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AID 1120-1 (9-69)

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PAAD

PROGRAM ASSISTANCE
APPROVAL DOCUMENT

1. PAAD NO.
642-K-605 642-0001

2. COUNTRY
MAURITIUS

3. CATEGORY
COMMODITY FINANCING

4. DATE
PER AUTHORIZATION SIGNATURE

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

6. OYB CHANGE NO.
N/A

7. FROM: JAMES DEMPSEY
REDSO/ESA - PROJECTS DIVISION

8. OYB INCREASE
$1,914,000

TO BE TAKEN FROM:
ESF

9. APPROVAL REQUESTED FOR COMMITMENT OF:
$ 4,000,000

10. APPROPRIATION - ALLOTMENT
72-1161037

11. TYPE FUNDING
[ ] LOAN [X] GRANT

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

13. ESTIMATED DELIVERY PERIOD
JUNE 1986 - JUNE 1987

14. TRANSACTION ELIGIBILITY DATE
DATE OF AUTHORIZATION

15. COMMODITIES FINANCED

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

16. PERMITTED SOURCE
U.S. only: $1,914,000
Limited F.W.: -
Free World: -
Cash: -

17. ESTIMATED SOURCE
U.S.: $1,914,000
Industrialized Countries:
Local: -
Other: -

18. SUMMARY DESCRIPTION

This grant program will support U.S. political, strategic and economic objectives by providing necessary balance of payments and budgetary support to the Government of Mauritius (GOM). Based on an analysis of the structure of trade and assistance in Mauritius, and given the successful implementation of the past four Commodity Import Programs (CIP), the design team and the Embassy have concluded that the most appropriate mode of assistance is another CIP which provides direct balance of payments support to permit importation of necessary commodities from the United States. Local currency generations will be placed in a Special Account of a commercial bank and used to support priority development activities. Funding of local currency activties is subject to final agreement by AID and the GOM. Three special conditions are included in the grant to require: (1) that up-to-date reports for local currency uses for all previous CIP's be completed prior to disbursement of funds from the 1986 CIP; (2) that withdrawals from the FY 1986 CIP Special Account require the joint written approval of the MOF and REDSO/ESA; and (3) that, to the extent that local currency deposits in the Special Account by private importers are less than the local currency equivalent of the dollar financing made available under the grant, the GOM will deposit the difference into the Special Account.

FUNDS AVAILABLE
RFMC-NAIROBI/KENYA
DATE 03/21/86

19. CLEARANCES

			DATE
PROJ:	JGRAHAM		11 Mar 86
RLA:	KHANSEN	for	11 Mar 86
RCMO:	LDUNN		
ECON:	SCALLISON	for	3/20/86
RFMC:	RHENRICH		20 Mar 86
D/DIR:	AMFELL		

20. ACTION
[X] APPROVED [ ] DISAPPROVED

Acting
AUTHORIZED SIGNATURE
25 MAR 1986
DATE

DIRECTOR, REDSO/ESA
TITLE

CLASSIFICATION

Mauritius FY 1986 Commodity Import Program (CIP V)
Table of Contents

ANNEXES

I. SUMMARY AND RECOMMENDATIONS

The following are the principal features of the proposed 1986 Commodity Import Program (CIP) for Mauritius:

Activity: Mauritius FY 1986 CIP 642-K-605 (CIP V)

Terms and Conditions: ESF grant funding for $1,914,000

Authorized Source: AID Geographic Code 000 (US only)

Program Justification: This program will support US political, strategic and economic objectives in the region by providing necessary balance of payments and budgetary support to the Government of Mauritius (GOM). Based on an analysis of the structure of trade and assistance in Mauritius, and given the successful implementation of the 1982 through 1985 CIPs, the design team and the Embassy have concluded that the most appropriate mode of assistance is a continuation of direct balance of payments support to permit importation through the private sector of commodities from the United States.

Program Description: A two-phased assistance program is proposed, drawing upon the positive experience of similar programs from the previous three years. First, $1,914,000 of CIP grant funds will finance edible oil procurements by the private firm, Mauritius Oil Refiners (Moroil), the only edible oil refinery on the island. We anticipate that this will entail financing the commercial importation of approximately 5,000 tons of degummed vegetable oil from the US. Second, the estimated Rs 26 million in local currency (estimate based on approximately 13.5 rupees/dollar) that will be generated under this program will be deposited in a separate government account available to support mutually agreed upon development activities. The planned use of the funds is for (a) research to promote agricultural diversification, (b) a reclamation in the Port Louis Harbor, (c) rural water projects, and (d) small self-help projects.

PAAD Issue: Local Currency Reporting

Since the CIP Special Accounts has been transferred to Citibank, Port Louis, monthly statements of the account activity have been kept and the interest earnings recorded promptly. However, the Ministry of Finance (MOF) has not provided quarterly reports which are needed to explain the allocations and use of the funds withdrawn from the account and the progress of the mutually agreed upon LC activities. The Irrigation Authority and the Central Water Authority have provided periodic reports on the progress of the project which they are implementing, but other implementing agencies have not. Given the increase in assistance to the GOM by AID, it is essential that the Ministry of Finance provide quarterly reports so that REDSO can monitor use of the funds and implementation of the development activities.

Several problems have resulted from the lack of reports. In June 1985, the MOF closed the FY 1983 CIP Special Account, withdrawing Rs 14.5 million for the construction of the Francois River Diversion. To date (December, 1985), the MOF has not transferred the funds to the implementing agency, CWA, which has tendered for the job and is ready to award the contract. Similiarly, the MOF has not yet transfered Rs 2.5 million of FY 1983 CIP generated local currencies for the Bramsthan to Camp Itier pipeline, although these funds were withdrawn in June, 1985 as well. Technically, the money for local currency activities should remain in the special account until needed to finance the project. Another problem is that there is a shortfall of approximately 9,600,000 rupees in the Special Account for the FY 1984 CIP. REDSO/ESA is aware of the cause of the shortfall, but neither in a letter nor in a report has the GOM identified the problem, much less suggested a way to resolve it. For the FY 1984 CIP, the MOF instructed Moroil that it could deposit in the special account an amount less than the rupee equivalent of the dollar purchase. The deposit would be based on the "world price" with the shortfall equal to the difference between the world price and the CIP purchase price.

Due to the lack of progress in these problem areas, the following new conditions will be added to the grant agreement:

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

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

(3) that, to the extent that local currency deposits in the Special Account by private importers are less than the local currency equivalent of the dollar financing made available under the grant, the GOM deposit the difference into the Special Account.

The program design team believes that these new conditions will ensure that the accounting and reporting problems will be resolved in a timely manner.

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

REDSO/ESA, with the support of the American Embassy in Mauritius, will be responsible for program monitoring. The principal REDSO backstop officers are Jim Dempsey, Project Development Officer and Lyn Dunn, Commodity Management Officer additional assistance will be provided by a REDSO program implementation committee. At the Embassy, S. Jathoonia, Commercial/Economic Assistant, will handle the day to day matters. An AID financed Administrative Assistant has been hired to work in the Embassy to help with the administrative details of this and other AID programs.

Disbursement Period: The PAAD team recommends that the terminal date for commitment be June 30, 1987 to ensure that Moroil has sufficient time to procure the edible oil. All disbursements would be completed prior to September 30, 1987. We anticipate that disbursement of all local currency proceeds will occur within a period of two years.

Congressional Notification: The announcement of this Program was made in the Congressional Presentation Fiscal Year 1986, Annex 1, Africa, page 310. No further notification is required.

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

Negotiations Status and Conditions: The PAAD design team has held numerous discussions with participating ministries and public and private sector entities and organizations to ascertain the appropriateness of the proposed program and to resolve any outstanding issues. Agreement has been reached on the commodity to be imported and on the general use of the CIP local currency proceeds. A request for assistance from the GOM is included as Annex A.

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

Given our experience under the previous CIPs and the familiarity of the parties with AID procurement procedures and regulations, and barring unforeseen mishaps, we are confident that the implementation of CIP V (642-K-605) will proceed smoothly.

Recommendation: It is recommended by the PAAD team that a ESF grant for a Commodity Import Program in the amount of $1,914,000 be authorized for Mauritius.

PAAD Committee:

James Dempsey, Project Officer, REDSO/ESA
Stu Callison, Economist, REDSO/ESA
Lyn Dunn, Commodity Mgmt. Officer, REDSO/ESA
Shariff Jathoonia, Economic/Commercial Specialist, US Embassy, Mauritius

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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, whereas the Chinese represent 3 percent of the population, and the Whites, 1 percent. Despite the heterogeneity of the population, a distinctive Mauritian cultural identity has emerged. Although English is the official language, and French and Hindi are widely spoken, Creole represents the prevailing language of communication for Mauritians.

While the population density is very high, at 1,333 inhabitants per square mile, the population growth is a modest one percent per annum, largely resulting from a successful family planning program introduced in the 1960's. With an estimated per capita income of $1,130 in 1984, Mauritius enjoys a standard of living comparable to those in middle income countries in terms of nutrition, literacy, health care and educational facilities. However, the income distribution is relatively more uneven than in other developing countries owing to the historical dominance of the sugar estates and the rapid growth of a new industrial class. In 1980-81, the median monthly income of households was $150, as compared to $92 in 1975. While poverty is found in both rural areas and urban concentrations on the island of Mauritius, it is particularly prevalent on the other islands, the most important of which is Rodriques.

B. Political Overview

The Mauritian political system is parliamentary within the Commonwealth, with the Queen of England presiding as titular head of state, represented by a governor-general. Since Independence in 1968, Mauritius has been governed by democratically elected political parties and coalitions which have generally espoused non-alignment, with a pro-Western bias in foreign policy and a mixed economy domestically. The major trade partners are the EEC countries, the U.S. and Japan. Additionally, many Mauritians have ties to Hong Kong, which is an important source of capital and technology.
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,

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the GOM has maintained its membership and credibility in the Non-Aligned Movement, but with a distinctly pro-Western bias. The current government has voted favorably to US interests in the UN as demonstrated by the fact that during 1984 the GOM had 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 MMM government's 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 facilities at Diego Garcia. The Mauritian government also has expressed the desire to sell fresh fruits and vegetables to the US fleet and provides for the storage of fuel for U.S. ships and other equipment.

C. GOM Development Strategy

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

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

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

The most serious constraint to self-reliance and sustained economic growth are the recurrent balance of payment deficits and the heavy external borrowing required to finance development. As part of its strategy, the GOM has instituted a series of macroeconomic policies and programs to bring the national economy into a balance for sustained economic growth. These policies and programs are discussed in the Economic Findings and Conclusions (Section IIIA), but it is important to note that the government's long term development strategy depends on the success of short term measures to cut government fiscal deficits, improve the balance of payments, control external borrowing and finance debt repayment. The GOM is primarily relying on the IMF standby credit arrangements and the World Bank's Structural Adjustment Loans to help them through the period of economic adjustment. However, other 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-relaince and sustained economic growth is having a significant impact 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.

To increase self-reliance and to achieve economic adjustment, Mauritius must make its 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 a vigorous program of agricultural diversification to reduce food imports (presently accounting for 25% of total imports) and, where feasible, to extend the role of agriculture as 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.

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 provide 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.

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.

Tourism development represents another objective of the GOM's economic structural adjustment. In order to tap new markets and diversify away from traditional ones, expenditures on tourism promotion campaigns will be increased. As the third largest foreign exchange earner, tourism has the potential to add substantially to the economic development of Mauritius.

Although the focus of the economic adjustment program is on the revitalization of the productive sectors, the GOM continues to finance social programs at approximately the same level as previous years (25-30% of recurrent budget). Expenditures for health, education and other social services will have to be examined closely with a view to ensuring that they are cost-effective and that they do not prejudice future growth. Fiscal discipline will be required throughout the economic adjustment period.

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D. U.S. Assistance Strategy

Mauritius has received bilateral US assistance since its independence in 1968. In the late sixties and early seventies, US assistance was limited to a PL-480 Food-for-Work program and the Ambassador's Self-Help Fund. In recent years, PL-480 programs under both Title I and Title II have been implemented. In 1980, a HIG program of $6.0 million was approved and is now being drawn down for housing construction.

Due to economic difficulties, the US provided a $2 million Economic Support Fund grant in FY 1982 and the same amount in FY 1983 and FY 1985. The 1984 ESF grant to Mauritius was increased to $4,000,000. The FY 1985 ESF grant returned to the $2.0 million level. All of the grant funds were used to import U.S. edible oil under a CIP. In addition to the CIP for 1985, AID granted the GOM $5.0 million in ESF money as part of the African Economic Policy Reform Program (AEPRP). The AEPRP cash grant not only provides foreign exchange and budgetary assistance, but also supports a package of economic reforms, specifically an income tax reduction, an industrial investment and incentive program and initial changes in the tariff structure. Mauritius is implementing a series of policy reforms that make it an example for economic recovery in Africa. The Economic Section of this PAAD describes the changes in more detail.

The rationale for these grants is based upon the political importance of Mauritius to US strategic interests in the Indian Ocean; Mauritius' willingness to receive US naval ships at its port facilities; the democratic principles and practices within the Mauritian political system; and its moderate stance on its residual claims to Diego Garcia. None of these conditions has altered with the elections in August 1983. On the contrary, the necessity of maintaining good relations has become more urgent as the GOM has become more supportive.

The strategy for the present AID program is to support the economic structural adjustment program and to promote development by using local currency generations for:

1. agricultural diversification and sustainable food policies;

2. private sector activities in key development areas such as agriculture, export processing, manufacturing, tourism promotion and export services; and

3. the expansion of essential services (e.g. water supply) to the poor in Mauritius.

III. ECONOMIC BACKGROUND AND ANALYSIS

A. Economic Background1/

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 price 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. 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.

Compared with other countries served by REDSO/ESA, the performance of Mauritius in adjusting to prolonged low export prices and high petroleum prices has been exemplary. The exchange rate has been depreciated sufficiently to maintain real purchasing power and real wages have declined somewhat, since the late 1970's; increasing the competitiveness of manufactured exports. Foreign and local investors are showing considerable interest in investing in the EPZ where employment and production are expanding rapidly. IMF standby arrangements after the current one probably are unnecessary and GOM will be able to repay obligations to IMF during the next few years.

The chief problem areas are unemployment, rehabilitation of the sugar industry, and revision of the tariff structure to remove bias in favor of import substitution, at the expense of exports and inputs to produce exports, and to reduce unevenness in incentives to import substitution industries. Policy reforms have been initiated in collaboration with IBRD under the structural adjustment loan. Tax reform is needed to phase out

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1/ 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.

export and other taxes which discourage production to earn foreign exchange. Employment in the sugar industry has declined more rapidly than the rest of the economy has been able to create jobs. However, rapid expansion of investment and production in the EPZ is the best solution to redundant labor in agriculture. Manufacturing employment more than doubled from 1975 through 1984, increasing 8.9% annually, while total employment rose 1.5% annually.

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

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

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

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

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

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

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

B. Policy Reforms to Date 2/

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

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2/ 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.

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(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.

In accordance with the SAL III 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).[3] 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. Progress In Economic Structural Adjustment

Significant progress has been made in reducing fiscal and financial imbalances. The current account deficit has declined from -13.2% of GDP in 1981 to 2.6% in 1984, a more manageable level. The budget deficit has declined from 12.9% of GDP in 1981/82 to 5.8% in 1984/5. Subsidies for food and education and current expenditures on housing and public health have been curtailed. Public utility prices have been adjusted to minimize budgetary transfers to parastatals and prevent distortions in resource allocation. Public investment projects with low economic rates of return have been eliminated from the capital budget.

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

3/ 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.

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

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

D. 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.

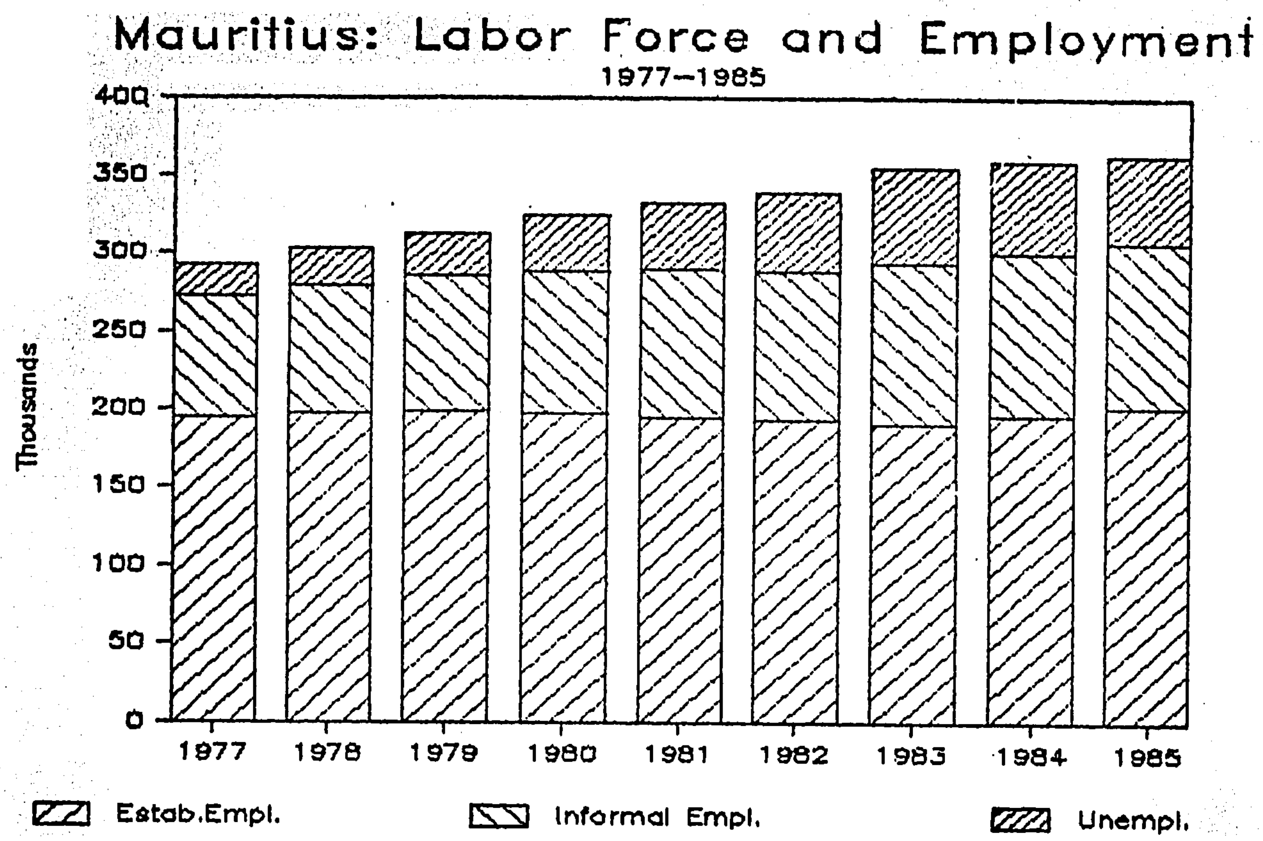
1. Population Growth and Unemployment

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.4/ 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 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.

4/ 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.

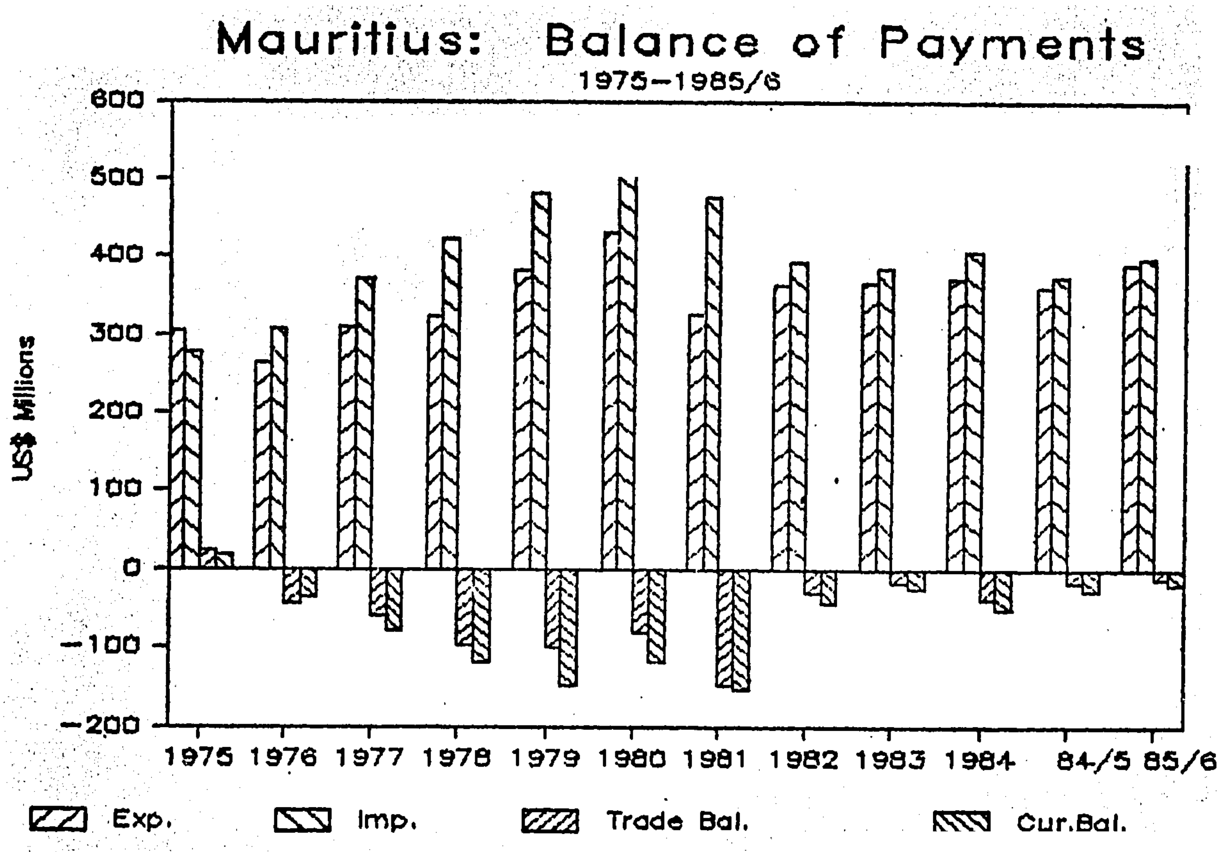

Mauritius: Balance of Payments
1975—1985/6
US$ Millions
600
500
400
300
200
100
0
-100
-200
1975
1976
1977
1978
1979
1980
1981
1982
1983
1984
84/5
85/6
Exp.
Imp.
Trade Bal.
Cur.Bal.

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

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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

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.

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.5/

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 368 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 budgeted 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.

5/ 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.

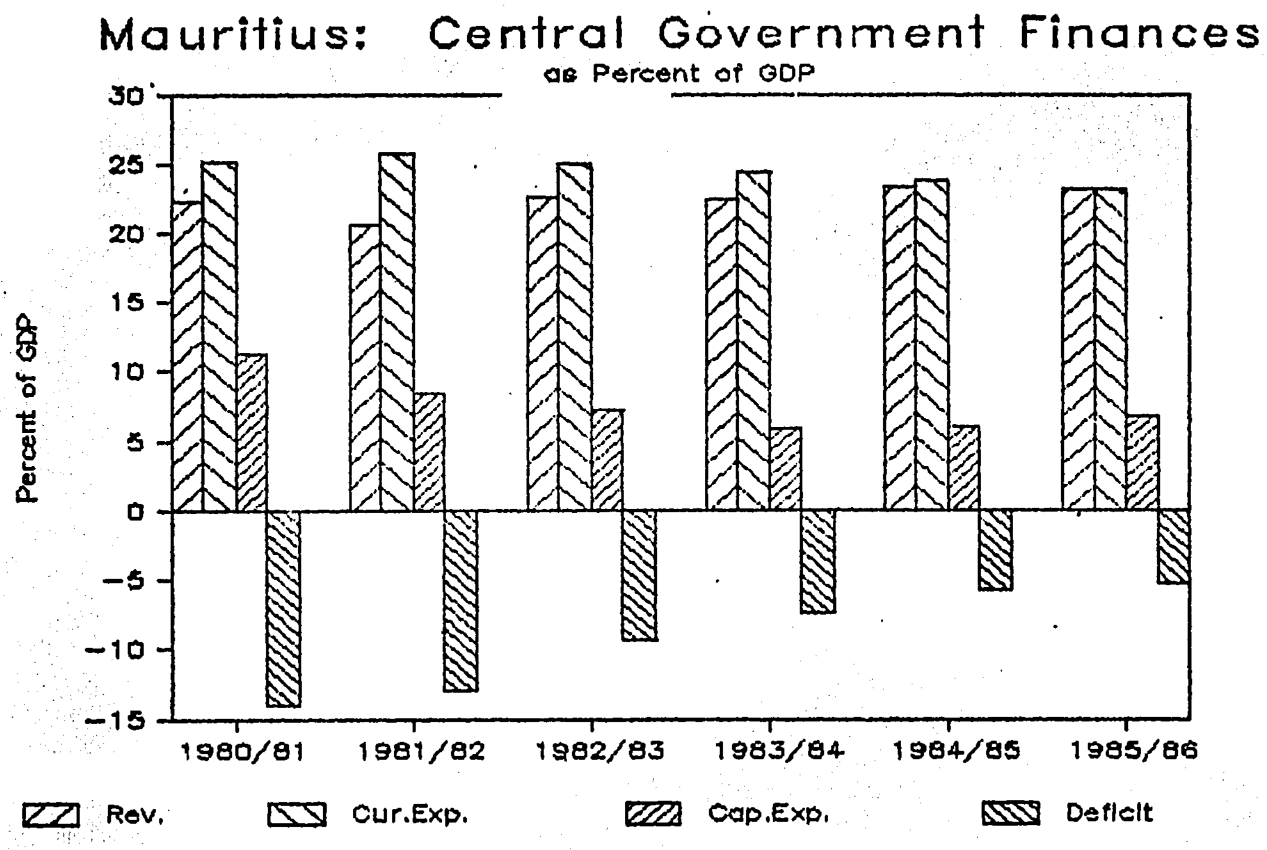
The IMF has concluded that, "Under the previous four stand-by arrangements, budgetary policy has been the most important single element in reducing excess aggregate demand, and since 1980/81 the actual budget outturn has been more favorable than the program targets."6/

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.7/

6/ 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.

7/ 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.


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

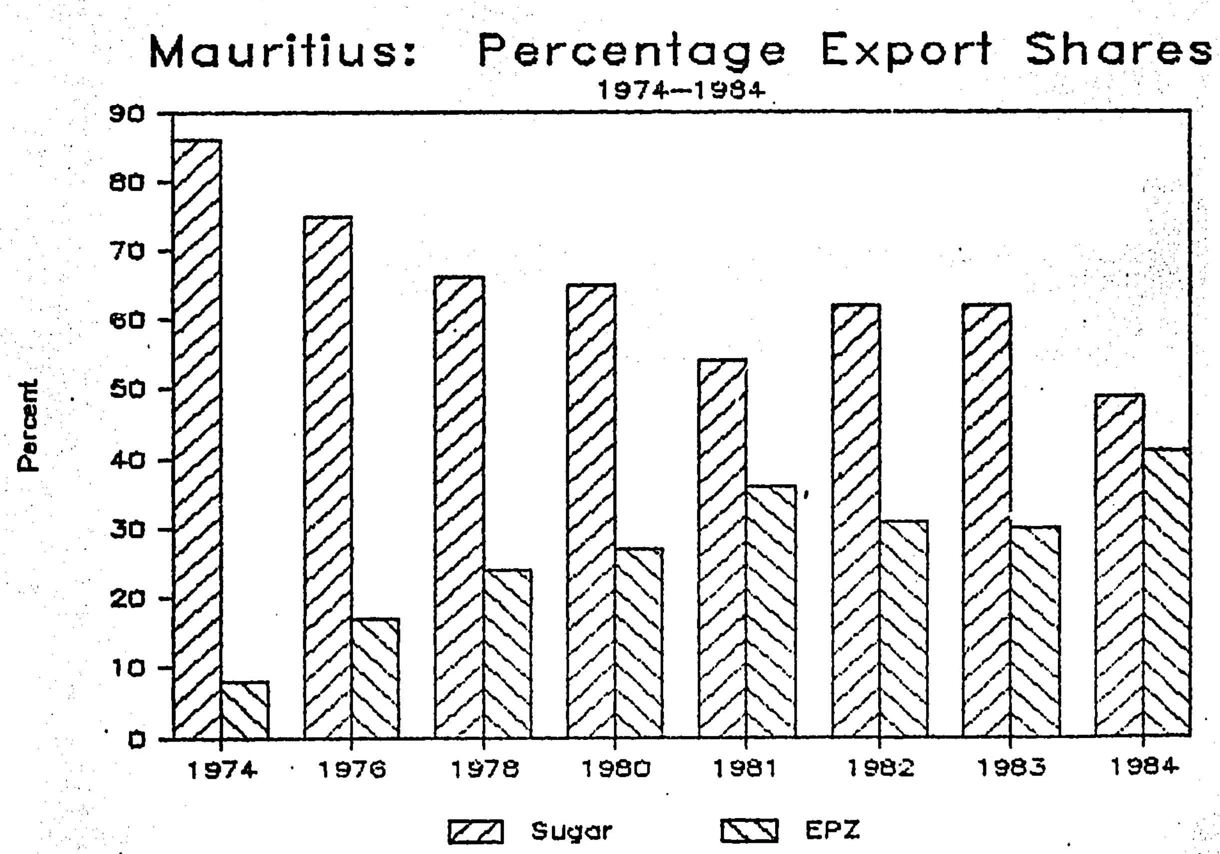

Mauritius: Percentage Export Shares
1974-1984
Percent
90
80
70
60
50
40
30
20
10
0
1974
1976
1978
1980
1981
1982
1983
1984
Sugar
EPZ

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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

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

Type	1974	976	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

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.8/

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. The biggest problem may be the tax structure on sugar certainly is the problem for the plantation owners/millers. Should be discussed in more detail.

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

5. Industrial Inefficiency[9]

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.

The Development Certificate (DC) Scheme, introduced in 1964, provides selected import-substituting enterprises with significant tax and duty exemptions. Over 200 companies have benefited 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[10] 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

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9/ 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.

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

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 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 as described in Section II. C.

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.

E. 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 summarized in the Mauritius FY 85 EPRP PAAD, pp and some of these reforms are supported by that program, particularly those relating to the tariff structure and industrial incentive scheme.11

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 is needed that 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.

F. Economic Prospects

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

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

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

11/ 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.

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

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

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

The three-year Public Sector Investment Plan (PSIP), FY 1985-87, aims at providing infrastructure for the directly productive sectors and essential public services as an incentive to private investors and to increase employment through economic growth. Investments for infrastructure constitute more than 50% of the total. Of 21 new projects, 11 are extensions of on-going projects or improvements of current works. IBRD questions the feasibility of the new Ethanol project which has an economic rate of return between 1% a 4%. A key feature of the new PSIP is restraint in capital spending. The PSIP is about 10% smaller, in real terms, than the previous plan. The new PSIP plans a 11.6% average annual increase in public investments.

B. Other Assistance

From a situation of almost complete dependence at the time of independence on the United Kingdom, the only other source of foreign assistance being IBRD (which accounted for only a small fraction of total aid received), Mauritius now receives assistance from a large variety of bilateral and multilateral sources. On the bilateral front, Mauritius is today receiving assistance 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 assistance 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 resources 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 through 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 loan	18.0	34.2	2,374.2	67.5
Non-Concessionary loans	-	-	917.7	26.1
TOTAL	52.6	100.0	3,517.0	100.0

TABLE 6

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

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

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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 results mainly from the GOM's massive borrowings from the IMF, the World Bank and private international sources. But it reflects also the relative stagnation of bilateral aid as a result of economic difficulties encountered by traditional donors.

Starting in 1979, the IMF, in five successive stand-by arrangements, has lent the GOM nearly SDR 300 million which has substantially helped Mauritius through periods of foreign exchange shortages and directly supported the GOM's economic adjustment program.

The IBRD approved a $15.0 million Structural Adjustment Loan (SAL) in 1981 and then provided an additional $40 million through a SAL II. This second loan's major objectives are to reduce the high level of unemployment by encouraging growth based on export processing industries and tourism and --to a lesser extent -- to substitute local energy resources for imports and to increase production of certain agricultural and manufactured goods. In view of the scarcity of land for agriculture, the SAL II is placing a major emphasis on manufacturing exports, particularly those originating from the Export Processing Zone. Toward this end, the GOM, with both IBRD and EPRP assistance, is embarking on a major review of industrial policy to assess the effectiveness of the current structure of protection and incentives to manufacturing. The SAL II program will also continue to support the improvement in the efficiency of the parastatal sector.

The IBRD plans a SAL III for 1987 and both the World Bank and African Development Bank will make industrial sector loans of approximately $20.0 million each during 1986.

IV IMPLEMENTATION OF PREVIOUS CIPS (1982-1985)

In FY 1982, Mauritius received its first Commodity Import Program Grant ($2.0 million) which was used by Mauritius Oil Refineries (Moroil)to purchase US degummed edible oil. The Moroil purchase of 4,200 tons of oil was completed in a timely manner, required a minimum of AID or Embassy supervision, and, except for some minor transfer problems, was a simple operation for all parties. The success of this procurement has resulted in the continuation of edible oil purchases for all successive CIPs (1983-85). The 1983 and 1985 CIPs provided $2.0 million each while the 1984 program was for $1,914,000. The 1985 funds remain unexpended but procurements to use the total amount, $2.0 million, are planned for February and May, 1986.

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For the 1982 CIP, local currency payments were deposited in a special account at State Commercial Bank (SCB) and were transferred to the GOM general account for disbursement to the agencies implementing the LC projects as described below. Neither AID nor the Ministry of Finance were satisfied with the accounting and record keeping by the SCB. Thus, for the past three years, the Special Account has been held at Citibank, Port Louis, the only American bank with an office in Mauritius.

The FY 1982 CIP planned local currency programs worth Rs. 20.0 million; however, Rs. 24.0 million was generated and disbursed. The development impact of the FY 1982 local currency activities has been substantial. Six thousand sixty-one households in 56 estates have been connected to clean, reliable central water supplies. The Central Water Authority, through a local contractor, completed the construction hook-ups on time and for Rs. 13.4 million, which was 2.6 million rupees under the original estimate. The surplus Rs. 2.6 million, plus an additional Rs, 4.0 million allocation, has been used to improve the water supply system in two other rural areas. The Development Bank of Mauritius, using Rs. 2.0 million from the CIP as seed money, developed a small scale business loan program. Since the program combines the GOM/USAID funds with other commercial bank monies, CIP generated local currencies have been leveraged to help 1391 small entrepreneurs and tradesmen with Rs 30.7 million in loan funds through September 1985. Finally, the Irrigation Authority has received Rs.2.0 million for a revolving fund to assist small scale irrigation. To date, approximately 300 small scale irrigation schemes have been assisted.

The special account for the FY 1983 CIP local currencies was closed in June, 1985 and disbursement should have been made to the implementing agencies for the following activities:

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

Funds have yet to be disbursed by the MOF to CWA for the Francois River Diversion and the Bramsthan to Camp Ithier pipeline. Technically, the funds should be held in the Special Account until needed for the selected project. The fact that the money was withdrawn is a problem and is discussed in the issue section of the PAAD summary.

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Once completed, this diversion will send additional water into the Nicoliere system for irrigation in the dry Northern Plain area. The Caroline to Bramsthan pipe is complete and an adequate supply of dependable potable water is being provided to the Bramsthan area. Completion of the next section to Camp Ithier is not scheduled until mid 1986. It will then provide water to the whole region southeast of Camp Ithier. Although the Mauritius Export Development and Investment Promotion Authority (MEDIA) began operation in April of 1985, the Ministry of Industry has utilized all of the funds for investment promotion on seminars, brochures and publications, advertisements and the establishment of a "one stop" foreign investment office as well as other promotion activities.

The GOM expanded the budget of the Mauritius Government Tourist Office(MGTO) from Rs 6.0 million in 1982-83 tc Rs 15.0 million in FY 1983-84. Although it is difficult to estimate the impact of the expanded promotion program on tourism, 1984 was a record year for Mauritius with approximately 140,000 tourist arrivals, 15% above the previous best year. Although the figures for the first half of 1985 are not final, it appears that tourist arrivals are maintaining, or are slightly ahead of, last year's pace.

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

Under the 1984 CIP, the rupee generations are supporting:

1.	Construction of Seven Rural Industrial Buildings	Rs52.6m.
2.	Small Business and Industry Loan Fund at the DBM	Rs 5.0m.
3.	Tourism Promotion	Rs 4.0m.
4.	Small Scale Self-Help Projects	Rs 1.0m.
	TOTAL	Rs62.6m.

The construction of all seven rurel buildings is nearly complete; all but one has been turned over to the industrial renters who are moving into the premise. A total of three hundred fifty thousand square feet in total at the seven sites has been constructed at an average cost of Rs 175/sq. ft.(including infrastructure), which is below original estimates. An important program objective was to build and rent industrial space in high unemployment areas. All of the space has been rented and plans are progressing to build additional buildings at the more popular sites. At one job created per 50-75 sq. ft. of industrial space, the local currency building construction will provide for 4500-7000 new jobs.

The Rs 5.0 million for the Small Scale Business (SSB) scheme will help expand this successful loan program at the DBM. The Small Scale Business program was originally financed in part from FY 1982 CIP local currencies and has as its objectives the support of service and trading firms as well as providing working capital for small industries.

The local currency for tourism promotion will help the GOM expand its support for the MGTO from Rs 14.5 million in FY 1984-85 to a planned level of Rs 17.0 million in 1985-86. The provision of this money has been used as an incentive to the GOM and MGTO to plan and coordinate government tourism promotion expenditures with Air Mauritius.

For 1985/86, the plan is to use Rs 1,000,000 of the FY 1984 CIP generations for projects submitted to the Ambassadors Self-Help Fund Committee, but can not be financed because of a shortage of funds. The Ambassador's Fund ($72,000 in FY 1985) has been 2-3 times oversubscribed with projects which the Committee has judged worthy of assistance.

No local currencies have been generated under the FY 1985 CIP but the planned allocation is for the construction of the first phase of the Vacoas/Phoenix Industrial Estate. Using its own funds, the DBM has started construction of the buildings which should be completed in April.

The Vacoas-Phoenix Industrial Estate will cover 25 acres, and in its final stage, include industrial buildings with 500,000 sq. ft. of floor space. In the first phase, 160,000 sq. ft. will be constructed. DBM reports that even prior to completior of construction, nearly all of the floor space in the Vacoas-Phoenix Estate has been reserved by various industries and strong interest has been shown in the remainder of the space by others.

The investment in the estate will at least break even and may possibly bring a financial return. More importantly, despite possible low financial returns, the project will bring high economic returns to the country as a whole. Based on past experience with other estates, the Vacoas-Phoenix Estate will provide on the order of 3,000 new jobs in its first phase of 160,000 sq. ft. and the completed project of 500,000 sq. ft. will provide an estimated 7,500 to 10,000 new jobs. When the multiplier effect of each new EPZ job resulting in another new job in other sectors is added to this, the positive impact on the economy of Mauritius of this project will be quite significant.

Construction of the first 4 industrial buildings of about 40,000 sq.ft. each at Vacoas-Phoenix has already started. Based on a cost estimate of 37.5 million rupees, this project will absorb all of the estimated 30 million rupees that the FY 1985 CIP is expected to generate. The additional funds for the project will be provided by DBM.

V. PROGRAM DESCRIPTION

A. Program Activity

The purpose of the $1,914,000 ESF grant is to provide balance of payments and budgetary support to the Government of Mauritius through a Commodity Import Program.

A two-phased assistance program is proposed, drawing upon the positive experience of similar programs from the previous three years. First, $1,914,000 of CIP grant funds will finance edible oil procurements by the private firm, Mauritius Oil Refiners (Moroil), the only edible oil refinery on the island. We anticipate that this will entail financing the commercial importation of approximately 5,000 tons of degummed vegetable oil from the US. Second, the estimated Rs 26 million in local currency that will be generated under this program will be deposited in a separate government account available to support mutually agreed upon development activities. The planned use of the funds is for (a) research to promote agricultural diversification, (b) a land fill in the Port Louis Harbor, (c) rural water projects, and (d) small self-help projects.

B. Commodity Import Component

1. Import Market Analysis

a) U.S. Trade with Mauritius

Trade between Mauritius and the U.S., although growing, is still relatively small. The increase in trade, however, is mainly in favor of Mauritius whose exports to the U.S. were up from Rs 366 million ($31 million) in 1983 to Rs 642 million ($46.5 million) in 1984, representing a 75% increase. On the other hand, Mauritian imports from the U.S. have stagnated over the last two years: Rs 151 million ($12.9 million) in 1983 and Rs 154 million ($11.2 million) in 1984. Imports from the U.S. represented only 2.4% of total Mauritian imports in 1984. U.S. exports to Mauritius are hindered by a number of factors: (a) the great distance between the two countries (10,000 miles) and the resulting high shipping costs; (b) long-established economic and commercial ties between Mauritius and Europe, particularly England and France, as a result of Mauritius' colonial past; (c) the rise of the U.S. dollar; and (d) the small size of the Mauritian market and the fact that Mauritius remains relatively unknown to American business.

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

b) Composition of Import Market

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

The second largest category was food (17%), including mainly rice, milk/cream and almonds. Most of the milk came in under the World Food Program. Food has dropped down from the first to the second largest category for the first time in 1984, mainly because there was no PL 480 Title I Program for Mauritius that year. Miscellaneous manufactured goods (13%) and machinery and transport equipment (12.8%) were the third and fourth largest categories, respectively. These included machinery and equipment, construction machinery, motor vehicle parts, computers, liquid and air pumps and compressors, machine tools, food processing machinery, printing machinery and supplies, agricultural machinery and irrigation equipment, air conditioners and steam engines.

The private sector is the largest user of U.S. imported materials and equipment. But there is also a strong demand for vegetable oil which is used by all households in everyday cooking. Mauritius has one of the highest per capita consumption of edible oil in the world. The sugar industry, the backbone of the agricultural sector and, hence, of the entire economy, is the major client for fertilizer and crop-related imports and for agricultural machinery and equipment. Based on the above, U.S. goods are reasonably assured of a stable market in Mauritius.

c) Absorptive Capacity

The major import items from the US are essential goods - basic food, capital goods, raw materials for industry, and, agricultural inputs - and are, therefore, given priority in the foreign exchange allocations. The proposed CIP, by bringing in additional hard foreign exchange, will help to sustain imports from the U.S. Based on the past records of regular importers of U.S. goods and purchase plans for the coming year, Mauritian capacity to absorb the full amount of the proposed program is assured. For example, Mauritius Oil Refineries Ltd, alone, imports an average of 18,000 tons of crude soybean oil annually. Provided U.S. prices are competitive, the company's entire soybean oil requirement can be imported from the U.S. This represents approximately two times the amount of the CIP Grant.

TABLE 3

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

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

NOTE: Annual Average Exchange Rate

1980: $ 1 = Rs. 7.7
1981: $ 1 = Rs. 9.1
1982: $ 1 = Rs.10.9
1983: $ 1 = Rs.11.7
1984: $ 1 = Rs.13.8

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2. Commodity Procurement

Four million dollars in grant funds will be made available through the Government to the private sector to finance the cost of commercial imports from the U.S. As in the past programs, the options of importing commodities from the U.S. other than edible oil were examined. In particular the team explored the possibility of importing fertilizers from the U.S. The Mauritius Chemical and Fertilizer Industry annually imports approximately $1.4 million of complex fertilizers from the U.S. for use by the sugar industry, thus providing an alternative for financing should Moroil not be able to absorb the entire amount available for the CIP. Likewise, a variety of commercial imports, including irrigation equipment, agricultural equipment, textile processing equipment, machinery spare parts, and agricultural chemicals, could be eligible items for importation. The team decided however, that due to the difficulty of fertilizer and other procurements, and given the limited staff available to implement and monitor the procurement, it would be preferable to use CIP funds to procure edible oil.

In 1985 the most important issue contained in the PAAD was that of GOM price control on the sale of edible oil. Although the government had raised the retail price of oil from Rs 7.25/liter in late 1979 to Rs 12.25/liter in 1984, the price of foreign exchange increased at a greater rate and adjustments did not keep pace with devaluation of the rupee. Furthermore, the world price of oil had moved from approximately $400/ton in 1982 to the $700/ton range in 1984 in the midst of a highly volatile market. In addition, Moroil paid a stamp duty on all imports of crude oil.

Last year Moroil, in a precarious financial position, threatened to close operations and began a series of difficult negotiations with the GOM for an easing of the financial constraints which faced the company. The result of Moroil's negotiations has been encouraging. In February 1985, the GOM exempted Moroil from the 13.2 percent stamp duty on 4,000 tons of oil imports This provided immediate relief to Moroil and, at the same time, avoided increasing the retail price of oil. However, later in August 1985, the GOM agreed to raise the retail price of edible oil by 25 cents per quart. Furthermore, the U.S. price for edible oil has moved back into the $400 range, in line with or even slightly lower than world edible oil prices. The result of these actions is that today Moroil is in a better financial position.

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By June 1986, Moroil expects that total corporate losses incurred over the past two years will have been recovered. Moroil feels positive about future operations and expressed open willingness to absorb an additional $1,914,000 in FY 1986 for continued U.S. oil imports. Moroil describes their current relations with the Ministry of Finance as excellent, and believes that they have finally gained the confidence of the Government.

Moroil anticipates that U.S. prices will now remain competitive on the world market and that the unusual volatility seen last year in the oil market will not happen again. The local currency is expected to be generated by 5000 tons ($1,914,000 at $380/ton cost estimate) shipped in three consignments in September and November 1986, and February 1987. Shipping of the oil will be financed by the refinery itself.

The rationale for again using the foreign exchange to purchase edible oil is as follows:

a) Given the limited staff available to implement and monitor the grant, the purchase of oil is most attractive because it places the minimum administrative and logistic burden on the Embassy and REDSO/ESA. Only two or three consignments will be required to utilize fully the $1,914,000.

b) Because of the high demand for edible oil and the efficiency and financial strengths of the Mauritius Oil Refineries Ltd., local currency repayments will be made immediately upon shipment of oil and presentation of shipping documents.

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

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

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

C. Use of Local Currencies

MOROIL will pay approximately Rs 26.0 million, the equivalent of $1,914,000, into the special interest bearing account held by the GOM at Citibank, Port Louis. The local currency generated under the CIP will be used by the GOM to support activities mutually agreed upon by the GOM and AID.

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The proposed local currency program allocates funds to each of the main areas emphasized in the AID strategy for Mauritius, that is agricultural diversification, basic service to the poor and private sector development. Since the funds are not expected to be generated until the second half of 1986, the proposed project are not included in the GOM's FY1986 budget (July, 1985 - June, 1986).

Four activities, presented below as potential LC projects, have an estimated total cost of Rs. 39.0 million. This amount is 50% greater than the expected CIP generations. However, given the long lead time and shifting requirements of the GOM as other sources of funding become available, the over-subscription of the CIP generate local currency is a reasonable for a planning level. Partial funding of one or all of the four activities is another option which may be a particularly attractive one if a balanced program in relation to the AID strategy is sought. The proposed project assistance is as follows:

1. Agricultural Research for Diversification (Rs 10,000,000)

To reduce the heavy drain on scarce foreign exchange caused by the import of large quantities of foodstuffs which could be produced locally, government has decided to intensify agricultural diversification efforts. This will be achieved in two main ways: (a) maximizing food-crops production in cane interrows and rotational land and (b) increasing planter productivity so as to maintain present level of sugar output on a reduced area, thereby releasing land for food-crop cultivation.

To support the GOM's policy of accelerating crop diversification, the Mauritius Sugar Industry Research Institute (MSIRI), an autonomous institute supported by the Sugar Levy, (a producer tax) has proposed a series of new initiatives to help achieve the policy objectives. Three areas have been identified for AID local currency assistance in line with the diversification objective. AID will finance the initial capital and two years of personnel and other recurrent costs for (1) a land index subproject, (2) general agricultural diversification research and (3) the study of the economics of agricultural diversification from a farming system perspective.

MSIRI has been doing agricultural research for over 75 years and is recognized as one of the top sugar research institutes in the world. Starting in the early 1970's, it began to undertake research on crops other than sugar that could be grown on a rotational basis with sugar or in the sugar row interlines. The most notable success has been with potatoes which are now grown in the interline with sugar in amounts large enough to make Mauritius self-sufficient in potatoes. Other advances have been made in maize, bean and tomatoes. Based on the Institute's success and ability to conduct diversification research, the GOM and AID are proposing a major expansion of its work in this area.

(a) Land Indexing (Rs 4,800,000)

This project consists of the setting up of a data base which includes the physical and agronomic characteristics of all lands presently under sugar cane, their suitability for production of food crops, and their productivity with respect to sugar cane and other crops.

This data will be used to help farmers improve their productivity and to plan crop diversification by identifying the potential for the development of various crops in a system of cane substitution and mixed cropping.

The indexing on large estates has nearly been been completed. Sugar production data have now to be included for analysis of productivity potential in various areas. Indexing of small planters' land started in December 1984 with local funds provided by Government. The initial steps have been undertaken in three factory areas for 5,500 out of the total 35,000 planters on the island. The area covered so far is 5272 ha out of a total of 36,440 ha. It is proposed to complete the basic indexing in two years and have a data base for continuing research and evaluation. Input and analysis of data for monitoring agricultural production and diversification will become a recurrent exercise incorporated into agricultural planning and development.

Approximately Rs 4.8 million will be required to support the project for two years. The major expense for the project will be the procurement of a Rs 2.5 million computer system for MSIRI. Its main function will be for the analysis of the land index data bank, but it will also be available to other MSIRI divisions and scientists for their work. The estimated budget for this activity is contained in Annex B.1

(b) Basic Research for Agricultural Diversification (Rs 3,600,000)

The basic capacity of the Institute in food crop research will be expanded in the following areas:

1) Rapid propagation of potato and other crops - several new potato varieties better adapted to tropical conditions have been obtained from CIP. Their rapid propagation is required to enable field tests to be conducted in a timely manner.

2) Preservation of micro-organisms and plant tissues - the preservation of germplasm, micro-organisms and isolates for later study is essential to conduct the necessary tests for diversification. New equipment is needed to ensure that this is done properly.

3) Analytical methods for Plant Nutrition - to assess fertilizer requirements of food crops grown in pure stand or in cane interrows is essential to crop diversification. Funds are provided to expand and strengthen this capability at MSIRI.

4) Factors affecting growth and development in relation to mixed cropping - an understanding of competition between crops grown together for resources (moisture, radiation and nutrients) will lead to more efficient systems of mixed cropping. Equipment and training is needed to build this capacity at MSIRI.

5) Seed production - for the development of certain crop varieties which have been bred locally, testing equipment for seed certification is necessary to ensure quality production.

6) Field experimentation - in order to back up the diversification research increased land preparation facilities and irrigation are required on MSIRI stations and sub-stations.

A budget for Rs 3,500,000 needed to implement this component is contained in Annex B.2.

(c) Economics of Sugar Cane Production and Diversification (Rs 1,600,000)

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The main objective of this component is to assess the financial and economic viability of various crops grown in association with sugar cane under different patterns of land use and available resources. With this assessment it will be possible to recommend the most efficient farming system(s) in terms of local resource endowment, factor availability, farm size and farm and national economic objectives. Simultaneously, findings of the project will serve as guidelines for future agricultural policies and will help in defining priority areas for research.

Computer facilities for modelling to compare different scenarios will be required. It is expected that the computer purchased for the land index data analysis will also be used for the farming system records. An economist has recently been recruited at MSIRI, but he will need assistance to meet the new requirements. It is planned that an agricultural economist be hired by MSIRI for one year and thereafter on a part-time basis (say for 6 weeks in the second year) to monitor the studies under way and to give guidance. Eventually, another full-time local agricultural economist would be appointed.

A detailed budget for this component is contained in Annex B.3.

For all three of the areas proposed for AID support, the GOM will provide MSIRI with the necessary foreign exchange to procure the goods and services overseas. It should also be noted that the IBRD is proposing to finance a Rs 27 million research program which includes the Rs 10.0 million of activities presented as local currency projects in this document. However, borrowing from the IBRD to conduct basic research is not financially feasible for MSIRI. Even if the GOM agrees to pass on the IBRD loan funds as a grant to the institute, the GOM will be placing a difficult repayment burden on itself. Grant financing, as can be provided under this CIP, is an appropriate financial arrangement. Thus, AID is willing to agree to the use of Rs 10.0 million for the MSIRI research program. A final decision on the funding package for MSIRI will be made before the funds will be generated and will be vetted with the newly established Research Council. Because of the grant nature of the money, it is expected that AID funds will be utilized.

2. Rural Water Development Projects (Rs 10,000,000)

Mauritius has developed a domestic water delivery system that covers nearly the entire island. The World Bank and ADB have provided assistance to replace and upgrade the main water pipes. However, there are still places or divisions within the rural towns that do not get adequate water because feeder pipes have not been installed or the pipes to the mains are in poor condition or of inadequate size. Rupees 10,000,000 of local currency generations will be used to replace or install new feeder pipes in 39 locations throughout the island. Annex F provides the cost estimates, pipe requirements and locations of the proposed additions/improvements in the system. CWA estimates that 2210 households (13,260 individuals) will benefit through improved water supply at an average cost of Rs 750 ($52). The Central Water Authority (CWA) plans to award two or three contracts to complete the work. If the Ministry of Finance can advance some of the funds prior to the LC generation, the CWA could award contracts in early to mid 1986. The successful contract work, financed under the first CIP, to connect the Central Housing Authority estates to the main lines is the model for this proposed new activity.

3. Completion of the Mer Rouge Reclamation in the Port Louis Harbor (Rs 18,000,000)

To complete the reclamation of approximately 100 acres of land adjacent to the main harbor in Port Louis, an estimated Rs 18.0 million will be required to finance the dredging and fill work. Under a previous dredging contract, financed by ODA, approximately 1,250,000 cubic meters of bottom fill was transferred to the Mer Rouge area to raise the land to 1-2 meters above datum line. An additional 750,000 cubic meters is needed to bring the area to the required 3 meters level. See Chart 1 for a map of the area.

In 1973, after several port development studies, the ODA contract was let for the dredging in Port Louis Harbor and Roche Bois and for reclamation of the new Quay Area, the Bulk Sugar Terminal Area and the Mer Rouge. Unfortunately, in August 1974 the dredger "Nassau Bay" sank at the entrance to the Terre Rouge River leaving the dredging of Roche Bois Harbor and the Reclamation of Mer Rouge incomplete.

Several offers were made by private companies to complete the work but these were so expensive, particularly the costs of bringing a dredger to Mauritius, that the GOM decided to construct a small cutter suction dredger in Mauritius. It was found that the capital investment required to build a small dredger was less than the cost of mobilizing a suitable privately owned dredger, and the decision was made to proceed with the procurement of a vessel. It was considered advisable to encourage a Mauritian firm to participate and a contract was awarded in 1978 to Taylor Smith & Co to design and construct a cutter suction dredger. The vessel, named the M.V. 'Mer Rouge', was commissioned at a cost of approximately Rs 13.0 million in 1983.

Using the 'Mer Rouge', the 750,000 cubic meters of material required to reclaim the whole of Mer Rouge would be dredged from the Terre Rouge River Estuary to form the Roche Bois Harbor. A preliminary study conducted by an international engineering consulting firm estimates that using the Mer Rouge and foreign technical operators is feasible and would be only half the cost of bringing a large dredger to Mauritius. The drawback is that it would take more than two years to complete the task. Before approving this approach, a detailed feasibility study will be financed by the Mauritius Marine Authority (MMA), the proposed implementing agency. A final decision by AID will be linked to this study. The long lead time for the work matches with the generation of the local currency.

A primary beneficiary of the reclamation will be the Mauritius Marine Authority which will have a new, although relatively shallow, harbor. The new land will also provide sites for additional warehouses for the MMA. The second major beneficiary will be the Central Electricity Board, which will build a coal-fired generating plant on the site. Finally, an industrial estate will be developed for the private industries that require, or greatly benefit from, proximity to the port.

4. Self-Help Projects (Rs 1,000,000)

Because of the over-subscription of the resources in the U.S. Ambassador's Self Help Fund and the GOM's own request for funding assistance for the MEOD administered Rural Development Program (the self-help program of which the Ambassador's Fund is a part), Rupees 1,000,000 will be set aside from local currency generations for Self-Help Project selected through the same mechanism that the MEPD and the Embassy now uses. Funds will be used only for activities that support the AID strategy for Mauritius as described in Section II. D. Special consideration will be given to projects from Rodrigues.

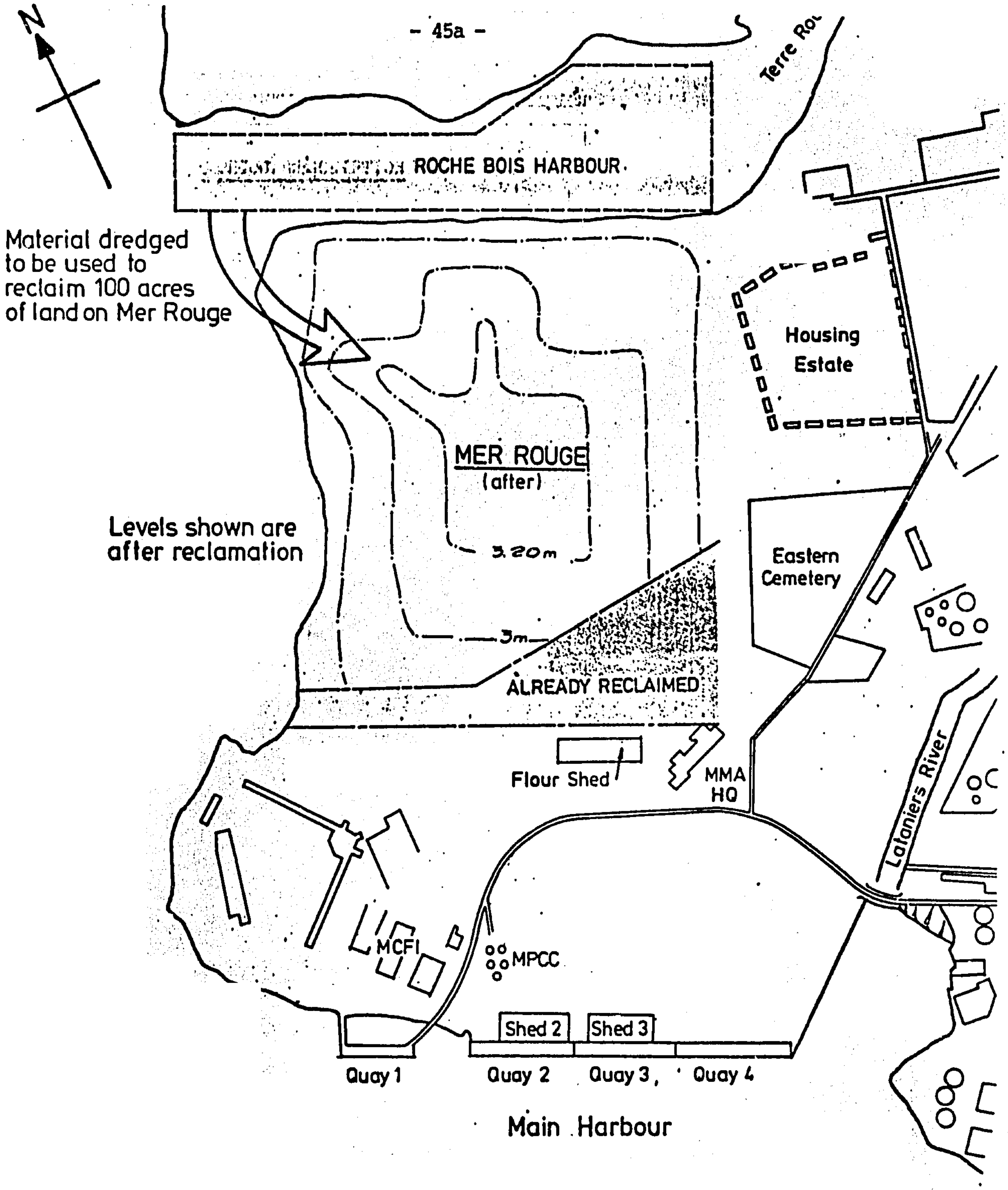
VI. PROGRAM IMPLEMENTATION

A. Implementation Responsibilities

1. Government of Mauritius

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

A special account, opened in favor of the Ministry of Finance, will be established in the Port Louis branch of Citibank. The funds in this account will be monitored by the Ministry of Finance in consultation with the Ministry of Economic Planning and Development. Disbursements will be made by Finance in a timely manner to the government entities implementing the agreed upon activities. The MOF will prepare quartely reports that identify allocations of the local currency and generally describe progress of the activities. For the GOM, Citibank will profide monthly statements for the Special Account. Also. on a periodic basis, the implementing agencies will send to AID detailed progress reports on the programs.



MER ROUGE

Site after Reclamation

0 100 200 300 400 500

1. AID

REDSO/ESA, with the assistance of the American Embassy, Port Louis, will have primary responsibility for the administration and implementation of the grant. A REDSO Project Committee will be responsible for overseeing the implementation of this program. The principal REDSO backstop officers will be James Dempsey, Project Officer and Lyn Dunn, Commodity Management Officer. At the Embassy, the Economic Commercial Assistant, S. Jathoonia, will have day to day responsibility and will be assisted by an AID financed Administrative Assistant working in Port Louis.

2. Mauritius Oil Refineries

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

B. Applicable US and AID Regulations and Procedures

1. AID Regulation 1

AID's standard financing procedures, applying AID Regulation one in its entirety, will be applicable to all foreign exchange transactions under the Grant. After having reviewed the GOM's foreign exchange allocation and import licensing procedures, it is not expected that these AID procedures place an undue burden on the system. During the previous CIP, AID Regulation One procedures were seen as compatible with existing commercial procedures.

2. Eligible Commodities and Related Services

While all items listed in the AID Commodity Eligibility Listing - 1984 Edition will be eligible for financing under the Grant, it is anticipated that the initial Commodity Procurement Instruction will limit eligible items to those included in Schedule B (Animal and Vegetable Products). Transportation and marine insurance will also be eligible for financing. We expect that the entire $4 million will be used to finance the procurement of degummed edible oil.

3. Authorized Source of Procurement

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

4. Non-Availability of U.S. Shipping

Because no U.S.-registered vessels call on Port Louis and freight charges for special routings are excessive, a determination of non-availability of U.S. flag carriers will be requested to exclude shipments under the grant from 50-50 cargo preference requirements. The determination of non-availability will be requested from AID/W, as done in previous years.

5. Value of Transactions

The minimum value of transactions under the Grant will be set at $10.000. However, it is anticipated that the entire amount of the CIP will be utilized in procuring a single commodity, edible oil. Only three or four transactions are expected. Should there be any change in this plan, the procurement procedures to be followed will be subject to further negotiation. It is proposed that AID review all transactions which exceed 20% of the value of the Grant.

6. Methods of Financing

AID will open a Bank Letter of Commitment through Citibank, N.Y. with Mauritius Oil Refineries as the approved applicant. Although Mauritius Oil Refineries normally makes payment by direct wire transfers, it will use a Bank Letter of Credit for the CIP procurement. US supplier(s) will be paid by Letter of Credit. Citibank, Port Louis, has agreed to reduce its Letter of Credit charges so that they are only marginally more than for a wire transfer.

7. Disbursement Period

Based on previous experience, we do not anticipate any significant delay in the disbursement of funds under this program. Use of the Letter of Credit is expected to result in a timely draw-down of AID funds; the terminal date for requesting disbursement will be June 30, 1987. Complete disbursement of AID funds is expected by September 30, 1987. Utilization of all local currency generations is anticipated within a two year period following their generation.

C. Government of Mauritius Import Procedures

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

Under current Government regulations, before an importer can place an order, he must have an import license and an import permit, as well as pay a levy of 17.0% of the CIF value of the goods to be imported. In addition, once the above requirements have been complied with, the participating commercial bank must obtain prior approval from the Bank of Mauritius (central bank) before foreign exchange can be released. Firms in the Export Processing Zone, however, are exempted from all import duties.

All these functions are being carried out under established procedures and in a relatively timely manner. They have been reviewed by REDSO/ESA staff and determined to be fair and equitable. Accordingly, the funds made available by the Grant will be integrated into normal licensing and allocation procedures. Grant funds will not be used, however, to pay the levy, nor for any other identifiable taxes, tariffs, duties or other levies imposed by the GOM. The Grant Agreement will contain the standard provision prohibiting such use of AID funds.

D. Port Clearance - Status of Port

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

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

The number of ships entering Port Louis harbor every year has fluctuated around 1,100, while the net registered tonnage available on ships has been approximately 2.0 million tons. The volume of imports and exports handled by 1984 at the harbor were 0.95 million tons and 0.72 million tons, respectively. In recent years there has been a growing demand for shipment in containers. In 1984, a total of 26,927 containers were handled at the port.

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

E. Commodity Arrival and Disposition

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

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

F. Implementation Schedule

1. Grant Agreement signed........................early April, 1986
2. CPs Satisfied..............................end of April, 1986
3. Letter of Credit issued by Citibank.........May, 1986
4. Importer(s) commences procurement action....May, 1986
5. First shipment from U.S.....................July, 1986
6. Internal AID evaluation.....................June, 1987
7. Terminal date for requesting disbursing authorizations...........................30 June, 1987
8. Grant is fully disbursed....................30 Sept, 1987
9. Local currency generations fully disbursed...................................June, 1988

G. Program Monitoring, Reports and Evaluations

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

For the CIP,

a) Reports of Letter(s) of Credit opened;
b) Report on disbursements.

For the Local Currency Generations:

a) Quarterly and cumulative disbursements by the Ministry of Finance from the Special Account;

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

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

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

To meet the requirements of Section 801 of the FAA for CIPs in Africa, an AID evaluation of this program will be conducted by REDSO/ESA in mid 1987. AID will retain the right to audit and inspect activities, including the local currency program, financed under the CIP.

VII <u>SPECIAL CONSIDERATIONS</u>

A. Criteria for CIP's in Africa (Section 801 Criteria)

For the design of ESF commodity import and sector programs for Africa, Section 801 of the ISDCA OF 1985 sets out criteria to encourage long term development through the program. The criteria, and their relation to this CIP, are presented in the project checklists (Annex D). The design of the Mauritius CIP has adequately taken into account these criteria.

B. Impact on US Balance of payments

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

C. Use of US Government Excess Property

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

D. Relation to Export-Import Bank Credits

The commodity import program does not, nor does it expect to. compete with Export-Import Bank Credits.

E. Relation to OPIC Program

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

F. Environmental Statement

A categorical exclusion determination is attached as Annex E.

VIII. NEGOTIATING STATUS

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

Program negotiations have been extremely productive and cordial. GOM officials in both the Ministry of Finance and the Ministry of Economic Planning and Development have been forthcoming and cooperative in discussing the implementation of local currency-financed activities under the previous, and in presenting and reviewing options for the use of local currency generations under this program. In addition, useful visits have been made to the Marine Authority (reclamation of Mer Rouge), CWA and the Ministry of Energy (rural water development), MSIRI (research for agricultural diversification), MEDIA (industrial buildings) and the Ministry of Public Works (road maitenance). Furthermore, a meeting was held with Moroil for the purpose of reaching an understanding on all import-related procedures. No particular problems in signing or implementing the program Grant Agreement are anticipated.

ANNEX A

MINISTRY OF FINANCE

PORT LOUIS - MAURITIUS

In reply please quote JF/G/8/67/A/1

Date 17th November, 85

Excellency,

I wish to express my deep appreciation to the Government of the United States for the valuable assistance it has so far extended to Mauritius under various programmes.

2. We are particularly grateful to the United States Government for having taken the lead in responding to the call for financial support we made at the Consultative Group Meeting in Paris held in May this year. In this connection the Government of Mauritius would welcome further assistance from the United States Government under the Commodity Import Programme.

3. In view of our continued need for external support, the Government of Mauritius would again welcome assistance from the US Government under the CIP. The CIP funds will be used for the import of U.S. crude vegetable oil to be refined by the Mauritius Oil Refineries.

4. The Mauritian Rupees generated by such imports will be applied for financing high priority development programmes to be mutually agreed.

5. I suggest that the FY 86 CIP Agreement be signed as soon as possible at a mutually convenient time.

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

SLNaraidoo

(S. Lutchmeenaraidoo)
Minister of Finance

H.E. Mr. J. Robert Andrews,
Ambassador of the United States of America,
U.S. Embassy,
Roger House,
Port Louis.

ESTIMATED BUDGETS: MSIRI RESEARCH FOR AGRICULTURAL DIVERSIFICATION

1. LAND INDEXING[1]

	Capital (Rs)	)ther Cost (2 years) (Rs)
A. Equipment		
- Computer facilities at MSIRI One main-frame computer	2,500,000	
- Maintenance and software		300,000
B. Personnel		
- Biometry Division		
Two Technical Assistants		160,000
One programmer Analyst		160,000
One Office Attendant		35,000
- Agricultural Chemistry Division		
One Technical Assistant		80,000
- Food Crop Agronomy Divisior		
One Technical Officer		160,000
One Technical Assistant		80,000
C. Buildings[2]		
- Biometry Division		
One data keying room (50 m^2)	100,000	
Central processing office (50 m^2) 100,000		
Two office rooms (50 m^2)	100,000	
- Agricultural Chemistry Division Two office rooms (50 m^2)	100,000	
- Food Crop Agronomy Division Two office rooms (50 m^2)	100,000	

Note 1: This is in addition to funding Rs 1,521,455, already approved by government to start the land index project for small farmers.

Note 2: MSIRI needs about Rs 3.0 million for building expansion to meet its commitments. These figures are the estimated capital cost/area for the new space required for the Land Index Division.

	Capital (Rs)	Recurrent (Rs)
D. Office Furniture		
- Biometry Division	14,000	
- Agricultural Chemistry Division	10,000	
- Food Crop Agronomy Division	10,000	
E. Vehicles and Travelling Expenses		
- Biometry Division		
Transportation (mileage for POV)		30,000
- Agricultural Chemistry Division		
One 4-wheel drive vehicle	150 000	
Maintenance, Fuel, Insurance etc		60,000
Transportation (mileage for POV)		30,000
- Food Crop Agronomy Division		
Transportation (mileage for POV)		30,000
Subtotals	3,184,000	1,125,000
Inflation and Contingency (10%)	318,000	113,000
Totals	3,502,600	1,238,000
GRAND TOTAL		Rs 4,740,000

2. BASIC AGRICULTURAL RESEARCH

	Equipment/ Capital Rs	Other Costs Rs	Totals Rs
A. Rapid Propagation of Potato Varieties			
(1) Equipment			
Growth Chamber	225,000		
Incubators	60,000		
Orbital shakers	60,000		
Miscellaneous equipment	105,000		
(2) Personnel			
One Technical Officer		166,000	
One Technical Assistant		80,000	
Mission/Training		7,000	
(3) Infrastructure			
2 rooms (450 sq.ft)	110,000		
Air conditioner	25,000		
135 000			897,000
B. Presentation of Micro-Organisms and Plant Issues			
Equipment			
One Cryo container and accessories	60,000		
Sub-Total			60,000
C. Analytical Method for Plant Nutrition			
(1) Equipment			
Spectrophotometer	150,000		
N^{15} Analyser	200,000		
Block Digesters	100,000		
Computerization of foliar diagnosis results	200,000		
(2) Personnel			
Mission/Training	60,000		
			710,000

	Equipment/ Capital Rs	Other Costs Rs	Totals Rs
D. Factors affecting Growth and Development in Mixed Cropping			
(1) Equipment			
One Delta Area Meter	66,000		
(2) Personnel			
Training/mission		72,000	
(3) Travelling		100,000	
Sub-Total			238,000
E. Food Quality Studies			
- Miscellaneous Equipment	70,000		
Sub-Total			70,000
F. Seed Production			
(1) Equipment for Seed Testing Laboratory	100,000		
(2) Personnel			
Technical Officer		160,000	
Technical Assistant		80,000	
(3) Infrastructure			
Laboratory space (450 sq ft)	110,000		
Sub-Total			450,000
G. Field Experimentation			
(1) Equipment			
One bean thresher	25,000		
One tractor	320,000		
One set sub soiler	30,000		
Two disc ploughs	70,000		
Two rotovators	70,000		
Two harrows	70,000		
One station wagon	120,000		
(2) Travelling	120,000		
Sub-Total			825,000
Inflation and Contingency			325,000
GRAND TOTAL			3,575,000

3. ECONOMIC STUDIES FOR AGRICULTURAL DIVERSIFICATION

	Equipment/ Capital Rs	Other Costs Rs	Totals Rs
A. Personnel			
-One Agricultural Economist		50,000	
-Two Technical Assistants- Economic aspects		50,000	
-One Technical Assistant - Agricultural aspects:			
-Farming systems		30,000	
-One Consultant Economist for one year* + short-term visits in 2 years	750,000		
-One Office Attendant (yearly emoluments)	40,000	35,000	
Sub-Total			1,225,000
B. Buildings			
-Three office rooms	150,000		
Sub-Total			150,000
C. -Furniture	17,000		
Sub-Total			17,000
D. -Travelling expenses Mileage per year		30,000	
Totals	977,000	465,000	
Inflation and Contingency	98,000	47,000	
	1,075,000	512,000	
GRAND TOTAL			1,587,000

4. SUMMARY OF BUDGETS

Component	Amount
A. Land Indexing	Rs. 4,740,000
B. Basic Research	3,575,000
C. Economics	1,587,000
TOTAL FOR MSIRI	Rs 9,902,000
	(Round to Rs 10,000,000)

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ANNEX C

PAIP Approval and Authority

ACTION MEMORANDUM FOR THE DIRECTOR, REDSO/ESA

NOV 4 1985

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

SUBJECT: Mauritius - Approval of PAIP for FY 1986 Commodity Import Program (642-K-605)

Problem: Your approval of the Program Assistance Initial Proposal (PAIP) for the FY 1986 Mauritius Commodity Import Program is required to permit development of the authorizing document for the program, the Program Assistance Approval Document (PAAD). The planning level for the PAAD is $4.0 million of Economic Support Funds (ESF).

Discussion: The purpose of the program is to provide balance of payments assistance and budgetary support to the Government of Mauritius (GOM). A two-phased initial assistance program is planned drawing upon the positive experience of the previous programs. First, $4.0 million of ESF grant funds will be made available to finance the dollar costs of commercial imports from the U.S. for private sector procurement of commodities using the CIP mechanism. Second, the estimated Rs 60 million in local currency which will be generated under this program will be deposited in a separate government account to be used to support mutually agreed upon development activities.

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

1. to support agricultural diversification and sustainable food policies;

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

3. to assist the GOM to provide essential services (e.g. water supply) to the poor in Mauritius.

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The same approach and implementation procedures are likely to be used for the FY 1986 program. The proposed activities are described in detail in the attached PAIP for the CIP. Also attached is the approval of a categorical exclusion for the Initial Environmental Examination.

The AA/AFR has given the Director of REDSO/ESA the authority to approve the PAIP in the field (State 333849).

Recommendation: That, in accordance with the authority provided in State 333849, you approve the Mauritius FY 86 CIP PAIP, thus permitting the development of the Program Assistance Approval Document.

APPROVED: JWKoehring

DISAPPROVED: ____________

DATE: NOV 5 1985

Attachments:

Mauritius FY 1986 CIP PAIP

Clearances:

RLA:	K. Hansen (P. Scott - draft)
RSO:	L. Dunn (draft)
RFMC:	R. Henrich (draft)
PROJ:	J. Graham
ANAL:	H. Smith (draft)
D/DIR:	A. Fell

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P UNCLASSIFIED STATE 333849

REDSO FILE

AID-3 ECON CHRON-5

LOC: 559 097
31 OCT 85 0123
CN: 37670
CHRG: AID
DIST: AID

ZCZCNA0224
OO RUEHNR
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O 310124Z OCT 85
FM SECSTATE WASHDC
TO RUEHNR/AMEMBASSY NAIROBI IMMEDIATE 1913
INFO RUFHMC/AMEMBASSY PORT LOUIS IMMEDIATE 6813
RUFHMVI/AMEMBASSY VICTORIA 8998
BT
UNCLAS STATE 333849

Koehring / Graham

DATE REC'D	10/31/85
REPLY DUE	10/31
ACTION TO	REDSO
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RIG/II	
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EXO	
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RF	1
CHRON	1
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AIDAC, NAIROBI FOR REDSO/ESA

E.O. 12356: N/A
TAGS:
SUBJECT: MAURITIUS CIP V 642-0007) AND SEYCHELLES CIP V (662-0027)-DELEGATION OF AUTHORITY

1. AA/AFR DELEGATES TO JOHN KOEHRING, DIRECTOR REDSO/ESA, AUTHORITY TO APPROVE PAIP AND PAAD, AND TO EXECUTE GRANT AGREEMENTS FOR SUBJECT PROJECTS.

2. REDSO DIRECTOR SHOULD NOT SIGN PAAD AUTHORIZATIONS OR GRANT AGREEMENTS UNTIL M/FM NOTICE OF FUNDING AVAILABILITY HAS BEEN RECEIVED.

3. AS PART OF THE APPROVAL PROCESS, REDSO MUST ENSURE THAT THE TWO PROGRAMS ARE CONSISTENT WITH THE CRITERIA FOR ESF CIP AND SECTOR PROGRAMS SPECIFIED IN THE FY 86 AUTHORIZATION ACT WHICH WAS DISTRIBUTED AND DISCUSSED AT THE SCHEDULING CONFERENCE.

4. FYI WE DO NOT ANTICIPATE RECEIVING ESF ALLOCATIONS FOR ICC'S IN THE NEAR FUTURE. WE WILL KEEP YOU ADVISED OF DECISIONS ON ALLOCATIONS. END FYI. SHULTZ
BT
#3849

NNNN

W

ANNEX D

NON-PROJECT ASSISTANCE

As Revised on 01/02/86

3A(1) -COUNTRY CHECKLIST

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

GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481(h); FY 84 Continuing Resolution. Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and pschotropic drugs or other controlled substances (as listed in the schedules in Section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country to United States Government personnel or thier dependents or from entering the United States unlawfully?

   No

   No

2. FAA Sec. 481(h)(4). Has the President determined that the receipient country has not taken adequate steps to prevent (a) the processing, in whole or in part, in such country of narcotic and psychotropic drugs or other controlled substances, (b) the transportation through such country of narcotic and psychotropic drugs or other controlled substances, and (c) the use of such country as a refuge for illegal drug traffickers?

   No

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

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4. FAA Sec. 602(e)(1). If assistance is to a government, has it (included government agencies or subdivisions) taken any action which has the effect of nationalizing, exproporiating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligation toward such citizens or entities? No

5. FAA Sec. 620(a), 620(f); 620(D); FY 1985 Continuing Resolution Sec. 512 and 513. Is recipient country a Communist Country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver? No

6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the demage or destruction, by mob action of U.S. property? No

7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC? No

8. FAA Sec. 620(o): Fishermen's Protective Act, 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against any U.S. fishing activities in international waters? No

9. FAA Sec. 620(q): FY 1985 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year or interest or principal on any U.S. loan under a program for which the appropriation bill (or continuing resolution) appropriates funds? (a) No (b) No

10. FAA Sec. 620(s). If comtemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into Consideration" memo: taken into account by the Administrator at time of approval of Agency OYB. This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.) — **Yes.**

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? — **No**

12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration Memo.) — **U.N. payments are up-to-date**

13. FAA Sec. 620A; FY 1985 Continuing Resolution Sec. 521. Has the country aided or abetted, by granting sanctuary from prosecution to any individual or group which has committed an act of international terrorism? — **No** Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime? — **No**

14. ISDCA Of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviaton Act of 1958, that an airport in the country does not maintain and administer effective security

15. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No

16. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or techology, without specified arrangements or safe-guards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 699 for Pakistan).

No

17. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported illegally (or attempted to export illegally) from the United States any material, equipment, or technology which would contribute significantly to the ability of such country to manufacture a nuclear explosive devise?

No

18. ISDCA of 1981, Sec. 720. Was the country represented at the meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be Taking into Consideration Memo.)

No

The President has taken into account the actions of the GOM.

19. FY 1985 Continuing Resolution. If assistance is from the population functional account, does the country (or organization) include as part of its population planning programs involuntary abortion?

N/A

20. FY 1985 Continuing Resolution Sec 530. Has the recipient country been determined by the President to have engaged ina consistent pattern of oopposition to the foreign policy of the United States? — No

21. FY 1986 Continuing Resolution Section 513. Will U.S. bilateral assistance funds be provided to any country whose duly elected head of government is deposed by military coup or decree? — No

22. FY 1986 Continuing Resolution. If assistance is for Mozambique, is assistance provided only for activities in support of the private sector? — N/A

B. FUNDING CRITERIA FOR COUNTRY ELIGIBILITY

1. Dvelopment Assistance Country Criteria

a) FAA Sec. 116. Has the Department of state determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? — N/A

2. Economic Support Fund Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest? — No

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Funds and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

CROSS-REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY.
HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 86 Continuing Resolution. Sec. 101(b), FY 85 CR.

a. Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the non-project assistance;	Congress was notified in the FY 1986 CP Annex I, p. 30.
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, it is in OYB.
c. If the proposed assistance is a new country program or will exceed or cause the total assistance level for the country to exceed amounts provided to such country in FY 85, has notification been provided to Congress?	The ESF total to Mauritius is less for FY 1986.
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?	I/A
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.	A bilateral CIP is the most efficient and effective approach.

JD

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.

(a) Yes, U.S. trade is increased.

(b) Yes, the assistance is for a private sector CIP.

(c) The CIP will not have an impat on these institutions.

(d) (e) and (f) The CIP has nc direct effect on any of these areas.

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).

The CIP procurement will be from the U.S. private sector.

6. FAA Sec. 121(d) If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?

The local private firm plans to finance all cost related to the procurement under the CIP. The U.S. owns no Mauritian rupees.

7. FY 1985 Continuing Resolution Sec. 536. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?

The U.S. owns no Mauritian rupees.

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

Yes.

9. FY 86 Continuing Resolutions. Will AID funds be available to any organization or program that supports or participates in the management of a program of coercive abortion or involuntary sterilization? Will AID funds be availble only to voluntary family planning projects which offer either directly or thorugh referral informtion about, or access to a broad range of family plannng methods and services.

N/A

10. FAA 86 and FY Continuing Resolutions, 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 operative and is such assistance likely to U.S. producers of the same or similar competing commodity?

Yes

11. FAA Sec. 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

12. FAA Sec. 612(b), Sec. 636(h); FY 86 and FY 85 Continuing Resolutions 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.

This is a commodity import program and does not require local currencies for implementation. Host country owned local currencies generated under the program will be used for agreed upon development purposes.

13. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

No excess currency is owned by the U.S. Government.No

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 maximum extent feasible, does it reflect the policy directions of Part 1 of the FAA?	Yes, this CIP will improve the balance of payments and effect foreign exchange savings. These economic benefits in turn will promot political stability.
b. FAA Sec. 531(c). Will assitance under this chapter be used for military, or para-military activities?	No
c) FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will such local currencies be available to support acitivites consistent with the objectives of FAA sections 103 through 106?	Yes, the LC activities supported will be consistent with the FAA.
d. ISDCA of 1985 Sec. 205. Will ESF funds made available for commodity import programs be used for the purchase of agricultural commodities of United States origin? If so, what percentage of the funds will be used?	Yes, 100%
e. ISDCA of 1985 Sec. 801. If ESF funds will be used to finance imports by an African country (under a commodity import program), will the agreement require that those imports be used to meet long-term development needs in those countries in accordance with the following criteria?	See separate responses below

1)	spare parts and other imports shall be allocated on the basis of evaluations, by AID, of the ability of recipients to use such spare parts and imports in a maximally productive, employment generating, and cost effective way;	Yes
2)	imports shall be coordinated with investments in accordance with the recipient country's plans for promoting economic development. AID shall assess such plans to determine whether they will effectively promote economic development;	The current Development Plan is aimed at creation of more industry and employment opportunities. The CIP supports its objectives.
3)	emphasis shall be placed on imports for agricultural activities which will expand agricultural production, particularly activities which expand production for export or production to reduce reliance on imported agricultural products;	Although the PAAD team considered the importation oi fertilizer, primarily for sugar production, it determined that adequate foreign exchange was availabl for the procurement because c the high priority of sugar ir the economy. For the fertilzer for which the U.S. is competitive, U.S. purchase are likely without CIP financing. Reduction of Mauritian dependence on imported edible oil is not feasible given the land and agronomic constraints on the island.
4)	emphasis shall be placed on a distribution of imports having a broad development impact in terms of economic sectors and geographic regions;	The imported edible oil will distributed throughout the island. For the poor, it is essential for the cooking of their staple food.

5)	in order to maximize the likelyhood that the imports financed by the United States under the ESF chapter are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange uses;	Yes
6)(A)	75% of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government, and except as provided in subparagraph (B), shall be available only for use in accordance with the agreement for economic development activities which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under sections 103 through 106 of the FAA;	All local currrency funds will be used for activities consistent with Sectoin 102-106.
(B)	the agreement shall require that the government of the country make available to the United States Government such portion of the amount deposited in the special account as may be determined by the President to be necessary for requirements of the United States Government.	Yes, the agreement does so require.

7) ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country is a party to the Treaty on the NOn-Proliferation of Nuclear Weapons or the Treatfor the Prohibition of Nuclear Weapons in Latin America (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues non-proliferation policies consistent with those of the United States? — No

3A(3) - STANDARD ITEM CHECKLIST

Listed below are statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by exclusion (as where certain users of funds are permitted, but other uses not).

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

A. PROCUREMENT

1.	FAA Sec 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes
2.	FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishin of goods and services financed?	Yes, it is planned that the procurement will be announced in the CBD.
3.	FAA Sec. 604(a). Will all commodity procurement financed be from the Unite States except as otherwise determined by the President or under delegation from him?	Yes
4.	FAA Sec. 604(b). Will all commodities in bulk be purchased at prices no higher than the market price prevailing in the United States at time of purchase?	Yes
5.	FAA Sec. 604(c). Will all agricultural commodities available for disposition under the Agricultural Trade Development & Assistance Act of 1954, as amended, be procured in the United States unless they are not available in the United States in sufficient quantities to supply emergency requirements of recipients?	N/A
6.	FAA Sec. 604(d). If the cooperating country discriminates against U.S marine insurance companies, will agreement require that marine insurance be placed in the United States on commodities financed?	The country does not discriminate.

7. 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 procurement when the domestic price of such commodity is less than parity?

The price of edible oil is higher than parity in Mauritius.

8. FAA Sec. 604(f). Are there arrangements whereby a supplier will not receive payment under the commodity import program unless he/she has certified to such information as the Agency by regulation has prescribed?

Yes

9. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items?

N/A

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

No. A determination of non-availability is required and has been requested from AID/W.

11. International Air Transport and Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?

N/A

12. FY 86 and FY 85 Continuing Resolutions, 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

13. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on 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? N/A

N/A

B. 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? Yes

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.

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 or coerce persons to practice abortions; (2) To pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) To pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) To lobby for abortion?

(1) Yes

(2) Yes

(3) Yes

(4) Yes

b. FAA Sec. 488. To reimburse persons, in the form of cash payments, whose illicit drug crops are eradicated? — Yes

c. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? — Yes

d. FAA Sec. 660. To finance police training or other law enforcement assistance, except for narcotics programs? — Yes

e. FAA Sec. 662. For CIA activities? — Yes

f. FAA Sec. 636(i). For purchase, sale long-term lease exchange or guaranty of the sale of motor vehicles manufactures outside U.S., unless a waiver is obtained? — Yes

g. FY 1985 Continuing Resolution, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compsensation for military personnel? — Yes

h. FY 1985 Continuing Resolution, Sec. 505. To pay U.N. assessments, arrearages or dues? — Yes

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

j. FY 86 and FY 85 Continuing Resolutions, Sec. 510. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? — Yes

k. FY 86 and FY 85 Continuing Resolutions Sec. 511. To aid the efforts of the government to express the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? — No

1. <u>FY 86 and FY 85 Continuing Resolutions Sec. 516</u>. To be used for publicity or propaganda purposes within U.S. not authorized by Congress? Yes

ANNEX E

REDSO FILE

AFD-3 ECON CHRON-5

LOC: 541 447
22 OCT 85 0140
CN: 34225
CHRG: AID
DIST: AID

VZCZCNA0646
RR RUEHNR
DE RUEHC #3764 2942251
ZNR UUUUU ZZH
R 212249Z OCT 85
FM SECSTATE WASHDC
TO RUEHNR/AMEMBASSY NAIROBI 1475
INFO RUFHMC/AMEMBASSY PORT LOUIS 6780
BT
UNCLAS STATE 323764

AIDAC, NAIROBI FOR REDSO/ESA

E.O. 12356: N/A
TAGS:
SUBJECT: MAURITIUS - FY 86 CIP (IEE)

REFERENCE: (A) STATE 004005, (B) NAIROBI 35914

BEO CONCURS ACTION REQUESTED IEE. DOA FOR APPROVAL SUBJECT IEE REST WITH REDSO/ESA DIRECTOR ACTING WITH CONCURRENCE OF REGIONAL LEGAL ADVISOR. FORWARD SIGNED DOCUMENTATION AID/W, AFR/TR. SHULTZ
BT
#3764

NNNN

RECEIVED 23 OCT 1985 REDSO/ESA

DATE RECD: 10-22	
REPLY DUE: 10-28	
ACTION TO: REDSO	
	INFO
DIR	
D/DIR	
REDSO	
RHUDO	
RIG/A	
RIG/II	
RFMO	1
PROG	
HRD	
PRJ	
PH	
AGR	
EXO	
PER	
GSO	
RF	1
CHRON	
O&R	
EXB	

ACTION COPY

Action taken:

No action necessary: ✓

(Initials) 10/23 (Date)

K.

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VZCZCNAI *
OO RUEHC RUFHMC
DE RUEHNR #5914 291 **
ZNR UUUUU ZZH
O 181331Z OCT 85
FM AMEMBASSY NAIROBI
TO RUEHC / SECSTATE WASHDC IMMEDIATE 7027
INFO RUFHMC / AMEMBASSY PORT LOUIS 7482
BT
UNCLAS NAIROBI 35914

REDSO FILE

CLASS: UNCLASSIFIED
CHRGE: AID 10/15/85
APPRV: REDSO:ADIR:AMFEL
DRFTD: REDSO:JDEMPSEY:S
CLEAR: REDSO:1.JGAUDET
2.JGRAHAM
3.PSCOTT
DISTR: REDSO-6 CHRON RF
ECON

AIDAC

FOR AFR ENVIRONMENTAL OFFICER

E.O. 12356: N/A
SUBJECT: MAURITIUS - FY 1986 CIP INITIAL ENVIRONMENTAL EXAMINATION

1. REQUEST AFR ENVIRONMENTAL OFFICER CONCURRENCE IN THE FOLLOWING IEE. SINCE REDSO/ESA PLANS TO OBLIGATE THE CIP BEFORE NOVEMBER 15, YOUR IMMEDIATE ACTION IS REQUESTED.

2. INITIAL ENVIRONMENTAL EXAMINATION

A)	COUNTRY:	MAURITIUS
B)	TITLE:	COMMODITY IMPORT PROGRAM
C)	NUMBER:	642-K-605
D)	PROJECT FUNDING:	FY 86 - DOLS. 4.0 MILLION (ESF)
E)	IEE PREPARED BY:	JIM DEMPSEY - PDO, REDSO/ESA

F) ENVIRONMENTAL ACTION RECOMMENDED: CATEGORICAL EXCLUSION

G) ACTION REQUESTED BY: ARTHUR M. FELL - ACTING DIRECTOR, REDSO/ESA

H) CLEARANCE: JOHN GAUDET, REGIONAL ENVIRONMENTAL OFFICER

3. DESCRIPTION OF THE PROGRAM AND PROCUREMENT
A DOLS. 4.0 MILLION GRANT IS PLANNED WHICH PROVIDES BALANCE OF PAYMENT AND BUDGETARY SUPPORT TO THE GOVERNMENT OF MAURITIUS AND EMPHASIZES PRIVATE SECTOR DEVELOPMENT AND AGRICULTURAL DIVERSIFICATION. ALL GRANT FUNDS ARE EXPECTED TO BE USED BY A PRIVATE SECTOR PROCESSOR TO IMPORT EDIBLE OIL FROM THE U.S. THE FINAL DECISION ON WHAT WILL BE PROCURED WILL BE MADE AT THE TIME THAT THE FINANCING REQUEST FROM THE GOVERNMENT IS REVIEWED AND APPROVED BY AID. THE LOCAL CURRENCY GENERATED FROM THE SALE OF THE SELECTED COMMODITY WILL BE PROGRAMMED BY THE GOM AND AID FOR MUTUALLY AGREED UPON ACTIVITIES WHICH ARE CONSISTENT WITH THE PRIVATE SECTOR AND AGRICULTURAL DIVERSIFICATION OBJECTIVES OF AID'S STRATEGY.

EDIBLE OIL IS INCLUDED IN THE LIST OF ELIGIBL

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COMMODITIES (HANDBOOK 15, APPENDIX B) FOR PROCUREMENT. NO PESTICIDES WILL BE IMPORTED UNDER THE PROPOSED PROJECT.

4. RECOMMENDED ENVIRONMENTAL ACTION

IN ACCORDANCE WITH A.I.D. REGULATION 16, SECTION 216 2(C)(2)(IX), ASSISTANCE UNDER A COMMODITY IMPORT PROGRAM IS ELIGIBLE FOR CATEGORICAL EXCLUSION FROM ENVIRONMENTAL PROCEDURES WHEN: QUOTE PRIOR TO APPROVAL, A.I.D. DOES NOT HAVE KNOWLEDGE OF THE SPECIFIC COMMODITIES TO BE FINANCED AND WHEN THE OBJECTIVE IN FURNISHING SUCH ASSISTANCE REQUIRED NEITHER KNOWLEDGE, AT THE TIME THE ASSISTANCE IS AUTHORIZED, NOR CONTROL, DURING IMPLEMENTATION OF THE COMMODITIES OR THEIR USE IN HOST COUNTRY.UNQUOTE

AS THE SUBJECT ASSISTANCE FULFILLS BOTH THE QUALIFICATIONS CITED ABOVE IT SHOULD BE GRANTED A CATEGORICAL EXCLUSION AND BE EXEMPT FROM ANY FURTHER ENVIRONMENTAL REVIEWS. THOMAS
BT
#5914

NNNN