

Agency for International Development 1. Cooperating Country MAURITIUS Page 1 of 7 Pages

PACR  
 Project Assistance  
 Completion Report

2. Project Name & Number:  
 Mauritius Economic Policy Reform Program  
 (EPRP) No. ~~642-0008~~

3. Functional Account (s) ESF

4. Project Assistance Completion Date (PACD)  
 Original 9/23/86 Amended 12/31/87  
 5. Grant No. and Date  
 642-K-605  
 September 24, 1985

6. Type of Agreement and Grantee:  
 Grant  Cooperative Agreement  LSGA  Other

7. Financial Inputs USAID: \$5,000,000  
 GOM N/A

Project Element		PP Budget	Latest Budget	Earmarked	Unearmarked
#1 N/A (Cash Transfer)	US\$	\$5 million	\$5,000,000	\$5,000,000	-0-
	Rs	75 Million	73,513,142	73,513,142	-0-
#2	US\$				
	Rs				
#3	US\$				
	Rs				
#4	US\$				
	Rs				
#5	US\$				
	Rs				
#6	US\$				
	Rs				
#7	US\$				
	Rs				
Totals: (AID)	US\$	5 million	5,000,000	5,000,000	-0-
(Counterpart)	Rs	75 Million	73,513,142	73,513,142	-0-

## 8. Summary

An ESF grant in the amount of \$5 Million was made to the Government of Mauritius (GOM) under the African Economic Policy Reform Program (AEPRP) in 1985. The Project Agreement, which was signed on September 24, 1985, supplemented ESF financed balance of payments support provided by the USG to GOM through Commodity Import Programs (CIPs).

The program was designed in conjunction with the stabilization and structural adjustment program which the GOM embarked on in 1979 with the support of the IMF and the World Bank. The justification for the Mauritius EPRP rested on the need to support continued reforms of the Mauritian economy in order to foster greater economic efficiency and growth.

Implementation of the EPRP was through the Ministry of Finance in co-ordination with the Ministry of Economic Planning and Development. The monitoring function was carried out by REDSO/ESA with assistance from the American Embassy in Port Louis.

## 9. Background

Mauritius has distinguished itself as the only successful case of export-led manufacturing growth in Sub-Saharan Africa. The transition began with policy measures taken by the GOM under the Structural Adjustment Program (SAP) of the early 1980's to stimulate the recovery of industrial exports, and export promotion activities abroad were also intensified. As a result, export-oriented manufacturing had grown by some 30 percent per annum in real terms. In 1985, for the first time, manufactured products surpassed sugar as Mauritius's principal exports. Important policy reforms which had been implemented under the SAP included withdrawal of special incentives for investment in import-substituting manufacturing enterprises and the elimination of all quantitative import restrictions in 1984-85, resulting in an investment boom in the export oriented industrial sector. Mauritius had effectively moved from being a developing country to a transitional developed country (TDC).

## 10. Program Purpose and Objectives

The objective of the Industrial Sector Adjustment Loan (ISAL) proposed by the World Bank was to phase out gradually the remaining subsidies to inefficient import-substitution industries and to make

available increased foreign exchange to allow manufacturing exporters to import the necessary inputs to increase their output. The purpose of AID's one year EPRP program was to assist the GOM by providing foreign exchange and budgetary support to ease the burden of policy reform called for in the ISAL.

The design team identified the following specific areas where the EPRP monies could be used to support policy changes and economic reforms: (1) income tax reduction and rationalization (to bring income taxes in line with the corporate income tax rates and, among other things, reduce the number of income tax brackets); (2) tariff and trade reforms (to encourage increased efficiency and international competitiveness of local industries); and (3) changes in the industrial investment and incentives program (to encourage industrial productivity) tax reduction and rationalization, tariff and trade reforms, and changes in the industrial incentive program

Disbursement of the \$5.0 million cash grant would provide immediate balance of payment relief, with the first tranche intended specifically to help GOM cover a revenue shortfall (U.S.\$ 6.0 million) created by the loss of income tax revenues. The local currency generations would be used to finance priority development activities.

It was recognized, in the case of (1) and (2) above, that reforms in those areas would require a series of changes, implemented over a number of years, to achieve growth-oriented policies and structures. The objectives of the Mauritius program were geared, nonetheless, to the EPRP objectives of quick disbursement and foreign exchange and budgetary assistance.

#### 11. Disbursement of Dollar Funds

It had been planned that release of the first tranche of \$2.0 million dollars, which was conditioned upon GOM's commitment to policy reforms in the areas of trade, tariff, and industrial incentives, take place within a month of the signing of the grant agreement. The conditions were met by the GOM in November 1985, and disbursement of the \$2.0 million to the GOM took place in December 1985.

The release of the second tranche (\$3.0 million), which was conditioned upon evidence of significant progress in implementing agreed upon reforms, was originally scheduled to take place in March or April of 1986. However, it was not until August 1987 that release of this tranche was approved by AID.

## 12. Benchmarks for Release of Second Tranche

The GOM agreed to provide satisfactory evidence relating to progress made in tariff simplification and in modification of its industrial incentive programme as conditions precedent to release of the second tranche. The measurable benchmarks were to be established at a later date.

At the same time that the GOM was negotiating with AID on the final benchmarks, they were also involved in extensive negotiations with the World Bank and African Development Bank, which were considering the provision of \$25 million and UA 30 million, respectively, for the Industrial Sector Adjustment Loan. This loan was conditional upon the GOM implementing significant tariff reduction measures; submitting plans of action for restructuring its drawback system and for simplifying its tariff schedule; and institutionalizing the criteria for granting of Development Certificates. These negotiations were not concluded until July 1, 1987 when the Bank loan was signed.

The GOM was not able to reach any agreement with AID until negotiations with the Bank were concluded. AID agreed, in view of the complementary nature of the reforms underlying the EPRP and the World Bank/African Development Bank loan, to extend the period for disbursement of the second tranche to two years and three months. In the absence of agreed upon benchmarks, REDSO/ESA, with the concurrence of the Embassy and AID/Washington, commissioned a report to serve as the basis for determining progress made by GOM in meeting the conditions precedent to release of the second tranche of \$3 million.

Dr. Doris J. Jansen, the macro-economist who was detailed by Development Technologies, Inc., to assess the impact on the Mauritian economy of tariff reforms undertaken by the GOM, completed the study in August 1987. The study indicated that GOM had made significant progress in the target reform areas and was moving forward with implementation of the package of reforms which had been agreed upon - income tax reform, tariff reduction for a few high priority items, the slashing of the GOM budget to release funds for the private sector, etc. On the basis of the findings of the Jansen report, AID approved the release of the second tranche.

## 13. Local currency projects

The local currency generations from the first tranche amounted to Rs 28,746,666.67 and were utilized in the investment budget for the

following capital development projects:

- Promotion of Tourism - Rs 19,246,666.67, and
- Water Supply Improvement Projects in the North (to encourage development of tourism there).

Rs 19.2 million was released to the Mauritius Government Tourist Office in 1986, and Rs 9.5 million was released to the Ministry of Energy in November of 1986.

Rs 39,808,500 representing the rupee equivalent of \$3.0 million (second tranche) was credited to the special account in November 1987. AID approved GOM's use of Rs 38.57 million in support of its environmental programme; Rs 1.1 million for a health management consultancy by New York University; Rs 0.2 million for a consultancy by IESC for the Mauritius Export Development and Investment Authority (MEDIA); and a residual amount of Rs 4.8 million, plus the interest earnings on the local currencies generations, for the construction of a training facility for the Industrial Vocational Training Board.

#### 14. Extent EPRP Objectives Met

The findings of Dr. Jansen study and other subsequent assessments confirmed that Mauritius had adopted pragmatic economic policies which were fostering substantial increases in industrial output, personal income and improved social services for the population. The \$5 million grant supported a significant reduction in tariff levels to reduce distortions in the manufacturing sector and improve the cost competitiveness of export manufacturing. As a result, the maximum tariff level was reduced from 330 percent to 127 percent.

Some of the economic trends which became evident included a rapid growth in merchandise exports, a significant increase in receipts from tourism, and a substantial increase in private capital flows into Mauritius in the form of private transfers. The balance of payments registered an SDR 133 million surplus recorded for 1987. Total foreign exchange reserves in the hands of the banking system rose from the equivalent 1.3 months of C.I.F. imports at the end of 1985 to 4.2 months imports by the end of 1987.

The GOM's reforms played a major role in significantly increasing the exports of manufactured goods. It is anticipated that all types of

businesses, irrespective of size, will derive benefits from it in the long term. The program will have a broad impact on the overall economy, and will affect rural as well as urban areas.

All the objectives of the EPRP are considered to have been fully met. The (short-term) stabilization goals of the EPRP were met in a timely manner. The balance of payments received support at a crucial time during the implementation of the Government's reform package. Based on the analyses which are available, the structural adjustment goals of the GOM's reform efforts in general, and of the EPRP in particular, have been satisfactorily met. No long-term dependency on the part of either the GOM or the private sector is expected to result from the intervention. The success of this program, which is the first African Economic Policy Reform Program to disburse fully, is largely attributable to the GOM's commitment to reform.

#### 15. Future Options for Support

The very strong balance of payments and foreign exchange reserve position of Mauritius, together with the transformation of Mauritius into a newly industrialized country (NIC), imply a completely changed set of circumstances. The new situation has compelled AID to formulate new strategies for future support to the GOM.

