

PSBBND6D

<b>AGENCY FOR INTERNATIONAL DEVELOPMENT,</b> <b>PROJECT DATA SHEET</b>		<b>1. TRANSACTION CODE</b> <input type="checkbox"/> A = Add <input type="checkbox"/> C = Change <input type="checkbox"/> D = Delete <b>A</b>		Amendment Number _____		<b>DOCUMENT CODE</b> 3			
<b>2. COUNTRY/ENTITY</b> MAURITIUS		<b>3. PROJECT NUMBER</b> 642-0010		<b>5. PROJECT TITLE (maximum 40 characters)</b> MAURITIUS INDUSTRIAL DIVERSIFICATION					
<b>4. BUREAU/OFFICE</b> AFR Bureau		<input type="checkbox"/> 06		<b>6. PROJECT ASSISTANCE COMPLETION DATE (PACD)</b> MM DD YY 08 31 90					
<b>7. ESTIMATED DATE OF OBLIGATION</b> (Under 'B' below, enter 1, 2, 3, or 4) A. Initial FY <u>88</u> B. Quarter <u>4</u> C. Final FY <u>88</u>		<b>8. COSTS (\$000 OR EQUIVALENT \$1 = )</b>							
<b>A. FUNDING SOURCE</b>		<b>FIRST FY</b> 88		<b>LIFE OF PROJECT</b>					
		B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total		
AID Appropriated Total		850		850	850		850		
(Grant)		( 850 )	( )	( 850 )	( 850 )	( )	( 850 )		
(Loan)		( )	( )	( )	( )	( )	( )		
Other U.S.	1.								
	2.								
Host Country			286	286		286	286		
Other Donor(s) HC Private			40	40		40	40		
Sector									
<b>TOTALS</b>		850	326	1176	850	326	1176		
<b>9. SCHEDULE OF AID FUNDING (\$000)</b>									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) DFA	663					850		850	
(2)									
(3)									
(4)									
<b>TOTALS</b>						850		850	
<b>10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)</b>								<b>11. SECONDARY PURPOSE CODE</b>	
<b>12. SPECIAL CONCERN CODES (maximum 7 codes of 4 positions each)</b>									
A. Code									
B. Amount									
<b>13. PROJECT PURPOSE (maximum 480 characters)</b>									

To assist the private sector and COM to identify and evaluate alternative industrial and service sector diversification/expansion strategies and opportunities, and related new trade opportunities; and to assist the private sector directly in efforts to further the development of the industrial and service sectors.

<b>14. SCHEDULED EVALUATIONS</b> Interim MM YY MM YY Final MM YY 0 5 8 9         0 2 9 0				<b>15. SOURCE/ORIGIN OF GOODS AND SERVICES</b> <input type="checkbox"/> 000 <input type="checkbox"/> 941 <input type="checkbox"/> Local <input checked="" type="checkbox"/> Other (Specify) 935			
<b>16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)</b>							

RFMC Clearance: Top Call 8/22/88

<b>17. APPROVED BY</b>	Signature MONICA K. SINDING	<b>18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION</b> MM DD YY 08 22 88
	Title ACTING DIRECTOR REDSO/ESA	

ACTION MEMORANDUM FOR THE ACTING DIRECTOR, REDSO/ESA

FROM:  David McCloud - Project Development Officer, REDSO/ESA

SUBJECT: Mauritius Industrial Diversification Project (642-0010)

I. PROBLEM: Your approval is requested for a grant of \$850,000 from the Development Fund for Africa to Mauritius for the Mauritius Industrial Diversification Project (642-0010). It is planned that the total grant amount of \$850,000 will be obligated in FY 1988.

II. DISCUSSION

A. Project Description

The Mauritius Industrial Diversification Project (IDP) has been designed to assist Mauritius in its efforts to achieve economic growth and to create increased employment opportunities at higher skill levels. The Project will support and enhance prospects for the medium-term structural transformation of the Mauritian economy primarily by assisting expansion and diversification of export enterprises in the short term. Its PACD is August 31, 1990.

The goals of this two-year Project are to promote economic stability and to increase incomes. The project purpose is twofold: (a) to assist the private sector and the Government of Mauritius (GOM) to identify and evaluate alternative industrial and service sector diversification/expansion strategies and opportunities, and related new trade opportunities; and (b) to assist the private sector directly in efforts to further the development of the industrial and service sectors. In doing so, the project also will identify and evaluate the infrastructure, training and environmental/land use implications of those strategies and opportunities

No Country Development Strategy Statement (CDSS) has been prepared for Mauritius. However, there is an implicit strategy which has been agreed to by the GOM and A.I.D. Economic growth in Mauritius requires expansion of export production, and the engine of that expansion, and therefore growth, is the private sector. Expansion of export production implies both expansion of existing firms and diversification into new kinds of industries. A.I.D.'s role is to promote the economic growth of

Mauritius by assisting with its efforts toward industrial diversification and expansion.

Guiding the design of this project was AID/W's decision to fund further support for Mauritius from the Development Fund for Africa (DFA) rather than ESF, beginning in FY 1988. This switch called for A.I.D. to articulate an appropriate strategy for assisting a transitional developing country in furthering its development. The project design fits within the guidelines for DFA use received to date.

The broad A.I.D. assistance strategy underlying the development of the IDP will focus on short- and medium-term technical assistance with the objectives of promoting both industrial expansion and industrial diversification into higher-value higher-technology export oriented sectors. Overall, the A.I.D. program for Mauritius will support the country's transition from a developing economy dependent on two vulnerable exports to a diversified, middle income transitional developing country (TDC).

Project activities will directly benefit a relatively large number of private firms and public sector organizations. It is expected, in particular, that a number of small- and medium-sized firms will directly benefit from the technical assistance inputs. The leading private sector organizations are also beneficiaries of project activities. Finally, project activities will enhance the institutional capabilities of a number of GOM units as well as leading parastatal organizations to achieve an improved understanding of the near-term direction of economic development, the pivotal role of the private sector in policy development, and the requirements of high value-added industries.

The most significant indirect beneficiaries of project activities will be the Mauritian labor force. As suggestions for the diversification of economic activity and the upgrading of production techniques are implemented, the real incomes of workers should increase. In addition, the various seminars on investment promotion, trade development and U.S. market access will enhance the abilities of numerous Mauritian enterprises in developing new markets and identifying sources of investment. Finally, the improved policy environment and improved procedures resulting from a better understanding of what is needed to promote investment and to further develop the industrial base will benefit the country as a whole as new industries become established and new, higher skill-intensive employment opportunities are created.

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The outputs of the Project are: (1) improved policies and strategies for industrial diversification; (2) increased information about export opportunities; (3) improved environmental and land use planning policy for industrial development; and (4) increased body of knowledge about new investment opportunities and related infrastructure requirements.

B. Financial Summary

The total estimated life of project (LOP) cost of project activities is \$1,176,000, with \$850,000 (72%) contributed by an A.I.D. Development Fund for Africa (DFA) grant, and the rupee equivalent of \$326,000 (28%) from host country and private sector contributions. 94 percent of A.I.D.'s contribution will be used to finance delivery of technical assistance, and the remaining six percent will finance project evaluation and audit. A small portion of the TA (approx. three person months) will be used to assist with project activity planning and implementation. It is estimated that a total of 29 person months of full-cost technical assistance plus four IESC positions at three months each will be delivered over the two year life of the project. Local currency expenditures will be in support of project activities including secretarial and other office support, local transportation, and workshop/seminar facilities, materials and local consultants, and in support of the development of a Center for Productivity.

The following table presents estimated expenditures of A.I.D. grant funds and local currency contributions by fiscal year.

A.I.D. and Local Currency Expenditures by Fiscal Year  
(\$000)

<u>Project Component</u>	<u>FY 1989</u>	<u>FY 1990</u>	<u>Total</u>
Technical Assistance	433	367	800
Evaluation & Audit	--	50	50
<u>Total</u>	433	417	850
Local Cost Financing (U.S.\$ equivalent)	161	165	326
Grand Total	594	582	1176

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C. Committee Action and Findings

The REDSO/ESA Project Review Committee (PRC) met on Monday, August 15. The project was found to be sound on socio-economic and technical bases.

The PRC made the following changes and additions to the project.

1. Given the concern about project management and private sector participation (see discussion below), an evaluation plan was added to specify that, during the mid-term evaluation, management of the project and private sector participation in particular will be assessed, and necessary revisions to the project management structure will be made if the existing structure is found to be inadequate.
2. The PRC also added one condition precedent (CP) and two covenants. The added CP to initial disbursement requires the GOM to submit the name and position of the MEPD individual selected to be project manager. One new covenant states that at a minimum 20% of project funds be programmed for firm-specific private sector activities. The other states that there will be no project-funded assistance provided directly to firms engaged in textile manufacturing and/or export.

A "Categorical Exclusion" environmental determination for the project was approved on June 23, 1988, and the appropriate documentation is attached to the Project Paper as Annex G.

The Financial Plan adequately explains disbursement procedures and includes provision for a non-federal audit.

The Implementation Plan contained in the Project Paper was reviewed by the PRC and was found to be realistic and establishes a reasonable time frame for carrying out the project. The final evaluation was rescheduled to take place in February, rather than April 1990, so that it could provide input into the FY 1990 design process.

The requirements of Section 611(a) of the FAA have been satisfactorily met.

D. Special Concerns

The following two concerns were discussed at the PRC:

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1. Project Management: There are two related project management concerns which were discussed. First, the lack of any USDH presence in Mauritius, and the lack of a PSC or institutional contractor to manage this project, places increased management burden on the GOM and on REDSO/ESA. Second, and following from the first, the capabilities of both the GOM and REDSO/ESA to manage an A.I.D. project like the IDP under these conditions in Mauritius are untried. There was strong opposition on the part of the GOM to programming a significant amount of funds for project management given the relatively small size of the grant. While it is agreed that the overall capabilities of the GOM are strong, a number of measures have been included in the project design to strengthen project management. There will be a GOM project manager and project coordination committee. Regular REDSO/ESA implementation visits have been scheduled, as has been a mid-term evaluation at which the management structure will be assessed, and, if necessary, changes made. Provision has been included for project technical assistance to provide some project activity planning and implementation support. Finally, project management is the subject of a three-part condition precedent to initial disbursement of grant funds. (See Project Authorization.)
  
2. Private Sector Support: The intent of this project is to support private sector efforts to promote economic growth in Mauritius. The PRC expressed some concern that the project design does not allow the private sector unfettered access to project resources. A covenant has been added, as noted above, assuring the private sector at least 20% of grant resources for firm-specific activities. In addition, at the time of the mid-term evaluation, private sector access to project funds, in particular for firm-specific activities, will be assessed.

The Ministry of Finance will be responsible for major project actions requiring the joint action of the GOM and A.I.D, including approving local currency programming. MEPD will be responsible for the day-to-day operations of the project, and will appoint a project manager. Private sector firm-specific activities will be managed primarily by the Mauritius Chamber of Commerce and Industry. The major implementation mode will be indefinite quantity contracts (IQCs) and buy-ins to AID/W centrally managed projects. All contracting will be A.I.D. direct contracting, and all technical assistance are expected to be from U.S. sources.

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In conjunction with this project, training assistance will be provided under a separate project, A.I.D.'s Human Resource Development Assistance (HRDA) Project. The Mauritius HRDA Country Training Plan has been amended to focus on meeting the needs of entrepreneurs and managers in the areas of industrial diversification and expansion.

The host country contribution represents 28% of total project expenditures. Of this, 88% is the GOM's contribution, and will come from local currency accounts generated by previous A.I.D.-funded activities. 12% is the private sector's contribution and will be in the form of payment toward the cost of the firm-specific technical assistance.

Given the implementation mode described above, i.e. use of IQCs and centrally managed contracts, REDSO/ESA will have little control over the selection of individual firms which will provide the technical assistance. Selection of this implementation mode has been guided by the need to reduce the management burden placed on REDSO/ESA. However, it is known that some of the consortia which will be used include as members Gray Amendment firms. One such firm was used for project design. Therefore, while the participation of Gray Amendment firms can not be specified at the outset, it is expected that they will be used during the course of project implementation. In addition, such firms will be considered at the time of planning for the external evaluation scheduled in 1990.

The officer responsible for this project at REDSO/ESA will be the chief of the Projects Division. She/he will be assisted by the REDSO/ESA private sector specialist. There is no A.I.D. USDH presence in Mauritius.

III. WAIVERS: There are no waivers required for this project.

IV. CONGRESSIONAL NOTIFICATION: Congressional Notification was submitted on July 28, 1988, and expired without comment on August 12.

V. RECOMMENDATION: That you sign the attached Project Authorization and thereby approve life-of-project funding of \$850,000 for the Mauritius Industrial Diversification Project (642-0010).

APPROVED: Yuse Suidrip

DISAPPROVED: \_\_\_\_\_

DATE: 8/22/88

Attachments:

1. Project Authorization
2. Project Paper

Clearances:

REDSO/PRJ:SBaker	<u>SBaker</u>	Date: <u>8/19/88</u>
REDSO/RLA:BBarrington	<u>(DRAFT) BB</u>	Date: <u>8/18/88</u>
REDSO/CON:PShirk	<u>P</u>	Date: <u>8-19-88</u>
REDSO/APD:RBurke	<u>(DRAFT)</u>	Date: <u>8/18/88</u>
RFMC:AHullung	<u>(DRAFT)</u>	Date: <u>8/18/88</u>

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PROJECT AUTHORIZATION

Name of Country: Mauritius  
Name of Project: Mauritius Industrial Diversification Project  
Number of Project 642-0010

1. Pursuant to Sections 102 through 106 of the Foreign Assistance Act of 1961, as amended, and Title II of the FY 88 Continuing Resolution, Sub-Saharan Africa-Development Assistance Account, I hereby authorize the Industrial Diversification Project for Mauritius involving planned obligations of not to exceed \$850,000 in grant funds over a two year period from date of authorization subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is two years from the date of initial obligation.
2. The project consists of short and medium-term technical assistance to the private sector and the Government of Mauritius to assist in developing and implementing an industrial diversification and expansion strategy. Assistance will be provided in four broad areas: opportunity definition for market expansion and industrial diversification; strategic issues analysis and sector-specific action plans; definition of infrastructure and manpower needs, and spatial strategy; and special topics and project implementation.
3. The Project Agreement which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the project shall have their source and origin in the Cooperating Country, in the United States, or in other countries included in A.I.D. Geographic Code 935, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the Cooperating Country, the United States, or other countries included in A.I.D. Geographic Code 935 as their place of nationality, except as A.I.D. may otherwise agree in writing. To the extent practicable, goods and services of U.S. source, origin and nationality shall be procured. Air travel and transportation shall be financed only on U.S. flag air carriers, to the extent such service is available. Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on U.S. registered vessels.

b. Conditions Precedent

Prior to any disbursement, or to the issuance of any commitment documents under the Project Agreement, the Cooperating Country shall furnish, in form and substance satisfactory to A.I.D.:

(1) evidence that a project coordination committee has been established consisting of representatives of the Ministry of Industry, the Mauritius Export Development and Investment Authority, the Mauritius Employers Federation, the Mauritius Chamber of Commerce and Industry, the Mauritius Export Processing Zone Association, and any other appropriate organizations, and chaired by the Ministry of Economic Planning and Development, to coordinate activities for both this Project and the HRDA Project;

(2) the name and title of the individual within the Ministry of Economic Planning and Development who has been appointed Project Manager; and

(3) an agreement between the Cooperating Country and the Mauritius Chamber of Commerce and Industry setting forth the responsibilities of MCCI for the management of the firm-specific private sector component of the Project.

c. The Cooperating Country shall covenant:

(1) to include or cause to be included in the scope of work of all appropriate technical assistance consultants a review of environmental and training issues which arise from their findings and recommendations;

(2) that at least twenty percent of grant funds will be programmed for firm-specific private sector activities; and

(3) that there will be no project-funded assistance provided directly to firms engaged in textile manufacturing and/or export.

Signature: \_\_\_\_\_

*Monica K. Sindino*

Monica K. Sindino  
Acting Director, REDSO/ESA

MAURITIUS INDUSTRIAL DIVERSIFICATION PROJECT PAPER

(642-0010)

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Note: Exchange rate used is U.S.\$1=14 Mauritian rupees

Project Design Team and Acknowledgement

The project design team consisted of the following:

David McCloud, REDSO/ESA Project Officer and Team Leader

Donald Greenburg, Private Sector Specialist

Kishore Rao, Export Industry Development Specialist

Phillip Karp, International Finance and Trade Specialist

Bapu Deolalikar, Training Specialist

The team wishes to express its appreciation to all who assisted with this project design effort in the Government of Mauritius, in the private sector of Mauritius, and in the United States Embassy in Port Louis. The team received the full cooperation of all concerned, and benefited greatly by the discussions held and advice received.

## ACRONYMS

AAI	African-American Institute
ADB	African Development Bank
ADC	Advanced Developing Country
AEPRP	Africa Economic Policy Reform Program
AFGRAD	African Graduate Fellowship Program
AID	Agency for International Development
AMDP	African Manpower Development Program
AY/SRI	Arthur Young/Stanford Research Institute Contract
CDSS	Country Development Strategy Statement
CIP	Commodity Import Program
CTP	Country Training Plan
DBM	Development Bank of Mauritius
DFA	Development Fund for Africa
EDF	European Development Fund
EOPS	End of Project Status
EPRP	Economic Policy Reform Program
EPZ	Export Processing Zone
ESA	East and Southern Africa
ESF	Economic Support Fund
GDP	Gross Domestic Product
GOM	Government of Mauritius
HRD	Human Resources Development
HRDA	Human Resources Development Assistance
IBRD	International Bank for Reconstruction and Development (World Bank)
IDP	Industrial Diversification Project
IESC	International Executive Service Corps
IQC	Indefinite Quantity Contract
IVTB	Industrial and Vocational Training Board
LOP	Life of Project
MCCI	Mauritius Chamber of Commerce and Industry
MEDIA	Mauritius Export Development and Investment Authority
MEF	Mauritius Employers Federation
MEPD	Ministry of Economic Planning and Development
MEPZA	Mauritius Export Processing Zone Association
MOF	Ministry of Finance
MOI	Ministry of Industry
MOROIL	Mauritius Oil Refineries

OPIC	Overseas Private Investment Corporation
OYB	Operating Year Budget
PEDS	Private Enterprise Development Support
PIL	Project Implementation Letter
PIO/T	Project Implementation Order for Technical Services
PRE	Private Enterprise Bureau of A.I.D.
PP	Project Paper
PRE	AID's Private Enterprise Bureau
PTA	Preferential Trade Area
REDSO/ESA	Regional Economic Development Service Organization/ East and Southern Africa
SAL	Structural Adjustment Loan
SAP	Structural Adjustment Programme
TA	Technical Assistance
TDC	Transitional Developing Country
UNDP	United Nations Development Programme
US	United States

I. PROJECT RATIONALE

A. Current Status of Mauritius' Economy and GOM Economic Growth Strategy

1. Background to economy

Beginning about 1970, Mauritius embarked on an export oriented strategy with provision of infrastructure for sugar and tea production, for tourism, and for export manufacturing. After a brief period of rapid growth, the economy suffered serious reversals as a result of falling world sugar prices and increases in petroleum prices which produced a serious deterioration in the balance of payments. The Government of Mauritius (GOM) attempted to counteract this deterioration with an ambitious public expenditure program, largely financed by external, non-concessional borrowing. This led to further deterioration in the balance of payments as the debt service ratio rose from one percent of goods and services to almost 10 percent by 1979. To cope with its external imbalance, the government resorted to quantitative restrictions on imports which further undermined the competitiveness of its exports. By 1979, inflation had risen to 30 percent, and the unemployment rate reached 23 percent.

In 1979, the GOM began a remarkably successful structural adjustment effort. The program was characterized by exchange rate adjustment, reductions in the fiscal deficit, restrictive monetary policies, the elimination of quantitative restriction on imports, and the gradual relaxation of exchange controls. As a result of this effort, the fiscal deficit was reduced from 14 percent of GDP in 1981 to 3 percent in 1987. The deficit of the current account of the balance of payments was transformed from 9 percent of GDP in 1981 to a surplus equal to 10 percent in 1987. Economic growth is expected to be 5 percent in 1988, led by the Economic Processing Zone (EPZ) sector which is projected to realize a real growth rate of about 20 percent.

EPZ firms are eligible for certain incentives and benefits. Although there are specific industrial estates which cater to EPZ firms, in essence the entire country is an EPZ, i.e. the notion of EPZ is a concept rather than a physical location. Firms which qualify may be located anywhere. Most EPZ firms have been and currently are textile and related firms.

A combination of liberal economic policies, plentiful and inexpensive labor, and low duty and quota access into the U.S. and European markets greatly increased the competitiveness of Mauritius. Heavy investment in export manufacturing industry largely based on textiles, resulted in vigorous export-led economic growth, taking advantage of a robust worldwide economy.

During the past three years, the value added from exports from the EPZ firms has grown at 30 percent per year, which in turn has led real GDP growth of 8 percent in 1986 and 1987. In terms of production value-added, domestic-oriented import substitution industries were passed by the EPZ firms in 1984-5. Reflecting an increased outward orientation, the GOM has eliminated previous import substitution incentives except under extraordinary circumstances.

Textiles and garments dominate EPZ production, providing over 80 percent of exports and nearly 90 percent of jobs. The emphasis on textiles reflects Mauritius' comparative advantage of inexpensive labor and was accentuated by an influx of Taiwan and Hong Kong investors into the industry seeking duty and quota free access into their traditional U.S. markets and political stability as well. None of the other EPZ industries, which include toys, jewelry, flowers, and optical goods supply more than 5 percent of exports or one percent of jobs. Diversification of the industrial base is urgently needed to maintain the momentum of the economy and lessen vulnerability to changes in labor and materials supplies, markets, processes, tariff and quota barriers, weather, etc.

The EPZ firms have provided the bulk of the increase in employment, about 20 thousand new jobs a year since 1985, as opposed to an annual rate of entrants into the workforce of only 10 -15 thousand per year. In 1987, EPZ production accounted for 13 percent of GDP and 33 percent of total employment. Automation of some levels of sugar growing and production has resulted in a reduction of five thousand jobs since 1983. Tourism in hotels and restaurants only demands 5 percent of the workforce, and even the currently high growth rates experienced in this sector will have little impact on general employment patterns.

Sugar is the second largest source of foreign exchange earnings, and accounts for 40 percent of exports. The industry itself is stagnant with almost no growth since 1982. The share of the sugar sector in total GDP has declined from 20 percent in 1979 to 11 percent in 1987. With the advent of artificial and natural substitutes for sugar, long range prospects are not favorable.

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Tourism, the third largest foreign exchange earner, has grown 12 percent annually over the past three years. Tourist nights spent in Mauritius jumped 26 percent in 1987. However, despite current strengths, the island has limited tourist carrying capacity, and tourism's contribution to long range development will be limited.

Labor shortages have the potential to be a serious barrier to further economic growth. Unemployment has been reduced dramatically from previous levels of nearly 20 percent to an estimated 5 percent in mid 1988, which is essentially a full employment situation. Indeed, wage and benefit increases not related to productivity increases are a key factor in GOM's prediction of 12 percent inflation in 1988-9. Inflation had been held to less than double digits from 1982-1987, due in part to an unusually high savings rate of nearly 30 percent.

## 2. GOM policy

The re-election of the Government in 1987 provided a continued mandate for the broad economic liberalization strategy over the next few years. The June 1988 budget speech by the Minister of Finance emphasized the promotion of export based industries and diversification, and specifically the creation of opportunities in higher technology and more sophisticated services areas.

The Government has announced a number of policy measures to implement their development strategy, including:

- a) removal of foreign exchange controls, liberalization of import controls, and rationalization of customs duties;
- b) banking and insurance regulations that will encourage the development of the offshore banking industry;
- c) extension and modification of infrastructure that will allow for growth while preserving environmental quality;
- d) establishment of a stock exchange to increase liquidity of financial assets and widen ownership among Mauritians, with a long range goal of serving as a regional financial center; and
- e) incentives for diversification into sectors with high export potential that can be easily adapted to current Mauritian labor skills. (Leather, electronics, jewelry, flowers, fishing, and printing are identified as ones of particular interest.)

In pursuit of this economic strategy, the Government also has placed a high priority on steps to preserve and improve the environment and overall quality of life.

**B. USAID's Previous Assistance in Mauritius**

Since 1982, A.I.D. has provided a modest level of support to Mauritius in recognition of its political support for the U.S. and its strategic location in the Indian Ocean. Until this year, assistance took the form of ESF financed balance of payments support through Commodity Import Programs (CIPs), and Section 416 Sugar Quota Adjustments. Annual CIPs, ranging in size between \$1 and \$2 million, provided for the import of semi-processed vegetable oil which was refined and distributed by Mauritius Oil Refineries, a private sector firm. In both FY 1986 and FY 1987, Mauritius' sugar export quotas to the U.S. were reduced substantially. To compensate for this loss in export earnings, Mauritius was awarded a Section 416 Sugar Quota Adjustment of \$2.5 m. in FY 1986 and another \$6.8 M. in FY 1987. Under this program, wheat and rice were imported for sale through normal marketing channels.

In 1985, A.I.D. provided a \$5 million African Economic Policy Reform Program (AEPRP) grant to Mauritius to support a significant reduction in tariff levels (a World Bank structural adjustment initiative) to reduce distortions in the manufacturing sector and improve the cost competitiveness of export manufacturing. During the next two years, the maximum tariff level was reduced from 330 to 127 percent. Continued tariff reductions are expected as a result of the GOM's Structural Adjustment agreement with the World Bank and provision of incentives to targeted sectors.

Although no Country Development Strategy Statement (CDSS) was prepared to guide the identification or development of projects, the A.I.D. development strategy for programming the local currency generated under the CIPs was to assist the GOM in providing essential services to the poorest elements of the population, to support agricultural diversification, and to promote private sector activities in export processing, manufacturing services, and tourism. In addition to the approximately 190 million rupees which have been generated through the CIPs, local currency has also been generated through the AEPRPs and the Section 416 Sugar Quota Adjustment programs.

The country's balance of payments has strengthened substantially in the past four years to the extent that this year further balance of payments assistance is not warranted (see Table 1).

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TABLE 1

KEY ECONOMIC INDICATORS - MAURITIUS

<u>Category</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Overall					
Balance of payments <sup>1</sup>	-23.8	-23.5	+27.8	+40.7	+89.5
Employment <sup>2</sup>					
EPZ	25.5	37.5	53.4	74.0	85.7
EPZ - Spinning, Textiles, Garments	21.0	32.5	47.9	67.7	78.7
Sugar	49.1	47.6	46.6	45.8	44.3

Notes

1/ In Rupees million, Fiscal Year ending June 1987

2/ In 000's, year ending in September

Sources: CSO Annual Digest of Statistics and MEPZA Annual Report

Three factors are responsible for this turn of events:

- rapid growth in merchandise exports only partly offset by growth in merchandise imports;
- smaller but significant increase in earnings from tourism; and
- substantial increases in private capital flows into Mauritius.

This significant change in Mauritius' economic circumstances coincided with a decision by AID/W to fund further support for Mauritius from the Development Fund for Africa (DFA) rather than the Economic Support Fund (ESF), beginning in FY 1988. This switch calls for A.I.D. to articulate an appropriate strategy for assisting a transitional developing country (TDC) in furthering its development.

C. AID Assistance Strategy

1. Strategy focus

No Country Development Strategy Statement (CDSS) has been prepared for Mauritius. However, there is an implicit strategy which has been agreed to by the GOM and A.I.D. Economic growth in Mauritius requires expansion of export production, and the engine of that expansion, and therefore growth, is the private sector. Expansion of export production implies both expansion of existing firms and diversification into new kinds of

industries. A.I.D.'s role is to promote the economic growth of Mauritius by assisting with its efforts toward industrial diversification and expansion.

The broad A.I.D. assistance strategy underlying the development of the Industrial Diversification Project (IDP) will focus on short- and medium-term technical assistance with the objectives of promoting both industrial expansion and industrial diversification into higher-value higher-technology export oriented sectors. Diversification is used in its broadest sense including products, markets, and processes. Training assistance will be covered by a separate project (Human Resource Development Assistance Project -- HRDA) whose design has been closely coordinated with the IDP design. Overall, the A.I.D. program for Mauritius will support the country's transition from a developing economy dependent on two vulnerable exports to a diversified, middle income TDC.

The project paper (PP) team's discussions with the GOM ministries and parastatals responsible for industrial development (Finance, Industry, Economic Planning and Development, and MEDIA) revealed a positive response to the nature of the project assistance. Key private sector organizations (Chamber of Commerce, MEPZA, MEF) and individual businesses were enthusiastic and played a key role in the development of project activities.

While Mauritius is one of the smaller and more remote nations in the eastern and southern Africa region (ESA), it also possesses perhaps the most dynamic and capable private sector in the region. In fact, Mauritian enterprise has already had a ripple effect on the area. Mauritian investors have opened labor intensive operations in Madagascar, and are making enquiries in Kenya and elsewhere. These Mauritian investors transfer jobs and basic knowhow to countries lacking both, and benefit from wage rates less than half of those now prevailing on the island. Mauritius has a unique constellation of advantages that may increase its importance beyond the Indian Ocean and ESA regions. In particular, there are political and economic links with Africa, religious and ethnic ties with the Indian sub-continent; and a bilingual population that can communicate directly with North America and much of Europe, as well as most of the rest of Africa. Appropriately targetted assistance from A.I.D. could help Mauritius become a center of private sector enterprise and development for the region. As Mauritius becomes more attuned to global market conditions and supply constraints, it will in turn be better prepared to take on this role.

## 2. Constraints to growth in industrial and service sectors

The technical assistance provided under the project will address the following key constraints to consolidation and diversification of export-based industrial and service sectors:

### a. Knowledge of worldwide markets

Mauritius' remote location impedes local industrialists from expanding their markets for current products. Even foreign based industrialists have not moved beyond their current markets. What little market intelligence that exists here is not readily available. For example, Far Eastern manufacturers' knowledge of U.S. markets and French and local manufacturers' knowledge of European markets are not diffused. Of even greater concern is the lack of awareness on the part of local entrepreneurs of technology-driven market developments which have been exploited in other developing countries and which may provide opportunities in the selected sectors, such as information services.

### b. Physical infrastructure

Most current and planned industrial facilities available for investors have been sited close to the labor supply but otherwise could be better planned, sited, and constructed, especially if higher value-added industrial investment is to be encouraged. The telecommunications infrastructure, particularly up to the international gateway facilities, are inadequate for significant data transmission. Roads near industrial sites are constructed through crowded residential areas and are often not adequate to service further development.

### c. Labor shortages

The labor shortages that have resulted from the explosive growth in the EPZ sector have greatly hampered industrial growth. Openings in some sectors such as sugar, construction, and knitwear are particularly hard to fill, but tourism as well has experienced difficulties. The shortages have resulted in increased costs, in both salary and benefits, and threaten to erode the competitive advantage of Mauritius industry. Labor shortages also impede the ability to attract new industries, and jeopardize the foreign exchange earning capability of traditional sectors such as sugar and textiles. Essential construction activities are slowed.

All skill levels have been affected. Craftsmen such as plumbers, carpenters, electricians are needed. Industrial firms report a critical lack of mechanics, supervisors,

engineers, and middle managers. A shortage of accountants led to a doubling of salaries within a year.

d. Planning of public sector activities which affect private sector development

Without guidance from a coherent process for planning public sector activities which affect the development of the export manufacturing sector, the private sector and GOM are not able to address adequately the policy, manpower, and infrastructure needs of the export manufacturing sector. Government resources in support of industrial development are not optimally programmed. Critical decisions on the part of both private and public sectors concerning priorities, human resources development, and infrastructure that would support development are made without adequate informational inputs. Selection of new investments is made without assurance that trained personnel will be available and that necessary ancillary infrastructure will be forthcoming. In the absence of well developed policy, both local and foreign investors have expressed doubts about planning long-range investments.

e. Environment

Environmental issues and public response to them may limit industrial growth and diversification. For example, the ban on coral extraction for construction sand and lime kilns may slow new building. Septic tank flushing from yachts and hotels, and other sources of marine pollution, may reduce the attractiveness of Mauritius as a tourist attraction, and possibly impede development of aquacultural activities. Groundwater contamination from unregulated waste disposal in industrial sites, and the unplanned siting of noxious industrial areas, are other examples of this constraint.

3. Project activities

The TA program will provide immediately usable information which addresses priority areas in the public and private sectors. Feasibility, technology transfer, and production/process experts will provide private sector firms and institutions with the necessary information to make investment decisions. Workshops and other assistance will help exporters maximize penetration of worldwide markets. The special infrastructural needs of agro-industry, high technology, and high polluting industries will be identified and planning assistance provided as appropriate.

Consultants will perform sector analyses of priority areas including information services, electronics, and agro-industry

which will provide valuable guidance to the setting of investment priorities. Seminars on investment promotion will be based on the outputs of the sector analyses. The sector analysis process is also intended to provide to Mauritius a methodology for assessing the country's competitive advantages in the context of worldwide market developments. In the end, the sector analyses' outputs and process will play a major role in guiding the formulation and refining of an industrial diversification strategy.

D. AID Private Sector Strategies in Other Transitional Developing Countries

A.I.D. has implemented a number of private sector strategies in support of industrial diversification, export and investment promotion, and planning for other developing countries in Latin America and Asia. The main lesson learned from A.I.D.'s experience in these areas, particularly promotional efforts, is the necessity of careful preparation before activities begin.

A.I.D.-supported export promotion of local products has proven ineffective in the absence of first assessing quality and price competitiveness and worldwide market conditions. Similarly, A.I.D.-supported investment promotion activities initiated before a careful assessment and possible modification of local infrastructure, policies, and other comparative advantages have not proven successful. In addition, A.I.D. has found that the most effective institutional support of investment promotion has been through government or local, private nonprofit organizations. The experiences with creating nonlocal promotional bodies with expatriate staff have not been successful. Feasibility studies of investment or marketing projects have been most successful when they focus on specific projects for specific companies.

Infrastructure development funded by outright grants to public institutions have tended to foster dependency and discourage private sector activities. Efforts to use private sector financial institutions as lending mechanisms for private developers have not proven effective. However, A.I.D. support for public sector planning that coordinates manpower, technology, science and other issues related to private sector development has been successful when implemented in Southeast Asia and elsewhere.

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E. Additional A.I.D. and Other Donor Inputs

1. AID

A.I.D. will provide additional assistance through a companion training project during the same period as this project. The companion training project, which is part of the Africa Bureau's new Human Resources Development Assistance (HRDA) Project, has been designed in tandem with this technical assistance project. The final design of some of the training activities organized as part of the HRDA project will be influenced by the results of IDP technical assistance. Many of the specific training activities will directly support objectives of the IDP. To assure coordination, the same GOM ministry will be charged with implementation of both new activities.

Other A.I.D. activities in Mauritius include contributions to an OPIC-financed \$5.9 million tuna fishing and canning joint venture with American, Australian, and Mauritian partners, via an additional loan of \$2 million from A.I.D.'s Private Enterprise Bureau. A joint Trade Development Program and A.I.D. energy office mission to Mauritius in early 1988 identified the need for feasibility studies and technical assistance for co-generation plants adaptable to bagasse or coal, and modernization of sugar industry boilers and turbines. An A.I.D.-funded consultant has assessed the impact of government policy reforms on exports. Finally, local currency generated by previous A.I.D. programs will be used to provide support to project activities and to the development of a Center for Productivity.

2. Other donors

Activities supported by other development agencies will complement or provide inputs to various components of the IDP project. Some examples of these follow.

a. Policy reforms have been introduced as a result of the Third Structural Adjustment Loan negotiated with the World Bank and African Development Bank. One major reform is that the GOM has agreed to reduce the maximum tariff rate from 330 percent, down to 127 percent and then a planned 107 percent in 1988.

b. The World Bank recommendations on the environment will be supported by this project's programming of local currency towards environmental issues that provide a constraint to development.

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c. Assistance with developing offshore banking services is being provided through Singapore, Japan, France and elsewhere. The technical assistance and training requirements of planning and implementation are minimal because the activity would be run by expatriate managers of international banks.

d. Telecommunications infrastructure needs and planning is being assessed by a French-sponsored team of consultants. The results of this study, due in September, will give an indication of the necessity for institutional assistance to the Overseas Telecommunications Service. The study will also provide useful inputs to a sector analysis of information services industry.

e. The World Bank and United Nations Development Programme have financed early efforts toward gaining a better understanding of the policy environment for vocational/technical training and identifying possible project interventions. Additional support is likely to be forthcoming once the Industrial and Vocational Training Board is fully established and operational.

#### F. Future Prospects for AID Assistance to Mauritius

This project, and the complementary HRDA training activity, set the stage for future A.I.D. programming in Mauritius. The consultancies will point the way for the GOM, A.I.D., other donors, and the private sector to plan for further investments in services and facilities. Thus, the project will generate specific recommendations regarding human resources development, infrastructure construction, technology acquisition, environmental management, and marketing and investment promotion activities which are needed to support Mauritius' industrial diversification and expansion efforts.

Originally, AID had hoped to initiate implementation of this project early enough in FY 1988 to have results which would inform the identification/design of a new project in FY 1989. At this juncture, it seems unlikely that either the GOM or A.I.D. will be in a position to prepare a new PID and PP next year. Therefore a more likely scenario is that AID will use the results of a scheduled mid-term evaluation to: (1) amend IDP in FY 1989 and obligate all or a portion of the OYB for follow-on, more investment-specific technical assistance; and (2) prepare a PID for a new FY 1990 project. This design sequence would permit program designers to have results of the early 1990 final evaluation of IDP to feed into the design of the new project.

This scenario for future AID programming will be the subject of further discussions with both the Embassy and AID/W. Thus, it is premature to plan to obligate the full FY 1989 and 1990 OYBs for these activities. In any case, a number of other programming options appear to exist which would be consistent with this year's new starts. One possibility is that the GOM may request that additional funding be obligated for HRDA in FY 1989. Alternatively, AID may be requested next year to co-finance or otherwise support a planned World Bank loan to support the GOM's efforts to improve its vocational training capacity.

In any case, the results of the first year of IDP activities will give A.I.D. a clearer idea of the ability of the GOM and the private sector to use the information provided to them, and the constraints to effective use. For example, in both the GOM and the private sector, a shortage of mid-level managers may be an important constraint to implementing change. In this case, support for institution building assistance may provide the highest return on A.I.D. investment. Policy constraints, e.g. rent control regulation or parastatal monopolization of certain industries, may prove to be the most important impediment to diversification and growth. In this event, future A.I.D. assistance may be directed to policy reform, and perhaps assistance in implementing policy changes. Once Mauritius has a clear understanding of its comparative advantages and a coherent program to sharpen advantages and mitigate disadvantages, an emphasis on targeted export/investment promotional efforts may be most effective.

Furthermore, in the medium term, external events will necessarily guide changes in Mauritius development activities and A.I.D. support for them. For example, regional policy and infrastructural changes in nearby countries, the degree that Preferential Trade Area (PTA) development enhances the attractiveness of intraregional trade, and political changes in Southern Africa will effect the viability of production sharing arrangements and other cross-border investment opportunities.

## II. PROJECT DESCRIPTION

### A. Project Goal and Purpose

The Industrial Diversification Project (IDP) has been developed to assist Mauritius in its efforts to achieve economic growth through diversification of the economy. The project will support and enhance prospects for the medium-term structural

transformation of the Mauritian economy, while assisting expansion and consolidation of existing export enterprises in the short term.

The goals of this two-year industrial diversification project are to promote economic stability and to increase incomes. The project purpose is twofold: (a) to assist the private sector and the GOM to identify and evaluate alternative industrial and service sector diversification/expansion strategies and opportunities, and related new trade opportunities; and (b) to assist the private sector directly in efforts to further the development of the industrial and service sectors. In doing so, the project also will identify and evaluate the infrastructure, training and environmental/land use implications of those strategies and opportunities,

Mauritius has been in the forefront of countries adopting liberal, outward-looking policies. To date, this policy has been spectacularly successful. Since 1982, per capita GDP has increased by an average of almost five percent per year; a thirty percent increase in living standards in half a decade. However, precisely because of Mauritius' success, the nature of its development problem is changing. At the beginning of its growth spurt, Mauritius had a substantial stock of unemployed labor. By the end of 1987, however, there were unmistakable signs of a significantly tightened labor market. Further growth in the textile industry, using existing technology, will certainly drive up wage rates, undermining the sector's competitiveness in world markets. Mauritius now faces the much more difficult development problem of finding growth and investment opportunities consistent with higher wage and skill levels. In addition, the present concentration of economic activity in the textile sector leaves the country particularly vulnerable to the vicissitudes of the world textile market, a market which is characterized by quotas and other restrictions by importing countries.

To address successfully this new development problem will require that the Mauritian public and private sectors understand and evaluate a rapidly changing series of market and technological options. The private sector must evaluate profit opportunities and risks. The public sector must understand the requirements, in terms of educated manpower, infrastructure, and environment, that the private sector's investment choices imply, and be in a position to respond to them. For this process to operate successfully, private and public sectors must develop a close and collaborative style of operation. In this way, the public sector can understand and anticipate the private sector's investment choices and be in a position to supply the needed human and physical infrastructure in a timely

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manner. In the same manner, the private sector can plan its investment, confident that the public goods and trained personnel needed to make that investment profitable will be forthcoming.

Mauritius is unique in Africa in having to make this transition to a complex and rapidly evolving industrialized economy. This "problem" is a result of the country's success in achieving export led growth. However, the fact that this problem is a product of success makes it no less critical that it be addressed and resolved. Achieving industrial growth in the presence of rapidly rising labor costs will require that the country employ and then replace several generations of technology and enter a variety of new markets in a short space of time. If Mauritius can carry out this process successfully, it will, by the end of the century, have joined the ranks of the developed industrialized economies. If it cannot, growth rates will slow progressively and living standards will remain at levels currently experienced by the "southern cone" countries of South America. Accordingly, a primary objective of the project will be to more sharply focus the roles of the Mauritian private sector and GOM in facilitating the process of industrial growth and diversification.

## B. Project Inputs, Outputs and Assumptions

### 1. Project Inputs

#### a. A.I.D.

Grant-funded Project inputs consist primarily of short- and medium-term technical assistance to be provided through existing central or regional contracts including REDSO's Private Sector IQC, PRE's PEDS contract with Arthur Young/SRI International, the International Executive Service Corps (IESC), and others.

DFA funds totaling \$850,000 will be provided to support approximately 41 person months of short- and medium-term technical assistance in support of industrial diversification activities. The technical assistance activities proposed are aimed at: facilitating a policy dialogue and consensus building between the Mauritian private sector and GOM; identifying strategic constraints to diversification into higher value-added emerging industries; and developing specific action recommendations for immediate and near-term implementation to attract higher-technology and skill-intensive industries.

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Specific technical assistance activities are provided in four broad areas:

- (a) opportunities for market expansion and industrial diversification;
- (b) strategic issue analysis and sector-specific action plans;
- (c) definition of infrastructure and manpower needs, and spatial strategy; and
- (d) special topics and project implementation.

Initial activities assist existing export firms in the move to more skill-intensive and specialized operations; subsequent activities focus on assessing Mauritius' competitive position relative to target industries, and formulating specific implementation activities in the areas of policy, incentives, infrastructure, services and manpower improvements. Other discrete forms of technical assistance will be provided to private firms within the above categories over the entire two-year life of the project.

b. Host Country

The host country contribution, equivalent to 28 percent of total project cost, will amount to the rupee equivalent of approximately \$326,000 (approx. Rs. 4.6 million). The bulk of this (88 percent) will be the GOM's contribution funded from local currency accounts generated through prior A.I.D. activities, including the FY 87 Section 416 sugar quota compensation and the release of the second tranche of the Mauritius AEPRP. Additional GOM contributions will be in the form of personnel working with project consultants and services and facilities provided to the consultants. The remaining 12 percent, equal to the rupee equivalent of \$40,000, of the host country contribution will stem from a cost-sharing requirement that will be imposed on individual firms receiving technical assistance under the project.

Local currency contributions will be programmed to support rupee costs of project activities, as well as development of a Center for Productivity, an initiative towards which the GOM has already committed Rs.10,000,000 of its own funds. Local costs will be incurred for secretarial and office support for the technical assistance consultants, local transportation, workshop/seminar facilities and materials, and dissemination of information. The Center for Development is intended to stimulate interest in improving productivity among workers as

well as management. It is planned for the Center to produce films and slides, and conduct evening course and other seminars and workshops, with the objective of sensitizing all concerned to the need to raise productivity. In addition, it may assist entrepreneurs with the selection of technology. This activity will be supported in the first instance with project funded technical assistance to work with the private sector and GOM to refine the scope and set of activities for the Center.

## 2. Project Outputs

Based upon the stated objectives and inputs, the outputs of the project are:

### a. Improved Policies and Strategies for Industrial Diversification

The overall effect of the project is expected to be an improved policy framework for economic growth through industrial diversification/expansion. Specific results expected include:

- an overall strategy and concrete action plans for policy reform, and institutional improvements to catalyze diversification activities and to attract new investment based upon a thorough identification of Mauritius' comparative advantages as they relate to carefully targeted higher value-added industry sectors, and a refining of the process of strategic planning and consensus building between the private and public sectors;
- specific improvements to customs procedures, and other regulations to attract and facilitate investment in high-technology services and manufacturing industries such as information processing (data entry, computer aided design, "voice center" operations, etc.); financial services; electronic printing; agro-industry; electronics, etc.;
- appropriate human resource development policies and action plans which are designed to meet the current and future needs of the industrial diversification strategies developed by the GOM.

b. Increased Information About Export Market Opportunities

The technical assistance activities will also result in increased awareness of and access to new export markets for existing products of Mauritian enterprises. Information on the rules of origin and other requirements for preferential access under a number of U.S. and European trade programs (e.g., U.S. and European Generalized System of Preferences, U.S. TSUS 806.3/807, and Lome III) and specific assistance in various export marketing techniques will enhance the capabilities of GOM and private sector organizations in developing additional markets for Mauritian exports.

c. Improved Environmental and Land Use Planning Policy for Industrial Development

The proposed technical assistance activities will support the GOM's environmental control and land use planning initiatives currently being developed with World Bank support. Specific activities will be determined during a workshop and conference scheduled for September and December of 1988 respectively. In addition, a covenant to this project grant agreement will stipulate that scopes of work for project activities will include identification of environmental issues where appropriate. Assistance will be available to support the implementation of the GOM's final plan, based upon World Bank input. This also will involve the GOM and A.I.D. jointly agreeing to the programming of existing local currency resources in support of this environmental initiative.

d. Increased Body of Knowledge about New Investment Opportunities and Related Infrastructure Requirements

A major part of project activity will be directed at enhancing the capabilities of the private sector and GOM in attracting investment in newly emerging higher value-added industry sectors by assessing opportunities as well as infrastructure, legislative, fiscal and manpower requirements. The specific sector opportunity identification assessments and marketing and promotional strategy assistance proposed will promote a better focus of promotional efforts to meet the identified needs of the target sectors, and streamline their overall procedures in this area.

3. Project Assumptions

The primary focus of the project is to identify constraints to Mauritian industrial development and the gradual

diversification into higher value-added activities. Although recommended improvements to policies and procedures that are expected to result will not be implemented during the life of the project, the success of the proposed assistance is dependent on several important internal and external factors. These assumptions, underlying project design and predicted outputs, include the following:

- a. Mauritian manufactured goods will continue to receive preferential access to industrial country markets.

The potential for economic diversification, as well as the ability of the GOM to reorient economic activity will greatly depend on access to major markets in the short-term. A significant tightening of the markets for textile and apparel in the short-term, for example, could likely displace a large number of workers, given the high concentration of Mauritian employment among a few companies. The Mauritian textile and apparel export industry is highly concentrated in the hands of a few, mostly foreign, large employers. Current estimates indicate that fewer than 20 companies account for well over half of the 90,000 workers in the EPZ sector. A significant reduction in employment would likely hamper the GOM diversification efforts.

- b. The attractive investment climate of Mauritius will continue to be developed through GOM and private sector action.

The primary factor contributing to the significant economic achievements of Mauritius has been its attractive investment climate. The viability of the project clearly depends on the ability and willingness of GOM to fine tune and further enhance its efforts at policy liberalization, and private sector development. Any significant deterioration in these areas is likely to adversely affect project efforts.

- c. Understanding and meeting the requirements of target industry and service sectors will play an important role in GOM policy development.

The effectiveness of project activities will depend on the degree to which the GOM is willing to incorporate private sector input to fine tune its policies to attract new industries. This is particularly true in the area of human resources development (HRD). HRD policy must be driven by a refined understanding of the manpower requirements of the industrial and services sectors. In addition, the GOM should work to promote private sector participation in and greater

responsibility for the design and development of vocational, technical and managerial programs.

#### 4. End of Project Status

The following end of project status (EOPS) conditions are expected:

- a. An improved policy environment for industrial diversification/expansion, and the development within the private and public sectors of a methodology for formulating and continuously refining an industrial development strategy for Mauritius;
- b. Greater availability and better dissemination of investment and marketing information resulting from project activities; and
- c. Improved understanding within private and public sectors of opportunities for diversification, use of higher levels of technology, and new markets.

### C. Description of Project Activities

#### 1. Overview

The project will provide technical assistance to a number of public and private sector organizations as well as to individual private firms. Technical assistance to the public sector will relate both to improving understanding of Mauritius' comparative advantage and its implication for industrial expansion/diversification, and to identifying and addressing manpower, policy, and infrastructure requirements for successful promotion of investment in new markets and industrial sectors.

Technical assistance to private sector firms and organizations will be aimed at helping them both to tap new markets and to move towards higher valued-added products and operations. Technical assistance will also be directed toward helping private firms, particularly small- and medium-sized enterprises, to adapt to current and prospective economic realities, i.e. a business environment characterized by labor shortages and declining competitiveness in low value-added operations. A minimum of 20 percent of project funds will be used for firm-specific private sector activities.

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It is anticipated that a variety of types of technical assistance will be provided to the private sector. Assistance to individual firms may take the form of feasibility or market studies. Many Mauritian firms which are successfully exporting to Europe and Asian markets have not yet fully explored the potential of exporting to the United States. This is particularly true of small- and medium-sized firms. Technical assistance resources may therefore be utilized to provide individual firms or groups of firms with market studies. In addition, technical assistance through the International Executive Service Corps (IESC) may be provided to meet very specific technical needs of individual firms or groups of firms. IESC volunteers generally have strong expertise in such areas as quality control, production technologies, and production management. Assistance provided by IESC experts most likely will be for a two to three month period each, while that delivered from other sources generally will be for a one to two month period each. Underlying the proposed project activities is that the most effective way to achieve project objectives is through focused, concrete, short and medium-term technical assistance inputs.

These inputs have been conceived with a view toward gaining maximum utility from the expertise provided under the project. Scopes of work for individual technical assistance assignments have been drawn in such a way as to encourage the experts who are recruited to serve as resource persons during their stays. In addition to producing specific studies or reports, individual consultants or consultant teams will be utilized to conduct seminars and workshops in order to widen the number of individuals and firms who gain immediate utility from the technical assistance.

## 2. Strategy and Rationale for Programming Inputs

The overall objective of project activities is to facilitate the transformation of Mauritius from a dependence on low-skilled highly labor-intensive industries, to higher skilled, relatively technology-intensive industries. This reflects the changing status of Mauritius from a less developed country to a country in transition through industrialization. Such a transformation basically proceeds along two dimensions: a) the consolidation and reorientation of existing activities to higher value-added output and new market segments, and b) the establishment of new higher technology industrial and services operations. This project will assist the transformation of the Mauritian economy by providing technical assistance in key areas important to diversification and expansion. Project-funded technical assistance will be at both the macroeconomic policy and sector level, as well as the microeconomic industry and product-specific level.

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Given the U.S. legislative restrictions placed on A.I.D. by the Lautenberg Amendment, which prohibits U.S. funding of activities promoting increased investment in certain industries in competition with U.S. production for domestic use or for export, including textiles and leather goods, the project will not be involved in proposed consolidation efforts in the textile industry.

The technical assistance inputs are grouped in three subject areas:

- a) Opportunities for market expansion and industrial diversification. Assistance will be provided (1) to identify and disseminate information about new or potentially larger markets for current exports, and (2) to identify opportunities for industrial diversification and expansion in emerging higher value-added sectors and analyze Mauritius' comparative advantage in those sectors.
- b) Strategic issue analysis and sector-specific action plans. Following from a) above, assistance will be provided to identify and assess critical issues and constraints to diversification into targeted sectors, and to develop sector-specific action plans.
- c) Definition of infrastructure and manpower needs, and spatial strategy. In terms of implementing action plans, it is expected that major issues will be provision of infrastructure and manpower, and the location of firms. Assistance will be provided to determine infrastructure and manpower needs of targeted sectors as well as other identified needs, and assess ways to meet those needs, including the development of a spatial strategy.

Project activities are designed to follow a logical progression -- from identification, to assessment, and then to definition of specific needs. Within each area, firm-specific technical assistance inputs will be available on a cost-sharing basis to individual firms or groups of firms, based on criteria discussed in a following section of this paper. These inputs will be available over the two year life of the project, with requests which are time-sensitive or of high priority programmed for earlier project phases. Also, the project will respond to private and public sector requests to assist Mauritius specifically in expanding exports to and attracting investment from the United States, both by supporting market studies and by working with the Mauritius Export Development and Investment Authority (MEDIA) and private sector

organizations to better focus and direct their promotional efforts in the U.S. Finally, the project will provide about two person months of assistance in the area of environmental and physical planning related to industrial development and about three person months of assistance to project implementation.

The project design team has identified three sectors which, within the Mauritian context, are judged to offer investment and export opportunities based on higher value-added and more skill-intensive production. These sectors are: information industries, electronics industries, and agro-industries. For each of these, detailed opportunity identification/competitiveness/marketing studies will be undertaken early on in the project. Assuming that these studies identify specific opportunities for new investment and exports, subsequent technical assistance efforts will be directed in part at meeting manpower, policy, infrastructure, or other requirements for successful ventures in these areas. These sector studies will also be used as a vehicle for sharpening consensus building efforts and encouraging public/private sector collaboration. Both the process and outcomes of sectoral analyses are expected to provide the Mauritian private and public sectors with a better understanding of the country's comparative advantages as they relate to specific sectors.

The identification of these sectors is based upon the experience of other newly industrializing countries. Generally, "higher value-added industries" targeted for diversification efforts are capital-intensive, or technology-intensive, or both. Some of these industries use production processes which are highly capital-intensive but not technology- or skill-intensive, since they embody the application of known techniques that are not susceptible to rapid change. Other industries, such as information services industries, use processes which have relatively low capital requirements per job created, but embody modern and rapidly changing technology. While the former group of industries have high capital costs and create relatively few skilled jobs per dollar invested, the latter group have lower capital requirements and create relatively many skilled jobs per dollar invested.

The scarcity of physical capital in Mauritius, its lack of natural resources and small internal market, coupled with the relatively high literacy level of the labor force, point to the need for upgrading Mauritius' traditional unskilled-labor intensive exports by targeting the latter group of industries. This emphasizes the need to develop selected export industries

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that are skill-intensive, and de-emphasizing industries producing intermediate goods that have high physical capital requirements. The sectors identified above include industries which should meet these criteria.

### 3. List of Technical Assistance Inputs

Table 2 presents an indicative list of specific technical assistance inputs to be delivered during the first 18 months of the project. These inputs reflect the stated priorities of key private and public sector organizations identified as focal points for technical assistance. They are categorized according to the four areas identified above. Additional technical assistance inputs will be identified for the final 6 months of the project based on specific needs as well as the availability of resources. Part IV, Implementation Plan, of this PP includes an implementation schedule for these activities, organized in three six-month phases. Details about the technical assistance activities proposed are presented in Annex F, which also includes scopes of work for the first phase of project activities.

Table 2: Indicative List of Technical Assistance Inputs

<u>Component</u>	<u>Direct Recipients</u>	<u>Level of Effort (Person Months)</u>
<u>I. Opportunities for Market Expansion and Industrial Diversification</u>		
1. Information services industry sector opportunity identification/competitiveness/marketing study	MEPD/MOI	1.5 pm
2. Electronics sector opportunity identification/competitiveness/marketing study	MEPD/MOI	1.5 pm
3. Agro-industry sector opportunity identification/competitiveness study	MOI	1.5 pm
4. Technical assistance/Seminar on promoting U.S. investment in Mauritius	MEDIA/Private firms	1.0 pm
5. Technical assistance/seminar on preferential market access programs (GSP, 806.3/807, etc.)	MEPZA/MOI/ Private firms	0.5 pm
<b>Total Component I</b>		<b>6.0 pm</b>

<u>COMPONENT</u>	<u>DIRECT RECIPIENTS</u>	<u>LEVEL OF EFFORT (Person Months)</u>
<u>II. Strategic Issue Analysis and Sector-specific Action Plans</u>		
1. Study of the implications on Mauritian policy and factors of production of meeting requirements of high potential sectors and rationalization of existing industry	MEPD/MOI	1.5 pm
2. Technical assistance/seminar on targeting high potential industries, identification of strategic issues and constraints to diversification, and formulation of specific implementation plans	MEPD/MOI/ MEF/MCCI	1.5 pm
Total Component II:		3.0 pm
<u>III. Definition of Infrastructure and Manpower Needs, and Spatial Strategy</u>		
1. Feasibility study for industrial estate for pollution-intensive firms	MEDIA/DBM	1.5 pm
2. Feasibility study for providing infrastructure and manpower needs, and spatial strategy, for targeted high value-added industries	MEDIA/DBM	3.5 pm
Total Component III:		5.0 pm
<u>IV. Special Topics and Project Implementation</u>		
1. Technical assistance/design planning for a Center of Productivity	MOI	1.0 pm
2. System design assistance for on-line data base on trade/business opportunity information	MCCI	2.0 pm

<u>COMPONENT</u>	<u>DIRECT RECIPIENTS</u>	<u>LEVEL OF EFFORT (Person Months)</u>
3. Assessment of socio-economic impact of industrial development strategies		2.0 pm
4. Firm-specific technical assistance (9 TAs: 5 @ 1.0 pm and 4 @ 3 pm)	Private firms	17.0 pm
5. Project Implementation assistance		3.0 pm
Total Component IV		25.0 pm
Available for programming		2.0 pm
<u>Grand Total:</u>		<u>41.0 pm</u>

In addition, approximately two person months will be programmed for environmental and physical planning. Specific assistance requirements in this area will be identified after a World Bank-sponsored conference (scheduled for September and December 1988) which will discuss implementation of a recently-completed World Bank environmental report on Mauritius.

#### 4. Criteria for Selection of Inputs

##### a) Public Sector

In selecting technical assistance inputs directed towards public sector entities, the design team has given preference to those which meet the following criteria:

- 1) activities which contribute to a better understanding of Mauritius' comparative advantage;
- 2) activities which are likely to result in the identification of specific opportunities for industrial expansion or diversification;
- 3) activities which are likely to result in expansion or diversification of markets for Mauritian goods; and/or

- 4) activities which are directed at meeting manpower, infrastructure, environmental, physical planning and/or policy requirements for industrial diversification.

b) Private Sector

At the immediate outset of the project, the GOM in cooperation with MCCI will publish or otherwise distribute notices to individual private firms in order to make them aware of the availability of and criteria for technical assistance under the project. Private sector requests for technical assistance will be submitted to MCCI for evaluation. Those requests which are deemed viable and meet project criteria will be listed in order of priority, and forwarded to MOI, which in turn will select project participants jointly with A.I.D. This is discussed further in Section IV, Implementation Plan.

Firm-specific technical assistance activities should meet the following criteria:

- 1) The firm requesting assistance should be engaged in some type of industrial, agro-industrial, or service activity.
- 2) The technical assistance should be directed at helping the firm to expand or diversify into an area which displays one or more of the following characteristics:
  - market expansion or diversification
  - introduction of new or improved technology
  - increased value added
  - new or increased foreign investment
  - manufacturing or export of new products
  - skill upgrading or expansion

Private firms receiving technical assistance which will benefit them exclusively will be required to make a local currency contribution toward the cost of the assistance. Participant firms will be required to pay the rupee equivalent of \$5,000 per person month or per IESC position for assistance under this project. The GOM may choose to provide credit at market rates for part of this fee payment to smaller firms for whom paying the full fee immediately would be an excessive burden. A.I.D. would agree to the use of local currency generated from previous programs for this purpose. The fee structure and related details will be the subject of an agreement between MOI and MCCI, and will be the subject of a condition precedent in the project grant agreement as described in the relevant

section of this project paper. MCCI will be responsible for fee collection and deposit into a special account.

#### 5. Local Currency Activities

In addition to DFA-funded technical assistance, approximately 4.0 million rupees (\$326,000) will be available under the project to support local activities related to project objectives. Most of this local currency will come from special accounts generated by previous A.I.D. programs in Mauritius. These resources will be utilized both to cover local currency costs associated with technical assistance delivered under the project and to support the development of a Center for Productivity. The GOM has already committed 10 million rupees (approx. \$715,000) of its own resources to the development of such a Center, but specific requirements have not yet been identified. Initially, DFA-funded technical assistance will be utilized to help the GOM to define the scope, role, and activities of the Center. Later, local currency resources will be made available to support its actual development. Depending on the outcome of the World Bank-sponsored environmental planning conferences to be held in September and December, some portion of project local currency resources may also be used to support the implementation of environmental protection initiatives.

#### D. Project Beneficiaries

Project activities will directly benefit a relatively large number of private firms and public sector organizations.

##### 1. Direct Beneficiaries

##### a. Private Sector

Project activities have been designed to benefit as many private firms and private sector organizations as possible. It is expected, in particular, that a large number of small- and medium-sized firms will directly benefit from the technical assistance inputs. Specifically, direct assistance in the form of pre-feasibility and feasibility studies, marketing studies, and technical assistance in the form of quality control and production techniques will be available to individual firms requesting such assistance.

The leading private sector organizations are also beneficiaries of project activities. The MCCI, MEF and MEPZA capabilities in the area of investment planning and export promotion will be enhanced by the seminar on promoting U.S. investment in

Mauritius, and the seminar on preferential market access. In addition, the abilities of these organizations to play an important role in policy development with the GOM will be upgraded through project activities. MCCI and MEF will be better able to participate in market-oriented policy improvements through the project activities in the area of restructuring and rationalization of existing export industry.

b. Public Sector

Project activities will enhance the institutional capabilities of a number of GOM units as well as leading parastatal organizations to achieve an understanding of the following: the near-term direction of economic development, the pivotal role of the private sector in policy development, and the requirements of high value-added industries.

The MEPD and MOI will play a crucial role in project activities, and will be recipients of a significant part of the technical assistance inputs proposed. Project activities in the area of rationalization of the textile industry, and identification and assessment of prospects for newly emerging industries will benefit these ministries in several areas: (a) reforming regulations that are constraining investment in certain sectors; (b) developing, along with the private sector, "fine-tuned" policies and incentives to attract higher technology industries; (c) creating the basis for private sector investment in high-quality infrastructure and support services; and (d) translating the needs of the target sectors into concrete actions in the area of manpower development and productivity enhancement measures. Finally, MEDIA, a GOM-sponsored organization established to promote investment in export industries, will benefit from the examination of new industries, and technical assistance in U.S. investment promotion and market access. It will also develop a more refined understanding of the Mauritian comparative advantages, the requirements in terms of physical facilities, services and infrastructure of emerging industries, and the short-term implementation activities necessary to develop the sectors in Mauritius.

2. Indirect Beneficiaries

The most significant indirect beneficiaries of project activities will be the Mauritian labor force. As suggestions for the diversification of economic activity and the upgrading of production techniques are implemented, the real incomes of workers should increase. The effects on a large number of private and public sector entities will also be significant. The various seminars on investment promotion, trade development

and U.S. market access will enhance the abilities of numerous Mauritian enterprises in developing new markets and identifying sources of investment. In addition, the improved policy environment and improved procedures resulting from a better understanding of what is needed to promote investment and to further develop the industrial base will benefit the country as a whole as new industries become established and new, higher skill-intensive employment opportunities are created.

E. Training Program Under HRDA

In conjunction with the Industrial Diversification Project, training assistance will be provided under a separate project, A.I.D.'s Human Resource Development Assistance (HRDA) Project (698-0463.42). The Mauritius HRDA Country Training Plan has been amended to focus on meeting the needs of entrepreneurs and private and public sector managers in the areas of industrial diversification and expansion. In addition, training activities have been planned in the areas of training of vocational trainers, and industrial hygiene and occupational health. Most of the training activities will be conducted in Mauritius, but there is also provision for activities in the U.S. and third countries. The HRDA assistance was planned at the same time as the design of the IDP, and it will cover the same two year time period.

The HRDA Project particularly addresses the management development and training needs in critical areas and also focusses on involvement of women in such programs. Project implementation will be done by MPTD with participation by Mauritian Employer's Federation and trade union representatives. The training objectives are: (i) improve higher management for industrial growth and diversification, (ii) improve middle-level management professional, technical and supervisory skills, and (iii) entrepreneurship development.

Training programs will be offered in the following areas with the help of foreign consultants/faculty members and with assistance from local instructors and faculty members:

- Export and International Marketing
- Productivity and Quality Improvement
- Use of Technical Information
- Training of Trainers for Industrial and Vocational Centers
- Entrepreneurship Development
- Financial Analysis of Investments
- Redesigning Workplaces
- Technology Search Training Conference.

Besides the above programs, study visits to the U.S. are proposed under the Internship Program by Entrepreneurs International and for young business leaders. The third-country study visits and training will be provided in occupational health, entrepreneurship development and management faculty development programs. In all, 317 participants will benefit from the HRDA project, 295 through in-country activities and 22 through overseas activities. In addition, at least 47 local faculty and consultants will be involved in the in-country activities.

### III. COST ESTIMATES AND FINANCIAL PLAN

#### A. Summary Cost Estimates

A summary of the project financial plan is presented in Tables 3 and 4. The total estimated life of project (LOP) cost of project activities is \$1,176,000, with \$850,000 (72%) contributed by an A.I.D. Development Fund for Africa (DFA) grant, and the rupee equivalent of \$326,000 (28%) from host country contributions. Host country contributions will come from GOM resources (\$286,000) and from private sector contributions (\$40,000) toward the cost of technical assistance consultancies. Both the GOM and private sector contributions will be in made in local currency. In the case of the GOM, local currency contributions will be made from existing local currency accounts generated from previous A.I.D. activities. It has been determined to be in A.I.D.'s interest to program a portion of local currency held in special accounts to support the IDP activities.

94 percent of A.I.D.'s contribution will be used to finance delivery of technical assistance, and the remaining six percent will finance project evaluation and audit. A small portion of the TA (approx. three person months) will be used to assist with project activity planning and implementation. It is estimated that a total of 29 person months of full-cost technical assistance plus four IESC positions at three-months each will be delivered over the two year life of the project. 50 percent of the local currency expenditures will support technical assistance inputs, while the remaining 50 percent will support the GOM's initiative to develop a Center for Productivity.

Costs for each component are shown in Table 3. Table 4 presents estimated costs of the A.I.D. grant funds by fiscal year. Dollar costs will be spread relatively evenly over the

two year LOP, with outlays of \$433,000 and \$417,000 estimated for years one and two respectively.

Table 3

Estimated Total Project Cost by Component  
(\$000)

<u>Project Component</u>	<u>AID Grant</u>		<u>GOM</u>	<u>Priv. Sector</u>	<u>Total</u>
	<u>FX</u>	<u>LC</u>	<u>LC</u>	<u>LC</u>	
Technical Assistance	800	-	124	40	964
Center for Productivity	-	-	162	-	162
Evaluation & Audit	<u>50</u>	-	<u>-</u>	<u>-</u>	<u>50</u>
<u>Total</u>	850	-	286	40	1176

Note: FX - foreign exchange; LC - local currency

Table 4

A.I.D. Costs by Fiscal Year  
(\$000)

<u>Project Component</u>	<u>FY 1989</u>	<u>FY 1990</u>	<u>Total</u>
Technical Assistance	433	367	800
Evaluation & Audit	<u>--</u>	<u>50</u>	<u>50</u>
<u>Total</u>	433	417	850

Note: (1) FY - fiscal year  
(2) 5% inflation allowed in FY 1990.

B. Cost Analysis

The average dollar-funded cost of technical assistance on a per month basis is \$19,500. This assumes dollar expenditures on technical assistance of \$800,000 on a total of 41 person months of technical assistance. The Project will involve two types of technical assistance, full-cost and IESC. For budget purposes, full-cost technical assistance is estimated to cost \$26,000 per person month. IESC technical assistance is estimated to cost \$19,000 per three month position. Of this, subject to negotiation with IESC, the Project will be responsible for paying \$10,000, the participant firm the rupee equivalent of

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\$5,000, and IESC \$4,000. (See Annex E-2, Economic and Financial Analysis.)

Local currency expenditures in support of project activities will include secretarial and other office support, local transportation, and workshop/seminar facilities, materials and local consultants. With respect to the Center for Productivity, local currency expenditures will be program, rather than line-item, support. The overall GOM expenditure program for this Center will be based on technical assistance input aimed at refining the scope and activities of the Center.

### C. Financial Arrangements

It is expected that A.I.D. will directly disburse all grant funds to contractors selected to provide technical assistance inputs, using standard A.I.D. financial procedures. Consultants are likely to be hired through indefinite quantity contracts (IQCs) or through existing A.I.D. centrally managed contracts. Budgeted funds for non-federal audits through RIG/A, if appropriate, have been included in the financial plan. Proposals for the use of funds from local currency accounts jointly managed by the GOM and A.I.D. to cover project costs, including costs related to the Center for Productivity, initially will be prepared by the GOM, and then submitted to A.I.D. through MOF for concurrence, according to procedures set forth in an existing memorandum of understanding and in use for the past two years.

## IV. IMPLEMENTATION PLAN

### A. Implementation Responsibilities

The project will involve implementation responsibilities on the part of A.I.D., GOM, government and non-government business organizations, and private sector firms. The plan described below does not include contracting with a personal services contractor nor an institutional contractor, given the relatively high cost of either of these options as compared to the level of assistance. Instead, the project will use a combination of A.I.D., GOM, and other organizational support for implementation and management. However, this plan will be reviewed during the mid-term evaluation, and amendments to project design will be considered as appropriate.

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1. A.I.D.

For its part, A.I.D. will be responsible for technical assistance contractor selection and dollar-funded financing, and monitoring of project implementation. All technical assistance will be from U.S. sources. Jointly GOM and A.I.D. will review and/or prepare scopes of work for the TA positions, and select private sector firms as project participants. Implementation visits by REDSO/ESA staff once every three or four months will be necessary to assist in this effort. TA contractor selection will be conducted using one of a number of mechanisms, eg. the REDSO/ESA private sector IQC, the A.I.D. PRE Bureau PEDS project, IESC, and other centrally funded A.I.D. projects. Within these mechanisms, Gray Amendment entities will be used whenever possible. PIO/Ts will be processed by REDSO/ESA, and contracting will follow the procedures used by the mechanism chosen. In addition, the REDSO/ESA private sector IQC will be used to assist with project activity assessments which will be used to monitor project impact, to recommend modifications to upcoming activities, and to provide an advisory service to project participants in project activity areas. The use of a local hire contractor, possibly funded from the REDSO/ESA OE account or from a local currency account, for implementation of both the Industrial Diversification Project and the HRDA Project will be considered if it is found to be necessary.

Within REDSO/ESA, various offices will be called upon to assist with project implementation. Primary responsibility will rest with the Projects Office, which will have overall responsibility for implementation. The Regional Contracts Office (RCO) will handle all non-AID/W contracting, and in particular all REDSO Private Sector IQC contracting. The Analysis and Planning Division will review scopes of work for the TA positions, and assist with redrafting those if necessary. The Regional Legal Advisor will be involved in any major redesign effort which requires a grant agreement amendment. The Regional Financial Management Center will handle all accounting for the project.

2. GOM

GOM will be responsible for identifying proposed TA positions in addition to those which are identified in the project paper, working with AID to draft and/or review scopes of work, promoting and publicizing private sector TA opportunities, supervising the execution of the TA consultancies, and funding local currency costs associated with project activities. Funding will come from the GOM's 25% contribution to overall project costs, and will be financed from local currency accounts.

As has been true with past programs, the Ministry of Finance (MOF) will be responsible for major project actions requiring the joint action of the GOM and AID, such as the signing of the project grant agreement and any revisions to that agreement, and approving local currency programming. MEPD, however, will be responsible for the day-to-day operations of the project, and will appoint a project manager who will be responsible for organizing the various technical assistance consultancies (including reviewing existing scopes of work and drafting new ones, and supervising logistical arrangements), liaising with both private and public sector entities, and coordinating individual project activities with other related project activities and with the HRDA project. It will be MEPD's role to work with other GOM entities in the selection of consultancies which are organized through the public sector, for example those which will involve directly and primarily other GOM ministries.

The project manager will be supported by a Project Coordination Committee which will be established primarily for the purpose of coordinating the participation of the various project actors. It is proposed that MEPD be the chair of this committee, and that members include representatives from MOI, MEDIA, MCCI, MEF, MEPZA, and other organizations as the GOM deems necessary. This committee will assist the project manager in the preparation and/or review of scopes of work for the technical assistance consultancies, coordinate consultancies which are to be implemented in conjunction with each other or which are similar in topic, and monitor overall project implementation. The project manager will also monitor implementation of the firm-specific private sector activities through the committee, and through direct contact with MOI.

### 3. Private Sector

Assistance to the private sector will be managed primarily through the Mauritius Chamber of Commerce and Industry and MOI. MCCI will publicize opportunities for this assistance, and will process applications for technical assistance to private sector firms in line with procedures discussed below. Applications will be submitted to MCCI, which will conduct prefeasibility reviews and screen applications for compliance with project assistance criteria (See Section II, Project Description, Subsection C.4[b]). MCCI's recommendations will be forwarded to MOI, which will work with A.I.D. to select successful applicants. MCCI has had significant experience with this kind of activity, for example with the Center for Development of Industry, African Project Development Facility, and the Institut de Commerce Exterieur.

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MCCI also will monitor the implementation of private sector project activities, in particular as regards consultant working conditions and performance of duties, and will manage the collection and deposit of the firms' local currency cost sharing contribution. This contribution will be deposited into a special account, and disbursements from that account, which could include disbursements to cover costs MCCI incurs in the course of its project implementation responsibilities, will be jointly agreed to by the GOM and A.I.D.. MCCI will be expected to keep adequate records of all financial transactions which are project-related, and these records will be open to audit upon request.

**B. Activity Schedule**

It is expected that project activities will be implemented according to three phases, each lasting about six months. The specific activities to be included in each phase are listed below:

<u>DESCRIPTION</u>	<u>RECIPIENTS</u>	<u>LEVEL OF EFFORT</u> (Person Month)
<u>Phase I (October 1988-March 1989)</u>		
TA/Seminar on preferential market access programs (GSP, 807, etc.)	MEPZA/MOI private firms	0.5 PM
Information industry sector opportunity identification/competitiveness/marketing study	MOI/MEPD	1.5 PM
Electronics sector opportunity identification/competitiveness/marketing study	MOI/MEPD	1.5 PM
Agro-industry sector opportunity identification/competitiveness study	MOI/MEPD	1.5 PM
Assessment of socio-economic impact of industrial development strategies	MEPD	2.0 pm
Firm-specific Assistance (2)	Firms	4.0 PM
Planning/implementation TA	MEPD/MOI	1.0 PM

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<u>DESCRIPTION</u>	<u>RECIPIENTS</u>	<u>LEVEL OF EFFORT</u> (Person Month)
<u>Phase II (April-September, 1989)</u>		
Study of the implications on Mauritian policy and factors of production of meeting requirements of high potential sectors and rationalization of existing industry	MOI/MEPD	1.5 PM
Technical assistance/seminar on targeting high potential industries, identification of strategic issues and constraints to diversification, and formulation of specific implementation plans	MEPD/MOI/ MEF/MCCI	1.5 PM
TA re feasibility and planning for industrial estate for pollution-intensive firms	MEDIA/DBM	1.5 PM
TA re design/establishment of Center for Productivity	MOI/MEPD	1.0 PM
TA/seminar on promoting U.S. investment in Mauritius	MEDIA	1.0 PM
Firm/Specific Assistance (3)	Firms	7.0 PM
Planning/implementation TA	MEPD/MOI	1.0 PM
<u>Phase III (October 1989-March 1990)</u>		
System design assistance for on-line data base on trade/business opportunity information	MCCI	2.0 PM
TA for feasibility study for industrial park and specialized services/amenities for high-value light manufacturing and agro-industries	MEDIA	2.0 PM
TA for feasibility study for office park and specialized services/amenities for information services industry	MEDIA/DBM	1.5 PM

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<u>DESCRIPTION</u>	<u>RECIPIENTS</u>	<u>LEVEL OF EFFORT</u> (Person Month)
Assessment of socio-economic impact of industrial development strategy	MEPD	2.0 PM
Firm-specific assistance (4)	Firms	6.0 PM
Planning/implementation TA	MEPD/MOI	1.0 PM
Total scheduled		39.0 PM
Available for programming		2.0 PM

Note that the firm-specific technical assistance is expected to be of two types: five positions are planned to be full-cost month-long positions, and four to be reduced cost three-month long positions with IESC. This is further discussed in Section III, Cost Estimates.

The project also will provide assistance (approx. two person months) in the area of environmental and physical planning. Specific assistance requirements in these areas will be identified after a World Bank sponsored workshop and conference (scheduled for September and December, 1988, respectively) where implementation of a recently-completed World Bank environmental report on Mauritius will be discussed.

As necessary, based on periodic assessments of project activities, the above schedule may be amended and alternative activities may be substituted for those planned, dependent on joint approval by the GOM and A.I.D. Such action, as long as it fits within the project goal and purpose, may be executed through AID's issuance of a project implementation letter (PIL). In total, it is expected that approximately 41 person months of technical assistance will be provided under the project.

### C. Implementation Schedule

Overall project implementation has been planned according to the following schedule:

<u>EVENT</u>	<u>RESPONSIBILITY</u>	<u>TIME</u>
Proag signing	REDSO/ESA & GOM	August, 1988
Phase I activities implemented	GOM	October 1988 to March 1989
Quarterly implementation visit	REDSO/ESA	January, 1989
Phase II activities implemented	GOM	April to September, 1989
Mid-term project evaluation	GOM & REDSO/ESA	May, 1989
Quarterly implementation visit	REDSO/ESA	September, 1989
Phase III activities implementation	GOM	October, 1989 to March, 1990
Quarterly implementation visit	REDSO/ESA	January, 1990
External evaluation	GOM & REDSO/ESA	February, 1990
Follow-up project activities	GOM	April to September, 1990
PACD		September, 1990

D. Use of Gray Amendment Entities

Project design necessarily has been guided by the need to reduce the management burden placed on REDSO/ESA. As a result, the selection of consultants who will provide the technical assistance will be through indefinite quantity contracts (IQCs) and other existing centrally managed contracts. Although REDSO/ESA will not be able to select specific firms which may be part of a consortium, it is known that some of the consortia which will be used include as members Gray Amendment firms. In fact, one such firm was used for the design of this project. Therefore, while the participation of Gray Amendment firms cannot be specified at the outset, it is expected that they will be used in the course of project implementation. In

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addition, such firms will be considered at the time of planning for the external evaluation scheduled in 1990.

V. SUMMARIES OF ANALYSES

A. Technical, Administrative and Institutional Analysis

1. Project Design Rationale

The project design and technical assistance delivery system proposed is based upon the consideration of two factors. First is the need to achieve the project goal and purpose while minimizing the need for intensive project management and monitoring by A.I.D.; and second is the need to closely coordinate the implementation of project activities with REDSO's HRDA assistance to Mauritius. The utilization of the centrally and regionally funded contract mechanisms significantly reduces AID's role in planning, sourcing and managing the technical assistance activities. The use of these mechanisms also facilitates the coordination of the TA inputs with the HRDA activities envisaged, given the experience of the contractors consortia in implementing similar projects elsewhere. The principal project design alternative considered was the programming of a personal service contractor or an institutional contractor to execute an integrated program of assistance. This option was discarded as not being cost-effective, given the relatively small size of the project, and as being unacceptable to the GOM.

2. Project Management and Administration

For its part, A.I.D. will be responsible for technical assistance contractor selection and dollar-funded financing, and monitoring of project implementation. TA contractor selection will be conducted using one of a number of mechanisms, eg. the REDSO/ESA private sector IQC, the A.I.D. PRE Bureau PEDS project, IESC, and other centrally funded A.I.D. projects. PIO/Ts will be prepared in Mauritius and reviewed by REDSO/ESA, and contracting will follow the procedures used by the mechanism chosen. Monitoring will be accomplished through joint action of the U.S. Embassy assistant economic/commercial officer and REDSO/ESA staff. The Embassy officer has had substantial experience monitoring previous A.I.D. programs. Implementation visits by REDSO/ESA staff to Mauritius once every three or four months will take place. The REDSO/ESA private sector IQC also will be used to assist with project activity assessments which will be used to monitor project impact, to recommend modifications to upcoming activities, and to provide an advisory service to project

participants in project activity areas. The use of a local hire contractor for implementation of both the Industrial Diversification Project and the HRDA Project will be considered if it is found to be necessary.

GOM will be responsible for proposing additional TA positions, working with AID to draft and/or review scopes of work, promoting and publicizing, through MCCI, private sector TA opportunities, supervising the execution of the TA consultancies, and funding local currency costs associated with project activities. As has been true with past programs, the Ministry of Finance (MOF) will be responsible for major project actions requiring the joint action of the GOM and A.I.D., such as the signing of the project grant agreement and any revisions to that agreement. MEPD, however, will be responsible for the day-to-day operations of the project, and will appoint a project manager. It will be MEPD's role to work with other GOM entities in the selection of consultancies which are organized through the public sector, for example those which will involve directly and primarily other GOM ministries. The project manager will work with a Project Coordination Committee which will be established primarily for the purpose of coordinating the participation of the various project actors.

Assistance to the private sector will be managed through the Mauritius Chamber of Commerce and Industry (MCCI) and MOI, in accordance with an agreement to be negotiated between the GOM and MCCI, the acceptance of which by A.I.D. will be a condition precedent to disbursement of funds for firm-specific private sector activities.

### 3. Institutional Capacity of Key Mauritian Project Agencies

This is the first project assistance A.I.D. has implemented in Mauritius, and project design has been guided by the need to simplify project management in particular on A.I.D.'s part. There has been substantial experience with managing local currency projects, and based on this experience it is felt that with the proper project organization GOM entities can perform the management tasks which the project demands of it.

MOF has been the primary contact ministry for A.I.D. programs (except AMDP) since program assistance was initiated, and this arrangement has worked well. There has always been full cooperation on the part of MOF, which also has carefully monitored local currency project implementation and maintained the local currency accounts. The other major ministries through which the project will be implemented are MEPD and MOI. Project activities are those which these ministries

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normally are concerned with, and fit within their regular responsibilities. MEPD, which will chair the project coordination committee and which will manage day-to-day operations of the project, already plays a coordinating role within government, and maintains continuous contact with other GOM ministries in the performance of its role as the planning ministry. MOI is the ministry responsible for industrial development policy. Although these ministries have not necessarily performed the specific tasks called for by this project, they are the appropriate ministries responsible for these tasks, and have the staff who can undertake those tasks. MEDIA, a government-owned promotional and investment agency, has participated in A.I.D local currency projects in the past. This project assistance will be focused on using MEDIA as an intermediary in disseminating investment and diversification information to the private sector, and assisting MEDIA (along with the Development Bank of Mauritius) with the planning for the development of necessary industrial infrastructure, either by the private sector or by the GOM.

MCCI, the major private sector project agency, has had significant experience with this kind of project activity, including implementing similar projects for the Center for Development of Industry, African Project Development Facility, and the Institut de Commerce Exterieur. It has on its staff economists who can perform prefeasibility studies of proposed private sector activities, and is capable of playing a major role in monitoring the implementation of those activities. Although all businesses in Mauritius are not amongst its members, it has effectively implemented other externally-funded projects which include as their target population non-members of MCCI, and has agreed that MCCI membership is not among the criteria for project assistance.

#### B. Economic and Financial Analysis

The direct outputs of project activities from an economics perspective are essentially intangible. They are investments in the efficiency of investment. Principal outputs of the project consist of the following: (a) improved approaches and strategies for industrial diversification; (b) increased information about export market opportunities; (c) improved environmental control and land use planning policy for industrial development; and (d) an increased body of knowledge on new investment opportunities in emerging industrial and services sectors. In all these cases, the project will result in an increased understanding and knowledge of the future direction of economic growth in Mauritius, the implications of that direction in terms of policy improvements, physical

facilities and external infrastructure, ancillary support services, etc., and the optimal roles of the private and public sectors in the near-term implementation of the strategies developed. As such, the project does not lend itself to a standard quantification of expected benefits and costs. This analysis instead describes the overall economic impact of project activities in general terms, relative to possible alternate approaches to project design.

Two alternate conceptual approaches to assisting with industrial development are discussed: (1) AID could have just financed pure promotional activities of the GOM -- in effect, "demand side" assistance; or (2) it could have funded the development of industrial infrastructure -- "supply side" assistance. It is concluded here that the problems with both these opposite approaches is that they focus on only one aspect of a complex issue. The project design as developed in the PP meets the need for a multi-faceted approach to defining the direction of economic activity, understanding the types of industries to attract, and preparing detailed implementation plans to achieve diversification objectives.

Financial tables and explanations are included in the text of the PP, in Section III, Cost Estimates and Financial Plan, and in the analysis section.

### C. Social Analysis

Mauritius has a history of ethnic conflict and labor strife which has influenced the outcome of national political events and is a consideration in national policy-making. Despite the overall growth experienced in Mauritius during the last few years, little is known about the distribution of benefits among socio-economic strata and ethnic groups. Similarly, there is concern that rapid social change associated with economic development may be eroding social support networks based on family and community before alternative structures can emerge. Circumstances of this sort, which are common in the ESA region, can impede or undermine the stability of the economic development process.

The direct impact this project will have on social structure is minimal because most activities will not result in immediate action but rather will increase a body of knowledge upon which the private sector and the government can draw in their efforts to diversify and expand the industrial base.

The social analysis focuses on identifying and exploring important social issues which are now becoming evident as

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Mauritius moves into the category of transitional developing countries (TDC). There are two sets of concerns which Mauritians are now facing with respect to impact on social structure of national economic growth. One set has to do with improvements to lifestyle, and the other with handling the effects of economic growth on family structure and social development, and in particular the effects on women's roles in the community and in the economy. These concerns are discussed in the analysis, along with the issues they pose for project design.

This project will allocate two person-months of the planned technical assistance to an examination of the following issues:

- An assessment of the leadership, membership, and overall social-economic objectives of major labor organizations in Mauritius, with a view toward identifying labor welfare and improvement issues from the perspective of workers rather than employers

- A preliminary assessment of the likely distribution of benefits associated with continued economic growth, focusing on socio-economic strata, ethnic groups, and other social categories that may be significant in the Mauritian context.

- An examination of the effects of recent economic development on family and community in Mauritius, to be coupled with an assessment of the efficacy of alternative social support mechanisms that may be meeting the needs of modernizing Mauritians.

A recent addition to the AID/W PEDS project provides for short-term assistance to conduct such studies, and will be considered for use by the Project. The scope of work for this study will include such tasks as are necessary to bring the Project into compliance with guidelines set forth in State 218365, dated July 8, 1988, on the subject, "Action Items for Women in Development".

#### D. Environmental Analysis

This activity meets the criteria for categorical exclusion in accordance with Regulation 16, Section 216.2(c) and has been excluded from further review. The categorical exclusion statement is included as Annex G.

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## VI. MONITORING, EVALUATION/AUDIT AND REPORTING

### A. Monitoring

Project monitoring will be the joint responsibility of the GOM, U.S. Embassy in Port Louis, and REDSO/ESA. In the GOM, the MEPD project manager will be primarily responsible for project monitoring. She/he will have direct contact with all ministries and private sector organizations involved through the project coordination committee. The assistant economic/commercial officer in the U.S. Embassy in Port Louis will monitor project implementation "in the field" on behalf of A.I.D. This officer has performed this task professionally and efficiently in the past for other A.I.D. programs in Mauritius. It is expected that soon he will be assigned an assistant, and this will allow him additional time to monitor the IDP project as well as the HRDA project. A regular bi-monthly reporting system will be initiated whereby REDSO/ESA is informed about project implementation and issues requiring action. These reports should be prepared by the GOM project manager, reviewed and commented upon by the Embassy assistant economic/commercial officer, and forwarded to REDSO/ESA.

Project monitoring by REDSO/ESA will be the joint responsibility of the project officer responsible for the Mauritius program, and the private sector specialist based in the REDSO/ESA Project Office. In addition to receiving regular progress reports from the GOM through the Embassy in Mauritius, REDSO/ESA will schedule quarterly implementation visits to Mauritius which may involve not only REDSO staff but also project-funded technical assistance who can assess how well project activities are accomplishing their intended objectives and make recommendations for revisions and/or additions to scheduled activities.

### B. Evaluation/Audit

Two evaluations are scheduled, the first an "in-house" evaluation primarily for the purpose of assessing project implementation and appropriateness of project design, and the second, a final external evaluation. The first evaluation, scheduled for May 1989, will assess the following:

- 1) overall project management - how well the project is being managed in the absence of a Project-specific personal services contractor or institutional contractor;

- 2) private sector participation - whether the private sector is being adequately serviced by the Project and whether the firm-specific technical assistance activity is being properly implemented; and
- 3) overall effectiveness of Project activities - whether the proposals and recommendations resulting from the consultancies are appropriate, whether Project-generated information is being disseminated, and whether the GOM and private sector are adopting those proposals and recommendations which are likely to lead to achievement of project objectives.

Based on this evaluation, necessary revisions will be recommended to project design. The mid-term evaluation also will be used as the basis for deciding specifically about the FY 1989 obligation. More specifically, it will inform REDSO's decision whether to amend this project or to design a new start to obligate the FY 89 OYB. In all likelihood, it will provide inputs to an FY 90 PID, and an interim FY 89 amendment of IDP. It should include as team members the GOM project manager, a REDSO/ESA project officer and/or the private sector specialist, a representative of the U.S. Embassy in Port Louis, and possibly a consultant knowledgeable in the areas of focus of project activities to date.

The second, final external evaluation, scheduled for February, 1990, will assess overall performance of technical assistance, progress toward meeting project objectives, and opportunities identified as a result of project activities and which could form the basis for future project designs. Issues should be related to future year program planning.

The financial plan includes modest, but, given the contracting plan, sufficient funding for independent audit. All planned IDP assistance will be implemented through buy-in arrangements to REDSO/ESA, regional and centrally managed contracts. These contracts have separate provisions for regular audits with funding outside of IDP.

### C. Reporting

Quarterly reports on project implementation and issues involving action should be prepared by the GOM project manager, reviewed and commented upon by the Embassy Assistant Economic/Commercial Officer, and forwarded to REDSO/ESA. In addition, copies of all reports submitted to the GOM, and non-confidential narratives of all activities with private sector firms or organizations, should be submitted to REDSO/ESA.

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## VII. CONDITIONS AND COVENANTS

### A. Conditions Precedent

The following Conditions Precedent, in addition to those included as a matter of course, will be included in the grant agreement:

1. Prior to initial disbursement of project funds, the following actions will be completed:

a) the GOM will submit to A.I.D. evidence which is to A.I.D.'s satisfaction that a project coordination committee as described below and in the project description has been established. This committee should have as members representatives of MOI, MEDIA, MEF, MCCI, MEPZA, and others as deemed necessary, and should be chaired by MEPD. A project manager should be appointed within MEPD, and this individual should also act as secretary to the committee. This committee will coordinate project activities for both the IDP and HRDA projects. Regular, at least bi-monthly committee meetings should be held, and minutes should be kept of all decisions reached. U.S. Embassy staff involved with project implementation will be available to the committee as resource persons.

b) the GOM will submit to A.I.D. evidence which is to A.I.D.'s satisfaction of an agreement between the GOM and MCCI regarding MCCI's participation in the management of the firm-specific private sector component of the project jointly with MOI. This agreement should include definition of the selection system which will be used by the GOM and MCCI, and should assign responsibility to MCCI for: (a) publicizing this project component in accordance with guidelines established jointly by the GOM and A.I.D.; (b) receiving, assessing and recommending for acceptance individual firm-specific proposals, again in accordance with guidelines established jointly by the GOM and A.I.D.; and (c) collecting firms' contributions toward project activity costs and depositing those contributions into a special account, the receipts of which will be jointly programmed by the GOM and A.I.D. but one eligible use of which will be to cover MCCI's costs of project management.

c) The GOM will submit the name and position of the individual selected from within the Ministry of Economic Planning and Development to be project manager.

B. Covenants

The following covenants will be included in the project grant agreement:

1. The GOM covenants to include, as appropriate, in the scopes of work of consultants engaged with project funds a provision whereby the consultants will identify environmental and HRD concerns which arise from their findings and recommendations.

2. The GOM further covenants that at a minimum 20% of grant funds will be programmed for firm-specific private sector activities.

3. The GOM further covenants that, in accordance with current U.S. legislation, there will be no project-funded assistance provided directly to firms engaged in textile manufacturing and/or export.

ACTION: AID-3 INFO: ECON RLO

ANNEX A

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 DE RUEHC #4708 1770225  
 ZNR UUUUU 2ZH  
 O P 250224Z JUN 88  
 FM SECSTATE WASHDC  
 TO RUEENR/AMEMBASSY NAIROBI IMMEDIATE 1818  
 INFO RUFEMC/AMEMBASSY PORT LOUIS PRIORITY 1013  
 BT  
 UNCLAS STATE 204708

25-JUN-88

TOR: 02:32  
 CN: 38108  
 CHRG: AID  
 DIST: AID  
 ADD:

JUN 27 1988

AIDAC, NAIROBI FOR REDSO/ESA

E.O. 12356: N/A

SUBJECT: MAURITIUS INDUSTRIAL DIVERSIFICATION PID  
 (642-0010), A.I.D./W PROJECT COMMITTEE (PC) COMMENTS

REF: NAIROBI 13881

THE MAURITIUS INDUSTRIAL DIVERSIFICATION PID A.I.D./W  
 PROJECT COMMITTEE (CONSISTING OF REPRESENTATIVES FROM  
 AFR/PD, AFR/EA, AFR/DP/PAB, AFR/TR/ARD (GAUDET),  
 AFR/TR/EHR, AFR/PRE, PPC/PB/C AND GC/AFR) HAS REVIEWED  
 REPTTEL AND DECIDED THAT THERE ARE NO SIGNIFICANT ISSUES  
 OR CONCERNS WHICH A.I.D./W FEELS SHOULD BE BROUGHT TO  
 YOUR ATTENTION AT THIS TIME. THE PC NOTED THAT SUBJECT  
 PID ENVISIONS A WELL FOCUSED INTERVENTION WHICH IS  
 APPROPRIATE VIS-A-VIS CURRENT A.I.D. STRATEGY FOR  
 MAURITIUS, IS ADEQUATELY FUNDED, AND REQUIRES MINIMAL  
 MANAGEMENT RESOURCES. SUBJECT PP FINAL DESIGN SHOULD  
 PROCEED AS PLANNED. SHULTZ

BT  
 #4708

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REDSO	Action	Info
DIR		
.D/DIR		
AGR		
ANA		
RCMO		
RCO		
ENGR		
FFPO		
PRJ		
RLA		
LIBRARY		
KAGAI		
RFMC		
EXO/PER		
ADMIN		
CHRON		
REPLY DUE		06/27
ACTION TAKEN		
DATE		
INITIALS		

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ANNEX B: LOGICAL FRAMEWORK

<u>Narrative Summary</u>	<u>End of Project Status</u>	<u>Means of Verification</u>	<u>Assumptions</u>
<u>Goal:</u> To promote economic growth and to increase incomes	Potential for increasingly diversified industrial base, and for increasing number of higher skilled jobs	Project evaluations	Mauritian manufactured goods will continue to receive preferential access to overseas markets.
<u>Purpose:</u> To assist the private sector and the GOM to identify and evaluate alternative industrial and service sector opportunities and their development needs, and to assist the private sector directly in efforts to further the development of those sectors	An improved policy environment for industrial diversification/expansion; Greater availability and better dissemination of investment/marketing information; Improved understanding of opportunities for diversification, use of higher technology, and new markets	Project evaluations	Attractive investment environment will continue to be developed through GOM and private sector action.  Understanding and meeting the requirements of target industry and service sectors will play an important role in GOM policy development.

<u>Narrative Summary</u>	<u>Verifiable Indicators</u>	<u>Means of Verification</u>	<u>Assumptions</u>
<u>Outputs:</u>			
1. Improved policies and strategies for industrial diversification;	Stated policies, action plans, and revisions to incentives and regulations	Project evaluations, review of policies and action plans	GOM and private sector entrepreneurs adopt recommended proposals which represent improvements.
2. Increased information about export market opportunities;	Published reports, improved data banks, seminars/workshops held	Project evaluations, review of reports	
3. Improved environmental and land use planning policy for industrial development;	Stated policies, action plans, and revisions to regulations	Project evaluations, review of policies, action plans, and regulations	GOM adopts recommended proposals which represent improvements.

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<u>Narrative Summary</u>	<u>Verifiable Indicators</u>	<u>Means of Verification</u>	<u>Assumptions</u>
4. Increased body of knowledge about new investment opportunities and related infrastructure requirements.	Seminars/workshops held, published reports	Project evaluations, review of reports	
<u>Project Inputs:</u>			
<u>A.I.D.</u>			
1. Technical assistance	41 person months (\$800,000)	Quarterly financial and narrative reports; RFMC disbursement records	
2. Evaluation and Audit	1.75 person months (\$50,000)	Evaluation and audit reports	
<u>Host Country</u>			
1. Support services and facilities	Support to TA (\$123,000 from GOM, \$40,000 from firms)	Quarterly financial and narrative reports	Firms willing to contribute to TA costs
2. Center for Productivity development	\$163,000 contribution from GOM	Quarterly financial and narrative reports	

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5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

FY 1988 Continuing Resolution Sec. 526. No

Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

2. FAA Sec. 481(h). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government), has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without
- Not applicable

Congressional enactment, within 30 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, and to prevent and punish drug profit laundering in the country, or that (b) the vital national interests of the United States require the provision of such assistance?

3. Drug Act Sec. 2013. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

NOT APPLICABLE

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4. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government? No
5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? No
6. FAA Secs. 620(a), 620(f), 620D; FY 1988 Continuing Resolution Sec. 512. Is recipient country a Communist country? If so, has the President determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism? Will assistance be provided directly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification? No  
N/A
7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? No
8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC? No

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9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? No  
(b) If so, has any deduction required by the Fishermen's Protective Act been made? N/A
10. FAA Sec. 620(q); FY 1988 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 loan to the country under the FAA? No  
(b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1988 Continuing Resolution appropriates funds? N/A
11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, 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.) N/A
12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No  
N/A

13. 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 A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)
- Mauritus is not in arrears in payment of its UN obligations.
14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism?
- No
15. FY 1988 Continuing Resolution Sec. 576. Has the country been placed on the list provided for in Section 6(j) of the Export Administration Act of 1979 (currently Libya, Iran, South Yemen, Syria, Cuba, or North Korea)?
- No
16. 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 Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?
- No
17. FAA Sec. 666(b). 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
18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)
- No

19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? No
20. 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 Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.) Mauritius was represented at the meeting but filed a written reservation to the communique issued. This was taken into consideration in the FY 1988 Taking Into Consideration Memo
21. FY 1988 Continuing Resolution Sec. 528. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? No
22. FY 1988 Continuing Resolution Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? No  
N/A
23. FY 1988 Continuing Resolution Sec. 543. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin? Yes

FUNDING SOURCE CRITERIA FOR COUNTRY  
ELIGIBILITY

1. Development Assistance Country Criteria

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?

No  
N/A

FY 1988 Continuing Resolution Sec. 538. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

No

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 President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?

No  
N/A

FY 1988 Continuing Resolution Sec. 549. Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking?

Not applicable

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## 5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

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

### A. GENERAL CRITERIA FOR PROJECT

1. FY 1988 Continuing Resolution Sec. 523; FAA Sec. 634A. If money is sought to obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified? Yes
  
2. FAA Sec. 611(a)(1). Prior to an obligation in excess of \$500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U.S. of the assistance? Yes
  
3. FAA Sec. 611(a)(2). If legislative action is required within recipient country, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance? None required

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4. FAA Sec. 611(b); FY 1988 Continuing Resolution Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.) N/A
5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively? N/A
6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. NO
7. FAA Sec. 601(a). Information and conclusions on whether projects 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. Yes to (a), (d), (d) and (e). Not applicable to (c) and (f). The project will promote exports by private sector producers, private sector industrial development, and use of more efficient production processes.
8. FAA Sec. 601(b). Information and conclusions on how project 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). Project will promote directly U.S. private investment in Mauritius, and will use substantial amounts of U.S. technical assistance.
9. FAA Secs. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars. 25 percent of project costs will be covered by local currency. This will be stipulated in the grant agreement. Also, private sector firms which benefit from technical assistance will contribute a portion of the costs of the technical assistance.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? No  
N/A
11. FY 1988 Continuing Resolution Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? The assistance will assist export producers but will do so within U.S. quota constraints and to non-U.S. markets. Market strategy studies will assure commodities will not be in surplus on world markets.
12. FY 1988 Continuing Resolution Sec. 553. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel? No
13. FAA Sec. 119(a)(4)-(6). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas? Through limited technical assistance and local currency support, the assistance will support efforts to address environmental concerns and redress environmental problems. The project itself will have no negative environmental impact.

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)? N/A
15. FY 1988 Continuing Resolution. If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? Some project funding may be made available to IESC, which meets this criteria.
16. FY Continuing Resolution Sec. 541. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? Some project funding may be made available to IESC, which meets these criteria.
17. FY 1988 Continuing Resolution Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has prior approval of the Appropriations Committees of Congress been obtained? N/A
18. FY Continuing Resolution Sec. 515. If deob/reob authority is sought to be exercised in the provision of assistance, are the funds being obligated for the same general purpose, and for countries within the same general region as originally obligated, and have the Appropriations Committees of both Houses of Congress been properly notified? N/A
19. State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision). This will be done upon the sign of the proag.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FY 1988 Continuing Resolution Sec. 552 (as interpreted by conference report). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (b) in support of research that is intended primarily to benefit U.S. producers?

N/A

b. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and

In Mauritius, which is experiencing almost full employment, the necessary action is to upgrade technical skills and to provide alternative employment opportunities for lower-skilled laborers. The project is addressing directly these two issues. The project is supporting the country's efforts to improve its own well being, and will be involved in activities where female labor is prevalent. A separate training activity will support the project in improving women's status.

insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

- c. FAA Secs. 103, 103A, 104, 105, 106, 120-21. Does the project fit the criteria for the source of funds (functional account) being used? YES
- d. FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? Emphasis is placed on the utilization of technology appropriate to conditions in Mauritius at this time.
- e. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? The country will provide at least 25 percent of program costs.
- f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority? The ultimate aim is to increase incomes of the labor force.

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

Mauritius is a transitional developing country and this project focuses on that status and is designed to promote and support the country's transition. The project uses the initiative and expertise particularly of the country's entrepreneurs to encourage institutional and economic development.

h. FY 1988 Continuing Resolution Sec. 538. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

No

Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

No

Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

No

i. FY 1988 Continuing Resolution. Is the assistance being made available to any organization or program which has been determined to support or participate in the management of a program of coercive abortion or involuntary sterilization?

No

If assistance is from the population functional account, are any of the funds to be made available to voluntary family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services?

N/A

- j. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes
- k. FY 1988 Continuing Resolution. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 20 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)? The primary contracting method will be an IQC (probably REDSO/ESA IQC), and under this the prime contractor will be encouraged to use such enterprises.
- l. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (a) stress the importance of conserving and sustainably managing forest resources; (b) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (d) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (e) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared There is compliance with Regulation 16. No impact, on forest resources is expected.

or degraded; (f) conserve forested watersheds and rehabilitate those which have been deforested; (g) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (h) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (i) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (j) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (k) utilize the resources and abilities of all relevant U.S. government agencies?

- m. FAA Sec. 118(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project (a) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (b) take full account of the environmental impacts of the proposed activities on biological diversity?

N/A

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- n. FAA Sec. 118(c)(14). Will assistance be used for (a) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (b) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas? No
- o. FAA Sec. 118(c)(15). Will assistance be used for (a) activities which would result in the conversion of forest lands to the rearing of livestock; (b) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undegraded forest lands; (c) the colonization of forest lands; or (d) the construction of dams or other water control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development? No
- p. FY 1988 Continuing Resolution If assistance will come from the Sub-Saharan Africa DA account, is it (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) being provided in a) The aim of the project is to increase incomes of the labor force, to create employment, and to promote economic stability. Environmental issues will be identified during the course the project.

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PORT LOUIS - MAURITIUS

In reply please quote...CF/G/8/67/5.....

Date.28th..July...1988.

The Director  
USAID/REDSO  
Nairobi  
Kenya  
c/o US Embassy  
Rogers House  
Port Louis

Dear Sir,

Mauritius Industrial Diversification Project

Various delegations from the US AID/REDSO have had discussions with the Honourable Deputy Prime Minister and Minister of Finance and with Government Officials in the last few months about new areas of cooperation between the US Government and Government of Mauritius. It has been agreed mutually that attention be given to an Industrial Diversification Project with the object of diversifying product items and also markets with a view to stabilizing and maximising our export earnings.

2. I wish therefore to make a formal request to your Government for further assistance for the implementation of that project.

3. This aid will be used to promote a better understanding of opportunities for new market development, increased investment, and the development of higher value added industries in Mauritius, as well as to support initiatives of the Government in the areas of environmental planning in particular as it relates to industrial development.

4. I would suggest that the FY 1988 project agreement for the Mauritius Industrial Diversification Project be negotiated and signed at a mutually convenient time.

Yours faithfully,

(M. Bagant)  
Financial Secretary

REDSO	DIR	D/DIR	AGR	ANA	RCMO	RCO	ENGR	FFPO	PRJ	RLA	LIBRARY	KAGAI	RFMC	EX/PER	ADMIN	CHRON	REPLY	FILE	STAMP	DATE	INITIALS

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TECHNICAL ANALYSIS

(incorporating institutional and administrative analyses)

A. Introduction

The principal component of the project is the delivery of a wide range of short- and medium-term technical assistance to the Mauritian public and private sectors. The objective of this assistance, consistent with the overall project purpose, is to improve public and private sector understanding of Mauritius' comparative advantage and to support development and implementation of a coherent strategy for private sector led industrial diversification.

Although full implementation of industrial diversification is beyond the scope and term of the current project, the technical assistance envisaged can make a significant contribution to improving the understanding and capacity of the Mauritian private and public sectors to design and implement sector-specific strategies.

B. Project Design Rationale

The approach chosen for delivery of technical assistance under the project is to draw upon resources available under existing contractual mechanisms such as REDSO's Private Sector IQC, the Bureau for Private Enterprise's PRISM project, IESC, and others. In order to rationalize deployment of AID resources in the country, the project, and its associated technical assistance have been developed, and will be implemented in close coordination with REDSO's HRDA assistance to Mauritius. In fact, many of the technical assistance inputs to be provided under the project will be aimed in part at identifying specific training and manpower development needs.

Because of a lack of permanent AID staff resident in Mauritius, a primary consideration underpinning the design approach selected for this project is support of the project goal and purpose while minimizing the need for intensive project management and monitoring on the part of AID. Project activities will comprise discrete but interrelated deliveries of short- and medium-term technical assistance which can be

(1)

accordance with the policies contained in section 102 of the FAA; (c) being provided, when consistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in Sub-Saharan Africa; (d) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to bring about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (e) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the natural resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

b) This assistance is in compliance with Section 102 of FAA. In particular, it is aimed at increasing incomes and increasing employment in higher skill areas. It promotes development of the private sector, and supports reforms to government policy to encourage this development. It specifically addresses socio-economic concerns and will improve the understanding about the socio-economic effects of industrialization on the Mauritian population. Finally, U.S. private investment is encouraged as part of the project.

c) Contractors expected to participate all have demonstrated effectiveness in their fields, and at least one, IESC, is experienced in "grassroots" activities.

d) The project is providing assistance to promote structural transformation of the economy, to create income generating opportunities, and to promote private sector development and investment.

e) The project is designed to promote and support income-generating opportunities for those who wish to enhance their level of skills. These may well be underemployed. Mauritius is a full-employment economy, and unemployment is not a problem.



PORT LOUIS - MAURITIUS

In reply please quote...CF/G/8/67/5.....

Date. 28th July. 1988.

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USAID/REDSO  
Nairobi  
Kenya  
c/o US Embassy  
Rogers House  
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Financial Secretary

REDSO	DIR	D/DIR	AGR	ANA	RCMO	RCO	ENGR	FFPO	PRJ	RLA	LIBRARY	KAGAI	RFMC	EXO/PER	ADMIN	CHRON	REPLY	DATE	FILE

87

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identified and defined through joint GOM and AID action and sourced via existing contractual mechanisms. An alternative approach would be the programming of an institutional contractor, including a resident advisor, to plan and execute an integrated program of technical and institutional assistance. While this might reduce the AID management burden, it would not be a cost-effective approach given the relatively small size of the project. The cost of placing a resident advisor in Mauritius would reduce the level of resources available for technical assistance delivery by as much as 30 percent. Furthermore, this project is viewed as part of a longer-term AID initiative in Mauritius and as such is oriented in part toward identifying specific areas in which AID might provide program or institutional support in the future. The project design has purposely programmed the delivery of a wide variety of types of technical assistance and expertise in order to fill a vacuum of knowledge regarding the feasibility of specific industrial diversification opportunities and strategies within the Mauritian context. Once such knowledge is available, AID will be in a better position to consider further assistance of a more programmatic and/or institutional nature.

### C. Project Management and Administration

#### 1. Introduction

The technical assistance activities envisaged under the project would be provided to private and public sector organizations as well as to selected individual private sector firms. While the GOM agency principally responsible for coordination of project activities would be the Ministry of Finance, technical assistance provided under the project would be directed toward supporting the activities of a few other GOM Ministries and agencies, most notably the Ministry of Industry, Ministry of Economic Planning and Development, the Mauritius Export Development and Investment Authority, and to a lesser extent, the Ministry of Housing and Environment. The principal private sector organization through which technical assistance would be directed is the Mauritius Chamber of Commerce and Industry. This organization currently serves as a channel for provision of technical assistance and training to the private sector as a whole. Technical assistance programmed under this project would be geared toward augmenting rather than duplicating this activity.

#### 2. AID's Role and Capacity to Fill That Role

AID's role in the project will involve planning, sourcing, and management of technical assistance inputs to be delivered over

the life of the project. As discussed previously, AID intends to rely primarily upon technical assistance resources available from existing central and regional contracts in order to minimize the management burden associated with technical assistance delivery.

The technical assistance resources available to AID from such sources offer the requisite experience and skills to meet project objectives. They include:

REDSO/ESA Private Sector IQC will offer access to a consortium of firms with expertise in the areas of investment and export promotion, private enterprise development, industrial policy, and marketing. The IQC is a follow-on to REDSO's Privatisation IQC under which short- and medium-term technical assistance has successfully been provided to a number of USAIDs and host country private and public sector recipients. The IQC will be managed by REDSO's Projects' Division with assistance from REDSO's Private Sector Advisor who will be familiar with the specific resources available to the project from this source. The IQC will be in place throughout the life of this project.

AID PRE Bureau's PEDS (Private Enterprise Development Support) Project also offers REDSO access to a broad range of expertise in areas related to industrial diversification. The PEDS project provides support for technical assistance related to private sector development, with centrally-administered funds and through buy-ins by USAIDS. Mission-specific requests for assistance are supported on a cost-sharing basis through the use of buy-ins. The desired minimum target for the mission share of costs is 50 percent. PRE has contracted with a consortium led by Arthur Young and SRI International for the provision of technical assistance under the PRISM project. The firms represented in the consortium offer expertise in most of the areas of technical assistance envisaged under the Mauritius Industrial Diversification Project. In addition, the PEDS mechanism offers REDSO access to experts who are familiar with AID's worldwide experience in investment/export promotion, private sector development, and other areas directly related to project objectives. To reduce the administrative burden to USAIDs of processing buy-in requests, PRE has developed a streamlined procedure which generally allows PRE to process and schedule technical assistance within one week of mission concurrence.

International Executive Service Corps (IESC) provides medium-term expertise in a wide range of industrial specialities. IESC is a not-for-profit organization founded in 1964. It has offices in developing countries around the world. IESC technical assistance is provided by retired executives,

most of whom have 20 or more years experience in their respective areas of business. The IESC approach to provision of technical assistance rests on two principles. The first is that short- medium-term consultancies by retired executives with experience and technical expertise closely matched with the needs of recipients can be an effective vehicle for improving productivity of developing-country firms. The second is that the use of volunteer executives allows high-level expertise to be delivered at costs far below those which would be required commercially. AID's experience worldwide in the use of IESC volunteers to provide technical assistance to private-sector firms and organizations has generally confirmed the validity of this approach. IESC volunteers typically spend from 1-6 months in the field, working with individual firms or groups of firms. IESC's strengths lie in the areas of production technology, quality control, and management. The retired executives recruited by IESC serve as volunteers, but all expenses of consultancies (travel, per diem and hotel for the executive and one dependent) are covered. For the sake of administrative convenience REDSO might make arrangements to process requests for IESC technical assistance through the IESC office in Nairobi.

Other centrally-funded projects through which REDSO could access the types of technical expertise required for implementation of the project include the Bureau for Science and Technology's AIRES project, which offers training materials and technical assistance to support small enterprise development, the Bureau for Science and Technology's Employment and Enterprise Policy Analysis Project which offers expertise in industrial planning and analysis through Harvard Institute for International Development (HIID) and the Bureau for Private Enterprise's Financial Markets Project which offers mission technical assistance buy-ins on a basis similar to that of the PRISM project.

Scopes of work for preliminary technical assistance inputs were developed as part of the project design, and appear as Annex G to the PP. For subsequent technical assistance inputs, scopes of work will be developed jointly by AID and the GOM. The choice of sourcing mechanism for each technical assistance input would be made by REDSO, based on the particular expertise required for each assignment. For those assignments most effectively carried out by an IESC volunteer, REDSO would submit a request through the IESC representative in Nairobi, specifying the nature and term of the assignment as well as the type of background and expertise required of the executive designated to undertake the assignment. For other technical assistance inputs, REDSO would prepare work order requests, to be processed through existing Central and Regional contracts.

Whenever possible, requests would be submitted to more than one contract holder in order to give REDSO a choice of technical experts and consultants.

Overall management and administration of the project would proceed along lines consistent with that of the current AID program in Mauritius. REDSO/ESA would assume primary responsibility for project management, with support from the Embassy and a FSN based in the embassy in Mauritius. Primary responsibility for day-to-day project management will be assigned to a REDSO project officer. Project activities will also be supported by REDSO's private sector specialist. The decision to deliver technical assistance through buy-ins from central and regional contracts is intended to minimize the management burden placed on the embassy in Mauritius. In addition, the Mauritius Chamber of Commerce has agreed to provide logistical and administrative support in conjunction with technical assistance inputs directed to the private sector. Nevertheless, it is expected that a certain amount of logistical support will still be required from the embassy in conjunction with the technical assistance to be delivered under the project.

### 3. GOM Role and Capacity to Fill That Role

The Ministry of Finance will serve as the primary GOM implementing agency. The Ministry will appoint a Project Coordinator who will serve as AID's principle point of contact with the GOM. The GOM Ministries of Industry and of Economic Planning and Development, as well as the Mauritius Export Development and Investment Authority, will be the primary recipients of or channels for specific technical assistance. The capacity of each of these agencies is discussed in more detail in Section D below.

### 4. Private Sector Participation

Requests for specific technical assistance to be provided to individual private sector firms or organizations under the project would be submitted through the Mauritius Chamber of Commerce and Industry. Selection of specific activities to be financed would be based on criteria agreed to by AID and GOM. These criteria, which are discussed in detail in the text of Project Paper, are intended to ensure that specific technical assistance delivered under the project is consistent with and supportive of the overall project goal of industrial diversification.

In view of insuring an efficient allocation of technical assistance resources, AID will require that individual private

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enterprises receiving firm-specific technical assistance under the project provide some type of cost-sharing input. In principle, this input would be equal to 25 percent of the cost of the assistance. In fact, firms will pay a fixed contribution of 70,000 rupees per person month; a reduced fee may be applied to smaller firms. In cases of technical assistance whose output will be of general benefit to a particular industry sector or subsector, no cost sharing will be required. However, in the case of feasibility and/or marketing studies requested by individual firms, or studies whose outputs are likely to benefit only one or two firms, these beneficiaries will be required to make a financial contribution.

#### D. Institutional Capacity of Key Implementing Agencies

##### 1. Ministry of Finance

The Ministry of Finance (MOF) has been the contact ministry for A.I.D. with respect to A.I.D.'s program assistance to Mauritius since the inception of that assistance. The MOF will be performing a similar function in the implementation of the Industrial Diversification Project. It will be the GOM's point of contact with A.I.D. in dealing with major financial and design issues. Also the Minister of Finance will be the signator to the grant agreement (or the Prime Minister in the Finance Minister's absence).

A.I.D. has had favorable experience in dealing with MOF with respect to its program assistance. Ministry officials have been accessible and responsive to A.I.D. requests and to dealing with program issues as they arise. It is not expected that the MOF will undertake a day-to-day management role for this project; rather, it will delegate that responsibility to the Ministry for Economic Development and Planning.

##### 2. Ministry of Industry

The Ministry of Industry (MOI) was created in 1983, following the reorganization of the previous Ministry of Commerce and Industry. MOI is the principal entity within the GOM charged with promoting and implementing Mauritian industrial development. Specifically, the MOI has responsibility for promoting industrial development (small, medium and large-scale) in Mauritius, evaluating and issuing all EPZ and DC certificates, and promoting standardization and quality control.

The MOI is organized into four implementing units: appraisal unit for the evaluation and issuance of EPZ and DC incentive

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certificates; an industrial research and planning unit; a monitoring unit; and a small-scale industry unit. The organizational structure reflects this division of responsibility. The Ministry is headed by the Minister of Industry, who is supported by the Permanent Secretary and a Principal Assistant Secretary. There are two Senior Administration Officers and two Principal Industrial Development Officers overseeing operations. Each of the four units is headed by a Senior Industrial Development Officer, and supported by 13 Industrial Development Officers. Total staffing of the ministry is about 125 persons.

In 1985, the mission of the Ministry was broadened to include export and investment promotion development and industrial facilities construction through the creation of the Mauritius Export Development and Investment Authority.

the Ministry has been the recipient of direct technical assistance sponsored by other donor agencies. With UNIDO funding, in 1974, the MOI contracted private consultants to identify labor-intensive target industry sectors for development in Mauritius. In 1985, with World Bank funding, a comprehensive assessment of Mauritian industrial policy was commissioned by the MOI, which precipitated sweeping changes in economic orientation and trade policy. In both these instances, the efforts were successfully coordinated, and the inputs effectively utilized by the Research and Planning Unit of the Ministry.

### 3. Ministry of Economic Planning and Development

The Ministry of Economic Planning and Development (MEPD) has been in existence since 1971. MEPD has primary responsibility for formulating and implementing the national development plans. Most recently it has finalized the preparation of the 1988-90 Development Plan. In performing this function, it works with all the ministries to identify goals, priorities and plans.

Within the MEPD the major task of plan preparation is carried out by the six sectoral units. These six units are: External Resource Division, Policy Planning and Research Division, Sectoral Development Division I, Sectoral Development Division II, and the Monitoring and Evaluation Division. Each sectoral unit is headed by a principal economist and includes one senior and two other economists. The principal economists report to the Deputy Director and the Director of the MEPD. The sectoral units of the MEPD are expected to maintain liaison with individual ministries and other executing agencies. MEPD is the focal point for the management and implementation of all

external assistance to Mauritius. Given the coordinating role MEPD plays within the GOM, it is well placed to manage the Industrial Diversification project, and to chair the project coordination committee.

#### 4. Mauritius Export Development and Investment Authority

The Mauritius Export Development and Investment Authority (MEDIA) is the GOM's key export and investment promotion agency. MEDIA was established in 1983 by an Act of Parliament. It is a parastatal agency attached to the Ministry of Industry. MEDIA is governed by a five-member Board of Directors. Three of the members, including the chairman, are drawn from the private sector. The other two members are the Permanent Secretaries of the Ministries of Industry and Trade. As stated in its enabling Act, MEDIA has five major functions: 1) to promote the exports of goods and services from Mauritius; 2) to engage in investment promotion activities designed to promote Mauritius as an attractive base for the establishment of manufacturing industries and services; 3) to develop and operate industrial sites and estates; 4) to plan, implement, and review programmes of action for the development of export and investment; and 5) to advise Government on all matters relating to investment and export promotion.

While MEDIA's headquarters and most of its staff are based in Mauritius, it maintains field offices in London and Taipei. In addition, a MEDIA Investment Promotion Officer is based in the UNIDO Investment Promotion Centre in Paris. MEDIA is divided into four sections. The Investment Promotion Section includes MEDIA's three overseas officers as well as two additional Investment Promotion Officers and two marketing assistants based in Mauritius. The Export Promotion Section is headed up by a senior-level manager and is staffed by four mid-level export development officers, each of whom has a regional market specialization. The Industrial Estates Section is staffed by a senior-level manager and three assistants. Finally, the Finance and Administrative Section is staffed by a manager, and two senior accountants.

The majority of MEDIA's funding is derived from GOM sources, through the Ministry of Industry. Some funding is also received from international donor organizations including the European Development Fund and the U.N. International Trade Centre. Finally, MEDIA receives financial support from the private sector for some of its activities.

Most of MEDIA's promotional efforts are conducted through participation in overseas trade fairs, organization of overseas investment seminars, and organization of foreign investment

missions to Mauritius. It's promotional materials include a glossy investment promotion brochure, a simple promotional flyer, and a 15-minute video. The majority of promotional efforts to date have focused on Europe (primarily France, England, and Germany), Hong Kong, and to a lesser extent Japan and Taiwan. Low key promotional efforts have also been directed toward South African firms.

MEDIA has been unable to attract U.S. investment in recent years, essentially due to a lack of understanding of the factors which would motivate U.S. firms to invest in Mauritius.

Since its inception, MEDIA has constructed 300,000 sq. ft. of industrial space, nearly all of which is currently occupied. Rather than industrial estates, MEDIA has constructed individual industrial buildings (50,000 sq. ft.) in various parts of the country. MEDIA industrial buildings are well-built and functional. However, MEDIA provides no maintenance or service; all repairs, cleaning, garbage collection, effluent disposal, etc. is left to the tenants. Space is rented at a rate of 30 rupees per square foot, a price which gives MEDIA a rate of return of approximately 10 percent.

MEDIA has been identified as both a recipient of and channel for project technical assistance inputs. One area in which MEDIA will receive support is in industrial infrastructure planning and design. This assistance will include preparation of a feasibility/design study for an industrial estate for pollution-intensive industries and design/planning assistance in meeting the specific infrastructure needs of high-priority industrial sectors. MEDIA's 1988 Action Plan calls for development of an industrial estate for pollution intensive industries, and the French Caisse Central, the Commonwealth Development Corporation and the World Bank have all reportedly expressed some interest in financing its construction. However, no feasibility study or plan has been undertaken. As noted previously, MEDIA has previous experience in the development and leasing of industrial space, and has managed this aspect of its operations in a relatively efficient manner. However, the more sophisticated types of industrial estates currently envisioned will require MEDIA to take a much more proactive role in ensuring that infrastructure is maintained and standards are met. At this juncture, technical assistance is proposed only for support of a feasibility/design studies. MEDIA's capacity to effectively manage specialized estates would have to be examined more closely before committing AID funds to the support of development of such facilities.

MEDIA would also be a recipient of technical assistance in the area of investment promotion and export marketing. The focus of this assistance would be on improving MEDIA's understanding of the characteristics and requirements of the U.S. market, as well as on upgrading the organization's basic capacity to design and implement effective investment and export promotion activities.

Finally, MEDIA would be the institutional channel for delivery of technical assistance to small textile firms. MEDIA has already demonstrated its capacity to assume this role effectively, having been the coordinating agency for an IESC volunteer who is currently providing technical assistance in the areas of marketing and design to small- and medium-scale textile firms.

#### 6. Mauritius Chamber of Commerce and Industry

Membership of the Mauritius Chamber of Commerce and Industry (MCCI) reflects a broad cross-section of middle to larger sized firms involved in Mauritian commerce and industry, including EPZ, import substitution, import, transport, tourism, financial services, and sugar interests. The objectives of MCCI are: a) promotion and protection of industrial and commercial interests in Mauritius; b) assistance in trade promotional activities, including trade fairs, certificates of origin; c) collection and classification of statistical and other information of interest to all sectors of the economy; and d) organization and running of training courses and seminars.

The MCCI is administered by a Council of 16 members elected for a 3 year term of office and chosen from various sectors of the membership. The Chairman, elected every year from the Council members, administers the MCCI. The Secretary General, who is the permanent executive officer, implements Council decisions and controls the day-to-day work. The Secretary General is assisted by an Assistant Secretary General, a trade promotion officer, an information officer, and 12 staff members including a trained economist with experience in evaluating requests for assistance proposals.

The MCCI began training programs in Computer Programming in 1986. Graduates are usually hired even before the program is finished. MCCI has successfully handled joint venture inquiries from the Centre for the Development of Industry (CDI), the Istitut Commerce Exterior, the Italian Trade Commission, and others.

Discussion with private firms reveals a high regard for MCCI's activities, seriousness of purpose, and good relations with

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government. There is an orientation towards trade and commerce interests, and away from sugar interests (which are well represented elsewhere). Nonetheless, the MCCI management emphasized the fact that all of its services are and will be provided to all members of the Mauritian business community without prejudice, whether they are MCCI members or not.

MCCI has specific experience co-ordinating feasibility, marketing, and diagnostic assistance provided by foreign development agencies such as CDI, the African Project Development Facility (APDF), and others. The AFDP project alone involves evaluating 15 projects a year, with a budget of roughly 110 thousand rupees/year.

MCCI is willing to assist with the implementation of the firm-specific project activities: the publicity campaign, evaluation of individual proposals according to the general project criteria, and establishment of the basic bona fides of the firm requesting assistance. One of their economists has experience in this area. MCCI also will make local logistical arrangements for the foreign and local exports and collect the local currency cost-sharing contribution from participant firms and deposits it into the local currency account.

ECONOMIC AND FINANCIAL ANALYSIS

I. Introduction and Methodological Note

This discussion presents the assessment of the overall economic impact of proposed project activities. It begins with a discussion of the methodology chosen for the analysis, outlines the basis for project design based upon an evaluation of likely costs and benefits of alternate approaches, and estimates the direct and indirect economic costs and benefits of project activities. A final section presents the basis for estimating the financial costs of the project.

The nature of the activities financed under this project makes a conventional cost-benefit or cost-effectiveness analysis inappropriate. In a sense, the output of the project is similar to the output of an agricultural research project in which the nature, quality, and relevance of the final product are unknown until after the activity is concluded. This is not to say that there is no reason to believe that the consultancies provided under this project will improve the quality of investment, both public and private, by more than enough to justify their cost. The experience of similar activities in East Asia and in the Caribbean have amply demonstrated that the improvement in the productivity of investment resulting from such technical assistance have increased the present value of the net income stream resulting from that investment by a factor of two or more. However, the process is a stochastic one in which the outcome of any particular consultancy little or nothing.

Since technical assistance is unique, it is equally inappropriate to attempt to minimize cost. High quality assistance can be very costly. However, mediocre advice is of no value, while wrong advice can be very costly.

This is not to say that the outcome of technical assistance cannot be evaluated. The evaluation should examine whether the assistance was persuasive and whether, if followed, the investment was successful. Even then, it would be futile to attempt to untangle the benefit stream associated with the technical assistance from that associated with the investments subsequently undertaken.

Accordingly, the approach utilized in this analysis is merely

to describe the overall economic impact of project activities in general terms, relative to possible alternate approaches to project design.

## II. Economic Setting

The "Project Rationale" section outlined the stage attained by Mauritius in its economic development, and identified the large number of factors characterizing the Mauritian economy:

- severe shortages of unskilled and semi-skilled labor have been experienced by several sectors of the economy. The creation of some 25,000 new jobs annually over the past three years in the EPZ sector has dropped the unemployment rate to about 4 percent. The acceleration in the movement of labor from the agricultural to the manufacturing sector has adversely affected agricultural operations. Already, mechanization of agricultural production is evident.
- the cost competitiveness of several highly labor-intensive operations has been eroded. This has precipitated the movement of some Mauritian textile/apparel manufacturers to invest in even lower labor cost locations such as Madagascar. Knit wear operations in particular are adversely affected. One such firm closed operations after three months citing lack of labor. Major associations of private firms are now engaged in discussions with GOM to import labor from Madagascar and Kenya on a temporary basis.
- EPZ employment is concentrated in relatively few, large multinationals. Currently, fewer than 20 EPZ firms -- mostly large foreign multinationals -- account for more than 60 percent of the 90,000 workers employed.
- lack of knowledge of worldwide markets and higher technology investment sectors have impeded private sector activity. Market knowledge is concentrated among larger firms and has not diffused to the numerically more smaller firms. Lack of knowledge has impeded the establishment of new sectors of offshore activity driven by recent technologies.

At the same time, the basis for rapid diversification into other areas has been neglected. The Mauritian labor force, is characterized by both relatively high levels of literacy and numeracy, but is deficient in industry-related vocational

managerial skills. The development of physical infrastructure has been haphazardous, resulting in poor quality facilities, straining social infrastructure. GOM policy development though highly liberalized does not lack sufficient understanding of the future direction of economic growth, nor the demanding requirements of higher value industries.

### III. Benefits and Costs of Alternative Approaches to Project Design

The large number of complex variables underlying the Mauritian economy make it difficult to design a cohesive project strategy. Indeed, no project can hope to effectively address all of the requirements for industrial diversification in Mauritius. At a conceptual level, assistance in industrial expansion and diversification could have been provided in two different ways. AID could have just financed pure promotional activities of the GOM -- in effect, "demand side" assistance; or it could have funded the development of industrial infrastructure -- "supply side" assistance.

The "benefits" of just providing finance of on-going promotional activities by the GOM are theoretically substantial. To the extent that GOM was successful in attracting investment from targeted high value-added industries, the overall economic impact of the funding would be significant. Similarly, the funding of the construction of industrial space would greatly ease the high demand for space by investors currently in evidence.

The problems with both these opposite approaches is that they focus on only one aspect of a complex issue. Pure promotional activities, without first understanding the rapidly changing comparative advantages of Mauritius, and linking those attributes, with the technological and locational requirements of various industries is likely to result in activities unsuitable for the Mauritian context. Pure erection of space, without understanding the more sophisticated needs of higher value-added industry merely exacerbates the already poor physical plant that Mauritius now possesses.

The economic costs of both these activities -- in terms of the value of the opportunities foregone -- are significant. Without fundamentally understanding what types of industries to attract to Mauritius, the social costs to society would be large:

- the attraction of more labor-intensive enterprises would merely result in a shift of labor from one low-end application to another

- manpower upgrading efforts would be direction-less
- the types of infrastructure being constructed would not reflect market needs
- real incomes would decline as ensuing labor shortages would result in wage increases unmatched by productivity increases
- Mauritian competitiveness in its "traditional" manufacturing activities would erode.

The need for a multi-faceted approach to defining the direction of economic activity, understanding the types of industries to attract, and preparing detailed implementation plans to achieve diversification objectives is therefore evident. This is the basis for the project design which consists of short- and medium-term technical assistance in range of relevant areas.

#### IV. Estimating Project Costs and Benefits

From a national, economic perspective however, the economic costs of the project are complex. A critical question on the cost side relates to inputting a value of the opportunity costs of project activities. What were the other available uses of the funds? To what extent would the predicted downstream activities in the private and public sectors have occurred anyway in the absence of A.I.D. assistance? On the benefit side, the basic problem is one of predicting the impact of adding the technical assistance component. Although the effects of funding of technical assistance to the development of industrial policy development and export/investment promotion mechanisms have been studied often and in considerable detail, the empirical evidence linking such assistance to improved performance still remains scant.

These issues do not have simple answers. Clearly, much of the downstream investments made by the private and public sectors, in export-oriented activity will occur regardless of project activity. Some of that investment will even be in light manufacturing activities other than textile and garments. Still, project efforts are likely to profoundly affect investment decisions in ways that are unlikely to occur "naturally", as described below. Similarly, alternate programming of the A.I.D. funding in the form of technical assistance and no implementation activities would doubtless have similar effects. It is not clear, for example, that technical assistance resulting in an increased body of

knowledge about some other subject would have a greater economic impact.

The implicit assumption underlying project design that must be factored into an assessment of economic impact is that the benefits of the proposed project activities are far greater now than ever before, given Mauritius growth pattern. The country has reached a critical stage in its development so quickly, that little time has been spent investigating alternate opportunities or on alternate approaches. A.I.D. assistance providing valuable infrastructure and services development, and policy reform is most useful now, when Mauritius is seriously investigating the basis for long-term sustainable growth.

Much of the benefits of project activity is intangible. For example, the overall economic benefits of developing a consensus, increasing the understanding of and strengthening the policy dialogue between the private and public sectors cannot be specified except in general terms. The policy dialogue support activity will assist decision makers to more systematically and effectively determine near-term growth opportunities. The identification of market and investment opportunities and removal of identified constraints will result in increased and more efficient private sector activities. Re-orienting investment toward higher value added operations should enhance production, employment and incomes.

To the extent that information on market and export opportunities are pursued, and policies and procedures are improved, the overall downstream benefits of the project could be substantial, extending to the economy as a whole -- facilitating increased economic activity as result of the increased demand, and a more efficient allocation of resources overall. Training activities will upgrade the inventory of skills in the workforce, increase productivity and attract higher value-added operations to the country. New investment sector opportunity identification and promotional strategy development will allow entrepreneurs to pursue activities in diverse economic sectors.

In the long-term, the indirect and multiplier effects of project activity could be substantial. National labor productivity will be enhanced as highly labor intensive processes are mechanized and worker skills upgraded. The balance of payments effects of higher local value-added activities will be significant, resulting in higher net foreign exchange earnings and incomes. The diffusion of technology will be increased as more indigenous entrepreneurs are trained in new production technologies.

U. Financial Plan Cost Estimates

The average dollar-funded cost of technical assistance on a per month basis is \$19,000. This assumes dollar expenditures of \$800,000 on a total of 41 person months of technical assistance. The Project will involve two types of technical assistance, full-cost and IESC. For budget purposes, full-cost technical assistance is estimated to cost \$26,000 per person month, as shown in the table below. IESC technical assistance is estimated to cost \$19,000 per three month position. Of this, subject to negotiation with IESC, the Project will be responsible for paying \$10,000, the participant firm the rupee equivalent of \$5,000, and IESC \$4,000.

Estimated Person-month Cost of Full-cost Technical Assistance

Salary (\$260 per day, 24 days)	\$ 6,240
Overhead (150%)	9,360
Per diem (\$133 a day, 30 days)	3,990
Air travel	2,910
Other direct costs	1,000
Fee	<u>2,500</u>
Total	\$26,000

Note that the actual monthly cost of this TA will be less than \$26,000 because the air travel costs will be less in the cases where the TA's length of stay is longer than one month. For budget purposes, we have assumed a return air ticket each month. Where a consultant remains in Mauritius for longer than one month, this cost will be reduced. For example, where a consultant remains for two months, in effect the air travel cost on a monthly basis will be cut in half.

Budget Worksheet

1. Total person months available 41  
a) Full cost - 29 x 1 = 29  
b) IESC - 4 x 3 = 12

2. Budgeted full-cost person month cost \$26,000  
Budgeted IESC position cost to project \$10,000

Note: 7 full-cost positions are over 1 month long, in total equalling 11.5 months. Thus, at budgeted airfare of approx. \$3,000 per person month, there is overbudgeting of \$13,500 (4.5 x \$3,000). This, plus a slack of \$6,000, results in total overbudgeting of \$19,500. It is this amount which we are using to allow for 5% inflation in FY 1990.

3. Fiscal year dollar budgets  
a) FY 1989  
15.5 full-cost person months \$403,000  
3.0 IESC positions \$ 30,000  
\$433,000  
b) FY 1990  
13.5 full-cost person months \$357,000 \*  
1.0 IESC position \$ 10,000  
\$367,000  
Evaluation and Audit 50,000  
\$417,000

\* Includes \$6,000 adjustment.

4. Local currency budget  
a) Assume \$4,000 in local currency expenditures per person month.  
(1) \$1,000 for each of secretarial and office support, local transportation, workshop facilities and materials, and local consultants.  
b) FY budgeting  
FY 89, 24.5 person months x \$4,000 \$ 98,000  
FY 90, 16.5 person months x \$4,000 \$ 66,000  
Total 41.0 \$164,000  
c) Budget support to Center for Development \$162,000  
FY 89, \$ 63,000  
FY 90, \$ 99,000

SOCIAL ANALYSIS

Introduction and Methodological Note

Mauritius has a history of ethnic conflict and labor strife which has influenced the outcome of national political events and is a consideration in national policy-making. Despite the overall growth experienced in Mauritius during the last few years, little is known about the distribution of benefits among socio-economic strata and ethnic groups. Similarly, there is concern that rapid social change associated with economic development may be eroding social support networks based on family and community before alternative structures can emerge. Circumstances of this sort, which are common in the ESA region, can impede or undermine the stability of the economic development process. Accordingly, this project will allocate two person-months of the planned technical assistance to an examination of the following issues:

-- An assessment of the leadership, membership, and overall social-economic objectives of major labor organizations in Mauritius, with a view toward identifying labor welfare and improvement issues from the perspective of workers rather than employers

-- A preliminary assessment of the likely distribution of benefits associated with continued economic growth, focusing on socio-economic strata, ethnic groups, and other social categories that may be significant in the Mauritian context.

-- An examination of the effects of recent economic development on family and community in Mauritius, to be coupled with an assessment of the efficacy of alternative social support mechanisms that may be meeting the needs of modernizing Mauritians.

A recent addition to the AID/W PEDS project provides for short-term assistance to conduct such studies, and will be considered for use by the Project. The scope of work for this study will include such tasks as are necessary to bring the Project into compliance with guidelines set forth in State

218365, dated July 8, 1988, on the subject, "Action Items for Women in Development.

The direct impact this project will have on social structure is minimal because most activities will not result in immediate action but rather will increase a body of knowledge upon which the private sector and the government can draw in their efforts to diversify and expand the industrial base. This body of knowledge will be mostly technical, eg. identification of infrastructure-manpower-marketing needs of new industries, identification of export market opportunities, and improvements to production processes of specific firms. It will be in the utilization of this knowledge that social impact is likely to be significant. In addition, already the rapid economic development which Mauritius is experiencing has raised important social issues which the government has recognized and is attempting to resolve.

The purpose of this analysis is to identify and explore important social issues which are now becoming evident as Mauritius moves into the category of transitional developing countries (TDC). This project will play a major role in furthering the status of Mauritius as a TDC, and, as noted above, indirectly will influence the unfolding of those issues.

#### Mauritius as a TDC

In 1979, the GOM began a remarkably successful structural adjustment effort. The program was characterized by exchange rate adjustment, reductions in the fiscal deficit, restrictive monetary policies, the elimination of quantitative restriction on imports, and the gradual relaxation of exchange controls. A combination of liberal economic policies, plentiful and inexpensive labor, and low duty and quota access into the U.S. and European markets greatly increased the competitiveness of Mauritius. Heavy investment in export manufacturing industry largely based on textiles, resulted in vigorous export-led economic growth, taking advantage of a robust worldwide economy.

During the past three years, the value added from exports from the Export Processing Zone (EPZ) firms has grown at 30 percent per year, which in turn has led real GDP growth of 8 percent in 1986 and 1987. In 1987, EPZ production accounted for 13 percent of GDP and 33 percent of total employment. Textiles and garments dominate EPZ production, providing over 80 percent of exports and nearly 90 percent of jobs. The emphasis on textiles reflects Mauritius' comparative advantage of inexpensive labor and was accentuated by an influx of Taiwan and Hong Kong investors into the industry seeking duty and

quota free access into their traditional U.S. markets and political stability as well. None of the other EPZ industries, which include toys, jewellery, flowers, and optical goods supply more than 5 percent of exports or 1 percent of jobs. Economic growth is expected to be 5 percent in 1988, led by the EPZ sector which is projected to realize a real growth rate of about 20 percent. The EPZ firms have provided the bulk of the increase in employment, about 20 thousand new jobs a year since 1985, as opposed to an annual rate of entrants into the workforce of only 10 -15 thousand per year.

Labor shortages have the potential to be a serious barrier to further economic growth. Unemployment has been reduced dramatically from previous levels of nearly 20 percent to an estimated 5 percent in mid-1988, which approaches a full employment situation. Indeed, wage and benefit increases not related to productivity increases are a key factor in GOM's prediction of 12 percent inflation in 1988-9. Inflation had been held to less than double digits from 1982-1987.

#### Social Implications of Rapid Economic Growth

The need for focused attention on the various social issues which are arising has been recognized by the Government of Mauritius (GOM), as indicated by concern over quality of life mentioned in the recent Budget Speech presented by the Minister of Finance, Hon. S. Lutchmeenaraidoo.

There are two sets of concerns which Mauritians are now facing with respect to impact on social structure of national economic growth. One set has to do with improvements to lifestyle, and the other with handling the effects of economic growth on family structure and social development. Improvements to lifestyle are an essential part of the socio-economic growth process. In Mauritius major improvements are seen to be very real possibilities given the potential for increased incomes, greater employment opportunities, and the overall favorable financial situation of the government and ability to make expenditures on programs. However, in order to achieve this, economic growth must continue and the benefits of that growth must find their way to as many people as possible. An understanding of these prerequisites has led both the private and public sector in Mauritius to search for ways to diversify their newly developed industrial base away from textiles and toward other, high value added and higher technology industries. This movement will allow Mauritian workers to improve their level of skills and to improve their income earning potential. At the same time, assuming that much of the industrial growth will be in the export sector, increased

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foreign exchange earnings will allow for greater quantities of imports where these are necessary in particular in areas where local production is uneconomic. Improved level of skills, higher income-earning potential, better access to consumer goods, whether locally produced or imported, and greater national income leading to improved social services, all will play a role in enhancing the quality of life in Mauritius.

The major assumption underlying the above scenario is that growth of and structural changes to the industrial base will be a continuous process. Mauritius has successfully laid a foundation for growth through promotion of the export processing zone concept. Technological changes in the industries located in those zones, increased demand for employment leading to shortages in certain areas, and the entry into similar markets by other countries combined with the ever-changing systems of preferential access and trade quotas -- all these factors are leading to a situation in which Mauritius must actively diversify its base and move into more technologically advanced areas, and must continually reassess its situation to keep abreast of new developments. If opportunities are missed and economic development lags behind social aspirations, the expected improvements to quality of life will be more difficult to realize.

The other set of concerns which Mauritians are facing has to do with handling the effects of rapid economic growth on family structure and social development. A number of social issues has become evident over the recent past as Mauritius transforms its economy from one based primarily on agriculture and tourism to one in which industry plays a major role. These issues include: pressures on individual family members and on family structure as demand for employment draws increasing numbers of women and teenagers into the labor force, environmental degradation and shortage of necessary environmental services, increased criminal activity, uncertainty over the continuing high demand for labor, and inadequate land use planning leading to overcrowding and overtaxed infrastructure.

Increased pressure on family members and on family structure has resulted from greater participation in the labor force. More frequently families include both spouses as income earners, as well as teenagers who previously may have had household responsibilities. Because employment opportunities particularly in the textile industry do not require a high level of skills, teenagers who might otherwise continue their schooling to increase their level of skills do not face that incentive and drop out fairly early to take on employment. There is a growing concern that the break-down of extended families, combined with the increasing labor force

participation of women in particular, is leading to pressures within the family structure which will negatively affect social development in Mauritius. Increasing juvenile delinquency is seen to be one effect of this situation.

Environmental and land use planning issues are becoming important topics of debate and action. Lack of controls over polluting industries and lack of adequate zoning regulations are threatening the health and wellbeing of residents of various areas on the island. A recently completed World Bank report on the environment in Mauritius has been given a favorable reception on the part of the government, and already specific recommendations have been accepted and are being acted upon. Further action is planned in the form of a technical workshop and donors' conference later this year to consider how to proceed with implementation of the plan.

Uncertainty over the continuing high demand for labor is justified on the basis of the volatile nature of the textile industry and the large presence of foreign-owned businesses on the island. As the competitive advantage of Mauritius declines with more favorable incentives offered by other countries, and as foreign-owned businesses in particular shift their operations out of Mauritius, employment opportunities may decrease in the absence of new investment creating additional and substitute opportunities. To Mauritius' advantage in this regard is its low birth rate, estimated to be one percent. However, major shifts of firms out of the country could result in significant amounts of unemployment, which will be especially difficult to manage given expectations and lifestyles which have developed during times of full employment.

In sum, the success Mauritius has had in developing its economy has as a matter of course led to strains in the social fabric and physical environment of the country. This is by no means an unhealthy sign. To the contrary, it is a sign of growth and development. What becomes important is how quickly, effectively, and fairly the issues which arise can be resolved. Areas of concern have been identified by the Mauritians, and corrective action has already started. It is evident that social and environmental issues are recognized as important issues. It is important that this recognition continue over time, and that identification of the social and environmental implications of continued economic development be seen as a high priority of both the private and public sectors.

Annex F

Technical Assistance Consultancy Scopes of Work

and

Description of Project Activities

SCOPE OF WORK  
TECHNICAL ASSISTANCE/SEMINAR ON PREFERENTIAL MARKET  
ACCESS PROGRAMS

A. Objective

The objective of this consultancy is to increase GOM and Mauritian private sector awareness and understanding of preferential market access and duty/quota reduction programs for which Mauritian exports may be eligible.

B. Tasks

1. Obtain up-to-date information on rules of origin, eligibility requirements, and procedures associated with the following market preference programs:

- U.S. Generalized System of Preferences
- EEC Generalized System of Preferences
- Lome III Convention
- TSUS Items 806.3, and 807
- East/Southern African Preferential Trade Agreement
- Other market preference/duty reduction programs for which Mauritius may be eligible.

2. Familiarize with existing patterns of Mauritian exports and markets served, including patterns of current preferential market access.

3. Prepare and conduct a workshop (or workshops) for GOM and private sector representatives on these programs. A package of written materials should be prepared for distribution in conjunction with the seminar(s). The workshop(s) should increase the understanding and awareness of participants in terms of the existing rules and regulations of the preferential programs, as well as identify the sources of information to keep abreast of future changes and modifications.

4. Meet with interested GOM officials and private sector exporters to discuss market preference programs in general or answer questions regarding eligibility of specific products

for treatment under various programs. Those eligibility questions which cannot be answered immediately will be answered in writing within 2 weeks following the consultant's departure from Mauritius.

C. Outputs

Outputs of this consultancy will include: 1) a package of written materials explaining terms, procedures, and eligibility requirements for preferential market access and duty/quota reduction programs as described in task 1 above; 2) presentation of one or more seminars on preferential market access programs; 3) identification of organizations and other sources of continuous information on market access programs; and 4) answers to specific inquiries regarding eligibility of current or prospective Mauritian exports under these programs.

D. Level of Effort and Consultant Qualification

It is estimated that delivery of the consulting services described herein will require approximately 15 person days, of which approximately 5 person days will be spent in Mauritius. A minimum of 4 person days will be reserved for investigation of and response to specific eligibility inquiries as described in task 3 above.

Qualifications required for performance of this consultancy include a thorough knowledge of rules, procedures, and eligibility requirements associated with major U.S market preference programs, familiarity with EEC and other European preference programs, and an understanding of import and export documentation procedures.

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SCOPE OF WORK  
ELECTRONIC SECTOR COMPETITIVENESS/OPPORTUNITY  
IDENTIFICATION

A. Objective

The overall objective of this consultancy is to assess Mauritius' comparative advantage/competitiveness in export-oriented electronics-sector manufacturing activities and to identify specific opportunities for and constraints to investment in this sector. A second objective is to assist the GOM and private entrepreneurs in developing specific strategies for targeting and promotion of investment in and/or exports of electronics sector goods which are identified as offering high potential.

B. Tasks

1. Analyze the structure of the U.S., European and other major markets for offshore electronics production. Identify major locations, companies and products engaged in the offshore electronics industry. Identify factors affecting/driving and constraining demand and supply in principal product sectors.
2. Assess current Mauritian manufacturing capabilities in electronics and related sectors, including mechanical assembly, plastic extrusion, metalwork, etc. Identify principal constraints to development of the sector.
3. Prepare pro forma cost analyses for typical export-oriented manufacturing operations in the following sub-sectors:
  - electronic component assembly
  - electronic component manufacturing
  - assembly of consumer electronics
  - manufacturing of consumer electronics and subassemblies
  - other relevant product-sectors identified.
4. Assess the current policy/regulatory environment for electronic-sector assembly/manufacturing and identify specific areas where improvement may be required.

5. Assess the quality and quantity of manpower and infrastructure required to facilitate export-oriented assembly/manufacturing in the electronics sector. Analyze and identify the principal constraints to both local and foreign investment in the sector in terms of manpower skills, technical support, maintenance and support services, intermediate inputs, external infrastructure, physical facilities and utilities, etc.

6. Based on estimated local production costs and competitive international market conditions, including preferential market access programs open to Mauritius, identify specific product/manufacturing areas which offer high potential for investment/export.

7. Develop a practical investor targeting and promotional strategy (aimed in particular at U.S. investors) for implementation by the GOM and Mauritian private sector. This should include advice regarding the types of informational/promotional materials which should be developed as well as identification of specific trade and industry shows in the United States which might be appropriate for Mauritian participation.

8. Detail specific methods and strategies to penetrate and service specific markets including the utilization of such techniques as buy-back arrangements, marketing and distribution agents, sub-contracting, etc.

9. Prepare and conduct a workshop (or workshops) for appropriate GOM officials and private sector representatives. Coverage of the the workshop should cover the following topics

- the current international structure of electronic-sector production and markets
- expected medium- to long-term international demand conditions
- the structure and needs of the U.S. electronics sector, including areas of geographic concentration; current degree and sources of offshore production, and principal export products/markets
- specific opportunities and requirements as they relate to current or potential capabilities of Mauritius.

10. Conduct special briefing for selected GOM officials in Ministries of Planning and National Development and Industry regarding implications on private sector strategy development

in the electronics industry. Session will include specific recommendations in terms of manpower development, technical support services, maintenance and other service, external infrastructure, physical facilities and utilities, etc -- to facilitate development of the electronics sector in Mauritius.

C. Outputs

1. Detailed pro forma cost analyses as described in task 2 above.
2. A report (approximately 25-30 pages) which presents the findings and conclusions of tasks 1-8 above. The report should be presented in such a way as to be of maximum immediate utility to potential investors in pursuing new investment/export opportunities and to the GOM in addressing the manpower, policy, and infrastructure needs of electronic sector firms.
3. One or more workshops as described in tasks 9 and 10 above.
4. A briefing paper for GOM officials as described in task 10 above.

D. Level of Effort and Consultant Qualifications

The estimated level of effort for this consultancy is 1.5 person months. It is anticipated that the majority of the level of effort would be spent in Mauritius. The consultancy could be provided by an individual or by a 2-person team.

The required qualifications of the consultant/team include a solid knowledge of international markets, broad understanding (preferably through actual manufacturing experience) of electronics-sector assembly/manufacturing, particularly offshore production for export to key markets; a good understanding of the structure and requirements of U.S. electronic-sector firms; a good understanding of investment promotion/export marketing strategies and techniques; and an understanding of rules of origin requirements associated with preferential market access/duty reduction programs for which Mauritius may be eligible.

SCOPE OF WORK  
AGRO-INDUSTRY SECTOR COMPETITIVENESS/OPPORTUNITY  
IDENTIFICATION

A. Objective

The of this consultancy is to identify specific opportunities for and constraints to the development new of export-oriented agro-industrial activities in Mauritius. A second objective is to assist the GOM and Mauritian private sector in developing a strategy for promotion of investment in and/or exports of agro-industrial goods which are identified as offering high potential opportunities.

B. Tasks

1. Analyze the structure of the U.S., European and other major markets for offshore agro-industrial goods. Identify major locations, companies and products engaged in the agro-industrial sector offshore. Identify factors affecting/driving and constraining demand and supply in principal product sector markets.
2. Evaluate existing Mauritian export-oriented agro-industrial activity. Prepare a comprehensive profile of the agro-industrial sector, including number of firms, types of goods currently produced, levels of production and exports, destination of exports, etc.
3. Assess the export prospects of existing goods to new markets, and identify identify opportunities for processing or other use of current output.
4. Assess prospects and identify opportunities for new export-oriented ventures in the following areas:
  - processed and canned fruits and vegetables
  - frozen fruits and vegetables
  - agro-chemicals using sugar cane as a feedstock
  - aquaculture
  - ornamental flowers and plants
  - other product sectors identified.

5. Assess the current policy/regulatory environment for agro-industrial production/exports and identify specific areas where improvement may be required.
6. Assess the availability and quality of manpower and infrastructure required to facilitate various types of agro-industrial activities. Analyze and identify the principal constraints to both local and foreign investment in the sector in terms of manpower skills, technical support, maintenance and support services, intermediate inputs, external infrastructure, physical facilities and utilities, etc.
7. Prepare a "short list" of specific high-potential venture opportunities for which preparation of detailed pre-feasibility studies might be warranted. This list should be presented in the form of short (one page or less) profiles describing the nature of the activity, likely markets, and special requirements.
8. Develop a practical strategy for promotion of local and/or foreign investment in export-oriented agro-industry. The strategy should identify specific roles for both the GOM and appropriate private sector organizations. This should include advice regarding the types of informational/promotional materials which should be developed as well as identification of specific trade and industry shows in the United States which might be appropriate for Mauritian participation.
9. Prepare and conduct a workshop for appropriate GOM officials and private sector representatives. Coverage of the the workshop should include the following topics:
  - the current international structure and various product segments of the agro-industrial market
  - expected medium- to long-term international demand and supply conditions in major end-user markets
  - specific opportunities for investment and export development in the agro-industrial sector and requirements as they relate to current or potential capabilities of Mauritius
  - suggested plan for sector development.
10. Conduct special briefing for selected GOM officials in Ministries of Planning and National Development and Industry regarding implications on private sector strategy development in the agro-industrial sector. Session will include specific recommendations in terms of improvements in manpower

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development, technical support services, maintenance and other service, external infrastructure, physical facilities and utilities, etc -- needed to facilitate development of the sector in Mauritius.

### Outputs

1. The principal output of this consultancy will be a report (approximately 25-30 pages) presenting the findings and conclusions of the tasks described above. The present should be presented in view of providing maximum immediate utility to potential investors in pursuing new investment opportunities and to the GOM in addressing manpower, policy, and infrastructure needs of agro-industrial ventures.
2. A workshop as described in task 9 above.
3. A briefing paper for GOM officials as described in task 10 above.

### Level of Effort

The estimated level of effort for this consultancy is 1.5 person months. It is anticipated that the majority of the level of effort would be spent in Mauritius. The consultancy could be provided by an individual or by a 2-person team.

The required qualifications of the consultant/team include a broad understanding of agro-industrial production and markets; a good understanding of investment promotion/export marketing; and an understanding of preferential market access/duty reduction programs for which Mauritius is eligible.

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SCOPE OF WORK  
INFORMATION SERVICES SECTOR  
COMPETITIVENESS/OPPORTUNITY IDENTIFICATION

A. Objective

The overall objective of this consultancy is to assess Mauritius' comparative advantage/competitiveness in export-oriented activities in the information services industry, and to identify specific opportunities for and constraints to investment in this sector. A second objective is to assist private entrepreneurs and the GOM in developing specific strategies for targeting and promotion of investment in and/or exports of various information industry services identified as high potential activities.

B. Tasks

1. Analyze the structure of the international offshore information services industry. Identify the various segments of the sector, including:

- data entry (key boarding)
- fast-turnaround data entry
- computer aided (CAD) digitizing operations (blue prints, interactive video, etc.)
- software programming
- on-line data base management
- "voice center" operations (reservation centers, telemarketing)
- other newly emerging segments

Focus on major end-user markets, primarily the U.S. and Europe, and identify major offshore locations and companies. Provide a break-down of the value of offshore information services activity by market segment and end-market. Identify factors affecting/driving and constraining demand and supply in principal service segments.

2. Review the Mauritian experience in export-oriented information services activity. Identify the principal

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advantages and disadvantages of the following factors of production as they relate to various market segments:

- labor force (skill levels, available and cost) training/educational institutions (capacity, curricula, etc)
- infrastructure (physical facilities) transportation infrastructure/services (cost, frequency, coverage)
- utilities (electricity - cost, capacity and quality)
- telecommunications (system features, technical capabilities, capacity, near-term improvements, pricing, and policy)
- support services (maintenance, technical, supervisory)
- other

4. Assess the current policy/regulatory environment for information services activities, and identify specific areas where improvements may be required.

5. Prepare pro forma cost analyses for principal information services activity which may be viable for establishment in Mauritius.

6. Based on estimated local production costs and competitive international market conditions, identify specific service areas which offer high potential for investment/export.

7. Develop a practical investor targeting and promotional strategy (aimed in particular at U.S. investors) for implementation by the GOM and Mauritian private sector. This should include advise regarding the types of informational/promotional materials which should be developed as well as identification of specific trade and industry shows in the United States which might be appropriate for Mauritian participation.

8. Detail methods and strategies for Mauritius to become a leading location in the offshore information services industry. Identify specific ways firms and GOM can "position" themselves to attract investment, including specialized training linkages, telecommunications facilities, etc.

9. Prepare and conduct a workshop (or workshops) for appropriation private sector firms and organizations and relevant GOM officials. Coverage of the workshop should include the following topics:

- the current structure of the offshore information services industry and end-user markets
- expected medium- to long-term international demand conditions
- comparative advantages and disadvantages of Mauritius as they relate to various service segments
- specific opportunities for investment in the industry in Mauritius
- suggestions for improvements in local policy, infrastructure, and factors of production to catalyze investment
- overall strategy and tactics to position Mauritius in the market.

10. Conduct special briefing for selected GOM officials in Ministries of Planning and National Development and Industry regarding implications of the study on development of a Mauritian information services industry. Session will include specific recommendations in terms of manpower development, technical support services, maintenance and other service, external infrastructure, physical facilities and utilities, etc -- to facilitate development of the industry in Mauritius.

#### C. Outputs

1. Detailed pro forma cost analyses as described in task 2 above.
2. A report (approximately 25-30 pages) which presents the findings and conclusion of tasks 1-8 above. The report should be presented in such a way as to be of maximum immediate utility to potential investors in pursuing new investment/export opportunities and to the GOM in addressing the manpower, policy, and infrastructure and other needs of the industry.
3. One or more workshops as described in tasks 9 and 10 above.
4. A briefing paper for GOM officials as described in task 10 above.

#### D. Level of Effort and Consultant Qualifications

The estimated level of effort for this consultancy is 1.5 person months. It is anticipated that the majority of the level of effort would be spent in Mauritius. The consultancy could be provided by a 2-person team.

The team leader should possess wide experience in the offshore information services activity, specifically in some of the newer and higher-technology segments of the industry. Detailed understanding of the requirements for physical facilities and support services (especially in the area of high technology office parks, specialized and innovative training linkages, and specialized telecommunications of the industry is necessary. Practical experience in establishing offshore service bureaus is desirable. The team member should be an economist with wide experience in assessing the financial and economic viability of offshore information services projects, as well as a detailed understanding of the requirements of those projects on policy improvements, specific incentives, manpower development, and other economic factors of production.

SCOPE OF WORK  
RATIONALIZATION AND SPECIALIZATION PROSPECTS OF  
SMALL & MEDIUM SCALE TEXTILE AND APPAREL PRODUCERS

A. Objective

The overall objective of this consultancy is to assess the prospects for and provide assistance to the smaller Mauritian producers of textiles and garments in restructuring their operations to higher value-added production.

B. Tasks

1. Review background material detailing the evolution of the export-oriented textiles/garment manufacturing sector in Mauritius. Identify principal factors contributing to the success or failure of textiles/apparel manufacturing activities.

2. Analyze and delineate the structure of the Mauritian industry, incorporating such factors as: ownership structure by sales/export value; concentration of employment; categorization of the industry by value-added; origin of imports and destination of exports; extent and composition of local value-added; degree of vertical integration; category and export value of principal products; types of marketing and distribution networks utilized; extent of inter-firm subcontracting, etc. The aim of this task is to provide a detailed analysis of the industry, with a specific emphasis on the small- to medium-sized firms.

3. Undertake a detailed analysis of Mauritian capabilities. This review should evaluate and identify specific areas of deficiencies in production technology and techniques; marketing and distribution methods, etc.

4. Identify the principal advantages and disadvantages of the following factors of production as they relate to the Mauritian textile/apparel industry. Identify principal constraints and areas of deficiencies.

- labor force (skill levels, availability and cost)
- training/educational institutions (capacity, curricula, etc)
- infrastructure (physical facilities)

- transportation infrastructure/services (cost, frequency, coverage)
- utilities and telecommunication
- support services (maintenance, technical, supervisory)
- other.

4. Assess the current policy/regulatory environment as it affects the industry, examining such factors as customs procedures, etc, and identify specific areas where improvements may be required.

5. Based on the above tasks, develop profiles of "typical" large, medium and small textile and apparel manufacturers. Identify specific problems and advantage and disadvantages faced by each.

6. Based on similar experience with the development of the textile/apparel industry elsewhere, forecast the likely near- and medium-term development of the Mauritian textiles/apparel sector. Identify specific product segments, markets, production techniques, etc., that Mauritius will no longer be competitive.

7. List alternative development paths for the future development of the industry, and identify principal advantages and disadvantages of each.

8. Develop an optimal strategy for the near- and medium-term restructuring of the industry. Develop specific recommendations for firms to rationalize their operations. The action recommendations should cover several areas: a) prospects and viability for certain firms to specialize in parts of the textile/apparel manufacturing process; b) adoption of alternate production technologies or production techniques to enhance productivity and cost-effectiveness; c) adoption of innovative management techniques to enhance quality and productivity; d) possible subcontractual or other relationships that smaller firms can develop with large producers; e) marketing and distribution strategies; f) coordination among large firms in rationalizing their operations and avoiding unnecessary duplication. Specific attention should be given to the area of quality and productivity enhancement methods. The concept of establishing a textile design center, where an independent organization could provide "off the shelf" designs for smaller firms, thereby enhancing their capabilities to compete with larger firms.

9. Develop recommendations on the improvements in policy or incentive structure, etc., that could be utilized to facilitate the restructuring of the industry to higher value production. This should include both "passive" incentives such as investment tax credits for re-tooling, as well as more "active" incentives such as specialized training courses, etc. Identify methods for collaboration of the private and public sectors in this effort.

10. Prepare and conduct a workshop for appropriate private sector firms and organizations and relevant GOM officials. Coverage of the workshop should include the following topics:

- the current structure of the Mauritian textiles/apparel industry
- possible development path for the industry over the near-term, and areas of opportunity as well as areas of declining competitiveness
- specific opportunities for restructuring of the industry
- suggestions for improvements in policy, production technology, infrastructure, and factors of production to catalyze investment
- overall strategy and tactics to move to higher value-added production.

#### C. Outputs

1. A report (approximately 25-30 pages) which presents the findings and conclusions of tasks 1-9 above. The report should be presented in such a way as to be of maximum immediate utility to potential investors in pursuing new investment/export opportunities and to the GOM in addressing the manpower, policy, and infrastructure and other needs of the industry.

2. One workshop as described in task 10 above.

#### D. Level of Effort and Consultant Qualifications

The estimated level of effort for this consultancy is 1.5 person months. It is anticipated that the majority of the level of effort would be spent in Mauritius. The consultancy could be provided by a 2-person team.

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The team leader should possess extensive experience in the design and development of textiles and apparel operations in developing countries, and should be knowledgeable of the higher value-added and more fashion sensitive segments of the European and U.S. textiles/apparel markets. This experience should preferably be derived from a background in developing and managing such units personally. Experience with the industry in Hong Kong and other NICs will be very important. An economics or similar background in public policy will be extremely helpful in translating the industry problems into concrete actions for GOM and private sector attention. The team member should be an industry specialist with "hands-on" experience in managing all aspects of textiles/apparel production. He should be familiar with the production techniques and technologies successfully applied elsewhere in upgrading low-end production.

SCOPE OF WORK  
STUDY ON IMPLICATIONS FOR MAURITIAN POLICY ON ATTRACTING  
NEW INVESTMENT SECTORS AND RATIONALIZING EXISTING INDUSTRY

A. Objective

The overall objective of this consultancy is to assist the Mauritian private sector and the GOM in understanding the concrete implications of attracting new high value industry to Mauritius as well as re-orienting existing industry to higher value production.

B. Tasks

1. Review the studies and technical assistance efforts of previous project consultancies in the following areas: rationalizing the Mauritian textile and apparel industry, and the opportunity identification assessments of the electronics, information services and agro-industry sectors. Review progress to date in manpower development efforts under A.I.D.'s HRDA project. Review other analyses of the future direction industrials development and industrial policy in Mauritius.
2. Summarize the findings of the previous assessments. For the existing textile/apparel industry, indicate principal constraints identified and recommendations developed to facilitate the restructuring of the industry. For the new "high potential" industry sectors identified, detail the needs of the industries identified, the present constraints to the establishment of the industries in Mauritius cited, and the principal recommendation suggested.
3. Undertake a brief assessment of the private sector business climate in Mauritius, identifying the current practices and principal constraints in business formation and capitalization procedures; current practices and principal constraints to private sector investment in commercial and industrial real estate; overall incentive structure, etc., to provide background to "fine tuning" the recommendations of the previous reports.
4. Based upon the above, develop concrete action plans to implement the recommendations of the reports. Identify principal constraints to implementation and recommend optimal strategies to overcome constraints. These action plans should be realistic and concrete, with an emphasis on optimizing the roles of the private sector and the GOM in implementation. At

a minimum, the clear implications of the implementation strategies on improvements in the following subject areas should be addressed.

- a. manpower development
- b. investment incentives structure
- c. industrial infrastructure and support services
- d. water, sewerage, telecommunications and electricity provision
- e. production techniques and technologies
- f. "pro-active" collaboration activities between the private and public sectors in quality and productivity enhancement.

5. Conduct two separate special briefings for selected private firms and private sector associations on the one hand, and GOM officials on the other regarding the findings of the technical assistance efforts, and implementation of the concrete action plans developed. Session will include specific recommendations in terms of manpower development, technical support services, maintenance and other service, external infrastructure, physical facilities and utilities, etc -- to facilitate the industries in Mauritius.

#### C. Outputs

1. A report (approximately 25-30 pages) which presents the findings and conclusions of task 1-8 above. The report should be presented in such a way as to be of maximum immediate utility to potential investors in pursuing new investment/export opportunities and to the GOM in addressing the manpower, policy, and infrastructure and other needs of the industry.

2. Preparation of special briefing papers and undertaking two presentations for private and public sector representatives as described in task 5 above.

#### D. Level of Effort and Consultant Qualifications

The estimated level of effort for this consultancy is 1.5 person months. It is anticipated that the majority of the level of effort would be spent in Mauritius. The consultancy could be provided by a 2-person team, though one person is sufficient. The consultant should be a senior expert, with a

diverse and extensive background in industrial development issues, with specific experience with some of the newer and higher-technology segments of newly merging industries. Expertise in private sector-led industrial policy diversification efforts in other newly industrializing countries is required.

SCOPE OF WORK  
SEMINAR ON MAURITIAN INDUSTRIAL DIVERSIFICATION STRATEGIES

A. Objective

The overall objective of this consultancy is to increase the understanding of key decision-makers in the Mauritian community and the public sector as to changes in Mauritius' comparative advantage, and implications of that on the purpose and direction of industrial diversification efforts. A related objective is to develop a consensus among these decision-makers on the near-term actions that are required to implement the strategies proposed.

B. Tasks

1. Review the studies and technical assistance efforts of previous project consultancies in the following areas: rationalizing the Mauritian textile and apparel industry, and the opportunity identification assessments of the electronics, information services and agro-industry sectors. Review progress to date in manpower development efforts under A.I.D.'s HRDA project. Review other analyses of the future direction industrial development and industrial policy in Mauritius.

2. Utilize the findings of the previous assessments to design a comprehensive workshop on industrial diversification strategies. Specific tasks include preparation of workshop support materials. The scope of the seminar should include the following issues:

- a. Understanding Mauritian Comparative Advantage: Developing a techniques to assess changes in the country's resource endowments and the implications of that change on technology choice and implications for the direction for industrial development.
- b. Recent Developments in Emerging Industry and Services Operations: A summary of the investment and export opportunities offered by newly emerging industry and services sectors and technologies.
- c. Industrial Diversification: Implications for Mauritius. The detailed findings of previous project activities on the improvements that are needed in the Mauritian framework to meet the more sophisticated demands of high value secto.

- d. **Developing a Strategic Approach to Industrial Diversification:** In conjunction with the HRDA project's technology search workshops, focused consensus-based concrete strategies should be developed to both attract new high value industry and rationalize existing industry.

3. Based on the above, develop "white papers" summarizing the consensus private/public sector strategies for industrial diversification in Mauritius. Each of these should be concrete implementation plans and schedules, oriented to a specific, well-defined activity. These activities could include such topics as upgrading specific skill bases; catalyzing private investment in high-quality industrial infrastructure development, etc. The aim of the papers is to serve as a basis for continued private/public policy definition and articulation in support of continued industrial diversification efforts.

C. Outputs

1. A seminar and several focused workshops as described above.
2. Preparation of "white papers" as described in task 3 above.

D. Level of Effort and Consultant Qualifications

The estimated level of effort for this consultancy is 1.5 person months. It is anticipated that the entirety of the assignment would be spent in Mauritius. The seminar leader should be well experienced in conducting and leading similar consensus-building, policy dialogue facilitating exercises. He should be widely knowledgeable of industrial diversification issues and approaches, but must be more experienced as a facilitator of discussion. He will be supported by the technical input of several technical resource experts in each of the "high potential" industry and services areas identified.

## DESCRIPTION OF ADDITIONAL TECHNICAL ASSISTANCE ACTIVITIES

Title: Assistance in Design of Industrial Estate for Pollution-Intensive Firms

Purpose: The objective of this consultancy is to assist in the design of an industrial estate for polluting operations.

Principal Activities: The consultants will: a) review the types of EPZ and non-EPZ manufacturing firms in Mauritius, and identify and assess current approaches to waste treatment and disposal; b) identify the options available to the private sector and GOM in the treatment of effluent and other wastes of identified industrial operations; c) formulate a physical master plan for the design of the industrial estate, including specifications of the types of facilities required to treat solid and liquid wastes, sewage and potable water; d) assess the overall benefits of project design including the preparation of preliminary capital costs for industrial estate development.

Level of Effort/Consultant Qualifications: The level of effort will be about 1.5 person months, of which about 20 person days will be spent in Mauritius. A two-person team is required, composed of a team leader (preferably an engineer) who has wide experience in the physical planning and design of industrial estates and free zones, and an environmental specialist with experience in industrial pollution treatment operations.

Title: Assistance in Design and Establishment of a Center for Productivity

Purpose: The objective of this consultancy is to assist in the design of an integrated package of activities designed to enhance the productivity and enhance the skills of workers and managers in target manufacturing operations. This will facilitate the establishment of higher value-added operations in Mauritius, as well as the consolidation of the existing textile industry.

Principal Activities: The consultant will: a) review the approaches successfully applied in other developing countries (primarily Far Eastern NICs) in developing a program of activities for productivity and skill enhancement; b) meet with private and public sector specialists to isolate specific needs in managerial/technical training, entrepreneurship support and development, technical support services, etc.; c) identify the

key areas to facilitate the consolidation and diversification of small scale Mauritian textile producers; d) identify the manpower and technical requirements of emerging targeted industry and services sectors; e) formulate the overall design for the various components that could be part of a "Center for Productivity" including training on specialized equipment; development of quality circles; approaches to managerial and technical productivity enhancement; establishment of business incubation and entrepreneurship support services, among others. The possibility of creating specialized facilities to house these activities should also be considered.

Level of Effort/Consultant Qualifications: The level of effort will be limited to about 17 person days, the majority of which will be spent in Mauritius. The consultant must possess wide experience in the development of specialized programs for manpower development generally, and for productivity enhancement techniques specifically. He must be familiar with techniques successfully utilized by leading U.S. and Far Eastern companies in the productivity/quality enhancement area, preferably through direct design and implementation of such activities.

Title: Technical Seminar on Promoting U.S. Investment in Mauritius

Purpose: The objective of this consultancy is to provide practical advice on the overall strategy and tactical approaches to catalyze U.S. investment in Mauritius.

Principal Activities: The consultant(s) will: a) review the past efforts of Mauritius in attracting U.S. investment, and identify principal shortcomings and areas of improvement; b) provide an overview of the factors motivating the flow of U.S. direct investment to offshore locations in terms of industry sector and product areas, end-markets served, etc.; c) delineate recent changes in the types of U.S. investments being made in various offshore locations (e.g., the rise of subcontracting and shelter plan type investments); d) summarize successful approaches utilized elsewhere in attracting various forms of U.S. investment; e) briefly assess Mauritian competitive appeal to U.S. investors vis-a-vis competing locations; f) provide assistance in the development of overall strategies and specific tactics in overall marketing and direct promotion to the U.S. market. Marketing and promotional activities should include concrete advice in the areas of "product" and "message development, use and utility of various forms of mass media, etc. The principal output of these efforts will be a seminar for relevant private and public sector organizations.

Level of Effort/Consultant Qualifications: The level of effort for this consultancy will be 1.0 person month, mostly spent in Mauritius. The consultant(s) should possess a varied background in investment promotion activities directed at the U.S. market, and have been involved in the design and implementation of such activities. Specific experience in this area from an East African or Indian Ocean location will be preferable.

Title: Technical Assistance/Study Evaluation of Feasibility and Design of Office Park with Specialized Services and Amenities for Information Services Firms

Purpose: The objective of this consultancy is to assess the viability and provide the conceptual design of an office park for high technology information services applications.

Principal Activities: The consultants will: a) review the earlier opportunities identification study that assessed the prospects and detailed the requirements for establishment of information services in Mauritius; b) identify the physical requirements of "high potential" information services operations in terms of type of buildings, specialized features (e.g., local area network, electrical lines, airconditioning, uninterrupted power supply, etc.); c) identify the requirements for utilities and services (electricity, specialized telecommunications facilities, transportation services); d) design the package of support services required (maintenance and technical services, etc.); e) prepare preliminary capital cost estimates of physical development and determine the conditions for the financial viability of the park; f) prepare preliminary master plan showing schematic lay out of the park; g) detail the requirements for a pre-feasibility study analysis of the project.

Level of Effort/Consultant Qualifications: The level of effort for this consultancy will be 1.5 person months, at least half of which will be spent in Mauritius. Two consultants will be required. The team leader will be a specialist in the information services industry, and will have participated in the design and assessment of such parks in other offshore locations. The team member will be a financial analyst/economist (or engineer with relevant experience) with wide experience in the design and assessment of similar projects. Past experience with industrial projects in Mauritius will be helpful.

Title: Technical Assistance/Study Evaluation of Feasibility and Design of an Industrial Estate with Specialized Services and Amenities for High Value-Added Light Manufacturing and Agro-Industrial Activities

Purpose: The objective of this consultancy is to assess the viability and provide the conceptual design for a fully serviced industrial estate catering to high value-added light manufacturing and agro-industrial activities.

Principal Activities: The consultants will: a) review the earlier opportunity identification study that assessed the prospects and detailed the requirements for established of higher technology light manufacturing and agro-industrial operations in Mauritius; b) identify the physical requirements of "high potential" information services operations in terms of type of buildings, specialized features needed by both light manufacturing and agro-processing operations; c) identify the requirements for utilities and services; d) design the package of specialized support services and amenities required (as with other high-value estates, such services could include assistance with labor procurement, linkages with training institutions, and amenities as health clinic, canteens, recreational areas, etc.); e) prepare preliminary capital cost estimates of physical development and determine the conditions for the financial viability of the estates; f) prepare preliminary master plan showing schematic lay out of the estate conforming to international standards of design; g) detail the requirements for a pre-feasibility study analysis of the project. The study should clearly note the differences facilities, services, etc. required by light manufacturing and agro-industry operations, such as the need for refrigerated warehousing, and the like.

Level of Effort/Consultant Qualifications: The level of effort for this assignment will be 1.5 person months, at least half of which would be spent in Mauritius. Two consultants will be required. The team leader will be an engineer with worldwide experience in the development of high-quality industrial estates and free zones, and prior experience with industrial infrastructure projects in Mauritius. He will have participated in the design and assessment of such projects in other offshore locations. The team member will be a financial analyst/economist with solid experience in the assessment and configuration of similar projects worldwide.

Title: Assessment of Prospects for the Establishment of Production Sharing Operations with Regional Neighbors (Alternative Activity)

Purpose: The objective of this consultancy is to determine the preliminary viability of establishing "production sharing" operations between Mauritius and other low-wage regional neighbors.

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Principal Activities: The consultant(s) will: a) review the experience of the Caribbean Basin in the establishment of "production sharing" or "twin-plant" operations between a facility in Puerto Rico and low-wage neighboring countries, and summarize relevance of that experience to Mauritius; b) identify the principal types of processes and operations that are amenable for production sharing between two locations; c) detail the principal motivations for production sharing operations in various industries; d) evaluate the prospects for production sharing operations between Mauritius and other countries, and assess potential benefits and costs; e) develop a strategy for establishing such operations in Mauritius.

Level of Effort/Consultant Qualifications: The level of effort for this consultancy is 1 person month. The assignment may be undertaken by one or more consultants that are experienced in the technical and economic analysis of production sharing operations. Recent relevant experience in Madagascar and Kenya is necessary. Specific experience with twin plant operations in the Caribbean Basin would be desirable.

ANNEX G

INITIAL ENVIRONMENTAL EXAMINATION  
OR  
CATEGORICAL EXCLUSION

Project Country: Mauritius  
Project Title and Number: Industrial Diversification (642-0010)  
Funding: FY(s) 88 \$850,000  
IEE/CE Prepared by: Ed McGowan, REDSO/REO

Environmental Action Recommended:

Positive Determination \_\_\_\_\_  
Negative Determination \_\_\_\_\_  
or  
Categorical Exclusion X

This activity meets the criteria for Categorical Exclusion in accordance with Regulation 16, Section 216.2 (c) and is excluded from further review because:

The project purpose is to help the GOM achieve its economic growth objectives by refining its understanding of Mauritius' comparative advantage and developing an industrial expansion/diversification and investment/trade promotion strategy. This will be accomplished through the provision of medium- and shorter-term technical assistance.

THRESHOLD DECISION: Categorical Exclusion

For certain classes of actions where there is no adverse impact Regulation 16, Section 216.2(c) provides for Categorical Exclusions. When a project meets those criteria, in Initial Environmental Examination is not required. The above project warrants a Categorical Exclusion based on the finding that it meets Section 216.2(c)(2)(I) and Section 216.2 (c)(2)(XIV). The former section relates to educational technical assistance, and the latter to programs which develop within the recipient country the capacity to engage in development planning. There is a caveat under Section 216.2(c)(3) which provides for further environmental review if later is determined that the project, or any component or aspect thereof may have a significant adverse impact on the environment.

Per State 159862, REDSO/ESA Director is authorized to approve an Initial Environmental Examination or Categorical Exclusion, as appropriate.

APPROVED: Satish P. Shah

DISAPPROVED: \_\_\_\_\_

DATE: \_\_\_\_\_

Clearance: REDSO/RLA W.A. K...

Date: June 23, 88

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