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"Tout l'art de la politique est de se servir des conjonctures." Louis XIV

A post Repo rate cut outlook on inflation

By Sameer Sharma

As the year continues to unfold and as the target forecast months approach, forecasting power generally increases dramatically. Indeed forecasting inflation for a developing country where food and energy components account for such a large portion of the consumer price index basket is a tedious task fraught with assumptions about the evolution of the underlying variables.

The number of unknowns is so large that forecasters often prefer to look at the direction of their forecasts rather than the actual figure itself. Admittedly, this has been my biggest challenge over the past few months, and other long term forecasts made in Mauritius have also not fared much better. Just take the quarterly issues of the MCB Focus since 2006 and you will understand what I mean.

While I have been able to capture the direction and the trend of inflation over the past twelve months, the accuracy during certain months has not been satisfactory. Take the appreciating Rupee as an example.

I had hoped that more operators would have translated the important appreciation of the Rupee vs. the US Dollar into lower price growth (and even price cuts for certain goods).

The fact is that many operators in Mauritius seem to adjust prices much more quickly when the Rupee depreciates compared to when the Rupee appreciates. This lack of pass-through has also been mentioned in the most recent monetary policy statement and certainly does not bode well for the inflation rate.

Latest inflation figures for March 2008 indicate that headline inflation stood still at 9% per annum. When I compare this to my forecasts for that month, I am 40 basis points off the mark. What concerns me more, though, is not my forecasting ability but the fact that Core2 inflation has remained at a very high level. Core2 inflation essentially excludes all the things that have been rising globally and/or locally i.e. food and energy prices. It also excludes mortgage interest, tobacco, beverages and administered prices from the basket.

You are probably wondering how high the inflation rate can possibly be if we take all those goods out of our inflation rate calculations, well it stands at a whopping 5.7%. I do not know about you but excluding all these items, such a rate is quite high in my book.

Some readers may also wonder why central banks look at something that excludes so much when making monetary policy decisions.

Well in general in the "long term", headline inflation does tend towards core inflation. This notion is supported empirically in many countries but of course the term "long term" can be vastly different for many countries especially when the components that you exclude keep on rising and rising and rising. The other reason why central banks look at core inflation is the simple fact that they cannot control energy and food prices. Central Banks can only control the money supply which can also lead to higher or lower inflation. Hence central bankers look at core inflation as a better gauge of what they can possibly have a positive impact on in the medium term. They also look at core inflation to judge the effectiveness of past monetary policy decisions.

Having negative real interest rates is too expansionary

Following the 50 basis points Repo rate cut, the Governor of the Bank of Mauritius (BoM), Rundheersing Bheenick, had his entire top brass out the very next day to justify the decision of the Monetary Policy Committee (MPC). One argument was that since Core2 inflation has been "stable" at 5.7% since last December, things that the central bank could control were under control and hence in a difficult global context, a rate cut was justified.

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A plan to restore convertibility of the Seychelles currency

By Paul Chow

How much money is created has a significant bearing on prices of services or locally produced goods, or on the quantity of imports (reduction of foreign exchange reserves). That is why in all the economically stable countries the central banks keep tabs on the money supply. However, it is one thing to keep tabs on it but another deciding to do something about it.

One of the weaknesses of the current economic policy has been the lack of control by the Central Bank in Seychelles (CBS) over the money supply. If we are to resolve the currency crisis (convertibility), and maintain long term monetary stability action must be taken on the money supply. We must therefore find a way to bring the money supply to equilibrium level conducive with good economic performances of all the factors affecting economic activities. In many stable, small and open economies, to ensure long-term stability in the money supply, they have established rules for the creation of money in the economy which works virtually on autopilot. My proposal centres around creating and maintaining a rule based system for the creation of money in the Seychelles economy.

Of all the components of the money supply, the one which is most critical in the creation of money in the economy is the so-called high powered money. This is a term (also known as base money) used to describe the aggregate face value of notes and coins in circulation or in the vaults of banks, as well as cash reserves that banks have to keep with the Central Bank from the deposits their customers make with them. This is the most liquid form of money according to economists. If the Central Bank causes bank reserves to increase, money is removed from circulation and vice versa, but the effect of the change depends on the "velocity" of circulation or "money multiplier". Thus a decrease of one rupee in the reserves of banks in Seychelles during the first quarter of 2007 would have generated 3.2 rupees increase in the money supply according to the Central Bank's calculation of the money multiplier.

Usually, a change in high powered money affects the level of interest rates. But, under current practice where the Central Bank sets interest rates, not much happens either way. However, it does affect the demand for foreign exchange in the economy as a whole. When such a situation exists in a country, economists term it "financial repression".

High powered money is one of the indicators tracked by the Central Bank for obvious reasons. The rule established by stable open economies such as Singapore is to ensure that these two components of the money supply are always equivalent to the value of the net foreign reserves for a given exchange rate of the local currency. In other words, the ratio for a given exchange rate of the US dollar (for example) must be one to one at all times.

The ratio of high powered money in US$ to net foreign assets in US$ was 1.8 in September 2007. This shows the extent of the adjustments needed in dollar terms to make the ratio one to one. That adjustment must be in the form of increasing foreign reserves or adjusting the exchange rate of the rupee against the US dollar or a combination of both. In this proposal, we have settled for a combination of both.

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Pro-poor growth

By Eric Ng Ping Cheun

The increasing number of forums and conferences on the determinants of poverty and strategies for alleviating it has provoked a renewed sense of urgency for faster and deeper poverty reduction. But who are the poor? The category "poor" is neither well-defined nor static, with people moving in and out of poverty, depending on their immediate economic circumstances. And it is hard to measure poverty, due to the scarcity of poverty-related data.

Concerns about growing poverty in Mauritius should not be dismissed or sneered at. But that does not mean that we should give credence to the litany of complaints and fears of the anti-globalizers and other enemies of free-market economy who shed crocodile tears over poverty. These eternal well-wishers still believe that poverty is the result of the success of those who produce wealth, instead of the failure to produce it.

When it comes to poverty, our government likes pointing to the achievements of the Trust Fund for the Social Integration of Vulnerable Groups. The problem is that micro-finance is too scattered and its projects too small to make an appreciable dent in poverty. Furthermore, micro-finance still leaves unanswered the question of whether it is really the most cost-effective way to reduce poverty. In fact, the ultimate effect is a displacement of labour to the lowest levels of employment and a corresponding unnecessary and artificial increase in the supply of labour at the bottom of the economic ladder.

Public policies must help the poor more than the rich, but must not hurt the rich

Poverty is not rife in Mauritius. To the credit of the Central Statistics Office, the government can even boast about the economic and social indicators that speak volumes for the well-being of Mauritians.

While economic decline does take its toll on the poor, the Mauritian economy is growing instead, albeit at a slower pace than in the 1990s. A weak spot is the jobless rate, now still at 8.5 per cent in 2007. But household consumption expenditure continues increasing, at a satisfactory real rate of 4.9 per cent in 2008. True, between September 2000 and September 2007, headline inflation rate rose more rapidly (by 50%) than overall nominal wage rate (by 48%). However, official income indicators might underestimate the amount of money people have, on account of the growing informal sector: more people have jobs from which their income is not declared.

One cannot deny that the average quality of Mauritians' lives has improved. Mauritians are living for longer and in better conditions, the life expectancy at birth being 69 years for men and 75.7 years for women in 2006. Our infant mortality rate (the number of deaths of infants aged under one year per 1,000 live births) fell from 27.3 in 1986 to 14.1 in 2006. Our male and female literacy rates are high, respectively 88.7 per cent and 81.5 per cent.

The biggest drawback regarding social indicators is that they measure national averages. An improvement in such averages could presumably come from a disproportionate improvement in the position of richer people. However, it is unlikely that an increase in the national average does not imply some improvement for the worst off.

To the extent that human capital, being a crucial determinant of economic performance, allows people of poor backgrounds to rise in the economic hierarchy, the government's achievements in the education sector can be hailed as being favourable to poverty reduction. Human capital refers to the skills, education, training and health of individuals. Public policies that raise the educational level do have an impact on the incomes of the poor. And more educated individuals tend to invest more in their health, thereby raising the nation's productivity.

Pockets of poverty are often related to regional disparities in opportunities for education. In this respect, one cannot belittle the government's efforts to eliminate these disparities by investing massively in educational infrastructure. For the financial year 2005-2006, public expenditure on education represented 14.7 per cent of total expenditure and accounted for 3.6 per cent of GDP.

In 2006, the gross enrolment ratio was 95 in pre-primary schools, 102 in primary schools and 69 in secondary schools. Secondary enrolment gives a better representation of the quality of investment in human capital. Therefore, even if primary education plays a central role in lowering poverty, we should not neglect the importance of secondary school enrolment in directly raising the incomes of the poor.

It remains that simply educating the population does not provide a magic wand to economic prosperity. Communist countries such as Cuba and North Korea do pretty well, at least on paper, in terms of the education levels of their populations. Yet, they have very poor economic performance. This is because human capital is not enough. A well-functioning economy also needs the right institutional environment and policy reforms: free markets, a flexible price system and wage-determination mechanism, and individual choice as to what type of education people want.

We need a system which gives incentives to work harder to get paid more

The white paper on a new legal framework for industrial relations in Mauritius could have been a formidable occasion to remove completely the labour market rigidities that hinder job creation. There is nothing new under the rain. Instead, entrepreneurs will lose their time juggling with more complex regulations, a process which is costly to business.

Union work rules are obstacles put in the way of improving labour productivity. What we need is a system which gives incentives to work harder to get paid more, to work on time, to develop good work habits and to innovate. Increases in labour productivity serve to enlarge the supply of goods relative to the supply of labour and thus to reduce prices relative to wage rates, which is to say that they raise real wages.

High wage rates imposed by the unions have the ultimate effect of penalising the least skilled, the least educated and the poorest members of the economic system. For instance, workers who might have been carpenters, plumbers or electricians but who are denied employment in those lines by the height of union wage scales, are forced to seek work elsewhere, say, in factories or stores. Being more capable, the carpenters et al. will be likely to find employment in them. To absorb the carpenters et al., wage rates in these lines would have to fall. If not, the workers in factories or stores will in turn be displaced, resulting either in unemployment or in less desired and lower paid occupations.

True, policies to help the poor are easier to advocate than to frame. But there are good, legitimate and effective ways to respond, and bad, illegitimate and ineffective ways. If public policies can alleviate poverty, it is mainly through their influence on economic growth. Emphasis must be placed on the importance of economic growth as the principal (but not the only) force in raising the incomes of the poor. Studies confirm the relationship between economic growth and poverty alleviation in many developing countries. Without growth, there is no chance of further reductions in poverty. Growth should be viewed as an active "pull-up" strategy for reducing poverty, rather than as a passive "trickle-down" strategy.

Our GDP growth averaged 5 per cent over the last four years. Such a level is not high enough to pull up the poor. The bottom line is that lots of growth are needed so that the extra income generated can go to the poor.

Inflation is a "harsh tax" for the poor

Public policies that foster poverty-reducing growth are those that enable the poor to benefit from the growth process through the labour market or self-employment, and to safeguard the purchasing power of their incomes. The Mauritian economy is still far from a low and predictable inflation which makes it possible for the poor to do the latter. Economic literature teaches that inflation is a "harsh tax" for the poor because they are less likely than the rich to have access to financial hedging instruments protecting the value of their wealth.

Public policies that shrink the size of the government, lower unproductive government consumption and reorient government resources to productive outlays, will allow more scarce resources to be devoted to investment in education and health. Improving education and health for the poor promotes economic growth and helps them participate in the process through employment.

Financial sector development also benefits the poor by facilitating access to credit and improving risk sharing and resource allocation. Large-scale credit intervention by the government can be more effective than micro-finance in providing credit to the poor to diversify into non-agricultural production. Concurrently, liberalisation of agricultural prices, accompanied by better "endowments" of land and labour, can help some grow out of poverty. With access to world markets, small-scale producers can get a higher price for their products and pay less for their inputs.

It will be extremely difficult for Mauritius to reduce poverty if it shuts itself out of the global economy. Globalisation, for all its risks and challenges, is a force for poverty reduction because, first, it boosts economic growth and, second, growth reduces poverty. Lobbying at the international level should be directed at lowering trade barriers – both the barriers that the rich nations impose on the poorer ones and the barriers that the developing countries maintain against one another. It is noteworthy that 70 per cent of the tariff burden that developing countries face comes from tariffs imposed by other developing countries.

Trade openness enhances economic growth and impacts positively on the incomes of the poor. Of course, it is important to complement open trade policies with good institutions and domestic policies. The lowered tariffs will be translated into increases in trade in so far as corruption lessen, customs administration improve and ports become efficient. On those three counts, our government seems determined to make it happen.

The best medicine for the poor is strong and non-inflationary growth, based on liberal trade policies, minimal government intervention and good governance.

This article is an updated version of an opinion piece published in Business Magazine on 8 December 2004.

Infrastructure is key priority

By Anil Gujadhur

It may well be that the insufficient attention succeeding governments have been paying to key infrastructure may continue. The absence of an overall concept about what should be the priorities and what the objectives should be behind it is probably the reason for this state of affairs. In economics, delays mean additional costs and we must be paying the price already, as the daily traffic congestion problem has been showing for years.

Priorities change when it comes to public capital spending because political and economic imperatives do not always coincide. So a lot of money may be thrown away to manage popular resentment when the same could have been part of a more durable expenditure that could have dealt with avoidable future bottlenecks standing in the way of more income generation.

It is not only a matter of available liquidity on the market or the issuance of bonds to tap the liquidity for undertaking the right projects. It is about having a vision and implementing it in time without being overly alarmed at a debt situation that in any case is a fact of life. One cannot put this as an insuperable screen and refrain from opening up as circumstances dictate. Can one imagine how much more congested our roads would be if those who spent on the Port Louis-Curepipe highway were concerned about the prevailing deficits in those days and did not therefore undertake the project?

Yet recent governments have been spending quite a lot without our domestic capacity to produce more water, renewable energy, essential physical infrastructure, preventive health care, essential foods, education tailored to potential global market requirements, growing up pari passu with the expenditures incurred. I am sure there must be a lot of free riders getting the advantage of all this spending. This is not long term, unfortunately.

Enter the private sector

One way to limit unnecessary government spending on some of the items would have been to empower the private sector to supply some of the same services to the public in a lasting manner at affordable prices by encouraging it to charge different costs for different levels of service. The rich can pay the higher prices for more luxury whereas the less rich could be induced to go for more practical solutions than what the public sector is providing. That could have freed government funds for the right purposes and even put it in a position to service debts it has raised for the purpose by charging for use of the infrastructure.

Another point is 'who from the private sector' should provide services that would release the government from spending public money on the same? Ideally, it should be many service providers from the private sector, not one only or a few selected ones (due to potential corruption by making the one chosen or the few selected ones as sole suppliers, and pricing accordingly). In that case, those substituting for the government as service providers could be serving a wider customer base than the internal market, and this could include those who will surpass the mentality that will never want to pay for something provided by the government, e.g. a toll. Economies of scale should enable them to price their product or service even lower than the implicit government cost, but the government departments are not often concerned with issues like this. The cost to the clients would thus be de-escalated due to the competition and be attractive even from a low to medium income earner's point of view.

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A post Repo rate cut outlook on inflation

By Sameer Sharma - cont., from Pg1

I am not too convinced about this argument. Firstly a 5.7% Core2 inflation rate is quite high in my book and while forecasts point towards its eventual decline in the coming months, the rate at which it is likely to fall is not going to be as high when one considers the rate of growth of money supply in 2007 (15.7%) and further expected inflows into an economy that has been suffering from excess liquidity syndrome for years now. When you have headline inflation at 9% and you can control a certain percentage of inflation with monetary policy, you should try your best at minimizing the variable that you can control rather than letting the base effect do its job especially when the favorable base has not had the positive impact we thought it would have back in December.

Looking at another measure of underlying inflation, Trim10 inflation, it has actually risen since last December and stood at 7.5% in February, the same rate of growth as in last July. Certainly since one measure of core inflation has remained stable but high while another has risen does not give me great hope in the future ability of the BoM to maximize the speed at which headline inflation may fall at in the coming months. We should also not be choosing the measure that suits our policy decision!

I have previously written about the potential impact that the money supply has on inflation and on the negative impact that excess liquidity can have on the yield curve (and monetary policy objectives). Again high growth in the money supply in 2007 could partially explain why Core2 inflation and Trim10 inflation (two measures of underlying inflation) have remained at such high levels despite a tighter monetary policy stance in 2007. This in turn can be explained by the sad fact that the BoM has only recently announced that it needs to add more tools in its liquidity fighting arsenal. Finally the BoM will increase the corridor for reverse repo transactions.

On the basis of the speech of Mr Bheenick at the Reserve Bank of India recently and his annual letter to shareholders in December, the BoM had known why it did not wish to use the reverse repo since May 2007. The corridor should have been increased last year. After all, most central banks have had much wider corridors for years now and this was certainly not news for the BoM in late 2006 when it introduced the repo. The best tool introduced in late 2007 was the special deposit facility, not much else had an impact on money supply growth last year.

A more realistic corridor and Bank of Mauritius Bills will certainly have a late but positive impact on the money supply. The problem is that there is so much excess liquidity in the system and projected inflows remain so high that it may take a very long time for the BoM to be able to get on top of the excess liquidity glut. Within that time, the BoM should not have lowered the Repo, not because the unused Repo is so important as a tool (especially when you looked at the differential between the Repo and short term Treasury Bills primarily caused by excess liquidity) but because having negative real interest rates is too expansionary.

Mauritians did not need a Repo rate cut, for it has a negative impact on inflationary expectations and has wider repercussions on the rate at which inflation falls and on the bank's credibility. If you have an equation and I tell you that you can realistically only control half of it, then you make sure that you do all that you can to control the variables that you can control, you do not justify your decision by talking about your inability to control the other half!

The BoM has finally admitted something that has been known by analysts for months, real interest rates are negative on short term bills. I cannot imagine the faces of the thousands of Mauritians who will be paying taxes on interest on their deposits this year when in real terms they have actually lost money! More importantly the meager savings of the poor will fall in real terms.

Furthermore, as energy and food prices rise and as inflationary expectations remain high, there is likely to be a certain degree of filtration on core inflation itself. Since last October the International Monetary Fund (IMF) has been forecasting that commodity prices would stabilize and for the prices of certain commodities to even fall! The reverse has happened! Hence the impact that rising input costs will have on other goods remains high. This could again also explain why core inflation is still high.

Moreover, strong foreign inflows into the construction sector will also add to inflationary pressures as demand for materials and workers rises dramatically. The solution is not to stop the foreign inflows of course. The state and the central bank need to find ways to better manage the inflows and translate some of this into outflows by encouraging domestic players to invest abroad. Of course in a difficult global context characterized by a bearish market environment, one can understand why many are unwilling to invest as of yet.

Interest rates need to be kept on hold for a long time

The centre peace of the BoM Repo rate cut argument has been that global growth has been revised downwards to 3.7% for 2008 and hence this may have a negative impact on the Mauritian economy. I agree that Mauritius is not sheltered from global economic woes; in fact I wrote about that in January. The Rupee is very much affected by what the US Federal Reserve does (the differential) and the local stock market is bound to be impacted by foreign inflows with fund managers continuing to seek low correlation by investing (and disinvesting to book profits) into commodities driven Africa. However we must not panic either.

In fact, the view from the European Central Bank (ECB) is that the impact of the global credit squeeze on the euro-area economy has been limited. The ECB views the released IMF economic forecasts for the Euro area as "pessimistic". Now the consensus view is that the impact of a stronger Euro vs. the US dollar has not yet been felt due to the lag effects. The Euro economy will slow down and will grow by around 1.60% (consensus Bloomberg forecast) in 2008 with above target inflation remaining the main concern for the ECB. Now there are many analysts including myself who believe that they will eventually go for a slight cut in their refinancing rate by the end of this year as the lag effects will eventually hit the Euro economies but going by the consensus so far, things in the Euro area are not likely to get as ugly as previously thought despite a strong Euro and a 1.4% GDP growth (IMF forecast) for 2008.

As far as the US economy is concerned, positive growth is expected to be witnessed by the third and fourth quarter of 2008 albeit at low growth levels and GDP growth for 2008 is likely to stand at between 0.70% and 1% with a slightly higher rate of growth in 2009. In recent weeks, the market has become more optimistic as the extent of the credit crisis and economic slowdown has become more apparent. We are certainly not out of the woods yet, but the consensus view is that of a "mild recession" during the first half of this year followed by sub par growth over the next two years. While a slow recovery and further Fed easing (Fed rate of 1.75% expectations by the 3rd quarter of 2008 being forecast by market players already) is likely, growth in emerging economies will remain relatively robust and slight easing by the ECB by year end and stronger fiscal response are likely to alleviate risks associated with a major growth slowdown in Mauritius due to global woes.

In this context, we should not be too doom and gloom relative to consensus views. With regard to commodity prices, slight relief is only expected to come next year. In sum, while global growth is expected to slow, commodity prices are not expected to fall as much as previously anticipated. Emerging markets and Mauritius will maintain a decent rate of growth all things considered but inflationary pressures will persist.

The problem with food prices is being compounded by global panic. Two successive droughts in Australia, higher fertilizer prices (that have reduced yields around the world) plus the diversion of one-third of the US maize crop to ethanol, have led to shortfalls in world production and low food stocks. In response many governments in the developing world who were at first happy about rising commodity prices have imposed export bans on various food products to control domestic inflation.

Of course politicians seldom get things right. Farmers around the world have access to the internet and know full well that the prices of various food crops such as wheat and rice are trading at high prices in Chicago and have been holding back their stocks thereby compounding the problem even further. Many food-deficit countries have sought to import more. In consequence the world price of rice in the last six months has shot up by 60%, wheat by 40%, and soybean oil by 40%. In sum, government intervention has made things worse.

Governments would like to believe that hoarding by traders is terrible, whereas hoarding by governments promotes the public interest (or their political interests). But the impact on prices is exactly the same in both cases. The good news is that this year production is already up for certain crops in response to rising prices, and harvests in Australia are predicted to be much better than last year. Strong global demand (compounded by speculation on exchange traded funds and the futures markets in general) and panic may however prevent prices from declining as much as they should in 2009.

Upside risks to inflation remains higher than downside risks to growth

With regard to oil prices, the consensus market view is that oil prices will remain above US$90 a barrel in the worst case as OPEC, which as a cartel is not interested in lower oil prices and will simply cut production if it feels that demand due to a global economic slowdown will slow. Hence the BoM needs to be very careful in pointing itself too much in the direction of the IMF commodity price forecasts when making inflation forecasts and then basing monetary policy decisions on these forecasts. While global growth may slow towards IMF forecasts, inflationary pressures are not likely to tend downwards as forecast by the organization in 2009.

The IMF has also advised countries with inflation targets to simply lengthen their time horizons in order to achieve their inflation targets. This may work for many countries but our relatively less credible central bank has not set a target for a long time now (because it would not have been able to achieve it anyway) and its inability to control inflation for the past year and a half (and still high core inflation rates) coupled with the recent introduction of more effective liquidity fighting tools (that will take their time to tackle our giant liquidity problems) puts us in a different category.

In any event the IMF has recently commented that the Mauritian economy may be overheating and has forecast GDP growth of 7% in 2008 and of around 6% in 2009. Inflation in the "overheating" economy is expected to remain above 8% over the next year and a half as per its latest forecasts. This could also explain our current high rate of core inflation. However more time will be needed before one can confirm this hypothesis.

That is not to say that Mauritius does not need to drastically improve its infrastructure and invest more in human capital development. The long term sustainability of the current growth path remains hindered by the lack of an adequate stock of qualified human capital (brain drain to other countries and the lack of sufficient graduates at local institutions) and our infrastructure deficit. When demand exceeds supply (production capacity of the economy), the economy overheats and prices rise.

In sum, I continue to maintain that upside risks to inflation (or more probably the speed at which inflation will fall) remains higher than downside risks to GDP growth. While inflation forecasts are not accurate, their trends tend to be a better measure that merits proper policy response. My view on growth seems to be even shared by the Central Statistics Office (CSO) which has projected a 6% rise in GDP for this year. Such a growth rate is more than acceptable when compared to the current inflation rate which is in dire need of control. Even if growth slows by 1%-1.5% over the next two years as balance sheets get squeezed, it should still remain acceptable.

For more than one and a half years now, inflation in Mauritius has remained very high and the longer it stays that way, the harder it will be to bring it down because inflationary expectations and the bank's credibility take a bad hit. Furthermore the need for the reform process to be carried through to its logical completion is imperative in a country that has witnessed near zero total factor productivity growth over the past decade.

The best way to derail the reform process is for the poor to be alienated and to lose out. With negative real interest rates and high inflation, the poor and the lower middle class are not winning and the socialist like opposition will certainly use this notion very well. Finally, the BoM should be careful about making too many forecasts about an easing inflation rate by excluding the impact that the Pay Research Bureau wage increase recommendation will have on the money supply. The BoM needs to assume the worst; after all, politicians have a nasty history of letting the people down with populist measures when inflationary expectations remain high and when power hunger comes to the fore.

The Fed will continue to cut. I certainly hope that the BoM will allow its recently setup liquidity fighting tools to work before it even considers another Repo rate cut. In any event, rates need to be kept on hold for a long time and no further decreases should be pursued!

Accountants cannot do the work of Chief Finance Officers

In his press conference following the latest interest rate decision, the Governor of the BoM admitted that the 2006 set up MPC framework had not worked as planned and hence needed change. One wonders why it took so long for the BoM to realize the obvious and one wonders why they seem to be bucking the global trend of keeping interest rates on hold in order to maintain price stability and anchor inflationary expectations. It takes them more than one year to realize that their instruments are impotent in controlling money supply growth and finally they set up new tools. Such reactive behavior and failure to control inflationary expectations are dangerous things to have in a small emerging economy like Mauritius.

A major problem with some Mauritian companies is that they tend to have accountants as Chief Finance Officers who have no clue about finance. Hence the way they diversify their loans portfolios in terms of maturities and more importantly in terms of foreign to domestic debt (same as the government before the debt management unit was revived) is not optimal. Accountants are mostly a subjective bunch comfortable with asset and liabilities book keeping but debt management and hedging are complex things. Most of them do not even understand how currencies move. This fear of the unknown and the tendency to make decisions based on subjectivity is translated in bad foreign exchange adventures or a too large domestic debt portfolio relative to foreign debt. No asset liability matching, no optimization.

New Mauritius Hotels is a company that is well diversified in terms of hotel locations and Rs 400 million profit growth for 2008 is quite a profit rise in percentage terms. Even in high growth India or China, such a growth rate is considered amazing. One wonders if certain Mauritian CFOs expect their hotel companies to maintain 70% growth forever, defying financial logic.

There is a need to better manage foreign exchange by many companies and despite the inexistence of a derivatives market in Mauritius, it is still possible for companies to hedge based on their investment decisions and by doing some homework. There are local funds that have been offering dollar short and commodities long funds for a while now.

Such profit growth expectations in any event clearly confirm that on the aggregate level the main pillars of the economy should come out with decent growth rates this year, bar the textile sector of course, and that GDP growth is unlikely to go below 5%. No wonder the CSO is forecasting 6% and the IMF is forecasting 7%. The BoM seems to have woken up one day, read 5 Bloomberg articles about global recession and then panicked. Since they are bucking the trend and the forecasts by claiming that downside risks to growth are higher than upside risks to inflation, the onus is on them to quantify that risk and present a more detailed report. Or is this based on mere panic or feeling or intuition?

For a central bank that is barely able to manage liquidity, it is a pretty big statement to believe. The BoM, after all, takes one week to release MPC statements that are barely a page long (character 12 on MS Word). They seem to make a decision, wait for reaction during that week and then try to reassure people by writing a small piece for release the following week. This is not how central banks work!

India has not lowered rates and will not do so. Europe, which is more directly affected by what goes on in the US, believes that price stability and well anchored inflationary expectations are more important. The BoM appears to have read some top secret report somewhere and is leading the world right now in terms of cutting interest rates by 75 basis points in two months. The "gloomy" IMF report certainly confirms that they expect emerging economies to maintain robust growth this year. They even project that Mauritius will grow at 7% this year with high inflation remaining a sad reality into next year.

In the United States, one can understand the temporary need for negative interest rates. When your economy is projected to grow by more than 5% in 2008, however, you really wonder why this is necessary! With such a loose anchoring of inflationary expectations, one wonders how the government will ever be able to issue long term bonds and even set up a limited forward market beyond the 1 and 3 month forward rates we have for currencies.

There is a belief running around in Mauritius that a lower Repo rate will stem foreign inflows. This is absolutely wrong. Basic bond portfolio theory tells us that the differential matters more and in any event foreigners face foreign currency denominated liabilities. If a Canadian were to invest in Mauritian bonds, he would only look at the differential and his liabilities would be a Canadian bond/bill that would capture the inflation rate of that country. Since inflation is much lower in western countries and even in some emerging countries and since the differential remains high (look at the US 3 month T-Bill and MUR 3 month T-Bill), this argument that lower repos equal to a lower rate of growth of foreign inflows is a fallacy.

This very wrong logic has created negative real interest rates for Mauritians and will continue to have an expansionary effect on money supply despite the fact that the differential remains high enough for foreigners to continue to invest. The yield on US 3 month T-Bill stands at 1.12% while the MUR 3 month T-Bill is above 7%. If you convert the monthly US yields in rupee terms, the differential in terms of rupee differential gets even larger. In general a global bond fund seeks to beat LIBOR+2% as benchmark. If the BoM tries to stem inflows by reducing the differential back down to 3%-4.5%, then they can kiss inflation good bye and make things worse.

Sameer Sharma is a financial analyst working in Canada.

A plan to restore convertibility of the Seychelles currency

By Paul Chow- cont., from Pg1

Setting up rules to issue notes and coins

However, in order that we do not end up chasing a moving goal post, we must first of all establish rules for the issue of the most important component of money – the currency. Between the two indicators (foreign exchange reserves and the face value of the notes & coins in circulation), there is only one whose supply is under our total control and that is the local currency. By controlling the amount of notes and coins in circulation, we also determine the value of reserves abroad.

If we can, somehow, establish a strict rule whereby all the currency notes in circulation has its counterparty in US dollars deposited in an institution overseas, part of our country's foreign exchange reserves will automatically increase or decrease according to the propensity of citizens in Seychelles to hold rupee notes and coins or foreign currency. And that propensity will depend on the confidence our citizens will have in the rupee. At present we have very little confidence in it, and neither does our government (or for that matter our Central Bank) despite the fact that, by law the rupee is the legal tender. But once it is seen that it can be exchanged on demand for an international currency, confidence will be restored.

The first rule, therefore, must be how we issue currency notes and coins. In Singapore, notes and coins are placed in circulation under a law which says that, in order for the local commercial banks to obtain Singapore dollar notes and coins, they must first surrender foreign exchange to the Currency Commissioner who, in turn, is obliged by law to place the proceeds in a currency fund which must be available at all times to buy back the Singapore dollar notes and coins on demand. This simple arrangement ensures automatic convertibility of the notes and coins in circulation.

In our case, although the Central Bank Act makes the CBS the sole authority that issues the currency notes and coins, the Act does not establish any rule as to how this is to be done. If we establish a similar rule, as say, in Singapore, Hong Kong, Brunei or Bahrain we could, overnight, restore the convertibility of the rupee notes in circulation.

Which currency should be the reserve currency?

Many small open economies have chosen to keep their foreign exchange reserves in one major international currency such as the US dollar at a fixed rate of exchange with the local currency precisely to smooth out the uncertainties associated with volatile exchange rates. A fixed exchange rate also ensures long term confidence and enhances our country's credit worthiness when borrowing abroad. It eliminates currency risks, at least with the most important international currency. The dollar is the preferred choice in this paper simply because most of our external debts are dollar denominated and the prices of most of the goods we import are heavily influenced by the international value of the US dollar in the countries where they originate. In this case, using the same currency as our suppliers and creditors reduces currency risks for everyone.

If the US dollar is to become the preferred currency to hold our currency reserves, how we determine its exchange rate in respect of the rupee is very important. If the exchange rate is too volatile, our currency commissioner will be spending a lot of his or her time hedging and chasing the market for dollars to maintain the ratio, an effort which at the same time could influence the exchange rate itself, just as the demand for dollars in the black market influences the rates. This instability may cause many to keep their financial assets in dollars and other currencies under the mattresses or abroad rather than in rupees. Furthermore, under current exchange rates rules, it is the volatility between the rates of different foreign currencies which determines the external exchange rate of the rupee. An unstable exchange rate reduces the time horizon of lenders and borrowers of the rupee.

The other component of the high powered money is the cash reserve banks have to keep with the Central Bank based on their total deposits (liabilities). Currently, commercial banks have to keep and maintain 2.5% of all their deposits as cash reserves with the CBS. This banking requirement is an operational safety net to ensure that any commercial bank would be able to call upon the CBS to provide funds in an emergency should they have a shortfall during their day to day operations. Bank reserves with the Central Bank increase or decrease depending on the deposits customers make with the banks.

Under this proposal, commercial banks must come up with dollars to maintain their reserve ratios. Since rupee notes can be exchanged with the currency commissioner for dollars, banks would never have a problem to find the dollars they need by simply surrendering rupee notes. Once this exercise is complete, it is evident that the face value of all the rupee currency notes and coins in circulation would be backed by more than 100% by US dollar deposits in an institution abroad at the fixed exchange rate. New rules must be established for banks to be advanced rupee notes when in short term difficulties that would not undermine the integrity of the exchange rate regime.

How to implement a new exchange rate regime?

To give effect to the new exchange rules, sufficient official reserves will have to be acquired to back the existing face value of notes and coins in circulation. The new rules will not allow currency fund reserves to be used as collateral for any debts of the government in order to preserve the integrity of the fixed exchange rate regime. Of course, the CBS will be free to create other reserves.

Commercial banks already keep substantial rupee currency notes in their vaults, estimated at SR35 million at anyone time. Hence, if the fixed exchange rate is set at US$1 to SR10, the banks will have to surrender US$3.5 million to the currency fund to keep those currencies. To obtain more rupees notes and coins in future commercial banks will have to surrender dollar deposits to the currency commissioner at the fixed rate of exchange once the new currency regime comes into operation. Indeed, any commercial bank can apply to issue rupee currency notes for circulation provided they deposit the dollar equivalent in the currency fund. In Hong Kong all the Hong Kong dollar notes in circulation have been produced by three commercial banks. Once the process is completed, all currency notes and coins in circulation in Seychelles would have the backing of US dollars held in reserves abroad.

Once the new rules come into force, there will be an initial high demand for US dollars in exchange for rupee notes. To be able to purchase notes and coins from the public, the currency commissioner would establish a line of credit with one or all the international banks currently licensed to operate in Seychelles. This would be a simple matter since commercial banks already hold substantial foreign currency deposits already. It will simply require commercial banks to physically import sufficient dollars notes.

Once it is seen that the authority is committed to defend the exchange rate and is able to satisfy the demand for dollars in exchange for rupee notes at the fixed exchange rate, confidence in the rupee currency will have been established. The supply of rupee notes in the economy will rely on the foreign exchange inflow and vice versa.

As part of the normal course of business, foreign currencies should be able to move freely around the country to satisfy the local demands of different establishments. The easiest way to satisfy the demand for dollar currency notes or other foreign currency notes is for the CBS to liberalise the licensing of money changers and remove any impediment in the import and export of foreign currency notes by licensed money changers and banks. Foreign currency notes brought by tourists are but one way for the country to earn foreign exchange. Commissions have to be paid when currencies are exchanged.

Competition to attract foreign currency notes or other foreign exchange instruments such as travellers' cheques will encourage tourists to change their money into local currency. When more tourists arrive than previously, or the same number of tourists spends more money than previously causing the demand for rupee notes to exceed current supply, new notes will come into circulation only in exchange for dollar deposits in the currency fund.

In addition, the regulations requiring foreigners to pay their hotels, restaurants and other services in foreign currency must be lifted. This will have the effect of increasing the demand for rupee notes by tourists who will only be able to obtain them by exchanging their foreign currencies. Thus more foreign exchange will be available in the economy to satisfy the existing demand instead of remaining in dormant bank accounts. Regulations controlling the commissions an establishment can charge when changing money must be abolished in order to free the business of money changing. Since the business of money changing is a retail operation, competition will force the commission level down.

Commercial banks will, however, have to cope with the daily requirement of their customers for cash. They will have to encourage their customers to use cheques and debit cards if they are not to rely on the currency commissioner for new notes and coins, because this will mean surrendering dollar deposits into the currency fund. They could also borrow from other banks which has surplus cash too. Banks will start to talk to each other and do business with one another, strengthening the integrity of the banking system in the process. Banks would be able to provide customers with debit cards they can use abroad, based on their rupee deposits. Competition among banks will be good for their customers.

Banks would entice customers to make deposits by offering better interest rates or other incentives. Hence the margin between deposits and lending rates will narrow to the benefit of customers. This will create new dynamics in the banking system as at the moment banks panelise new customers who wish to deposit money with them. Competition for deposits among banks will be good for the customers and the economy as a whole.

One of the immediate effects of a viable currency will be an increase in economic activity in the rupee economy. With a viable currency in their hands tourists will have more ways to spend them than at present, and benefits will spread to a larger number of commercial enterprises than at present. Economic activities generally will, therefore, be more sensitive to the number of tourists arriving. Special foreign currency shops will no longer enjoy trade privileges as they will have to compete with rupee based ones.

Shortages of goods will quickly disappear; thus prices in the shops will stabilise as a result of a more stable exchange rate and competition. With more goods available in the shops fewer people will see the need to travel abroad. Imports will be by faxes and emails rather than a trip abroad by either the final consumer or the trader. This will serve to decrease the cost of imports. Suppliers abroad will be more confident in extending credits to importers. More credits or deferred payments translate into foreign exchange reserves for the country as a whole.

The exercise will make only part of the money supply fully convertible but all the same a very important component since cash is king. People are ultimately confident with the money they have in their hands. Nevertheless, other transactions would continue to be paid for using cheques or other forms of bank transfers as at present. As banks offer incentives for surplus rupees to be deposited with them and since this will encourage savings, these savings will in turn be available for investments.

To improve this environment, all the existing foreign exchange controls and mechanisms such as retention accounts should be abolished. In the end only the commercial banks can guarantee customers that their money held with them will buy goods abroad on demand. But banks can create this confidence only if they know the rules governing the currency are there to stay.

The critical roles of government and central bank in achieving full convertibility

At present, the CBS compels commercial banks to keep 65% of their customers' deposits in government securities (treasury bills & bonds etc) via the local assets ratio rule. The sole purpose of this policy is to ensure that government is able to recycle its existing domestic debts. Because interest rates will henceforth be determined by the supply and demand for money, the high borrowing requirements of the government will cause interest rates to increase inordinately. On the other hand, experience has shown that, whenever a currency is fixed to an international currency, the level of domestic interest rates tend to converge towers the domestic rate of the international currency. Under this proposal, we will be mirroring the US interest rates.

The government is on the right path in creating a budget surplus. At present, the surplus is only an accounting figure on its financial statement at the end of the year, since come January it disappears. For it to have any significant positive macroeconomic impact the surplus must be used to reduce government exposure to commercial bank credits via the local assets ratio mechanism, thus supporting the liquidity of banks. Government has an interest in contributing towards a reduction in interest rates to a level that is sustainable, since it is the biggest borrower in the economy. This requires fiscal discipline.

Nevertheless, as economic activities increase due to the convertible currency, interest rates should also fall if government reduces its net borrowings at the same time. With a real government surplus, Seychelles government bonds denominated in rupees would also be attractive to international investors. Hence government could issue new medium term bonds with a much lower coupon (interest rate) than the existing international bonds. With these proceeds, Government can buy back the more costly bonds thus save in interest costs.

Alternatively, government could legislate to cap its total borrowings and to announce a progressive reduction of that level over a given time frame. For this to have a positive effect on the economy, the CBS must establish a mandated reduction in the local assets ratio with the view to abolishing it completely in the shortest possible time. At the same time, government debts should be made more attractive as savings instruments to ordinary citizens of Seychelles. This can only happen in a liberalised capital market environment where bonds are traded freely. Individuals need the security of being able to sell their bonds should they need their money back.

The same applies to pension and insurance funds which will be the principal players in the market. Rather than spending pension fund money on construction projects that increase demand for imports, those savings should be best used to help sustain the capital market. Let the commercial sector borrow the money to invest, taking all the risks, while the funds enjoy the returns with less commercial risks exposure.

Under the fixed exchange regime, the Seychelles capital market will be attractive to foreign investors since our currency will be convertible and at a fixed rate of exchange with a major international currency. As more of our debts become good and secure investments the interest rates we would have to pay on them would approach that of the prime dollar rates. Our cost of borrowing will be less. As foreigners buy our public debts, more foreign exchange becomes available for new economic activities. Sustaining international confidence will become the new political imperative.

A new dynamic economy?

As all the available rupee notes in circulation will have their counter party in dollars deposited with and protected by the currency commissioner, supply of dollars to buy back the rupee notes is guaranteed, because holding rupee notes is equivalent to holding dollar notes. Most people will not need to go the currency commissioner's counter at the CBS unless one has 100,000 rupees or more to exchange, as the commercial banks, money changers and even hotels and restaurant will facilitate a smaller amount for a fee of course.

Under the new currency regime, the exchange rate with the US dollar will be guaranteed. Hence, the rupee will truly become an international currency making international trades more effective and smoother than at present. With a viable currency, traders will be able to walk out with rupee notes and buy goods abroad. Suppliers abroad will be confident to exchange them for dollars at the counter of the CBS. Money changers abroad will want to acquire them and sell them to passengers going to Seychelles. The currency will circulate beyond our territorial boundary. This dynamic means that our economy will start the process of being part of the global economy.

Initially the most telling effect will be the transformation of the cash economy, hence creating new dynamics because of the confidence in the currency. Thus, the reduction in moral hazard will generate greater confidence in the rupee not only serving as a means of exchange but also as a store of value, enhanced by the guarantee of convertibility as well as the fixed exchange rate.

Under the existing regime, banks rely on the CBS to supply them with rupee notes in return for a bank deposit in rupees. Under the new regime banks would be able to obtain rupee notes from the currency commissioner only in exchange for US dollar deposits and any amount they want at any time. Banks would also be able to print their own notes under their own name, so long as the currency commissioner holds the equivalent face value in dollars. More competition between banks is good for consumers. Liberalising of interest rates is an important part of that endeavour.

Under the new regime, surplus currency notes with banks will also mean dollars for banks to use and lend. As intermediaries banks will be able to support their customers' foreign exchange needs better, unlike now where, only foreign currency notes that are accounted for under foreign exchange regulations get into the banks. Anyone would be able to buy any amount of foreign exchange with rupee currency notes. Because any money changer will be able to facilitate this transaction, any shortage would be localised to the institution concerned resulting only in the entity failing its customers rather than the whole economy. There will not be a systemic shortage of foreign exchange, just a localised one. Hoarding foreign currencies will no longer be worth.

Paul Chow is the leader of the *Democratic Party of Seychelles* and Managing Director of *FIFCO Services*.

Revoir les stratégies de lutte contre la pauvreté

Par Manda Boolell

Un enfant meurt toutes les trois secondes des suites de la pauvreté. L'article 25 de la Déclaration Universelle des Droits de L'Homme stipule que *"toute personne a droit à un niveau de vie suffisant pour assurer sa santé, son bien-être et ceux de sa famille, notamment pour l'alimentation, l'habillement, le logement, les soins médicaux ainsi que pour les services sociaux nécessaires ; elle a droit à la sécurité en cas de chômage, de maladie, d'invalidité, de veuvage, de vieillesse ou, dans les autres cas, de perte de ses moyens de subsistance par suite de circonstances indépendantes de sa volonté"*.

Cet article fut utilisé le 27 octobre 1987 à Paris au cours du rassemblement de 100 000 défenseurs des droits de l'homme pour dire leur refus de la misère et pour appeler l'humanité à s'unir afin de faire respecter les droits humains. Plus de deux décennies se sont écoulées, et l'histoire ne peut que nous rappeler au souvenir d'un échec : celui de l'aggravation de la pauvreté dans le monde.

En 2005, nous avons eu la campagne mondiale *« Make poverty history »*. Je suis sûre que peu d'entre nous se souviennent des doigts qui claquaient et des brassards blancs portés par les manifestants pour rappeler au monde la vulnérabilité des millions de personnes vivant dans la pauvreté. *« Make poverty history »* pensait que les gouvernants pouvaient prendre des décisions cruciales pour améliorer la vie de millions de personnes.

Malgré une amélioration dans les pays d'Asie, l'Afrique sub-saharienne souffre plus que jamais de la misère, du chômage, de la précarité, de l'exclusion et du dénuement. La pauvreté est autant le produit que la cause des violations des droits de l'homme – injustice sociale et violation du droit à une vie digne à ceux qui se voient refuser leurs droits, souvent les plus pauvres.

Qu'est ce qu'un pauvre ?

Définir la pauvreté est toujours une question de normes et une construction statistique. La pauvreté est une privation des droits fondamentaux, essentiellement économiques et sociaux : le droit à une alimentation saine et équilibrée, le droit à l'eau, à l'énergie et à un environnement sain, le droit au logement, le droit à l'éducation, le droit à la santé, le droit au travail, le droit à un salaire décent...

Il y a plusieurs approches pour lutter contre la pauvreté, qui est considérée comme valeur quantifiée ou valeur qualifiée. Comme valeur qualifiée, la pauvreté est basée sur la satisfaction des besoins fondamentaux dont la valeur monétaire fluctue, pour les humanistes. Comme valeur quantifiée, la pauvreté est financière et monétaire. Etre pauvre pour la Banque mondiale, c'est gagner 2 dollars américains ou moins par jour et être extrêment pauvre, c'est gagner 1 dollar américain ou moins par jour. Etre pauvre pour les gouvernements européens, c'est gagner moins de 60% du salaire médian.

La Banque mondiale pense que le marché est la solution principale pour sortir de la pauvreté car il offre l'accès à des revenus supérieurs au seuil de pauvreté. Les gouvernements européens croient à une redistribution des richesses, le respect des droits humains et l'accès au service public.

A Maurice, 26 900 familles vivent avec moins de Rs 3 818 par mois et sont considérées comme étant très pauvres. Les organisations non gouvernementales (ONG) qui sont sur le terrain diront qu'il y a beaucoup plus et que le chiffre frôle les 200 000 et affectent particulièrement les femmes, les enfants et les personnes âgées.

Mais nous devons accepter que même les plus démunis à Maurice ont accès à l'éducation gratuite – primaire et secondaire –, aux services de santé gratuits, à des services sociaux et à des allocations (pension aux veuves, aux personnes âgées, aux handicapés).

Un constat d'échec

Ont aussi été créés des appuis organisationnels tels que le Trust Fund for the Social Integration of Vulnerable Groups, le NGO Trust Fund, le Lois Lagesse Trust Fund, Mauritius Mental Health, Cheshire Home, et Sugar Industry Labour Welfare Fund.

Cependant, reconnaissant que cela ne suffisait pas, il y a eu d'autres projets pour combattre la pauvreté et l'exclusion : a) les micro crédits à travers les banques, b) les aides au développement, c) l'apport des bailleurs de fonds, de l'Union européenne, du Programme des Nations Unies pour le Développement et de plusieurs ambassades et fondations aux ONG et au gouvernement, d) le secteur privé et la responsabilité sociale de l'entreprise, e) l'encouragement donné aux petites et moyennes entreprises à travers la SEHDA et le Women Entrepreneur Council et le SME Partnership Fund, f) le travail sur le terrain des ONG et de la société civile.

En 2006 a été créé l'Empowerment Programme qui sera d'une durée de 5 ans pour : i) assurer un emploi viable aux chômeurs et à ceux/celles qui ont perdu leurs emplois à la suite de restructurations industrielles, ii) encourager l'entreprenariat et améliorer la capacité et la compétitivité des petits entrepreneurs, iii) offrir un logement transitoire pour des familles vulnérables à faibles revenues, iv) améliorer l'éducation des enfants issus des familles vulnérables.

Mais la pauvreté est aussi un constat d'échec, une humiliation, un état d'esprit, un manque de capacité à prendre en charge son destin, une ombre qui pèse sur un individu et qui l'empêche de s'épanouir. C'est un contexte où l'individu n'a plus d'espoir dans la société où il se trouve. Ce qui explique peut-être que la plupart des projets à ce jour n'ont pas réussi à aider des familles ou des individus à sortir de leur état.

Pour une citoyenneté pleine et inclusive

Pour réussir, il faut revoir les stratégies par rapport à l'appui organisationel, la communication, l'appui aux activités économiques et la formation. Pour atteindre les objectifs, il faut adopter une stratégie à plusieurs volets qui amènerait une synergie entre les différents programmes mis en place pour une action nationale visant la promotion, l'insertion sociale et l'amélioration des conditions économiques de ceux vivant dans les 229 'poches' de pauvreté – de ceux en situation marginale.

L'insertion sociale passe par une institution de systèmes d'aide permanente qui existe déjà au niveau de la sécurité sociale, et par l'octroi d'aides spécifiques. Il faut surtout sensibiliser les gens à travers une campagne nationale d'information avec les médias, les ONGs, les Comités de quartiers, pour mobiliser l'épargne, sortir de l'état d'assisté et promouvoir l'émancipation de l'individu avec un Etat qui accompagne mais qui ne dirige pas.

Il faut mettre en place un cadre législatif pour s'assurer que les ressources vont aux bénéficiaires. Le système d'endettement doit être revu. Il faut surtout une prise en compte de l'aspect environnemental dans les programmes de lutte contre la pauvreté.

Il faut aussi : a) avoir des fonds de solidarité nationale et mettre en place un mécanisme de mobilisation d'une épargne nationale, b) mettre en place un mécanisme d'information et d'intégration, c) alphabétiser et éduquer de façon formelle et informelle, d) renforcer la démocratie et la bonne gouvernance dans le pays, e) une responsabilité accrue des citoyens, f) un transfert de compétences et de ressources humaines aux communautés de base, g) une amélioration de l'équité et de la solidarité sociale, h) intensifier la lutte contre la corruption, i) recomposer le tissu social, j) réhabiliter les valeurs culturelles.

L'éradication de la pauvreté passe nécessairement par la lutte pour une citoyenneté pleine et inclusive qui favorise la participation aux prises de décisions. On doit comprendre la complexité de la citoyenneté, que ce soit au niveau politique, institutionnel, économique, social et culturel. C'est ainsi que nous vaincrons la pauvreté à Maurice dans dix ans.

Manda Boolell est présidente de *Mauritius Council of Social Services* (MACOSS).

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