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SEP 17 1985

ACTION MEMORANDUM FOR THE DIRECTOR, REDSO/ESA

FROM: Jim Dempsey, Project Development Officer, REDSO/ESA

SUBJECT: Authorization of Mauritius Economic Policy Reform Program (EPRP) Grant (642-0008)

Problem: Your approval is required to authorize a $5,000,000 grant of FY 1985 Economic Support Funds to the Government of Mauritius under the African Economic Policy Reform Program. The entire amount will be obligated this fiscal year.

Background: The purpose of the one-year program is to assist the Government of Mauritius (GOM) by providing foreign exchange and budgetary support to ease the burdens of policy reforms needed to continue economic structural adjustments. The program will benefit Mauritius by providing foreign exchange in the form of a cash grant. The local currency equivalent of the $5,000,000 grant will be used to support priority government activities. The grant will be released in two tranches. The first, for two million dollars, will be released within a month of the signing of the the grant agreement and then, in March or April of 1986, a second tranche of three million dollars will be released.

The EPRP grant will support the package of reforms recently announced by the GOM, specifically an income tax reduction, an industrial investment and incentive program and initial changes in the tariff structure. These latter two reforms are complicated and will require a series of changes, implemented over several years, to achieve more growth oriented policies and structures. Release of the second tranche of $3.0 million will depend on satisfactory progress being made in the latter two areas.

Local currency equivalent to the dollar grant will be provided by the GOM for development activities mutually agreed upon by AID and the government. Two million dollars of local currency deposits from the first tranche will be allocated to assist in financing the budget deficit, while the rupees from the second tranche are expected to be used for a small scale entrepreneur loan scheme ($2,000,000 equivalent) and the construction of industrial space for the expanding export industries ($1,000,0000 equivalent). The former program finances equipment and operating capital for small industries and entrepreneurs and builds on two highly successful loan programs now run by the Development Bank of Mauritius (DBM). Under the latter program, the second phase of an industrial park development scheme, which is receiving initial financing from the 1985 CIP generated local currencies, will be completed to add 80,000 sq. ft. of new industrial space.

Conditions and Legal Requirements:

Two special conditions precedent will be included in the grant. An explanation of the need and procedures relating to these conditions is presented in the PAAD, Section VB, Policy Changes To Be Supported.

As a special condition precedent to disbursement of the $2.0 million first tranche, the GOM will communicate to AID a description of how it intends to proceed, through April 1986, to implement tariff and trade reforms and to make modifications in the industrial incentive program to increase the international competitiveness of local manufacturers.

As a condition precedent to disbursement of the EPRP's second tranche of US dols 3.0 million, scheduled for release in March or April of 1986, the GOM will submit evidence, satisfactory to AID, that progress has been made in tariff reform and in the modification of the government's industrial incentive program to increase the international competitiveness of local manufacturers.

AID/Washington has approved these conditions,and benchmarks to measure the progress in policy reform,required for release of the second tranche. (Nairobi 30375 and State 282962, attached).

The Administrator of AID approved the inclusion of Mauritius in the AEPRP on June 1985 (see Annex E). Congress was notified of AID's intention to proceed with the Mauritius AEPRP on September 6. The waiting period will expire on September 21 and, assuming Congressional clearance, REDSO plans to obligate the program funds on September 23 or 24. The Statutory Checklists have been completed (attached to the PAAD as Annex B) and no legal issues have been identified.

For the environmental examination, a categorical exclusion determination is attached as Annex C to the PAAD.

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 from the program will be implemented by the governmental entities charged with their development and operation. Discussions have been held with all entities participating in this program and agreement on implementation and procedures 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 Stu Callison, Regional Economics Officer. In Mauritius, S. Jathoonia, Economic/Commercial Assistant at the Embassy, will handle day-to-day communications.

Recommendation: Pursuant to Africa Bureau Delegation of Authority 140, Revised, and in accord with AID/Washington endorsement of field authorizatior (State 265800 and State 282962), it is recommended that you sign the attachec PAAD face sheet, thus authorizing the Mauritius Economic Policy Reform Progra

PAAD Authorization Signed _______________ SEP 18 1985
DATE

Attachment: Program Assistance Approval Document

Clearances:
K. Hansen, REDSO/RLA: _______________
R. Henrich, RFMC: _______________
Art Fell, REDSO: D/DIR: _______________
J. Graham, REDSO/PRJ: _______________
S. Callison, REDSO/ECON: _______________

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AID 1120-1 (8-68)

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PAAD

PROGRAM ASSISTANCE
APPROVAL DOCUMENT

1. PAAD NO.
642-0008

2. COUNTRY
MAURITIUS

3. CATEGORY
CASH GRANT

4. DATE
SEPTEMBER 16, 1985

5. TO:
JOHN W. KOEHRING
DIRECTOR, REDSO/ESA

6. OYB CHANGE NO.

7. FROM:
JIM DEMPSEY
PROJECTS DIVISION, REDSO/ESA

8. OYB INCREASE
$5,000,000
TO BE TAKEN FROM:
ESF - $5,000,000

9. APPROVAL REQUESTED FOR COMMITMENT OF:
$ 5,000,000

10. APPROPRIATION - ALLOTMENT
72-1151037; GESA-85-31642-KG31 (ESF)

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

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

13. ESTIMATED DELIVERY PERIOD
10/85 - 6/86

14. TRANSACTION ELIGIBILITY DATE
DATE OF AUTHORIZATION

15. COMMODITIES FINANCED
CASH GRANT.

16. PERMITTED SOURCE
U.S. only:
Limited F.W.:
Free World:
Cash: $5,000,000

17. ESTIMATED SOURCE
U.S.:
Industrialized Countries:
Local:
Other:

18. SUMMARY DESCRIPTION

An ESF grant of $5.0 million will be awarded to Mauritius from the African Economic Policy Reform Program. The purpose of the one year program is to assist the Government of Mauritius (GOM) by providing foreign exchange and budgetary support to ease the burden of policy reforms needed to continue economic structural adjustments. The program will benefit Mauritius by providing foreign exchange in the form of a cash grant for necessary financing. The local currency equivalent of the $5,000,000 grant will be used to support priority government activities. The grant will be released in two tranches. The first, for $2,000,000, will be released within a month of the signing of the grant agreement. In March or April of 1986, a second tranche of $3,000,000 will be released subject to satisfactory progress by the GOM in the target reform areas (see section VB for details). The following special conditions will apply: (1) As a condition precedent to disbursement of the $2.0 million first tranche, the GOM will communicate to AID a description of how it intends to proceed, through April 1986, to implement tariff and trade reforms and to make modifications in the industrial incentive program to increase the international competitiveness of local manufacturers. (2) As a condition precedent to disbursement of the EPRP'S second tranche of $3.0 million, scheduled for release in March or April of 1986, the GOM will submit evidence, satisfactory to AID, that progress has been made in tariff reform and in the modification of the government's industrial incentive program to increase the international competitiveness of local manufacturers. No other special condition or waivers are required.

19. CLEARANCES | DATE

DD:AMFell
RLA:KHansen 9/17/85
ECON:SCallison 9/17/85
PROJ:JGraham 9/17/85
RFMC:RHenrich (STATE 283345)

20. ACTION
[X] APPROVED [ ] DISAPPROVED

JWKoehring
AUTHORIZED SIGNATURE

SEP 18 1985
DATE

DIRECTOR, REDSO/ESA
TITLE

CLASSIFICATION:

BEST AVAILABLE DOCUMENT

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MAURITIUS ECONOMIC POLICY REFORM PAAD

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I. SUMMARY AND RECOMMENDATIONS

A. Principle Program Features

Five million dollars of Economic Support Funds (ESF) will be granted to Mauritius under the African Economic Policy Reform Program (AEPRP). The purpose of the one year program is to assist the Government of Mauritius (GOM) by providing foreign exchange and budgetary support to ease the burden of policy reforms needed to continue economic structural adjustments. The program will benefit Mauritius first by providing foreign exchange in the form of a cash grant for the importation of essential commodities or for necessary financing. The local currency equivalent of the $5,000,000 grant will be used to support priority government activities. The grant will be released in two tranches. The first, for two million dollars, will be released within a month of the signing of the grant agreement. In March or April of 1986, a second tranche of three million dollars will be released subject to satisfactory progress by the GOM in the target reform areas (see section 5B for details).

Local currency equivalent of the dollar grant will be provided by the GOM for development activities. The two million dollars of rupee deposits from the first tranche will be allocated to assist in financing the budget deficit, while the rupees from the second tranche are expected to be used for a small scale entrepreneur loan scheme ($2,000,000) and the construction of industrial space for the expanding export industries ($1,000,000). The former program finances equipment and operating capital for small industries and entrepreneurs and builds on two highly successful loan programs now run by the Development Bank of Mauritius (DBM). Under the latter program, the second phase of an industrial park development scheme which is receiving initial financing from the 1985 CIP generated local currencies, will be completed to add 80,000 sq. ft. of new industrial space.

B. Program Justification

The justification for the Mauritius EPRP rests on the need to support continued reforms of the Mauritius economy in order to foster greater economic efficiency and growth. Specifically, the EPRP will support the package of reforms recently announced by the GOM, including the income tax reductions, the industrial investment and incentive program and initial changes in the tariff structure. These latter two reforms are complicated and will require a series of changes to achieve more growth oriented policies and structures. Release of the second tranche of $3.0 million will depend on satisfactory progress being made in the latter two areas.

The EPRP grant will assist the economy overcome critical shortages of foreign exchange. The GOM has drastically cut its own investment program to permit a moderate increase in the foreign exchange available to the private sector for investment, operations and consumption. The provision of the EPRP dollar grant will come during a period when 25% of export earnings are being used to pay foreign debts. The program will also benefit the GOM through the provision of local currency to help it cut its fiscal deficit which will be an estimated 5.3 percent GDP for FY 1986.

The reforms, the foreign exchange and the local currency combine in a program that will increase economic growth and ultimately help reduce unemployment in Mauritius. Through tariff and industry reforms and increased private investment, resulting from tax cuts, Mauritian industries will improve their efficiency and international competitiveness. The resulting expansion of industry will generate a substantial number of new jobs. The EPRP grant helps the economy overcome its serious foreign exchange constraint and, thus, maintain the momentum of its growth and employment expansion. Finally, the local currency deposits will finance the capital and construction needed for the expansion of industry and other productive sectors.

C. Implementation and Conditions

Several options, including project type activities and a commodity import program (CIP), were considered for financing under the EPRP. Project options were evaluated in the PAIP and judged not to meet the EPRP objectives of quick disbursement and foreign exchange and budgetary assistance. The use of the EPRP grant for the importation of U.S. commodities was carefully considered during the PAAD design because of the desire to expand US exports to Mauritius. After reviewing various options for a CIP during PAIP development, fertilizer raw material was judged the only practical US import that could be financed. However, the requirement for fertilizer raw materials, during the desired disbursement period for the EPRP (GOM's fiscal year - July 1985 through June 1986), is limited to the purchase of anhydrous ammonia, a commodity in which the US is not self-sufficient and which is often not competitively priced in the United States. For the EPRP to encourage policy reforms that stengthened market forces and the competitiveness of Mauritian firms and then require the purchase of a non-competitive US product undermines the very concept of the the program. Additionally, only $2,000,000 of the EPRP grant could be absorbed in the purchase of this fertilizer raw material. Edible oil, the commodity being imported under the annual CIPs, has a financing backlog resulting from the 1984 and 1985 Commodity Import Programs. The purchase of alternative commodities, which of necessity would be large in number and small in value, could not be managed because of the lack of staff in Mauritius. In the PAAD guidance from AID/W, these problems were identified and the option offered to REDSO to make the program entirely a cash grant. After discussions with both AID/W and the Embassy, the decision was made to proceed with a 100% cash grant program.

The first tranche is justified by the GOM decision to go forward with a package of reforms as well as the immediate implementation of a number of items in the package - income tax reform, tariff reduction for a few high priority items, and the slashing of the GOM budget to release funds for the private sector. The GOM will allocate the rupee equivalent of the first tranche to its development budget to make up for program cuts required to meet fiscal deficit targets. This addition to its budget will help keep important development activities moving in this austerity year for the GOM.

The second tranche of $3.0 million will be released in April 1986 upon determination by AID that satisfactory progress has been made toward implementation of the reform package. Tariff reform and rationalization of the industrial incentive package will be the key policy areas to review.

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This policy reform determination will be a condition precedent to disbursement of the second tranche. Additionally, the GOM will be required to open a special account and deposit in the account the rupee equivalent of the second tranche cash grant. As mentioned previously, this money will be used to construct industrial buildings and expand credit to small industries and entrepreneurs.

D. Statutory Requirements

The statutory checklist is attached as Annex B and no legal issues have been identified. Special conditions, as described in the previous section, will be required prior to disbursement of each of the tranches.

The Administrator of AID approved the inclusion of Mauritius in the AEPRP on June 18, 1985 (see Annex E). Congress was notified of AID's intention to proceed with the Mauritius EPRP on September 6. The waiting period will expire on September 21 and, assuming Congressional clearance, REDSO plans to obligate the program funds on or about September 23.

For the environmental examination, a categorical exclusion determination is attached as Annex C.

E. Recommendation

The PAAD design team has found that the GOM economic policy reform efforts have been substantial. Its plans for continued reform and implementation of these changes are worthy of AID assistance under the AEPRP. The team recommends the authorization of an ESF grant of $5.0 million to help support the GOM in its continued program of structural adjustment.

F. PAAD Design Team

M Baguant - Secretary of Finance, MOF
R Bheenick - Director of Planning, MEPD
S Callison - Economist, REDSO/ESA
J Dempsey - Project Development Officer, REDSO/ESA
B Stader - Commodity Management Officer, REDSO/ESA

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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; 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, 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 1.5 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. 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 important 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. For Africa, it is setting an outstanding example by its democratic principles and human rights record. The GOM has been non-aligned, with a pro-Western bias in foreign policy and a mixed economy domestically. The major trade partners are the EEC countries, the U.S. and Japan.

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 consistently voted favorably to US interests in the UN as demonstated by the fact that the GOM has the fourth best record in Africa, from a U.S. perspective, on an index of key UN votes. While it has maintained its claims to Diego Garcia, it has significantly muted the previous criticism of the US military presence in the Indian Ocean. Indeed, the current government is permitting Mauritian laborers to work on operations/maintenance contracts for the US military at Diego Garcia. The Mauritian government also provides for the storage of fuel for U.S. ships and other equipment and permits American naval vessels to use Mauritius as a port of call.

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 manufacturing for export.

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 require to finance development. As part of its strategy, the GOM has instituted a seri 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 Macroeconomic Analysis (Section III), 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 Loans to help them through the period of economic adjustment. However, significant donor assistance is also required.

The government has taken a 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.

The most important social and economic problem in Mauritius is high unemployment, currently estimated at 15% or more nationwide. The government is very conscious of the role that a vigorous private sector can play in job creation. The achievement of the GOM's objectives of self-reliance and sustained economic

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growth is having important impacts on employment generation. Although the current rate of employment creation is faster than in previous years, it needs to be accelerated if the country is to show success in lowering the unemployment rate.

The industrial sector is composed of both firms supplying the domestic market and export-only firms operating under the Export Processing Zone (EPZ) Scheme. Under the EPZ, enterprises setting up factories to sell their entire output outside Mauritius are eligible for Export Enterprise Certificates (EEC). 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. 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. The Export Processing Zone is not a physical area in which the exporting firms are located. In fact, approximately 200 firms operate under the EEC throughout the island. The government also awards Development Certificates which provides incentives and protection, primarily for import substituting industries on the island.

The EEC incentive scheme has been extremely effective in employment generation; presently there are nearly 41,000 jobs in the EPZ. In the last year alone, 13,000 new jobs have been created. EPZ exports grew from less than 4% of total exports in 1971 to 41% in 1984 with a corresponding drop in Mauritius' dependence on sugar exports which were reduced from 87% of exports to about 50% during the same 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 in the EPZ 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, mostly in textiles and garments, jewelry, electronics, diamond cutting, watches, toys and plastic goods.

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 approximately $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.

For Mauritius, export oriented manufacturing offers the highest potential to foster economic growth and to add to foreign exchange earnings. There is scope for expanding the program and an estimated 10,000-12,000 new jobs will be created in EPZs in 1985. Further expansion can be expected particularly as Mauritius continues to improve its policy framework.

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 manufacturers, the predominant industries in the EPZ. With the high employment requirements of garment manufacturing, the GOM sees expansion of this industry as the primary

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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.

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. Consequently it is placing highest priority on factory construction and is supporting infrastructure development for industrial parks.

Although the EPZ is, for the present, the main engine of growth, the GOM believes that the development of small industry and entrepreneurs, to support the expansion of larger industries and to build indigenous capacity, as a means of achieving self reliance, is crucial to long term development. The small industry and entrepreneurial sector is an area where substantial new employment can be generated.

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 an ambitious 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 a 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 Action 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.

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 are being 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 the 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

The AID assistance strategy for Mauritius has been to help the GOM achieve macroeconomic stabilization by providing a modest amount of balance of payments support through CIP and PL 480 programs. The local currency generations provided budgetary support for priority development activities. The strategy for use of local currency is three-pronged:

1. To promote private sector activities in key development sectors such as agriculture, export processing, manufacturing, tourism promotion, and services;

2. To support agricultural diversification and sustainable food policies; and

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

A summary description of activities financed with local currency is contained in Section VII A.

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III. ECONOMIC BACKGROUND AND REFORM PACKAGE

A. Economic Background*

Mauritius' economy grew rapidly between 1972 and 1977, thanks to high sugar prices and rapid growth of the manufacturing sector. Generous incentive schemes encouraged manufacturing for export. Sugar prices declined sharply in 1976, however, and combined with the second large increase in petroleum prices in 1979 to reduce Mauritius' terms of trade and balance of payments. Expansionary fiscal policies and generous wage increases in the late 1970's led to budgetary deficits and accelerating inflation. The real GDP growth rate decelerated and then the GDP fell by 10 percent in 1980. The decline in sugar profits sharply reduced locally available funds, and this combined with large wage increases reduced the attractiveness of Mauritius to prospective investors. Recessionary demand and the rise of protectionism abroad further constricted export markets. Manufactured exports rebounded in 1983 and 1984, reflecting the recovery in world trade and more market-oriented foreign exchange and wage policies. While this recovery created a sizeable number of jobs, the level of unemployment is still high at 15 percent or higher and is an issue of major concern in Mauritius.

B. Reforms to Date**

In 1979 the GOM initiated stabilization and structural adjustment programs with IMF and World Bank support. Since then, five consecutive IMF stand-by arrangements have been implemented, supporting policies to adjust the foreign exchange rate, reduce consumer subsidies, restrain wage increases, restrict the growth of credit and the money supply, reduce the overall fiscal deficit, and maintain a liberal system of trade and payments. Despite the worldwide recession, adverse weather conditions and continued deterioration of the terms of trade, progress under the stand-by arrangements has been good.

The first World Bank structural adjustment loan (SAL) 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. The second SAL for $40.0 million, which began in late 1983, has four objectives: (1) a restructuring of the sugar industry and agricultural diversification; (2) further promotion of export-oriented industrialization; (3) tourism development; and (4) improved public resource management. A restructuring program for the sugar industry was proclaimed in July 1984 with a specific plan released in March 1985. The Sugar Action Plan aims at (1) monitoring the long-term 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.

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* For more details, see Hadley E. Smith, "Macroeconomic Analysis," Annex B of the FY 1985 CIP PAAD for Mauritius, REDSO/ESA, Nairobi, May 20, 1985; World Bank, "Mauritius: From Austerity to Growth Country Economic Memorandum," March 15, 1985; and IMF, "Mauritius--Request for Stand-By Arrangement," Feb. 1, 1985.
**This summary is based on the World Bank, "Mauritius, A Review of Recent Industrial Policy Recommendations," Report No. 5541-MAS, June 17, 1985, pp. 3-5.

In accordance with the SAL agreement, the Government appointed consultants in September 1983 to assist in the preparation of an Industrial Policy Review (IPR) to recommend reforms of the export incentive system. The IPR report was completed in August 1984. Reforms to date in line with the IPR recommendation are: (1) the elimination of quantitative import restrictions; (2) the elimination of price controls for all but 28 commodities (down from 74), mostly basic essentials; (3) corporate tax reforms, reducing the corporate income tax rate from 65 percent to 35 percent and introducing tax benefits for exporters operating outside the Export Enterprise Certificate Scheme; and (4) eliminating the minimum wage rates for men working in the Export Processing Zones (EPZ).*** Items (1) and (4) were undertaken in the face of strong opposition from parts of the powerful private sector community (in the case of import quotas) and the labor unions (against the minimum wage rate reduction).

C. Remaining Problem Areas

Despite the implementation of significant reforms over the last few years and substantial progress in promoting exports, reducing the budgetary and balance of payments deficits, controlling domestic price inflation, and stimulating industrial employment, serious problems remain to be satisfactorily addressed. Unemployment remains high. Investment incentives and the tariff regime still provide too much encouragement and protection to capital intensive, often inefficient, import substitution industries. Export incentive schemes do not adequately encourage non-EPZ firms to export part of their output. Rising foreign debt has increased the debt service burden to peak (25-28 percent) levels, inhibiting the country's ability to finance essential imports. Until this year, personal income taxes have been so high (70 percent in the upper brackets) as to reduce financial incentives to work and save.

1. Population Growth and Unemployment

A successful family planning program in the late 1960's reduced the annual population growth rate from 3.0 to the present rate of approximately 1.4 percent. This rate of increase is still a matter of concern to the GOM, whose goal is to bring it down to 1.0 percent by 1990. The continued growth of the labor force seking work, coupled with the steady rise in the labor force participation rate (from 33.1 to 36.8 percent between 1977 and 1983), is seriously straining the island's capacity to provide enough productive jobs.

The Mauritian labor force presently consists of around 364,000 workers, of which a little over 300,000 are gainfully employed, two-thirds by large establishments and one-third in the informal sector. Total employment in the formal, or large-establishment, sector has stagnated since 1979, despite rapid growth in manufacturing (mostly EPZ) employment, due to a steady decline in employment on the sugar plantations.* Employment growth in the small-scale, informal sector has also been fairly rapid, from an estimated 77,000 in 1977 to 103,000 in 1983, or by an average of 5.0 percent a year. Employment opportunities have failed to keep up with the rapid growth (3.3 percent annually) of the labor force, however, and unemployment steadily increased from

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*** The minimum wage rate for men in the EPZ's was higher than that for women. When this became an equity and employment issue (in March 1985 women comprised 76 percent of total EPZ employment), the GOM eliminated the EPZ minimum wage requirement for men to encourage more male employment, while leaving the one for women intact to protect them from exploitation.

6.8 percent in 1977 to 17.2 percent in 1983. It is thought to have fallen somewhat since then (depending on whether the participation rate and informal sector employment have continued to increase), thanks to the economic recovery which began in 1984; but it still remains around 15 percent or higher. (See Table 1.)

It is unlikely that the agricultural sector will ever provide much additional employment. Indeed, as mentioned above, the process of mechanization has steadily displaced large numbers of workers on the sugar plantations, the main source of agricultural employment (sugar occupies about 90 percent of all arable land and cannot itself expand further). The public sector, which presently employs about 28 precent of formal sector workers (but only 15 percent of the total labor force), cannot be expected to expand much further, in view of current budgetary stringencies. Manufacturing and services are the only promising outlets for future growth of productive employment. Manufacturing employment grew (primarily in EPZ firms) by an annual average of 9 percent between 1975 and 1984, which is a remarkable record. It started from a small base (22,517 in 1975), however, and continued growth at such high rates will be more difficult to achieve.

2. Balance of Payments Deficit

During the 10 years prior to 1976, Mauritius had small current account deficits in only two years. After 1975, deficits on the current account mounted dramatically each year, except for 1980, to a peak of US$ 154 million in 1981, or 13.2 percent of GDP. There has been dramatic improvement since then, due mostly to considerable restraint on the import side achieved through efficient demand management policies, including the exchange rate policy. The recovery in exports, until this year, has not been strong because of low world sugar prices and weak world market demand for EPZ commodities. Despite slow growth in export earnings, the current account deficit improved sharply to only 2.6 percent of GDP in 1984. (See Table 2.) By June 1984 foreign exchange reserves were at dangerously low levels equivalent to only two weeks of imports.

In 1984/85, the merchandise balance was expected to remain at its 1983/84 level because an increase in net EPZ exports and a small reduction in other imports offset a reduction in sugar export receipts resulting from drought. Net service receipts were projected to decline slightly as larger interest payments on external debt were only partially offset by higher tourist receipts and net transfers.

In the capital account, a new Eurocurrency loan of SDR 40 million and large disbursements of concessionary loans (an increase of 18 percent over last year's disbursements) will result in a projected overall inflow of public capital of SDR 55 million, compared to an outflow of SDR 6 million the previous year. As a result, the overall balance is forecast to register a surplus of SDR 30 million, compared to a deficit of SDR 28 million in 1983/84. Net repurchases to the IMF were expected to allow a remaining surplus of SDR 11 million to build up reserves to the equivalent of about 3.6 weeks of imports by the end of June 1985.

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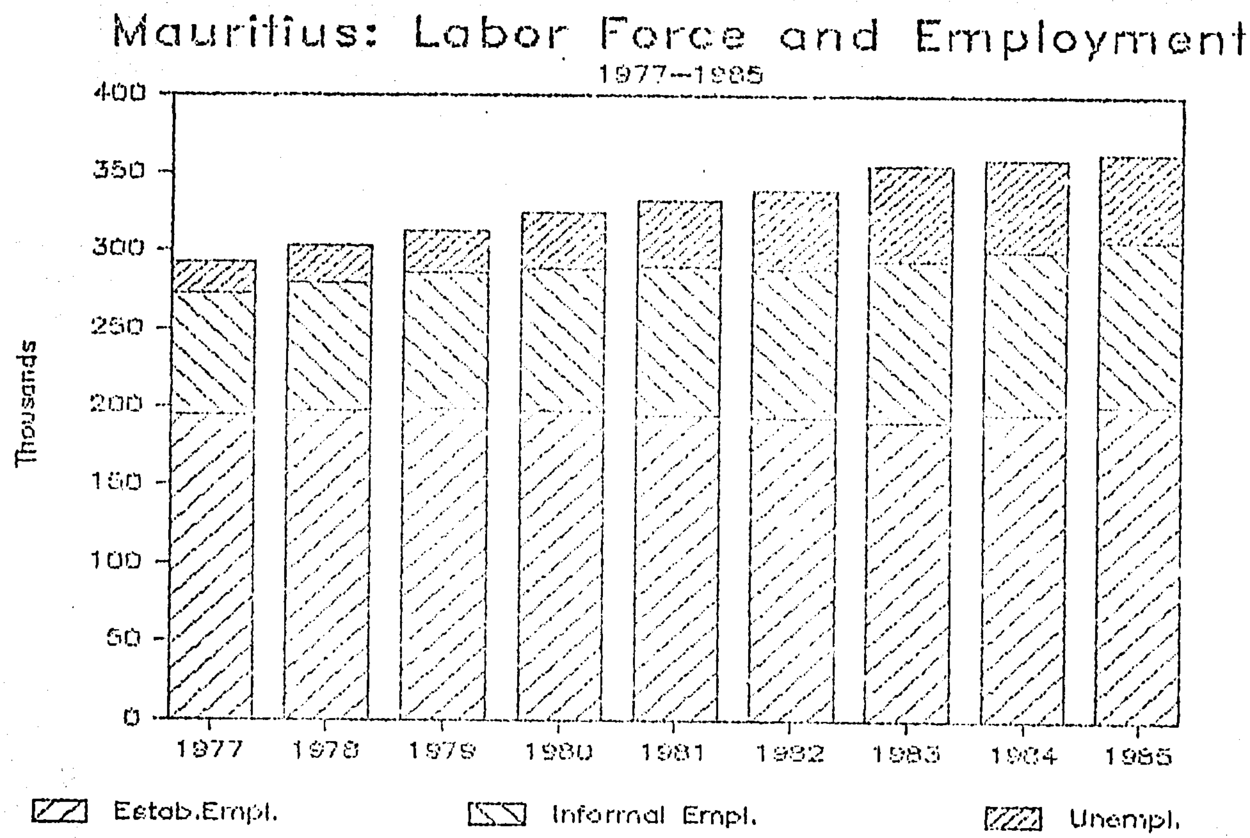
* See Hadley E. Smith, op.cit., pp. 21-22.


Mauritius: Labor Force and Employment
1977–1985
Thousands
400
350
300
250
200
150
100
50
0
1977
1978
1979
1980
1981
1982
1983
1984
1985
Estab.Empl.
Informal Empl.
Unempl.

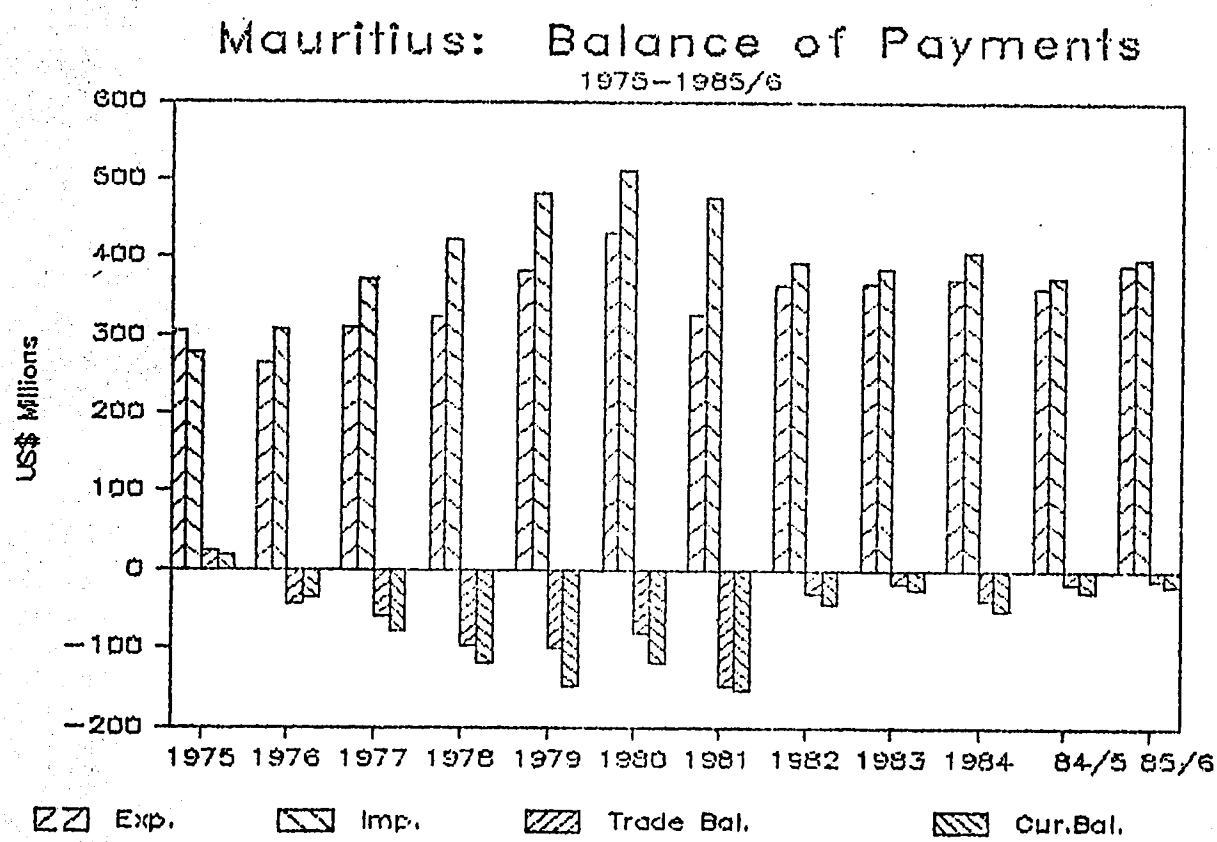

Mauritius: Balance of Payments
1975–1985/6
US$ Millions
600
500
400
300
200
100
0
−100
−200
1975
1976
1977
1978
1979
1980
1981
1982
1983
1984
84/5
85/6
Exp.
Imp.
Trade Bal.
Cur.Bal.

Table 1. Island of Mauritius: Population, Labor Force and Employment, 1979-85 (1000's)

	1977	1978	1979	1980	1981	1982	1983	1984	March 1985
Population	881.8	896.5	911.5	926.6	939.5	949.7	965.0	977.5	988
Labor Force	292	303	313	324	332	339	355	360	364
% of Pop.	33.1	33.8	34.3	35.0	35.3	35.7	36.8	36.8	36.8
Employment	272	279	286	289	290	289	294	300	307
Large Estab.	195	197	199	197	195	194	191	196	202
Informal	77	82	87	92	95	95	103	104	105
Unemployment									
(residual)	20	24	27	35	42	50	61	59	56
(registered)	17.3	17.5	23	31	57	78	73		
As percentage of Labor Force:									
Employment	93.2	92.1	91.4	89.2	87.3	85.3	82.8	83.5	84.6
Large Estab.	66.8	65.0	63.6	60.8	58.7	57.2	53.8	54.5	55.6
Informal	26.4	27.1	27.8	28.4	28.6	28.0	29.0	29.0	29.0
Unemployment									
(residual)	6.8	7.9	8.6	10.8	12.7	14.7	17.2	16.5	15.4
(registered)	5.9	5.8	7.3	9.6	17.2	23.0	20.6		

SOURCES:

Population: Hadley E. Smith, "Macroeconomic Analysis, FY 1985 CIP PAAD," REDSO/ESA, May 20, 1985, p. 1.

Labor Force and Employment: World Bank, "Mauritius: From Austerity to Growth, Country Economic Memorandum," March 15, 1985, p.10.
1984 and March 1985 Labor Force estimates assume the same participation rate as in 1983.
1984 and March 1985 informal sector employment estimates assume the same percentage of the total labor force employed in that sector as in 1983.

Note: Registered unemployment figures are believed to overstate actual unemployment beginning in 1981, due to the popular expectation of substantial unemployment benefits that were first proposed about that time.

REDSO/ESA, Nairobi: CSCallison, 8/27/85

Table 2. Mauritius: Balance of Payments, 1975-85 (US$ millions)

	1975	1976	1977	1978	1979	1980
Balance on Current Acct.	17.7	-35.9	-78.5	-117.5	-147.8	-117.9
Merchandise:						
Trade Balance	24.6	-42.6	-60.2	-97.7	-100.6	-81.7
Exports (fob)	303.4	264.1	310.2	324.6	381.0	430.1
Imports (fob)	-278.8	-306.7	-370.4	-422.3	-481.6	-511.8

	1981	1982	1983	1984	Projected: 84/5	85/6
Balance on Current Acct.	-154.0	-43.1	-23.9	-51.4	-27.4	-19.6
Merchandise:						
Trade Balance	-147.9	-30.4	-17.2	-37.0	-15.7	-9.8
Exports (fob)	326.5	363.8	367.3	370.4	359.7	389.1
Imports (fob)	-474.5	-394.2	-384.5	-407.4	-375.4	-398.9

SOURCES:

1975-84: IMF, International Financial Statistics.

1984/5 and 1985/6 (fiscal year) projections: IMF, "Mauritius - Request for Stand-By Arrangement," February 1, 1985, p. 21. SDR figures have been converted to U.S. Dollars at their end of 1984 value, $.98021/SDR.

REDSO/ESA, Nairobi: CSCallison, 8/22/85

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Total external debt outstanding rose during 1983/84 to a level equivalent to about 50 percent of GDP. On the basis of currently contracted debt, including scheduled repurchases to the IMF and projected payments on commercial borrowing required to finance future overall balance of payments gaps, service payments will decline from their peak of 28 percent of goods and non-factor services in 1984/85 to 25.2 percent in 1985/86, before dropping to about 20 percent for the rest of the decade.

Although the progress made so far has reduced excess domestic demand, balance of payments constraints will continue to have a serious impact on economic potential, particularly in 1985/86 when there will be a continued a bunching of debt service payments. In this situation, the IMF has emphasized the importance of continued policy adjustments along the lines of the last four years, but with continued emphasis on growth and employment creation in the export and import-competing sectors.*

3. Fiscal Deficit

The drop in sugar prices after the sugar boom, natural calamities like cyclones and drought, and costly state welfare policies caused the budget deficit to reach a peak of -14 percent of GDP in 1980/81. Expenditure cutbacks were difficult for several reasons. Some development projects required outlays for several years, and many projects created jobs which were politically difficult to reduce when private employment job opportunities were declining. Current expenditure patterns were also politically difficult to change. Since 1979, however, a sharp change in fiscal policy has in fact become a key element of stabilization in Mauritius, despite a setback in 1980 due to severe cyclones. The current fiscal deficit was reduced from Rs -554 million in 1981/82 to Rs -76 million in 1984/85, while the overall deficit was reduced from Rs -1388 million to Rs -868 million, or from -12.9 percent of GDP to -5.8 percent. A further reduction in the overall deficit is projected in the 1985/86 budget, despite an increase in capital spending, to bring it down to -5.3 percent of GDP. (See Table 3.)

Gradually improved performance on the revenue side has been matched by continued restraint in current expenditures, which have fallen from 25.8 percent of GDP in 1981/82 to 23.8 percent in 1984/85 and a budgetted 23.2 percent in 1985/86. Capital expenditures, which were cut back from 11.3 percent of GDP in 1980/81 to 5.9 percent in 1983/84, have been allowed to increase back to 6.8 percent in the current budget. An increase in grants from abroad has provided marginal relief: in the current fiscal year they are expected to amount to 1.6 percent of GDP, up from 0.2 percent in 1982/83.

The IMF has concluded that, "Under the previous four stand-by arrangements, budgetary policy has been the most important single element in reducing excess aggregate demand, and since 1980/81 the actual budget outturn has been more favorable than the program targets."**

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* IMF, "Mauritius - Request for Stand-By Arrangement," February 1, 1985, pp. 25-27. The above discussion of the balance of payments has relied heavily on the same source, pp. 9-10 and 20-24.

** IMF, "Mauritius--Request for Stand-By Arrangement," February 1, 1985, p. 16. See also pp. 16-18, same source, and World Bank, "Mauritius: From Austerity to Growth, Country Economic Memorandum," March 15, 1985, pp. 11-13

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4. Dependence on Sugar

Despite significant expansion of other sectors since the early 1970's, sugar still occupies around 9 percent of the cultivable area and accounts for about 50 percent of export earnings. (See Table 4.) It is the island's largest employer, and its contributions to domestic savings and government revenue are significant. About 54 percent of the best sugar land is owned and cultivated by 21 miller-planters. Three of these factory-estates are foreign-owned and one is government-owned, the latter having been purchased in 1973 to forestall closure. The remaining 46 percent of the sugar land is cultivated by about 36,000 small planters, of whom 1400 are tenants. Some 92 percent of these small planters cultivate less that 5.0 arpents (5.2 acres) each (half of them cultivate less than one arpent, or less than 1.043 acres). Although cane yields vary due to climatic and soil conditions from 20 to 46 tons per arpent, estate yields average 30-40 percent higher than those of other planters.***

Factors contributing to low yields are small outlays on irrigation, equipment, fertilizer 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 to achieve better economies of scale. Mauritius imports an average of 42,000 metric tons of fertilizer materials, at a cost of some US$4.9 million, annually, about 90 percent of which is used for sugar cultivation.*

Scope to increase sugar production further is limited, since world market demand is saturated and the cultivated area under sugar in Mauritius cannot be expanded. Future growth of output and employment in Mauritius will depend, therefore, on non-sugar activities. Substantial progress in this direction has already been achieved, as EPZ exports increased from 8 percent of the total in 1974 to 41 percent in 1984, while the sugar contribution dropped from 86 to 49 percent, and this effort must continue. (See Table 4.) Nevertheless, the sugar sector will continue to be very important in providing employment, income, foreign exchange, and domestic resources for investments elsewhere in the economy.

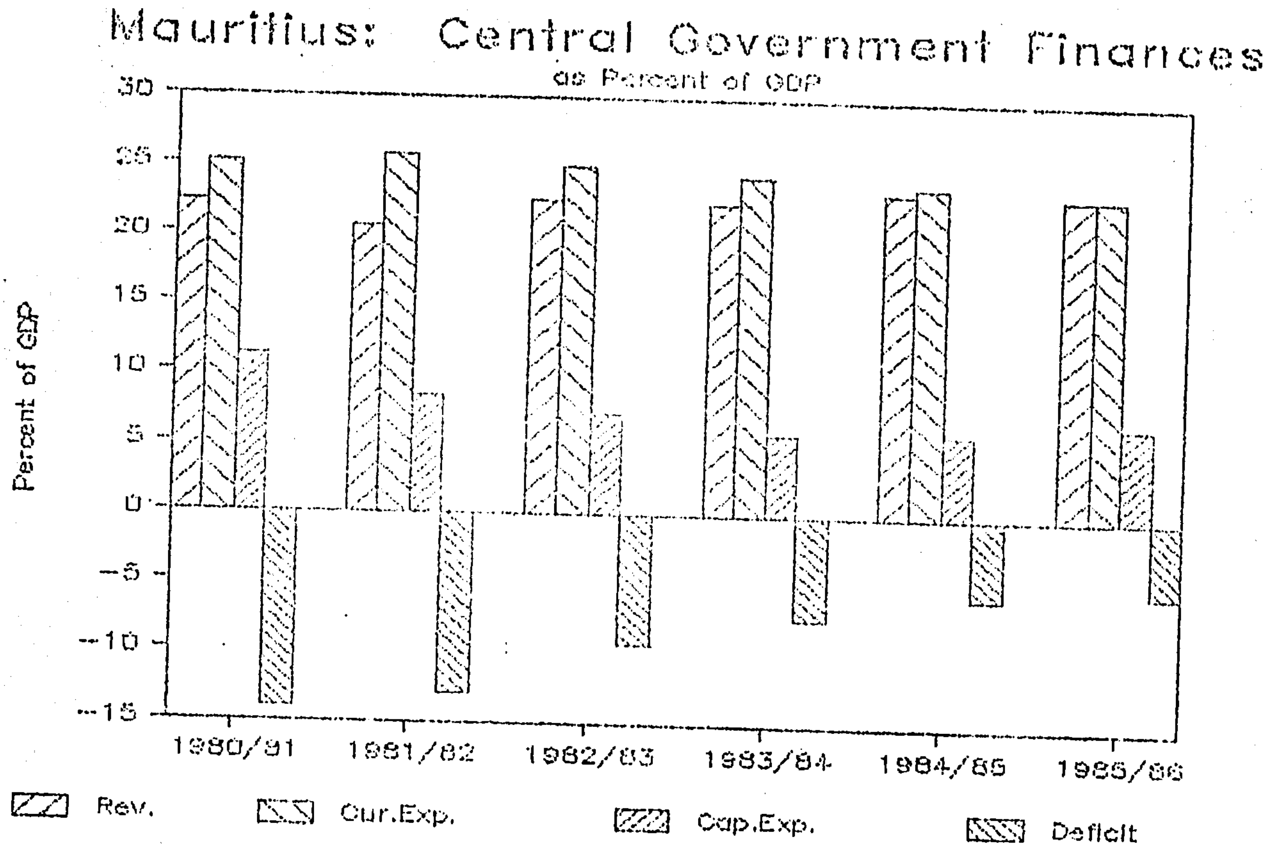
5. Industrial Inefficiency**

The Export Processing Zone Act of 1970 provided incentives to domestic and foreign export firms. Since then, the Government has simultaneously promoted export industries and industries competing with imports, even though this has led to some contradictory policies.

*** World Bank, "Mauritius: From Austerity to Growth, Country Economic Memorandum," March 15, 1985, pp. 20-26 and 93-98, which please see for more details on the sugar sector.

* See Central Statistics Office, Bi-Annual Digest of Statistics, Mauritius, December 1983, pp. 90-91.

** See World Bank, "Mauritius: From Austerity to Growth, Country Economic Memorandum," March 15, 1985, pp. 28-33; and World Bank, "Mauritius, A Review of Recent Industrial Policy Recommendations," June 17, 1985.


Mauritius: Central Government Finances
as Percent of GDP
Percent of GDP
30
25
20
15
10
5
0
-5
-10
-15
1980/81
1981/82
1982/83
1983/84
1984/85
1985/86
Rev.
Cur.Exp.
Cap.Exp.
Deficit

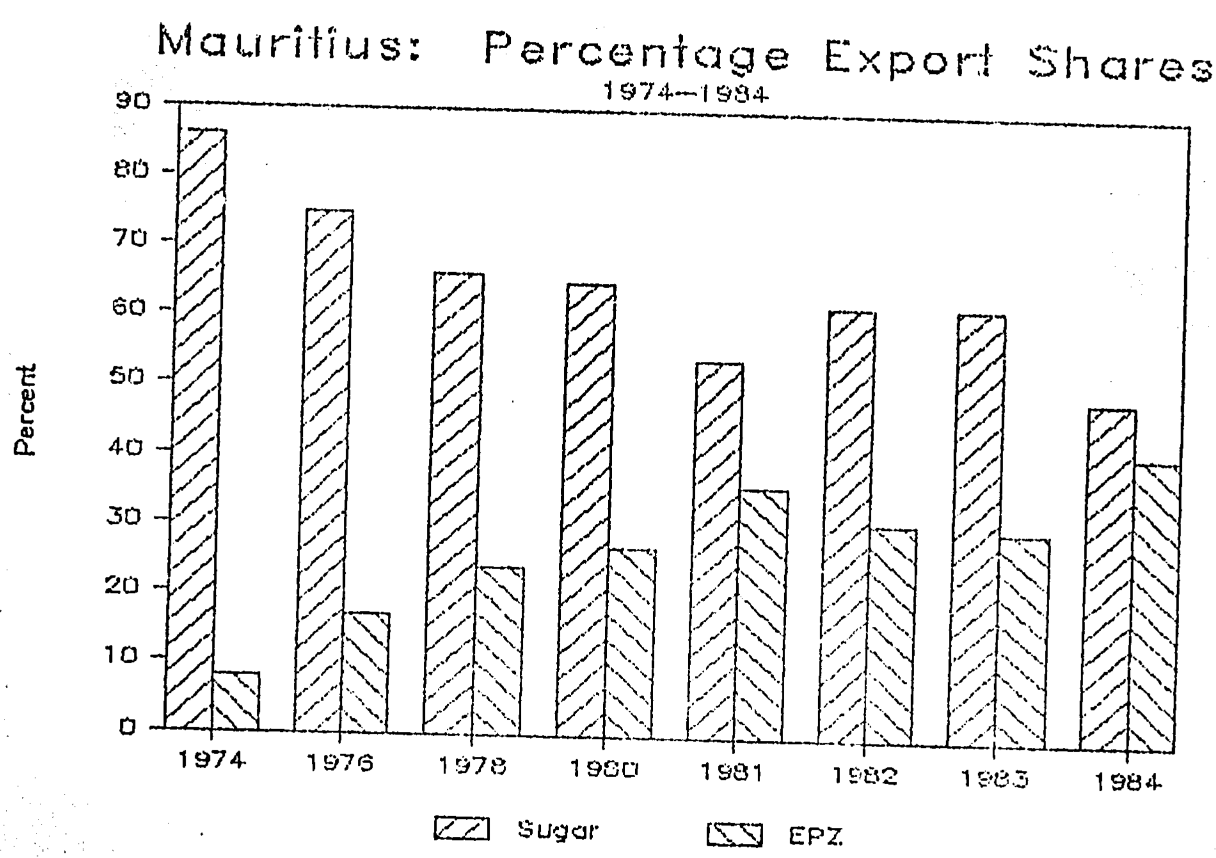

Mauritius: Percentage Export Shares
1974-1984
Percent
90
80
70
60
50
40
30
20
10
0
1974
1976
1978
1980
1981
1982
1983
1984
Sugar
EPZ

Table 3. Mauritius: Central Government Finances, 1980/81-1985/86
(Rs million)

	1980/81	1981/82	1982/83	Prov. 1983/84	Prov. 1984/85	Budget 1985/86
Current Revenue	2059	2218	2798	3019	3505	3927
Current Expend.	-2318	-2772	-3091	-3274	-3581	-3949
Current Deficit	-259	-554	-293	-255	-76	-22
Capital Expend.	-1048	-902	-889	-793	-912	-1150
Grants	14	68	23	61	120	276
Overall Balance	-1293	-1388	-1159	-987	-868	-896
Financed by:	1293	1388	1159	987	868	897
Ext. Borrowing	638	947	315	472	1435	718
Debt Amort.	-152	-234	-572	-791	-648	-640
Domes.Borrowing	807	675	1416	1306	81	819
Memorandum items:						
GDP at Market Prices	9236	10746	12307	13455	15070	17000
Overall deficit as % of GDP	-14.0	-12.9	-9.4	-7.3	-5.8	-5.3
Current Revenue as % of GDP	22.3	20.6	22.7	22.4	23.3	23.1
Current Expend. as % of GDP	25.1	25.8	25.1	24.3	23.8	23.2
Capital Expend. as % of GDP	11.3	8.4	7.2	5.9	6.1	6.8
Grants as % GDP	0.2	0.6	0.2	0.5	0.8	1.6

SOURCES:

1980/81-1984/85: World Bank, "Mauritius: From Austerity to Growth, Country Economic Memorandum, March 15, 1985, p. 12.

1985/86: Hon. S. Lutchmeenaraidoo, Minister of Finance, "1985-86 Budget Speech," Mauritius, June 28, 1985.

GDP by fiscal year: IMF, "Mauritius - Recent Economic Developments," August 31, 1984, p. 4, and IMF, "Mauritius - Request for Stand-By Arrangement," February 1, 1985, p. 7. 1985/86 estimate was derived from estimates of growth and inflation discussed in the Minister's Budget Speech cited above.

REDSO/ESA, Nairobi: CSCallison, 8/22/85

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Table 4. Mauritius: Exports, Percent Share by Type, 1974-84

Type	1974	1976	1978	1980	1981	1982	1983	1984
Sugar	86	75	66	65	54	62	62	49
Molasses	3	2	2	3	4	2	1	1
Tea	1	2	3	1	2	2	2	5
EPZ	8	17	24	27	36	31	30	41
Other	2	4	5	4	4	3	5	4
Total	100	100	100	100	100	100	100	100

SOURCE: Hadley E. Smith, "Macroeconomic Analysis, FY 1985 CIP PAAD, Mauritius, REDSO/ESA, Nairobi, May 20, 1985, and GOM, Ministry of Economic Planning and Development (1984 figures).

REDSO/ESA, Nairobi: CSCallison, 8/22/85

The Development Certificate (DC) Scheme, introduced in 1964, provides selected import-substituting enterprises with significant tax and duty exemptions. Over 200 companies have benefitted from the scheme, particularly in food and beverages, textiles and garments, chemical products, iron and steel, and tourism. In June 1981 such firms were also made eligible for the drawback of duty paid on the import content of any exports they might make. DC firms were allowed the duty free importation of capital goods and often of material inputs, as well, although these two privileges were withdrawn in October 1983. DC firms have often received protection in the form of higher tariffs and import quotas on foreign goods competing in the domestic market. Import-substituting industry employs about 16,000 people (excluding small firms), of which present and former DC firms employ some 6,600.

Performance in the import-substituting sector has been mixed, however. A recent review undertaken by the Ministry of Industry** assessed the efficiency of this subsector by analyzing the level and structure of nominal and effective protection and by computing the domestic resource cost of the various products. The results suggest that the existing system of protection causes significant inefficiencies and distortions within the industrial sector. Effective protection rates for individual firms vary between negative (implying the firms would do better in a free trade regime) for food products to over 800% for electrical machinery. In between there are products with relatively low protection, such as beverages and chemicals, and highly protected ones, such as leather products, textiles, apparel and metal products. The analysis revealed that the higher the level of protection, the more capital-intensive is the production process, the higher is the domestic resource cost of economic value-added, and the lower the social rate of return, while the financial returns are higher. The existing system of industrial protection, by artificially raising the financial profitability of import substitution activities, has diverted investment into relatively capital-intensive activities with less scope for employment creation and away from the more efficient and employment-oriented

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**Center for Development Technology, Inc., "Industrial Policy Review," Port Louis, August 2, 1984.

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export industries. During 1979-81 about 80 percent of total fixed investment in manufacturing was absorbed by import-substitution industries.

Under the Export Processing Zone (EPZ) Scheme, introduced in 1971, manufacturers which export their entire output are eligible for Export Enterprise Certificates (EEC's), which provide incentives and production benefits (see Section II.C., above).

Mauritius has been highly successful in promoting export processing industries and maintaining the country's export competitiveness. Macroeconomic policies have generally been adjusted to support the export-oriented strategy. Inflation has been kept moderate, especially since 1979. Annual wage adjustments in the industrial sector have been held considerably below increases in the cost-of-living. Despite comprehensive labor legislation designed to protect workers, money wage rates in the export manufacturing sector compare favorably with most of Mauritius' competitors. The Government has followed a relatively liberal interest rate policy, and the exchange rate has been kept flexible. Specific reforms undertaken recently in connection with World Bank-supported SAL's are mentioned in Section III.B., above.

D. Need for Additional Policy Reforms

As part of its ongoing stabilization and structural adjustment program, the GOM recently commissioned two studies on trade and industrial policies. The Center for Development Technology, Inc., presented the final report of its "Industrial Policy Review" (IPR) in August 1984, as part of the World Bank-supported structural adjustment program (SAL-II). Its main objectives were to review and evaluate the existing package of industrial incentives and to propose policy reforms designed to increase the efficiency of resource allocation in Mauritius. Maxwell Stamp Associates (MSA), which had been commissioned by UNIDO to carry out a policy study with similar objectives, issued its report in June 1984. These two reviews reached similar conclusions about the impact of the incentive system on the manufacturing sector and recommended similar and consistent policy reforms. While the Government is still considering most of the proposed reforms and will probably not adopt all of them, it has already implemented a number of them, as discussed in Section III.B., above. The entire package of proposed reforms is briefly summarized below, to incidate the overall rationale and context for the specific reforms to be supported by the Mauritius EPRP:*

Tariff Reform. The tariff system in Mauritius is highly complex and subject to frequent changes due to balance of payments considerations, fiscal need, and a desire to protect local industry. It is comprised of five elements, including fiscal, customs and stamp duties, surcharges and exemptions. A more rationalized tariff structure was recommended, to be implemented over a 4 or 5-

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* See World Bank, "Mauritius, A Review of Recent Industrial Policy Recommendations," June 17, 1985, pp. 5-12; World Bank, "Mauritius: From Austerity to Growth, Country Economic Memorandum," March 15, 1985, pp. 30-33; and Center for Development Technology, Inc., "Industrial Policy Review," Port Louis, August 2, 1985, pp. 75-96.

year period, which would (a) consolidate the fiscal, customs and stamp duties and surcharges into a unified ad-valorem tariff and (b) result in a more uniform tariff structure that would lower the existing average effective protection and reduce the present disparities among effective protection rates.

The reports also recommended the implementation of a formal anti-dumping mechanism to protect local producers. The IPR proposed specific tariff changes, to be implemented by stages over a period of four years, to achieve a 3-tier tariff structure: (a) zero tariff on essential foodstuffs and kerosene; (b) 40% tariff on all other goods imported from preferential countries; (c) 45% general tariff on all other imported goods; and (d) the conversion of high tariffs on luxury goods to excise taxes on both imports and competing domestic products. The 40-45% tariff levels were recommended to (1) maintain the current import level, (2) increase tariff collections, (3) not penalize low income groups, and (4) strike a suitable compromise between the achievement of more efficient resource allocation and the need to minimize the disruption of existing industry.

Replacement of Quotas with Tariffs. The IPR recommended the elimination of all quotas and the replacement of about half of them (the "binding" quotas) with their tariff equivalents, which would then be subject to the overall tariff reform proposed above. It also recommended discontinuing the import permit system in favor of a non-discriminatory general licensing system. As noted above, the Government removed all import quotas by January 1985, although it has not yet raised the tariffs on some of the commodities so affected.

Termination of the Development Certificate (DC) Scheme. Both reports agree that the protection granted import-substituting firms under the DC Scheme has been excessive, has inhibited the development of efficient and low cost industry capable of exporting, and has diverted local investment away from more efficient export activities. They recommended the DC Scheme be discontinued, although the tax provisions in current DC agreements must be honored.

Corporate Tax Reform. Both reports recommended a corporate tax structure that rewards exports regardless of whether the firm produces primarily for export or for the domestic market, and that makes such tax benefits proportional to the share of total output exported. Such a measure was introduced in June 1984 and expanded in June 1985 to provide a tax rebate of 2 percent for every 10 percent of total output exported, or a total possible rebate of 20 percent.

Improved Drawback System. The current duty drawback system offsets only part of the additional costs imposed by protection (it does not cover secondary inputs and imported machinery used to produce exports), and long delays occur before any refund is actually received. Both reports favor the use of tax vouchers (or credit notes) in lieu of cash payments, which could be used as payment of any duties on any imported goods.

Removal of Price Controls. Price controls include maximum price regulation and maximum mark-ups, both of which are costly to administer and create distortions in the market. There can be little economic justification for price controls in the absence of import quotas. The IPR recommended the elimination of all price and mark-up controls. Since the beginning of 1984 maximum price controls have been removed from about 50 commodities. By August 1984 the prices of only 11 imported and 17 locally-produced goods, nearly all classified as necessities, were still under control. However, the number of commodities under maximum mark-up control has increased to about 40.

Improving EPZ Incentives. Several changes were proposed in the EPZ scheme: (a) simplification of the certificate granting process; (b) free repatriation of all profits and capital gains; (c) a uniform 5-10 percent (others recommended a 15-20 percent level) corporate profit tax payable after a 5-year tax holiday; and (d) permission for EPZ firms to hold accounts denominated in foreign currency, or the introduction of foreign exchange insurance.

Labor Policy Reforms. The IPR recommended several changes in labor policy to reduce the cost of labor and stimulate more employment: (a) repeal of the advance notification requirements for the adjustment of a firm's workforce, (b) eliminating the requirement for a severence allowance, (c) the introduction of an unemployment insurance plan financed with a 1 percent increase in the sales tax, and (d) an employment tax credit to stimulate employment, financed with another 1 percent increase in sales tax. The ILO is presently about to finalize a more thorough study of private sector wage regulations, unemployment benefits and their financing, which will provide the basis for policy reforms regarding minimum wages, labor standards, collective bargaining and grievance procedures, in order to improve the effectiveness of the Government's efforts to control labor costs and encourage a more efficient allocation of labor.

Income Tax Reforms. In addition to increasing the sales tax to finance the unemployment insurance and an employment tax credit program proposed above, the IPR recommended reducing the personal marginal income tax rate to no more than 50 percent, in order to encourage savings and equity financing. The latter recommendation has already been implemented, as the Minister of Finance announced a reduction in personal income tax rates across the board for all income brackets his annual Budget Speech to the Legislative Assembly on June 28, 1985, with the highest marginal rate reduced from 70 to 35 percent, as noted above. This was approved by the Legislative Assembly in August 1985, during the joint GOM-AID design of the Mauritius EPRP.

E. Effects of Proposed Reforms on Poor Households

Time and data constraints preclude satisfactory identification of poverty groups in Mauritius and an analysis of the causes of poverty. In view of the nature of the country's economic structure and especially the preponderance of sugar production in the agricultural sector, for which there apparently exists no reasonable alternative, the GOM's choice of increased industrial employment as the best way to help the poorer elements of the society and to reduce existing poverty appears to be well-founded. The reforms proposed by the two studies discussed above are all aimed at creating a more conducive investment climate for the more labor-intensive industries. By creating new jobs at a more rapid rate, the reform program to be supported by the Mauritius EPRP will be contributing directly to the alleviation of poverty.

IV. OTHER DONOR ASSISTANCE

From a situation of almost complete dependence at the time of independence on the United Kingdom, Mauritius now receives assistance from a large variety of bilateral and multilateral sources. On the bilateral front, Mauritius is presently 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 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 also provided 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.

The amount of external resource received in Mauritius increased tremendously since independence through FY 1980. However, the trend has been reversed in the 1980's as external flows have been below the level reached in 1980; only Rs 987 million (compared to Rs 1207 million in 1980) was mobilized in FY 1983. This change resulted from the decision on the part of the GOM not to go to private sources for development borrowing (tables 5 and 6). There was an obvious need for additional resouces to finance the country's recurrent needs and development program, but the GOM was willing to forego present consumption and development expenditures because of its escalating debt service. Clearly, given the present debt repayment schedule, the GOM conservative borrowing policy is now helping the country afford its present structural adjustment program.

TABLE 5

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 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 6

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

Source	FY80	FY81	FY82	FY83	FY80-FY
Bilateral	244.7	254.3	177.0	339.9	1,015.
Multilateral	501.4	318.8	232.8	530.7	1,583.
Private	461.5	450.9	-	5.0	917.
TOTAL	1,207.6	1,024.0	409.8	875.6	3,517.

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 heavy borrowings from the IMF and the World Bank. But it reflects also the relative stagnation of bilateral aid as a result of economic difficulties encountered by traditional aid donors. Starting in 1979, the IMF, in five sucessive stand-by arrangements, has lent the GOM nearly SDR 300 million while the IBRD has approved, since 1981, $55.0 million of loans to the GOM. The loans from these two international organizations have helped Mauritious through periods of foreign exchange shortage and directly supported the GOM's economic adjustment program.

The Mauritius EPRP stands separate from other donor policy reform initiatives but will complement the IBRD and ADB industrial sector loans of approximately $20.0 million each, both planned for 1986. The IBRD will require some initial industrial incentive reforms and tariff restructuring as a precondition to negotiation. The present expectation of the MOF is to announce these reforms in January, with IBRD negotiations to begin shortly thereafter. For the ADB, its industrial loan is to become effective with the implementation of the same reforms. The ABD expects to continue to disburse funds under the loan subject to continued progress in the implementation of the reforms. THe IBRD will have an initial release upon signing of the loan agreement (June-July 1986) and a second tranche subject to specific requirements. The exact nature of these conditions will be negotiated in January-February.

V. PROPOSED MAURITIUS EPRP

A. Objectives

The purpose of the EPRP is to assist the Government of Mauritius by providing foreign exchange and budgetary support to ease the burden of policy reforms needed to continue economic structural adjustment. The $5.0 million grant provides not only the assistance but the incentive for the GOM to maintain reforms already in place and to undertake additional reforms. The EPRP supports the GOM's own reform package, which is resulting in significant changes in the economic structure of Mauritius. The planned reforms and their objectives are best described in the latest statement by the Minister of Finance on GOM development goals and economic policies. In his 1985/86 Budget Speech (Annex D), he identified four key objectives: to create jobs, accelerate economic growth, control inflation and improve the balance of payments. The overriding theme of his 1985-86 Budget Speech, presented to the Legislative Assembly on June 28, 1985, was productive employment generation. He announced several reforms and programs designed to help achieve this goal, emphasizing the need for "a vigorous private sector" to achieve growth through the expansion of exports and incentives to promote small-scale agriculture and industry. The second important theme of the Budget Speech was the continued reform of the tax system to create "an environment favourable to economic growth" and to encourage "hard work, risk-taking and initiative," and further budgetary adjustments. Personal income taxes were cut in line with the corporate reductions implemented in 1984. Finally, the Minister demonstrated the GOM's commitment to fiscal austerity by presenting a development budget that in real terms is cut from last year's already bare bones budget.

The Minister also announced that the GOM plans to rationalize the various industrial incentive schemes and the customs tariff "in order to make the tariff structure more conducive to growth and employment creation." The proposed Mauritius EPRP is designed to encourage and support these objectives of the GOM.

IMF projections indicate that this year and the next will be difficult for Mauritius' balance of payments, since its debt service ratio is at a near peak level of 25.2 percent of export earnings during this fiscal year (1985-1986). The ratio will level off to a projected high, but sustainable, 20 percent for the rest of the decade. Total debt service obligations are increasing from SDR 119 million in 1983/84 to SDR 141 million and 136 million in 1984/85 and 1985/86, respectively, an increase due largely to increased repurchase requirements (by some SDR 24-28 million) and charges on IMF drawings and an SDR 9-12 million increase in interest and charges on public debt.

The IMF has concluded: "The adjustment policies followed over the past four years have achieved a substantial reduction in the excess aggregate demand that characterized the balance of payments from 1979/80 through 1983/84, and an improvement in the competitive position of Mauritius. The authorities feel that the past policies have provided the foundation for a second phase of adjustment, which should be more growth-oriented and concentrate on increasing employment. However, the bunching of external debt-service payment in 1984/85 and 1985/86 threatens the transition to these policies. Also, international reserves have

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been reduced to dangerously low levels, given the vulnerability of the economy to cyclones and adverse movements in international prices."*

Much of the investment planned for last year had to be deferred, and this year public investment plans are even more austere. Thus, the provision of US$ 5.0 million during the GOM fiscal year 1985/86 will help provide the critical boost Mauritius needs to get itself over this financial hump and back on the road to stable, more equitable growth.

B. Policy Changes to be Supported

After reviewing the need for additional reforms (Section III D), the design team identified three areas where the EPRP moneys can be used to support policy changes and economic reforms. First, the program can help the GOM in the implementation of the recently announced tax reduction and rationalization. Additionally, the EPRP funds will be used to support tariff and trade reforms which encourage increased efficiency and international competitiveness on the part of Mauritian industries. Finally, and as a complement to the tariff reforms, EPRP funds will be released following changes in the industrial incentive program to encourage industrial productivity.

As part of the tax reform effort, the Minister of Finance announced substantial reforms of the income tax system in his June 28 address, reducing the rate of tax, reducing the number of income brackets, and increasing personal deductions. The maximum rate of taxation, on chargeable income in excess of Rupee 50,000 (US $3333), was reduced from an excessive 70 percent to 35 percent, in line with the reduction in corporate income tax rates announced last year. Personal deductions were standardized and increased from Rs 7,500 to 10,000 (from US $500 to 667). All households with gross income less than Rs 30,000 (US$2000) are exempted from income tax (increased from last year's exemption rate of Rs 24,000).

In order to make up the revenue shortfall expected to result from these initial reforms (estimated at some Rs 90 million) and to reduce further the fiscal deficit, the Minister simultaneously announced an increase in the stamp duty on imports from 13.2 to 17.0 percent. Basic commodities such as rice, flour, vegetable oil, pulses, dried salted fish, fertilizers and kerosene are exempted from this duty. Further, the tax structure for the EEC (or the new combined incentive system) will be simplifed by imposing a flat 15% corporate income tax for new firms, replacing the phased incentive schedules presently in use.

The proposed Mauritius EPRP will support the implementation of these dramatic reform measures by making the first tranche of US$ 2.0 million immediately available for general budgetary support, in part to help the GOM cover the temporary Rs 90 million revenue shortfall (US$6.0 million) created by the loss of income tax revenues, before the improvement in savings, investment and work incentives brings about the anticipated higher revenues from higher levels of economic activity.

*IMF, "Mauritius - Request for Stand-By Arrangement," Feb. 1, 1985, p. 11.

Import substitution activities in Mauritius have been protected from foreign competition by tariffs, which raise the domestic price above the world level, and by import permits and licenses issued by the government. The tariff system not only confers protection from foreign competition on domestic industries, it also provides the main source of revenue for the GOM, a fact which complicates reform efforts. Price and mark-up controls have been, and continue to be applied in a limited number of cases, to constrain the use of privileges conferred by protection. The tariff system is highly complex, consisting of fiscal, customs, and stamp duties, surcharges and exemptions. This system of protection has led to some misallocation of resources within Mauritius' industrial sector, encouraging domestic investment in less efficient and capital-intensive import substituting industries, rather than in the export sector, which has the greatest potential for fast growth, employment generation and foreign exchange earnings.

As mentioned in Section III D, Need For Additional Reforms, a recent review of trade and industrial policies, for which the GOM commissioned two separate studies, one by the Center for Development Technology of New York and one by Maxwell Stamp Associates of England, with support from the World Bank and UNIDO, respectively, was undertaken to evaluate the existing package of industrial incentives and tariff protection. Additionally, the studies propose policy reforms designed to increase the efficiency of resource allocation, promote industrial employment and increase Government revenue.

The findings of these two studies on the industrial development incentive system are as follows:

(a) Rationalization of development incentive schemes with a view to promoting exports and foreign exchange earnings (Incentive schemes exist for agriculture, hotel development, import substitution industries, and the export service sector, as well as for the EPZ);

(b) Improvement in the program to reimburse local non-EPZ firms for the duties they pay on the imported components of products exported. This "duty drawback scheme" might be improved by: 1) adopting a tax voucher system, 2) allowing for a rebate on the value of domestically purchased material inputs, and/or 3) allowing for a rebate on the tariff of imported capital goods (calculated on the basis of periodic depreciation reports);

(c) Free repatriation of profits and capital gains;

(d) Action to make the Mauritius Export Development and Investment Authority (MEDIA) fully operational.

The Minister is expected to announce a substantial first package of trade and tariff reforms in his January 1986 budget review speech. For the industrial reform program, the GOM is expected to introduce shortly an Industry Bill to rationalize the incentive packages for manufacturing and other development.

The EPRP would then release its second tranche of US$ 3.0 million in March or April 1986, subject to satisfactory progress in implementing the trade and tariff and industrial incentive reforms. These reforms are complicated, and it is

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expected that they will be implemented in a series of changes over time. Release of the second tranche will be tied to the next step in the reform plan.

World Bank industrial loan negotiations on many of the same reforms will be taking place in January/February of 1986 . The results of these negotiations will set the stage for the AID review of progress and will be taken into account in our decision to release the second tranche. However, the AID determination on progress will be independent of the IBRD negotiations.

We believe that to establish strict criteria for the release of the funds at this point would be counterproductive. There is no single, simple reform that can be identified as "the" key to economic growth or even industrial expansion. Rather, because of the range and complexity of the proposed reforms -- and of the political opposition to most of them -- it is difficult to predict the particular set of steps that will be announced between now and April. Thus, in line with AID/W PAAD guidance, a general condition precedent is set for the release of the second tranche which requires a determination by AID that satisfactory progress be made in the target reform areas. Specifically, as a condition precedent to disbursement of the EPRP'S second tranche of US$ 3.0 million, scheduled for release in March or April of 1986, the GOM will submit evidence, satisfactory to AID, that progress has been made in tariff reform and in the modification of the government's industrial incentive program to increase the international competitiveness of local manufacturers. This condition is general in nature to give AID flexibility in determining what is "satisfactory progress". To help the GOM and AID evaluate progress, benchmarks will be set out as specific measures against which progress can be judged. These proposed changes are not requirements, but rather indications of the level and type of reforms expected. The benchmark for the tariff reform and the industrial incentive modifications have been collaboratively identified by the GOM and AID. Annex F identifies the benchmarks and contains AID/W approval of the procedures, conditions and the benchmarks.

Given the general wording of the CP to the second tranche and the indicative nature of the benchmarks, the GOM has the flexibility to change either the tariff or industrial incentive reform package after signing the grant agreement. For example, the GOM may want to add other tariff cuts on high priority items. Similarly, tariffs on some of the items listed may not be reduced because of the difficulties of applying excise taxes to make up for revenue shortfalls. The list of tariff changes and industrial reforms does, however, provide reasonable benchmarks to judge reform progress.

The benchmarks for the evaluation and decision on the release of the second tranche will not be included in the grant agreement but rather will be set out in a Project Implementation Letter (PIL). A PIL provides flexibility and still makes it clear to both AID and the GOM what is expected for release of the second tranche.

In order to assure that both AID and the GOM understand what is required for the release of the second tranche, there will be a condition precedent to the first tranche which requires the GOM to set the stage for the reforms to be implemented prior to the release of the second tranche. As a special condition precedent to disbursement of the $2.0 million first tranche, the GOM will communicate to

AID a description of how it intends to proceed, through April 1986, to implement tariff and trade reforms and to make modifications in the industrial incentive program to increase the international competitiveness of local manufacturers. REDSO/ESA does not expect a detailed plan but rather only a letter to AID explaining the planned activities and time frame. AID's response will be the PIL with the benchmarks which confirms the timing.

C. Program Activity

1. Cash Grant

Five million dollars of Economic Support Funds will be granted to the GOM from the African Economic Policy Reform Program. The purpose of the one year program is to assist the Government of Mauritius (GOM) by providing foreign exchange and budgetary support to ease the burden of policy reforms needed to continue economic structural adjustments. The program will benefit Mauritius first by providing foreign exchange in the form of a cash grant. The local currency equivalent of the $5,000,000 grant will be used to support priority government activities. The grant will be released in two tranches. The first, for two million dollars, will be released within a month of the signing of the grant agreement. In March or April of 1986, a second tranche of three million dollars will be released subject to satisfactory progress by the GOM in the target reform areas.

2. Local Currency Use

The use of local currency generations in Mauritius has been highly successful. Significant development activities have been financed using CIP generated rupees. These include rural water development projects, small business loan schemes, irrigations projects for small holders and industrial space construction (over 500,000 sq. ft. to date). The strong planning and budgeting process within the GOM has enabled AID and the government to identify and finance developmentally sound projects mutually agreeable to both parties. The GOM has set out its priorities for the program period in its annual development budget and three year Public Sector Investment Program (PSIP). To meet its fiscal deficit target of 5.3% of GDP, the development budget has been slashed from the already low level published in the PSIP, 1986-88. Fiscal constraint is an ongoing reform, but the additional cut as part of the recently announced package is truly a new level of austerity.

The package of reforms supported by the EPRP include fiscal reduction (tariff and income tax)resulting in cuts in the development budget. Thus, the decision was made to use the local currency under the first tranche to provide direct support to the development budget. The rupee equivalent of the cash grant, Rs 30 million (15 rupees/dollar), will enable the government to increase allocations for key development activities. The rupees will be allocated by the government directly to the development budget. Within 30 days of the cash transfer, the Ministry of Finance will inform AID of the specific allocation made with the local currency equivalent. Quarterly reports of use will be made thereafter.

Under the second tranche, the GOM has agreed to establish a special account and deposit the rupee equivalent, based on the prevailing exchange rate on the day of the cash grant transfer, in the account within 14 days of the date of the cash tranfer. The rupees in the account will be used for mutually agreed upon development activities. It is expected that approximately Rs 16.0 million of the Rs. 45.0 million deposited will be used for Phase II of the Vacoas-Phoenix Industrial Estate. The balance will reimburse the GOM for part of its Rs 35.0 million addition to the DBM's Small Entrepreneurs Financing Scheme. The procedures for the selection of the projects and the reportin requirements are presented in VI D, Program Monitoring and Reports.

Vacoas-Phoenix Industrial Estate

The Vacoas/Phoenix Industrial Park (referred to as an Estate in Mauritius) will be a major industrial site built primarily to house EPZ firms. It will be developed in four stages, cover 25 acres and in its final stage include industrial buildings with 500,000 sq. ft. of the floor space. The local currency generations under the FY 1985 CIP (Rs. 32.0 million) are financing Phase I construction of 160,000 sq. ft. Although the funds have not been generated, the DBM, using its own funds and some money advanced from the GOM, has begun construction. Completion is scheduled for March/April 1986. Phase II to be financed with rupees from this program will add 80,000 square feet by constructing two additional buildings. The DBM has firm lease commitments for 195,000 sq. ft. already and believes that before the end of the year all of Phase II will be optioned for rent.

The Vacoas-Phoenix Industrial Estate, so named because it is located close to two towns - Vacoas and Phoenix - in the transportation corridor between the capital city, Port Louis, and Plaisance Airport occupies an excellent location because it has good access to both the port and the airport. Additionally, there is ample labor nearby and the supporting infrastructure is in place. The land had been purchased at a reasonable cost by the DBM several years ago.

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 Phase II of Vacoas-Phoenix Estate estimated to cost about 16.0 million rupees. The net rate of return after deduction of expenses and amortization is estimated by DBM to be 5 to 6%. Experience by DBM, with the Coromandel Estate financed by an IBRD loan, shows that its 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 industrial sites, the Vacoas-Phoenix Estate will provide space for 1,500 to 1,600 new jobs in its second phase of 80,000 sq. ft. and the completed project of 500,000 sq. ft. will house an estimated 7,500 to 10,000 new jobs. When the multiplier effect of each new EPZ job resulting in another new job in related sectors is added to this, the positive impact on the economy of Mauritius of this project will be quite significant.

The Small Entreprenuers Financing Scheme

In FY 1984-85, the GOM, through the DBM, started a Rs. 30.0 million revolving fund for the financing of projects proposed by newly emerging entreprenuers. The basic objective of the scheme is to induce and encourage persons who are economically disadvantaged or unemployed to set up their own small enterprises, building on their knowledge and skills. The scheme is designed to provide financial assistance on liberal terms to small entrepreneurs and is intended only for new entrepreneurs planning productive enterprises. The small entrepreneurs participating in the program have been garment makers, furniture makers, plumbers, electricians, mechanics and other artisans. Small agriculturalists including dairy and poultry farmers, fishermen and those engaged in household and cottage industries have also benefited from assistance under the scheme. Purchase of a taxi, bus or lorry for the first time by eligible persons is also being financed under the scheme.

The assistance is available to those persons who are unemployed or whose annual income does not exceed Rs. 25,000. Loans are sanctioned mainly for acquiring machinery/equipment/tools and partly for meeting the initial requirement of working capital needed to start the small enterprises. Where necessary, a part of the assistance is utilized for construction of sheds or repairs/renovations to existing buildings. In the case of units located in industrial estates of the DBM, concessional rent is charged as an incentive to set up small enterprises. A grant not exceeding 20% of the amount of loan is provided along with the loan. The amount of loan cannot exceed Rs. 50,000 (US$3333), inclusive of grant element, for a single borrower. In the case of an enterprise promoted by more than one person, each promoter will be eligible for a loan/grant as determined by the Bank. The repayment schedule is fixed depending upon the expected income of the borrower, with an initial moratorium of 3 to 12 months and an overall term of 3-5 years from the date of the last disbursement. At present, the loans carry an interest rate of 8% p.a.

The borrower executes a Loan Agreement with the Bank and a flexible approach is used with regard to the nature and extent of security. The loan is usually secured by a general charge on the borrower's assets. Generally, third party guarantees are not required.

The scheme will also include extension services to develop project ideas, feasibility studies, marketing support and entrepreneurship training. At present, no funds have been provided to develop this capacity.

The DBM using the initial allocation of Rs. 30.0 million from the GOM and over Rs. 15.0 million of its own resources have made loans as listed in the following table.

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Table 7

Small Entrepreneur Financing Scheme

Position on 30.6.85

Subsector	No. of cases	Amount (Rs)
-Mixed Farming (Including Fishing)	735	15,689,600
-Foodstuffs and Beverages	115	2,319,600
-Garments	369	10,332,525
-Metal Industries	52	1,237,800
-Manf. of Non-Metallic Prod.	6	135,600
-Leather Production (Including Shoe Making)	30	777,300
-Paper Production	9	314,000
-Chemicals, Plastics Production	3	135,000
-Furniture	99	2,930,350
-Sand-Quarry	2	20,000
-Construction	14	530,500
-Other Manf. Ind.	51	1,664,300
-Transport, Storage Com.	102	4,172,100
-Social Com Services	7	229,000
-Recreation and Cult. Services	3	125,000
-Repair Services	54	1,067,000
-Agricultural Act.	99	3,452,000
-Others	18	378,000
TOTAL	1,768	46,009,675
Disbursements	1,086	23,200,000

The employment generation from the scheme at the Rs 45 million level is estimated by the DBM to be 4000 jobs. The bank has actually identified 1800 new positions, not taking into consideration the multiplier effect on economic activity.

It is too early to determine the repayment record, but clearly the program is a high risk loan scheme designed to help the poorer individuals in Mauritius. Arrearages are quite likely to be high, but the benefits of the successful expansion of the local entrepreneurial class will be enormous. The GOM is seeking grant assistance for the expansion of the scheme to Rs. 210 million. The GOM believes that EEC assistance will be made available starting in FY 1987, but has no pledge for this year. Thus, it is proposed that the balance of the funds in the special account (estimated at Rs. 21.5 million) be used to support the DBM's Small Entrepreneur Financing Scheme. The DBM estimates that an additional Rs. 45.0 million of loans will be disbursed under the scheme during FY 1986.

VI. IMPLEMENTATION

A. Responsibilities

1. Government of Mauritius

Responsibility for implementation of the policy reform rests with the government as a whole. Some of the changes will require parliamentary approval (e.g. the Industry Bill) while others can be implemented by the Ministry of Finance (some tax and tariff reforms) or the Ministry of Industry (new industrial policy). The Ministry of Finance, specifically the Secretary of Finance, will be coordinator and the AID contact point within the GOM. The Secretary will be directly responsible for the cash grant but will coordinate use of both the foreign exchange and the local currency with the Ministry of Economic Planning and Development. For the allocation of the foreign exchange the MOF will consult with the Bank of Mauritius.

The Secretary of Finance will be responsible for accounting and reporting on the use of the local currency. Since the first tranche will be used for direct budgetary support, only reports on their development budget allocations and uses will be required.

For the second tranche of local currency, a special account, opened in favor of the Ministry of Finance, will be established in the Port Louis branch of Citibank, the only US bank with an office in Mauritius. The funds in this account will be used for development activities mutually agreed upon by AID and the Ministry of Finance in consultation within 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 quarterly basis, the implementing agencies or the Ministry of Finance will send to AID progress reports on the programs. Since these financing and reporting procedures are the same as those used for the CIP, no serious problems with them are expected.

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 Program Committee, including RFMC, will be responsible for overseeing the implementation of this program. The principal REDSO backstop officers will be James Dempsey, Project Development Officer and Stu Callison, Regional Economist.

An important AID responsibility will be to determine if there has been satisfactory progress in the reform process to release the second tranche of funds. An economist and other members of the Program Committee may be required to visit Mauritius to review formally the reform measures taken by the GOM. Based on this review, and/or information provided by the Embassy and GOM, the REDSO/ESA Director, with the concurrence of AID/W, will make the determination. The mechanism for the decision will be an Action Memorandum to the REDSO/ESA with the decision sent to the GOM through a Project Implementation Letter.

B. Implementation Arrangements and Procedures

The program obligation will be made by a grant agreement in September, 1985 with funds disbursed in two tranches. The first two million dollars will be disbursed within a month of the signing of the grant agreement. The second tranche of three million dollars will be disbursed in March or April, 1986, subject to satisfactory progress by the GOM in the target areas.

The mechanism for disbursing program grant funds will be as follows:

1. Upon compliance with all conditions precedent applicable to first and then subsequently for second tranche disbursements, the GOM will request AID by means of a Financing Request (Form AID-1130-2), disbursement of grant funds to a Government account at the Bank of Mauritius or at a designated commercial bank. The Financing Request will be signed by the designated representatives of both U.S. Government and the GOM.

2. Upon execution of the Financing Request, American Embassy/Port Louis through REDSO/ESA will request the Regional Financial Management Center (RFMC) in Nairobi to arrange for the transfer of funds into the GOM bank account.

3. RFMC/Nairobi will telegraphically transmit the request to AID/Washington (M/FM/PAFD) with all information required for the transfer of funds including certification that all conditions precedent have been met.

4. M/FM/PAFD will telegraphically transfer funds to the GOM account at the Bank of Mauritius or at their designated bank through the Federal Reserve Bank in New York.

No special account will be used for the first tranche disbursement since all funds will be used for direct budget support. Local currency generation from the second tranche disbursement, based on the prevailing exchange rate of the day of the cash transfer, will be deposited into a special account within fourteen days of the date of cash transfer and will be used for mutually agreed upon development activities. GOM will provide to AID on a quarterly basis reports on the status of the special account showing the amounts deposited, withdrawn, and the balance in the account supported by a copy of the bank statement.

C. Illustrative Implementation Schedule

DATE	EVENT/ACTION	RESPONSIBLE OFFICE
- By Sept 30, 1985	-Grant Agreement signed -PIL # 1 delivered	REDSO/ESA and MOF REDSO/ESA
- October 15	-CP's met	GOM
- End October	-First Tranche Awarded -PIL with benchmarks sent	RFMC/MOF REDSO/ESA

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- November	-Local Currency Allocation for Cash Grant	MOF

1986

- March	-Review of Policy Reform Performance	AID, GOM and Embassy
- Late March	-Approval of Second Tranche	REDSO/ESA & AID/W
- Early April	-Second Cash Grant awarded	RFMC, MOF
- May	-Deposit of Local Currency in Special Account and Agreement on Use	MOF & REDSO
- June	-Disbursement of Second Tranche Local Currency	MOF
- November	-Local Currency Activities Complete	MOF & Implementing Agencies

D. Program Monitoring and Reporting

REDSO/ESA is responsible for program monitoring which will be conducted during periodic visits to Mauritius by the Project Officer and other REDSO/ESA and RFMC staff as required. These individuals will visit the MOF, MEPD, implementing agencies and sites of the local currency projects. AID/REDSO will also monitor the progress of the rupee program through periodic reports containing the following information:

a) Deposits and disbursements in the Special Account;

b) For each program or activity, mutually agreed upon for funding from the Special Account, a description of the activity, the amount budgeted for the program and expected outputs and benefits;

c) On a quarterly basis, a general description of activities, goods, services, structures and/or facilities financed (basically an implementation progress report);

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

AID retains the right to audit and inspect activities, including the local currency program.

E. Evaluation

In addition to the normal implementation evaluations conducted as part of program monitoring, a special evaluation of the program will be undertaken. Two key objectives of this evaluation are to help determine the appropriateness and impact of the African Economic Policy Reform Program (AEPRP) and to recommend modifications that may be needed to make the AEPRP more effective. The evaluation will take place in June/July 1986 after nearly all program activities are complete. An economist and a program or project officer, not involved in th Mauritius EPRP development or implementtion, will spend approximately two weeks in Mauritius to prepare the report. Additionally, AFR/PRE will be requested in early FY 1986 to review the data available to track private sector development i Mauritius. Then, if appropriate, a PRE officer will join the evaluation team in July to refine and evaluate the system as well as participate in the overall evaluation. GOM, REDSO/ESA and Port Louis Embassy staffs will act as resources to the team. No special funding will be required since the evaluation will be internal to AID. The evaluation will assess:

(1) the extent to which the EPRP has resulted in policy changes,

(2) the impact of these policy changes on economic performance,

(3) the extent to which the reforms are additional to those required by other donors,

(4) the GOM's view and acceptance of the EPRP,

(5) the cash grant mechanism, especially in comparison to a CIP,

(6) the impact of local currency generations on the GOM budget,

(7) the developmental impacts, especially employment generations, of the local currency activities, considering selection of the activities, successful implementation, outputs and beneficiaries, and

(8) the overall effects of the program on poor households.

VII. OTHER CONSIDERATIONS

A. Other AID Programs and Present Pipeline

In recent years, the major component of the AID program to Mauritius has been a commodity import program which has been used to purchase U.S. edible oil. The CIP's have provided $2.0 million per year since 1982, except for 1984 when a total of four million dollars was authorized. A $4.0 million CIP is planned for 1986. Two million dollars of CIP moneys from the 1984 program remain unused and in the pipeline. The final purchase of one million dollars remaining in the FY 1984 CIP was expended in August. The last PL 480 loan ($3.5 million) was awarded in 1983, and there is no PL 480 pipeline.

Local currency generations under the various program are summarized in the following table:

Table 8
USAID Commodity Import Programs and PL 480 Title I
Rupee Activities

FY 1982 CIP	Millions
1. Water Supply to CHA Estates and Other Rural Water Activities	Rs 20.0
2. Small Business Financing Scheme at the DBM	2.0
3. Small-scale Irrigation Scheme	2.0
TOTAL	Rs 24.0
FY 1983 CIP	
1. Francoise River Diversion	Rs 14.5
2. CWA Rural Water Program	
a) Caroline to Bramsthan Pipeline	3.5
b) Bramsthan to Camp Ither Pipeline	2.5
3. Investment and Trade Promotion	3.5
4. Tourism Promotion	4.0
TOTAL	Rs 28.0
FY 1984 CIP	
1. Seven Rural Industrial Buildings	Rs 50.0
2. Small Business and Industry Loan Scheme	5.0
3. Tourism Promotion	4.0
TOTAL	Rs 59.0

FY 1985 CIP

Vacoas-Phoenix Industrial Estate, Phase I	Rs 32.0

FY 83 PL 480 TITLE I

1.	NPIP Pilot Drip Irrigation Project	Rs 7.0
2.	Livestock Development and Research	12.5
3.	Food Crop Research and Experimentation	18.5
	TOTAL	Rs 38.0

The CIP's and PL 480 loan as well as the local currency activities under them are providing foreign exchange and budgetary support that strengthen the Mauritius economy and assist the Government to undertake structural adjustment. The need for all of these program results, in part, from the series of economic structural adjustment undertaken by the GOM starting in 1979. Continuation of this support as Mauritius moves into the second stage of policy reform and structural adjustment is developmentally sound. The EPRP directly complements previous AID activities.

In 1980, a Housing Insurance Guarantee program was approved but the GOM is just this year begininning to draw down the money owing to the high interest rates tha t havw prevailed in the U.S. In addition, AID has been providing a total of approximately $200,000 per year under the AFGRAD and AMDP II for training in areas that directly complement the GOM's structural adjustment efforts and local currency activities. Finally, approximately $450,000 is spent each year in family planning. Over the long term, the solution to high unemployment is to lower the population growth rate and maintain it at a low level. Thus, family planning is setting the stage for long term structural adjustment.

B. Environmental Statement

A categorical exclusion determination is attached as Annex C.

C. Conditions and Negotiating Status

Two special conditions precedent will be included in the grant. An explanation of the need and procedures relating to the following conditions is presented in section VB, Policy Changes to be Supported.

As a special condition precedent to disbursement of the dols. 2.0 million first tranche, the GOM will communicate to AID a description of how it intends to proceed, through April 1986, to implement tariff and trade reforms and to make modifications in the industrial incentive program to increase the international competitiveness of local manufacturers.

As a condition precedent to disbursement of the EPRP'S second tranche of US$ 3.0 million, scheduled for release in March or April of 1986, the GOM will submit evidence, satisfactory to AID, that progress has been made in tariff reform and in the modification of the government's industrial incentive program to increase the international competitiveness of local manufacturers.

Substantive agreement has been reached on all aspects of the program, including the cash grant, conditions, dibursement procedures 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 discussions. No problems in signing the Grant Agreement before the end of the fiscal year or implementing the program are anticipated.

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ANNEX A

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UNCLAS PORT LOUIS 01955

E.O. 12356: N/A
TAGS: EAID, MP
SUBJECT: AEPRP FOR MAURITIUS

1. EMBASSY HAS NOW RECEIVED THE FOLLOWING LETTER FROM GOM MINISTER OF FINANCE S. LUTCHMEENARAIDOO WHICH OFFICIALLY REQUESTS ASSISTANCE UNDER THE AFRICAN ECONOMIC POLICY REFORM PROGRAM.

2. QUOTE. DEAR MR. AMBASSADOR,

I HAVE THE PLEASURE TO REFER TO YOUR LETTER OF JULY 18, 1985 CONCERNING THE ASSISTANCE YOUR GOVERNMENT PROPOSES TO GRANT TO MAURITIUS UNDER THE AFRICAN ECONOMIC POLICY REFORM PROGRAM. MY OFFICIALS HAVE HAD FRUITFUL DISCUSSIONS WITH MESSRS. DEMPSEY, GALLISON AND STADER ON THIS SUBJECT AND I AM GLAD THAT THIS ASSISTANCE CAN BE MADE AVAILABLE IN THE COMING MONTHS.

I WOULD BE GRATEFUL, MR. AMBASSADOR IF YOU COULD CONVEY TO YOUR GOVERNMENT OUR DEEP APPRECIATION FOR THIS ASSISTANCE. IN VIEW OF THE CUTOFF DATE MENTIONED IN YOUR LETTER FOR THE AMOUNT TO BE OBLIGATED BY YOUR GOVERNMENT I SHALL BE AT YOUR DISPOSAL TO SIGN THE GRANT AGREEMENT AS SOON AS IT IS FINALISED. YOURS SINCERELY. UNQUOTE.
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BEST AVAILABLE DOCUMENT

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

ANNEX B

CROSS-REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? YES.
CHECK THE FY 1985 CIP PAAD

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 85 Continuing Resolution. Sec. 525, FAA Sec. 634A. Sec. 653(b).

a. Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the non-project assistance;

A CN was sent to congress on September 6, 1985.

b. Is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that amount)?

Yes

c. If proposed assistance is from the $75 million in ESF funds transferred to A.I.D. under the second CR for FY 85, for programs or activities for sub-saharan Africa not previously justified to the Committees on Appropriations, has Congressional Notification been made?

Yes

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is the basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

Discussions with the GOM indicate that tariff reform legislation, if needed, will be passed before April 1986.

3. FAA Sec. 209. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs.

No

4. FAA Sec. 601(a). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, 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.

Since this is a cash grant, it is impossible to predict its impact on items (b) through (f). However, there will be an increase flow of international trade.

5. FAA Sec. 601(b). Information and conclusion on how assistance will encourage U.S. private trade 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).

Since this is a cash grant, it is impossible to predict its impact on U.S. private interests.

6.	FAA Sec. 612(b), Sec. 636(h); FY 85. 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 United States are utilized to meet the cost of contractual and other services in lieu of dollars.	Local currencies generated by this Program will be used to finance development activities in Mauritius. The U.S. does not own any excess foreign currency in Mauritius.
7.	FAA Sec. 612(d). Does the United States own excess foreign currency of the recipient country and, if so, what arrangements have been made for its release?	No
8.	FAA Sec. 601(e). Will the project utilize competitive selection procedures for the warding of contracts, except where applicable procurement rules allow otherwise?	N/A
9.	FY 85 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 or similar competing commodity?	N/A
10.	FAA 118(c) and (d). Does the program comply with the environmental procedures set forth in AID Regulation 16? Does the program take into consideration the problem of the destruction of tropical rain forests?	Yes

HG

11. FAA Sec. 128. Has an attempt been made to finance productive facilities, goods and services which will expeditiously and directly benefit those living in absolute poverty under the standards adopted by the World Bank?

In providing foreign exchange as a cash grant, the program will help all members of the Mauritian society, including the poor.

12. FY 85 Continuing Resolution. Has full consideration been given at each stage of design to the involvement of small minority (including women-owned businesses) enterprises, historically black colleges and universities, and minority PVO's?

Yes, but the decision was to award a cash grant.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Funds.

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

Ye

b. FAA Sec. 531(c). Will assistance under this chapter be used for ilitary, or paramilitary ctivities?

No

c. FAA Sec. 534. Will ESF funds be used to finance the construction or the operation of maintanance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives?

No

5C(c) - STANDARD ITEM CHECKLIST

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?	N/A, since this is a cash grant.
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?	N/A.
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. N/A.
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	N/A.

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?

N/A

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?

N/A.

B. 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 monitors the program.

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 practive 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? Yes.

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

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? Yes.

j. FY 1985 Contunuing 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? No.

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

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AID-5 ECON CHRON-5 ANNEX C

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E.O. 12356: N/A
TAGS:
SUBJECT: MAURITIUS EPRP (642-0008)

REFERENCES: (A) NAIROBI 29532, (B) SAIERS/KOEHRING TELCON OF AUGUST 29, (C) NAIROBI 28085, (D) STATE 258451, (E) STATE 266483

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E.O. 12356: N/A
TAGS:
SUBJECT: MAURITIUS ECONOMIC POLICY REFORM PROGRAM

REFERENCES: (A) NAIROBI 28085, (B) STATE 260451

1. BEO AND GC/AFR CONCURS ACTION RECOMMENDED REF. A, HOWEVER REQUEST STATEMENT WHETHER CIP WILL HAVE SIGNIFICANT NEGATIVE EFFECT ON THE ENVIRONMENT TOGETHER WITH SUPPORTING FACTORS.

2. DISREGARD PARA 2 REF B. WHITEHEAD
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E.O. 12356: N/A
TAGS:
SUBJECT: MAURITIUS ECONOMIC POLICY REFORM PROGRAM

RECEIVED 27 AUG 1985 REDSO/ESA

REF(S): NAIROBI 28095

1. BUREAU ENVIRONMENTAL OFFICER CONCURS ACTION RECOMMENDED REFTEL.

2. REFTEL DOES NOT INCLUDE CLEARANCE FROM REGIONAL LEGAL ADVISOR, IN ABSENCE OF DOCUMENT TO REVIEW IN AID/W, PLEASE OBTAIN CLEARANCE RLA AND FORWARD COPY IEE TO BEO IN AID/W AFR/TR. WHITEHEAD
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E.O. 12356: N/A
SUBJECT: MAURITIUS ECONOMIC POLICY REFORM PROGRAM IEE

1. THE REDSO/ESA DIRECTOR REQUESTS THE CONCURRENCE OF THE AFR ENVIRONMENTAL OFFICER IN THE FOLLOWING RECOMMENDATIONS FOR THE INITIAL ENVIRONMENTAL EXAMINATION. NOTE THAT THIS IS AN FY 85 PROGRAM AND CONCURRENCE IS NEEDED SOONEST.

2. INITIAL ENVIRONMENTAL EXAMINATION

A. COUNTRY: MAURITIUS

B. PROJECT TITLE AND NUMBER: ECONOMIC POLICY REFORM PROGRAM

C. FUNDING: DOLS. 5.0 MILLION (FY 1985)

D. IEE PREPARED BY: JOHN J. GAUDET, REGIONAL ENVIRONMENTAL OFFICER

E. ENVIRONMENTAL ACTION RECOMMENDED: NEGATIVE DETERMINATION AND CATEGORICAL EXCLUSION

F. ACTION REQUESTED BY: JOHN W. KOEHRING, DIRECTOR, REDSO/ESA

3. PROJECT OUTLINE

THE DOLS 5.0 MILLION MAURITIUS ECONOMIC POLICY REFORM PROGRAM WILL INCLUDE A DOLS 3.0 MILLION CASH GRANT AND A DOLS 2.0 MILLION COMMODITY IMPORT PROGRAM. UNDER THE CIP, USAID WILL FINANCE THE IMPORT OF 2.0 MILLION DOLLARS OF ANHYDROUS AMMONIA FOR THE PRODUCTION OF FERTILIZER FOR USE IN AGRICULTURAL PRODUCTION, PRIMARILY SUGAR CANE.

4. ENVIRONMENTAL ISSUES

CASH GRANTS ARE NOT SUBJECT TO THE PROCEDURES OF REGULATION 16 AND ARE CATEGORICALLY EXCLUDED FROM ITS PROVISIONS PER SECTION 216.2(C)(2)(II). NORMALLY, COMMODITY IMPORT PROGRAMS ARE ALSO CATEGORICALLY EXCLUDED FROM THE ENVIRONMENTAL REGULATIONS . THE ENVIRONMENTAL PROCEDURES, SECTION 216.2(C)(2)(IX),

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STATES THAT CIPS ARE CATEGORICALLY EXCLUDED WHERE "PRIOR TO APPROVAL, AID DOES NOT HAVE KNOWLEDGE OF THE SPECIFIC COMMODITIES TO BE FINANCED AND WHEN THE OBJECTIVE IN FURNISHING SUCH ASSISTANCE REQUIRES NEITHER KNOWLEDGE, AT THE TIME THE ASSISTANCE IS AUTHORIZED, NOR CONTROL, DURING IMPLEMENTATION, OF THE COMMODITIES OR THEIR USE IN THE HOST COUNTRY." EXCEPT FOR THE FACT THAT THE COMMODITY HAS BEEN IDENTIFIED BEFORE HAND, THIS PROGRAM WOULD QUALIFY FOR A CATEGORICAL EXCLUSION.

IN THE CASE OF THIS CIP, IT IS DIFFICULT TO TRACK ALL OF THE POSSIBLE PRIMARY AND SECONDARY IMPACTS OF THE INPUTS AND OUTPUTS. IN GENERAL ONE CAN SAY, THE ONLY EFFECTIVE MITIGATION HERE WOULD BE A STRONG ENVIRONMENTAL INFRASTRUCTURE WITHIN THE GOM. THIS IN TURN DEPENDS ON AN ENVIRONMENTAL CONCERN ON THE PART OF THE CITIZENS OF THE COUNTRY AND AN ENVIRONMENTAL CONSCIOUSNESS ON THE PART OF THE GOVERNMENT STAFF. WE KNOW THAT THERE IS SUCH CONCERN, AS EVIDENCED BY THE RECENT REQUEST RECEIVED BY REDSO FOR ASSISTANCE IN SUPPORT OF A STAFF DEVELOPMENT TRAINING PROGRAM AT THE UNIVERSITY OF MAURITIUS. HOWEVER, WE ALSO NOTE THAT MUCH MORE EMPHASIS IS PLACED ON THE UTILIZATION OF RESOURCES (ESPECIALLY MARINE RESOURCES), RATHER THAN ON ENVIRONMENTAL IMPACTS IN COASTAL WATERS.

THEREFORE, AS ONE OF THE MITIGATING FACTORS HERE, REDSO WOULD RECOMMEND THAT ANY TRAINING PROGRAM SUPPORTED BY AID SHOULD INCLUDE TRAINING (LONG AND SHORT-TERM) IN THE ENVIRONMENTAL IMPACTS ON NEAR SHORE WATERS OF A FARMING CYCLE THAT USES EXTENSIVE INORGANIC FERTILIZER INPUTS.

5. RECOMMENDED ACTION

REDSO/ESA RECOMMENDS A NEGATIVE DETERMINATION FOR THIS CIP, WITH THE PROVISO THAT FUTURE TRAINING PROGRAMS IN THE COUNTRY SHOULD INCLUDE TRAINING IN THE ENVIRONMENTAL IMPACTS OF PRESENT FARMING PRACTICES. THE ASSISTANCE PROVIDED AS A CASH GRANT QUALIFIES FOR A CATEGORICAL EXCLUSION FROM REGULATION 16. THOMAS
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ANNEX D

1985-86 Budget Speech

By

Hon. S. LUTCHMEENARAIDOO, M.L.A.

Minister of Finance

28th June 1985

MAURITIUS

MR. SPEAKER,

SIR,

I move that the Appropriation (1985-86) Bill be read a second time.

2. This Bill provides for the appropriation of funds as set out in the Schedule, for financing recurrent and capital expenditure during the financial year.

3. As a nation we have made important strides this year in strengthening our economy, improving our public finances and in creating employment opportunities. Our investment strategy together with the important administrative and fiscal reforms carried out during the year have yielded positive results. We were right in giving top priority to supply oriented policies. There are now clear signs that we are in the beginning of an economic upturn for which the nation had been waiting for years. This upturn is based on a solid foundation and therefore it should gain further momentum in the coming years. A sustained improvement in the economic and employment situation is well within our grasp. It is therefore essential now that we do not waver in our determination to get what we need above all — jobs for our people.

4. The dynamism and imagination shown by the Government in the management of the national economy have been a decisive factor in this economic resurgence. In my Budget Speech last year, I said that we had made a resolute beginning in tackling our problems. Let me now say that the solid progress being achieved underscores the soundness of our economic strategy in general and fully justifies the sustained stabilisation efforts of the last 2 years and in particular the policies contained in the last two Budgets.

5. I shall indicate later in my speech the salient features of this emerging economic upswing. I would like here to say that current rate of employment creation, although much faster than in the previous years, needs to be greatly accelerated if we are to make a real dent on the unemployment problem. Therefore, I would like on this Budget Day, to reaffirm the Government's determination to carry out and complete the task which we began two years ago — to create jobs, accelerate economic growth, control inflation and improve our balance of payments. I would also like to reaffirm the Government's commitment to protect the low income groups from the harsh impact of the adjustment programme.

6. The Government is very much conscious of the role that a vigorous private sector can play in job creation. When the number of entrepreneurs in a country grows, it is symptomatic of growth. The Government is therefore satisfied with the success being achieved in the promotion of private enterprise in the country, especially the small businesses. I must add here that the Government's commitment to a strong private sector must not be viewed as capitulation to big business. The Government is concerned about the need to democratise the economic system and already we have taken various steps to achieve this objective. It is the belief of this Government that small businesses can and will play as important a role as the large scale businesses in solving our unemployment problem.

7. In my Budget Speech last year, as in my first Budget Speech, I laid emphasis on the importance of national solidarity in the difficult task of economic adjustment. I am gratified to note that the movement I launched two years ago has gained considerable momentum during the year. This has helped in a large measure to alleviate the hardship of our less fortunate fellow citizens. We shall continue doing everything possible to foster the spirit of national solidarity and national unity. National unity is not an empty slogan. My concept of unity is that each Mauritian has his rightful place in this country and a positive role to perform. It also means that all our institutions, whether the trade unions or the press are given the fullest opportunity to develop and express themselves freely.

8. In the formulation of my previous two Budgets I had made it a point to consult representatives of various sectors. I strongly believe no budget can be properly framed and no budget can express the aspirations of the people in the absence of prior consultation and dialogue. This year again, I have had extensive consultations and lengthy dialogue with fellow citizens coming from all walks of life. I must admit that I gave special attention to the repersentatives of youth, of students and of women organisations. In spite of severe budgetary constraints I have made the maximum to accommodate the proposals of these various groups. I sincerely hope that the 1985/86 Budget, like the previous ones, will be a budget of concensus.

9. I now come to the themes of my Budget. First and foremost, this Budget is a Budget for job creation. There is no doubt, Mr. Speaker, that the overriding priority to-day is to create productive jobs quickly. It is essential however that our model of development does not merely focus on growth and employment creation, but also give consideration to human and social factors. We must not forget that the ultimate purpose of development is human happiness. We must ensure that we do not create sectoral imbalances by over concentrating on one sector and neglecting others. While emphasising export-led growth we should pursue at the same time the objective of self-reliance, especially in such sectors as food production. It is essential, Mr. Speaker, that in this process we no not concentrate wealth in the hands of a few people. Economic development and economic democratization should go hand in hand and the fullest opportunity must be given to all our fellow citizens irrespective of their social and economic background, to be involved in the process and to reap the benefits of development. This explains why I am laying emphasis again this year on the expansion of the small scale sector in both agriculture and industry. We want Mauritius to develop with a wide economic base made up of a large community of dynamic small planters and businessmen. We look more especially to the young people of this country to take up the challenge lying ahead of us. In this Budget, I have laid special emphasis on the measures for encouraging youth training and youth employment.

10. My second theme in the Budget is to complete the reform of our tax system, which I started in my Budget last year. This reform is crucial in the government's strategy for creating in Mauritius an environment favourable to economic growth. It is an integral part of our policies for encouraging hard work, risk-taking and initiative.

11. The third theme of this Budget is to pursue the budgetary adjustment inspite of the high level of debt servicing. When dealing with this theme I shall explain the steps being taken to enhance efficiency in financial administration.

Review of the Economy

12. I shall now briefly review the domestic economy. First, aggregate output. We have achieved in 1984 an economic growth rate substantially higher than that of the preceding year which was only 0.3 per cent. In fact, the growth rate will be in excess of our own projections made earlier. We originally forecast a GDP growth rate of 3.1 per cent but the revised estimate is now 4.2 per cent. This performance would have been better still, if the sugar sector had a normal crop.

13. With regard to sectoral performance, the EPZ took a formidable lead, with a real growth rate of 21 per cent. In terms of export proceeds, EPZ achieved an increase of 65 per cent, thereby increasing its share of total exports from 31 per cent in 1983 to 42 per cent in 1984. The output of the manufacturing sector, as a whole, increased by 7.8 per cent in real terms. These are clear indications of a major breakthrough in our industrial development. In fact, some 51 new units have been set up during 1984 and a number of existing units have expanded their scale of operations.

14. The tourism sector is also buoyant, with tourist arrivals reaching a record figure of 140,000 last year. In real terms this sector grew by 14 per

cent in 1984 as compared to 4.6 per cent in 1983 and a negative growth of 2.7 per cent in 1982. This confirms above all the excellent work being done by the Government and also by the private sector in the field of tourism promotion. The growth potential of the tourism industry in Mauritius is now more evident than ever.

15. In agriculture, with the exception of sugar, output has shown a significant improvement. I would like to make a special mention of the tea sector. Production rose by 30 per cent. This, coupled with an 80 per cent increase in price created a very good year for the tea sector. Thus our tea producers, who had been struggling during a long period of lean years, have been able to improve their financial situation considerably.

16. The construction industry, Hon. Members will recall, was in a recession throughout the period 1979 to 1982. Many workers had been laid off. In 1983, the industry made a new start, with a real growth rate of 1 per cent. This growth rate was improved last year to 2.2 per cent. We have all indications that this improvement will continue.

17. Let me now come to investment. This is crucial for economic growth and its behaviour therefore, is an all important indicator of economic prospects. After a fall of 14 per cent in real terms in 1982 Gross Domestic Fixed Capital Formation increased by 3.2 per cent in 1983 and by 6.6 per cent in 1984. Public sector investment increased in real terms by 10.6 per cent in 1983 and 1984. Private sector investment, rose by a significant 4.5 per cent terms in 1984.

18. The rate of savings rose from 17 per cent of GDP in 1983 to 18 per cent in 1984, which means a large part of our investment has been financed by local resources.

19. The average rate of inflation in the current financial year is 8.3 per cent as compared to 5.6 per cent last year. This deterioration in the price level has been caused mainly by external factors. On the internal front, our policies have been anti-inflationary. Our fiscal and monetary policies have aimed at encouraging local production and restraining consumption. The price level in Mauritius, as in many countries, especially the LDC's, has been greatly influenced by the appreciation of the US dollar. Therefore, as a result of our internal policies, the inflation rate has been contained much below the average for the developing countries which is 38 per cent. Even using the median rate, in order to avoid the influence of high rates in central American countries, our average is much lower.

20. On the employment front, we have made steady progress throughout the year. In the EPZ, the rate of job creation has been beyond all expectations. It is estimated that between March 1984 and March 1985 a total of 13,500 jobs has been created. These jobs have been created in existing as well as in new units. This is a very encouraging sign indeed. The level of employment in other sectors has, on average, maintained itself. In some sectors there is a net increase in the number of jobs, though on a still modest scale as compared to the EPZ. There are signs that employment in the construction section is picking up as a result of the investment now taking place. The service sector, particularly in hotels has also contributed, though in a modest way, to the increase in employment this year. In future years, when the hotels now under construction are completed this sector is expected to offer more job opportunities. The small scale enterprises, where the cost of creating a job is relatively low, have slowly started to provide self-employment to a larger number of people, thanks to the various schemes introduced by the Government. However, as I indicated earlier, the rate of job creation is still below what is needed to give real relief to the unemployed. Despite the significant progress made, the Government is still very much concerned with the current level of unemployment in the country. The Government is determined to tackle this problem and I shall indicate later the amount this budget provides for schemes designed to achieve the maximum results in the coming year.

21. I shall now briefly review the monetary and credit policies during the year. Monetary policy in 1984/85, as in the preceding year, has been guided by the need to maintain a manageable balance of payments position and at the same time provide necessary credit facilities for the priority sectors of the economy. As I explained earlier, the policy of fiscal restraint followed by Government has allowed more scope for monetary policy to operate. In fact, largely as a result of our budgetary policy, Government net borrowing from the banking sector would actually decrease by 2 per cent. This has enabled the Bank of Mauritius to meet the credit requirement of the private sector more extensively. In 1984/85, the net domestic credit to the private sector is estimated to have increased by 18 per cent, which represents an crease of 80 per cent over 1982/83.

22. In fact, Government has made considerable efforts not only to increase the allocation of domestic credit to the private sector, but also to ensure that most of the increase in domestic credit is channelled towards the priority sectors of the economy. For example, the EPZ sector alone is likely to absorb about 65 per cent of the increase in domestic credit during the current financial year.

23. Let me now indicate to the House the balance of payments situation for 1984/85. Imports during the year are estimated to increase by 19 per cent and exports by 20.5 percent as compared to the previous year.

The main impetus to export growth is the EPZ sector whose exports are estimated to increase by about 49 per cent over the level of the preceding year.

24. The current account deficit, as a percentage of GDP would decrease marginally from 2.6 per cent to about 2.5 per cent between 1983/84 and 1984/85. The overall balance of payments deficit for 1984/85 is estimated at about Rs 110 million as against Rs 384 million in 1983/84. This, Mr Speaker, is quite a significant achievement, especially when we realise that it has been achieved against a very difficult background, namely the unprecedented appreciation of the dollar and the heavy external debt servicing to which I shall refer later.

25. The foreign exchange situation has been an area of concern to the Government throughout the year. We have had not only to meet higher import bills during the year but also to meet heavy external debt repayments. Furthermore there have been seasonal reduction in sugar receipts during the year. As a consequence our foreign exchange reserves dropped to very low levels at some periods of the year.

26. I now come to the 1984/85 Budget outturn. Last year, we had achieved an impressive budget performance. Mr Speaker, Sir, in this financial year we have surpassed even that performance. We have been able to reduce the overall budget deficit from 9.4 per cent of GDP in 1982/83 to 5.7 per cent this year. We have achieved this performance in spite of unforseen expenditures of some Rs 240 million arising from increased expenditure on debt service, increased subsidy on rice and flour and refund of the export duty on sugar. We have achieved this also in spite of the fact that in this year, unlike in preceding years, almost the whole amount provided in the Capital Budget has been utilized.

27. In presenting my Budget last June, I estimated that total expenditure, recurrent plus capital, on a net basis, would amount to Rs 4,720 million. I estimated total revenue and grants to Rs 3,735 million, giving rise to a deficit financing requirement of Rs 985 million. The overall budget deficit is now revised to Rs 861 million, which is Rs 124 million lower than the Estimates. With regard to recurrent expenditure the House will be glad to now that an extra expenditure of some Rs 5 million has been incurred in connection with the heart surgery operations conducted by Professor Raffa. Additional expenditure of some Rs 5 million has been incurred on drugs and on renal surgery. Recurrent Revenue is expected to be close to the Budget estimates of Rs 3,575 million, in spite of the tax relief on export duty granted to the sugar sector, and variations in receipts from a number of items. As a percentage of GDP, total recurrent revenue is expected to be 23.6 per cent in 1984/85 as against 24.2 per cent in 1983/84, showing a reduction in the overall fiscal burden on the community.

28. The revised estimate of capital expenditure is Rs. 1,406 million, as compared to the original estimate of Rs. 1,420 million. Thus, unlike in the preceding years, the level of capital expenditure this year is very close to the original estimates. This is the result of a major improvement in the coordination and follow up of project implementation in both the Ministry of Finance and the Ministry of Economic Planning and Development. As a percentage of GDP, total expenditure, (on a net basis) is 30.6 per cent as compared to 31.2 per cent in 1983/84. Thus in terms of expenditure, revenue, and overall deficit, our performance in 1984/85 is the most gratifying. I am however, concerned about the relative lack of progress with regard to the financing of the deficit. On the one hand, the capital budget continues to be financed almost in toto from borrowed resources, especially foreign resources. From the point of view of both sound macroeconomic management and the need to maintain capital expenditure at a desirable level, it is important that more of the expenditure is financed from national savings and also from a surplus in the Recurrent Budget.

29. As regards the financing of our budgetary deficits, we have been able to raise funds from both foreign sources and the local non-bank sector. As a result, Government's borrowing from the local banking sector has been reduced by about 2 per cent as compared to the previous year. This is in line with Government's policy of making available the maximum credit to the private sector.

30. I shall now dwell briefly on prospects for next year. First, the international economy. According to the World Economic Outlook released this year, the combined GDP of the industrial countries increased by 4.7 per cent in 1984 compared to an original forecast of 3.5 per cent. Therefore the recovery that started in 1983 improved slightly in the course of last year. This recovery however is globally unbalanced. A large part of this growth was concentrated in the US and Japan. Output growth in the EEC countries, in contrast has been moderate. With regard to inflation, the industrial countries have managed to keep it under control.

31. As in the previous year, the main factors for this sluggish growth in Europe were the deficits in the budget and the balance of payments of the US and the consequential high interest rates and the strengthening of the US dollar. The unemployment situation has worsened in most industrialised countries, except the USA, Canada and Japan. Mauritius is one of the very few countries which has succeeded in reducing its unemployment. The unemployment problem in the developed countries has often been invoked as an excuse for intensifying protectionist policies. In fact, despite all the good intentions expressed in various fora, there has been no abatement of protectionism. At the recent Bonn Summit Meeting protectionism has again been condemned. There has again been a call for more tangible progress in relaxing and dismantling existing trade restrictions. But the outcome of the meeting hardly gives any hope to developing countries. The outlook for growth is

therefore not that bright. It is forecast that the annual growth rate in the developed countries will average about 3 per cent for the rest of the decade. In the developing countries output growth recovered to 3.7 per cent in 1984. For 1985, the World Economic Outlook forecasts that growth in these countries will be around 4 per cent. It is hoped that the developed countries would not try to resolve their own problems through measures that would put at risk the prospects for developing countries.

32. Second, Export Prospects. With the onset of recovery in the industrial countries, exports of non-oil developing countries, responded strongly, rising in volume terms, by 6 per cent in 1983 and by 12 per cent in 1984. The House may wish to note that Mauritius has done better still in terms of exports. These rates of increase in exports have helped to improve the output growth rates in developing countries. Despite this improvement over 1983 there are still fears that the growth momentum may not last. The persistent high unemployment rate in the OECD countries has led to an intensification of protectionism.

33. Mr. Speaker, I shall now briefly deal with the phenomenon of the surge of the dollar. First, I shall mention the effects it has had on developing countries in general and then I shall indicate [illegible] effects on Mauritius. The unprecedented increase in the exchange rate of [illegible] dollar has been a cause of major concern to almost all countries in the w[illegible]. For non-oil developing countries, especially those countries with open economies like Mauritius, it has been a stumbling block of immense proportion. It has meant that developing countries have had to devote a much larger share of domestic output to obtain a given volume of real resources from abroad. These countries have had to make adjustments by compressing drastically the volume of their imports of goods and services. Consequently the sacrifice in terms of goods and services foregone has been stupendous. It has also meant that the necessary resources for economic development have not been available as required.

34. The dollar surge has adversely affected developing countries in two other major ways. First it has been a serious handicap to these countries in their fight against inflation. Those countries whose imports are denominated mainly in dollars have been severely affected. It has been worst for those countries which import mainly in dollar, but export most of their goods and services in other currencies. Secondly, some countries have been specially hit in view of their high level of indebtedness in dollars. It has meant that these countries have had to devote a greater share of receipts from exports to service the same level of debts. Thus the overall debt service ratio of non-oil developing countries which was 17.2 per cent in 1980 rose to about 24 per cent in 1984. In the case of Mauritius the debt service ratio is higher still. In most countries, this increased debt service burden has forced a slowdown in the rate of economic growth with the result that real income per capita has declined.

35. Mr Speaker, the external debt issue has been highlighted at various international fora. It featured prominently during discussions at the annual meeting of the I.M.F. and the World Bank as well as at the meeting of Finance Ministers of the Commonwealth last year and more recently at the Interim Committee which took place in April this year. Mr de Larosière, the Managing Director of the IMF, has constantly urged industrial countries to be more responsive to the demands of developing countries. However, it is unfortunate to note that so far the industrial countries have refused the legitimate claims of developing countries. Instead of adopting a global approach to the problem of external debt as requested by developing countries, industrial countries continue to adopt a case by case strategy in dealing with difficulties faced by indebted countries.

36. It is true that the international community has made an attempt to deal with the debt crisis and has succeeded in avoiding a disruption of the international financial and trading system. But at what costs Mr Speaker? Who have felt the pinch most? Obviously, the indebted countries have been the ones to suffer most. They have been forced to undertake massive adjustment over a short period of time with all the attendant sacrifices that are required to be made by the population of these countries. Brazil and Mexico are living examples of such countries. As the House is aware, in many cases the adjustment programmes of indebted countries have been accompanied by rescheduling operations. But debt rescheduling is just a paliative, and not a solution to the root problem.

37. As regards Mauritius, our total external debt servicing during 1984/85 is likely to exceed Rs 2,100 million, thereby absorbing about 28 per cent of our exports of goods and services or about 80 per cent of the proceeds of our sugar exports. This level of debt servicing, which will peak next year, arises mainly because of bunching of repayments in respect of Eurodollar loans contracted in the past, heavy repurchases from the IMF and the appreciation of the dollar. Such a high level of debt servicing obviously constitutes a serious drain on our foreign exchange reserves.

38. Yet, unlike most other indebted countries, we have not resorted to any debt rescheduling operation. We have so far met all our external debt service obligations in time. In fact, due to our prudent financial management, and in particular our debt management policy, we have been able to increase our creditworthiness at the international level. The House, I am sure, is already aware of the exhaustive surveys of creditworthiness of developed as well as developing countries periodically carried out by the Institutional Investor. This publication in its recent issue has upgraded the credit rating of Mauritius. In fact just between March 1984 and March this year, we have gained 3.7 percentage points in our credit rating. We ranked first in Africa and seventh in the world in terms of improvement in credit rating during this period.

39. Therefore, the policy of Government with regard to debt management will continue to be guided by the need to ensure that the country retains, or better still, improves its creditworthiness. Our objectives are to ensure that the burden of external debt remains always within the country's capacity to service it. In pursuit of these objectives, Government will continue to follow the present policies. These are *(a)* to maximise utilisation of concessionary loans, whether from bilateral or multilateral sources; *(b)* to tap all sources of loans where disbursement is quick and the terms are not onerous; *(c)* to ensure that project loans are raised only for high priority projects with early payback; and *(d)* to minimize recourse to the capital market.

40. The debt situation is being closely monitored in my Ministry and the external debt profile is regularly reviewed. Recently, at the request of Govrnment, the IMF made available to us a consultant to review our debt monitoring system. As a result, I am setting up a fully computerized debt management system, that will enable my Ministry to monitor and manage more effectively the public debt.

41. I would now like to touch briefly on the managment of our foreign exchange. This is a crucial component of financial management. There is now a pressing need to have a fresh look at the foreign exchange laws, regulations and administration with a view to rationalise and to simplify foreign exchange management. In this context I am setting up a Foreign Exchange Division in my Ministry which will co-ordinate and liaise with Ministries and organisations connected with international trade and foreign exchange and monitor foreign exchange administration at the general policy level.

42. As I am on the subject of foreign exchange, let me mention a measure I am introducing to encourage Mauritian nationals working abroad to place their savings in Mauritius. It will be a modified version of a scheme which had been in operation from 1981 to 1984. The new "Non-Resident (External Account) scheme" will provide incentives to Mauritians abroad to remit their savings to Mauritius country. The scheme will have the following features:

First, non-resident nationals will be allowed to open deposit accounts, of not less than one year, with commercial banks in Mauritius in rupees or in designated foreign currencies.

Second, the interest earned on the balances in such accounts will be exempt from income tax.

Third, the account holder, as long as he stays abroad can transfer back at any time balance held in the account along with the accrued interest. Exchange risks on deposits in foreign curreacies will be borne by the Bank of Mauritius.

Fourth, deposits in rupees in the external account for a period exceeding one year will carry interest at 2 per cent above domestic rates.

Fifth, on the return of the account holder, interests earned on such accounts will continue to be exempt from income tax for a period of 5 years.

The widest publicity will be given to this scheme and I hope that our nationals abroad will take advantage of this attractive scheme.

43. The House is aware that Government has removed all import restrictions since last January. There has been some concern in the public that this liberalisation might lead to a depletion of our foreign exchange. I have set up at the beginning of the year a Standing Committee comprising representatives of my Ministry, the Ministry of Trade and Shipping, the Bank of Mauritius and the Customs Department to monitor our foreign trade with a view to protect foreign exchange reserves.

44. Mr. Speaker I will now touch briefly on the emerging prospects on the domestic front. These are very encouraging. We have now in Mauritius a climate highly favourable to investment. An important factor contributing to this has been the international recognition of the soundness of the government economic and financial policies. The confidence in the policies of the government and the good management of the economy has been expressed at several important levels. It has been expressed at the level of governments such as France, India and the United Kingdom and other donor countries; it has been expressed at the level of international institutions such as the IMF, the World Bank, the ADB; it has been eloquently expressed at the recent CG Meeting in Paris. The international business community is well informed. They are fully aware af the image of Mauritius as a country which honours its debts and all its international obligations, as a country which is on the verge of quick economic progress, as a country with a mixed economy and the most democratic set up, and as a country with a strong and pragmatic government.

45. In the coming fiscal year we expect total investment to grow by about 9 per cent in real terms. This indicates an improvement over the highly satisfactory 8.5 investment growth in the current fiscal year. With regard to GDP, growth rate in real terms is expected to be 5.4 per cent. This is compared to a growth rate of 4.1 per cent in current fiscal year. The expected growth rate is also much higher than the 4 per cent average growth rate forecast for developing countries as a whole and the average 3 to 3.5 per cent expected from developed countries. Largely because of an expected 16 per cent in sugar output, the agricultural sector as a whole is expected to grow by 12.2 per cent as compared to 1.5 per cent this year.

The EPZ and the tourism sectors are expected to register growth rate of 11 per cent and 7.5 per cent respectively. The construction sector is forecast to grow by 3.3 per cent. Employment prospects are expected to substantially improve during the next fiscal year. The rate of unemployment is estimated to fall to 15.3 per cent as compared to 17 per cent in 1984/85. Employment in the EPZ, which increased from 33,000 to 45,000 in the course of this financial year, is expected to increase by a further 25 per cent in 1985/86. With regard to inflation, we expect an improvement next year. If the climate is favourable to us, we may expect a reduction in inflation to below 7 per cent.

46. With regards to our monetary and credit policies in 1985/86, the basic consideration will continue to be the foreign exchange reserve position. At the same time, credit policies will continue to be flexible so as to accommodate the exigencies of economic growth. In particular monetary and credit policies will complement fiscal policies in the task of promoting economic growth.

47. As regards our balance of payments, there are now clear prospects for achieving a surplus in 1985/86. Such prospects are most welcome as our balance of payments has not recorded a surplus since 1975/76. This surplus is expected to arise from a significant improvement in the current account balance which indicates the good improvement in the current account balance which indicates the good performance of the economy. Imports are projected to increase by 12 per cent in nominal terms during 1985/86. Exports are expected to increase by about 17 per cent during the same period. Consequently, the current account deficit is projected to be reduced from Rs 463 million in 1984/85 to about Rs 187 million in 1985/86. Thus, according to our projection, the current account deficit, expressed as a percentage of GDP would fall from 3 per cent in current year to 1.1 per cent next year. If this projection materialises, as I expect it will, we will have made a big leap forward in our efforts to bringing equilibrium in our balance of payments. As regards capital account, it is projected to record almost the same level of inflow as in 1984/85. Thus mainly as a result of improvement in the current account, the overall balance is forecast to show a surplus of about Rs 155 million.

48. However, I must hasten to point out that despite the projected overall balance of payments surplus, our foreign exchange reserve will continue to be under presure due to heavy repayments of our debts.

49. Before coming to our financial strategy, let me briefly address an issue which has attracted considerable publicity recently. It concerns the relationship between the Legislative and the Executive, in so far as it deals with the administration and the control of public finance. Our Constitution

provides for well-established institutions to exercise in full independence thei authority and responsibility as watchdogs against abuses in the public secto The Director of Audit has been given the authority and responsibility o auditing the accounts of the Government of Mauritius, local authorities, an most parastatal bodies, while the Ombudsman has the power to investigat into any alleged cases of maladministration leading to injustice. We als have the Public Accounts Committee, which is chaired by a leading membe of the Opposition and whose duties are mainly to review the accounts of th Government of Mauritius in the light of the report of the Director of Audit In addition to the provisions contained in the Constitution concerning th financial management of public resources, we have also legislation enacted by this House, namely the Finance and Audit Act, and the Statutory Bodies (Accounts and Audit) Act where the means of control over the Executive are spelt out in details.

50. Government is presently working on an ambitious scheme to review and update management practices within the public sector. It is imperative that the decision-making process and the implementation of policies be improved by the introduction of up-to-date management concepts and techniques, by the design of proper management information systems and by the development of new attitudes which will make the public sector more responsive to the country's short and long-term economic and social needs.

51. In this context, the Management Audit Bureau of my Ministry will soon be launching a Public Sector Management Improvement Programme. The main objectives of this Programme will be first to upgrade management skills in the public sector, and secondly to streamline administrative systems and work procedures in the Civil Service.

52. The implementation of this Programme will be monitored jointly by the Establishment Division of the Prime Minister's Office and the Management Audit Bureau. A series of measures will soon be taken such as the launching of a training scheme for managers in the civil service, the design of a new performance evaluation reporting system and the greater utilisation of computer facilities in the public service.

53. Let me now briefly explain the overall financial strategy of the government. As the House is aware, our strategy in the last two years has been twofold. First, we have set to ourselves the task of reducing the overall budget deficit to a level that is financially sustainable over the medium term. Secondly, as a consequence of the budgetary policy, we have been able to follow a monetary policy that allows more flexibility in allocating credit to the private sector.

54. The policy of reducing the overall budget deficit is required for various reasons. First, it is necessary to limit the borrowing requirements of the Government. A big deficit implies heavy borrowing, locally and from foreign sources. Borrowing locally from the bank sector is directly inflationary and therefore runs counter to the objective of checking inflation. Secondly, heavy government borrowing from the local non-bank sector means that less of these resources are available to meet the needs of the private sector.

55. The policy of reducing the deficit as a percentage of GDP is also linked with the balance of payments and foreign exchange reserve prospects. These two between them determine the extent to which domestic credit can be increased during a particular year. This credit has to be shared between the public and private sectors. If the public sector preempts too large a share of this credit, the private sector will be denied the credit necessary for continuation and for expansion of business.

56. In addition to the objective of reducing further the overall budget deficit as a percentage of GDP, there is the no less important objective of improving the Recurrent Budget. This objective is crucial. Unless the Recurrent Budget improves, the Capital Budget will continue to be financed entirely through loans. I have already mentioned the problem of obtaining concessionary finance. Therefore I am aiming this year to bring some improvements in the Recurrent Budget. I am aiming to reducing gross recurrent expenditure from 28.6 per cent of GDP to 27.7 per cent.

57. I now come to our policies for stimulating the productive sectors of the economy. Let me first explain the philosophy underlying the Government's approach to economic development. As I mentioned in the beginning of my speech, we need to have a balanced and integrated approach to development. First Mauritius is fast moving from an agricultural to an industrial society. This transformation inevitably brings in its train changes in the culture and behaviour of the people. We must see to it that the model of development that we adopt does not result in the alienation of our fellow citizens. No one will deny that an accelerated economic growth is essential if we want to solve our unemployment problem. What we must be careful of, Mr Speaker, is that this accelerated growth takes place without disrupting the culture and social fabric of the nation. Our fellow citizens should not be a mere input of development, but fully engaged as an active agent in the fulfilment of his ideals and aspirations. I wish to repeat that the ultimate objective of development remains the happiness of the citizen. Secondly, Mr. Speaker, we must ensure that the economic model does not create sectoral imbalances, by neglecting some sectors of the economy. Many countries have pursued an export-led development strategy "a la outrance", without giving due consideration to the need for self-reliance in food production and they have paid heavily for it. This is why, Mr Speaker, I spoke earlier of an integrated and balanced approach to development where we

give as much attention to the sectors that enable us to save foreign exchange as we give to sectors that earn us foreign exchange. Thirdly, we must be careful that the benefits of growth do not go to a small group of people only. The benefits of development should be spread to the maximum possible in the whole nation. That is why the Government is so keen to see the development of viable small scale enterprises in all sectors and to encourage the emergence of a large number of small farmers and small entrepreneurs who will form the backbone of the economy.

58. As I indicated earlier the manufacturing sector, especially the EPZ sector looks poised to achieve a further spectacular increase next year. The tourist sector equally is set to achieve substantial progress. The small scale sector is also responding to incentive measures taken. The agricultural diversification programme is progressing well. While these signs are most encouraging, it is no reason that we should lull ourselves into a false sense of complacency. I believe that we should redouble efforts in order to further speed up the development of our productive sectors. The task ahead is arduous, especially as we need to urgently create productive employment. I consider that we should go all out for getting results. I am therefore providing in this Budget several incentive measures to complement the series of measures introduced in the last two Budgets.

59. Before coming to the measures let me briefly outline some areas where we have made particular efforts recently. We have launched in an aggressive way an industrial promotion campaign both locally and abroad. A number of missions led by members of this Government has established contacts in the Far East, the Middle East, Europe as well as in the U.S. At the same time we have been creating all the conditions necessary in Mauritius to attract foreign investments. We have cut procedural delays to the minimum to ensure that adequate infrastructural facilities are availabe when needed.

60. These efforts are yielding results. We have witnessed an unprecedented interest in Mauritius by foreign investors. There has been tremendous demand pressure on industrial sites. We have had to act quickly so as not to drive those investors away. The seven industrial sites which have been almost completed will provide some 350,000 sq. ft. of factory space. All of this space has been booked already.

61. We have been prompt in establishing MEDIA, as an specialized body to execute Government's policies for industrial growth. This organisation has started operating and will provide valuable help to the Ministry of Industry in promoting investment by both local and foreign investors.

62. The Government has been inducing foreign investors to undertake joint-venture operations so that Mauritians can acquire new technology and marketing skills as well as obtain a share in the benefits derived from such investments. In our investment promotion campaign, we intend to cover some European countries like Holland, Switzerland and Italy which have so far been neglected. We have noted that investment so far has been concentrated in the

textiles sector. While we intend to consolidate our position in our export markets for textile products, we are giving priority to investment in other activities, especially those bringing new technology into the country

63. In the field of export promotion, the organisation of such specialized fairs in Mauritius has yielded positive results. These efforts will be supplemented by other activities which will enable our manufacturers to penetrate new markets. Furthermore, the Government is strengthening its ties with neighbouring countries with the aim of promoting co-operation in the field of trade.

64. I would like to touch briefly on the subject of regional cooperation. "No man is an island and no island is a world in itself". As a small island, we are condemned to diversify and expand our economic and trade relations with the outside world. While our trade relation with the world is already extensive, we need to develop further the South/South trade link, especially because of the more and more protectionist attitude of developed countries. Our Prime Minister who is just back from a visit to Madagascar has shown a personal interest in the promotion of regional cooperation and also South/South co-operation. There is no doubt that his visit to Madagascar will strengthen our ties and enlarge the scope for economic and trade cooperation. In this context, I would like to mention that we have already ratified in January last a five year trade agreement with Madagascar and that we are providing for preferential treatment to be given to imports from Madagascar.

65. The signing in early 1984 in Seychelles of the "Accord General de Cooperation entre les Etats Membres de la Commission de l'Ocean Indien" should also be viewed in the same perspective. This agreement opens up wide opportunities to promote our common interests through cooperation in trade, fishing, communications, tourism, energy as well as in research.

66. The House is aware that we have also ratified some time ago the Treaty establishing the Preferential Trade Area for Eastern and Southern Africa. There are in all fifteen countries including Mauritius which are signatory to this regional cooperation treaty. The Government will in due course introduce in the House a Bill proposing special customs tariff rates for a list of commodities traded within the preferential trade area. The PTA holds out good long term prospects for trade development among countries of the region.

67. As I indicated earlier, I will now announce measures for stimulating the productive sectors: First I am modifying substantially the corporate tax regimes presently available to agriculture, industry and tourism. At present these sectors enjoy different corporate tax benefits under separate schemes.

An EPZ company enjoys complete exemption from corporate tax for the first 10 years and is taxable at half the normal rate during years 11 to 15 and at a quarter of the rate during years 16 to 20. Furthermore, its dividends are tax free for any consecutive five years.

A company holding an Export Service Certificate pays corporate tax at the rate of 10 per cent and enjoys the same concessions with regard to dividends as EPZ.

Under the Hotel Management (Incentives) Scheme, hotel companies get a partial tax holiday for a period of 15 years. The rate of corporate tax for the first 8 years is 10 per cent and for the subsequent 7 years it is 15 per cent.

A company having a Development Certificate or Agricultural Development Certificate enjoys a corporate tax holiday for 5 to 8 years and the exemption from payment of income tax on dividends is similar to EPZ.

68. Mr Speaker, Sir, these different tax regimes have evolved at different stages since the last decade. They have been framed under different economic context. As a result, we have today widely different tax rates for the various sectors of the economy. The period of tax relief also differs from sector to sector. This system of tax discrimination is clearly inconsistent with the balanced and integrated development approach which we have now adopted. Discriminatory tax regimes distort the allocation of resources and therefore go counter to our strategy of encouraging investment in all productive sectors of the economy. I, therefore, believe that there are strong grounds for uniformising those tax regimes.

69. Mr Speaker, I have decided the following tax measures.

First, all companies holding an Export Enterprise Certificate, an Export Service Certificate, a Development Certificate, a Hotel Management Service Certificate, or an Agricultural Development Certificate will henceforth pay corporate tax at the nominal rate of only 15 per cent. This tax will be paid during the whole life of the company. This new tax system will apply to new companies. Existing companies holding these certificates will be allowed to opt for the new tax regime.

Second, dividends, paid by companies holding the certificates which I have just mentioned will be exempted from income tax for a period of ten years as from production day.

The House will recall that last year I introduced a graduated tax reduction of 2 per cent for every 10 per cent of turnover exported, subject to a maximum tax reduction of 10 per cent. My third measure is to remove this ceiling of 10 per cent. Henceforth, a company that exports 100 per cent of its turnover will get a 20 per cent tax rebate and will pay tax at the nominal rate of 15 per cent. This measure is a major incentive I am giving to import substitution industries to move towards export. This measure will not apply to exporters of sugar, tea, and molasses.

70. Mr Speaker, Sir, my colleague, the Minister of Industry, will present to the House shortly an Industry Bill to rationalise the incentive packages available to the manufacturing sector.

71. The other measures that I am proposing are as follows:

(i) The preferential rate of interest presently restricted to certai sectors will be extended to all productive sectors that I have ju: mentioned. All those sectors will henceforth be deemed priorit sectors for the purpose of credit allocation by the Bank o Mauritius.

(ii) The Government has also initiated action to establish a leasin bank for meeting the middle term and long term capital needs o the productive sectors. This leasing bank will go a long wa towards promoting investment.

(iii) I will bring to Parliament next year a Stock Exchange Bill tc provide for the creation of a stock market in Mauritius. Thi institution will help to mobilise saving and encourage investment. In this context, I would like to remind the House that the new Companies Act will create a legal environment more conductive to the development of enterprises. The House would wish to know that the State Investment Corporation is directly assisting in the promotion of business expansion and is increasingly becoming a key institution providing financial and technical resources to speed up the development of business enterprises.

(iv) Finally, the Government will undertake a rationalisation of the Customs Tariff shortly in order to make the tariff structure more conducive to growth and employment creation.

72. Let me now mention some measures which I am taking for specific sectors.

(i) With regard to the agricultural sector, I provided Rs 30 million in last year's Budget for promoting livestock, fishing and food crop development. The diversification programme has made a good start. The amount has been used to finance schemes for livestock development, for fruit production, and for payment of support prices to foodcrop producers. I am again providing an amount of Rs 30 million in this Budget for the continuation of this diversification programme.

(ii) With regard to the fisheries sector, I am removing the stamp duty on imports of fishing vessels. I am also exempting from payment of customs duty on outboard motors used by fishing boats. Our fishermen will, I hope, make the best use of this incentive.

(iii) With regard to industrial development, I am providing an amount of Rs 5 million for MEDIA for its investment and export promotions abroad.

(iv) In view of the breakthrough of our tourism in new markets I am increasing the provision for the promotion of tourism from Rs 12 million in the current year to Rs 17.8 million.

73. Mr Speaker, this year has been proclaimed the international Year of the Youth. I have made it a point, during the preparation of the Budget to meet our young people so as to know better their problems, their aspirations and their vision of the future. I have met representatives of youth organisations as well as students and I have had the most stimulating discussions with them. I have been very much impressed by the drive and sense of initiative of the young people I met.

74. Our young people legitimately want to have their fair share in the development of the country and they wish to participate more fully in the affairs of the nation. As a Government it is our duty to help these young people who will be called upon to-morrow to carve the destiny of the country. The development of the country will need a race of people who have drive, initiative, creativity and who are prepared to take risks. I am sure that our young generation can take this challenge.

75. Mr Speaker, I have tried in this Budget to provide the means by which our youth can get better access to education, training, employment and sports, culture and leisure.

76. A lot has already been done to democratise education in this country and we can feel proud to-day that a child irrespective of his economic and social background can get access to education. In order to improve further this access to education I am proposing two measures in this Budget. First, I have decided that all those needy students who qualify for assistance from the Ministry of Social Security for the payment of examination fees will be given a grant at the beginning of the school year for the purchase of books and requisites. Secondly, I have decided to remove stamp duty on imports of books. Hon. Members will recall that in my first budget I had removed sales tax on books. Therefore from now on, imports of books will be free from all taxes. This measure will cost the Exchequer some Rs 3 million.

77. The House is aware of the huge efforts being made by the Government to promote sports in the country. Mr Speaker, Mauritius has a young population and it is fitting that we devote attention and resources for the promotion of sports. We are encouraging our young people to participate actively in sports as this will instill in them a sence of dedication, fairplay and a feeling of national pride. An important event in our national life this year is the second Indian Ocean Islands Games, which we have the privilege of hosting. We all look forward to make these games a success. I am happy to provide necessary additional resources in this budget. I am increasing the provision for this event from Rs 25 million to Rs 36 million. In the context of the Games, Government has already decided to remove customs duty on training shoes.

Furthermore, I am providing for substantial increases in the recurrent vot of the Ministry of Youth and Sports for sports promotion and for yout development. I am providing another Rs 1 million this year to supplemen the Rs 1 million provided last year for the celebration of the Internationa Youth year. I am also providing an increase of 50 per cent in subsidies to yout and sports federations. Overall, the recurrent budget of the Ministry wil increase from Rs 9.2 million to Rs 11.5 million and this is a clear indicatio of Government's commitment to promote and develop youth activities.

78. In regard to youth training, the House is already aware of the ongoing vocational training being provided by various institutions such as the Ministry of Education, the Regional Development Unit of the Ministry of Economic Planning and Development and more recently by the Ministry of Youth and Sports. Mr Speaker, in view of the acute need for further training facilities for our young people, Government has decided to embark this year on an ambitious programme. This important scheme will be known as the National Youth Training Programme and will be implemented with the close collaboration of the private sector. The programme is a joint venture and I am allocating Rs 18 million over a period of 3 years in the Capital Budget as Government's contribution to the scheme. This money will be channelled through the National Solidarity Fund which will be the responsible agency for the administration of the programme. Under the programme young persons leaving school will receive training in specific areas with a view to enhance their chance of securing a job or starting an enterprise on their own. Another objective of the programme is to upgrade the quality of workmanship in various trades. Each participating firm will be expected to recruit, in addition to its normal labour force, a number of young people aged not more than 30 satisfying the minimum qualifications prescribed. The training period will be long enough to enable the trainees to acquire sufficient skill. They will thereafter be absorbed in the same enterprise or seek employment elsewhere or create their own enterprises. Unemployed graduates also can have access to this scheme. It is expected that over 4,000 young people will be trained each year under the National Youth Training Programme.

79. Mr Speaker, I have spoken about job creation in general. The bulk of the unemployed is to be found among the young people and no Government can ignore such a situation.

80. It has been a common practice for most Mauritians to seek jobs which offer security above everything else with a strong bias for employment in the public sector. We have been for too long a nation of job-seekers. This mentality is very much a heritage of the Colonial past. What Mauritius needs to-day is a young generation of entrepreneurs full of initiative and dynamism and who are prepared to take risks and face the future boldly. At this point Mr Speaker I would like to speak on the scheme which I launched last year. The House will recall that I provided last year Rs 30 million for the Small Scale

Entrepreneurs Scheme. The objective of the scheme is to provide funds to the young unemployed who have ideas but not the means to put these ideas into practice. The scheme gives a fair chance to all Mauritians, irrespective of their socio-economic background, to get access to funds to start a business of their own. It aims at the creation of small enterprises and the encouragement of self reliance. The scheme provides very attractive concessions such as a grant of 20 per cent of the borrowed amount. Furthermore, there is no need for security by way of fixed charge on land and for third party guarantees. I am happy to inform the House that the implementation of this scheme has been a complete success. The whole provision of Rs 30 million has been fully committed. In all 1,550 loans have been approved. A whole spectrum of projects is financed under this scheme, comprising manufacture of garments, furniture, metal works, food processing, fishing and livestock including rearing of cattle, pig, sheep, goat and poultry. I am happy to note that given the right incentive the young are willing to go back to the land. Mr Speaker, in view of the great success of the scheme I am providing this year an amount of Rs 35 million as compared to Rs 30 million last year for the continuation and expansion of the programme. The project value of the Small Scale Entrepreneurs Scheme is Rs 210 million to be disbursed in the coming years. It is expected that this project will help launch more than 10,000 new enterprises managed by a new generation of young entrepreneurs. This Scheme is a key element in the strategy of the Government to democratise the economy. At the same time because of its high potential for job creation this scheme will go a long way towards alleviating the unemployment problem.

81. The role played by the DBM for the promotion of the Small Scale and Self-employed Sectors has been decisive and it will continue to be so. However it has come to my knowledge that many young entrepreneurs have been experiencing difficulties to raise working capital from commercial banks. We believe that the commercial banks should also set up innovative and agressive programmes to bolster the small-business community. It makes good business sense for banks to help the small businesses and self employed units to obtain their working capital needs. The banks have a responsibility and should participate in the creation of an economic environment which allows small businesses and self-employed units to grow. This is the type of meaningful commitment we expect from the banks. I have decided that from now on loans made to small entrepreneurs will carry preferential interest rates and I have requested the Bank of Mauritius to integrate such advances in the 'priority sector' scale for the purpose of credit allocation.

82. The House will be glad to know that various international institutions have been following the evolution of our Small Scale Enterpreneurs Scheme. They have expressed their intention of sponsoring similar schemes in developing countries based on our model.

83. Mr Speaker, we are living in the computer age. The pace of our development would depend on how fast we can adopt the computer in all facets of our life — whether it is in industry, business, school or even at home. We want our young people to become familiar with the computer world at an early age. The House will recall that last year I reduced the import duty on computers from 50–30–0 to 30–20–0. I have decided to reduce the duty down to a nominal rate of 10–5–0, as a further incentive to enable the youth to have access to computers. Furthermore, Government is taking steps to introduce computer studies in the school curriculum.

84. I have dealt with measures to improve access of our youth to education, training, employment, sports, culture and leisure. I will now move Mr Speaker, to the 1985/86 Estimates.

85. I have already indicated in broad lines the financial strategy of the Government. I have dealt on the need to avoid excessive borrowing because of the consequential high level of debt servicing. I have also explained that in the present circumstances,we cannot pursue a too rigid financial policy. This will imply a downturn in economic activity which is the last thing we need now. We must continue striking a balance between reversing the borrowing trend and accelerating the pace of investment, economic activity, and employment creation. In this Budget I am therefore combining policies to achieve various objectives. In the first place, I have made substantial provision for stimulating the supply side of the economy. I have already announced some important measures to accelerate the pace of economic growth and employment creation. Secondly, I am making a major income tax concession to individual income tax payers. I shall explain the reasons when announcing the measure. Thirdly, I am making provision to give the low income group adequate compensation for the cost of living increase. Fourthly, I am making adequate provision both to maintain basic existing services and programmes and to provide for upgrading of some services. Fifthly, I have ensured that there is provision in the capital budget for all projects which are essential for meeting our development target, in particular projects whose economic justification have been established beyond question.

86. Mr Speaker, I will now outline my Recurrent Expenditure proposals for 1985/86.

First, let me indicate the total amount of recurrent expenditure that I am providing in the Budget. Inclusive of the cost of the wage compensation, and full estimated cost of paying the public debt, total recurrent expenditure would be Rs 4,686 million, which is about 9 per cent higher, in nominal terms, than the recurrent expenditure for 1984/85.

87. I will now explain the Recurrent Estimates.

First, the provision for wages and salaries. I have allowed for a marginal increase in the level of employment in the general services. I have allowed for an increase only in cases where it is absolutely essential for the efficient running of the services. This is for two reasons. First the level of employment in the public sector is already too high. In fact there is considerable labour surplus in the government services. Secondly, there is the need to keep the pay bill within an acceptable level. However, as the House is aware, I have already announced the Government's decision to give a fair and equitable compensation this year allowing for full compensation to employees in the lowest income brackets. This is a Government commitment to protect to the maximum the more vulnerable groups of our society from the harsh effects of the adjustment process.

88. Secondly, the provision for servicing the public debt. I have made a total provision of Rs 1,848 million for this item, as compared to Rs 1,618 million in the 1984/85 Budget. The House will note with concern the dramatic increase of debt service this year by a total of Rs 230 million 52 per cent of this amount, that is Rs 961 million, is in respect of servicing the external debt. The full cost of servicing external debt, including IMF and publicly guaranteed debt will be about Rs 2,130 million in 1985/86. Government will also have to repay anonymous bearer bonds which were subscribed in 1982/83. I have already dealt with the Government's policy with regard to external indebtedness. I would like here just to remind the House that the debt burden of this magnitude severely constrains the scope for economic and social development.

89. Thirdly, the provision for essential services. I would like to start with education. I have made a provision of Rs 540 million for meeting the full cost of free education. The education budget has been spared to a large extent from the burden of fiscal adjustment.

90. Next, Health, I am allowing a substantial increase from Rs 285 million to Rs 306 million excluding the cost of wage compensation. I have earmarked an amount of Rs 6.0 million for an open-heart surgery programme of Professor Raffa and the Paris Medical University. We have noted during the past years an alarming increase in cases of bronchial asthma and allergic diseases in Mauritius. The Government has decided to create a centre for research with a view to identifying the causes and preventing the diseases. The centre will be under the aegis of the University of Mauritius, and the research work will be performed under foreign technical assistance. I am providing an amount of Rs 500,000 in the Capital Budget the total project value of which is Rs 5 million.

91. The Budget for the Ministry for Employment and of Social Security and National Solidarity is being increased from Rs 333 million to Rs 367 million this year, that is an increase of Rs 34 million. This increased provision reflects the firm commitment of the Government towards the old, the disabled. the unemployed and the weakest sections of our population. The House will note that this year again the Government has awarded recipients of social benefits a rate of compensation higher than the increase in CPI.

92. This year I am making a special provision of Rs 325,000 for the welfare of vulnerable groups, more particularly the disabled and the handicapped. This is in line with the Government's policy of assisting the weaker sections of society. This amount will be used to provide artificial aids to the disabled as and when required. It will also provide amenities for the aged, the disabled and orphans. In addition, I am increasing the contribution given to the non-governmental voluntary organisati ons. The Lois Lagesse Trust Fund and the Society for the welfare of the deaf are doing a tremendous work to alleviate the distress of the blind and the deaf. I have therefore decided to double Government subsidy to these organizations. Mr Speaker, I am also providing for an increase in the pension payable to old age pensioners under 75, who are severely handicapped. As from 1st July this year, their pension will be increased from Rs 184 to Rs 230. This amount of Rs 230 includes the 9 per cent compensation given this year.

93. The Budget for the Ministry of Women's Rights and Family Affairs is being increased from Rs 4.3 million to Rs 5.5 million. The House will remember that the Budget for this Ministry was barely Rs 0.5 million two years ago. The substantial increase of the budget of the Ministry reflects the years ago. The substantial increase of the budget of the Ministry reflects the commitment of Government to promote the well-being of women. I am providing in the Budget of the Ministry of Women's Rights and Family Affairs an amount of Rs 1 million for a national campaign on the theme of health food habits and nutrition. The objective of the campaign is to improve food habits of the population.

94. Government devotes considerable resources for the promotion of tourism. This is in line with our strategy for accelerating the growth of this sector. I have allowed in the budget a special provision of Rs 2.8 million for the opening of a tourist office in London. Such an office will help intensify the tourism promotion campaign in the United Kingdom. This amount is in addition to the Rs 15 million which is provided in the Capital Budget for tourism promotion.

95. With regard to subsidy on rice and flour I have maintained the level of subsidy at Rs 80 million. Here again I have been able to resist IMF pressure for a much reduced level of subsidy.

96. With regard to capital expenditure, I am providing an amount of Rs 1,510 million. Therefore in spite of the budgetary constraints, I have been able to provide for a higher level of Capital Expenditure than last year. To the maximum extent possible, projects with good economic justification have been retained. These are projects in the productive sectors which are essential for sustaining growth.

97. Now I come to my financing proposals. Recurrent revenue in 1985/86, inclusive of the yield expected from the new revenue measures and tax adjustments I shall announce shortly, is estimated at Rs 3,888 million. As I indicated earlier, grants are estimated to reach a total of Rs 276 million. Other capital receipts, such as dividends on investments and miscellaneous receipts, would come to Rs 39 million. Therefore, total revenue, grant and miscellaneous capital receipts will amount to Rs 4,203 million.

98. Given a level of Recurrent Expenditure, on a net basis of Rs 3,949 million, capital expenditure (excluding repayments to the IMF) of Rs 1,150 million, there will therefore be a need to finance a deficit of Rs 896 million corresponding to 5.3 per cent of GDP. As I have mentioned earlier, this is the maximum level of deficit agreeable to the IMF.

99. I expect to be able to fund this deficit from net foreign loans, totalling Rs 198 million, and local loans of Rs 698 million.

100. I now come to the revenue measure which I need to take to realise my total recurrent requirement of Rs 3,888 million. Taking into account the increase in revenue accruing from normal buoyancy of the tax system, and the tax concessions I shall make, the estimated revenue on a no policy change basis, is Rs 3,748 million, that is, Rs 140 million short of the amount required.

101. I shall now announce my revenue measure for filling the gap and then move on to the last theme of this Budget — income tax relief. The Honourable Members will appreciate the impact of the increased debt burden on the budget. As I have indicated, the cost of debt servicing as compared to the estimate last year will increase by Rs 230 million. Furthermore, the Government has awarded a generous wage compensation costing some Rs 138 million to the Budget. These two items which account for an increased expenditure of Rs 368 million have had a direct bearing on our deficit.

102. This year again, I have refrained from meeting the deficit through expenditure cuts. I have deliberately ruled out cuts in the social services because of the Government's commitment to protect the low income groups. I have also refrained from the easy solution of slashing capital expenditure. This would have been inconsistent with our growth and employment objectives.

103. I have had therefore no alternative but to raise additional revenue. I have explored several options to raise the required amount. My main consideration has been to spread the tax burden as widely as possible with the minimum hardship to the weaker sections of the population. Secondly, there is a need to reduce demand for imported goods in view of our still precarious balance of payments situation. Thirdly, there is a need to contain price increases.

104. I have therefore finally decided to increase the stamp duty on imports from 13.2 per cent to 17 per cent that is by 3.8 per cent. I would like to remind the House that this tax does not apply on import of basic commodities such as rice, flour, pulses, dried salted fish, fertilizers and kerosene. I am satisfied that this measure is selective in the sense that it spares the lower income group and it will also help our balance of payments.

105. Mr. Speaker, I will now come to the central theme of the Budget I am referring to the Income Tax Relief which I promised. Mr Speaker, the Budget is not a mere accounting exercise. It is in fact a powerful instrument of social and economic change and is an effective tool for allocating resources to meet Government economic and social priorities. It also provides an effective means for reducing inequity and bringing social justice.

106. I have always been conscious on the inequity in our income tax system. The burden of income taxation is excessive and over time it has become a major disincentive to work effort and risk taking. Also too many people with ow income are liable to pay the tax. I have been convinced for quite some time hat a major reform is required in individual taxation. I could not bring all the esired changes because of financial constraints. I opted last year to first elieving the burden on the lower income groups. I took a bold decision to xempt from income tax all households with combined gross income of up to ts 24,000. By that measure, I removed from the tax roll some 15,000 taxpayers. owever, I must point out that the total number of taxpayers today is about e same as last year because of improved tax administration.

107. Mr Speaker, I have decided to exempt this year more households om the income tax. As from this year, the exemption limit is being raised om Rs 24,000 to Rs 30,000 for a married couple. In other words, Mr Speaker, m exempting from income tax all married couples earning up to Rs 2,500 per onth. Through this measure, I am removing this year some 13,000 individuals m the tax roll.

108. This year, Mr Speaker, I have given a special attention to what I uld call the intermediate income groups. I consider that these groups which lude teachers, nursing officers, police officers, civil servants have been much

penalised during the economic adjustment period. They have had to bear more than their fair share of the austerity measures. I now announce my new measures for giving tax relief. The measures will comprise :

(i) reduction in the rate of tax;
(ii) extension of bands;
(iii) increase in personal deductions.

Mr Speaker, with regard to rate of tax, I am reducing the present rate of 70 per cent to 35 per cent. With regard to tax bands, Mr Speaker, I am reducing their number from 8 to 4. The new tax rates will be as follows:

Rate of tax on the 1 — 10,000 rupee band will be 5 per cent;
Rate of tax on the 10,001 — 30,000 rupee band will be 15 per cent;
Rate of tax on the 30,001 — 50,000 rupee band will be 25 per cent;
Rate of tax on chargeable income in excess of Rs 50,000 will be 35 per cent

109. I have just announced my proposal for simplifying and reducing the tax bands. This measure is designed above all to remove a major disincentive to earn more through hard work. It is also a logical extension of the measure I took last year to reform the Company Taxation. As the House is aware, I then reduced the company tax rate to 35 per cent.

110. Mr Speaker, I now come to personal deductions. At present, different personal deductions are claimed by taxpayers depending on their circumstances. A single person's allowance is Rs 7,500. If he is married, he gets Rs 7,000 for himself and Rs 7,000 for his wife. I have decided to uniformise and increase the deduction to Rs 10,000.

I am increasing the additional permanent disablement deduction from Rs 4,000 to Rs 5,000.

I am increasing the deduction for wife uniformly to Rs 10,000. Wife's earned income deduction is also increased from Rs 4,300 to Rs 5,000.

For a child up to the age of 12, the deduction is Rs 2,900. For a child between 12 and 18, the deduction is Rs 3,600. I have decided to have only basic deduction of Rs 5,000 per child up to a maximum of three. This represents a substantial relief. Furthermore, we are also giving a uniform deduction of Rs 12,000 for a child attending a university. Presently the deduction is Rs 9,600 for a child studying abroad and Rs 5,500 for a child studying at the University of Mauritius.

I introduced last year the Domestic Servants Relief of Rs 1,200 for a full time household employee and Rs 400 for a part time employee. I am now increasing the part time relief to Rs 600.

111. As a result of the tax changes I have just announced, there will be a substantial reduction in the tax bill at all levels of income.

112. Mr Speaker, let me illustrate the type of relief being given. In the case of a married couple, with three children, there would be an increase in deductions of Rs 10,000. If such a family earns income up to Rs 3,000 per month, the tax deduction will be 100 per cent, that is this income group will be exempted entirely from income tax.

In case this family draws Rs 4,000 per month, the tax reduction will be 78 per cent. The House will realise that this category of persons will obtain a substantial reduction in their annual tax bill.

113. It is clear Mr Speaker, that I have gone a long way to make our income tax system more acceptable. Indeed I have probably gone much further than most people would reasonably expect in the present circumstances.

114. Mr Speaker, I have received various representations from different organizations that customs duties on bicycles and spare parts are prohibitive. I have the pleasure of announcing a substantial reduction in the rate of customs duties on cycles, cycle parts and tyres. I am reducing customs duties as follows:

Cycles	—	from 20% to 10%
Cycle parts	—	from 30% to 10%
Cycle tyres	—	from 70% to 30%

115. Before I conclude my speech , Mr Speaker, I would like to express my thanks to the Prime Minister for his unflinching support and cooperation. The economic and social programme we started two years ago, which is being implemented through the Budgets, bears the stamp of his inspiration and leadership.

116. Mr Speaker, I mentioned in the beginning of my speech the central themes of my Budget this year. I shall conclude, Mr Speaker, by summarising the measures I have introduced in the Budget to give practical meaning to these themes.

117. These measures fall in four groups:

First, the measures to stimulate the productive sector of the economy.

I have rationalised the corporate tax.

I have extended tax exemption for dividends.

I have provided for increased access to credit at preferential rates.

I have exempted from Stamp Duty imports of fishing vessels and from payment of Customs Duty on outboard motors used by fishing boats.

I have provided Rs 35 million for the Small Scale Entrepreneurs Scheme and have also provided Rs 30 million for diversification of agriculture.

I have increased the provision for Tourism promotion.

Secondly, for young people, I have removed stamp duty on imports of books and I have also announced a grant to needy students for the purchase of books and requisites.

I have reduced import duty on computers and also on bicycles.

We are increasing by 50 per cent subsidies to Youth and Sports Federation.

Government is launching the National Youth Training Programme under which some 4,000 young people would be trained annually.

I have also provided for increased access to sports.

Thirdly, for the vulnerable group Government has awarded generous compensation for the increase in cost of living.

I have provided for additional benefits to the handicapped and disabled.

I have also provided for a sharp increase in the provision of the Ministry of Social Security and National Solidarity for the benefit of the unemployed and the weakest section of the population.

Fourthly, I have announced very generous tax relief.

I said at the beginning of my speech, that our economic and social development model provides for equity in economic growth and for the fulfilment of the aspirations of the nation. I am satisfied that the stage is now set for a prosperous Mauritius.

Mr Speaker, Sir I move.

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ANNEX E

AID-3 ECON CHRON-5

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E.O. 12356: N/A
TAGS:
SUBJECT: AFRICAN ECONOMIC POLICY REFORM PROGRAM (AEPRP) FOR MAURITIUS

1. ON JUNE 18, 1985, A/AID APPROVED THE ACTION MEMO FOR SUBJECT EPI PROGRAM FOR MAURITIUS. TEXT OF APPROVED ACTION MEMO FOLLOWS:

2. PROBLEM: SHOULD A.I.D. PROVIDE DOLS 5 MILLION FROM THE FY 1985 AFRICAN ECONOMIC POLICY REFORM PROGRAM (AEPRP) FOR MAURITIUS?

3. BACKGROUND: AS OF NOW OUR AEPRP PROGRAMS ARE AS FOLLOWS:
(1) ZAMBIA DOLS 25 MILLION - PAAD EXPECTED IN WASHINGTON MOMENTARILY
(2) MALAWI DOLS 15 MILLION - PAAD EXPECTED IN WASHINGTON BY JULY 10
(3) MALI DOLS 18 MILLION - PAAD EXPECTED IN WASHINGTON BY JULY 15
(4) RWANDA DOLS 12 MILLION - PAAD EXPECTED IN WASHINGTON BY JULY 20

SINCE 1979, THE ISLAND STATE OF MAURITIUS HAS CARRIED OUT A COMPREHENSIVE PROGRAM OF ECONOMIC STRUCTURAL ADJUSTMENTS WITH THE SUPPORT OF THE IMF AND IBRD. THE WORLD BANK DESCRIBES MAURITIUS' STRUCTURAL ADJUSTMENT PROGRESS THUS FAR AS "REMARKABLE", AND REPRESENTATIVES OF DONORS UNANIMOUSLY ECHOED THIS SENTIMENT AT THE MAY 13-14 CONSULTATIVE GROUP FOR MAURITIUS IN PARIS. BOTH BANK AND IMF REPRESENTATIVES STRONGLY PRAISED MAURITIUS' ACTUAL AND PLANNED REFORMS.

POLICY REFORMS ADOPTED BY THE GOVERNMENT OF MAURITIUS (GOM) THUS FAR INCLUDE:
- EXCHANGE RATE ADJUSTMENT TO A COMPETITIVE LEVEL;
- CONSUMER SUBSIDIES REDUCTIONS;
- WAGE RESTRAINTS;
- RESTRICTIVE FISCAL AND MONETARY POLICIES; AND
- TRADE LIBERALIZATION.

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THESE POLICIES, IN CONJUNCTION WITH THE CONTINUED DEVELOPMENT OF THE EXPORT PROCESSING ZONES (EPZ), HAVE LED TO IMPRESSIVE GROWTH IN EMPLOYMENT. IN 1984, NEARLY 12,000 NEW JOBS WERE GENERATED BY THE EPZS AND SIMILAR ADDITIONAL GROWTH IS EXPECTED.

THE GOM IS STRONGLY COMMITTED TO CONTINUING THE REFORM PROCESS. IN PARTICULAR, FURTHER STEPS WILL BE TAKEN TO CONTINUE THE EMPHASIS ON ECONOMIC GROWTH AND EMPLOYMENT GENERATION (LARGELY PRIVATE SECTOR-LED) THROUGH EXPORT PROMOTION AND DIVERSIFICATION. THE GOM HAS UNEQUIVOCALLY PLEDGED TO CREATE THE PROPER ENVIRONMENT FOR THE PRIVATE SECTOR AND RESTRICT THE GROWTH OF GOVERNMENT. PROSPECTS FOR THE ACHIEVEMENT OF THESE GOALS ARE GOOD, BUT WILL REQUIRE CONTINUED SUPPORT. DESPITE ITS CONSIDERABLE EFFORTS TO DATE, MORE NEEDS TO BE DONE. AN UNEMPLOYMENT RATE IN EXCESS OF 20 PERCENT REMAINS, AND EMPLOYMENT CREATION IS THEREFORE ONE OF MAURITIUS' MAJOR ECONOMIC OBJECTIVES. GIVEN THE LIMITED LAND AREA AND DOMESTIC MARKET, EMPLOYMENT EXPANSION MUST OCCUR IN THE INDUSTRIAL AND SERVICES SECTORS WITH AN EXPORT ORIENTATION. SUCH AN EXPANSION, HOWEVER, REQUIRES INTERNATIONALLY COMPETITIVE FIRMS. THE CURRENT TARIFF STRUCTURE PROTECTS AND ENCOURAGES INEFFICIENT, CAPITAL-INTENSIVE FIRMS WHICH ARE NOT INTERNATIONALLY COMPETITIVE AND WHERE EMPLOYMENT GROWTH IS BOTH COSTLY AND LIMITED.

4. THE PROPOSED REFORM UNDER THE AEPRP PROGRAM: BASED ON ITS PAST RECORD AND PROSPECTS FOR FURTHER REFORMS, MAURITIUS IS A PARTICULARLY ATTRACTIVE CANDIDATE FOR APPROXIMATELY DOLS 5.0 MILLION UNDER THE FY 1985 AEPRP PROGRAM. WE ANTICIPATE COLLABORATION IN ONE CRITICAL ASPECT OF THE POLICY REFORM PACKAGE NEGOTIATED IN THE SECOND WORLD BANK STRUCTURAL ADJUSTMENT LOAN (SAL II), TARIFF REFORM, BECAUSE OF ITS EXPECTED IMPACT ON EMPLOYMENT EXPANSION. IMPLEMENTATION OF TARIFF REFORM WOULD TAKE PLACE IN THE CONTEXT OF A NEW IBRD INDUSTRIAL SECTOR LOAN OVER APPROXIMATELY FOUR YEARS.

MAURITIUS' CURRENT TARIFF SYSTEM DIRECTS INVESTMENT RESOURCES TO SECTORS WHERE THE CREATION OF A NEW JOB REQUIRES A DOLS 7,370 INVESTMENT. BY CHANGING THE INCENTIVES GUIDING INVESTMENT, THE PROPOSED TARIFF REFORM SHOULD LOWER THIS COST TO AS LOW AS DOLS 2,500 IN THE EXPORT PROCESSING ZONES (EPZ).

OTHER REFORMS WHICH WE COULD SUPPORT INCLUDE REDUCTION OF PRICE CONTROLS, ELIMINATION OF CERTAIN PROTECTIONS TO IMPORT-SUBSTITUTION INDUSTRIES, DEVELOPMENT OF EXPORT INCENTIVES, AND/OR PERSONAL TAX RATE REDUCTIONS.

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5. PROGRAMMING THE FUNDS: IF YOU APPROVE THE DEVELOPMENT OF THIS DOLS 5 MILLION PROGRAM AND WE REACH AGREEMENT WITH THE GOM ON POLICY REFORMS, WE WOULD PROVIDE THE DOLLARS TO THE GOM MOST LIKELY THROUGH A COMMODITY IMPORT PROGRAM (CIP). IF YOU APPROVE, I PROPOSE TO QUICKLY ATTEMPT TO NEGOTIATE A SET OF CONDITIONS WITH THE GOM. IF THE GOM INDICATES ITS UNWILLINGNESS TO ACCEPT OUR CONDITIONS, I FURTHER PROPOSE THAT THESE FUNDS NOT BE USED ELSEWHERE IN THE FY 1985 AEPRP. THE LATTER STEP WOULD REFLECT TO CONGRESS OUR SERIOUSNESS IN APPLYING AEPRP FUNDS IN A MEANINGFUL WAY AND WOULD ILLUSTRATE THE POINT THAT MEANINGFUL POLICY REFORMS SOMETIMES CANNOT BE NEGOTIATED IN A SINGLE FISCAL YEAR.

THE ARGUMENTS AGAINST DEVELOPING FY 1985 AEPRP PROGRAM IN MAURITIUS ARE:

- MAURITIUS HAS A HIGH (FOR AFRICA) PER CAPITA INCOME OF ABOUT DOLS 1,[illegible];
- THE PROGRAM WOULD BE MANAGED FROM NAIROBI SINCE WE HAVE NO STAFF IN COUNTRY; AND
- WE ARE STARTING VERY LATE IN THE FISCAL YEAR TO DEVELOP A COMPREHENSIVE PROGRAM LIKE THIS, ALTHOUGH STUDIES HAVE BEEN COMPLETED WHICH CAN SERVE AS THE ANALYTIC BASIS FOR THE PROGRAM.

IF FUNDS ARE NOT MADE AVAILABLE FOR MAURITIUS, THERE IS A CASE TO RETURN THE REMAINING DOLS. 5 MILLION OF AEPRP TO THE TREASURY. IN THE REQUEST TO CONGRESS FOR THE AEPRP, A.I.D. SPECIFICALLY ASKED FOR NO-YEAR FUNDING AUTHORITY BECAUSE OF THE SHORT LEAD TIME TO PREPARE FOR PROPER USE OF ITS FUNDS AND THE FACT THAT, BECAUSE OF ITS NATURE, FUNDING OF THE PROGRAM HAD TO BE TIMED TO HOST COUNTRY WILLINGNESS TO PROCEED WITH REFORM. CONGRESS DID NOT APPROVE THE REQUEST FOR NO-YEAR FUNDING AUTHORITY. RETURNING THE FUNDS WOULD INCREASE CREDIBILITY FOR THIS TYPE OF PROGRAM, BUT REDUCE FUNDS AVAILABLE FOR AFRICA (AND SPECIFICALLY, MAURITIUS) AT A TIME OF URGENT NEED.

6. RECOMMENDED ACTION: I RECOMMEND THAT YOU SELECT OPTION LISTED BELOW FOR MAURITIUS:

THE DEVELOPMENT OF A FY 1985 AEPRP PROGRAM FOR MAURITIUS ALONG THE LINES DESCRIBED ABOVE.
APPROVED BY A/AID JUNE 18, 1985 SHULTZ
BT
#3042

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ANNEX F

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LOC: 468 656
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CN: 20156
CHRG: AID
DIST: AID

AIDAC, NAIROBI FOR REDSO/ESA

E.O. 12356: N/A
TAGS:
SUBJECT: MAURITIUS - EPRP (642-0009)

REF: (A) STATE 265838 (B) NAIROBI 30375

1. AFRICA BUREAU CONCURS WITH PAAD CP'S AND PIL BENCHMARKS PROPOSED REF B. THE FOLLOWING QUESTIONS WERE RAISED, AND BUREAU WOULD APPRECIATE CLARIFICATION POST-OBLIGATION.

2. THE COMMODITIES PROPOSED FOR TARIFF REDUCTIONS ARE FINISHED LUXURY CONSUMER GOODS WHICH DO NOT CONTRIBUTE TO EFFICIENCY IN EXPORT PRODUCTION. WHY ARE THESE THE ONLY ITEMS CITED IN YOUR ILLUSTRATIVE LIST OF COMMODITIES FOR TARIFF REDUCTION (REF B, PARA 4)? DO INTERMEDIATE GOODS WHICH ARE INPUTS FOR MANUFACTURING ALREADY HAVE TARIFFS BELOW THE 15% TARGET LEVEL? IF NOT, LOWER TARIFFS FOR INTERMEDIATE GOODS AND RAW MATERIALS FOR EXPORT MANUFACTURING SHOULD BE CONSIDERED FOR TARIFF REDUCTIONS.

3. HOW WILL THE TARIFF REDUCTIONS DISCUSSED ABOVE WORK TOGETHER WITH THE DUTY DRAWBACK SYSTEM? WHAT SIMPLIFICATION WILL BE PROPOSED FOR THE DUTY DRAWBACK SYSTEM? WILL THIS SIMPLIFICATION BE ABLE TO REDUCE THE TIME LAG FOR RECEIPT OF REBATES SUFFICIENTLY SO THAT THE DRAWBACK SYSTEM WILL BECOME AN EFFECTIVE INCENTIVE MECHANISM?

4. PLEASE ADVISE. SHULTZ
BT
#2962

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