared to assess the potential for port improvement and to cater for port traffic up to the year 2000.

The total area of covered space currently available for storage purposes is approximately 425,000 sq. ft. In addition, the container park is capable of accommodating up to 22,800 standard container units (with 3 high stacking)

The number of ships entering Port Louis harbor every year has fluctuated around 1,100 while the net registered tonnage available on ships has been approximately 2.0 million tons. The volume of imports and exports handled by 1984 at the harbor were 0 95 million tons and 0.72 million tons, respectively. In recent years there has been a growing demand for shipment in containers. In 1984, a total of 26,927 containers was handled at the port.

Waiting time for containerized cargo ships and bulk cargo vessels have been reduced to nil. Maximum waiting time for unitized cargo vessels amounts to 10 hours. Some increase has been registered in port productivity. Unitized cargo vessels are being loaded/unloaded at a rate of 20-30 tons per gang hour, while containers are being loaded/discharged at a rate of 4 to 5 units per gang hour. Both are acceptable rates. Once off-loaded, commodities are readily hauled to destinations.

E. Commodity Arrival and Disposition

No delays are foreseen 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 investigative branch of the Office follows up on any irregularities.

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

F. Implementation Schedule

1. Grant Agreement signed..... Early June, 1985

2. CPs Satisfied..... 15 July, 1985

3. Letter of Credit issued by Citibank..... September, 1985

4. Importer(s) commences procurement action..... September, 1985

5. First shipment from U.S..... Nov - Dec.,1985

6. Terminal date for requesting disbursing authorizations..... 30 June, 1986

7. Grant is fully disbursed..... 31 December, 198

8. Local currency generations fully disbursed..... June, 1987

G. Program Monitoring

AID will monitor the progress of both elements of the program -- draw-downs on the CIP and progress on the use of local currency generations -- through financial reports containing the following information:

1. CIP

   a) Report of letter(s) of credit opened

   b) Report on disbursements

2. Local Currency Generations:

   a) Quarterly and cumulative disburse 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 disbursement; and

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

   d) For any loans funded from the Special Account, a report on the amount and terms of such loans, the repayment schedules, the proposed use for repaid funds and quarterly reports of repayments actually made.

AID will retain the right to audit and inspect activities, including the local currency program, financed under the CIP.

VI. OTHER CONSIDERATIONS

A. Impact on US Balance of Payments

The short-run impact of this program on the US balance of payments position will be minimal, since the commodity that will be procured (edible oil) is already generally imported from the US.

B. Use of US 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 Export-Import Bank credits.

D. Relation to OPIC Program

The OPIC program is not active in Mauritius, with the exception of its insuranc coverage of Citibank Port Louis against inconvertability, expropriation and war Furthermore, this CIP is highly unlikely to result in any conflict with this program in the future.

E. Environmental Statement

A categorical exclusion determination is attached as Annex E.

VII. NEGOTIATING STATUS

Substantive agreement has been reached on all aspects of the program, including agreement on the commodity to be imported, edible oil, and the proposed uses of local currency generations.

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 1983 and 1984 CIP's, and in presenting and reviewing options for the use of local currency generations under this program. In addition, useful visits have been made to the Development Bank which will develop the Vacoas Phoenix Industrial Estate. Furthermore, a meeting was held with Moroil for the purpose of reaching an understanding on all import-related procedures. 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.

AID-3 ECON CHRON-5

ANNEX A

VZCZCNAC069
RR RUFRNP
DE RUFHMC #1033/01 1051312
ZNR UUUUU ZZH
R 151229Z APR 85
FM AMEMBASSY PORT LOUIS
TO RUEHC/SECSTATE WASHDC 5712
INFO RUEHNR/AMEMBASSY NAIROBI 6942
BT
UNCLAS 01 OF 05 PORT LOUIS 01033

LOG: 187 019
15 APR 85 1321
CN: 34979
CHRG: AID
DIST: AID

RECEIVED 17 APR 1985 REDSO/ESA

FOREIGN CHRON GOM

Kochung

DEPARTMENT FOR AID/AFR/EA, AF/EPS AND AF/E
NAIROBI FOR REDSO/ESA

E.O. 12356: N/A
TAGS: EAID, MP
SUBJECT: GOM AIDE-MEMOIRE ON US-MAURITIAN COOPERATION IN CONNECTION WITH PARIS CONSULTATIVE MEETING

REF: (A) PORT LOUIS 875 (B) STATE 80438

DATE RECD: 4-17
REPLY DUE:
ACTION TO: REDSO

	INFO
DIR	
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RIG/A	
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RFMC	1
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CHRON	1
C&R	
EMB	

1. SUMMARY: THIS CABLE TRANSMITS PART OF AN AIDE-MEMOIRE ON "COOPERATION BETWEEN MAURITIUS AND THE UNITED STATES," SENT TO THE EMBASSY BY THE GOM MINISTRY OF ECONOMIC PLANNING AND DEVELOPMENT IN CONNECTION WITH THE THIRD CONSULTATIVE GROUP MEETING ON MAURITIUS, TO BE HELD IN PARIS FROM MAY 13-15. THE AIDE-MEMOIRE PRESENTS BACKGROUND TO THE CONSULTATIVE MEETING, OUTLINING THE STRUCTURAL ADJUSTMENT MEASURES MAURITIUS HAS UNDERTAKEN SINCE 1979, WHEN INTERNATIONAL FINANCIAL INSTITUTIONS FIRST STEPPED UP INVOLVEMENT WITH THE MAURITIAN ECONOMY. DIFFICULT MEASURES ADOPTED BY THE GOM INCLUDE SUCCESSIVE DEVALUATIONS OF 30 AND 20 PERCENT; REDUCED BUDGETARY DEFICITS FROM 14 PERCENT OF GDP IN 1980/81 TO 6 PERCENT IN 1983/84; REDUCED EMPHASIS ON TRADITIONAL EMPLOYMENT SECTORS (E.G., SUGAR AND THE CIVIL SERVICE) TO EXPAND EXPORT INDUSTRIES; AND ELIMINATION OF FOOD SUBSIDIES AND VARIOUS PROTECTIONIST REGULATIONS. STILL, MAURITIUS FACES A DIFFICULT SHORT-TERM FUTURE: THE DEBT SERVICE RATIO HAS RISEN TO 29 PERCENT, AND MAURITIUS NEEDS ABOUT $100 MILLION OVER THE NEXT TWO YEARS TO MEET ITS FINANCING GAP.

2. IN SPECIFIC REFERENCE TO THE UNITED STATES, THE GOM EXPRESSES APPRECIATION FOR THE EXPANDING DIRECT AND INDIRECT ASSISTANCE IN THE FORM OF PL 480 FLOWS ESF/CIP ASSISTANCE, A HOUSING LOAN GUARANTEE, NUMEROUS SMALL PROGRAMS IN FAMILY PLANNING AND TRAINING, ASSISTANCE TO MULTILATERAL AGENCIES ACTIVE IN MAURITIUS, TRADE PREFERENCES UNDER GSP, AND THE HIGH PRICE MAURITIUS RECEIVES FOR ITS SUGAR EXPORTS. IN TERMS OF NEW ASSISTANCE, THE GOM REQUESTS FOUR ITEMS: (A) AN ADDITIONAL GRANT OF $2 MILLION PER YEAR UNDER THE ESF PROGRAM, ABOVE THE EXISTING ANNUAL COMMITMENT OF $2 MILLION; (B) FLEXIBILITY IN THE IMPLEMENTATION OF THE PL 480 TITLE I PROGRAM TO ALLOW IMPORTATION OF VEGETABLE OIL OR, AS AN ALTERNATIVE, RICE/WHEAT

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FLOUR WITH THE USE OF COUNTERPART FUNDS TO SUBSID DOMESTIC PRICES; (C) INCLUSION OF MAURITIUS IN THE FUND FOR ECONOMIC POLICY REFORM FOR AFRICA TO SUPPORT ITS RATIONAL AND CONSCIENTIOUS POLICIES FOR STRUCTURAL ADJUSTMENT, AND PROVISION OF ASSISTANCE UNDER THIS PROGRAM IN THE FORM OF DIRECT BALANCE OF PAYMENTS SUPPORT RATHER THAN PROJECT FINANCING; AND (D) ADDITIONAL DIRECT BALANCE OF PAYMENTS SUPPORT TOTALING $1 MILLION PER YEAR. END SUMMARY.

3. AS PART OF THE PACKAGE OF DOCUMENTS SENT TO EACH CURRENT OR POTENTIAL AID DONOR IN ANTICIPATION OF THE PARIS CONSULTATIVE MEETING, THE GOM HAS SENT AN AIDE-MEMOIRE OUTLINING WHAT IT IS REQUESTING FROM THAT DONOR. TH AIDE-MEMOIRE SENT TO US INCLUDES A SECTION ON MAURITIUS' STRUCTURAL ADJUSTMENT PROGRAM UNDERTAKEN IN COORDINATION WITH THE IMF AND WORLD BANK. THIS SECTION SUMMARIZES THE REPORT, "MAURITIUS: A PROGRAMME OF STRUCTURAL ADJUSTMENT," COPIES OF WHICH SHOULD HAVE BEEN RECEIVED ALREADY BY WASHINGTON AGENCIES AND HAVE BEEN POUCHED TO REDSO/ESA; THUS, WE ARE NOT REPEATING THIS SECTION IN THIS CABLE. THE SPECIFIC REFERENCES TO THE UNITED STATES ARE PRESENTED IN PARAGRAPHS 4 THROUGH 22 BELOW. THIS SECTION WAS DRAFTED BY THE GOM AFTER DISCUSSION WITH EMBOFFS.

4. QUOTE: MAURITIUS AND THE USA HAVE ALWAYS DESIRED A ENDEAVOURED TO REINFORCE THEIR FRIENDLY RELATIONS. THE USA IS AN IMPORTANT TRADE PARTNER OF MAURITIUS AND IT HAS BEEN OFFICIALLY ASSISTING MAURITIUS IN ITS ECONOMIC AND SOCIAL DEVELOPMENT PROGRAMME FOR OVER FIFTEEN YEARS. THE GOVERNMENT OF MAURITIUS APPRECIATES THE ASSISTANCE THAT THE GOVERNMENT OF THE USA HAS PROVIDED UNDER ITS VARIOUS AID SCHEMES. IN THE EARLY 1970'S IT PROVIDED FOOD AID UNDER PL 480 TITLE II AND THIS WAS USED AS PART PAYMENT TO DEVELOPMENT WORKERS. THIS WAS DISCONTINUED IN THE MID-1970'S AND REPLACED BY TITLE I ASSISTANCE. CREDIT FACILITIES UNDER THIS SCHEME, WHICH WERE $2.8 MILLION IN 1979 AND 1980, WERE INCREASED TO $3.5 MILLION FROM 1981. TITLE I CREDIT HAS BEEN USED FOR THE PURCHASE OF RICE AND FLOUR FROM THE USA. IN MAY 1982 THE US GOVERNMENT MADE A SPECIAL DONATION OF RICE WORTH RS. 17 MILLION NET OF HANDLING AND OTHER CHARGES.

5. FROM 1982, THE US GOVERNMENT HAS BEEN MAKING AVAILABLE A GRANT OF $2 MILLION UNDER THE COMMODITY IMPORT PROGRAMME (CIP). IN 1984, CIP GRANT HAS BEEN EXCEPTIONALLY INCREASED TO $4 MILLION. IT HAS BEEN GOVERNMENT'S OBJECTIVE TO USE FOOD AID AND ITS SALE PROCEEDS TO FINANCE PRIORITY PROJECTS IN THE PUBLIC SECTOR. THE COUNTERPART FUNDS HAVE THUS CONSTITUTED A VALUABLE SOURCE OF FINANCE TO SUPPORT INVESTMENTS IN PRODUCTIVE SECTORS, ESPECIALLY AGRICULTURE.

6. IN ADDITION TO THE ABOVE MAJOR AID SCHEMES, THE US GOVERNMENT PROVIDES ASSISTANCE TO MAURITIUS UNDER

SEVERAL OTHER SCHEMES FOR DIFFERENT PURPOSES. FOR 1984 AND 1985 ASSISTANCE PROVIDED UNDER THESE SCHEMES (WHICH INCLUDE FAMILY PLANNING, SELF-HELP, DISASTER ASSISTANCE, AFRICAN MANPOWER DEVELOPMENT PROGRAMME, AFRICAN MANPOWER DEVELOPMENT PROGRAMME/AFRICAN GRADUATES, HUMAN RIGHTS FUND AND INTERNATIONAL VISITOR'S PROGRAMME) IS VALUED AT $1.32 MILLION FOR EACH YEAR.

7. IT IS ALSO WORTH MENTIONING THAT US ASSISTANCE IS MUCH MORE CONSIDERABLE IF ITS INDIRECT ASSISTANCE THROUGH MULTILATERAL AGENCIES, NON-GOVERNMENTAL ORGANISATIONS AND TRADE PREFERENCES IS TAKEN INTO ACCOUNT. THE GOVERNMENT OF MAURITIUS IS AWARE OF THE LEADING ROLE PLAYED BY THE US IN UN AGENCIES AND ITS CONTRIBUTION TO THE RUNNING OF THESE AGENCIES. FOR ITS EXPORT OF SUGAR (27,940 TONS) AND MANUFACTURED GOODS TO THE USA UNDER PREFERENTIAL PRICE AND TARIFF SYSTEMS, MAURITIUS IS BETTER OFF BY AN ESTIMATED $8 MILLION THAN IT WOULD HAVE BEEN OTHERWISE.

8. HOWEVER, THE GOVERNMENT OF MAURITIUS WAS UNABLE TO ACCEPT THE US OFFER OF THE CREDIT OF $3.5 MILLION IN 1984 UNDER PL 480 TITLE I. THE MAIN REASON HAS BEEN THE HIGHER PRICE OF US RICE AS COMPARED TO PRICES OBTAINED FROM TRADITIONAL SUPPLIERS. THE RICE ACQUIRED UNDER TITLE I IS SOLD AS RATION RICE; THAT IS, AT A SUBSIDISED RATE. THE TABLE BELOW SHOWS THE AMOUNT OF SUBSIDY IN BOTH CASES:

TABLE

		US RICE	RICE FROM TRADITIONAL SOURCES (US $ PER METRIC TON) IN 1984
(I)	FOB	282	-
(II)	CIF	362	208
(III)	HANDLING AND OTHER CHARGES	35	35
(IV)	TOTAL COST (II III)	397	243
(V)	PROCEEDS FROM SALE	210	210
(VI)	SUBSIDY	187	73

GOVERNMENT'S POLICY IS TO REDUCE AND ULTIMATELY ELIMINATE FOOD SUBSIDIES IN THE CONTEXT OF ITS POLICY TO STREAMLINE THE BUDGETARY SITUATION. THE TERMS AND CONDITIONS OF THE TITLE I REQUIRED GOVERNMENT TO DEPOSIT IN THE SPECIAL ACCOUNT THE FULL VALUE OF THE RICE TO BE IMPORTED UNDER THE CREDIT MADE AVAILABLE. THE IMMEDIATE IMPACT ON THE BUDGET OF THIS CONDITION WOULD HAVE BEEN TWO-FOLD. FIRST, THE SALE OF THE US RICE AT THE CURRENTLY SUBSIDISED RATE WOULD HAVE ABSORBED A LARGER PROPORTION OF SUBSIDY PER TON THAN THE RICE

FROM TRADITIONAL SOURCES; THAT IS, $187 FOR THE US RICE COMPARED TO $33 FOR RICE FROM THE EAST. SECONDLY, A HIGHER AMOUNT THAN THE ACTUAL SALE PROCEEDS GENERATED HAD TO BE DEPOSITED IN THE SPECIAL ACCOUNT. THUS THE CONCESSIONARY ELEMENT OF THE CREDIT WOULD HAVE BEEN REDUCED CONSIDERABLY.

9. THE GOVERNMENT OF MAURITIUS EXPLORED WITH THE USAID THE POSSIBILITY OF SETTING UP A PRICE PARITY SCHEME WHEREBY PART OF THE LOCAL SALE PROCEEDS WOULD HAVE BEEN USED TO COMPENSATE FOR THE HIGHER COST OF THE US RICE OVER THAT OF THE NORMAL COST IF FREE MARKET FORCES WERE ALLOWED TO PLAY. IN EFFECT, THE OPERATION OF THIS SCHEME WOULD ALLOW THE GOVERNMENT OF MAURITIUS TO DEPOSIT IN THE SPECIAL ACCOUNT AN AMOUNT DETERMINED BY THE PRICE OBTAINABLE FROM TRADITIONAL SOURCES. THE TITLE I CREDIT HAS BEEN A VALUABLE SOURCE OF FUNDS FOR DEVELOPMENT PURPOSES AND THE GOVERNMENT OF MAURITIUS WOULD LIKE TO CONTINUE TO USE THIS CREDIT FOR THE IMPORT OF RICE AND FLOUR FROM THE USA. THE GOVERNMENT OF MAURITIUS IS THEREFORE REQUESTING THE US GOVERNMENT TO CONSIDER THE POSSIBILITY OF USING THE RUPEE PROCEEDS TO OFFSET THE HIGHER COST OF THE US RICE.

10. IN THE PAST THE GOVERNMENT OF MAURITIUS EXPLORED THE POSSIBILITY OF IMPORTING PRODUCTS OTHER THAN RICE AND FLOUR UNDER PL 480 TITLES I AND II AND THE CIP. CRUDE VEGETABLE OIL (SOYA BEAN) HAS BEEN FOUND TO BE A SUITABLE PRODUCT TO BE IMPORTED UNDER THESE SCHEMES FOR FURTHER REFINING AND BOTTLING FOR THE LOCAL MARKET. THE ANNUAL VEGETABLE OIL REQUIREMENTS OF THE COUNTRY IS 13,265 METRIC TONS (WORTH CIF RS. 144 MILLION OR $14 MILLION IN 1984). AS AN ALTERNATIVE TO THE PROPOSAL MADE ABOVE, THE GOVERNMENT OF MAURITIUS IS REQUESTING THE US GOVERNMENT TO CONSIDER THE POSSIBILITY OF PROVIDING VEGETABLE OIL UNDER PL 480 TITLE I CREDIT, IF IT WILL BE AVAILABLE AT A COMPETITIVE PRICE ON THE US MARKET. (EMBASSY NOTE: THE MAURITIAN PRIVATE COMPANY RESPONSIBLE FOR IMPORTING VEGETABLE OIL REPORTS THAT THE AVERAGE

ANNUAL REQUIREMENT OF VEGETABLE OIL FOR MAURITIUS IS 18,000 METRIC TONS WHICH AT THE CURRENT PRICE OF $700 PER METRIC TON EQUALS $12.6 MILLION.)

11. THE TITLE I CREDIT HAS BEEN A KEY SCHEME IN THE OVERALL DEVELOPMENT ASSISTANCE PROGRAMME OF THE US GOVERNMENT TOWARDS MAURITIUS FROM 1979. AS EXPLAINED ABOVE, HAD IT NOT BEEN FOR THE HIGH PRICE OF THE US RICE, THE GOVERNMENT OF MAURITIUS WOULD HAVE USED THE CREDIT OFFERED IN 1984. GOVERNMENT OF MAURITIUS WOULD LIKE TO CONTINUE TO BENEFIT FROM THIS CREDIT AND THEREFORE RENEWS ITS REQUEST TO THE US GOVERNMENT TO EARMARK THE ANNUAL CREDIT OF $3.5 MILLION FOR MAURITIUS. THE GOVERNMENT OF MAURITIUS HAS NOTED WITH APPRECIATION THE UNDERSTANDING SHOWN BY US AUTHORITIES IN MAKING THE CONDITIONS OF THE CREDIT FLEXIBLE AND IT IS CONFIDENT THAT THIS UNDERSTANDING WILL CONTINUE TO PREVAIL IN FUTURE REGARDING THE USE OF PL 480 TITLE I CREDIT.

12. THE UTILISATION OF THE LOAN OF $6.0 MILLION OFFERED BY THE USAID IN 1980 UNDER THE HOUSING INVESTMENT GUARANTEE SCHEME HAS BEEN DELAYED FOR FIVE YEARS NOW. AS THE LOAN WILL BE RAISED FROM PRIVATE INVESTORS ON THE US MARKET, ITS INTEREST RATE WILL BE ALIGNED TO THE RULING COMMERCIAL RATE. THIS RELATIVELY HIGH RATE OF INTEREST FOR SOCIAL PROJECTS AS IN THE HOUSING SECTOR AND THE DECLINING SHARE OF CONSTRUCTION IN THE GDP HAVE DELAYED THE USE OF THE LOAN. GOVERNMENT HAS NOW DECIDED TO ACCEPT THE OFFER OF USAID. THE MAURITIUS HOUSING CORPORATION IS PREPARING A PROGRAMME TO USE THE LOAN FUNDS FOR THE ACQUISITION AND DEVELOPMENT OF HOUSING SITES, CONSTRUCTION OF CORE HOUSING UNITS AND FOR ITS ON-LENDING OPERATIONS. THE DISBURSEMENT PERIOD WOULD COVER THE PERIOD 1985-87.

13. THE TRADE AGREEMENT REGARDING THE ENTRY OF MAURITIAN TEXTILE PRODUCTS INTO THE US MARKET SIGNED LAST MONTH PROVIDES A FRAMEWORK FOR THE ORDERLY DEVELOPMENT OF TRADE RELATIONS IN THIS AREA. THIS AGREEMENT WILL ENABLE THE EXPORT OF AN INCREASED VOLUME OF TEXTILE PRODUCTS TO THE USA. THIS INCREASED ACCESS TO THE US MARKET WILL HELP, TO A CERTAIN EXTENT, THE EXPANSION OF THE MAURITIUS EXPORT PROCESSING ZONE AND CONTRIBUTE IN THE ATTAINMENT OFTHEOBJECTIVES OF THE SAP. THE ASSISTANCE WHICH THE GOVERNMENT OF MAURITIUS HAS RECEIVED FROM THE USA IS EXAMINED IN DETAIL IN THE DOCUMENT "MAURITIUS: MOBILISATION OF EXTERNAL RESOURCES FOR DEVELOPMENT" WHICH IS BEING CIRCULATED AS PART OF THE PACKAGE OF DOCUMENTS ESPECIALLY PREPARED FOR THE CG III MEETING.

14. THE MAURITIAN GOVERNMENT HAS ADOPTED A PRAGMATIC APPROACH IN ITS DIPLOMATIC RELATIONS. IN THE CONTEXT OF THIS STRATEGY, MAURITIUS WOULD LIKE TO STRENGTHEN ITS RELATIONS WITH ALL FRIENDLY COUNTRIES. GOVERNMENT IS, THEREFORE, KEEN TO FOSTER BETTER RELATIONS AND UNDERSTANDING WITH THE USA. GOOD RELATIONS WOULD NO DOUBT LEAD TO A CLOSER AND MORE FRUITFUL COOPERATION BETWEEN

THE TWO COUNTRIES.

15. AS INDICATED ABOVE, GOVERNMENT HAS LAUNCHED A STRUCTURAL ADJUSTMENT PROGRAMME (SAP) WITH THE ASSISTANCE OF THE WORLD BANK, THE IMF AND FRIENDLY COUNTRIES TO OVERCOME THE ECONOMIC DIFFICULTIES FACING THE COUNTRY. THE FIRST YEARS OF THIS PROGRAMME HAVE STARTED TO BRING IN THE DESIRED RESULTS.

16. HOWEVER, GOVERNMENT DOES NOT WANT TO RELENT WITH THESE FIRST SIGNS OF AN UPTURN IN THE ECONOMIC PERFORMANCE OF THE COUNTRY. MAURITIUS IS VULNERABLE IN MANY WAYS: IT HAS AN OPEN ECONOMY AND CAN, THEREFORE, IMMEDIATELY SUCCUMB TO ANY ADVERSE EXTERNAL EVENTS AND THE ECONOMIC FORTUNES OF THE COUNTRY DEPEND TO A LARGE EXTENT ON THE CLIMATIC CONDITIONS. GOVERNMENT, THEREFORE, WISHES TO REDUCE THIS VULNERABILITY TO THE EXTENT POSSIBLE, AND BRING THE ECONOMY ON A PATH OF MORE DURABLE AND HIGH GROWTH RATE BY SUSTAINING THE EFFORTS MADE UNDER THE FIRST YEARS OF THE ADJUSTMENT PROGRAMME. THE EFFORTS REQUIRED TO IMPLEMENT THE ADJUSTMENT PROGRAMME WILL BE ARDUOUS. GOVERNMENT RELIES ON THE CONTINUED SUPPORT OF INTERNATIONAL FINANCIAL INSTITUTIONSANDFRIENDLY COUNTRIES TO ACCOMPLISH THIS LONG AND DIFFICULT TASK OF REDRESSING THE ECONOMY.

17. THE RELATIVELY HIGH PER CAPITA INCOME OF MAURITIUS PLACES THE COUNTRY AT SOME DISADVANTAGE VIS-A-VIS SEVERAL DONOR COUNTRIES AND ORGANISATIONS. HOWEVER, IT SHOULD BE UNDERLINED THAT MAURITIUS IS DIFFERENT IN MANY RESPECTS FROM OTHER COUNTRIES WITH COMPARABLE PER CAPITA INCOME LEVELS. IT IS SMALL, DENSELY POPULATED, DEPENDENT ON ONE MAIN CROP, FAR AWAY FROM ITS MAIN MARKETS AND HAS NO KNOWN MINERAL RESOURCE. BUT IT IS A FUNCTIONING DEMOCRACY IN SPITE OF A MULTI-RACIAL,

MULTI-CULTURAL AND MULTI-LINGUAL POPULATION. AN AWARENESS OF THESE PARTICULAR CHARACTERISTICS AND HANDICAPS OF THE COUNTRY IS ESSENTIAL TO A FULLER UNDERSTANDING OF THE GRAVITY OF CURRENT ECONOMIC PROBLEMS FACING THE COUNTRY AND THE COURAGEOUS EFFORTS BEING MADE BY THE GOVERNMENT TO OVERCOME THEM. MAURITIUS, THEREFORE DESERVES A TREATMENT WHICH IS MARKEDLY DIFFERENT FROM THAT NORMALLY ACCORDED BY AID DONORS TO COUNTRIES WITH COMPARABLE PER CAPITA INCOME.

18. THE GOVERNMENT OF MAURITIUS IS, THEREFORE, EXPLORING WITH THE GOVERNMENT OF THE USA THE POSSIBILITY OF OBTAINING GRANT AID AND LOAN ASSISTANCE ON SOFT TERMS TO SUPPORT THE STRUCTURAL ADJUSTMENT PROGRAMME. AT THIS STAGE, IT IS NOT BELIEVED THAT THE INCLUSION OF PROJECTS AND PROGRAMMES NOT PRESENTLY INCLUDED IN THE PUBLIC SECTOR INVESTMENT PROGRAMME (PSIP) WILL CONTRIBUTE IN ANY WAY TO ACHIEVING THE OBJECTIVES OF THE SAP. MANY PROJECTS AT AN ADVANCED STAGE OF IDENTIFICATION OR PREPARATION HAVE HAD TO BE POSTPONED PROTEM AND EFFORTS IN THE NEAR TERM WILL BE FOCUSED ON MOBILISING RESOURCES TO IMPLEMENT THE PROJECTS AND PROGRAMMES ACTUALLY INCLUDED.

19. THE PROJECTS RETAINED IN THE PSIP HAVE BEEN SUBJECTED TO RIGOROUS EVALUATION AND SELECTION CRITERIA, WHILE THE POLICIES AND MEASURES FORMING PART OF THE SAP HAVE BEEN WORKED OUT IN CONSULTATION WITH THE WORLD BANK AND THE IMF. TAKEN TOGETHER, THE POLICIES, MEASURES AND DEVELOPMENT PROJECTS AIM AT REDRESSING THE ECONOMY. THE SAP ALSO PROVIDES FOR REGULAR AND CLOSE MONITORING OF THE POLICIES AND DEVELOPMENT PROJECTS. AS EXPLAINED ELSEWHERE IN THIS NOTE, AND AS DETAILED IN THE PACKAGE OF DOCUMENTS BEING SUBMITTED BY THE GOVERNMENT OF MAURITIUS TO THE CG III PARTICIPANTS, THE SAP MUST BE VIEWED AS A COHERENT POLICY PACKAGE. SUCH A PROGRAMME OF REFORMS CAN ONLY BE IMPLEMENTED IF AID DONORS AND FINANCING AGENCIES ARE PREPARED TO COOPERATE WITH ONE ANOTHER IN ASSISTING THE GOVERNMENT OF MAURITIUS IN THE DIFFICULT TASK OF REDRESSING ITS ECONOMIC SITUATION. IT IS BELIEVED THAT MAJOR AID DONORS SHOULD MAKE PROGRAMME TYPE ASSISTANCE AND BALANCE OF PAYMENTS SUPPORT AVAILABLE TO MAURITIUS IN VIEW OF THE FACT THAT THE SAP HAS THE BLESSING OF SUCH IMPORTANT INSTITUTIONS AS THE WORLD BANK AND THE IMF AND THAT THE POLICY REFORMS ON WHICH THE SAP RESTS WILL BE CLOSELY MONITORED BY THESE INSTITUTIONS.

20. IT IS IN THIS CONTEXT THAT THE GOVERNMENT OF MAURITIUS IS MAKING A SPECIAL REQUEST TO THE US GOVERNMENT TO CONSIDER THE INCLUSION OF MAURITIUS IN THE LIST OF TARGET COUNTRIES FOR ASSISTANCE FROM THE FUND FOR ECONOMIC POLICY REFORM FOR AFRICA. THE NEED TO FOCUS AID EFFORTS ON LDC'S AND THE FAMINE-STRICKEN COUNTRIES OF THE SUB-SAHARAN AFRICA IS RECOGNISED. FORTUNATELY, MAURITIUS IS NOT IN THIS CATEGORY OF COUNTRIES. HOWEVER, MAURITIUS SUFFERS FROM MANY CON-

STRAINTS AND HANDICAPS WHICH RENDER ITS ECONOMY VERY FRAGILE INDEED. THE DANGER OF A BACKWARD SLIDE IS VERY REAL AND IS SPELT OUT IN THE DOCUMENT "MAURITIUS: A PROGRAMME OF STRUCTURAL ADJUSTMENT, DECEMBER 1984":

"THE GOVERNMENT OF MAURITIUS IS CONFIDENT THAT, WITH THE UNDERSTANDING AND CONTINUED SUPPORT IT GETS FROM THE INTERNATIONAL COMMUNITY, IT CAN MAKE RAPID PROGRESS IN THE DIRECTION OF STRUCTURAL ADJUSTMENT. WITHOUT THIS UNDERSTANDING AND SUPPORT, THE MAURITIAN ECONOMY MAY EASILY SLIDE BACK INTO A NEW PERIOD OF ECONOMIC STAGNATION, THEREBY NULLIFYING THE EFFORTS MADE OVER THE LAST FEW YEARS TO REDRESS AND REVITALISE THE ECONOMY."

IT IS THEREFORE BELIEVED THAT THE INCLUSION OF MAURITIUS ON THE TARGET LIST OF COUNTRIES FOR ERRI SUPPORT IS STRONGLY JUSTIFIED. ASSISTANCE UNDER THE FEPPA IN THE FORM OF GENERAL BALANCE OF PAYMENTS SUPPORT WOULD CONSTITUTE A COMPLEMENTARY FLOW OF RESOURCES TO MEET THE ADJUSTMENT NEEDS OF THE COUNTRY

21. TO IMPLEMENT THE MEASURES ENVISAGED UNDER THE ADJUSTMENT PROGRAMME, CONSIDERABLE RESOURCES WILL BE REQUIRED. THE GOVERNMENT OF MAURITIUS IS THEREFORE REQUESTING THE GOVERNMENT OF THE USA:

(I) TO EXTEND AN ASSISTANCE OF US $1 MILLION PER ANNUM (RS 16 MILLION) IN THE FORM OF BALANCE OF PAYMENTS SUPPORT;

(II) TO PROVIDE AN ADDITIONAL GRANT AID OF US $2 MILLION PER ANNUM (RS 32 MILLION) UNDER THE CIP OVER AND ABOVE THE EXISTING COMMITMENT OF $2 MILLION;

(III) TO SOFTEN THE TERMS OF THE PL 480 TITLE I SO AS TO ENABLE MAURITIUS TO USE THE CREDIT OF US $3.5 MILLION ANNUALLY AS FROM FY 1985; AND

(IV) TO EXTEND APPROPRIATE ASSISTANCE UNDER THE FUND FOR ECONOMIC POLICY REFORM FOR AFRICA.

22. THE GOVERNMENT OF MAURITIUS EXPECTS THAT THE GOVERNMENT OF THE USA WILL GIVE SYMPATHETIC CONSIDERATION TO THE PRESENT REQUEST. THE ASSISTANCE REQUESTED WILL CERTAINLY HELP TO SUSTAIN THE ADJUSTMENT EFFORTS OF THE GOVERNMENT. IT IS FURTHER EXPECTED THAT THE GOVERNMENT OF THE USA WILL SEND A STRONG DELEGATION TO SUPPORT THE CASE OF MAURITIUS AT THE CG III MEETING. UNQUOTE
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ANNEX B

MACROECONOMIC ANALYSIS

FY 1985 CIP PAAD
Mauritius

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May 20, 1985

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ABBREVIATIONS

ADB	African Development Bank
AR	Arpent (1.043 acre)
COL	Cost of Living
CPI	Consumer Price Index
CY	Calendar Year
DBM	Development Bank of Mauritius
DC	Development Certificate
DWC	Development Works Corporation
ECGS	Export Credit Guarantee Scheme
EIB	European Investment Bank
EPZ	Export Processing Zone
FY	Fiscal Year (July 1/June 30)
GDP	Gross Domestic Product
GDFCF	Gross Domestic Fixed Capital formation
GNP	Gross National Product
GOM	Government of Mauritius
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
MOR	Mauritius Oil Refineries Ltd
MT	Metric Ton
IFAD	International Fund for Agricultural Development
MEDIA	Mauritius Export Development and Investment Authority
MHC	Mauritius Housing Corporation
OECD	Organisation for Economic Cooperation and Development
PSIP	Public Sector Investment Program
RS	Mauritius Rupees
SAL	Structural Adjustment loan
SCB	State Commercial Bank
SDR	Standard Drawing Rights
SIDO	Small Industries Development Organisation
SSE	Small Scale Enterprise
TDA	Tea Development Authority
TDS	Total Debt Service
TOE	Tons of Oil Equivalent

MACROECONOMIC ANALYSIS

Background

Characteristics. Mauritius is a group of small islands in the Indian Ocean, about one tenth of the size of Kuwait, with a population of 1 million growing 1.4% annually (Table 1). Since 1960, the population has increased 55%. On the island of Mauritiu fertility has declined greatly during the last 30 years. The annu rate of growth was 3.12% in the intercensal period 1952-62, fallin to 1.9% in 1962-72, and to 1.4% in 1972-82. The last census was i 1983. Slightly over half of the households consider themselves Hindu.

. POPULATION GROWTH

Year	Population (000) Mauritius	Rodriques	Total	Annual percent increase	Index
1960	644.7	17.3	662.0	2.8	100.0
1965	735.2	19.4	754.6	2.7	114.0
1970	805.5	23.4	828.9	1.9	125.2
1975	856.5	26.3	882.8	1.3	133.4
1980	926.6	30.3	956.9	1.7	144.5
1981	939.5	31.8	971.3	1.5	146.7
1982	949.7	33.6	983.3	1.2	148.5
1983	965.0	33.0	998.0	1.5	150.8
1984	977.5	34.0	1,011.5	1.4	152.8
1985 2/	991.2	34.9	1,026.1	1.4	155.0

1/ Midyear.
2/ Assumes the same growth as in 1970-82. See IBRD, Toward Sustained Development in Sub-Saharan Africa, p. 82.

Source: GOM, Central Statistical Office. IBRD, Country Economic Memorandum, March 1985, p.54.

Population density is 450 persons per square kilometer, more than twice as high as Rwanda, the most densely populated country in Africa (Table 2).

2. POPULATION DENSITY IN SELECTED DEVELOPING COUNTRIES

Country	Area (000 Km 2)	Population (m) (Mid-1982)	Density per Km 2
Somalia	638	4.5	7
Sudan	2,506	20.2	8
Zaire	2,345	30.7	13
Tanzania	945	19.8	21
Ivory Coast	322	8.9	28
Kenya	583	18.1	31
Togo	57	2.8	49
Nigeria	924	90.6	98
Rwanda	26	5.5	212
Mauritius	2	0.9	450

Source: IBRD, World Development Report, July 1984, p. 218.

Although more Asian than African in many ways, Mauritius has the highest per capita income of non-oil-exporting developing countries in Africa (Table 3).

3. GNP PER CAPITA IN SELECTED COUNTRIES

Country	GNP per capita (1982$)
Malawi	210
Tanzania	280
Somalia	290
Kenya	390
Sudan	440
Zambia	640
Zimbabwe	640
Nigeria	860
Ivory Coast	950
Mauritius	1,240

Source: IBRD, World Development Report, 1984, p. 218.

Relatively high per capita income has been achieved with agriculture as the leading sector, an enviable record considering the average performance of agriculture in developing countries. During 1960-82, per capita GNP grew 2.1% annually, more than twice the rate of growth in low and middle-income developing economies. Inflation was low during the 1960's, rising to 15% annually during 1970-82. Life expectancy at birth in 1982 was 66 years, the highest among low and middle income countries except for China. From 1970 through 1982, the terms of trade declined 2.1% annually (Table 4), mostly since 1979, which prompted the GOM to initiate major policy adjustments. The decline was largely the result of petroleum price increases and the fall in sugar prices.

4. TERMS OF TRADE

(1980=100)

Year	Index
1970	106.0
1979	109.0
1981	96.0
1982	91.0
Average annual growth 1970-82(%)	-2.1

Source: IBRD, Toward Sustained Development in Sub-Saharan Africa, p.67.

Dependence on agriculture has declined steadily from one third of GDP in 1970 to 12.9% in 1984 (Table 5). During 1970-81, agriculture declined 3.4% annually while GDP increased 6.0% annually (Table 19). Other major sectors grew much more rapidly than GDP. In 1984, sugar production provided only 8.7% of GDP but this was 67% of agricultural output. Sugar processing provided another 2.5% of GDP.

5. SHARE OF GDP BY INDUSTRIAL ORIGIN. 1984

(Constant 1982 prices)

Industry	Rs million 1/	Percent
Agriculture	1,339	12.9
Sugar	899	8.7
Mining	18	0.2
Manufacturing	1,651	15.9
Sugar	258	2.5
EPZ	542	5.2
Electricity	236	2.3
Construction	650	6.3
Trade, hotels	1,410	13.6
Transport	1,186	11.5
Financing, bus. services	1,872	18.1
Gov't services	1,326	12.8
Other services	670	6.5
GDP at factor cost	10,358	100.0

1/ Estimated.

Source: GOM, 1984-1986 Development Plan, March 1985, p.32.

Since the major decline in the terms of trade in 1979-80 and the consequent deterioration in the balance of payments, the currency has depreciated significantly from 1$=Rs7.586 to 1$=Rs16.450, a 33.7% depreciation since 1982 and a 63.9% depreciation since 1978 (Table 6). Rapid adjustment of foreign exchange policy has been effective in minimizing the impact of deteriorating terms of trade on the balance of

payments. This adjustment is reflected in maintenance of the real effective exchange rate index since 1981 through a flexible exchange rate policy (Chart 1).

6. FOREIGN EXCHANGE RATE

Year[1/]	1$=Rs	1Re=$	Depreciation index (1982=100)	Depreciation index (1978=100)
1970	5.570	.179	194.5	105.9
1971	5.224	.191	207.6	113.0
1972	5.678	.176	191.3	104.1
1973	5.739	.174	189.1	102.9
1974	5.677	.176	191.3	104.1
1975	6.589	.152	165.2	89.9
1976	6.639	.151	164.1	89.3
1977	6.350	.157	170.6	92.9
1978	5.921	.169	183.7	100.0
1979	7.586	.132	143.5	78.1
1980	7.835	.128	139.1	75.7
1981	10.329	.097	105.4	57.4
1982	10.861	.092	100.0	54.4
1983	12.723	.079	85.9	46.7
1984	15.603	.064	69.6	37.9
1985 (2)	16.450	.061	66.3	36.1

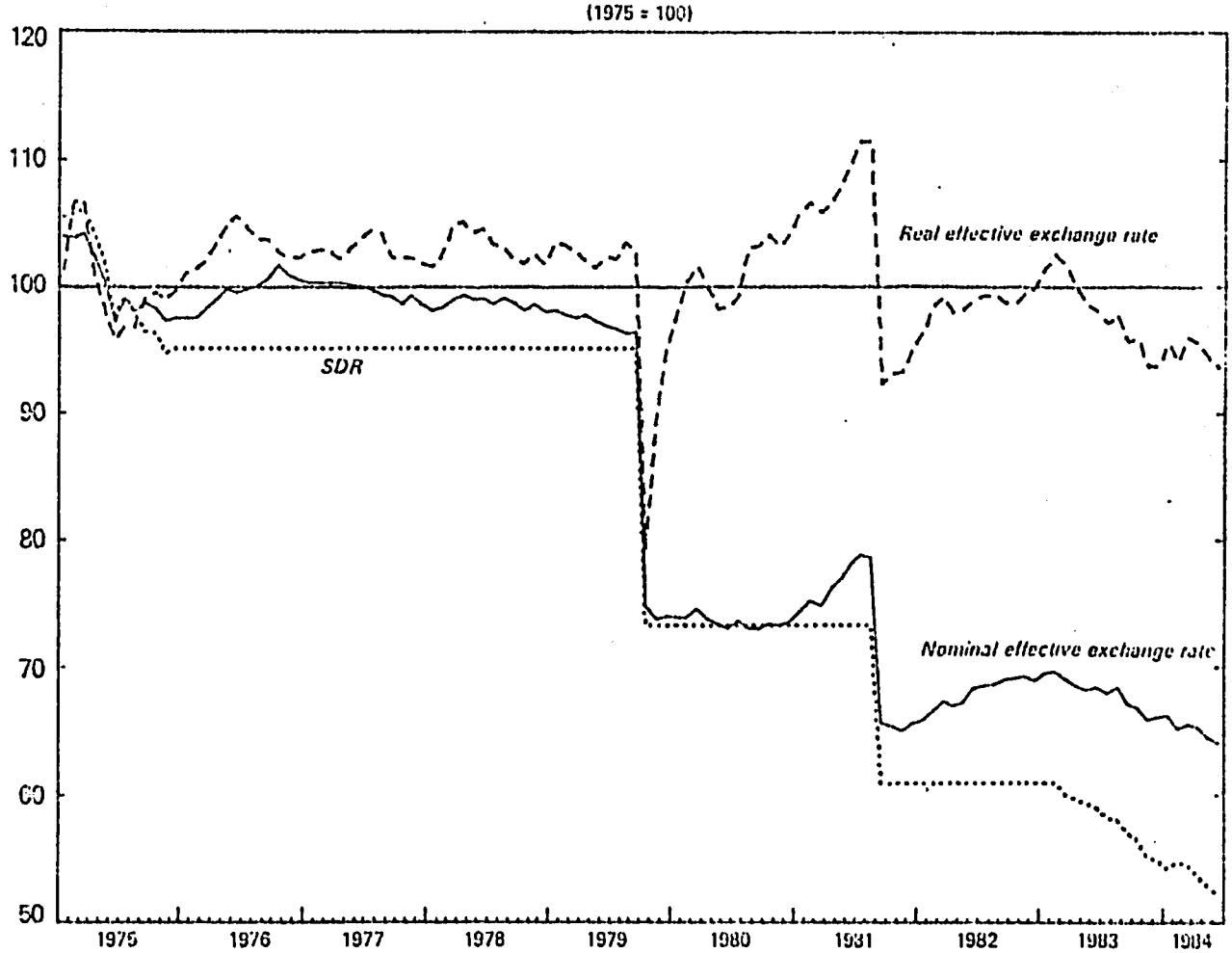
1/ End of period.

Source: IMF, International Financial Statistics, April 1985, p.18.

Although area cultivated and the volume of food crop production has increased significantly since 1980, the long term growth of food and agricultural production since 1960 has not been sufficient to maintain output per capita. Growth rates were considerably lower in the 1970's than in

INDICES OF NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, AND SDR, 1975-84

(1975 = 100)



Source: IMF, Recent Economic Developments, August 1984, p. 68a.

the 1960's. The population also grew at a much slower rate in the 1970's. Both food and agricultural production per capita declined about 0.6% annually in both decades (Table 7). The reduced profitability of sugar since 1980 stimulated substitution of food crops.

7. ANNUAL GROWTH RATE OF FOOD AND AGRICULTURAL PRODUCTION

(Percent)

Item	Production	Production Per Capita
Food		
1960-70	1.5	-0.7
1970-82	0.8	-0.6
Agriculture		
1960-70	1.5	-0.7
1970-82	0.9	-0.5

Source: IBRD, Toward Sustained Development in Sub-Saharan Africa, August, 1984, p. 77.

Policy Reforms. In 1979, GOM initiated stabilization and structural adjustment programs with IMF and IBRD. Since 1979, five consecutive stand-by arrangements have been implemented. These programs have included policies to adjust the exchange rate, reduce consumer subsidies, restrain wages, restrict credit and money, reduce the overall fiscal deficit, and maintain a liberal system of trade and payments. In spite of a world-wide recession, adverse weather conditions and continued deterioration of the terms of trade, progress under the stand-by arrangements has been good. In 1979 and 1981, the rupee was devalued 30% and 20%, respectively. In February 1983, GOM changed the peg of the rupee from the SDR to a trade-weighted basket of currencies. Since then, GOM has followed a flexible exchange rate policy which, with wage

restraint, has been effective in increasing export competitiveness. Between February 1983 and June 1984, the nominal and real trade-weighted exchange rates depreciated against the basket of currencies 7.6 and 9.0%, respectively.

A fifth stand-by arrangement for eighteen months for SDR 49.1 million was approved by IMF on March 1, this year. The new program primarily continues the policies of the previous stand-by arrangements with further fiscal adjustment, restraint of expansion, a flexible exchange rate policy, and a cautious wage policy.

With reversal in the terms of trade during 1976-79 sustained growth of output and employment and a viable balance of payments in the medium term, exports had to be promoted and diversified, and import-substitutes for food and energy encouraged. Given the small domestic market, export growth was vital.

A first structural adjustment loan for $15.0 million in 1981 focussed on supply side measures. Energy planning capacity was strengthened, the medium term public investment program was reduced and rationalized and policy reforms in agriculture and industry were initiated. A financing package was arranged when foreign exchange reserves were completely exhausted.

The second structural adjustment program for $40.0 million in late 1983, has four objectives; (1) restructuring of the sugar industry and agricultural diversification (2) further promotion of export-oriented industrialization, (3) tourism development and (4) improvement in public resource management.

A restructuring program for the sugar industry was announced by GOM last July. The program aims at (1) monitoring the long term financial viability of large estates, (2) rationalizing milling operations, and rehabilitating equipment, (3) raising the productivity of small planters, (4) improving the utilization of by-products, and (5) diversifying agricultural activities. Energy policies were not included in the second structural adjustment program.

Key Sectors

Sugar. Sugar cane farms are divided into 21 factory areas for milling purposes, and marketing is centralized. Exports are primarily to the EEC under the Sugar Protocol of the Lome Agreements. Labor relations are extensively regulated, and

several parastatal and private organizations perform a variety of services in the sector. The current structure has evolved over nearly three and a half centuries since sugar cane was introduced. In the mid-19th century 259 mills were operating, producing 130,000 tons on 110,000 arpents (114.730 acres) but the number of mills had declined to 21 by 1970.

At the core of the sector are 21 mills and associated large plantations, the so-called estates with factories or, miller-planters. Only 3 of the estates with factories are foreign-owned. One firm is government owned, having been purchased in 1973 rather than closing and merging with neighbouring estates. The estates with factories cultivate 55% of the cane land but harvest 60% of the cane. Although cane yields vary because of climatic and soil conditions from 31 to 46 tons per arpent, estate yields average 30-40% higher than other planters (Table 8.) Yields have declined since the late 1970s.

8. SUGAR CANE AREA CULTIVATED, OUTPUT, AND YIELD, 1976-83

Crop year	Cultivated (000 ar)	Harvested (000 ar)	Harvested (000 MT)	Yield (MT/Ar) Millers	Planters	Total
1976	206	192	6,402	37.6	28.2	33.4
1977	206	191	6,022	35.7	26.5	31.5
1979	207	190	6,260	36.8	27.9	32.9
1980	202	187	4,564	27.0	20.8	24.3
1981	200	186	5,302	32.7	23.1	28.6
1982	201	190	6,582	38.5	30.4	34.8
1983	200	186	5,254	32.1	23.8	28.2

Source: GOM, National Accounts of Mauritius, November 1984, p.84.

Independent planters, or outgrowers, are mainly smallholders. Half have holdings of less than one arpent, 43% have 1 to 5 arpents, and less than 1% have 20 arpents or more. Although most own the land, 1,300 are tenants. Sugarcane can be harvested for several years from the same plant, called ratoon crops, but

9. SUGAR OUTPUT BY PRODUCER SIZE, 1978/79-1983/84

(MT 000)

Producer	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
Planters (outgrowers)						
Up to 20 tons	106.8	108.2	80.7	94.0	111.3	)
20-75 tons	22.7	23.4	12.4	14.6	18.6	112.8
75-1,000 tons	17.6	17.7	12.1	13.5	20.2	14.1
75-1,000 tons	11.0	10.8	11.5	13.3	9.7	9.1
1,000-3,000 tons	13.8	15.9	11.6	14.5	21.9	15.4
Estates with factories						
Planter companies	128.4	133.2	89.6	95.1	122.6	118.2
Miller-planter companies	195.9	205.0	138.0	181.4	208.8	181.0
Millers	170.9	176.3	121.2	147.4	176.1	152.9
Total	667.1	690.5	472.1	575.8	680.1	606.0

Sources: IMF, Recent Economic Developments, August 1984, p. 72.

yields gradually decline. Uprooting and replanting is a major investment, optimally every eight years. Factors contributing to low yields are small outlays on irrigation, equipment, fertilizers, and ripeners, extended reliance on ratoon crops and less use of improved varieties, the part-time nature of cane growing for many planters, poor quality land, and a combination of the status value of land ownership and legal and tax impediments to sale and long-term lease, which inhibit concentration and economies of scale.

Under the factory area system, cane must be delivered to a designated mill. Growers are not paid cash for their cane but receive title to 74% of the resulting sugar, while the millers retain the 26% as compensation for milling. Thus, with the sugar derived from the outgrowers' cane, as well as all the sugar from their own cane, about 60% of the total cane grown, the estates with factories account for approximately 70% of sugar produced (Table 9). Sugar produced from mills is delivered to the Mauritius Sugar Syndicate which is responsible for export marketing and

10. SUGAR PRODUCTION AND USE, 1974-1983

(000 MT)

Calendar year	Stock at beginning of year	Product	Total available	Local cons.	Exports	Ave. price ex-syndicate (Rs/MT)
1974	170.8	696.8	867.6	33.7	685.3	1,877.59
1975	149.2	468.3	617.5	37.0	447.4	2,256.11
1976	133.6	689.9	823.6	36.4	551.1	1,617.03
1977	237.1	665.4	902.5	37.5	636.4	1,678.36
1978	228.6	665.2	887.0	37.9	578.6	1,742.01
1979	278.7	688.4	953.3	38.5	604.3	2,144.28
1980	324.0	475.5	799.5	36.7	617.3	2,319.48
1981	141.2	574.5	715.7	37.6	432.2	2,710.37
1982	244.8	687.9	907.3	35.4	596.8	2,868.54
1983	300.5	604.7	879.7	36.5	608.0	3,007.24

Source: GOM, National Accounts of Mauritius, November 1984, p.83.

shipping, sales to local distributors, deducting export taxes and various other fees, levies and charges, and paying producers the net proceeds. Annual export volume is erratic because of weather conditions. During 1974 through 1983, the lowest volume exported was 432,200 MT in 1981, 36.9% below the peak of 685,300 MT in 1974 (Table 10).

The sugar export duty, established in 1961, which was a uniform rate of 5% to encourage agricultural diversification, became progressive relative to production by the early 1970s. After devaluation in October 1979, a 75% surcharge was applied, in part to absorb windfall gains, which raised the average effective export duty rate from 10% to approximately 17.5%. The surtax was reduced to 50% in mid-1982 but restored to 75% a year later. At the same time, exporters of less than 75 tons were exempted from the duty, whereas previously only those exporting less than 20 tons had been exempt. The rates, by volume of export, prior to the 1985 revision were: 12.25% for 75-1,000 tons, 15.75% for 1,000-3,000 tons, and 23.625% for over 3,000 tons, a class that includes all mills and virtually all associated estates. All, rather than marginal output, was taxed at a single rate.

Agriculture. Agriculture other than sugar consists mainly of tea, tobacco, and food crops other than staple cereals, and accounts for 4% of GDP. GOM policy is to improve the efficiency of tea production and encourage increased food crops production, while maintaining sugar

output. Tea is the second most important crop, which is grown on 9,400 arpents, less than 5% of the land under sugarcane and somewhat less than the acreage allotted to foodcrops. Tea plantations are concentrated in the wet south-central highlands, where conditions are ideal for tea and less favorable for sugar. The industry employs some 5,000 persons directly, in plantations and factories. Some 70% of output is under public sector control, primarily the parastatal Tea Development Authority (TDA). The TDA owns two factories, is the sole source of supply for a third, and recently assumed operation of a fourth factory that had been run by a cooperative. The TDA produces exclusively for export, while four private estates and factories supply the domestic market.

Manufacturing. Manufacturing other than sugar milling provides 16.0% of GDP compared with less than 10% in 1976, nearly 20% of employment by firms with 10 or more employees, and over 30% of merchandise exports, although imports of intermediate goods reduce the net foreign exchange earnings (Table 5). Textiles and wearing apparel account for over a third of manufacturing value added and food and beverages for another fifth. Value added in the manufacturing sector increased 16.9% annually from 1976 through 1983 (Table 11).

Manufacturing activity consists of two subsectors, one producing primarily for export and the other supplying domestic demand for import substitutes. The export sector consists of about 146 firms with Export Enterprise Certificates and known as Export Processing Zone (EPZ) industries. EPZ does not refer to a specific location but to customs-bonded services for firms that are widely dispersed. Textiles and clothing firms provide up to three fourths of EPZ output, principally knitwear. Although only about 35% of nonsugar

11. VALUE ADDED IN MANUFACTURING BY INDUSTRY, 1976-1983 1/

Industry	1976	1978	1980	1981	1982	1983
Sugar milling	228.0	218.0	178.0	251.1	312.7	300.0
Tea processing	10.5	15.9	9.0	10.9	11.9	21.5
EPZ	108.3	156.0	321.4	421.3	448.8	510.0
DC and other	284.3	410.8	618.6	694.1	786.5	863.5
Total	631.1	800.7	1,127.0	1,377.4	1,559.9	1,695.0

1/ Current factor cost.

Source: GOM, National Accounts of Mauritius, November 1984, p. 75.

manufacturing value added is produced by EPZ firms, they provide two thirds of manufacturing employment. Some 80% of the EPZ work force is female, reflecting lower wages for women and greater suitability for work in the textile industry. Ownership is more than half Mauritian through past investments from the sugar and trade sectors.

Tourism. Expanding rapidly, tourism became a major source of foreign exchange earnings during the 1970s, ranking third after sugar and EPZ exports. According to a 1981 IBRD study, European countries provided half of tourism earnings. Nevertheless, Reunion and South Africa are the largest sources (Table 12). The study concluded that, after multiplier effects are considered, tourism's contribution to GDP is slightly more than gross earnings. The study estimated that net foreign exchange earnings from tourism were 25% of gross receipts, compared to 40% in manufacturing and 80% in sugar production.

12. TOURISM ARRIVALS BY COUNTRY OF RESIDENCE 1983-84

Country	1983		1984	
	No.	%	No.	%
Reunion Island	30,180	24.0	32,270	23.1
South Africa, Rep. of	27,210	22.0	31,970	22.8
France	22,030	17.8	25,275	18.1
Malagasy Republic	8,110	6.5	7,790	5.6
Germany, Fed. Rep.	6,960	5.6	7,740	5.5
Italy	5,520	4.5	6,609	4.7
United Kingdom	5,860	4.7	5,600	4.0
Switzerland	2,570	2.1	5,100	3.6
India	1,710	1.4	2,500	1.8
Zimbabwe	1,730	1.4	1,800	1.3
Australia	1,680	1.3	1,500	1.1
U. S. A.	1,020	0.8	1,100	0.8
Kenya	690	0.6	700	0.5
Zambia	720	0.6	700	0.5
Seychelles	560	0.4	350	0.3
Other countries	7,250	5.9	8,900	6.3
Total	123,820	100.0	139,900	100.0

Source: GOM, Economic Indicators, April 1985.

Macroeconomic Indicators

Balance of payments. During the 10 years prior to 1976, Mauritius had small current account deficits in only two years. Since 1975, deficits have occurred in nine consecutive years totalling nearly $750 million. IMF expects the deficits to continue through 1990 but the size of the deficits has been brought down to about $25 million annually, which is considered a manageable level (Tables 13 and 32).

13. CURRENT ACCOUNT DEFICITS

Year	Current account ($ million)
1976	-35.9
1977	-78.5
1978	-117.8
1979	-146.2
1980	-117.8
1981	-151.4
1982	-42.0
1983	-28.1
1984	-28.0
Total	-745.7

1/ Estimated.

Source: IMF, International Financial Statistics, February 1985, p. 421.

14. BALANCE OF PAYMENTS, 1979/80-1982/83

(SDR million

Item	1979/80	1980/81	1981/82	1982/8
Current account	-97	-143	-54	-53
Trade balance	-67	-137	-35	-43
Exports, f.o.b.	313	288	335	318
Sugar	202	165	201	196
EPZ	83	92	109	99
Imports, f.o.b	-380	-424	-370	-361
Services (net)	-42	-26	-39	-35
Travel receipts	32	39	38	39
Transfers (net)	13	19	20	25
Public capital	28	60	74	-5
Eurocurrency (net)	9	29	29	-32
Other public (net)	19	31	45	26
Commercial banks	-1	1	-5	-6
Other private capital and errors and ommissions	21	20	-24	36
SDR allocation	3	3	--	--
Overall balance	-46	-59	-9	-28
financed by:				
Bank of Mauritius	46	59	9	28
Liabilities	40	56	20	22
Net use of Fund Credit	40	56	20	22
Assets (increased -)	6	2	-11	6
SDRs	-1	1	2	--
Reserve position in the Fund	--	--	--	--
Other	7	1	-14	6
Memorandum items:				
Gross reserves, end of period	31	29	41	34
End-year gross reserves in months of imports, c.i.f.	0.9	0.7	1.1	1.0
Current account/GDP (%)	-10.7	-15.5	-5.8	-5.2
Average exchange rate (Rs/SDR)	9.286	10.000	11.518	12.087

Source: IMF, Recent Economic Developments, August 1984, p.58.

With the decline of sugar prices, stagnation of sugar production, and rapid growth of EPZ exports the share of sugar exports dropped from 86% in 1974 to 62% in 1983 while the share of EPZ exports rose from 8% to 30% (Table 15). Net exports are about 37.0% of total EPZ exports (Table 16).

15. PERCENT SHARE OF EXPORTS (FOB) BY TYPE, 1974-1983

Type	1974	1976	1978	1980	1981	1982	1983
Sugar	86	75	66	65	54	62	62
Molasses	3	2	2	3	4	2	1
Tea	1	2	3	1	2	2	2
EPZ	8	17	24	27	36	31	30
Other	2	4	5	4	4	3	5
Total	100	100	100	100	100	100	100

Source: GOM, National Accounts of Mauritius, November 1984, p.118.

16. EPZ EXPORTS AND IMPORTS, 1979-83

(Rs million)

Imports/Exports	1979	1980	1981	1982	1983
Imports					
Raw Materials	345.2	577.6	621.9	694.3	768.4
Machinery & Equipment	50.0	80.7	59.9	48.2	78.1
Total	395.2	658.2	681.8	742.5	846.5
Exports					
Clothing	365.3	563.4	799.6	877.0	921.2
Electronic compon.	67.9	84.9	14.0	--	0.5
Processed diamonds, synthetic stones	36.6	45.1	28.2	52.0	48.7
Other	150.3	201.1	244.9	306.3	336.4
Total	620.1	894.5	1,087.1	1,235.5	1,306.8
Value added 1/	.44	.35	.43	.44	.41
Net exports	224.9	236.3	405.2	493.2	460.3
Net exp./ total exp. (%)	36.3	26.4	37.3	39.9	35.2

1/ The proportion of total exports not accounted for by raw materials.

Source: IMF, Recent Economic Developments, August 1984, p. 122.

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Imports have been managed carefully since 1979 and have not increased in current SDR value except for 1980/81 (Table 14 and 32). However, in current domestic prices the value of imports rose 10.5% annually (Table 17). Petroleum was 16.0% of imports in 1984/85.

17. MERCHANDISE IMPORTS, 1979-83

(Rs million)

Imports (CIF)	1979	1980	1981	1982	1983	[illegible]
Food and live animals	756	1,084	1,197	1,234	1,110	21.5
Beverages and tobacco	27	26	25	21	23	0.4
Crude materials	129	211	239	261	227	4.4
Mineral fuel, lubricants and related materials	526	676	899	937	972	18.9
Animal and vegetable oils and fats	96	130	149	157	155	3.0
Chemicals	269	317	354	403	402	7.8
Manufacturing goods	1,000	1,228	1,091	1,214	1,299	25.2
Machinery & Transport	546	739	737	499	625	12.1
Miscellaneous	274	296	276	317	337	6.5
Miscellaneous transaction and commodities, n.i.e.	10	14	10	5	6	0.1
Total	3,634	4,721	4,977	5,048	5,156	100.0

Source: IMF, Recent Economic Developments, August 1984, p.122.

The uses of imports have changed significantly from 1979 through 1983. The share consumed by households declined from 29% to 26% whereas intermediate consumption rose from 59% to 66%. Most significant was a substantial decline in the share of imports devoted to gross domestic capital formation (Table 18).

18. USES OF IMPORTS 1/

Uses	1980 2/ Rs Mn	%	1981 2/ Rs Mn	%	1982 Rs Mn	%	1983 Rs Mn	%
Intermediate Cons.	2,507.1	59	2,617.9	61	2,883.3	65	3,003.5	66
Final cons. of households	1,223.7	29	1,271.1	29	1,311.8	29	1,198.9	26
Gross dom fixed cap. formation	488.7	12	430.3	10	281.1	6	384.2	8
Total	4,219.5	100	4,319.3	100	4,476.2	100	4,586.6	100

1/ Imports into consumption are defined as: Total imports + imports ex-warehouse - imports into warehouse, less Government imports, total re-exports and jet fuel for foreign aircraft.

2/ Revised.

Source: GOM, National Accounts of Mauritius, November 1984, p.121.

National Accounts. GDP data in constant 1976 prices indicate significant trends since 1960. Annual growth of GDP only 1.6% in the 1960's but increased to 6.0% annually from 1970 through 1981. In spite of the relatively high overall rate of growth, agricultural output declined 3.4% annually, offsetting much of the high growth rates in smaller sectors including construction, mining, electricity, transport, and trade (Table 19)). The contrast between the two decades is illustrated by the shift in growth of gross domestic investment from a negative 6.7% to a positive 7.8% annually.

Preliminary information released by GOM in April indicates that GDP grew 4.2% during 1984, much more than the 3.1% expected in September last year.[1/] The main sectors which have grown more rapidly than expected are other agriculture, EPZ, and tourism. Other agriculture, which includes foodcrops, livestock and fishing, rose 13% in volume over 1983 compared with a predicted rise of 5%. Tea production, increasing 13% in volume and 80% in price, contributed most of higher growth of GDP. Data on imports, exports and employment indicate that EPZ value added grew about 21% rather than the expected 16%. Tourism grew 14% rather than 10%.

1/ GOM, Economic Indicators, April 1985.

19. NATIONAL ACCOUNTS

(Rs million)

GDP/GNP	1970	1976	1978	1979	1980	1981	Annual growth(%) 60/70	70/81
GDP by industrial origin at constant 1976 prices								
Agriculture	964.3	938.0	939.0	977.0	643.0	784.0	--	-3.4
Mining	1.4	7.0	7.0	7.0	7.0	--	--	17.6
Manufacturing	385.7	631.0	717.0	754.0	688.0	771.0	--	6.6
Construction	88.9	333.0	400.0	370.0	307.0	292.0	--	14.6
Electricity, gas, and water	31.6	70.0	89.0	97.0	97.0	100.0	--	12.3
Transport, communications	179.0	356.0	431.0	437.0	400.0	436.0	--	10.4
Trade, finance	319.9	709.0	794.0	842.0	808.0	862.0	--	10.8
Public administration, defense	258.8	497.0	547.0	563.0	574.0	591.0	--	9.3
Other branches	280.6	624.0	709.0	755.0	768.0	805.0	--	11.3
GDP at factor cost	2,510.7	4,165.0	4,633.0	4,802.0	4,292.0	4,648.0	--	6.2
Net indirect taxes	508.1	539.0	735.0	872.0	780.0	770.0	--	5.0
GDP at market prices	3,018.8	4,704.0	5,368.0	5,674.0	5,072.0	5,418.0	1.6	6.0
Resources and expenditures at constant 1976 market prices								
GNP	3,030.4	4,657.0	5,368.0	5,641.0	5,035.0	5,281.0	1.7	5.8
Factor payments abroad (net)	11.6	-47.0	0.0	-33.0	-37.0	-137.0	--	--
GDP	3,018.8	4,704.0	5,368.0	5,674.0	5,072.0	5,418.0	1.6	6.0
Imports of goods, NFS	1,510.3	2,712.8	3,010.0	3,010.0	2,733.0	2,443.0	0.6	6.0
Export of goods, NFS	2,141.1	2,388.0	2,700.0	2,789.0	2,836.0	2,630.0	4.0	2.7
Total resources	2,388.0	5,028.0	5,678.0	5,895.0	4,969.0	5,231.0	-0.4	8.3
Private consumption	1,673.2	2,956.0	3,434.0	3,582.0	3,360.0	3,401.0	2.4	8.5
General government consumption	280.3	575.0	635.0	627.0	631.0	633.0	2.1	8.9
Gross domestic investment	434.5	1,497.0	1,609.0	1,686.0	978.0	1,197.0	-6.7	7.8

Source: IBRD, World Tables, January 1984, pp.120-121.

Final consumption expenditure increased 9.8% over 1983 in nominal prices and 3.1% in real terms, compared with 1.8% real growth in 1983. Consumption was 82.0% of GDP at market prices. The ratio has declined steadily from 90.0% in 1980. However, real GDFCF growth in 1984 was substantially lower than expected, growing 6.6% rather than 8.4% expected last year. By contrast, real public sector investment grew 10% while private sector investment rose only 4%. The ratio of gross domestic savings to GDP at market prices rose to 18% from 17.0% in 1983 and 15% in 1981 and 1982. The decline in growth of GDFCF and low growth of private investment in 1984 is a source of concern for growth in later years.

Prices. Since 1980, when the consumer price index rose 42%, inflation diminished steadily to 5.6% in 1983, rising to 7.3% in 1984 (Table 20). The increase in 1984 was attributable to the higher cost of imported items because of currency depreciation and higher utility and petroleum prices. Among the commodity groups comprising the index, the prices of medical care, food and non-alcoholic beverages, and fuel and lighting increased the most (Table 21).

20. CONSUMER PRICE INDEX

(Jan-June 1982=100)

Year	Index 1/	Annual change (%)
1975	36.2	14.7
1976	41.	13.4
1977	44.9	9.2
1978	48.7	8.5
1979	55.7	14.4
1980	79.1	42.0
1981	90.6	14.5
1982	100.9	11.4
1983	106.6	5.6
1984	114.4	7.3

1/ Annual average for calendar year.

Source: Central Statistics Office, Economic Indicators, No.14, January 1985.

21. CONSUMER PRICE INDEX BY COMMODITY GROUP

(Jan-June 1982=100)

Commodity Group	1983	1984	Percent Change
Food, non-alcoholic beverages	108.5	118.3	9.0
Alcoholic beverages, tobacco	106.5	109.1	2.4
Fuel and light	96.4	106.1	10.1
Housing	109.8	116.7	6.3
Clothing, Footwear	108.0	113.0	4.6
Transport, communication	100.9	105.5	4.6
Medical care	105.6	116.9	10.7
Education	103.1	108.1	4.8
Miscellaneous	107.1	116.2	8.5
All groups	106.6	114.4	7.3

Source: Central Statistical Office, Economic Indicators, No. 14, January 1985.

Employment. The latest survey of employment and earnings shows that between September 1983 and September 1984, total employment rose 6,615 (3.3%) to 200,442 (Table 22). Manufacturing sector employment increased 10,208, almost exclusively in wearing apparel industries. The increase was mainly the result of new enterprises in the Export Processing Zone (EPZ) where total employment rose more than 10,000. Monthly earnings, on average, increased 4%. Employment in agriculture continued to decrease, because of mechanisation in the sugar estates and declining sugar production during the last two years. Total male employment decreased 1,259 while female employment rose 7,876 mainly from new employment in the EPZ. Female workers are 80% of EPZ employment.

22. EMPLOYMENT BY MAJOR INDUSTRIAL GROUP

Industry	1975	1980	1981	1982	1983	1984
Agriculture and Fishing	64,469	58,042	56,955	56,711	55,826	53,420
Sugar	57,773	51,146	50,066	49,864	49,132	45,575
Tea	4,693	4,743	4,611	4,728	4,281	3,391
Tobacco	1,284	1,202	1,253	934	1,069	1,042
Other	719	951	1,025	1,185	1,344	1,412
Mining and Quarrying	163	145	147	152	165	166
Manufacturing	22,517	33,360	37,178	36,884	38,310	48,518
Wearing apparel, footwear	5,574	16,991	19,358	18,998	19.677	28,791
Electricity and Water	2,989	4,487	4,363	4,403	4,133	3,899
Construction	6,034	7,391	6,300	5,619	4,448	4,141
Wholesale, retail trade, restaurant, hotels	6,455	9,221	8,999	8,996	8,923	8,913
Transport, storage, communication	9,412	8,1344	8,207	7,929	7,980	8,454
Financing, insurance, real estate, business services	2,812	4,459	4,634	4,737	4,625	4,874
Community, social, personal services	51,083	62,845	63,176	63,408	63,193	63,169
Government						
Central	40,893	49,129	49,358	49,471	49,639	49,973
Local	3,579	5,417	5,547	5,577	5,276	5,175
Other	6,611	8,299	8,271	8,360	8,278	8,021
Miscellaneous	6,880	6,477	6,355	6,239	6,224	4,838
Total	172,814	197,561	196,314	195,078	193,827	200,442

Source: Central Statistical Office, Economic Indicators, No. 15, February 1985

External debt and debt service. After 1974, public external debt outstanding, including undisbursed, quadrupled from $120.3 million to $542.9 million at the end of 1983, of which $332.5 million (61.2%) was disbursed (Table 23). Multilateral sources provided $283.7 million (52.2%) and bilateral sources $155.0 million (28.5%). The remaining 19.3% was suppliers credits and commercial bank loans (Table 24). The World Bank group provided 34.9% of total outstanding credit. France is the largest bilateral creditor (9.6%), followed by the United Kingdom (4.7%), and Kuwait (3.5%). Outstanding disbursed public debt was 29.0% of GNP.

As borrowing from commercial banks increased after 1977, average terms hardened. In 1983, average maturity was 17 years with 4 years grace and an interest rate of 10%. GOM plans to limit new concessional borrowing through mid-1986 with maturity of less than one year to $30 million and to incur no new loans with 12 years maturity or less. Debt service payments rose from $3.0 million in 1974 to $83.7 million in 1983, about 16% of export earnings and 7.3% of GNP.

23. EXTERNAL PUBLIC DEBT, TERMS, RATIOS, AND PROJECTED DEBT SERVICE

($ Million)

Item	1974	1978	1980	1981	1982	1983
Debt Outs, inc. undisb.	126.3	311.1	484.5	479.3	553.2	542.9
Official creditors	119.1	255.9	340.5	349.3	404.8	438.7
Multilateral	43.2	139.4	176.7	201.9	225.8	283.7
IBRD	22.8	69.2	72.3	100.6	103.2	169.1
IDA	20.4	20.4	20.4	20.4	20.3	20.2
Bilateral	75.9	116.5	163.8	147.5	179.0	155.2
Private creditors	7.1	55.2	143.9	129.9	148.4	104.2
Suppliers	-	5.2	5.6	3.6	2.0	0.9
Financial markets	7.1	50.0	138.3	126.4	146.4	103.3
Debt outs. disb. (DOD)	40.9	155.7	297.3	331.4	365.5	332.5
Commitments	22.7	68.4	120.8	53.2	129.8	79.8
Disbursements	7.4	83.5	85.8	83.7	77.3	35.0
Principal repayments	1.4	3.3	14.7	16.0	28.8	56.4
Net flows	6.0	80.3	71.1	52.7	48.4	-21.4
Interest payments (INT)	1.6	7.6	19.8	32.9	33.5	27.4
Net transfers	4.4	72.7	51.3	19.7	14.9	-48.7
Total debt service (TDS)	3.0	10.8	34.5	48.9	62.4	83.7
Average Terms						
New Commitments						
Interest (%)	6.2	5.3	10.4	7.4	8.6	10.0
Maturity (years)	27.7	16.8	14.0	18.0	14.0	16.6
Grace period (years	6.0	14.2	4.2	4.5	4.4	4.1
Grant element (%)	28.6	27.0	7.7	15.8	10.6	-1.5
Economic Aggregates						
Gross national prod. (GNP)	663	1,019	1,123	1,104	1,050	1,145
Exports of G&S (XGS)	376	445	578	502	510	..
Imports of G&S (MGS)	337	578	718	617	584	..
Intl. reserve (RES)	131	53	113	50	55	18
Ratios (%)						
DOD/XGS	10.9	35.0	51.4	66.1	71.7	..
DOD/GNP	6.2	15.3	26.5	26.5	30.0	29.0
TDS/XGS	0.8	2.4	6.0	9.8	12.2	..
TDS/GNP	0.4	1.1	3.1	4.4	5.9	7.3
INT/XGS	0.4	1.7	3.4	6.6	6.6	..
INT/GNP	0.2	0.7	1.8	3.0	3.2	2.4
RES/DOD	320.3	34.2	37.9	15.1	15.1	5.4
RES/MGS	4.7	1.1	1.9	0.9	1.1	..

Projected Debt Service	1984	1985	1986	1987	1988	1989
Principal	44.3	45.4	36.5	35.5	41.9	42.7
Interest	24.2	23.2	22.5	22.1	21.0	19.0
Total	68.5	68.7	59.0	57.6	62.9	61.7

Source: IBRD, World Debt Tables, July 1984, pp. 24-25

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24. EXTERNAL PUBLIC DEBT OUTSTANDING BY SOURCE, DEC. 31. 1983

($000

Creditor	Debt outstanding Disbursed	Undisbursed	Total	Percent
Suppliers Credits				
France	915	--	915	0.2
Total Suppliers Credits	915	--	915	0.2
Financial Institution				
France	2,003	522	2,525	0.5
Multiple Lenders	100,780	15	100,795	18.6
Sub total	102,783	537	103,320	19.0
Multilaternal Loans				
African Dev. Bank	13,050	13,925	26,975	5.0
African Dev. Fund	3,564	4	3,568	0.7
Badea	8,180	9,820	18,000	3.3
European Dev. Fund	4,468	1,853	6,321	1.2
European Invest Bank	13,276	3,126	16,402	3.0
IBRD	61,985	107,162	169,147	31.2
IDA	20,192	--	20,192	3.7
IMF Trust Fund	9,147	--	9,147	1.7
INTL Fund ARG (IFAD)	-	5,496	5,496	1.0
OPEC Special Fund	3,340	2,380	5,720	1.1
SAFA (SP AR Fund AF)	2,700	--	2,700	0.5
Sub Total	139,902	143,766	283,668	52.2
Bilateral Loans				
China	264	19,379	19,643	3.6
France	37,569	14,293	51,862	9.6
Germany, Fed. Rep. of	9,580	450	10,030	1.8
India	9,580	450	10,030	1.8
Kuwait	4,170	14,629	18,799	3.5
Saudi Arabia	-	4,807	4,807	0.9
South Africa	2,046	-	2,046	
United Arab Emirates	-	4,903	4,903	0.9
United Kingdom	20,576	5,190	25,766	4.7
United States	14,406	-	14,406	2.7
Sub total	88,892	66,123	155,015	28.6
Total	332,492	210,426	542,918	100.0

Note: Only debts with an original or extended maturity of over one year. Includes principal in arrears but excludes interest in arrears.

Source: IBRD, Mauritius: From Prosperity to Growth, Country Economic Memorandum, March 1985, p. 74.

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Standby Policies and Targets

Progress. Significant progress has been made in reducing fiscal and financial imbalances. The current account deficit has declined from 15.5% of GDP (Table 14) to 2.5%, a more manageable level (Table 32). The budget deficit has declined from 12.9% of GDP in 1981/82 to 6.3% (Table 26). Subsidies for food and education and current expenditures on housing and public health have been curtailed. Public utility prices have been adjusted to minimize budgetary transfers to parastatals and prevent distortions in resource allocation. Public investment projects with low economic rates of return have been eliminated from the capital budget. Despite recovery in 1984, growth remains modest and unemployment high (17%). In 1985, large debt service obligations are due. The debt service ratio, including IMF repayments, is expected to peak at 29% in 1985, but decline thereafter.

IBRD recommends that, beginning in 1986, economic policies should switch to a more growth-oriented development strategy. For more rapid growth during 1986-1990, less restrictive policies are needed to permit imports to expand gradually. Investment needs to be increased, low priority investments in infrastructure discouraged, and growth of private investment in productive sectors accelerated. A high growth/low unemployment program requires effective structural adjustments.

Since 1979, GOM has followed a comprehensive program of adjustment to correct financial imbalances which emerged in the mid-1970s. The adjustment program, supported by five successive stand-by arrangements with IMF, has reduced the external current account deficit to a level which can be financed by concessional capital inflows. Adjustment policies included restrictive fiscal and credit policies, exchange rate policy wage policy, and import and price liberalization, which have reduced aggregate demand and improved the competitiveness and efficiency of the economy. Policies in 1984/85 and 1985/86 are geared toward achieving real annual growth of 4% in the nonsugar sectors. Potential for growth has been demonstrated by large increases in investment and production in the Export Processing Zone (EPZ).

Despite progress, debt servicing threatens economic growth. Large debt service payments in 1984/85 and 1985/86, will peak in 1984/85 at about 29% of goods and nonfactor services, but decline to 20% in 1986/87. Although the overall balance of payments is projected to have a surplus in 1984/85, in part because of drawing a $40 million Eurocurrency loan, a financing gap remains because of repurchasing SDR 48 million from IMF. Official international reserves also have declined substantially to two weeks' imports at the end of 1983/84. Given the risks of damage to the sugar crops by cyclones, reserves should be at least one month's imports.

Although the share of sugar in GDP has fallen below 10%, sugar production is vital to the economy, accounting for 50% of merchandise exports in 1983/84. Export duties on sugar have provided 15% of government revenue, declining to 10% in 1984/85. Firms have had financial losses while the industry as a whole has suffered from poor crops, and falling investment. After intensive study, a restructuring program has been adopted and the new Sugar Authority established. The restructuring program includes, rationalization of operations, diversification into nonsugar agriculture, energy production from cane by products, measures to increase productivity, and an adequate return for sugar producers.

In 1984/85, the overall budget deficit as a proportion of GDP will be reduced, for the fifth year in a row, to about 6.3% of GDP, in spite of reduction in the export tax and unexpected increases in expenditure because of exchange rate depreciation. Dollar appreciation increased interest payments on external debt, and, together with increases in international prices, in higher payments for rice and flour imports.

IBRD concludes that despite higher rates of growth during 1985-1990 the balance of payments situation is manageable if a structural adjustment strategy continues. A 13% annual growth in exports of goods and in non-factor services, such as tourism, in current prices is feasible for the rest of the decade. The current account deficit of the balance of payments, however, would increase. External debt liabilities and current account deficits need to be offset by commitments from the international community. The debt service ratio, excluding IMF repayments, would stabilize around 20% (Table34).

1985-86 Standby Arrangement. The fifth IMF standby arrangement was signed March 1 for 18 months for purchase of SDR 49 million, 91.4% of Mauritius quota of SDR 53.6 million. The GOM also is expected to purchase SDR 7.5 million under the compensatory financing facility relative to the export shortfall in the year ending August 31, 1984. At the end of CY 1984, IMF holdings of rupees subject to repurchase were SDR 157.3 million consisting of SDR 34.0 under special facilities and SDR 123.3 million under tranch policies. During the new standby arrangement repurchases will exceed purchases by SDR 16.0 million which would reduce IMF credit outstanding to SDR 141.6 million on July 30, 1985. Purchases under the standby after the initial SDR 7.0 million will be in six quarterly installments contingent on compliance with quarterly performance criteria and two reviews (Table 25).

Sugar. Declining investment and profitability in the sugar industry are serious policy problems which must be resolved to avoid declining capacity and reduction of export earnings. The Sugar Authority was established in June 1984 to advise on policy and coordinate changes within the industry. IBRD has been working closely with GOM, the Sugar Authority, and the private sector to prepare a restructuring program with guidelines for

reforms and a master plan of specific policies. Restructuring was agreed in principle with IBRD in September 1984, including a rationalization of the milling industry to reduce financial losses and improve efficiency, improve the productivity of smallholders, diversify agriculture, and increase agricultural research.

25. IMF STANDBY TARGETS

Item	1983/84	1984/85	1985/86
Assumptions			
Real GDP growth (%)	0.8	2.9	4.0
GDP deflator (% change)	8.4	8.8	8.0
Terms of trade (% change)	3.4	2.0	-1.1
Sugar Exports			
Volume (thousand tons)	587.0	530.0	588.0
Volume (% change)	-4.4	-9.7	10.9
EEC Market rice (% change)	-3.7	-2.6	--
U.S Market price (% change)	10.0	7.7	2.0
Official grants and gross capital inflows (SDR)	64.0	122.0	97.0
Targets			
Balance of payments			
Current account deficit (-)			
SDRs (million)	-25.0	-28.0	-20.0
% of GDP	-2.5	-2.8	-1.9
Overall deficit (-)			
SDRs (million)	-28.0	30.0	15.0
% of GDP	-2.8	3.0	1.4
Overall fiscal deficit (-)			
Rs (million)	-853.0	-882.0	--
% of GDP	-6.3	-5.9	-5.0
Private domestic credit expansion			
Rs (million)	470.0	522.0	--
% of beginning money stock	17.5	17.5	--

Source: IMF, Request for Standby Arrangement, February 1985, p.12.

Four task forces were established to make specific policy recommendations. GOM agreed to reduce the export tax to allow higher tonnage exemptions and adopt a the marginal tax rate. These changes reduce the tax burden and provide financial relief to the industry.

The rationalization plan was accepted by IBRD in February and signifi progress is expected by July in implementing the plan. Changes in the export tax were be introduced by April 30, retroactive to the beginning of FY 1984/85.

Employment. Rapid growth of manufacturing exports, import substitutes, and tourism is the key to growth of output and employment. Exports from the EPZ are expected to increase 22% in 1984/85 following a 25% increase in 1983/84. Employment in the EPZ is expected to increase more than 5,000 (25%) to 13% of total employment. At the end of 1983, employment in tourism and supporting industries was 18,000 persons, 6% of total employment and is expected to grow about 10% annually. The large growth in exports and employment is the result of increasing competitiveness from depreciation of the currency and declining real wages.

Wage policy is implemented annually through cost-of-living adjustments derived from inflation of the previous year. From 1979/80 through 1983/84, wage rates increased 55%, compared with a 122% increase in consumer prices, resulting in a decline ofreal earnings of about 12%. The COL adjustment in 1984/85 was 3% compared with a rise in the CPI in 1984 of 7.3% which reduced real wages still further. Wage restraint is central to increasing competitiveness in international markets along with a flexible exchange rate policy which has resulted in slow depreciation of the real effective exchange rate in spite of large changes in the exchange rates of major trading partners.

Public finance. Since 1980/81, the budget has outperformed targets under the IMF standby arrangements. The budget for 1984/85 estimated the overall deficit of Rs 984 million, 6.5% of GDP, with an annual increase in total revenue and grants of 11% and an increase in total expenditure of 12% (Table 26). Revised estimates show a deficit of Rs 882 million, 5.9% of GDP. Foreign financing of the budget is expected to increase Rs 728 million from Rs 146 million in 1983/84 because of a Eurocurrency loan of Rs 584 million.

Expenditures on interest payments are projected to be 4% more than budgeted because of appreciation of the dollar (Table 27). Total subsidies are expected to be Rs 888 million, 5% above 1983/84. Subsidies for rice and flour imports increase 9%, in spite of higher rice and flour prices in March 1984 because of dollar appreciation and higher international flour prices. Capital expenditures are expected to be 31% more than in 1983/84, but Rs 160 million less than budgeted.

Tax receipts are expected to rise somewhat but total receipts may decline because of decreases in nontax revenues and grants. The primary new revenue measure is a 10% surcharge on import duties expected to yield Rs 120 million, 41% of tax revenue (Table 28). Export tax revenues are estimated to be Rs 62 million less than budget estimates because of revisions in the tax to provide relief to the sugar industry, in spite of exchange rate depreciation.

26. CENTRAL GOVERNMENT FINANCES

(Rs Millions)

Item	1981/82	1982/83	1984/85 1983/84 1/	1984/85 Budget	1984/85 Program
Revenue and grants	2,289	2,822	3,129	3,474	3,459
Tax revenue	1,950	2,407	2,779	2,934	2,955
Nontax revenue	272	392	298	420	394
Grants received	68	23	52	120	110
Expenditure and net lending	3,677	3,985	3,982	4,4,58	4,341
Current expenditure	2,892	3,223	3,382	3,706	3,749
Capital expenditure	444	360	364	635	475
Net lending	341	402	236	117	117
Overall deficit	1,388	1,163	-853	-984	- 882
External financing	794	-176	-146	-381	728
Disbursements	944	313	515	859	1,251
Amortization	-150	-489	-661	-478	-523
Domestic financing	594	1,339	990	603	154
Banking system (net)	438	875	620	...	-196
Nonbank domestic (net)	150	464	370	...	350
Memorandum items:					
GDP at current market prices	10,746	12,307	13,455	15,070	15,070
Overall deficit/GDP (%)	12.9	9.5	6.3	6.5	5.9

1/ Provisional

Source: IMF, Request for Standby Arrangement, February 1985, p.7

27. CENTRAL GOVERNMENT EXPENDITURE AND NET LENDING BY ECONOMIC CLASSIFICATION

(Rs Million)

Item	1981/82	1982/83	1983/84 1/	1984/85 Budget	1984/85 Program	1984/85 Percent
Current expenditure	2,892	3,223	3,382	3,706	3,749	86.4
Expenditure on goods and services	1,335	1,466	1,511	1,686	1,665	38.4
Wage and salaries	1,086	1,204	1,300	1,410	1,389	32.0
Other purchases of goods and services	248	261	211	276	276	6.4
Interest payments	642	773	871	1,005	1,041	24.0
Subsidies and other current transfers	915	984	1,000	1,015	1,043	24.0
Local governments	119	141	155	155	155	3.6
Other domestic	796	843	845	860	888	20.5
Capital expenditure	444	360	364	635	475	10.9
Fixed capital assets	273	170	164	363	--	--
Land and intangible assets	21	10	6	20	--	--
Capital transfers	150	181	194	252	--	--
Local governments	13	5	--	1	--	--
Other domestic	173	176	194	215	--	--
Total expenditure	3,336	3,583	3,750	4,341	4,224	97.3
Net Lending	341	402	236	117	117	0.4
Capital expenditure, net lending	785	762	600	752	592	13.6
Total expenditure, net lending	3,677	3,985	3,982	4,458	4,341	100.0

1/ Provisional

Source: IMF, Request for Standby Arrangement, February 1985, p.45

28. CENTRAL GOVERNMENT REVENUE AND GRANTS

(Rs million)

Item	1981/82	1982/83	1983/84 1/	1984/85 Budget	1984/85 Standby	1984/85 Percent
Taxes on income and profits	379	395	425	242	432	12.5
Individual	216	248	271	259	299	8.6
Corporate	163	147	154	165	133	3.8
Taxes on property	75	85	94	97	106	3.1
Land and real estate	--	--	10	13	15	0.1
Land development	--	--	--	1	1	--
Campements	--	--	3	4	5	--
Estate and gift	9	12	7	8	8	--
Financial transactions	66	73	83	84	91	2.6
Registration fees	64	70	78	73	79	2.3
Mortages, etc.	3	3	2	3	3	--
Land transfer	--	--	4	8	9	--
Domestic taxes on goods and services	408	498	636	666	661	19.1
Excises	263	276	272	282	282	8.2
Alcohol	167	173	170	174	174	5.0
Tobacco	68	71	74	80	80	2.3
Matches	--	--	--	--	--	--
Sugar milling	11	14	12	12	12	--
Miscellaneous	17	18	16	16	16	--
Taxes on Services	79	75	89	96	91	2.6
Gambling	50	44	52	55	55	1.6
Tourism	28	30	36	40	36	1.0
Sugar brokerage	1	1	1	--	--	--
Taxes on use of goods	66	64	69	68	68	2.0
Business licenses	38	34	40	39	43	1.2
Motor vehicles	28	28	29	29	25	0.7
Sales tax on goods	--	83	206	220	220	6.4
International trade taxes	1,079	1,418	1,616	1,739	1,749	50.6
Import duties	689	989	1,162	1,314	1,385	40.0
Customs duties	584	654	764	890	925	26.7
Stamp duties	106	335	398	424	460	13.3
Export duties	378	416	442	410	348	10.1
Travel tax	12	12	12	15	15	--
Other taxes-stamp duty	10	11	8	8	8	--
Total tax revenue	1,950	2,407	2,779	2,934	2,955	85.4
Nontax-revenue	272	392	298	420	394	11.4
Rent, dividends, etc.	158	201	132	288	287	8.3
Rent	6	6	6	10	10	0.3
Bank of Mauritius	86	1450	--	125	125	3.4
Interest, royalties	42	61	93	112	112	3.2
Dividends	25	54	33	40	40	1.2
Fees, charges, non-industrial sales	79	94	95	101	76	2.2
Fines and forfeits	9	9	9	9	9	--
Government pension fund	19	20	21	22	22	0.6
Other nontax revenue	6	8	41	--	--	--
Total revenue	2,221	2,799	3,077	3,354	3,349	96.8
Grants	68	23	52	120	110	3.2
Revenue and grants	2,289	2,822	3,129	3,474	3,459	100.0

1/ Provisional.

Source: IMF, Request for Standby Arrangements, February 1985, p.41.

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Monetary policy. During CY 1985, the money supply 1984/85 is expected to increase 14% to finance increases in GDP and international trade (Table 29). Expansion in credit to the private sector is to accommodate growth in investment and production in export and import competing industries. Net credit to the GOM is expected to decline Rs 79 million and private credit to expand 17.5%. Inability to provide sufficient private credit to the EPZ or other manufacturing firms while supplying other demand for credit has

29. MONETARY SURVEY

(Rs million)

Item	1983 June	1983 Dec	1984 June	1984 Dec	1985 June	1985 Dec
Foreign assets net	-1,205	-1,520	-1,513	1,247	-1,300	-1,100
Bank of Mauritius	-1,240	-1,635	-1,577	-1,387	-1,355	--
Commercial banks	35	115	63	140	55	--
Domestic credit	6,909	7,553	7,983	8,325	8,456	8,969
Net claims on Government	4,226	4,756	4,830	4,905	4,751	4,950
Bank of Mauritius	2,887	3,559	3,564	3,569	--	--
Commercial banks	1,339	1,197	1,266	1,336	--	--
Claims on private sector	2,683	2,797	3,153	3,420	3,705	4,019
Money	5,213	5,427	5,622	6,196	6,400	7,069
Money	1,772	1,805	1,725	2,051	--	--
Quasi-money	3,441	3,622	3,897	4,145	--	--
Other items (net asset)	491	605	848	882	750	800

Source: IMF, Request for Standby Arrangement, February 1985, p.8

30. CREDIT CEILINGS FOR FY 1984/85

Item	1984 June Actual	1985 March	1985 June	1985 Dec.
Rs million				
Credit to Government	4,830	4,606	4,751	4,950
Total domestic credit	7,983	8,090	8,456	8,969
$ million				
New external borrowing commitments of 1 to 12 years (cumulative to June 30, 1985)	--	--	--	--
Level of outstanding borrowing under 1 year	--	30	30	30

1/ End of period.

Source: IMF, Request for Standby Arrangement, February 1985, p.26.

prompted the GOM to introduce credit allocations to ensure adequate credit to priority sectors without excessive overall expansion. Banks must allocate at least 50% of the credit increase outstanding to priority borrowers in Category I which includes the sugar industry, agricultural firms in the EPZ and other manufacturing firms with development certificates, and not more than 25% of the increase in credit outstanding to nonpriority, Category III borrowers including traders and individual consumer and housing borrowers. The net effect will increase credit to the EPZ and nonsugar agriculture more than 30% and to manufacturing firms by nearly 30% while other sectors obtain substantially less. The IMF ceiling limits the increase in credit to GOM from December 1984 to December 1985 to less than 1% (Table 30). With inflation of 7.3% in 1984, real interest rates are positive throughout the interest rate structure (Table 31).

Imports. The GOM plans to completely liberalize prices and trade. By April 1984, 28 import items that had been banned to protect local industry became subject to quotas of at least 25% of demand. By July 1984, quota restrictions on imports with duties of 30% or more were eliminated. Quantitative restrictions and, except for a few basic commodities, price control of imports were eliminated by the end of 1984. Only 12 import commodities remain under price control such as goods produced locally by monopolist or oligopolist firms. The foreign exchange system is relatively free of restrictions on payments and transfers for current international transactions (see Annex).

31. STRUCTURE OF INTEREST RATES, 1979-84 1/

Type	1980	1981	1982	1983	1984 2/
Lending					
Bank of Mauritius					
Bank rate	10.50	10.50	12.00	12.00	11.00
Rediscount facilities	10.75	10.75	12.25	12.25	11.25
Commercial banks					
Prime rate	11.75	12.50	14.00	14-16	12.00
Export finance	11.25	11.25	12.75	12.75-14.5	11.5-12.0
Fine commercial rate	12.50	12.50	14.00	14-20	12-16
Commercial rate (traders, small comme. business	17.50	17.50	19-21	19-22	16.5-18.0
Personal, professional all other accounts	15.50	15.50	17-20	18-21	17.00
Mauritius Coop. Central Bank					
Crop loan (short-term)	9.50	9.50	11.00	14.00	12.00
Cred. unions, cooperative societies	10.5-17.5	10.5-11.5	17.50	16.50	15.50
Medium-term loan	14.00	14.00	15.00	15.00	14.50
Housing societies	12.00	12.00	15.50	15.50	14.50
Deposits					
Savings	9.00	9.0-9.5	10.05-11.5	9.0-11	8.5-9.0
Fixed deposits					
Up to 3 months	9.25	11.0-12.5	11.0-12.5	9.25-11.75	9.25
3 months to 6 months	9.50	9.50	11.5-12.75	9.50-12.0	9.50
6 months to 12 months	10.00	10.00	12.0-13.0	10.0-12.50	10.0-10.5
12 months to 18 months	10.50	10.50	12.0-13.0	10.5-13.00	10.5-11.2
18 months to 24 months	11.25	11.25	12.5-13.5	11.25-14.0	11.25-12.
24 months to 36 months	12.00	11.25	13.50	12.0-14.0	12.0-12.5
36 months to 48 months	--	--	--	12.5-14.0	13.00
Over 48 months	--	--	--	12.5-14.0	--
Mortgages					
Notaries					
Up to Rs 6,000 (max.)	16.00	16.00	16.00	16.0	12-14
Over Rs 6,000 (max.)	14.00	14.00	14.00	14.0	14.00
Mauritius Housing Corporation loans					
Under Rs 35,000	12.0-14	12.00	12.0-14	12.0-14	12-14
Over Rs 35,000	14.00	14.00	14.00	14.00	14.00

1/ Annual% as of June. 2/ Effective March.

Source: Bank of Mauritius, Annual Report 1983, p.81, and IMF, Recent Economic Developments, August 1984, p. 116.

Balance of payments. Although sugar export receipts are expected to decline SDR 20 million (10%) and external interest payments to increase SDR 11 million, IMF estimates the current account deficit probably will increase only slightly in 1984/85 to SDR 28 million (Table 32). The trade balance is expected to remain unchanged because of an increase in net EPZ exports and a small reduction in other imports. The Eurocurrency loan of SDR 40 million and large disbursements of concessional loans will result in an inflow of public capital of SDR 55 million, compared with an outflow of SDR 6 million last year. The overall balance is expected to have a surplus of SDR 30 million, compared with a deficit of SDR 28 million in 1983/84. Repurchases to IMF of SDR 48 million and purchases under the Standby and compensatory financing facility will permit reserves to increase from SDR 11.4 million to SDR 30.4 million, 3.6 weeks of imports. Projections for 1985/86 and later years are discussed below under Medium-Term Prospects (Table 33).

Summary of policy reforms. The following paragraphs summarize policy reforms included in the 1985/86 standby arrangement. 1/

1. Sugar. A change in the export tax structure allowing higher tonnage exemptions and a shift to marginal tax rates will be implemented before April 30, 1985, retroactive to July 1, 1984. A plan for rationalization, modernization and centralization of sugar mills, which may include closure of certain mills, will be completed and agreed with the World Bank by end-February 1985, and significant progress towards implementation of the plan will be made before June 1985.

2. Fiscal Policy. As a measure to increase revenue, a 10% surcharge on import taxes was imposed in the 1984/85 budget. Increase in total expenditure held to 4%. In addition, administrative improvements which were made in the past year with the Fund's technical assistance, will continue to be pursued vigorously.

3. Exchange Rate. Flexible exchange rate policy will continue to be pursued to ensure further improvement in competitiveness.

4. Wage Policy. The 1984/85 wage discussions were concluded with an average settlement being about one-half of the increase in the cost of living index in the previous year. The authorities will continue to pursue a cautious wage policy during the program period.

Source: IMF, Request for Standby Arrangement, February 1985, p. 13-14.

32. BALANCE OF PAYMENTS

(SDR million)

Item	1982/83	1983/84 1/	1984/85 2/
Current account	-53	-25	-28
Merchandise	-43	-16	-16
Exports, f.o.b	318	358	367
Sugar	196	200	180
EPZ	100	125	152
Other	22	33	35
Imports, f.o.b	-361	-377	-383
Imports, c.i.f.	-418	-436	-443
Rice and Flour	-36	-32	-31
Petroleum	-81	-71	-71
EPZ	-62	-92	-104
Other -238	-240	-237	
Services (net)	-35	-28	-37
Tourist receipts	39	43	44
Transfers	25	22	25
Public sector capital	-5	-6	-55
Eurocurrency loans	-32	-40	15
Disbursements	--	--	40
Amortization	-32	-40	-25
Concessionary loans	26	34	41
Disbursements	39	49	58
Amortization	-12	-15	-17
Private capital flows and erros and ommissions	30	3	3
Overall balance	-28	-28	30
financed by: IMF	22	13	-19
Purchases	27	33	29
Repurchases	-5	-20	-48
Reserves (increase)	6	15	-11
Memorandum items:			
End-of-year reserves	34	19	30
End-year net reserves in months of imports, c.i.f	1.0	0.5	0.9
Current account/GDP (%)	-5.2	-2.5	-2.8

1/ Provisional. 2/ Projected.

Source: IMF, Request for Standby Arrangement, February 1985, p. 10.

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5. Credit Policy. Guidelines governing sectoral allocation of credit were implemented in August 1984. Banks are required to allocate at least 50% of credit expansion to high priority sectors and at most 25% to low priority sectors. Total credit expansion will not exceed 5.9%, implying an increase in private sector credit of 17.5%. A liberal interest rate policy will be maintained.

6. Foreign Borrowing. Through end-June 1985 no new external commercial loans will be contracted or guaranteed by the government in the 1-12 year maturity range and the outstanding amount of short-term (less than one year) external borrowing by the Central Bank will not exceed $30 million at any time.

7. Exchange and Trade System. An undertaking not to impose new or intensify existing restrictions on trade and payments for current international transactions. Elimination of all remaining quantitative restrictions on imports by end-1984.

8. Pricing Policy. Except for no more than 12 goods, all maximum price controls eliminated by end-1984.

Medium-Term Prospects

Balance of Payments and Debt Service. IMF medium-term balance of payments and debt service projections through 1989/90 assume: (1) sugar output will be maintained at the average volume of 1977/78-1983/84; (2) continued growth in the volume of EPZ imports and exports; and (3) the volume of imports other than rice, flour, petroleum and EPZ inputs will grow 3% annually: These assumptions are consistent with a GDP annual growth rate of 3%.

The influence of low sugar prices on the free market and relatively large stocks in producing countries is expected to be minor since most of Mauritius output is sold in protected markets. Debt service estimates assume that gaps are financed on commercial terms and the debt service payments on the gap financing are included.

Sugar output is projected to remain at 625,000 tons. No changes are envisaged in the export quotas to the protected markets of the EEC or th U.S. The volume of EPZ exports is projected to rise in 1985/86 by 12% and thereafter by 66% annually. EPZ export prices are assumed to rise in line with world manufacturing prices. The IMF, 1985 World Economic Outlook, assumes a 7.5% annual rise in world manufacturing prices in U.S. dollars and an annual appreciation of the SDR against the U.S. dollar of 3.3.%.

Tourism receipts are anticipated to increase 12% annually because of recent competitive gains over other tourism centers. Between 1984/85

and 1989/90, net receipts on services, excluding investment income, are projected to more than double. The current account deficit is expected to remain modest. On the capital account, the projections assume a progressive reduction in Eurocurrency debt. Given amortization payments, net inflow will decline from SDR 49 million in 1985/86 to SDR 34 million.

IMF projects a surplus in the overall balance through 1986/87 with small deficits the following three years. Given the scheduled repurchases due to IMF the annual financing gap remains about SDR 30 million from 1987/88-1989/90. The ratio of debt service payments to exports of goods and nonfactor services declines from 28% in 1984/85 to 20% in 1986/87. IMF concludes that the balance of payments deficit can be financed without major debt service difficulties. The projections allow no build-up of reserves after 1984/85.

33. MEDIUM-TERM BALANCE OF PAYMENTS

(SDR million)

Item	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
Current account	-28	-20	-21	-23	-26	-25
Merchandise	-16	-10	-12	-17	-21	-26
Exports f.o.b	367	397	427	457	489	524
Imports f.o.b	-383	-407	-439	-473	-510	-550
Invisibles (net)	-12	-10	-8	-7	-5	—
Investment income	-48	-49	-49	-49	-49	-46
Tourist receipts	44	48	53	60	67	75
Pub. sector capital(net)	55	31	29	17	16	18
Eurocurrency	15	-18	-9	-17	-17	-17
Other public	40	49	38	34	33	34
Private capital flows, errors, ommissions	3	4	4	4	4	5
Overall balance	30	15	12	-2	-6	-2
Financed by:						
IMF	-19	-16	-20	-25	-27	-24
Purchase	29	28	7	--	--	--
Repurchase	-48	-44	-27	-25	-27	-24
Financing gap	-11	1	8	27	33	26

Sources: IMF, Request for Standby Arrangement, February 1985, p. 21.

34. MEDIUM-TERM DEBT SERVICE

(SDR million)

Type	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
Existing debt, assumed inflow of concessionary capital (incl. IMF)	119	41	136	116	127	133	130
Eurocurrency	52	36	28	18	25	24	23
Principal	40	24	17	9	17	17	17
Interest	12	12	11	9	8	7	6
Other public 2/	29	39	47	56	64	72	76
Principal	16	17	22	27	33	36	36
Interest, charges	13	22	25	29	31	36	40
Private 5	3	2	2	2	3	3	
Principal	4	2	1	1	1	2	2
Interest, charges	1	1	1	1	1	1	1
IMF 3/ 33	63	59	40	35	35	29	
Repurcahses	20	48	44	27	25	27	24
Charges	13	15	15	13	10	8	5
Additional capital for financing gap 4/	--	--	--	1	3	7	14
Principal	--	--	--	--	--		2
Interest	--	--	--	1	3	7	12
Total 1/2/	119	141	136	117	130	139	144
Principal	80	91	84	64	76	82	81
Interest	39	50	52	53	54	58	63
Debt service ratio							
Existing debt, assumed inflow, concessional cap.1/	24.1	28.0	25.2	19.9	20.3	19.7	17.9
On total debt 4/	24.1	28.0	25.2	20.1	20.7	20.6	19.8
Memorandum item:							
Exports of goods and non factor services	494	503	539	582	627	675	728

1/ For private and Eurocurrency debt outstanding on December 31, 1984. For other public, currently contracted debt assuming disbursements of concessional loans will increase 4% annually from 1986/87.

2/ Excludes repurchases on IMF drawings except for Trust Fund.

3/ Includes stand-by arrangement and compensatory financing facility (CFF).

4/ Assuming that the entire financing gap is financed on commercial terms, 8 years maturity, 3 years grace, and 13% interest rate.

Sources: IMF, Request for Standby Arrangement, February 1985, p.22.

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Strategy. The objective of the fourth, post-independence development plan for 1984-1986, released in March, is to reinforce structural adjustments, redress balance of payments deficits, and support growth with equity.1/ Through export-led industrialization, tourism, and agricultural diversification, the GOM aims to increase foreign exchange earnings and provide the structure for expansion of output and employment.

Since prospects for sugar prices are not encouraging either in the protected EEC market or the world market, and since sugar production is not expected to exceed 700,000 tons, the manufacturing sector is the best prospect for increasing export earnings and productive employment. An intensive promotion campaign is under way to attract foreign direct investment and improve access to foreign markets and technology. GOM industrial policy is to provide the necessary infrastructural, financial, and fiscal incentives. Tourism is a major area for expansion. The objectives of tourism policy are to increase the number of tourist arrivals, maximize foreign exchange earnings from tourism, create direct and indirect employment, and increase value added.

Because almost a quarter of the import bill is for food, and sugar export earnings are extremely variable, agricultural diversification into food crops is necessary. However, given domestic food habits and agro-climatic constraints, it is not possible to produce the bulk of food needs, especially rice and flour, which are 35% of food imports. The objective of MDP is to increase self-sufficiency in crops that can be produced locally. Diversification includes production of items, such as flowers and off-season vegetables, for export. GOM is providing financial and other incentives to small planters to increase production of horticultural crops. Unemployment is expected to decline to 15% by 1986.

Total public investment is projected to be Rs 4,408 million in current terms. Some 25% is investment in the productive sectors, 62% is for of infrastructure facilities and 13% is for social sector projects. During the last five years public investment was concentrated in housing and education, at the expense of other sectors. During 1984-86, public sector investment will be reallocated among the various sectors to support productive sectors and provide infrastucture facilities to stimulate private investment.

1/ GOM. 1984-1986 Development Plan (MDP), March 1985.

Projections. The MDP plans annual growth of real GDP of approximately 4.5% during 1984-1986, much higher than IMF assumptions (Table 35). Sugar production is projected at 585,000 tons in 1984, 650,000 tons in 1985, and 700,000 tons in 1986. The projection assumes no increase in acreage and an increase in yield per hectare to offset any decrease in area under cultivation. Real value-added in manufacturing, excluding sugar milling, in 1983, was 12.8% of GDP at factor cost. Real manufacturing output is projected to grow 7.1% annually with the share of GDP increasing to 16.7% by 1986.

The EPZ is the key to growth of manufacturing. At the end of 1983, the EPZ employed 25,526 persons and produced 36% of manufacturing output, which is expected to rise to 44% with 17,000 new jobs created during the plan period. Real EPZ output is expected to grow 13.8% annually. Tourism is projected to grow approximately 10% annually. Since 1979, construction has had negative growth except for 1983. Real value added in construction is expected to grow 3% in 1984, 4% in 1985, and 5% in 1986.

Real value-added in the service sector in 1983 was over one third of total output. Government and other services are expected to grow 3% annually. In 1983, GOM limited private consumption on final goods and services through wage restraints and measures to reduce imports of final goods. Real private consumption expenditure is expected to increase 4.5% during 1984 to compensate for the low rise in 1983, but slower rates growth are planned for 1985 and 1986.

The minimum growth of government consumption expenditure is about 2% annually to finance the annual increase in wages. Final consumption expenditure is expected to grow 5% annually. Aggregate consumption, which was 84% of GDP during 1982-1984, is expected to fall to 81% by the end of 1986. The trend in consumption expenditure is expected to continue and to result in a rise in domestic savings from 17.4% in 1983 to 18.4% in 1986.

From 1981 to 1983, Gross Domestic Fixed Capital Formation (GDFCF) in constant 1979 prices fell 6.2% annually. MDP targets included growth of real fixed investment by 6.0% annually, from Rs. 2.1 million in 1983 to Rs 2.6 million in 1986 (Table 36). The share of residential construction in total investment has been high. During 1984-1986, investment is to be re-directed from housing to more productive sectors.

Capital formation in machinery and other equipment is expected to grow by 5.6% annually, primarily for new machinery, particularly in the sugar industry. Gross domestic fixed capital formation (GDFCF) in the agricultural sector is projected to grow 10% annually.

35. GROSS DOMESTIC PRODUCT BY INDUSTRY GROUP, 1982-1986

(Rs million, constant 1982 Prices)

Industry	1982 1/	1983 2/	1984 3/	1985 3/	1986 3/	1984-86 Annual growth%
Agric., hunting, forestry, fishing	1,530	1,363	1,339	1,490	1,620	5.9
Sugar	1,140	946	899	[illegible]029	1,135	6.3
Other	390	417	440	461	485	5.2
Mining and quarrying	17	17	18	18	18	-1.9
Manufacturing	1,560	1,552	1,651	767	1,908	7.1
Sugar	313	263	258	286	315	6.2
E.P.Z.	449	467	542	596	673	13.8
Others	798	822	851	885	920	3.8
Electricity, gas and water	250	225	236	250	258	4.7
Construction	625	631	650	676	710	4.0
Wholesale, retail, restau.	1,290	1,352	1,410	1,482	1,559	4.9
Wholesale and retail	1,050	1,102	1,135	1,180	1,227	3.6
Restaurants and hotels	240	250	275	302	332	9.9
Transport, storage, commun	1,1[illegible]	1,140	1,186	1,233	1,270	3.7
Financing, ins, real estate, business services	1,765	1,818	1,872	1,929	1,987	3.0
Ownership and dwellings	1,275	1,313	1,352	1,394	1,435	3.0
Other	490	505	520	535	552	3.0
Government services	1,275	1,300	1,326	1,366	1,414	2.0
Other services	596	650	670	689	713	3.1
GDP at factor cost	10,020	10,048	10,358	10,900	11,457	4.5

1/ Revised. 2/ Provisional. 3/ Forecast.

Source: GOM, 1984-1986 Development Plan, March 1985, p.32.

36. COMPOSITION OF GROSS DOMESTIC FIXED CAPITAL FORMATION, (GDFCF) 1982-1986

(Rs million, constant 1982 Prices)

Item	1982 1/	1983 2/	1984	1985	1986	1984-86 Annual growth(%)
Type of capital goods:						
Residential buildings	735	667	681	707	731	3.1
Non-residential buildings	245	263	318	355	363	12.0
Other construction works (incl. land improvement)	480	502	512	537	545	2.8
Transport equipment						
Passenger cars	45	35	36	41	46	9.5
Other equipment	75	101	88	94	99	-0.6
Machinery, other equip.	520	599	714	776	797	10.0
Total	2,100	2,167	2,349	2,510	2,581	6.0
Industrial use:						
Agric., hunting, forestry, fishing	135	98	116	125	140	13.4
Mining and quarrying	--	--	--	--	--	--
Manufacturing	315	334	425	495	528	17.8
Electricity, gas and water	350	440	349	281	306	-9.3
Construction	45	31	38	47	51	19.6
Wholesale, retail trade, restaurants, and hotels	90	119	126	203	167	12.6
Transport, storage, commun.	235	301	392	408	404	10.3
Financing, ins., real estate and business services	780	709	729	760	788	3.6
ownership of dwellings	735	667	681	707	731	3.1
Producers of government services	80	76	104	121	124	19.2
Other services	70	59	70	70	73	7.4
Total	2,100	2,167	2,349	2,510	2,581	6.0

1/ Revised. 2/ Provisional.

Source: GOM, 1984-1986 Development Plan, March 1985, pp. 33.

Capital formation in manufacturing, inclusive of investment in sugar factories, is forecast to absorb some Rs 1,795 million, growing 11.5% annually between 1984 and 1986. Electricity, gas and water is expected to require less investment as capital-intensive projects started during the previous plan are completed.

During the past decade much of capital formation was in social infrastructure. The public sector invested large amounts in roads, electricity, and water while the private sector concentrated investment on housing. MDP strategy is to emphasize projects with higher economic rates of return.

Public Sector Investment Program (PSIP). The three-year PSIP, FY1985-87, aims at providing infrastructure for the directly productive sectors and essential public services as an incentive to private investors and to increase employment through economic growth.

Investments for infrastructure constitute more than 50% of the total. Of 21 new projects, 11 are extensions of on-going projects or improvements of current works. IBRD questions the feasibility of the new Ethanol project which has an economic rate of return between 1% and 4%.

A key feature of the new PSIP is restraint in capital spending. The PSIP is about 10% smaller, in real terms, than the previous plan. The new PSIP plans a 11.6% average annual increase in public investments.

Macroeconomic policies in 1985 continue recent stabilisation policies. IBRD recommended that because of limited public sector resources for FY 1985-89, the increase in capital spending for FY 1985 should be postponed one year and the PSIP reduced 10%. An urgent need exists to broaden the tax base and increase the elasticity of the tax system. More than 80% of tax revenue comes from indirect taxes, import duties providing 47% of tax revenue. Direct taxes which provided 25% of tax revenue in 1980/81, now provide less than 20%. Excise taxes are mostly specific and the personal income tax is largely evaded. Consolidated public revenues are expected to increase 51.1% from 1984/85 indicating slight improvement in the revenue elasticity, and a real average annual growth of 3.9%.

The financial surplus of the non-financial public enterprises before subsidies has improved in recent years, rising from Rs 45 million in 1980-81 to Rs 157 million in 1983/84, mainly because of a few parastatals the Central Electricity Board, the Mauritius Marine Authority, the Sugar Terminal, the National Transport Corporation the Post and Telecommunication, and Civil Aviation which have had operating surpluses. Most other parastatals continue to have deficits and GOM subsidies.

37. PUBLIC SECTOR INVESTMENT PROGRAM, FY 1984-86

(Rs million)

Sector	1981-83	Percent	1984-86	Percent
Agriculture, co-op., rural development	457	15.0	705	16.0
Industry and tourism	93	3.0	414	9.4
Water	249	8.2	438	10.0
Sewerage and urban infrastructure	42	1.4	69	1.6
Energy	693	22.7	413	9.3
Telecomunications	108	3.5	182	4.1
Roads, road trans.	103	3.5	392	9.0
Housing	261	8.6	244	5.5
Education	73	2.4	142	3.2
Health	56	1.8	159	3.6
Port development	68	2.2	97	2.2
Airport development	39	1.3	271	6.1
Development works, other cap. projects	797	26.2	882	20.0
Total	3, 039	100.0	4,408	100.0

Source: GOM, 1984-1986 Development Plan, March 1985, p. 50.

Sugar price prospects. International sugar prices declined fro 28.67 cents per pound in 1980 to 3.55 cents in January 1985 (Table 38). After the sharp fall in production in 1980, world production of centrifugal sugar increased substantially to a record level of over 100 million tons in 1982. The price rally in 1983 resulted from reports from many sugar-producing areas that 1983/84 output would be substantially reduced. Production in Western Europe recovered and the actual reduction was only 5 million tons.

Consumption has been growing slowly even with low world prices, partly because consumers are restricted from free market prices particularly in the industrial countries. The major part of th growth in consumption is in Asia. Consumption in Western Europ has been static, while in North America it has declined because of substitute sweetners. World stocks are well above normal because of production increasing faster than consumption. Increases in consumption will not reduce stocks to normal level quickly. For a near-term return to normal world stocks, production must be reduced, either from natural disaster or reduction in price supports in producing countries. The halt t the increase in nominal farm prices in 1984/85 under the EEC Common Agricultural Policy (CAP) may help. However, IBRD anticipates that the world free market price will continue to b low because of the high%age of production and consumption which is outside from the influence of market prices because of domestic policies.

Isolation of most of the world's sugar markets from internatior trade makes the world free market price extremely unstable. Mu of the adjustment to shocks on domestic markets are channeled onto the world free market. Sugar prices will continue to fluctuate widely because of natural disasters which are impossible to predict. Estimates of price recovery range from 1985 to 1987. Prices will recover when stock levels, which wer about 40 million tons, in 1984 are reduced to 23-25 million tor

38. SUGAR PRICES

(cents/lb)

Year	EEC 1/	Index	Caribbean(N.Y.)	Index
1960	5.54	25.1	3.13	10.9
1961	5.63	25.5	2.92	10.2
1962	5.63	25.5	2.98	10.4
1963	5.74	26.0	8.51	29.7
1964	5.74	26.0	5.87	20.5
1965	5.82	26.4	2.12	7.4
1966	5.94	26.9	1.87	6.5
1967	5.86	26.5	2.00	7.0
1968	5.09	23.0	1.99	6.9
1969	5.09	23.0	3.39	11.8
1970	5.09	23.0	3.76	13.1
1971	5.16	23.4	4.53	15.8
1972	6.79	30.7	7.48	26.1
1973	6.66	30.2	9.62	33.5
1974	10.66	48.2	29.94	104.4
1975	15.44	69.9	20.56	71.7
1976	13.39	60.6	11.56	40.3
1977	14.01	63.4	8.11	28.3
1978	15.91	72.1	7.82	27.3
1979	19.29	87.4	9.66	33.7
1980	22.09	100.0	28.67	100.0
1981	18.93	85.7	16.89	58.9
1982	18.12	82.0	8.41	29.3
1983	17.57	79.5	8.47	29.5
1984	16.04	72.6	5.20	18.1
1985(2)	13.41	60.7	3.70	12.9

1/ Negotiated export price for sugar from ACP countries to EEC under the Sugar Protocol of the Lome Convention.

Source: IMF, International Financial Statistics, April 1985, pp.76-77 and 1984 Yearbook, pp. 130-31, 134-35.

Sugar substitutes are also reducing the impact of low sugar prices on consumption. As developing countries are the major sources of consumption growth and as their demand is more income and price elastic, faster consumption growth in the medium term, with recovery in developing country incomes, will contribute to increasing sugar prices. Given world production of close to 100 million tons for the 1984/85, no reduction in stocks is likely through mid-1985. Since stocks are higher than previously estimated IBRD expects sugar prices will not change much. Sugar futures prices indicate that prices are unlikely to recover significantly in 1985 or 1986 Table 39).

39. SUGAR FUTURES PRICES

Year/month	NYCSCE (cents/lb)	Index (1980=100) 1/
1985		
May	3.74	13.0
July	3.90	13.6
September	4.06	14.2
October	4.19	14.6
1986		
January	4.66	16.3
March	5.08	17.7
May	5.32	18.6
July	5.51	19.2

1/ Caribbean (N.Y), 1980=28.67.

Source: Herald Tribune, April 10, 19

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Mauritius Oil Refineries Limited, Reports and Accounts for the Year Ended 30th June 1984. 11 pp.

ANNEX : FOREIGN EXCHANGE SYSTEM 1/

Exchange Arrangement. The Mauritian rupee is pegged to an undisclosed, trade-weighted basket of major partner countries' currencies. The Bank of Mauritius applies margins of 1.125% to the buying rate of 0.25% to the selling rate in respect of exchange transactions in French francs, sterling, and U.S. dollars, based on the fixed peg to the basket of currencies. On December 31, 1983 the buying and selling rates of the Bank of Mauritius were Rs 18.4233 and Rs. 18.4933, respectively, per Rs 12,7066 and Rs 12,7533, respectively, per US$1, and Rs 1.5200 and Mau Rs 1.5333, respectively, per one franc. Commercial banks are authorized to deal in the French franc, sterling, and the U.S. dollar at rates based on the rates quoted by the Bank of Mauritius for these currencies. Margins allowed between buying and selling rates for commercial banks are 1% for transactions in pound sterling, 1.5% for the U.S. dollar, and 2.2% for telegraphic transfers in the french franc. Commercial banks' buying and selling rates for other foreign currencies are determined by an appropriate cross rate in the London market and the cost of forward cover in appropriate cases. Forward exchange facilities are provided by the Bank of Mauritius for industries operating in Export Processing Zone and for banks engaged in foreign borrowing for on-lending to the sugar sector. The maximum period for forward cover is six months; the forward rates are based on a uniform margin of 3% a year. A stamp duty of 45% is applied to outward transfers of capital (other than banking funds) and purchases of gold coin and gold bullion.

Administration. Exchange control is administered by the Bank of Mauritius under power delegated to it by the Financial Secretary. The authority for approving virtually all current payments in in turn delegated to the commercial banks. The Ministry of Trade and Shipping is responsible for the issue of import and export permits, where required.

Definition. Mauritius distinguishes between countries in the former sterling area and external account countries. Payments to residents of former sterling area countries may be in rupees to a sterling area Account in Mauritius of in any currency of the former sterling area. Payments form residents of the former sterling area may be received in rupees from sterling area account in Mauritius or in any currency of the former sterling area. Payments to residents of countries outside the former sterling area may be made in rupees to a sterling area account or an external account in Mauritius, in sterling to an external account in

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1/ IMF, Annual Report on Exchange Arrangements and Exchange Restrictions, 1984, pp.327-9. Status of regulations on December 31, 1983.

Mauritius, in sterling to an external Account in the United Kingdom, or in any non-sterling area currency. Payments form residents of countries outside the former sterling area may be received rupees from an external account in Maurituis, in sterling from an external account in the United Kingdom, or in any non-sterling area currency.

Nonresident Accounts. There are two main types of nonresident accounts- sterling area accounts and external accounts. Sterling area accounts, which may be opened by persons and firm resident in countries of the former sterling area may be credited with: (1) authorized payments by residents of Mauritius; (2) any transfers from other Sterling Area Accounts; (3) any payments from External Accounts held in Mauritius or elsewhere in the former Sterling Area; and (4) the proceeds of the sale to an authorized dealer or any foreign currency or gold by nonresidents of Mauritius. They may be debited for (1) payments for residents of the former Sterling Area to residents of Mauritius; (2) transfers to other Sterling Area Accounts; (3) transfers to external accounts in Mauritius or elsewhere in the former sterling area in respect of which the permission of the exchange control authorities in the appropriate country has been given; and (4) the cost of purchase of any former Sterling Area.

External accounts may be opened by persons and firms resident outside both Mauritius and the former Sterling Area. They may be credited with: (1) authorized payments by residents of Mauritius; (2) payments from sterling area accounts in respect of which the permission of the exchange control authorities of the appropriate country has been given; (3) any transfers from other external accounts; and (4) the proceeds of the sale to an authorized dealer of any non-sterling area currency or gold by nonresidents of Mauritius and the former sterling area. they may be debited for (1) any payments to residents of Mauritius; (2) any transfers to sterling area accounts; (3) any transfers to other external accounts; and (4) the cost of purchase of any foreign currency or gold.

In addition to the above, there are also blocked accounts to which are credited funds owned by persons and firms resident outside Mauritius and realized from investments made by them prior to April 5, 1966, as well as funds representing emigrants' assets in excess of Mau Rs 100,000. Such accounts may be credited with payments by residents of Mauritius that have been specially authorized for credit to a blocked Account and may be debited for certain specified transactions. Funds from blocked accounts may, with approval, be invested in Mauritius. Upon the realization of such investments, the proceeds are directed once more to Blocked Account.

Imports and Import Payments. Importers must be licensed under the license ordinance. Under the Supplies (Control of Imports) Regulations of 1982, all imports other than goods exempted or prohibited, as specified in the third and fourth schedules, respectively, require import permits from the Ministry of Trade and Shipping; the permits for certain items in the first schedule ("controlled goods") that are manufactured locally or considered as luxuries are subject to quantitative restrictions. Import permits are granted automatically for most other items in the first and second (pharmaceutical products) schedules. In addition to an import license, importers must apply for exchange control approval to make the corresponding import payments, subject to compliance with the prescription of currency regulations. Certain imports are subject to customs surcharges, and a stamp duty of 12% based on the c.i.f. value is levied on most import. Importers of goods of lower priority may not avail themselves of suppliers 'credits, and local commercial banks are prohibited from extending credit for such imports. The contracting of suppliers' credit of more than 90 days' duration in respect of other categories of imports requires the prior approval of the Bank of Mauritius, except for imports effected by companies holding a development certificate or by companies in the Export Processing Zone.

Payment for Invisibles. Payment for invisibles related to imports require the prior approval of the exchange control authorities. Foreign exchange for other purposes, such as foreign travel, may be provided up to specified limits by the commercial banks without prior reference to the exchange control authorities. The basic travel allowance is the equivalent of 400 pounds sterling a person for every two calendar years for travel to any country. There is a 10% tax on all international air tickets purchased by Mauritian residents. The allowance for business travel is the equivalent of 50 pounds sterling a day. Applications for exchange for business travel are examined by the Bank of Mauritius. There are established limits for payments and transfers to former Sterling Area countries and to non-Sterling Area countries in respect of family support, salary remittance by non-Mauritian nationals, trade commissions, subscriptions to clubs and societies, publishing rights, advertising outside Mauritius, royalties, professional and technical services, education, and leave salaries. Applications for amounts exceeding the standard allocations may be submitted to the exchange control authorities.

Residents and nonresident travelers may take out Mau Rs 350 in domestic currency Resident travelers may take out foreign currency notes up to the amounts of their travel allowance. Nonresident travelers may take out any foreign currency declared upon entry.

Exports. Exports of: (1) articles made wholly or partially of gold, platinum, or silver: (2) diamonds, precious and semiprecious stones, pearls, and articles mounted with these; and (3) works of art, are prohibited, unless permission is obtained from the Financial Secretary. All exports valued at more than Rs 1,000 and all exports of food products valued at over Rs 50 require a license from the Ministry of Trade and Shipping. Exports of certain foodstuffs, including fruits, are controlled. The Mauritius Sugar Syndicate is the sole exporter of sugar. A tax ranging from 6% to 13.5%, plus a surcharge of 75% thereon, is levied on the f.o.b. value of sugar exports. All export proceeds in any currency other than Mauritian rupees must be offered for sale to an authorized dealer. However, permission may be given to large export-import companies to retain export proceeds for a reasonable period of time to meet payments for imports. Exports of knit shirts and sweaters of cotton, wool, and man-made fibers to the United States are effected under a bilateral export restraint agreement covering the period up to September 30, 1985.

Proceeds from Invisibles. Receipts from invisibles in any currency other than Mauritian rupees must be offered for sale to an authorized dealer. There is no limitation on the amount of foreign currency notes and coin that may be imported, but not more than Rs 700 in domestic currency notes and coin may be imported by travelers.

Capital. Inward transfers of capital are not restricted. Outward transfers of capital are subject to certain restrictions. Nonbank residents of Mauritius may, subject to permission, transfer a reasonable amount of capital to any country; transfers are subject to the stamp duty of 45% and, if directed toward a country outside the former Sterling Area by a resident of the former Sterling Area, require the prior approval of the exchange control authorities of the former Sterling Area country concerned. Foreign-owned companies may freely transfer abroad dividends, profits, and interest on capital. Permission for repatriation of capital is not granted for capital brought in before April 5, 1966, irrespective of the country of origin, but,in normal circumstances, it is the country of origin, but, in normal circumstances, it is given for capital brought in on or after that date. Proceeds from the sale, liquidation, etc., of foreign capital that may not be repatriated must be credited to Blocked Accounts.

Emigrants may take out, at the official rate of exchange and free of stamp duty, the equivalent of Rs 100,000 from their Mauritian assets when emigrating to any country; this facility is available upon redesignation as a nonresident, which occurs upon departure. The balance of an emigrant's funds must be credited for an indefinite period to a Blocked Account; any releases that may be approved for transfer abroad are subject to payment of the 45% stamp duty. Persons emigrating from Mauritius are not entitled to draw their personal travel allowance in addition to the emigration facilities.

Gold. Residents other than the monetary authorities are permitted to hold gold numismatic purposes (including commemorative gold coins of Rs 200 and Rs 1,000) or as personal jewelry and ornaments. The import and export of monetary gold are prohibited, except when made by the monetary authorities. Imports of gold for industrial purposes are subject to a quota and specific import permit. Exports of article made wholly or partially of gold, other than jewelry constituting the personal effects of a traveler, are prohibited. Payments in respect of private imports of gold coin and gold bullion are subject to temporary customs surcharges.

Annex C

ACTION MEMORANDUM FOR THE DIRECTOR, REDSO/ESA

FROM: Jim Dempsey, Project Development Officer

SUBJECT: Mauritius - Approval of PAIP for FY 1985 Commodity Import Program (642-K-604)

PROBLEM Your approval of the Program Assistance Initial Proposal (PAIP) for the FY 1985 Mauritius Commodity Import Program ($4.0 million) is required to permit development of the authorizing document for the program, the Program Assistance Approval Document (PAAD).

DISCUSSION Commodity Import Programs have been successfully used to provide assistance to the Government of Mauritius (GOM) for the past three years. The basic problems addressed by these programs have been the GOM's difficult balance of payments position, low foreign exchange reserves, and budgetary problems. Further, the CIPs support the GOM's comprehensive structural adjustment program which has introduced reforms that are strengthening market forces and the private sector in the economy. All three CIPs have provided funds for the purchase of edible oil by the private sector firm, Mauritius Oil Refineries. This company has deposited in a special account the rupee equivalent of the dollar value of the oil which has been used for the three main development objectives of AID:

1. To support agricultural diversification and sustainable food policies;

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

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

The same approach and objectives are planned for the FY 1985 program. The proposed activities are described in detail in the attached PAIP for the CIP. Also attached is the approval of a categorical exclusion for the Initial Environmental Examination.

RECOMMENDATION: That, in accordance with the authority provided in State 4055, you approve the Mauritius FY 85 CIP PAIP.

APPROVED _____ J.W. Koehring

DISAPPROVED _____

DATE: March 18, 1985

Attachments:

FY 1985 CIP PAIP
State 4055
Draft IEE and State 60950

Clearances:

RLA: K. Hansen (draft)
RSO: L. Dunn (draft)
RFMC: G. Eidet (draft)
PROJ: J. Graham (draft)
Econ: H. Smith (draft)
D/Dir: A. Fell AF
AmEmbassy: Port Louis 00703

ANNEX D
(CIP-642-K-604

MAURITIUS COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481; FY 1985 Continuing Resolution Sec. 528. Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

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

No

denied or contested by such government?

3. FAA Sec. 620(e)(1). 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?

4. FAA Sec. 620(a), 620(f), 620(D); FY 1985 Continuing Resolution Sec. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Victnam, Syria, Libya, 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 to the countries listed.

5. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property?

No

6. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC?

No, there is an OPIC agreement with Mauritius.

7. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any

No

	U.S. fishing activities in international waters?	
	(b) If so, has any deduction required by the Fishermen's Protective Act been made?	N/A
8.	FAA Sec. 620(q); FY 1985 Continuing Resolution Sec. 518. (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?	(a) No
	(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 (or continuing resolution) appropriates funds?	(b) No
9.	FAA Sec. 620(s). If contemplated assistance is development 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 the Admninistrator 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.)	Yes, taken into account by the Administrator at the time of approval of Agency OYB.
10.	FAA Sec. 620(t). Has the country severed diplomatic	No

	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?	
11.	FAA Sec. 620(u). What is the payment status of the country's U.N. 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? (Reference may be made to the Taking into Consideration memo.)	Mauritius payments to the UN are up to date.
12.	FAA Sec. 620A; FY 1985 Continuing Resolution Sec. 521. 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
13.	FAA Sec 666. Does the country object, on the basis of race, religion, national origin or sex, 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?	No
.4.	FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment	No

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? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan).	
15. ISDCA of 1981 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 36the 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? Referene may be taken into Consideration memo.)	Representatives from Mauritius attended this session at the General Assembly. Their actions have been recorded by USIN and these have been taken into account by the Administration in evaluating Mauritius eligibility for foreign assistance.
16. FY 1985 Continuing Resolution If assistance is from the population functional account, does the country (or organization include as part of its population planning programs involuntary abortion?	The grant will not be used for population activities.
17. FY 84 Continuing Resolution. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States.	No

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

a. FAA Sec. 116. Has the Department of State	N/A

determined that this government has engaged in a consistent pattern of gross violations of internationally recognized huma rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

2. Economic Support Fund Country Criteria

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

No

2. Development Assistance Project Criteria (Loans only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.	N/A
b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?	N/A

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the extent possible, does it reflect the policy directions of FAA Section 102?	Yes, through the provision of foreign exchange, local investment and employment generation economic and political stability will be promoted in accord with the policies of the FAA.
b. FAA Sec. 531(c). 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 non-proliferation 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

5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only: B.1. applies to all projects funded with Development Assistance loans, and B.3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1985 Continuing Resolution Sec. 525; FAA Sec. 634A; Sec. 653(b).

   (a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that amount)?

   Set forth in Congressional Presentation 1985, Annex I, Africa, pp 225. Yes, the funds are within the AID allocation made to Mauritius.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $100,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

3.	FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?	N/A
4.	FAA Sec. 611(b); FY 1985 Continuing Resolution Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973, or the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See AID Handbook 3 for new guidelines.)	N/A
5.	FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?	N/A
6.	FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.	No
7.	FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the	

	country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	(a) Yes, through US imports of edible oil. (b) Yes, through local currency programs for business development. (c)&(f) The program will have no direct impact on labor unions, cooperatives, credit unions or S&L Associations.)d)&(e) The private sector activities of the local currency program will encourage competition and efficiency.
8.	FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	The CIP will encourage the purchase of US edible oil through the private sector.
9.	FAA Sec. 612(b), 636(h); FY 1985 Continuing Resolution Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.	The US owns no foreign currencies in Mauritius and to the maximum extent possible Mauritius is contributing to the CIP.
10.	FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No
11.	FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes
12.	FY 1985 Continuing Resolution Sec. 522. If	

assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?	N/A
13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16?.	Yes
Does the project or program take into consideration the problem of the destruction of tropical forests?	N/A
14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?	N/A
15. FY 1985 Continuing Resolution. Sec. 536. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?	

FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (i)

effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of

appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (ii) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (iii) support the self-help efforts of developing countries; (iv) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (v) utilize and encourage regional cooperation by developing countries? N/A

b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used? N/A

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? N/A

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the N/A

program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? (M.O. 1232.1 defined a capital project as "the construction, expansion equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than $100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character." N/A

f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth? N/A

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports N/A

civil education and
training in skills
required for effective
participation in
government processes
essential to self-
government.

5C(c) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?	Yes, it is planned that the edible oil procurement will be announced in the Commerce Business Daily.
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?	Yes
3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?	There is no discrimination. Yes
4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such	No

procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries?

There will be no construction.

6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates?

No, but a non-availability waiver is expected to be processed since US ships make only irregular calls on Mauritius.

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on

Yes, but no TA is planned.

a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?	
8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U. S. carriers be used to the extent such service is available?	Yes, but no air services are expected to be required.
9. FY 1985 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, will the contract contain a provision authorizing termination of such contract for the convenience of the United States?	Yes
3. Construction	
1. FAA Sec. 601(d). If capital (e.g., construction) project will U.S. engineering and professional services to be used?	N/A
2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?	N/A

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP)?	N/A
C. Other Restrictions	
1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?	N/A
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?	N/A
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the communist-bloc countries?	Yes, Embassy and REDSO/ESA monitoring of the CIP.
4. Will arrangements preclude use of financing:	
a. FAA Sec. 104(f); FY 1985 Continuing Resolution Sec. 527: (1) To pay for performance of abortions as a method of family planning or to motivate	(1) Yes

or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?	(2) Yes (3) Yes (4) Yes
b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property?	Yes
c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?	Yes
d. FAA Sec. 662. For CIA activities?	Yes
e. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?	Yes
f. FY 1985 Continuing Resolution, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel?	Yes

g. FY 1985 Continuing Resolution, Sec. 505. To pay U.N. assessments, arrearages for dues?

h. FY 1985 Continuing Resolution, Sec. 506. To carr out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)?

i. FY 1985 Continuing Resolution, Sec. 510. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields?

j. FY 1985 Continuing Resolution, Sec. 511. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

k. FY 1985 Continuing Resolution, Sec. 516. To be used for publicity or propaganda purposes within U.S. not authorized by Congress?

Annex E

INITIAL ENVIRONMENTAL EXAMINATION

PROJECT COUNTRY: MAURITIUS

PROJECT TITLE: COMMODITY IMPORT PROGRAM

PROJECT NUMBER: 642-K-604

PROJECT FUNDING: FY 85 - $4.0 MILLION (ESF)

IEE PREPARED BY: JAMES DEMPSEY, PROJECT DEVELOPMENT OFFICER

ENVIRONMENTAL ACTION RECOMMENDED:

Positive Decision _____
Negative Declaration _____
Categorical Exclusion X

ACTION REQUESTED BY: Arthur M. Fell
Acting Director, REDSO/ESA
DATE: 07 FEB 1985

CONCURRENCE: Kenneth L. Boyd
Bureau Environmental Office
DATE: 2/27/85

APPROVED: X

DISAPPROVED: _____

DATE: _____

Clearance: John Gaudet (draft)
(Regional Environmental Officer)

Examination of Nature, Scope and Magnitude of Environmental Impacts

I. Description of the Project

A $4.0 million grant is planned which provides balance of payment and budgetary support to the Government of Mauritius and emphasizes private sector development and agricultural diversification. All grant funds are expected to be used by a private sector processor to import edible oil from the U.S. The local currency generated from the sale of the oil will be programmed by the GOM and AID for mutually agreed upon activities which are consistent with the private sector and agricultural diversification objectives of AID's strategy.

Edible oil is included in the list of eligible commodities (Handbook 15, Appendix B). No pesticides will be imported under the proposed project.

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 required neither knowledge, at the time the assistance is authorized, nor control, during implementation of the commodities or their use in host country.

As the subject assistance fulfills both the qualifications cited above it should be granted a categorical exclusion and be exempt from any further environmental procedures.

ANNEX F

ANNEX F: DEVELOPMENT BANK

The Development Banks of Mauritius (DBM) was established in 1964 as a GOM-owned statutory corporation to finance development projects, and now is a major term lending institution, particularly of foreign exchange re-sources, for industry, tourism, and agriculture projects. DBM provides term loans, equity investment or guarantees, as well as managerial and technical assistance. DBM also has responsibility for constructing and operating industrial estates providing loans for small-scale enterprises (SSEs), and operating the export credit guarantee scheme. By providing term finance, DBM continues to play an important role in supporting the country's development strategy, which places special emphasis upon continued growth by manufacturing, in general, and by export-oriented industry in particular. It may however be that despite its central position, DBM has recently not demonstrated as aggressive an investment promotion policy as this strategy requires.

DBM is a shareholder in the State Commercial Bank (SCB), a Government-owned institution, with which it has cooperated on a scheme to assist SSEs, whereby DBM provides the term resources and SCB finances working capital. DBM can collaborate with commercial banks to refinance appropriate investment projects, although there are differences in approach since commercial banks, are concerned more with security for their loans than the economic justification. As a result, refinancing is unlikely to become an important part of DBM's perations. Besides the IBRD, DBM has borrowed from CCCE (about $3 million), the Industrial Development Bank of India which lent $4.5 million to finance transport equipment, and the EIB and ADB which loaned $3.4 million and $2.4 million, respectively.

Authorized share capital was increased in June 1979 from Rs 31.4 million to Rs 50 million and is fully paid. DBM is owned by GOM (75%), the Bank of Mauritius (20%) and the State Insurance Corporation of Mauritius (5%).

The Board of twelve directors includes representatives of GOM (4), the private sector (4), the University of Mauritius (2) and the Bank of Mauritius (1), as well as the Managing Director. The Financial Secretary of the Ministry of Finance is currently chairman. The Board has generally been reasonably effective in monitoring operations and providing general policy guidance to management. However, its role has been modest in review of operational plans and strategy. The fact that the board is composed of busy senior officials is at once a strength and, if management does not try to involve the Board in consideration of appropriate issues, a weakness since they have little time to devote to DBM.

DBM has had expatriate senior management since its creation. The managing director is assisted by an assistant managing director, an experienced Mauritian. Together they supervise five operating and one administrative divisions. The operating divisions include three lending divisions, one each for industry, including tourism, small-scale enterprise, and agriculture; the industrial estate division; and the industrial finance and guarantee division, which is responsible for operating the Export Credit Guarantee Scheme (ECGS). Staff, total 98, 32 professionals (including an advisor from India assisting the ECGS division), 49 sub-professional and clerical staff, and 17 others, an increase of 21 in total staff, and 5 in professional staff, since 1979. About one-third of the increase is in the SSE division, which has experienced considerable growth in the number of approvals, though not in the total amount approved.

Operating policies are defined in the Statement of General Policy, which is similar to policies in many other development banks. Lending rates are continuously reviewed; and have been increased twice since the 1979, to maintain a sound financial position, while remaining competitive with other financial institutions.

Project appraisal is good and project supervision, concentrates on the projects encountering problems. Since the operations have levelled off and the staff increased more time is being devoted to regular follow up of projects, and supervision procedures have been improved.

Procurement procedures require clients to seek competitive quotations for equipment and construction contracts, which are then verified by the investment officer responsible for appraisal. Thus for medium-sized building contracts, quotations from reputable local contractors are obtained, while for large-size construction, open tenders from classified contractors are required. Similarly, for plan and equipment quotations are obtained from local suppliers for smaller loans, and at least three quotations from suppliers are required for larger loans. These procedures are similar to those followed by other DFCs.

Accounting procedures are efficient and the accounting division is well staffed with qualified personnel. The new auditor, Lamusse, Sek Sum and Co., a local firm affiliated with Pannel, Kerr, Forster International Associates, is the second largest firm in Mauritius, with a diversified clientele in the financial, manufacturing and commercial sectors, including engineering enterprises and a commercial bank.

Interest rates depend upon the sector and the size of the loan (Table 49)

49. DBM INTEREST RATES

Type	% per annum
Deposits:	
Savings	11.0
Concessional rate for DBM staff	12.0
Fixed Deposits	
Over 3 months to 12 months	12.0
Over 12 months to 24 months	12.5
Over 24 months to 36 months	13.0
Loans:	
Medium/Large Scale Industries	
In foreign currency	5.0
In local currency	5.0
Small Scale Industries	
Up to Rs 25.000	10.0
Rs 25,000 up Rs 50,000	11.0
Over Rs 50,000	13.0
Small business	
Up to Rs 25,000	10.0
Rs 25,000 up to Rs 50,000	11.0
Agricultural Loans	
Up to 10 arpents	10.0
Over 10 and up to 50 arpents	11.0
Over 50 and up to 100 arpents	13.5
Over 100 arpents	14.5

Source: DBM, Annual Report 1982-83, p.7.

Clients also pay a commitment fee of 1%. For loans made from foreign exchange resources, the GOM carries the foreign exchange risk, at no fee, on SSE loans of Rs 25,000 or less. On other loans, the borrowers carry the exchange risk between the rupee and the dollar, and GOM carries the exchange risk between the dollar and the currencies of disbursement. With inflation of 7.3% in 1983-84, the real interest is positive on all new loans.

Operations reflect the rapid increase in industrial investment in Mauritius during 1972-78 and the slowdown of economic activity since 1979. Approvals reached a peak of Rs 84.4 million in 1977, declined slightly in 1978 (Rs 82. million), and sharply in 1979, to Rs 48.8 million, or by about 45% from 1977. Approvals then increased to Rs 51 million in 1980, Rs 64 million in 1981, Rs 30.7 million in 1982, and Rs 88.1 million in 1983.

A small-scale enterprise (SSE) lending scheme was established in 1971. Until 1979, the funds were provided by GOM, and subsequently from the IBRD fifth line of credit, the State Commercial Bank financing working capital from term loans from DBM. GOM reimburses DBM the estimated cost of operating this scheme and also guarantees DBM against loss from default from SSE loans of less than Rs 25,000. Through 1983, Rs 32.7 million had been loaned.

Loans to medium and large-scale industrial/tourism enterprises including agro-industry, have traditionally been about 75% of total lending but were only 39.2% in 1983. In 1983, the loan size averaged Rs 1.4 million.

ANNEX G

ANNEX G: DOMESTIC VEGETABLE OIL MARKET

Edible Oil Processing. Mauritius Oil Refineries Limited (MOR) is the only edible oil processing company in Mauritius. MOR is a public company with 320 shareholders which started operations in November 1968, offering shares to most of the parties involved in the import of refined oil for the local market. Quotas were established in agreement with GOM for the distribution and sales of oil. MOR primarily refines crude vegetable oils imported from major exporting countries. A small crushing plant is now crushing only copra but groundnuts and sunseeds also have been crushed. Machinery was imported, mostly from the U.K., and all construction work was done by local contractors. The plant uses standard batch equipment for oil neutralisation, drying, bleaching and deodorization, with a capacity of 35 MT daily, working three, eight-hour shifts.

In 1975, plant capacity was increased to 50 MT daily by replacing the three batch deodorisers with a semi-continuous one. A further increase in production was made by installing in 1975 a continuous deodoriser deacidifier, particularly efficient in refining palm and coconut oils. MOR now can fully refine 90 MT daily. Production was 8,600 MT for the first full year of operation (1970), 9,900 MT in 1975, 15,000 MT in 1979, and nearly 17,000 MT in 1984.

Edible oils are extracted from vegetable sources by two processes, mechanical expression and solvent extraction. During mechanical expression the plant cells are disrupted, usually by means of heat, followed by crushing under high pressure and the crude fats/oils separated from the blend mechanically. Solvent extraction involves the immersion of oil seeds in a liquid, a petroleum fraction or a chlorinated hydrocarbon, in which the fats/oils dissolve. The solvent is subsequently distilled off and the extracted crude triglycerides recovered. The crude products obtained by either of the processes are contaminated with water, free fatty acids, resins and gums and various decomposition products, looking cloudy and sour to the taste, and rapidly becomes rancid. Refining before supplying it for human consumption is necessary. Crude oils extracted under special conditions, cold pressed and filtered olive oil, for example, however, may be consumed without further processing.

Refining of crude triglycerides consists of three main operations to remove objectionable impurities with the least possible damage to and loss of oils/fats and the tocopherols, their natural preservatives.

The technological activities of MOR are concerned mainly with the purification of imported vegetable fats/oils. The oils purified are: soybean which is by far the most important, sunflower and coconut oils, and palm olein. Cottonseed, rapeseed, and groundnut oils have also been refined.

The three successive stages of refining include degumming, neutralisation, and bleaching and deodorization. Degumming removes phospolipids and other hydratable lipids and neutralisation removes the free fatty acids, which are converted into oil insoluble soaps. Bleaching is to reduce the color of the oil. Very little material is removed by bleaching which consists in treating neutralised oils with small proportions of activated earths at temperatures of plus or minus 90°C under vacuum for 15-30 minutes, followed by filtration.

Deodorisation is possible because of the high difference in volatility between the triglycerides and the substances which give oils their natural flavors and odors, a process of steam distillation whereby relatively volatively odoriferous and flavored substances are stripped from the relatively non-volatile oil. The operation is carried out at high temperatures under vacuum which ensures also the total expulsion of pesticide residues and mycotoxins by coevaporation. Direct deodorisation is used for removal of free fatty acids. The oils are degummed and bleached (no neutralisation) and then deodorised which is suitable for coconut, palm and palm kernel oils.

At MOR, standard refining procedures are carried out but all operations are monitored. The processing technique is determined by the quality and impurities of the crude oil, different oils requiring different treatments.

From the beginning of operations in 1968, MOR maintained strict control of processing of the oil to ensure efficient production and quality assurance. A well equipped laboratory and a qualified, well trained personnel to control the production give the necessary guarantee of quality. Working in collaboration with the Mauritius Standard Bureau (MSB) a program was developed meeting the specific requirements of the Scheme of Quality Control, Inspection and Testing in conjunction with the MSB Certification Mark.

Shipment of oil to MOR, imported in bulk units of 1,000-3,000 MT, are accompanied by a certificate of analysis delivered by an independent chemist, not only to check compliance with specifications on which the oil is bought but also to ascertain the exact quality of the oil. The oil is analysed upon receipt in Mauritius to determine the treatment that would be best suited to that particular oil. Thus the amount of water and phosphoric acid for the degumming process are calculated as well as the concentration and quantity of caustic soda required for the

neutralisation of the free fatty acids of the oil. The other operations, namely bleaching and deodorisation, are also monitored according to the properties of the oil. During processing, control is essential to ensure that the processing is adequate. Representative samples are drawn after each operation and tested. Corrective actions are immediately taken if necessary. A complete record of all tests and inspection data are maintained.

The type and design of the equipment used for the manufacture of oil also has an influence on the quality of the finished product. For example, the oil is never heated above 90°C at atmospheric pressure and only stainless steel equipment is used when oil temperature exceeds 120°.

MOR markets triglycerides that comply with the FAO/WHO specifications for edibility. The essential qualities include color, moisture content, smell, acidity, kreis test, and peroxide value.

Plastic containers are of food grade quality which is important to protect consumers from ingesting toxic migrants from the plastic containers. MOR supplies more vegetable than animal triglycerides to the population than average in other countries, which helps control cardiovascular complications. The oils marketed by MOR are exclusively of vegetable origin with a degree of unsaturation much higher than recommended by the International Scientific and Medical Committees on Dietary Fats and Coronary Heart Disease. During 1982, the average world consumption of vegetable and marine oils was 10.4 kgs per capital whereas per capita consumption in Mauritius was 17 kgs or more.

Price controls. Because of widely fluctuating world prices of edible oils and controlled domestic prices, MOR has had a very low average profit on sales (2.55%) during 15 years of existence. In 1984, MOR had a net loss of Rs 6.3 million reflecting a refining loss of Rs 8.2 million which was reduced by sales of acid oil and profits on other operations and investments (Table 46). The loss was the result of an inadequate increase in the selling price of edible oil which did not reflect the large increases in costs of crude oil. Crude oil in 1983 cost Rs 6,542 per ton and in 1984 Rs 8,990 per ton. During 1984, the price rose from Rs 6,717 per ton in the first half to Rs 11,958 per ton in the second half. The average cost increased 37.4% from 1983 to 1984 and rose 78% during 1984. Crude oil is 80% of the total cost of refined oil. The retail price was increased 15%, on 35% of sales and an additional 30% on 36% of sales, i.e. an average of 23% of annual sales. Therefore, the profit of Rs 6.4 million in 1983 became a loss of Rs 6.3 million in 1984. The domestic retail price in Mauritius is below retail prices in other countries. In Reunion, Paris, and London the price of a litre of soybean oil is equivalent to more than Rs 18.00, while in Mauritius the price is Rs 15.50. Stamp duty on crude oil is 13.2% Increases in the

domestic retail price of soybean oil have not kept pace with depreciation of the rupee. From October 31, 1979 through February 1, 1985, the rupee cost of imports rose 109% because of foreign exchange depreciation while the controlled retail price was increased only 68.9% (Table 40). As a result, consumers are not paying the full economic cost of vegetable oil and are being subsidized by MOR and other consumers.

40. RETAIL PRICE OF EDIBLE OIL

Effective Date	Rs/qt 1/	Price index	X-rate index
October 31, 1979	1.45	100.0	100.0
August 2, 1980	1.40	96.6	103.3
August 31, 1981	1.45	100.0	136.2
October 8, 1981	1.55	106.9	136.2
January 1, 1982	1.65	113.8	143.2
October 8, 1983	1.90	131.0	167.7
February 8, 1984	2.45	169.9	205.7
February 1, 1985	2.45	168.9	209.9

1/ 1 quart = 200 ml; 5 quarts = 1 litre.

Source: Mauritius Oil Refineries Ltd, March 22, 1985.

Tables 41 through 44 indicate annual consumption commercial imports, exports, and purchase price and handling costs of imports.

41. DOMESTIC CONSUMPTION OF EDIBLE OIL

Year (June/July)	Quantity (MT)
1979/80	15,094
1980/81	16,028
1981/82	16,105
1982/83	16,884
1983/84	17,112

Source: Mauritius Oil Refineries Ltd., April 1985.

42. COMMERCIAL IMPORTS OF EDIBLE OI

(MT)

Source	1979/80	1980/81	1981/82	1982/83	1983/84
Soya					
USA	2,099	15,675	6,256	11,490	3,254
Brazil	706	1,204	3,023	2,001	3,947
Malaysia	--	--	--	--	500
Holland	6,298	--	--	--	--
Belgium	--	--	--	--	--
W. Germany	2,100	--	--	--	--
France	--	--	2,064	--	--
Sunflower					
South Africa	307	219	1,209	--	--
Palm Olein	--	--	--	--	--
Malaysia and Singapore	2,516	2,042	3,012	4,743	3,546
Total	14,025	19,140	15,564	18,234	17,250

Source: Mauritius Oil Refineries Ltd., April 1985.

43. EXPORTS OF EDIBLE OIL

Type	MT	Country	Value (Rs)
Crude Sunflower	50	Reunion	301,000
Crude Sunflower	51	Reunion	313,000
Refined Oil	203	Madagascar	
	37	Seychelles	1,467,000
Refined Coconut oil	19	Seychelles	192,000

Source: Mauritius Oil Refineries Ltd., April 1985.

44. IMPORT PRICE AND LANDING CHARGES

Year	Soya	Sunflower	Palm Olein	Total
1979/80				
Quantity (MT)	11,203	307	2,515	14,025
Purchase price (Rs)	62.2	1.7	13.5	78.4
Landing charges, (Rs)	-	-	-	8.1
1980/81				
Quantity (MT)	16,879	2,042	219	19,140
Purchase price (Rs)	90.7	9.7	1.3	101.7
Landing charges, (Rs)	-	-	-	3.8
1981/82				
Quantity (MT)	11,343	3,012	1209	15,564
Purchase price (Rs)	71.1	18.2	7.6	96.9
Landing charges, (Rs)	-	-	-	5.3
1982/83				
Quantity (MT)	13,491	4,743	-	18,234
Purchase price (Rs)	77.7	26.8	-	104.5
Landing charges, (Rs)	-	-	-	15.2
1983/84				
Quantity (MT)	13,704	3,546	-	17,250
Purchase price (Rs)	120.8	26.98	-	147.7
Landing charges, (Rs)	-	-	-	22.3

Source: Mauritius Oil Refineries Ltd., April 1985.

45. BALANCE SHEET ON JUNE 30, 1984: MAURITIUS OIL REFINERIES LIMITED

Item	1984 Rs	1984 Rs	1983 Rs	1983 Rs
Capital employed				
Share capital		31,200,240		31,200,240
Reserves		10,542,109		11,170,426
Secured loans		319,157		412,652
		42,061,506		42,783,318
Represented by:				
Fixed assets		36,318,855		34,045,894
Investments		2,026,027		2,026,027
Current assets				
Stock	45,430,186		31,193,413	
Debtors and Prepayments	6,977,665		5,318,649	
Cash at Bank	20,255		7,755	
	52,428,106		36,519,817	
Current Liabilities				
Sundry creditors	685,081		733,455	
Bank overdrafts & loans (secured)	49,994,397		25,913,579	
Proposed dividend on founder share	-		495,809	
Provision for taxation	-		2,665,577	
	50,679,478		29,808,420	
Net current assets		1,748,628		6,711,397
Profit and Loss		1,967,996		--
		42,061,506		42,783,318

Audited by:

J. Raymond Lamusse FCA, FCCA
Lamusse, Sek Sum & Co
Certified Accountant
October 16, 1984

Source: MOR, Reports and Accounts for the year ended 30th June 1984, November 1984.

46. PROFIT AND LOSS ACCOUNT ON JUNE 30, 1984: MAURITIUS OIL REFINERIES LIMITED

Item	1984 Rs	1984 Rs	1983 Rs	1983 Rs
Trading, Loss/profit for the year before charging the following expenses		(1,267,647)		11,538,186
Directors' fees	31,925		31,725	
Professional charges	80,200		84,200	
Interest	2,991,050		2,239,254	
Depreciation	2,968,986		2,762,202	
		6,072,161		5,117,381
Net loss/profit		(7,339,808)		6,420,805
Other income		1,056,723		212,302
Loss on disposal assets		(1,939)		-
Deficit/Revenue before taxation		(6,285,024)		6,663,107
Taxation		-		2,665,577
				3,967,530
Dividends		-		2,679,824
Net deficit/revenue for the year		(6,285,024)		1,287,706
Balance brought forward		4,144,648		2,811,371
Prior years taxation adjustment		72,380		45,571
Balance carried forward		(2,067,996)		4,144,648

Source: MOR, Reports and Accounts for the year ended 30th June 1984, November 1984.

Soybean Oil Price Prospects. Prices of fats and oils are determined by interaction of supply and demand in international markets. Since most fats and oils are substitutes, the markets are interdependent. Technological improvements in refining and use of fats and oils have increased interchangeability: (1) prices have become more important in the user's choice of fats or oils, (2) price differentials have narrowed; and (3) the use of cheaper oils, such as soybean oil and palm oil, has increased at the expenses of higher-priced oils.

In the short run prices mainly reflect weather conditions, inventories, exchange rates, and prices of substitutes. Recent high prices were the result of: (1) the sharp drop in US soybean output in 1983 because of the PIK program and prolonged hot weather, (2) reduction in Malaysia palm oil output in 1983 and (3) the fall in copra output in the Philippines. The rise in the price of palm oil in 1984 was accompanied by corresponding price increases for soybean and other edible oils. Soybean oil prices generally dominate prices within fats and oils markets.

IBRD expects real soybean oil prices in 1983 constant dollars to decline to $565 in 1990 and to $555 in 1995 because production of soybean oil and its close substitute, palm oil, is expected to increase significantly over the next decade Table 47). The comparable palm oil prices, are $550 in 1990 and $535 in 1995, slightly below soybean oil prices. Recent futures prices indicate that IBRD projections were somewhat higher than warranted (Table 48). Although demand prospects for vegetable oils, particularly in developing countries, are likely to remain strong, supplies of soybean and palm oils are expected to increase more, leading to a softening of vegetable oil prices.

47. ACTUAL AND PROJECTED CURRENT AND CONSTANT SOYBEAN OIL PRICES

Year	Current ($/MT)1/	Constant (1983 $/MT)	Index
1960	225	745	136.4
1965	270	868	159.0
1970	307	885	162.1
1975	619	882	161.5
1976	438	613	112.3
1977	576	745	136.4
1978	607	668	122.3
1979	662	655	120.0
1980	598	546	100.0
1981	507	483	88.5
1982	447	434	79.5
1983	527	527	96.5
Projected			
1984	700	676	123.8
1985	670	599	109.7
1986	710	583	106.8
1990	932	565	103.5
1995	1,225	555	101.6

1/ US, CIF Rotterdam.

Source: IBRD, Price Prospects for Major Primary Commodities, Vol II, Sept. 1984, p. 279.

48. EDIBLE OIL PRICES

Year	Soybean Oil ($/MT) 1/	Index	Palm Oil 2/	Index
1960	223.50	37.4	224.42	38.5
1965	269.70	45.1	273.42	46.9
1970	291.40	48.7	259.50	44.5
1971	306.00	51.2	262.08	44.9
1972	230.6	38.6	217.42	37.3
1973	436.00	72.9	375.92	64.5
1974	832.20	139.2	691.33	118.6
1975	563.30	94.2	420.25	72.1
1976	438.00	73.3	397.33	68.1
1977	574.20	96.1	530.08	90.9
1978	606.70	101.5	600.33	103.0
1979	662.60	110.8	653.83	112.1
1980	597.80	100.0	583.08	100.0
1981	506.93	84.8	570.67	97.0
1982	447.33	74.8	445.08	76.3
1983	526.88	88.1	501.42	86.0
1984	724.00	121.1	728.83	125.0
1985	630.00	105.4	583.00	100.0
Futures prices				
1985				
May	668.65	111.9		
July	632.05	105.7		
August	608.46	101.8		
September	588.62	98.5		
October	568.78	95.1		
December	546.74	91.5		
1986				
January	542.77	90.8		
March	533.50	89.2		

1/ All origins, Dutch ports.
2/ Malaysia (Europe).

Source: IMF, International Financial Statistics, March 1985, p.77. Futures prices for March 26, 1985 from Herald Tribune, March 27, 1985.

Annex H

MAURITIUS

MAURITIUS:
Mobilisation of External Resources for Development

Ministry of Economic Planning and Development
Port Louis, December 1984

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GLOSSARY OF ABBREVIATIONS

(Used more than once in the text)

ADB	—	African Development Bank
BADEA	—	Banque Arabe de Dévéloppement Economique en Afrique
CCCE	—	Caisse Centrale de Coopération Economique
CDC	—	Commonwealth Development Corporation
CID	—	Crédits d'Intervention Directe
CIDA	—	Canadian International Development Agency
DBM	—	Development Bank of Mauritius
EDF	—	European Development Fund
EIB	—	European Investment Bank
FAC	—	Fonds d'Aide et de Coopération
FAO	—	Food and Agriculture Organisation
FRG	—	Federal Republic of Germany
GWh	—	Gigawatt Hours
IAEA	—	International Atomic Energy Agency
IDRC	—	International Development Research Centre
IFAD	—	International Fund for Agricultural Development
ILO	—	International Labour Office
IMF	—	International Monetary Fund
JICA	—	Japanese International Cooperation Agency
KfW	—	Kreditanstalt Fur Wiederaufbau
MBC	—	Mauritius Broadcasting Corporation
ODA	—	Overseas Development Administration
POD	—	Petite Opérations de Dévéloppement
SDR	—	Special Drawing Rights
UNESCO	—	United Nations Educational Scientific and Cultural Organisation
UNFPA	—	United Nations Fund for Population Activities
UNICEF	—	United Nations Infant and Children Educational Fund
UNIDO	—	United Nations Industrial Development Organisation
UK	—	United Kingdom
WFP	—	World Food Programme
WHO	—	World Health Organisation
WMO	—	World Meteorological Organisation

INTRODUCTION

Mauritius achieved independence in 1968. Like many other newly independent countries in the 1960's, Mauritius embarked on ambitious development programmes to be financed largely by external resources which were then available on favourable terms, especially from erstwhile colonial powers. The country was quite successful in mobilising an increasing volume of concessionary finance while diversifying its sources.

When concessionary finance started to dry out as a result of the prolonged recession in the industrialised world in the mid-1970's Mauritius, like most developing countries, turned to the international capital markets. And a few years later, when the debt crisis demonstrated that domestic disequilibria cannot be financed durably by expensive foreign commercial loans, Mauritius was forced to embark on a structural adjustment programme for which new external resources were tapped, especially from the IMF and the World Bank.

A general analysis of the external flows (Chapter II) illustrates the diversified nature of their sources and their growing importance. It reflects also the success with which the country has been able to supplement traditional bilateral flows (Chapter III) by an increasing support from multilateral organisations (Chapter IV) and regular incursions on the international financial markets (Chapter V).

The success of Mauritius in mobilising a substantial volume of external resources in spite of the decline in official development assistance and the reluctance of private financial institutions to lend to developing countries, testifies to its capacity to manage these resources to the satisfaction of lenders and aid-givers while achieving an enviable performance in the field of economic and social development. The formulation of a coherent policy approach to the mobilisation of external resources and the proper management of these resources are no easy tasks. Mauritius has learned the hard way that errors in these fields can be very damaging to the national economy and to the international credit-worthiness of the country. It has accordingly developed a flexible approach which takes stock of the changing world environment in which the transfer of resources to developing countries takes place and which is based on the continuous re-appraisal of domestic priorities to adjust them to the availability of external flows (Chapter I).

Mauritius has also evolved satisfactory mechanisms which ensure that scarce foreign exchange achieves maximum development impact. The sectoral analysis of projects which have been financed by external resources (Chapter VI) gives a comprehensive account of the utilisation of these resources.

A review of the mobilisation and utilisation of external resources would not be complete without an objective assessment of debt servicing problems (Chapter VII).

This report which is the first attempt to give a comprehensive overview of the Mauritian experience in external resources mobilisation and utilisation, constitutes an objective assessment of the strengthening capacity of the country to mobilise external resources and to use them effectively.

A note of caution, however; although the report covers, as extensively as possible, all external resources received in Mauritius, it does not claim to be exhaustive. It must also be pointed out that the coverage of the report is limited to the public sector. It has not been possible to review external assistance given to private organisations in the country owing largely to the fact that much of this aid has not been channelled through Government and has often gone unrecorded.

CHAPTER I

EXTERNAL RESOURCES MOBILISATION AND MANAGEMENT

The Underlying Policy

Mauritius has developed an external resources mobilisation policy which reflects the experience acquired by the country over a time span of almost two decades.

1.2 In the early years of the post-independence period, the Government of Mauritius considered the recourse to external resources as an effective means of supplementing domestic resources mobilised to finance the investment programme of the country. The pace of economic development was implicitly associated with the level of external resources mobilised. Hence, the Government spared no effort to tap all available sources of concessionary finance.

1.3 At that time, the basic needs approach of the Government of Mauritius found a favourable echo among aid agencies and friendly countries which laid emphasis on the redistributive impact of aid utilization. Thus, a large proportion of external resources was directed towards social infrastructure projects (schools, hospitals, health centres, community halls, etc). It was also the time when 'big was beautiful' and there prevailed a general consensus among official development assistance institutions on the need to implement large development projects to achieve genuine economic growth. Mauritius took advantage of these favourable circumstances to launch some of its most ambitious projects which were to change the face of the country.

1.4 The first oil shock and the consequent economic problems of industrialised countries triggered off a critical re-appraisal of official development assistance by aid donors. Developing countries in general failed to respond to this new situation mainly because of the widespread belief that the world economic crisis was to be short-lived. In Mauritius, the sugar boom of the mid 1970's postponed the problems experienced by most developing countries as the exceptionally large inflows of foreign exchange more than compensated for the loss resulting from the abrupt increase in oil prices, the unfavourable movement in exchange rates and the general increase in the price of imported goods and services. Consequently, the Government decided to push further its policy of growth with redistribution, investing heavily in social and economic insfrastructure while pursuing a prices and incomes policy which aimed at raising the standard of living of the lower strata of the population. To this end, external resources continued to be mobilised to supplement funds raised locally.

1.5 The dramatic change in the external payments position of the country in the second half of the 1970's, which resulted mainly from the deterioration of the terms of trade of the country (influenced largely by the fall in sugar prices), the stagnation of the main income-generating sectors of the economy and the substantial increase in the consumption of imported goods, compelled the Government to disregard, temporarily it was thought, the principles on which external resources had been mobilised until then. In 1977, for the first time the Government contracted a loan from private international sources on commercial terms to alleviate the balance of payments problems of the country.

1.6 The Government is fully conscious of the fact that the recourse to commercial loans does not represent a durable solution to the external payments problems of the country, nor is it an effective neans of financing the economic development of Mauritius. The persistance of the economic and financial difficulties of the country in the late 1970's prompted the Government to seek the assistance of the World Bank and the IMF to work towards the structural re-adjustment of the economy and to review the strategy followed in the mobilisation of external resources. The seriousness of purpose with which the Government implemented the re-adjustment programme of the Mauritian economy resulted in the growing support of the international community through new financial instruments. Since 1979, two structural adjustment loans have been contracted with the World Bank and five stand-by loans with the International Monetary Fund (IMF). In addition, other adjustment loans and balance of payments support were secured from both multilateral and bilateral sources.

1.7 However, the substantial amount of concessionary finance mobilised over the last five-year period has not been sufficient to meet the external resources needs of the country. The Government has had to make periodic incursions on the international capital markets to raise several syndicated loans. The recourse to loans from private sources has thus become an integral part of the Government's policy concerning the mobilisation of external resources.

1.8 The experience gathered over the years by the country in its fruitful dialogue with aid donors, international bankers and international development organizations and the critical re-appraisal of domestic priorities and external constraint have rendered possible the formulation of a coherent policy which is based on four main principles:

(a) a global approach to external resources mobilisation and utilisation;

(b) the maximization of concessionary financial flows;

(c) the optimisation of the development impact of external resources utilisation; and

(d) compliance with the development strategy of the country.

A Global Approach

1.9 Although external resources mobilised result from negotiations with individual countries, organisations or bankers, every effort is made to obtain a quantum of resources which enables the country to meet at least its most urgent needs and to secure such resources on conditions which are within the debt servicing capacity of the country. Continuous assessment of the external resources needs of the country through a 'Gap Fill' model of the economy, periodic revisions of the 'Public Sector Investment Programme' and close monitoring of the Public Budget provide the Government with the necessary information to take maximum advantage of every offer, including the risky incursions on the international financial markets.

Maximisation of Concessionary Flows

1.10 Given the existing debt servicing commitments and the balance of payments problems of the country, heavy reliance on non-concessionary loans can only lead to a piling-up of debt servicing obligations and inevitably to a situation of net negative flows as is already the case in many developing countries. It is Government's policy to go on the international financial markets only when all sources of concessionary finance, both bilateral and multilateral, have been exhaustively tapped. In this connection, the international community should take stock of its responsibility vis-à-vis a country like Mauritius as the level of official development assistance will certainly have a more determinant role than ever before in pulling the country out of the present economic recession and the vicious circle of under development.

Optimization of the Development Impact

1.11 There is to-day a consensus among all providers of external resources, whether public or private, concessionary or not, on the need for the utilisation of these resources to be development-oriented. The Government of Mauriius shares this view as the economic situation of the country dictates that scarce, and often expensive, external resources be used to achieve maximum development impact. To this end, every effort is being made to direct external funds to sectors and projects where quick returns on investment are attainable and where pay-back periods are short.

Compliance with the Development Strategy of the Country

1.12 The development strategy of the country is based on the growth of some priority sectors which have the potential of providing gainful employment to the large number of unemployed in the country and of contributing meaningfully to the economic redress, especially to the improvement of the balance of payments situation. It is Government's policy to sensitize aid donors on the country's priorities so as to obtain their endorsement for the planned investment programme of the country.

1.13 Futhermore, the Government is answerable to the people of Mauritius whose aspirations for a better future are part and parcel of the development strategy. Over the last five-year period, the population has made tremendous sacrifices and has demonstrated a high sense of discipline to ensure the success of the re-adjustment programme. In its negotiations on conditionalities attached to external loans and grants, the Government pays due consideration to the legitimate needs of the population so as to enlist its continuous support for the country's development programme.

Managing External Resources

1.14 From the very outset, the Government has placed external resources management and utilization in the broader macro-economic perspective of national economic management by entrusting this function first to the 'Economic Planning Unit' of the Prime Minister's Office, and in 1970 to the newly-established Ministry of Economic Planning and Development. Initially, Government concentrated its efforts on aid co-ordination with a view to providing a single Government focal point for negotiating and channelling aid. In those early years, the other aspects of external resources management, viz. project appraisal, monitoring, ex-post evaluation and debt management received limited attention mainly because of the absence of an appropriate institutional mechanism and a shortage of qualified staff. Government has progressively set up a smooth machinery which deals professionally with all aspects of resource management.

Project Selection

1.15 Government organised a training course for senior civil servants in project identification and appraisal techniques. It also prepared a manual for project appraisal* which provides a useful guide to Ministries and parastatal organizations on the criteria which their projects should meet. Furthermore, Government also prepares an indicative sectoral allocation of external resources to enable project promoters to select an optimum project mix. The adherence to these guidelines, by all parties concerned, enables the Government to prepare a Public Sector Investment Programme which is a clear, concise and comprehensive collection of carefully selected projects.

*A Manual for Project Apparaisal's Government Printer, 1983

Project Implementation

1.16 The Government has spared no effort to minimize delays in the implementation of projects, both to achieve high disbursement rates and to avoid cost-overruns resulting from slow implementation. To this end, a Programme Implementation and Monitoring Section has been set up in the Ministry of Economic Planning and Development to keep a close watch over the implementation of public sector projects, to assist in finding solutions to emerging problems and to report on progress concerning fund utilisation. Furthermore, a National Projects Co-ordination Committee, chaired by the Minister of Finance, has been established to give additional weight to the project monitoring exercise.

Monitoring of Programme Loans

1.17 The Government has identified the need to have a specific machinery to deal with programme loans for which policy measures not directly related to any individual project have to be taken. Stand-by Agreements with the IMF and Structural Adjustment Loans with the World Bank are two cases in point. It has now been decided to set up a high level Economic Management Committee to monitor the performance of the economy, to keep track of the utilization of programme and to ensure that commitments taken vis-à-vis aid agencies are fully implemented. The creation of the Economic Management Committee will no doubt strengthen the policy aspect of external resource management.

Debt Management

1.18 No proper management of external resources can be ensured to-day without an efficient debt management system. Since a few years, Government has initiated a debt-reporting system which can provide up-to-date information on the debt profile, the debt servicing commitments of the public sector and other valuable data. It is hoped that the system, which is presently a manual one, would be computerised in 1985, giving additional reliability to data on the debt situation of the country while producing them much more rapidly.

Accountability for Use of Funds

1.19 It is not out of place to conclude that Government's use of funds, both external and locally mobilised are not only subject to the attention of donors and lenders. The Government is also accountable to the Audit Department and the Public Accounts Committee of the Legislative Assembly, both well known for their independence vis-à-vis the Government of the day.

CHAPTER II

GENERAL ANALYSIS OF EXTERNAL FLOWS

2.1 The characteristics of the external resources mobilised over the last two decades have undergone major changes. As all newly-independent countries, Mauritius has witnessed a diversification of aid sources as new donors and lenders stepped in to supplement the resources made available by the former colonial power. The efforts deployed by the Government to sensitize the international community on the external resources needs of the country have also resulted in a notable increase in external flows, especially in the earlier years, and a diversification of the types of resources mobilised.

2.2 Against this background of a growing capacity to mobilise external resources, some very important qualitative changes have occurred. In the first place, the emergence at the end of the 1970's of programme loans alongside the traditional project loans was to alter the relations between donors/lenders and the Government as the emphasis was shifted to a more global approach to development assistance. The recourse, in recent years, to substantial loans from multilateral sources, especially from the IMF and the World Bank, has enhanced the relative importance of multilateral aid. Since 1977, when the first Euro-dollar loan was contracted, Commercial loans from international financial markets have rapidly become largest source of external resources.

2.3 The net effect of the qualitative changes has been a worsening of the conditions on which external resources have been made available to the country. Besides the debt servicing problems (which are examined in detail in chapter 7) caused by these changes, the reduction in the grant element of external resources mobilised has had a negative effect on the volume of resources which the country can mobilise in future.

The Diversification of aid sources

2.4 From a situation of almost complete dependence at the time of independence on the United Kingdom, the only other source of aid being IBRD (which accounted for only a small fraction of total aid received), Mauritius has successfully negotiated aid programmes from a large variety of bilateral and multilateral sources. On the bilateral front, Mauritius is to-day receiving aid from a large number of OECD countries (especially UK, France, the USA, the Federal Republic of Germany, Canada, Australia and Japan), oil-exporting Arab countries (Saudi Arabia, Kuwait and Abu Dhabi), communist countries (mainly USSR and the People's Republic of China), and even some large developing countries (especially India). The World Bank and the IMF are

the two main international agencies which have brought the largest amounts of external resources to Mauritius in recent years. But other multilateral aid organisations like the European Development Fund, the European Investment Bank, the African Development Bank, the United Nations Agencies (especially the UNDP and IFAD), the Arab Bank for Economic Development in Africa and the OPEC Fund have brought substantial amounts of concessionary finance to the country. This diversification of aid sources is a good illustration of the country's pragmatic approach to aid mobilisation and the goodwill it enjoys from all sectors of the international community.

The Increase in the volume of external resources

2.5 The amount of external resources received in Mauritius has increased tremendously since independence. In FY 80 Rs 1,207 million were actually disbursed as against Rs 52 million in FY 68. Even after allowance is made for the increase in prices (as an indication, the import price index increased six-fold over this period), the increase in real terms has been four-fold. This is, indeed, a very remarkable performance. However, the trend has been reversed in the 1980's as external flows have been constantly below the level reached in 1980; only Rs 875 million were mobilised in FY 83.

The recourse to new type of aid instruments

2.6 For over a decade the Government concentrated its efforts on the mobilisation of project loans, grants and food aid. With the acute balance of payments problems which emerged in the late 1970's, it became evident that project loans, with their inherent rigidities in the terms and conditions of disbursement, could not provide a satisfactory solution to the external resources needs of the country. Mauritius has thus rapidly shifted over to programme loans and balance of payments support. Although the major part of these loans came from the IMF and the World Bank, other multilateral organisations and friendly countries also made resources available under these facilities. Over the four-year period through FY 83, programme loans/ balance of payments support to meet its newly emerging external resource requirements represented about half of the total amount of official development assistance received (Rs 2,600 million), compared to the insignificant amount received in earlier years.

2.7 Mauritius also took advantage of other new forms of aid such as the Compensatory Financing Facility of the IMF or the new lines of credit offered by bilateral sources (the Exim Bank of India, the 'Compagnie Française pour l'assurance du Commerce Extérieur' COFACE or the CCCE of France) to import raw materials and equipment. The rapidity with which non-project loan has become preponderant is undoubtedly the most striking feature of the change in aid structure.

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Loans from private sources

2.8 Five syndicated loans raised on the international financial markets during a seven-year span (from 1977 to 1984) reflect certainly the continuing inability of official development assistance to meet all the external resources needs of the country. A total amount of US $ 212 million has been raised to-date, representing, on average, more than 25% of all resources mobilised. The fact that these commercial loans were easily raised illustrates also the international credit-worthiness of the country.

The shift from bilateral to multillateral sources

2.9 Over a period of less than two decades, Mauritius has moved from a situation where multilateral flows were almost inexistent to one where they amount for more than 70% of total resources mobilised. This change is, of course, accounted for mainly by the massive borrowings from the IMF, the World Bank and private international sources. But is reflects also the relative stagnation of bilateral aid as a result of economic difficulties encountered by traditional aid donors.

The increasing costs of external resources

2.10 In FY 68 about two-thirds of all external resources received (Rs 34 million) were straight forward grants and the rest was concessionary loans. Over the period FY 80 — FY 83 only Rs 223 million (6.4%) received were grants and Rs 2,374 million (67.5%) were concessionary loans. Furthermore, the grant element in the concessionary loans received in recent years is much lower. This is partly explained by the fact that the increase in the per capita income of Mauritius in the first half of the 1970's no longer qualifies her for some highly concessionary resources, like IDA loans. It is also true that resources from the IMF and IBRD, although concessionary, are far more expensive than traditional bilateral aid. The global effect of these changes has been rapidly increasing debt servicing costs which constitute a limiting factor to further mobilisation of external resources on commercial terms. (see chapter I).

TABLE II.1

COMPOSITION OF EXTERNAL RESOURCES MOBILISED (FY 68 — FY 83)
(Rs million)

Type of Resources	*FY 68* Amount	%	*FY 80 to FY 83* Amount	%
Grants ...	34.6	65.8	225.1	6.4
Concessionary loans	18.0	34.2	2,374.2	67.5
Non-concessionary loans	—	—	917.7	26.1
TOTAL	52.6	100.0	3,517.0	100.0

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TABLE II.2

SOURCE OF EXTERNAL RESOURCES MOBILISED (FY 80 — FY 83)

(Rs million)

Source	*FY80*	*FY81*	*FY82*	*FY83*	*FY80—FY83*
Bilateral ...	244.7	254.3	177.0	339.9	1,015.9
Multilateral ...	501.4	318.8	232.8	530.7	1,583.7
Private ...	461.5	450.9	—	5.0	917.4
TOTAL ...	1,207.6	1,024.0	409.8	875.6	3,517.0

CHAPTER III

EXTERNAL RESOURCES FROM MULTILATERAL SOURCES

3.1 As mentioned in Chapter II, the shift from bilateral aid to multilateral aid is certainly the most striking change in the nature of the external resources mobilised. Table III.1 summarizes the flows received from the major aid agencies. The IMF with some SDR 234 million advanced under its various financial schemes has been the largest supplier of external resources, closely followed by the World Bank (US $ 210 million). The European Develoment Fund and the European Investment Bank have contributed together some ECU 47.5 million while the African Development Bank (UA 40 million), the Arab Bank for Economic Development in Africa (US $ 20.7 million), the OPEC Fund (US $ 4 million) and IFAD (SDR 5.25 million) made also significant contributions. The United Nations Agencies (especially the UNDP) have also provided continuous support to the country since the early 1970's.

The International Monetary Fund

3.2 Mauritius first made use of IMF credits in 1969 (US $ 3.7 million). However, until 1977, the country limited itself to the ordinary drawings (the reserve tranche) which brought small amounts of foreign exchange to the country. As from that year, there has been a net acceleration of disbursements from IMF as Mauritius made extensive use of fund credits. The negotiation of five Stand-by Agreements as from 1979 brought an additional amount of Rs 1,773 million. The use of IMF resources as at January 1984 is given in table III.2. The bulk of the resources were granted under the two special mechanisms established to implement Stand-by Agreements, namely the "Supplementary Financing Facility" (SDR 69.2 million) and the "Enlarged Access to Fund Resources" (SDR 30.4 million). Substantial resources were also mobilised through the Compensatory Financing Facility (SDR 51.5 million) and the Ordinary Credit Tranche (SDR 50.1 million). Mauritius also made use of the Buffer Stock Facilities and the Trust Fund Loans.

3.3 These resources have been made available on the usual terms and conditions attached to the different types of financial facilities used by Mauritius. However, specific conditions were attached to the five Stand-by Agreements. Funds were released only after strict performance criteria have been met in various fields, namely public budget deficit, credit expansion and balance of payments, and after implementation of a series of policy measures in the economic management of the country.

The World Bank

3.4 Since 1963 when the World Bank first intervened in Mauritius, a total amount of US $ 210 million has been made available to the country. The major part of these resources were obtained as IBRD loans which carried fixed interest rates, ranging from 4.7% to 9.25%, in earlier years. Recent loans bear floating interest rates, which are revised every six months, the current rate being 9.29%. Until 1974, when Mauritius no longer qualified for IDA credits because of the improved per capita income, five IDA loans were successfully negotiated. Mauritius has not been able to benefit fully from the resources provided by the International Financial Corporation, as only one small loan of US $ 0.6 million was raised for hotel development.

3.5 The Bank's major loan operation has been in the support of the Government's structural adjustment programme. Two SAL's amounting to US $ 55 million have been negotiated, the first one in 1981 and the second one in late 1982, and they supplemented effectively the resources provided by the IMF. Furthermore, a Technical Assistance Loan of US $ 5 million has been tagged to the second SAL for financing studies which would serve as a basis for evolving policy reforms in key sectors of the economy. These loans represent almost 29% of all Bank resources tapped by Mauritius.

3.6 The rest of the Bank's intervention in Mauritius was in the form of project loans advanced mainly to finance the development of the social and economic infrastructure of the country. The most significant contribution in economic infrastructure was the financing of the setting up of industrial estates at Plaine Lauzun and Coromandel which proved to be invaluable assets to the industrial development strategy of Government. Some US $ 39 million were provided for these projects.

3.7 Substantial assistance was also provided for the strengthening of the electricity distribution network (US $ 22 million), for urban rehabilitation (US $ 15 million), for the improvement of the road network (US $ 15.2 million), for harbour development (US $ 13.6 million) and for water projects (US $ 12.2 million).

3.8 Intervention in favour of social infrastructure consisted of a major education development project (US $ 22.2 million) and an integrated rural development programme (US $ 4 million). Loans for education were made available in the context of Government's programme to reorientate the education system through the construction of post-primary institutions providing technical education. The rural development programme aimed at providing certain basic facilities to people in the rural areas. This programme also comprised the promotion of small-scale agricultural activities.

3.9 The Bank also financed a major agricultural project (US $ 9.2 million) in the tea sector. It provided for the creation of tea plantations for distribution to small holders and for the construction of a tea factory.

The African Development Bank

3.10 The ADB has been assisting Mauritius for almost a decade now. The bulk of the UA 40 million (UA 25 million) provided over the period went to economic infrastructure projects. Lines of credit for industrial development and for agro industry accounted for the remaining UA 15 million. All these resources have been obtained on soft terms, with interest rates ranging from 4% to 7% per annum plus service charges of 1% per annum, and repayment periods varying from 10 to 40 years.

3.11 Road and related projects, including the Northern Entrance Road, the Port Louis Through Road and the Grand River North-West Bridge, benefited most from ADB loans (UA 14 million). There was also a grant from the African Development Fund to assist the country in rehabilitating its road network damaged by cyclones. Water and sewerage development (UA 11 million) absorbed the remaining resources allocated to infrastructure projects.

3.12 The ADB has committed an amount of UA 10 million for the construction of a flour mill and a grain complex, only directly productive industrial project in its portfolio in Mauritius. But it has indirectly financed industrial development through two lines of credit of UA 5 million extended to the Development Bank of Mauritius (DBM) for on-lending to the manufacturing and agro-industrial sub-sectors.

The European Development Fund and the European Investment Bank

3.13 As a member of the African, Caribbean and Pacific (ACP) Group, which is associated with the EEC through the Lome Conventions, Mauritius qualifies for EDF assistance and EIB loans. The forms of EDF assistance to Mauritius have been limited to direct grants and special loans as the country does not qualify for either STABEX or the compensatory financing for minerals, the main exports (sugar) being covered by the Sugar Protocol. The volume of EDF aid under the IIIrd, IVth and Vth EDF programmes has been around ECU 40 million and total financing inputs from EIB have been ECU 7.5 million. In addition, Mauritius benefited by way of emergency aid and food aid.

3.14 Almost 50% of EDF resources (ECU 19.5 million) were used to finance the provision of social services, namely education, health, housing and community development. In education, funds were used for the construc-

tion of two secondary schools, the expansion of the university library and for financing overseas training. In health, EDF funds financed the purchase of pharmaceutical supplies, the upgrading of Civil and District Hospitals and the construction of two health centres. The construction of some 960 houses, both in Mauritius and Rodrigues, housing loans and site-and-service schemes represent EDF's contribution in the housing sector. EDF also financed several small-scale projects mainly of a community development nature.

3.15 Some ECU 14.5 million (or 36% of total resources) were provided for road development. Of this, ECU 5.7 million have already been used for the Terre-Rouge—Mapou Highway in the North and the balance will be used for the Phoenix—Nouvelle France segment of the highway in the south.

3.16 The remaining ECU 6.7 million has been allocated to the agricultural sector. This has financed a technical and economic feasibility study of the Western Coast Irrigation Project, the construction of two maize drying plants and an integrated agricultural development project in Rodrigues, currently under implementation. A project for cold storage facilities for onions is in the pipeline.

3.17 EDF has also given its support to the participation of Mauritius in trade and tourism fairs, through the production of promotional materials and the payment for the services of investment promotion firms, mainly in France, UK and FRG.

3.18 The resources made available by the EIB have been primarily used in the energy sector where the EIB participated together with a consortium of lending agencies in the financing of a major hydro-electric project.

Arab Bank for Economic Development in Africa

3.19 Since 1975, BADEA has provided concessionary loans totalling US $ 20.7 million. The major part of these resources (US $ 18 million) were obtained on usual BADEA terms and conditions, that is, interest ranging from 4% to 8% with repayments spreading over 10 to 12 years. The balance of US $ 2.7 million was obtained as emergency assistance and contained a grant element of over 70%.

3.20 The ordinary resources were used or are earmarked to co-finance two major projects: US $ 8 million in the flour mill and grain complex project which will be implemented soon and the remaining US $ 10 million in the Champagne Hydro-electric project, the largest development project implemented in recent years.

3.21 The emergency assistance which was obtained from the special Arab Aid Fund in 1975, was a non-project aid to meet contingency expenditure following adverse climatic conditions.

The OPEC Fund

3.22 The OPEC Fund has provided mainly balance of payments support as it was one of the first to lend some US $ 4 million to finance the country's economic adjustment programme. In addition, it has participated in the energy development programme of the country, by providing some US $ 2 million for the co-financing of the Champagne Hydro-electric Project. The loans have been made available at interest rates varying from 4% to 6% per annum.

The International Fund for Agricultural Development

3.23 IFAD's involvement in project financing has been fairly recent and has focused on one project—the Small-scale Agricultural Development Project. Project components include an agricultural credit programme for small farmers, various rural development activities and the institution of a project monitoring and evaluating mechanism. IFAD's contribution to the project is SDR 5.25 million. The loan is for a period of 20 years and carries interest at 4% per annum.

The United Nations Agencies

3.24 Various UN agencies have been closely associated with the country's development effort. Their assistance has taken the form of consultancy and expert services, equipment, training and pre-investment services.

3.25 Assistance from the United Nations Development Programme (UNDP) has been most meaningful and has averaged US $ 1 million a year since the early 1970's. In addition to short-term consultancies, training and equipment, the UNDP financed pre-investment studies in specific fields. It was in the light of such studies that major investment decisions were taken regarding such key projects as the Champagne Hydro-electric Scheme, the Grand River North-West Bridge and the Flour Mill. The UNDP also financed a Land and Water Resources Survey in the late 1970's and provided extensive technical assistance in the livestock sector.

3.26 Other UN agencies, namely FAO, UNICEF, UNFPA, UNESCO, WHO, UNIDO, WMO, ILO and IAEA, have also provided regular assistance to Mauritius either through technical assistance or by acting as executing agencies for UNDP-financed projects.

TABLE III.1

RECEIPTS FROM MULTILATERAL SOURCES (1963 TO-DATE)

Organisation	*Current*	*Amount (Million)*
The World Bank	US $	209.5
International Monetary Fund	SDR	234.0
African Development Bank	UA	40.0
European Development Fund	ECU	40.0
European Investment Bank	ECU	7.5
Arab Bank for Economic Development in Africa	US $	20.7
OPEC Fund	US $	6.0
International Fund for Agricultural Development	SDR	5.25

TABLE III.2

USE OF IMF RESOURCES (AS AT JANUARY 1984) (INCLUDING TRUST FUND)

Facility	*Amount (million SDR)*
Purchases — Reserve Tranche	20.1
Compensatory Financing Facility	51.5
Buffer Stock.	3.6
Credit Tranche (Ordinary Resources) ...	50.1
Credit Tranche (Supplementary Financing Facility	69.2
Credit Tranche (Enlarged Access to Fund Resources)	30.4
Trust Fund Loans	9.1
TOTAL ...	234.0

CHAPTER IV

EXTERNAL RESOURCES FROM BILATERAL SOURCES

4.1 The diversification of bilateral aid after independence has been accompanied by significant changes in the relative importance of various donor countries (Table IV.1). The most remarkable performance is, undoubtedly, that of France which has brought some FF 715 million to the country since 1970, thereby becoming by far the largest contributor among bilateral sources. From its position of sole bilateral partner of Mauritius, the United Kingdom plays to-day a lesser role, although funds provided on a regular basis since independence, make her to-day the second largest contributor (£ 28.3 million). Assistance from a developing country like India (IR 360 million), reflects the privileged relations which have developed between the two countries. Although the intervention of oil-exporting Arab countries in Mauritius is fairly recent, their contribution has been very meaningful, especially that of Kuwait (2.1 million Kuwaiti Dinars). The People's Republic of China's offer of a £ 13.5 million loan in 1972, Australia's regular support since 1977 and Japan's recent emergence as a major aid donor are also worthy of mention.

France

4.2 Economic and technical co-operation between France and Mauritius dates back to 1970. Initially, Mauritius benefited from grants whose volume were determined during Franco-Mauritian Joint Commission Meetings held every two years. The major part of funds released was in the form of direct project aid. However, two specific mechanisms, the " Credits d'Intervention Directs " (CID) and the " Petites Operations de Development " (POD), were set up to deal with medium-size community development projects and small projects with value not exceeding FF 100,000, respectively. Total grants received under the various schemes have reached some FF 162 million.

4.3 As from 1975, Mauritius has been benefiting from concessional lending from the CCCE. The interest rates attached to normal CCCE's loans vary between 4.5% for agricultural projects to 6.5% for infrastructure projects and repayment periods extend from 15 to 20 years, depending on the nature of the projects. The CCCE serves also as a channel for assistance from the French Treasury and for suppliers' credits, which bear interest rates of 8% to 8.5% and are repayable over five years. Total CCCE's commitments to-date have amounted to FF 553 million.

4.4 The grants from the French Government have been used to finance mainly agricultural projects (FF 60 million), economic infrastructure (FF 32 million), educational infrastructure (FF 28 million), cultural activities (FF 26 million), health development (FF 13.6 million) and industrial promotion (FF 1.5 million).

4.5 In agriculture and related primary sectors, major projects include the construction of a central abattoir, irrigation development projects and the construction of two fishermen's centres in Mauritius. Projects relating to livestock development in Mauritius and Rodrigues as well as the construction of a fishermen's centre in Rodrigues are currently under implemetation.

4.6 Some FF 18 million have been earmarked for the Phoenix—Nouvelle France Road Project and FF 6 million have been absorbed in the modernisation of the telecommunications network. The financing of several major studies, namely the utilisation of bagasse for power generation, Plaisance Airport development, the Phoenix—Mahebourg Road and water resources development in Mauritius, together with an electrification project in Rodrigues have cost some FF 8 million.

4.7 The construction of a Lycée Polytechnique, an auditorium at the University of Mauritius and a language laboratory for teacher training were the main projects in education. The major part of funds released for cultural activities was used for media development, comprising the setting up of a colour studio and associated transmission equipment at the Mauritius Broadcasting Corporation. In the health sector, funds were used to purchase hospital equipment and the creation of a cardio-vascular centre. Total involvement in social infrastructure thus amounted to FF 67.6 million.

4.8 The bulk of CCCE's loans (FF 420 million) have been used to finance economic infrastructure. Energy development alone has absorbed some FF 234 million, or over 42% of all commitments. Projects financed in this sector included the Champagne Hydro-electric Project, the bagasse pelletisation plant and a dual purpose boiler at one sugar factory.

4.9 The telecommunications sector also benefited from substantial resources (FF 76 million) for the improvement of the telephone network and the extension of rural telephone exchanges. The development of the Port Louis and districts water supply system (FF 57 million) and the improvement of Plaisance airport infrastructure (FF 53 million) were the other major projects in the infrastructure sector.

4.10 Support to the industrial and agricultural development of the country has been provided through five lines of credit (FF 44 million) to the DBM for the financing of development projects. The construction of a pork processing plant, the production of fresh-water shrimps and irrigation development are among the important projects financed by CCCE funds.

4.11 The CCCE has also participated in the two structural adjustment loans provided by the French Government. The amounts allocated under the loans were respectively FF 20 million in 1981 and FF 40 million in 1983. These funds are being used for the import of machinery and raw materials as well as for the financing of a few projects.

United Kingdom

4.12 British aid has taken the form of project and programme loans, loans for direct purchase of machinery, balance of payments support and direct Export Credit Guarantee Department (ECGD) financing. In addition, a regular technical assistance programme has been provided by way of training and provision of expert and consultancy services.

4.13 Since 1968, the UK Government has provided to Mauritius six projects and two programme loans for a total value of £ 28.3 million. Three of these loans were interest-free while the others carried various rates of interest. As at March 1984, some £ 19.4 million had been disbursed.

4.14 Investment in social infrastructure has taken the largest share of British aid, or some 33% (£6.5 million) of loans disbursed. A CDC loan of £ 3.54 million was allocated to the housing sector while some £ 1.5 million went to health infrastructure, mainly for the construction of a modern hospital in the north and for the upgrading of facilities at two existing hospitals.

4.15 The transport and communications sector received about £ 5.2 million which were used mainly for a port expansion programme (including the construction of deep-water quays and the upgrading of on-shore facilities), for the procurement of equipment for the airport, road maintenance and meteorological services and for the development of telephone services. Water development, which consisted in the expansion of the Piton du Milieu Reservoir and water works in the Districts and Port Louis systems, benefited from some £ 2.8 million of British aid. Energy development (£ 1.1 million) and improvement of the sewerage system (£ 0.9 million) were the other two infrastructure sectors which were financed by British aid funds.

4.16 Disbursements to the agricultural sector amounted to £ 3.4 million. The major part of these funds was used for the development of irrigation. The projects consisted mainly of modifications to the Nicolière Dam and the construction of the main pipeline supplying water to the irrigation area in the Northern Plains.

4.17 Other minor porjects absorbed some £ 1.4 million.

India

4.18 In spite of being a developing country with numerous economic and social problems, India has brought substantial resources to the island of Mauritius in a remarkable example of South-South Co-operation. It now ranks as the third largest bilateral aid donor, after France and the United Kingdom. Although Indian aid to Mauritius dates back to the early 1970's, substantial resources have been forth-coming as from 1975 when a first line of credit was extended. In fact, the major part of Indian aid (IR 300 million) has been made in the form of lines of credit. The balance (IR 60 million) has been given as grants to finance several projects.

4.19 Four lines of credit have been extended to-date. Of the total amount of IR 300 million, IR 200 million have been granted on a Government-to-Government basis and the balance through the EXIM Bank. Government-to-Government credits have been more concessionary — interest rate of 5% per annum and repayment period extending over 12 years. EXIM Bank credits carry rates of interest varying from 8% to 9.25% and are repayable over 8 to 9 years. These credits have been used mainly for the import of equipment and raw materials of Indian origin. The balance has been provided to the DBM for on-lending to the agricultural and industrial sectors.

4.20 Two sectors have benefited from the IR 60 million grant: health and education. Total commitments to the health sector stand at IR 32 million, to be used for the construction of a new hospital in the south of the island and the upgrading of the ophthalmic centre at the Moka Eye Hospital. The major project in the education and cultural sector has been an IR 18 million contribution to the Mahatma Gandhi Institute and an Industrial Trade Training Centre. The balance of IR 10 million has been used to finance technical assistance schemes and educational and cultural equipment and materials.

Oil-Exporting Arab Countries

4.21 The co-operation between oil-exporting Arab countries and Mauritius is fairly recent as the first loan was contracted only in the late 1970's. However, over such a short span of time, the amount of resources made

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available to Mauritius by three countries, namely Kuwait, the United Arab Emirates and Saudi Arabia is really substantial. Furthermore, in a general context of rising borrowing costs, the conditions on which these loans have been contracted are the most favourable obtained in recent years.

Kuwait

4.22 Kuwait has channelled its aid through the Kuwait Fund for Arab Economic Development and total commitments to-date amount to 2.1 million Kuwaiti Dinars. The average interest rate for these loans is 3.25% annum.

4.23 Energy development has absorbed a very large fraction (1.5 million Kuwaiti Dinars) of the resources provided by the Fund. The whole amount was used to co-finance the Champagne Hydro-electric Project. The remaining 0.6 million Kuwaiti Dinars was used to co-finance the Phase I of the Mare-aux-Vacoas water supply project.

United Arab Emirates

4.24 The total commitments of the United Arab Emirates to-date amount to 18 million Dirhams and the funds have been channelled through the Abu Dhabi Fund for Arab Economic Development. These funds have been made available in the form of one single loan bearing interest at 3% per annum and repayable in 15 years. It is being used to co-finance with the Kuwait Fund the Phase I of the Marc-aux-Vacoas water supply project.

Saudi Arabia

4.25 Like the Abu Dhabi Fund, the Saudi Fund for Development has co-financed a single project to-date, the Urban Rehabilitation and Development project, for which the World Bank is the lead financing agency. The contribution of the Saudi Fund is 16.8 million Saudi Riyals at 2% interest per annum and repayment period extending over 20 years.

The People's Republic of China

4.26 The People's Republic of China was the first bilateral partner of Mauritius to make a major contribution to the planned investment programme of the country. In 1972, following the signature of an Agreement on Economic and Technical Cooperation, China extended to Mauritius an interest-free loan of £ 13.5 million for the construction of a new airport in the North to be used within a period of five years. Problems encountered in the financing of the new airport and its subsequent abandonment have delayed the disbursement of this loan. After re-negotiation with China, it has now been agreed that the proceeds of the loan will be used for the construction of a new terminal building at the existing airport at Plaisance. The period of utilisation of the loan has been extended to 1987.

4.27 Apart from the airport, the only involvement of China has been in an agricultural experimental project which has necessitated small financial input.

Australia

4.28 Australian aid to Mauritius has been a regular feature since 1977. Total aid flows to FY 1983 have reached A $ 14 million. The whole amount has been given as grants. Australia has used three delivery instruments to channel its assistance: The Development Import Grant Scheme (DIGS), the Accountable Cash Grant Scheme (ACGS) and Food Aid.

4.29 Food aid has constituted 64% of total aid flows. Another 25% has been provided under DIGS, which is tied to the purchase of capital goods of Australian origin. The balance (A $ 1.4 million) has been granted in the form of project aid and technical assistance.

Japan

4.30 Japan has recently emerged as a major aid donor to Mauritius. Japanese commitments to-date have amounted to US $ 7 million. The major part of this aid has been channelled through JICA and has been provided on pure grant terms. The balance made up of soft-term loans has been handled by the Japanese Exim Bank.

4.31 A port development project in the harbour of Port Louis has benefited most from Japanese aid (US $ 5 million). Other projects include a fisheries research centre at Albion on the west coast of the island and the studies for the Port Louis—Beau Bassin Road project.

Federal Republic of Germany

4.32 The intervention of the Federal Republic of Germany dates back to 1974. Total commitments to-date amount to DM 9.5 million, with DM 7.5 million as project aid and DM 2 million as programme loan. The programme loan carries a 2% interest rate per annum and has a repayment period of 30 years. The project loans have varying rates of interest and repayment periods. All loans have been channelled through the KFW.

4.33 The purchase of two generators of 450 kwh each, together with the ancillary equipment, for energy development has absorbed DM 4.5 million. The balance of DM 3 million has been made available to the co-operative sector. The programme loan which has been committed in 1983 is to be used for the import of essential goods such as raw materials, equipment and machinery.

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Canada

4.34 Total Canadian assistance to Mauritius over the last ten years amounted to C $ 1.6 million. This aid, administered through CIDA, IDRC and the Mission Administered Fund, has been made available in the form of grants.

4.35 About 50% of total aid has been used to improve water supplies in Rodrigues. Some C $ 0.6 million has been committed to community development. And the balance has gone to the education sector, mainly for the equipment of a language laboratory at the Institute of Bilingualism.

Republic of Korea

4.36 Assistance from the Republic of Korea has been forthcoming on an ad-hoc basis, mainly in the form of equipment and vehicles. Recently, some transport equipment has been provided for the Indian Ocean Islands Games planned for later in 1985. Some US $ 0.25 million have also been granted for the purchase of equipment of Korean origin.

TABLE IV.1

Origin of Bilateral Aid

Country	*Currency*	*Amount (million)*
France	French Franc ...	715.0
United Kingdom	£ Sterling	28.3
India	Indian Rupee ...	360.0
Kuwait	Kuwaiti Dinar ...	2.1
China (People's Republic) ...	£ Sterling	13.5
Australia	Australian Dollar ...	14.0
Japan	US Dollar	7.0
United Arab Emirates ...	Dirham	18.0
Saudi Arabia	Saudi Riyals ...	16.8
Federal Republic of Germany ...	Deutche Mark ...	9.5
Canada	Canadian Dolla ...	1.6
Republic of Korea ...	US Dollar	0.25

CHAPTER V

EXTERNAL RESOURCES FROM PRIVATE SOURCES

5.1 As explained in Chapter I, the recourse to commercial borrowings by Government was initially motivated by the emergence of a resource gap, reflecting the combined effect of falling sugar prices, increasing consumption expenditure and an expanding public investment programme. The mobilisation of resources from private sources to finance the public investment programme of the country was seen as a temporary expedient since recovery was expected to generate sufficient resources to meet the current needs of the country while ensuring the servicing of the newly-contracted commercial loans. The economic situation, far from recovering, in fact worsened and led to a widening resource gap and to acute external payments problems. Later commercial loans were contracted essentially to meet these payments problems and represent in fact the "deficit financing" of the Mauritian economy.

5.2 As at September 1984, the Government had contracted five commercial loans from the Euro-dollar market for a total value of US $ 212 million. The loans were syndicated by several consortia of commercial banks, led successively by Lloyds Bank International Limited. Caisse de Credit Agricole/Gulf International Bank, Citicorp International Bank Ltd,. the State Bank of India and the Hong Kong and Shanghai Banking Corporation. All five loans were contracted on floating interest rates corresponding to varying spreads over LIBOR. The repayment periods vary between 3 to 6 years after an initial moratorium of 2 to 4 years.

5.3 The proceeds of these commercial loans were not, in general, earmarked for any specific use. However, the first Euro-dollar loan contracted in 1977, was effectively used to finance part of the cost of the Bulk Sugar Terminal Project. The second loan also provided financing for several capital projects. The three more recent loans have been contracted to ease the critical foreign exchange resource position of the country and to enable the import of essential commodities.

5.4 Mauritius finds itself to-day in a most unconfortable situation where it is compelled to have recourse to new commercial borrowings in order to service loans contracted in the past. Exclusive dependence on prevailing levels of official development assistance would, in fact, result in a net negative flow of external resources. It is essential that aid donors play their role to the full and support Mauritius in its attempts to explore novel approaches at mobilising a bigger flow of external resources to staunch the resource outflow and thereby break the vicious circle of commercial borrowing for debt servicing.

CHAPTER VI

SECTORAL ALLOCATION OF EXTERNAL RESOURCES

6.1 Except for commercial loans from private sources, all resources made available are subject to some sort of conditionality as to their utilisation. Project aid is, of course, tied to the financing of specific projects for which agreement has been reached with aid donors and re-allocation of funds are rare and normally quite difficult to arrange. But other forms of aid, whether lines of credit, programme loans, balance of payments support, food aid or emergency assistance, do also include utilisation criteria, although often much less stringent than in the case of project aid. The conditions attached to external aid reflect, in fact, aid donor's areas of specialisation, sectoral priorities and development philosophy.

6.2 Mauritius has formulated a development strategy after its accession to independence and has since consistently followed this strategy, although the emphasis on some specific issues has been uneven ever the years. This strategy can be summarised as follows:

(a) the development of an off-shore industrial sector to diversify the Mauritian economy and to provide gainful employment to the large number of unemployed in the country;

(b) a genuine agricultural diversification programme to achieve a greater measure of self-sufficiency in the food requirements of the country, to expand the production of exportable agricultural products and to raise the incomes of the farming community;

(c) the consolidation of the tourism sector as a major foreign exchange earner;

(d) the development of the economic infrastructure (with special emphasis on energy development after the oil crisis) to provide the essential economic services so vital to the long-term development of the country; and

the provision of essential social services to raise the standard of living of the population with due attention to the mor destitute sections of the community.

6.3 The Government of Mauritius has made a judicious utilisation of resources available by 'selling' specific sectoral projects and programme to external countries and organisations depending on their priorities and areas of interest. This policy has enabled the country to implement a coherent development programme while paying due respect to various donors' own predilections for specific areas and sectors.

6.4 Substantial resources (about US $ 86 million) have thus been channelled to the development of industrial infrastructure, to the financing of industrial projects and to the promotion of foreign industrial investment. External aid has also played an important role in agricultural diversification by financing major irrigation schemes, tea development, fisheries infrastructure and research facilities and livestock projects.

6.5 Almost all major economic infrastructure projects implemented since independence have benefited from external inputs: water projects (US $ 40 million), energy development (US $ 40 million for the Champagne Hydro-electric Project alone), harbour development (US $ 13.6 million from the World Bank and £ 2.5 million from ODA), airport modernisation (FF 53 million from CCCE and £ 13.5 million from China), major road projects (substantial contribution from CEC, ADB and FAC), telecommunications development (ODA, CCCE, Australia and India) and sewerage improvement (ADB and ODA).

6.6 Among all social services, education has benefited most from external assistance (US $ 22.2 million from the World Bank, FF 36 million from France, IR 18 million from India and £ 1 million from UK). But health development (ECU 3 million from the CEC, IR 23 million from India, £ 1.4 million from UK and FF 6.6 million from France), housing services (US $ 11.6 million from the World Bank, ECU 3 million from the CEC and £ 2 million from CDC), information services (FF 26 million) and community development (US $ 4 million from the World Bank and FF 9. million from France) also received a significant amount of resources.

INCOME-GENERATING SECTORS

Agriculture and Fisheries

6.7 In agriculture, the main thrust has been to create the necessary infrastructure and supporting facilities required to facilitate agricultural diversification. Irrigation development has been an essential component of this policy. External aid from the ODA and CDC, to the tune of 5.5 million, has been particularly useful for the financing of a major project in the Northern Plains designed to irrigate some 1,500 hectares. In addition, various

small-scale irrigation projects covering a total land area of 235 hectares have been implemented with support from France. A series of other small-scale irrigation projects is also planned as part of the Small-scale Agricultural Development Project financed by IFAD. Furthermore, the tea sub-sector has attracted substantial financing from the World Bank (US $ 5.2 million).

6.8 In the livestock sector, the UNDP and the CCCE financed research and animal health improvement projects. The research effort concentrated on the development of appropriate animal feeds based on the by-products of sugar cane. As regards animal health, the focus was on minimising losses of animal lives and improvement of livestock productivity.

6.9 An integrated agricultural development programme, aimed at increasing foodcrop and livestock production while creating the necessary marketing infrastructure, is presently under implementation. The CEC is providing the funds for the project.

6.10 Fisheries development is an integral component of Government's policy to increase the country's self-sufficiency in food production. The most significant external contribution to the sector has come from Japan which has financed a fisheries research centre and a deep-sea fishing port project (1.02 billion yen) which is presently under construction. Australia has also provided assistance in the form of six fishing boats and seven patrol boats for fisheries surveillance.

Industrial Development

6.11 The decision of the Government of Mauritius in the late 1960's to make the development of export manufacturing industries the spearhead of the country's industrial programme was indeed a bold one. The measures taken by Government at various levels, and more specifically the generous incentives provided by the Export Processing Zones Act of 1971, have contributed to the remarkable success of this policy. However, without the support of the international community, this success would have certainly been more limited. The World Bank was the first to make a major contribution by financing the setting-up of industrial estates to house export industries and by extending several lines of credit to the DBM for on-lending to private enterprises, especially in the EPZ. Other financial organisations, namely the CCCE, EIB, ADB and the Industrial Development Bank of India, provided some US $ 25 million to the DBM for ensuring a growing support to industrial activities. The CEC has financed Mauritian participation in trade fairs and supported industrial promotion activities designed to 'sell' Mauritius as an off-shore manufacturing base to foreign investors.

6.12 The only major agro-industrial project to be directly financed by external sources is a flour mill and grain complex project to be set up with a view to producing locally the country's requirements for flour and other related products. The ADB and BADEA have committed US $ 20 million for this project.

Tourism

6.13 The efforts made by the Government to ensure a continued expansion of the tourism sector have been bearing their fruits. Tourist arrivals thus rose from 27,000 in 1970 to an expected 140,000 in 1984 when gross earnings from tourism are expected to reach Rs 640 million. In spite of this remarkable performance, external resources to the sector have been fairly limited. In Mauritius, one hotel project was financed by the IFC (US $ 0.6 million) and the CEC has funded Mauritian participation in international tourism fairs.

ECONOMIC INFRASTRUCTURE

Energy

6.14 Since independence, the Government's objective has been to connect the whole island to the national grid. For this island-wide electrification programme, substantial investment was necessary to increase electricity generation and to extend the transmission and distribution networks. The first oil shock of 1973 revealed the vulnerability of Mauritius to rapid fluctuations in oil prices and their disastrous impact on the import bill, as 90% of the country's primary energy requirements were imported. Consequently, the development of local sources of energy became a high priority of Government.

6.15 The largest project implemented in the energy sector has been the Champagne-Hydro-electricity Project for which total external funding amounted to some US $ 40 million supplied by BADEA, EIB, OPEC Fund, CCCE and the Kuwait Fund. Two major projects aimed at developing indigenous sources of energy, the bagasse thermal project and the pilot bagasse pelletisation plant, benefited from CCCE's assistance to the tune of FF 86 million.

6.16 Substantial external resources have also been used to increase the generation capacity of existing power stations through the installation of new generators (about FF 86 million from CCCE, DM 4.5 million from FRG and £ 1.1 million from UK). The extention and strengthening of the transmission and distribution networks have been mainly financed by the World Bank (US $ 22 million), although France also brought some contribution.

Water

6.17 Water development has been among Government's highest priorities because of its key role in agricultural diversification and industrial development and its impact on the standard of living of the population. However, in the early years, external assistance to this sector has been quite low, the only significant contributions coming from the CCCE and the World Bank.

6.18 However, since the beginning of this decade Government's renewed efforts to mobilise resources for this sector have been bearing their fruits. Government has evolved a large-scale water development programme and total commitments to-date have reached US $ 40 million. New donors to the sector are the Kuwait Fund, the Abu Dhabi Fund and the USAID. The loan proceeds are being used to finance major works in the three existing systems, the Port Louis System, the Mare-aux-Vacoas System and the Districts Water Supply System.

Harbour

6.19 As the only port of Mauritius, the harbour of Port Louis has been the main focus of Government's harbour development programme. The most important project has been the construction of the Bulk Sugar Terminal to expedite sugar exports and to reduce port congestion. Substantial investment has also been made in the construction of deep-water quays and transit sheds and in the improvement of on-land infrastructure.

6.20 The Sugar Terminal project was partly financed by the first Eurodollar loan of US $ 50 million, contracted in 1977. The other projects in this sector benefited from the assistance of the World Bank (US $ 13.6 million) and the ODA (£ 2.25 million).

Airport

6.21 For a remote island like Mauritius, Plaisance airport has a highly strategic role, especially in the context of the export-led development strategy followed by the country and the importance of tourism in the economy. However, investment in airport development has been paradoxically very low until recently owing largely to the fact that the decision to expand and develop Plaisance airport as against the project of building an entirely new airport in the North of the country, was finalized only in 1982.

6.22 A Master Plan for Plaisance airport development to cater for traffic needs until the turn of the century has been prepared. Some urgent improvement works have been initiated. They include the resurfacing of the runway, the provision of additional navigational aids and airport lighting equipment and the construction of a new control tower. The CCCE has provided the funds for these works.

6.23 The Government of the Republic of China has made available an interest-free loan of $ 13.5 million in 1972 which was to be used for the new airport project. It will now be used for the construction of a new terminal building and access roads to Plaisance.

Roads

6.24 Mauritius is endowed with an extensive road network since a long time. However, some major roads were unable to cope with the growing traffic. Consequently, the emphasis of Government has been to build motorways and to improve urban roads in order to reduce congestion. Investment has also been made in the construction of roads in rural areas to promote a greater integration of the national territory.

6.25 External resources have been obtained mainly for the building of motorways. The Northern Entrance Road and the Relief Road to the North have benefited from assistance from the CEC (ECU 5.7 million) and the ADB (UA 2.7 million). Commitments for the Phoenix—Mahebourg Road are ECU 8.5 million from the CEC and FF 18 million from France. The ADB has also made a substantial contribution (UA 3.3 million) to the construction of the Grand River North-West Bridge.

Telecommunications

6.26 The dispersion of economic activities over the national territory, especially with the creation of industrial zones in rural areas and the construction of hotels on the coast, and the growing domestic demand for telephone services have prompted the Government to invest heavily in the modernisation and expansion of the telephone network.

6.27 The bulk of external financing has come from France which provided some FF 77 million through the CCCE, supplemented by buyers' credits from the Banque National de Paris (BNP). French assistance financed mainly the installation of the electronic switching system and an external line plant. The ODA has also made a significant contribution (£ 4.5 million). Additional assistance came from Australia (A $ 0.75 million) and India (IR 1.5 million).

Sewerage

6.28 Sewerage development forms an integral part of the programme for improving urban infrastructure for both domestic and industrial users. The only significant external contribution to this sector has come from ADB (UA 5 million) for the improvement of the sewerage system in the urban areas and its extension to the industrial zones of Coromandel and the suburbs around Port Louis. Other contributions include a British grant (£ 0.4 million) for the construction of the Northern outfall and the financing by France of studies to the extension of the sewerage network.

SOCIAL INFRASTRUCTURE

Education

6.29 In education, the emphasis during the decade of the 1970's has been to reorientate the education system from academic to technical education in line with the growing demand of the economy for various types and levels of skills. The post-independence period has also witnessed the development of tertiary education and a general expansion of the whole education system.

6.30 The World Bank has made a major contribution to the development of the education sector (US $ 22.2 million), and to technical education in particular. The construction of junior secondary schools and the Industrial Trade Training Centre at Piton and the setting up of a Central Training Office were the World Bank's projects in favour of technical education. France contributed to that effort through the financing of the construction and equipment of the Lycée Polytechnique at Flacq (FF 36 million). India also helped by providing equipment to the Industrial Trade Training Centres at Beau Bassin and Piton.

6.31 Assistance to tertiary education came mainly from the UK (£ 1.0 million) which financed the extension of the University of Mauritius, the construction of the Institute of Education and the expansion of the University library. The World Bank also provided assistance to the Mauritius College of Education and to the Mauritius Institute of Education.

6.32 Other assistance to the education sector consisted of a primary education rehabilitation programme (World Bank), the construction of secondary schools at Rose Belle and Ebene (CEC) and the construction of the Mahatma Gandhi Institute (India).

Health

6.33 Investment in health infrastructure has been guided by two basic objectives: the provision of primary of health care to the whole population of Mauritius and the integration of preventive, curative and promotive health services. External assistance has been very helpful in the construction and supply of equipment for hospitals and health centres.

6.34 The UK financed the construction of and the equipment for a major hospital project in the North (£ 1.4 million). The CEC provided some ECU 3 million for the improvement and extension of existing hospitals and for the construction of two health centres. India has committed IR 32 million for the construction of a new hospital in the South (IR 23 million) and for the extension of the Moka Eye Hospital (IR 9 million). Equipment for health services has been granted by France (FF 6.6 million), Australia and Canada.

Housing

6.35 After the catastrophic cyclones of 1960 which made large numbers of Mauritian families homeless, Government's policy in the housing sector focused on the provision of low-cost houses for the economically disadvantaged groups. However, the financial difficulties faced by the Government in the late 1970's compelled it to limit the share of housing in public sector investment. Consequently, greater emphasis has been laid on the supply of core-units, serviced plots and terraced houses on terms which make them both affordable and replicable. The grant element in recent housing schemes is much lower than those initiated in the 1960's.

6.36 The main sources of external finance for public low-cost housing programmes have been the World Bank and the CEC. The World Bank has financed an integrated housing project adjacent to the Coromandel Industrial Zone on the outskirts of Port Louis (US $ 11.6 million). The CEC has provided the funds for a site-and-service scheme and for loan to low-income families (ECU 3 million) as well as for an emergency housing scheme following cyclone Gervaise in 1975.

6.37 Government has also been providing mortgage loans to middle-income groups through the Mauritius Housing Corporation (MHC). The CDC provided a loan of £ 2 million to the MHC for on-lending as mortgage finance.

Community Development

6.38 Government attaches a special importance to the improvement of essential amenities, both in rural and urban areas, with a view to raising the standard of living of the population. Substantial investment has thus been made to improve radio and television services, to build community halls, to expand and decentralise sports facilities, to provide rural areas with village halls, markets, health centres, access and link roads and other facilities.

6.39 Radio and television services have received extensive and continuous assistance from France (FF 26 million), the almost sole aid donor in this sector. These funds have financed the acquisition of colour-television equipment, consultancy services, training and the construction of a TV studio for the MBC. A major contribution to sports infrastructure has also been made by France (FF 9 million) for the construction of an Olympic-size swimming pool, in the context of the organisation of the Indian Ocean Islands Games in 1985. The World Bank has financed a major rural development programme (US $ 4 million) aimed at providing rural areas with basic amenities and raising the incomes of the farming community through small agricultural schemes.

CHAPTER VII

EXTERNAL INDEBTEDNESS

7.1 The servicing of external debt of the country has become an acute problem only in recent years. It is mainly a direct consequence of the maturing of commercial loans and the repurchase obligations in respect of IMF credits advanced in the late 1970's to finance the balance of payments deficits of the country. It more generally reflects the hardening of the conditions on which external resources have been made available to the country since mid-1970's. However, other important factors, namely the deterioration of the terms of trade of Mauritius, the stagnation of output and the growing weight of the US Dollar in the debt profile of the country, have further compounded the debt problem.

7.2 Heavy payments on account of debt servicing have resulted in burdensome external payments problems. They also represent a serious drain on the public finances as a growing proportion of Government revenue is being diverted away from public investment to repay debts. Furthermore, existing obligations represent a constraint to the mobilisation of new external resources as the recourse to substantial new loans, especially on commercial terms, can only aggravate the debt problem.

7.3 The re-adjustment programme of the Mauritius economy initiated in 1979, with the assistance of World Bank and the IMF, was expected, among other things, to alleviate the debt burden of the country. In spite of the strict adherence of Mauritius to this programme and the undeniable success with which it has been implemented so far, the external debt service ratio has reached new heights every year. There is an urgent need to take specific action to alleviate the debt problem now; otherwise, it will compromise future growth.

The causes of debt service escalation

7.4 The recourse to several Euro-dollar loans and to substantial IMF resources over the period 1977-82 has resulted in a bunching of repayments as these loans carried a grace period of three to five years. In 1984, IMF repurchases and the servicing of the four Euro-dollar loans accounted for some Rs 1,100 million or 60% of total external debt servicing. Other loans contracted on more stringent terms have also contributed to increase debt service obligations. As a result, the average interest rate of new commitments increased from 0.8% in 1971 to 10.5% in 1980 while the grant element declined from an average of 83.3% in 1978 to 16.9% in 1981. The rapid increase of the level of indebtedness of the country coupled with the hardening of lending conditions are thus the main factors affecting the debt problem.

7.5 An unusually long period (1980-84) of adverse climatic conditions at home affected seriously agricultural exports (especially sugar) while the prolonged world economic recession and increasing protectionism condemned the export manufacturing sector and the tourism sector to virtual stagnation. This poor performance in growth of domestic output was accompanied by a constant deterioration of the terms of trade, the relevant index declining from 100 in 1975 to about 50 in 1982. The consequent growing deficits in the balance of trade constituted the underlying factor which compelled the Government to contract commercial loans which are presently weighing heavily in the debt servicing commitments of the country. Furthermore, the stagnation of export earnings led to an upward leap in the debt service ratio of the country.

7.6 The change in the debt profile of the country has also contributed to an aggravation of the debt problem. As explained earlier (Chapter II), in the late 1960's Mauritius was indebted almost solely vis-à-vis the UK and its debt was thus denominated in pound sterling. The diversification of sources of external finance inevitably led to a diversification of currencies in which new loans were contracted. The pound sterling thus gradually gave way to the US dollar, which accounted for two-thirds of external public debt outstanding at the end of 1983, against only 5% for the former. The debt problem has thus become highly sensitive to the movement of the US Dollar. The rise of the US Dollar in recent years has brought additional debt service costs.

7.7 As a result of all these factors there has been a net acceleration of debt service obligations over a fairly short span of time. From Rs 118 million in 1978, external debt servicing rapidly reached Rs 1,833 million in 1984, The debt service ratio climbed from the low level of 4% to 29% over the same period.

The effects

7.8 Rapidly increasing debt service obligations have resulted in heavy strain on the external reserves position of the country, especially at the mid-year and end-of-year periods when there is a bunching of debt service payments. The country thus finds itself regularly in dire financial straights—which impose their own constraint on the proper management of the national economy.

7.9 Debt service obligations have also put great pressure on the finances of the Government. An increasing proportion of Government recurrent revenue has had to be channelled to the servicing of external debt. In FY 82 about 40% of Government's recurrent revenue was devoted to debt repayment.

Since then, this percentage has continued to increase reaching an estimated 47% in FY 84. Government is thus deprived of a major part of the essential resources it needs to support the national effort to achieve genuine economic recovery.

7.10 A high debt service ratio represents directly or indirectly an obstacle to further external resource mobilisation. Mauritius has not yet reached the alarming level of indebtedness of some developing countries nor has its international credit-worthiness been seriously affected. Government is, however, fully aware of the fact that substantial recourse to new non-concessionary loans can only get the country bogged down as debt problems become overwhelming. The Government is thus compelled to follow the policy of self-restraint, as outlined earlier (Chapter I), which represents a constraint to further resource mobilisation.

Towards a new approach to the debt problem

7.11 Mauritius is one of the few developing which has implemented a re-adjustment programme successfully in spite of adverse climatic conditions. The policy measures agreed upon with the IMF and the World Bank have been fully implemented and the performance in all areas, namely exchange rate policy, demand management, credit control, public budget deficit and prices and incomes front, has been remarkable. The efforts made at all levels to ensure the economic recovery of Mauritius, especially through export promotion, have also been giving satisfactory results in 1984 as the export manufacturing sector grew by some 16% while a new record in tourist arrivals has been reached in 1984.

7.12 In spite of the internationally acknowledged good economic performance of Mauritius, the external debt service ratio has reached a new peak in 1984 and the country continued to face severe external payments problems. As a result, a new Euro-dollar loan had to be contracted in late 1984. The complete repayment of the first three Euro-dollar loans over the next few years would normally result in a substantial fall in the debt service ratio by the end of the decade, as indicated in Table VII.1. However, past experience seems to suggest that in the absence of specific measures to ease the debt problems, they will only be replaced by new commercial loans, as the one contracted in 1984, and the debt problem will be thus only postponed, probably assuming larger proportions in future.

7.13 Strict financial discipline and export promotion cannot in themselves constitute a long-term solution to the debt problem, especially, if such relief is not to be obtained at the expense of socially damaging sacrifices in economic growth and welfare. The spectre of a forthcoming debt crisis should be eliminated once for all to enable the Government of Mauritius to concentrate its efforts on, and to devote maximum resources to the long term economic development of the country. An expanded flow of concessionary resources together with specific measures aiming at providing immediate relief to the debt problem will reactivate the primary role of external resources as a catalyst to economic growth.

TABLE VII.1

External Debt Servicing

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Total External Dept Servicing (Rs million)	110	197	349	674	926	1451	1833	2029	1807	1677	1654
Export Earnings (Rs million) ...	2740	3283	4488	4629	5539	5410	6249	6928	7927	8898	9875
External Debt Service Ratio (%) ...	4	6	8	15	17	26.8	29.3	29.3	22.8	18.9	16.7

ANNEX

FOOD AID

Mauritius first obtained food aid from WFP in 1970. The aid was linked to a programme for improving the nutritional status of the primary school children, and subsequently of the vulnerable segments of the population. The 1970's witnessed the emergence of food surplus countries in North America and Western Europe. Mauritius thus benefited from a significant flow of food aid from these countries, mostly on a grant basis. Although still a very small proportion of total external aid flows and well below the requirement of the country, food aid has, in recent years, assumed a crucial role in Government's efforts to achieve its social and economic objectives. This form of assistance is regarded as essential to supplementing foreign financial flows for strengthening the external payments positions of the country.

Food Aid and Food Self-Sufficiency

2. Government is concious of the implications of cheap food imports which, in many instances, distort the market for food, disrupt agricultural production and alter the consumer's preference in favour of imported staples. In Mauritius, food imports, however, do not pose any of these problems due largely to the specific socio-economic and agro-climatic conditions of the country.

3. A major part of food aid to Mauritius has consisted of rice and wheat flour, both are staple foods and have traditionally been imported. Paddy has been grown in the country but production never exceeded 1,500 tons in a year, compared to the current annual average consumption requirement of over 70,000 tons. The consumption of wheat flour has averaged about 60,000 tons a year, but production possibilities are limited because of the unsuitable agro-climatic conditions. Their imports, therefore, do not disrupt local production nor distort the market of domestically grown crop.

4. It is, however, recognised that the import of these commodities on a massive scale constitute a heavy drain on the country's scarce foreign exchange resources. Food aid has proved an effective means of alleviating pressure on the balance of payments, especially when it comes free or on highly concessionary term

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Management of Food Aid

5. As in the case of the other external resources, Government has viewed the management of food aid from a broader macro-economic perspective. Government has also set up an effective machinery to receive, store, distribute or sell the commodities provided under various food aid programmes. The small size of the country, the well-developed road network and good storage facilities have rendered distribution more efficient. The system has worked to the satisfaction of both the donors and the Government

Sources and Value of Aid

6. In the early 1970's, WFP was the only multilateral agency contributing food aid to Mauritius. Over the years, the country has succeeded in diversifying its sources Thus, in 1984, Mauritius was receiving food aid from at least two multilateral and three bilateral donors. The contribution of the WFP has, however, remained the largest (US $ 24 million). The other multilateral donor, the EEC, has provided food aid valued at ECU 16 million since 1973.

7. Among the bilateral donors, the contribution of the United States has been most significant (US $ 15.2 million), followed by Australia (A. $ 9 million) and France (MRs 16.4 million). Australia and France have provided non-refundable aid. The US aid has also been free except under Public Law 480 Title I under which concessionary credits with interest of 3-4% per annum repayable over 20 years have been extended for food imports. The table below gives the value of food aid received from all sources.

TABLE

VALUE OF FOOD AID FROM MULTILATERAL AND BILATERAL SOURCES

Source	*Currency*	*Value of Food Aid (Million)*
***Multilateral*:**		
WFP	US $	24.0
EEC	ECU	16.0
***Bilateral*:**		
United States	US $	15.2
Australia	A. $	9.0
France	MRs	16.5

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Sectoral Distribution of Aid

8. The utilisation of food aid and its proceeds has largely reflected the sectoral priorities of Government and, to some extent, the conditionalities attached to their use by the donors. Most of the WFP supplied commodities have been freely distributed to vulnerable groups annually some 150,000 school children and some 105,000 needy persons benefited from the distribution. Some EEC and Australian food aid in particular commodities like milk and butter-oil—was also distributed freely to disadvantaged groups to improve their nutritional standard. It may, however, be mentioned that the amount of such aid has been very limited to a level that has not disrupted the local market for such commodities.

9. In other cases, it was possible to raise counterpart funds through sale on the local market. The proceeds thus generated constituted a valuable source of capital funds for implementing high priority projects in the agricultural sector.

Conclusion

10. In less than two decades, Mauritius has achieved a fair measure of success in mobilising food aid from multilateral and bilateral sources. This is reflected in the value of aid which reached a peak Rs 60 million in 1982. Mauritius has been able to utilise this aid effectively. The objective has been to channel the resources released from the availability of food aid to contribute to the growth momentum and to the creation of productive employment opportunities. Similtaneously, food aid has helped to improve the nutritional status of the vulnerable segments of the population.

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ANNEX I

SECTOR-WISE ASSISTANCE SANCTIONED TO
SMALL SCALE INDUSTRIAL SECTOR (AS AT 30 JUNE 1984)

Sectors	No. of cases	Amount of loan sanctioned (Rs m)
Furniture	427	4.01
Garments	1,200	8.53
Light engineering (metal works, garages etc.)	535	6.35
Leather works	68	0.88
Agro-industries (poultry, fisheries, mixed farming etc.)	468	4.81
Fishing	364	2.46
Miscellaneous	819	12.97
TOTAL	3,881	40.01
FY 1984-85 to March 1985	+ 285	8.72
GRAND TOTAL	4,166	48.73

1974 to 30 June 84.

NUMBER AND AMOUNT OF LOANS SANCTIONED UNDER
THE SMALL BUSINESS FINANCING SCHEME (MAURITIUS & RODRIGUES)
AS AT 30.6.84

Sectorwise	No. of cases	Amount sanctioned by DBM	Amount sanctioned by DBM & other banks
General retailers	326	3,136,800	5,228,000
Hawkings	82	410,220	683,700
Restaurant, food & allied	51	387,000	645,000
Mixed farming	51	318,720	531,200
Garments manufacture	23	169,200	282,000
Furniture making	15	94,800	158,000
Transport	51	629,700	1,049,500
Light engineering	13	84,600	141,000
Leather works	15	132,600	221,000
Education	13	168,600	281,000
Miscellaneous	47	581,790	969,650
TOTAL	687	6,114,030	10,190,050
Up to 31.3.85	647	12.9m	
GRAND TOTAL	1,334	19.0m	

Starts 198?