

# AFRICAN DEVELOPMENT BANK



**PROGRAMME: COMPETITIVENESS AND PUBLIC SECTOR EFFICIENCY (CPSE)**

**COUNTRY: MAURITIUS**

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## APPRAISAL REPORT

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## Currency Equivalents

As of October 2009

1 Unit of Account (UA)	=	Rs	48.37600
1 UA	=	USD	1.58437
1 UA	=	EUR	1.08200
1 USD	=	Rs	30.53327
1 USD	=	EUR	0.68292

## Fiscal Year

July 1, 2009-December 31, 2009<sup>1</sup>  
January 1-December 31

## Weights and Measures

1 metric tonne	=	2204 pounds (lbs)
1 kilogramme (kg)	=	2200 lbs
1 metre (m)	=	3.28 feet (ft)
1 millimetre (mm)	=	0.03937 inch
1 kilometre (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

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<sup>1</sup> Mauritius' current budget calendar will change beginning 2009. The 2009 mini-budget that will run from 1 July to 31 December 2009 will enable the country to transition to a budget calendar that runs from 1 January to 31 December.

## Acronyms and Abbreviations

AFD	Agence Française de Développement
AfDB	African Development Bank
BoM	Bank of Mauritius
BP	Basis Points
CEM	Country Economic Memorandum
COMESA	Common Market for Eastern and Southern Africa
CPIA	Country Policy and Institutional Assessment
CPSE	Competitiveness and Public Sector Efficiency
CSO	Central Statistics Office
CSP	Country Strategy Paper
DBSL	Development Budget Support Loan
EC	European Commission
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investment
FSAP	Finance Sector Assessment Program
GDP	Gross Domestic Product
GoM	Government of Mauritius
ICT	Information and Communications Technology
IMF	International Monetary Fund
MDG	Millennium Development Goal
MIC	Middle Income Country
MoFEE	Ministry of Finance and Economic Empowerment
MTEF	Medium-Term Expenditure Framework
NITSP	National Information Technology Strategic Plan
PBB	Programme-Based Budgeting
PEFA	Public Expenditure and Financial Accountability
PMS	Performance Management System
Rs.	Mauritius Rupees
SADC	Southern African Development Community
SME	Small and Medium-Sized Enterprise
UA	Unit of Account
UNDP	United Nations Development Programme

## Loan Information

### Client's Information

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**BORROWER:** Republic of Mauritius  
**EXECUTING AGENCY:** Ministry of Finance and Economic Empowerment

### Financing Plan

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Source	Amount (Million US\$)	Share (%)	Instrument
<b>African Development Bank</b>	<b>700<sup>2</sup></b>	<b>65%</b>	<b>Loan</b>
Agence Francaise de Developpement	119	11%	Loan
European Union	200	19%	Grant
World Bank	50	5%	Loan
<b>TOTAL COST</b>	<b>1,069</b>	<b>100%</b>	

### ADB Key Financing Information

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Loan currency	USD and EUR
Type of loan	Variable Spread Loan
Lending rate	Base rate + funding margin + 40 bps
Base rate	Fixed or floating (6-month Libor/Euribor rate) <sup>3</sup>
Funding margin <sup>4</sup>	Average cost of borrowing relative to Libor
Tenor	20 Years
Grace period	5 Years

### Timeframe - Main Milestones (expected)

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Concept Note Approval	June 2009
Project Approval	November 2009
Effectiveness	November 2009
Last Disbursement	December 2011
Completion	December 2011
Last Repayment	December 2030

<sup>2</sup> The US\$700 million is denominated in US\$ and Euro in the amounts of US\$420 million and EUR186 million.

<sup>3</sup> The floating base rate remains floating for the life of the loan. In case of fixed base rate, the loan starts out as a floating base rate until the borrower requests to fix the base rate.

<sup>4</sup> The funding margin is calculated twice a year, January and July.

## Executive Summary

Programme Overview	<p><b>Program Name/Number:</b> Competitiveness and Public Sector Efficiency (CPSE) Programme/ P-MU-K00-004</p> <p><b>Geographic Scope:</b> Mauritius national territory</p> <p><b>Overall Timeframe:</b> 2 ½ years, July 2009 to December 2011</p> <p><b>Overall Loan Amount:</b> A sum of US\$420 million and EUR186 million (equivalent to US\$700 million).</p> <p><b>Programme Output:</b> Key outputs include: sector strategies consistent with programme-based budgeting requirements; mid-term review of the National Information Technology Strategy Plan (NITSP); operationalization of: the Competition Commission, the Joint Public-Private Sector Standing Committee, and a specialized commercial division of the Supreme Court; and approval by Cabinet of insolvency legislation.</p>
Programme Description	<p>The goal of the programme is to sustain economic growth and employment against the backdrop of the ongoing global recession, while not losing momentum on long-term reforms needed to make Mauritius more competitive. By deepening reforms initiated in 2006 under the Bank’s first Development Budget Support Loan, the proposed operation will consolidate fiscal performance and strengthen public social service delivery, enhance trade competitiveness, and improve the investment climate. The long-term reform agenda of the Government and its medium-term measures to face the economic downturn are strongly supported by development partners including the International Monetary Fund (IMF).</p>
Programme Outcomes and Beneficiaries	<p>Expected programme outcomes include a more efficient and sustainable use of public fiscal resources, better delivery of social services, an improved ability to compete in international markets and a more propitious climate for entrepreneurs to operate job-creating, value-added enterprises. Programme beneficiaries will include the entire population of Mauritius, due to the broadness of the reform agenda. Specific beneficiaries will include: (i) users of publicly-provided social services (through more efficient budgeting and service delivery strategies); (ii) domestic and foreign entrepreneurs (through overall macroeconomic stability, improved investment climate and ease of foreign trade); (iii) the Mauritian workforce, including women facing layoffs in the textile industry (through greater employment opportunities in higher value-added sectors); and (iv) the most disadvantaged members of the population, including the island of Rodrigues (through increased fiscal space for social services and more effective service delivery).</p>
Needs Assessment	<p>Mauritius’s economic growth is forecasted to decline to an annual average of 3% during the period 2009-2011 compared to 5.3% in 2007/08 as the global slowdown weighs negatively on the economy, especially on the apparel and tourism sectors. As a result, the overall budget deficit is expected to widen to 5% of GDP in 2010 compared to 3.4% in 2007/2008. To address these challenges while pushing ahead with structural reforms, the authorities have unveiled a fiscal stimulus package amounting to US\$330 million (3.8% of GDP) that comprises several major infrastructure projects as well as other measures to support the private sector and provide increased social protection. At the same time, the Government is seeking to re-profile its public debt, much of which is funded domestically at short maturities and hence is susceptible to rollover risk in these times of reduced liquidity. In sum, the Bank loan, in the sum of US\$420 million and EUR186 million in three tranches will close a budget gap of close to US\$1 billion over the period July 2009 to December 2011, helping fund critical infrastructure that will sustain growth and employment, and supporting the restructuring of the public debt portfolio.</p>
Risks and Risk Mitigation	<p>The unfavourable impact of the global economic downturn could further decelerate growth and fiscal revenues and jeopardize reform implementation. This is mitigated by authorities’ vigilance and contingency planning, and the quick-disbursing resources that the Bank and other development partners will provide to fund the budget. Selecting priority reform measures to be supported by CPSE and providing—along with other development partners—technical assistance will mitigate the capacity constraints that government agencies responsible for implementing reforms may face.</p>
Bank’s Added Value	<p>In the course of implementing this operation, the Bank will bring to bear its cumulative experience and mutual trust with authorities. This operation will allow the continuation of the policy dialogue initiated during DBSL-I, and will be complemented by key technical assistance in coordination with other development partners. Further, the Bank’s financing is coming at a critical time for the Government, providing the modality of assistance which the authorities have requested at the right time to address the circumstances created by the global economic downturn. This ensures the continuity of development assistance to a valued partner in a time of need.</p>
Institutional development and Knowledge building	<p>To enhance knowledge of Mauritius’ developmental challenges and priorities, the Bank will intensify policy dialogue at the country level through the CPSE. Lessons learned will inform the Bank Group’s advisory services to Mauritius as well as lead to a better design of Bank projects/programmes going forward. The Bank will document the lessons learned and disseminate the results Bank-wide through a variety of channels, including seminars and newsletters, to share learning on development best practices.</p>

## Competitiveness and Public Sector Efficiency (CPSE) Programme Results-Based Logical Framework<sup>5</sup>

HIERARCHY OF OBJECTIVES	EXPECTED RESULTS	REACH	PERFORMANCE INDICATORS	INDICATIVE TARGETS TIMEFRAME	ASSUMPTIONS / RISKS
<p><b><u>1. Goal:</u></b></p> <p>Mitigate the impact of the global downturn on economic growth and employment</p>	<p><b><u>Impact:</u></b></p> <p>Economic growth and employment are maintained</p>	<p><b><u>Beneficiaries:</u></b></p> <p>Mauritian population</p>	<p><b><u>Impact Indicators:</u></b></p> <p>(i) Annual average GDP growth rate</p> <p>(ii) Unemployment rate</p> <p><i>Source: CSO<sup>6</sup>, MoFEE, Bank of Mauritius</i></p>	<p><b><u>Progress anticipated in the long term:</u></b></p> <p>(i) Annual average GDP growth during the period 2009 to 2013 is sustained at more than 3% compared to 2.9% in 2008/2009<sup>7</sup></p> <p>(ii) Unemployment rate maintained below 10% during the period 2009 to 2013 compared to 8.8% in 2008/2009</p>	<p><b><u>Assumption statement:</u></b></p> <p>Macroeconomic stability is maintained</p> <p><i>Mitigation:</i></p> <p>GoM, supported by its development partners, maintains an appropriate macroeconomic framework as evidenced by favourable assessments by the IMF</p>
<p><b><u>2. Programme purpose:</u></b></p> <p>Consolidate fiscal performance and strengthen public social service delivery, enhance trade competitiveness and improve the investment climate</p>	<p><b><u>Outcomes:</u></b></p> <p>(A) Fiscal performance is consolidated and public social service delivery is strengthened</p> <p>(B) Trade competitiveness is enhanced</p>	<p><b><u>Beneficiaries:</u></b></p> <p>Entire population, users of public social services, the private sector including small and medium-sized enterprises, vulnerable people including women</p>	<p><b><u>Outcome indicators:</u></b></p> <p>(A.1) Primary spending as a % of GDP</p> <p>(A.2) PEFA index</p> <p><i>Source: MoFEE/Reports by PEFA</i></p> <p>(B.1) ICT sector as a % of GDP</p> <p>(B.2) Exports as % of GDP</p> <p><i>Source: MoFEE/CSO</i></p> <p>(C) Doing Business ranking</p>	<p><b><u>Progress anticipated in the medium term</u></b></p> <p>(A.1) Primary spending as a % of GDP is reduced from 22.1% in 2008/09 to 20.6% by 2011</p> <p>(A.2) From 2007 to June 2011, PEFA scores on multiyear fiscal planning, expenditure policy and budgeting pass from D+ to B-</p> <p>(B.1) ICT sector contribution to GDP is 6.7% by 2011 compared to 5.5 % of GDP in 2008.</p> <p>(B.2) Exports are more than 65% of GDP over 2010-2011, compared to 64% in 2008</p>	<p><b><u>Assumption statement:</u></b></p> <p><i>Risk:</i></p> <p>(i) Global economic slowdown deepens</p> <p>(ii) Reform effort are not sustained</p> <p>(iii) Loan may be cancelled</p> <p><i>Mitigation:</i></p> <p>(i) Continued fiscal, policy and technical support by Mauritius development partners</p> <p>(ii) CPSE design selects reforms from the GoM's policy agenda around which strong ownership and leadership has been demonstrated by the results of DBSL-I</p> <p>(iii) Cancellation relates to investment projects, rather than budget support.</p>

<sup>5</sup> See Annex II for the policy matrix outlining the complete range of policy measures supported under this programme and by other development partners.

<sup>6</sup> Central Statistics Office (CSO)

<sup>7</sup> GDP growth rate averaged 5 percent 2005-2008 but declined because of financial crisis.

HIERARCHY OF OBJECTIVES	EXPECTED RESULTS	REACH	PERFORMANCE INDICATORS	INDICATIVE TARGETS TIMEFRAME	ASSUMPTIONS / RISKS												
	(C) Investment climate is improved		<i>Source: World Bank "Doing Business Report"</i>	(C) Achieve top 15 rank in "Doing Business" by 2011, compared to 17 (out of 183 countries) in 2009	Bank's products offering to middle income countries are currently competitive.												
<b>3. Inputs</b>  <b>Financing 2009-2011:</b>  <table border="1"> <thead> <tr> <th colspan="2">US\$ million</th> </tr> </thead> <tbody> <tr> <td>AfDB</td> <td>700</td> </tr> <tr> <td>AFD</td> <td>119</td> </tr> <tr> <td>EU (grants)</td> <td>200</td> </tr> <tr> <td>WB</td> <td>50</td> </tr> <tr> <td><b>Total</b></td> <td><b>1,069</b></td> </tr> </tbody> </table>	US\$ million		AfDB	700	AFD	119	EU (grants)	200	WB	50	<b>Total</b>	<b>1,069</b>	<b>Outputs (policy actions):</b> <b>(A)</b> Develop sector strategies in line with programme-based budget (PBB)  <b>(B)</b> Review the regulatory environment in the ICT sector and non-tariff barriers to trade in line with international best practices  <b>(C)</b> Implement strategies to remove obstacles in investment climate	<b>Beneficiaries:</b>  Government agencies	<b>Output indicator:</b>  <b>(A.1)</b> Sector strategies developed <b>(A.2)</b> Submit to Cabinet health strategy  <b>(B.1)</b> ICT sector legal and regulatory environment amended <b>(B.2)</b> Mid-term review of NITSP is undertaken <b>(B.3)</b> Joint Public-Private Sector Standing Committee is set up <b>(B.4)</b> Amendments proposed by Business Permits Review Committee are undertaken <b>(C.1)</b> A specialized commercial division of the Supreme Court is set up <b>(C.2)</b> Competition Commission is established <b>(C.3)</b> Competition Commission is operational <b>(C.4)</b> Insolvency legislation approved by Cabinet  <i>Source: MoFEE</i>	<b>Progress anticipated in the short term:</b>  <b>(A.1)</b> At least six line ministries strategies complying with PBB prepared by December 2010 <b>(A.2)</b> Submission of health strategy to Cabinet by June 2010 <b>(B.1)</b> Submit amendments to the ICT Act (2001) to the Attorney General's Office by August 2009 <b>(B.2)</b> Mid-term review of the NITSP by March 2010 <b>(B.3)</b> A Joint Public-Private Sector Standing Committee is established by April 2009 <b>(B.4)</b> Undertake amendments proposed by Business Permits Review Committee by June 2011 <b>(C.1)</b> A specialized commercial division of the Supreme Court is set up by July 2009 <b>(C.2)</b> Competition Commission is established July 2009 <b>(C.3)</b> Competition Commission is fully operational by June 2011 <b>(C.4)</b> Insolvency legislation approved by Cabinet by July 2009	<b>Assumption statement:</b>  <u>Risk:</u> Capacity constraints to implement the reforms  <u>Mitigation:</u> Continued technical assistance support by Mauritius DPs, including the Bank through the MIC grant facility and selectivity in the number of reforms supported by CPSE
US\$ million																	
AfDB	700																
AFD	119																
EU (grants)	200																
WB	50																
<b>Total</b>	<b>1,069</b>																

**REPORT AND RECOMMENDATION OF THE MANAGEMENT  
OF THE AFRICAN DEVELOPMENT BANK GROUP TO THE BOARD OF DIRECTORS  
ON  
A PROPOSED LOAN TO MAURITIUS TO FINANCE THE COMPETITIVENESS  
AND PUBLIC SECTOR EFFICIENCY (CPSE) PROGRAMME**

**I. THE PROPOSAL**

1.1 Management submits the following Report and Recommendation on a proposed loan to Mauritius for a sum of US\$420 million and EUR186 million (US\$700 million equivalent) to finance the Competitiveness and Public Sector Efficiency (CPSE) programme. It is a general budget support operation, and will be implemented over two and a half years, from July 2009 to December 2011.<sup>8</sup> The programme was appraised in July 2009. It results from a request by the Government of Mauritius (GoM) during the African Development Bank’s (AfDB) Mauritius Country Strategy Paper (CSP) preparation mission in February 2009. The CPSE deepens reforms that were introduced in the 2006/07 budget<sup>9</sup> and which were supported by the Bank’s first Development Budget Support Loan (DBSL-I). These reforms are closely aligned to Mauritius’ development objectives as set forth in the “Vision 2020: The National Long-Term Perspective Study”, and their incorporation into this programme takes into account good practice principles on conditionality. Development partners (DPs)—including the Agence Francaise de Developpement (AFD), the European Union (EU), the World Bank, the International Monetary Fund (IMF) and the United Nations Development Programme (UNDP)—have since 2006 supported the GoM’s reform program.

1.2 The overarching goal of the programme is to sustain economic growth and employment against the backdrop of the ongoing global recession, while deepening of the reforms initiated in 2006 under DBSL-I. Its operational policy objectives are to: consolidate fiscal performance and strengthen public social service delivery, enhance trade competitiveness, and improve the investment climate. The Bank recognizes the pressing need of the GoM to enact measures that will help the country face the ongoing global economic crisis: a well-targeted fiscal stimulus package to protect jobs and provide a boost to the economy, and a partial re-profiling of short-term public domestic debt to mitigate roll-over risks and complement domestic financing. Expected programme outcomes include a more efficient and sustainable use of public fiscal resources, better social service delivery, an improved ability to compete in international markets and a more propitious climate for entrepreneurs to operate job-creating, value-added enterprises.

**II. COUNTRY AND PROGRAMME CONTEXT**

**2.1 *Overall Development Strategy and Medium-Term Reform Priorities***

**2.1.1 Broad consensus exists among policy makers and society at large on a long-term development vision for Mauritius that moves the country beyond low-wage, labour-intensive activity to an economy based on greater skills and value-added.** Vision 2020<sup>10</sup> articulates this consensus into a holistic framework with well-defined objectives and a comprehensive roadmap to achieve them. The plan was conceived to help Mauritius better cope with the challenges of globalization and trade liberalization by transforming it into a modern, outward-looking nation. The strategy, introduced in 2006, focuses on promoting four sectors with high upside growth potential for Mauritius—tourism, export manufacturing, financial services and ICT—and transforming the

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<sup>8</sup> Mauritius’ fiscal year is changing from July-June to match with the calendar year, January-December. The first period of the program is, therefore, six months ending December 2009.

<sup>9</sup> Government of Mauritius, 2006/07 budget speech

<sup>10</sup> “Vision 2020: The National Long-Term Perspective Study” was formulated by two successive administrations (1994-1997) through a broad consultative process.

traditional sugar industry into a more efficient sector focused on niche markets.<sup>11</sup> This strategy is articulated along four main themes: (i) consolidate fiscal performance and increase public sector efficiency; (ii) enhance trade competitiveness; (iii) improve the business climate; and (iv) widen the circle of opportunity through participation, social inclusion and sustainability. Since 2006, the GoM has achieved significant progress in the economic reforms, as discussed in Section 4 below. This reform agenda was developed based on wide ranging consultations with civil society organizations, political actors from all the main parties and private sector representatives from several industries, and as such it enjoys broad ownership not only by authorities, but also by much of Mauritian society.

**2.1.2 The long-term development strategy remains valid, but the ongoing global economic downturn has led the GoM to respond with a medium-term programme (2009-2011) to help the country ride out the economic turbulence.** This agenda, laid out in the December 2008 fiscal stimulus package and the May 2009 budget, is built around the three objectives of saving jobs, protecting people and better positioning Mauritius for recovery (see Technical Annex 3 for more details). The programme foresees continued reforms along the path described in Vision 2020, supplemented with and reinforced by prudent counter-cyclical fiscal measures in strategically targeted areas. The fiscal stimulus package amounts to Rs 10.4 billion (US\$330 million, 3.8% of GDP), part of which is being financed with contingency funds set aside in past years. A major part of the stimulus entails increasing public investment in key infrastructure projects, notably for improving trade facilities at the international airport and shipping container port, as well as to remove key road transport bottlenecks. Other measures include supporting local businesses through the Mauritius Approach Initiative, investing in tertiary education and helping vulnerable workers and small and medium-sized enterprises (SMEs). Expansionary monetary policy measures (150 bp reduction of the repo rate and 1% reduction of the cash reserve ratio) were implemented in parallel with the fiscal stimulus. These measures have received considerable support from different political groupings and the private sector.

**2.1.3 Both the reform agenda laid out in Vision 2020 and the medium-term programme are supported by all of Mauritius' DPs, including the IMF, as a responsible series of measures to address current circumstances while not losing track of longer-term development objectives.** In its February 2009 assessment of macroeconomic developments (Annex VIII), the IMF<sup>12</sup> observed that the authorities have made good progress carrying out structural reforms over the last few years, although it raised concerns on the challenges posed to key sectors by the global recession. While the fiscal stimulus will entail a modest increase in the public deficit and debt in the short term, the macroeconomic framework is stable and the GoM remains committed to improving fiscal and debt outcomes in the medium term. The primary fiscal balance will slide to a deficit of about 1.4% of GDP for 2009 and 2010, but is projected to come back into surplus by 2011 according to the medium-term budget plans (Table 1, below).

## ***2.2 Recent Economic and Social Development, Perspectives, Constraints and Challenges***

**2.2.1 Market reforms have allowed Mauritius to become more resilient to external shocks, but the global downturn has started to impact the economy.** Real growth for 2008/09 is now estimated at 2.9%, much lower than earlier expectations and down from 5.3% in 2007/08 (Table 1) as critical sectors are being affected. Tourism receipts were 16% lower in October 2008-January 2009 compared to the same period a year before. Textile exports fell by 17% between 2007 and 2008 and are expected to fall further in 2009. Inflation is expected to decline to 5% in 2010 due to the sharp reduction in international oil and food prices, despite the increase in fiscal spending and the

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<sup>11</sup> For more details on the structure of the Mauritian economy, see the Country Strategy Paper 2009-2013, paragraphs 2.1.4-2.1.6.

<sup>12</sup> The IMF concluded its 2008 Article IV consultation for Mauritius in July 2008, and plans the next one in the second half of 2009.

exchange rate depreciation. The IMF recently classified Mauritius as maintaining a flexible exchange rate policy, indicating that the exchange rate is closely aligned to its equilibrium value as determined by economic fundamentals. In February 2009, the IMF welcomed the GoM's response to the global crisis through the fiscal stimulus and co-ordinated monetary easing, but urged the authorities to take decisive actions to contain fiscal pressures. The overall fiscal deficit is expected to rise from 3.9% of GDP in 2008/09 to a peak of 5% in 2010 (Table 1). The IMF stressed the need for adequate targeting of policy responses to achieve maximum impact, and as such considers the implementation of programme-based budgeting as critical. The external current account deficit is expected to widen to 12% of GDP in 2009 because the lower demand for tourism, textiles and offshore financial services will not be offset by lower imports. Foreign direct investment (FDI) flows are projected to remain low at 2% of GDP by end-2009, compared to more than 3% during the previous two fiscal years. Fiscal reforms have enabled authorities to reduce the overall debt-to-GDP ratio from close to 70% in June 2005 to about 58% in June 2009. Nevertheless, in the December 2008 Financial System Stability Assessment, the IMF note that the short maturity of Mauritius' high domestic public debt poses significant interest rate and budgetary risks, and urged the authorities to develop a framework for extending the maturity structure of public debt. CPSE financing will partly respond to this need (see Technical Annex 2 for further discussion).

<b>Table 1: Key Macroeconomic Trends</b>					
	<b>2007/ 2008</b>	<b>2008/ 2009</b>	<b>July-Dec 2009 (proj)</b>	<b>2010 (proj)</b>	<b>2011 (proj)</b>
Real GDP Growth (at market prices)	5.3	2.9	2.5	3.0	4.0
Inflation (period average)	8.8	7.0	3.6	5.0	5.0
Primary Fiscal Balance (% of GDP)	1.5	0.0	-1.4	-1.4	0.2
Overall Fiscal Balance (% of GDP)	-2.7	-3.9	-4.8	-5	-3.3
Current Account Balance (% of GDP)	-8.9	-9.3	-12.3	-11.2	-11
FDI (% of GDP)	3.4	3.4	2.0	2.9	3.0
Total Public Debt (% of GDP)	56.6	58.5	59.3	60.4	60.1
<i>Source: MoFEE, Staff Estimates, and IMF</i>					

**2.2.2 The business climate is generally positive in Mauritius, but could be improved by administrative and policy reforms.** Mauritius ranks 17 out of 183 countries in the 2010 Doing Business Report<sup>13</sup> by the World Bank—the highest ranking in Africa, and ahead of countries such as France, Korea and Chile. Mauritius aims to achieve a ranking of ten or better, and to do so it is targeting areas of weakness such as getting credit, closing a business, property registration, and contract enforcement (see Section 4, Component C). The Global Competitiveness Index ranked Mauritius in the top third of the world's competitive economies in the 2008-2009 report, at 57. While the index highlighted strong points such as security, judicial independence and institutional strength, shortcomings were noted in innovation and technology. The 2009 World Bank-AfDB-World Economic Forum Africa Competitiveness Report similarly flagged skills and technology as areas of concern, along with inadequate infrastructure for Mauritius' economic aspirations.

**2.2.3 Mauritius ranks 65<sup>th</sup> among 177 countries in the Human Development Index, with good health indicators and a very low level of poverty.** Child and maternal mortality rates are already at the level of most advanced countries, and less than 2% of the population lives on US\$2 a day or less. This has been achieved under the auspices of a strong economic performance over the last decade, which allowed for the public financing of a comprehensive social security and safety net system, and several important social assistance programs directed toward the most vulnerable. However, pockets of poverty and low social indicators exist throughout the country among certain population groups, in particular on the island of Rodrigues, and the Millennium Development Goal (MDG) on HIV/AIDS will not be met unless urgent measures are taken. Fiscal pressures brought about by the economic downturn make it critical to improve the efficiency of social programs.

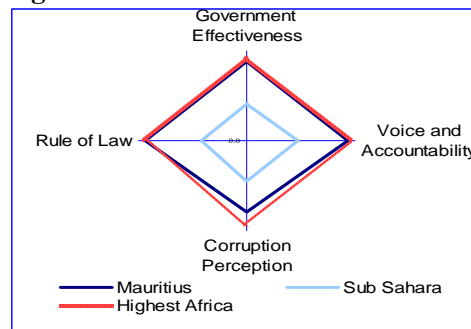
<sup>13</sup> The ranking from the *Doing Business 2010* report, cover the period June 2008 through May 2009.

**2.2.4 The GoM is taking measures to protect people against the negative effects of the global economic downturn, ensure the sustainability of social protection systems and open opportunities for all Mauritians to take part in the economic rebound.** The National Empowerment Foundation—first created in 2006 with the support of DBSL-I—has been given significant new resources to promote the growth of SMEs and assist vulnerable groups such as women and the residents of Rodrigues to build better livelihood opportunities. The GoM also recently announced two temporary programs (expiring December 2010) to retrain and place workers affected by the economic crisis. An advanced poverty mapping process by the GoM—underway with the support of the UNDP and the World Bank—will help more effectively target the most needy under the National Empowerment Foundation, the Eradication of Absolute Poverty program and other social assistance schemes. The implementation of programme-based budgeting strategies, supported by the Bank through this proposed operation, will enhance the allocative efficiency of the budget and greatly strengthen the ability of public programs to provide social services desired by Mauritians (see Section 4, Component A below).

**2.2.5 The impressive political and social stability that has characterized Mauritius in recent years is not expected to come under threat as a result of economic difficulties, an outcome this proposed operation is intended to help ensure.** Mauritius has a uniquely inclusive society, made up of several different ethnic and cultural backgrounds that live together in an atmosphere of relative tolerance. As well, the political system has proved highly flexible and inclusive since independence in 1968, with regular peaceful changes of power among political groupings. The Economist Intelligence Unit’s March 2009 Political Instability Index<sup>14</sup> rates Mauritius as very low risk, 7<sup>th</sup> out of 165 countries, and this is expected to continue through the parliamentary elections scheduled for 2010. While the economic downturn is not likely to threaten stability, this proposed loan is in part intended to help Mauritius weather the crisis without having to resort to harsh fiscal measures that could heighten political or social tensions in this young democracy.

**2.2.6 Mauritius has a very positive track record of good governance and strong institutions, although further progress is needed in some areas of public sector management** (Figure 1). Recent legal and regulatory reforms have focused on creating an enabling environment for enhanced business practices and ensuring good governance, transparency, rule of law and accountability. Mauritius received the highest score in Sub-Saharan Africa in the 2008 Ibrahim Index of African Governance (85/100). According to the Transparency International’s Corruption Perception Index (2008), Mauritius ranks 41<sup>st</sup> internationally, second in Africa after Botswana. The 2007 Public Expenditure and Financial Accountability (PEFA) assessment found Mauritius’ public financial management systems to be sound and the overall level of fiduciary risk low. However, multiyear planning and budgeting processes were found to be weak. The implementation of programme-based budgeting (PBB) and a performance management system (PMS) as part of the three-year medium-term expenditure framework (MTEF) are expected to strengthen strategic budgeting process across all government agencies, including parastatals.

**Figure 1. Mauritius Governance Rating**



*Source: AfDB Statistics Department.*

**2.2.7 The outlook for Mauritius is positive moving forward despite the current economic slowdown, particularly if the country is able to address a number of important constraints.** Mauritius is well positioned to face the challenges of a small island nation in the modern world economy. The country has navigated the transition from raw material exports to higher value-added manufacturing, and enjoys a solid consensus on the need to diversify into services and the

<sup>14</sup> “Manning the Barricades”, Economist Intelligence Unit special report.

knowledge economy. However, several constraints remain to be tackled before that will be possible. Physical infrastructure is inadequate for a modern, dynamic economy, with limited capacity in road infrastructure, the shipping terminal and airport and electric power generation. Human capital has improved in recent years, but education quality is still too low to develop the kind of economy Mauritius is aiming for, particularly at the secondary and tertiary levels. As well, government capacity is lacking in several key sectors, holding back the ability of the public sector to provide essential services, especially to the most vulnerable. The GoM recognizes these constraints and is seeking to overcome them, in part with the support of this proposed operation.

## 2.3 Bank Group Portfolio Status

2.3.1 As of end-June 2009, the Bank Group total commitments (net of cancellations) in Mauritius were low, at only UA18.18 million for an ongoing water and sanitation project that has not yet started disbursing (see Annex VII). The Bank has successfully implemented one general budget support operations in Mauritius, DBSL-I, which was fully disbursed in June 2009. The Programme Completion Report indicates that programme objectives were substantially met. Portfolio performance for investment projects, on the other hand, was well below expectations. Approval rates were not as high as planned. As well, investment projects faced long delays to become effective, and several projects were cancelled. This was because of lack of follow up on the part of the Bank, as well as internal coordination problems within the GoM. The placement of a Bank country economist in the field will help, as will ongoing reforms within the GoM to streamline public investment practices (see Technical Annex 3).

## III. RATIONALE, KEY DESIGN ELEMENTS AND SUSTAINABILITY

### 3.1 Link with the CSP, Analytical Underpinnings and Country Readiness Assessment

3.1.1 *Link with the CSP:* The proposed budget support operation is in line the Bank's strategic goals, including those in the CSP. The Bank's CSP for Mauritius (2009-2013) proposes a combination of instruments, including direct budget support and project investment lending, to support the strategic objectives of the GoM reform programme: building an economic foundation resilient to the challenges of the 21<sup>st</sup> century and ensuring an efficient public sector able to deliver needed social services to promote a more equitable society. The CSP is articulated around two pillars: (I) enhanced competitiveness and trade integration; and (II) enhanced public sector efficiency and basic service delivery. The mix of lending and non-lending interventions envisaged by the CSP was developed after broad consultations not only with the GoM, but also with a range of civil society organizations and representatives of the private sector. These consultations underpin the design of this proposed operation, which is organized into three components falling squarely under the two pillars of the CSP (Table 2).

Table 2. Links Between CSP and CPSE Operation	
Country Strategy Paper Pillars	CPSE Operation Component
<i>Pillar I:</i> Enhanced Competitiveness and Trade Integration	Enhance Trade Competitiveness Improve the Business Climate
<i>Pillar II:</i> Enhanced Public Sector Efficiency and Basic Service Delivery	Consolidate Fiscal Performance and Strengthen Public Social Service Delivery

3.1.2 *Country readiness for budget support:* Mauritius has broadly fulfilled the general and technical prerequisite conditions for general budget support. Mauritius' political scene is stable and predictable. Parliamentary elections are scheduled for 2010, and independent of their outcome, a broad consensus exists among Mauritians on the overall development vision underpinning reforms and policy actions in the medium term to 2011. The GoM strongly owns its reform program and has vigorously led harmonization of the work of DPs, which has enabled a solid partnership between the

authorities and DPs as well as among DPs. The GoM has prioritized maintenance of macroeconomic stability. The IMF observes that the authorities have made good progress carrying out structural reforms over the last few years, and that these reforms have helped Mauritius's macroeconomic fundamentals to remain solid. The 2007 Public Expenditure and Financial Accountability (PEFA) review, financed by the EC, found that Mauritius PFM systems have good fiduciary safeguards.

**3.1.3 *Analytical work and underpinnings: A number of analytical works and consultations underpin the proposed budget support operation*** (see Annex VI). Dialogue during the Bank's 2009-2013 CSP preparation with the GoM, country-level stakeholders and other DPs identified policy priorities to address the current challenges, and highlighted budget support as the GoM's preferred modality for development assistance. The May 2009 budget speech is the GoM's policy action plan for the coming 18 months, and identifies key priorities around which this operation is structured, including saving jobs, protecting people and preparing for recovery from the ongoing global economic crisis. The 2009 Africa Competitiveness Report by the AfDB, the World Bank and the World Economic Forum, the World Bank's 2007 Country Economic Memorandum, and recent Doing Business surveys all point to constraints to private sector development and trade competitiveness as areas that require urgent policy reforms. Preliminary findings from the joint World Bank-AfDB 2009 Investment Climate Assessment, currently being finalized, also informed the design of this operation. On financial governance, the 2007 PEFA and ongoing consultations within the African Peer Review Mechanism will play a major role in strengthening the management of public finances during programme implementation. In addition, the IMF is engaged in extensive dialogue on economic and fiscal issues, including a recent mission that reviewed options for consolidating and extending programme-based budgeting to link it to the performance management system (PMS). Finally, the UNDP's analytical work on budgeting and social safety net programs has informed the GoM's reforms. The Bank will continue supporting analytic works in strategic areas, including an update on the 2007 PEFA by June 2011.

## **3.2 *Collaboration and Coordination with Other Development Partners***

**3.2.1 The GoM's wide-ranging reform agenda is strongly supported by other DPs.** There is strong collaboration by the Bank with AFD, EU and the World Bank, which jointly financed DBSL-I and are jointly financing the proposed CPSE. Further, several economic and sector works underpinning the proposed operation were undertaken by the Bank jointly with other DPs, notably the recent Africa Competitiveness Report (with the World Bank and World Economic Forum) and the ongoing 2009 Investment Climate Assessment (with the World Bank). The Bank, the World Bank, the EU and the AFD participate in joint appraisal and reviews of budget support operations, subscribe to a common policy reform matrix (see Annex II), and use harmonized triggers/prior actions for disbursement of budget support financing. The World Bank's development policy loan series is ending with the current end-2009 disbursement, while the AFD and EU have smaller budget support grant operations envisaged through 2011. The IMF and UNDP have also coordinated with the Bank in policy reform areas related to this operation, with ongoing technical assistance on programme-based budgeting and social safety nets.

**3.2.2 The activities of Mauritius' DPs provide clear views on DPs' comparative advantages and demonstrate how DPs achieve complementarity at both country and sector levels.** The involvement of DPs in different areas of the development agenda is formally discussed each year during the GoM-led Annual Business Planning event, ensuring clear realms of activities, complementarity, and division of labour (see Annex IX for more details on the activities of DPs across sectors).

### 3.3 Outcomes and Lessons from Similar Past Operations

3.3.1 **The Bank's DBSL-I supported Mauritius in facing the challenges posed by a "triple trade shock" of rising food and energy prices, reduced European Union sugar preferences and the end of textile preferences.**<sup>15</sup> The operation supported reforms to: (i) consolidate fiscal performance; (ii) improve public sector efficiency, trade competitiveness and the investment climate; and (iii) widen the circle of opportunity and empower Mauritians through greater participation and social inclusion (see Technical Annex 1 for more details on the reforms supported by DBSL-I). With the support of the Bank and other DPs, Mauritius has made progress in implementing structural reforms, and its economy is increasingly based on innovation, knowledge and skill-based services. The country is on course to meet most of the MDG targets, and governance indicators, including the Country Policy and Institutional Assessment (CPIA) ratings, continue to strengthen. However, continuing the reforms initiated under DBSL-I has become more challenging as a result of the worsening global environment.

#### 3.3.2 Key lessons learned from DBSL-I are as follows:

- **Strong GoM leadership/ownership** of the design and implementation of the reform programme initiated during the 2005/06 budget led to the positive outcomes, including full engagement with the private sector to support the reform agenda. *Response: The Bank has continued following good practices of conditionality in the design of this operation, closely following the GoM's reform agenda to ensure strong ownership.*
- **Technical support across sectors** for capacity building and analytical work by DPs contributed to achievement of the objectives of the programme. *Response: DPs, including the Bank, are providing capacity building in key areas of the GoM's reform programme. The CPSE will be complemented by Bank grant facilities to support capacity to plan, design, implement, and monitor infrastructure projects, undertake a comprehensive mid-term review of the National IT Strategic Plan, and develop a strategy for mainstreaming gender issues in programme-based budgeting throughout the public sector.*
- **Mutual understanding and strong collaboration between the Bank and the GoM** led to positive outcomes in the reform programme. *Response: The Bank team has engaged intensively with GoM counterparts during the preparation of the CSP and the design of this programme to better understand appropriate areas of support.*
- **Use of smart indicators as a trigger for disbursement.** Outcome indicators such as primary spending as a percentage of GDP proved not to be the best indicators during economic crisis, because the impact on growth was outside the GoM's control. *Response: This proposed operation employs disbursement triggers that are clearly under the control of the GoM and are indicative of its commitment to the overall reform agenda.*
- **Collaboration and coordination among DPs** supporting the reform programme (World Bank, AFD, EU and UNDP) through formal mechanism such as business plan meetings, joint analytical work, joint appraisal and assessment, implementation and sharing of information contributed to achieving programme objectives. *Response: This operation was prepared in close collaboration with all DPs, including a joint appraisal mission, formal joint meetings and numerous informal contacts to harmonize interventions.*
- **Lack of Bank presence undermined institutional competitiveness** compared to the DPs represented at country level, and limited synergy of the budget support operation and other Bank Group activities. *Response: The Bank has decided to locate the country economist to Mauritius. This is expected to occur by the time this operation becomes effective, and will strengthen partnerships at country level and foster closer follow up of emerging issues concerning the Bank's portfolio.*

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<sup>15</sup> The Multi-Fiber Agreement for textiles expired in January 2005, and a reduction by 36 percent in the European Union's sugar preferences is coming into effect during the period 2006-10.

### ***3.4 Relationship to Other Bank Operations***

**3.4.1 The proposed operation has important linkages with Bank activities in Mauritius, both currently and moving forward.** Improving the efficiency in the public sector will enhance project management capacity for other Bank-financed projects. Such reforms will be beneficial for upcoming Bank Group lending projects as defined in the recent CSP, in particular infrastructure investments in the transportation and water sectors. As well, direct linkages exist between the proposed operation and non-lending initiatives through the ongoing Middle Income Country (MIC) grant facility for developing the health sector strategy as well as proposed MIC grants engendering the programme-based budgeting (PBB) in ministries, strengthening capabilities to plan, design, implement, and monitor infrastructure projects, and enhancing capacity in the ICT sector. More broadly, the CPSE would provide the Bank with a platform for strengthened dialogue with the GoM, and thus provide a strategic orientation of the Bank's lending and non-lending activities in Mauritius. The Bank's involvement with Mauritius has been limited in part by the absence of a mechanism to engage the GoM in a comprehensive manner across its priority reform program. By energizing the Bank's dialogue with the GoM across several sectors through the CPSE, more opportunities for lending and non-lending engagement will arise to strengthen the Bank's portfolio of activities moving forward.

### ***3.5 Bank's Comparative Advantage***

**3.5.1 The cumulative experience and achievements from DBSL-I has provided the Bank with invaluable experience in supporting public sector reforms,** an area that is a key pillar of the Bank's Governance Strategic Directions and Action Plan 2008-2012. This has led to a strong partnership of mutual trust between the Bank, authorities and other DPs in several sectors. The Bank has also built knowledge and gained the trust of authorities on competitiveness reforms both in the previous operation and through analytical work such as the 2009 Africa Competitiveness Report (with the World Bank and World Economic Forum) and the ongoing 2009 Investment Climate Assessment (with the World Bank). With the CPSE, the Bank will continue engaging in policy dialogue in these areas. Regarding financing, the Bank was ready to provide budget support at a critical time to the GoM, with the modality of assistance authorities need at the right time to address the challenges created by the global economic downturn.

### ***3.6 Application of Good Practices Principles on Conditionality***

**3.6.1 Reinforce ownership.** Strong ownership by the GoM of the reform agenda has underpinned the success of the past budget support operation. The strong link of DBSL-I to the core reforms kept the operation relevant and aligned to the GoM's reform priorities. The proposed CPSE has taken these lessons into consideration and is aligned to the Bank's Mauritius CSP (2009-2013) that was developed in close consultation with the GoM, private sector actors and other DPs. It also closely aligned to recent budget speeches outlining reform priorities.

**3.6.2 Coordinate the accountability framework.** DBSL-I fostered mutual understanding and respect on both sides regarding the needs and objectives of the reforms. These lessons have informed the design of CPSE. The proposed operation reflects the coordinated approach by DPs to disbursement conditions, amounts of support and timing of the delivery of assistance in line with the funding needs of the budget cycle. The policy matrix of the CPSE (see Annex II) was developed collaboratively among the GoM and DPs, including the Bank.

**3.6.3 Select only actions that are critical for achieving results as conditions for disbursement.** DBSL-I provided flexibility by enabling the Bank to consider a slippage of the third trigger on cuts in primary spending as a percentage of GDP,<sup>16</sup> as a temporary measure to address the global economic recession. The triggers for CPSE disbursement are few and comprise actions that are achievable and essential to drive outcomes from the GoM's reform programme. Six prior actions have been selected for the disbursement of the first tranche in 2009, and two conditions to satisfy the disbursement of the each of the second and third tranches in 2010 and 2011, respectively.

**3.6.4 Conduct transparent progress reviews conducive to performance-based financial support.** The Bank, the World Bank, the EU and the AFD are required by the GoM to undertake joint reviews and use common measures and indicators to monitor performance. The Bank will participate in twice-yearly joint reviews as a key requirement for programme supervision. Since the budget speeches have traditionally been the vehicle for announcing major economic policy reforms in Mauritius, one such review will be aligned with the annual budget speech. Further, CPSE financing will be fully aligned with the budget cycle and indeed, the operation supports policy reforms announced in the May 2009 budget.

## IV. THE PROPOSED PROGRAM AND EXPECTED RESULTS

### 4.1 *Programme's Goal and Purpose*

4.1.1 The overall goal of this operation is to mitigate the impact of the global downturn on economic growth and employment, while not losing momentum on the reforms supported by DBSL-I to make Mauritius a more globally competitive and equitable nation. The operation targets support to key policy reforms that the Bank judges to be critical for promoting an efficient and effective public sector and a more dynamic private sector, with the overall goal of creating more and better opportunities for all Mauritians (Box 1).

#### ***Box 1: Purpose of CPSE***

**To consolidate fiscal performance and strengthen public service delivery by supporting development of sector strategies that conform to PBB requirements, to:**

- Bring the level of primary spending to 20.6% of GDP by 2011, compared to 22.1% in 2008/09.
- Improve Mauritius' PEFA index to B- by June 2011 from D+ in 2007 in key areas of multiyear fiscal planning, expenditure policy and budgeting.

**To enhance trade competitiveness by supporting reforms over the ICT sector regulatory environment and non-tariff barriers to trade, to:**

- Increase the ICT sector's contribution to GDP to 6.7% by 2011, compared to 5.5 % of GDP in 2008.
- Maintain exports at 65% of GDP over the period 2010-2011, compared to 64% in 2008.

**To improve investment climate by implementing strategies to remove obstacles to business operations, to:**

- Raise Mauritius' ranking in the World Bank's "Doing Business Report" to a top 15 position by 2011, compared to 17 (out of 183 countries) in 2009.

### 4.2 *Programme Components, Operational Objectives and Expected Results*

4.2.1 **Consistent with the GoM reform program, the CSP and lessons learned from DBSL-I, the proposed programme has three components:** (i) consolidate fiscal performance and strengthen public social service delivery; (ii) enhance trade competitiveness; and (iii) improve the investment climate. Effective reforms in these three areas will provide the critical foundation for preparing for recovery from the adverse impact of the ongoing economic downturn without losing the momentum on longer-term reforms to transform the Mauritian economy.

<sup>16</sup> The DBSL-I's third tranche loan condition was: "reduce primary spending as a % of GDP by 1.5 percentage points in 2008/2009, relative to 2005/2006". The authorities requested and received the Bank's Board approval to waive this condition as the ratio will be cut by only 0.3 percentage point due to the ongoing global crisis (ADB/BD/WP/2009/100/Approved, 8 June 2009).

**4.2.2 The selection of programme components strike a balance between critical reforms, the capacity of government agencies and complementary reforms supported by other development partners.** While the long-term development agenda of Mauritius contains four thematic areas, this Bank operation directly addresses only three. The fourth area—widening the circle of opportunity through participation, social inclusion and environmental sustainability—is being supported strongly by the World Bank, UNDP, EU and AFD with operations to help improve access to education, targeting of anti-poverty programs and environmental sustainability. The complete range of measures supported by the Bank and other DPs is shown in the Operation Policy Matrix included as Annex II.

#### **Component A: Consolidate Fiscal Performance and Strengthen Public Sector Efficiency**

**4.2.3 Achievements Under DBSL-I. Since the 2006/07 budget, the GoM has been committed to restoring and maintaining fiscal discipline by stabilizing revenue, reducing expenditure, improving spending allocation and controlling debt.** In 2006, fiscal rules were implemented to limit recurrent expenditure and debt increases. Programme-based budgeting (PBB), performance management system (PMS) and a medium-term expenditure framework (MTEF) were launched on a pilot basis, and are progressively being extended through the public administration. The tax system was revamped with key reforms, including: unifying the Corporate Income Tax, abolishing tax exemptions, simplifying tax line items and introducing residential taxation. To increase public sector transparency, the Procurement Act was passed in 2007 and the deregulation of administrative prices was launched in 2008. The reform of the social safety nets and of the parastatals was launched in 2008, including opening the Cargo Handling Corporation Limited (CHCL) to a strategic partner in 2008. As a result, the overall fiscal deficit declined from 5.4% of GDP in 2005/2006 to 3.4% of GDP in 2007/2008. Over the same time period, public sector debt declined from about 70% to 57% of GDP.

**4.2.4 Current Challenges. The GoM faces the challenge of pursuing its agenda of fiscal consolidation and greater efficiency through PBB during a sharp economic downturn with heightened pressure to relax fiscal discipline.** As the effects of lower revenues and counter-cyclical fiscal policies fully materialize, deficits are projected to increase to 4.8% of GDP in fiscal period July-December 2009 and 5% of GDP in 2010. As a result, public debt has stopped declining and may by 2010 reach the 50% of GDP which comes into effect by 2013 as part of the Public Debt Management Act (2008). In light of tightening liquidity due to the financial crisis and the high proportion of short-term domestic debt, this poses fiscal risks for authorities. As well, the fiscal crunch could weaken the momentum for implementing PBB as authorities concentrate on resolving the current fiscal situation.

**4.2.5 Reform Agenda Going Forward. Despite the difficult fiscal outlook, the GoM remains committed to controlling fiscal spending, reducing risks to public debt and deepening PBB reforms.** Capital expenditure measures taken as part of the fiscal stimulus are being implemented in parallel with measures to reign in current expenditures, signalling the commitment of authorities to maintain gains achieved in recent years. The GoM is implementing a hiring freeze in the public sector, limiting inflation-adjustment wage increases and redeploying excess labour from parastatals to the central government. Reforms are ongoing to reduce the fiscal burden of loss-making parastatals and implement PBB techniques to their management starting in 2010, with the support of the World Bank (see Technical Annex 4). Further, the World Bank is supporting the GoM to design and implement an action plan that will build its capacity to manage risks related to public debts. These measures will allow the fiscal accounts to quickly resume their improving trend once the economic crisis eases. A key outcome of the programme will be to cut primary spending as a percentage of GDP from 22.1% in 2008/09 to 20.6% by 2011. To reduce public debt risk, the GoM is planning to re-profile a significant portion of its short-term domestic debt to longer-term foreign currency debt, to a large extent with the resources provided by the CPSE (see Section 4.3). The

planned re-profiling of debt would significantly reduce rollover risk and minimize crowding out private sector access to credit during these times of tight liquidity. However, authorities have signalled their intention to continue tapping domestic capital in the medium term to minimize exchange rate risk and promote the development of domestic capital markets.

**4.2.6 In addition, the GoM intends to move ahead with budget process reforms aimed at enhancing financial governance as well as the strategic use of public resources.** The gradual implementation of PMS and PBB is expected to strengthen governance and the strategic budgeting process across all government agencies (Box 1). In February 2009, the IMF commended the GoM for making good progress in the implementation of PBB, but noted that further progress will require strengthening the PBB-PMS link. The GoM has committed to preparing strategies for several ministries for the 2010 budget in line with PBB requirements. *The Ministries of Environment, Tourism and Industry will have completed their PBB strategies by end-July 2009, and this forms a prior action for this operation* (see Table 4, below). A new PBB-oriented strategy for the health sector is currently under elaboration with the assistance of a Bank MIC technical assistance grant, and is to be completed by June 2010. The new strategy seeks to make the public health system more sustainable by implementing a series of incentives to system users and administrators to use resources more efficiently while improving service quality. *The submission of the health strategy complying with PBB requirements is a condition for disbursement of the second tranche of this operation* (see Paragraph 6.2.4). Taken together, reforms over the budget process are expected to enhance the quality of public expenditure management, as reflected in improvement on the PEFA index score on multi-year perspective in fiscal planning, expenditure policy and budgeting from D+ in 2007 to B- by June 2011 (see Technical Annex 6 for summary of PEFA scores).

#### **Box 2. Programme-Based Budgeting in Mauritius**

The purpose of PBB is to shift the budgeting process away from one based on annual inputs (as in the line-item budgeting method) toward a multi-annual focus on outcomes and results. Mauritius, as with an increasing number of developed and developing countries, seeks to use PBB to gain greater control over fiscal accounts and improved public service delivery. This is achieved through the use of performance information that seeks to improve expenditure allocation efficiency and effectiveness by linking it directly to results within the context of an MTEF and logical planning framework.

Mauritius first began to introduce PBB in 2007/2008, when an indicative PBB was submitted alongside a traditional line-item budget. The full PBB process under a three-year MTEF was initiated with the 2008/2009 budget. Different sectoral ministries are still in the process of redesigning their individual budget submissions to fit the PBB process.

### **Component B: Enhance Trade Competitiveness**

**4.2.7 Achievements Under DBSL-I. To improve trade competitiveness, the GoM has been liberalizing the trade regime and business regulatory frameworks.** Duties on 87% of tariff lines were eliminated by 2008/09, and authorities intend to eventually cut tariffs by 95%. Under DBSL-I the highest tariff rate was reduced from 60% to 30%. Further measures were introduced towards a common regulatory regime across sectors. With the exception of labour regulations, the distinction between export processing zone (EPZ) and non-EPZ producers was eliminated,<sup>17</sup> anti-labour bias in the tax system eliminated by removing a 25% investment tax credit, and the application process for licenses and permits streamlined to emphasize more ex-ante approvals of business registration rather than ex-post verification of safety and health standards. Further, the GoM has introduced sector strategies that will provide a roadmap for interventions aimed at enhancing the competitiveness of the traditional and emerging sector, especially services, which the authorities view as key to the country's economic future. The GoM has continued to open air access to increase carrying capacity, diversify the sources of visitors and bring down travel costs to Mauritius through greater

<sup>17</sup> EPZ firms continue to benefit from less stringent labour regulations.

competition. Legal changes also have been made to facilitate setting up foreign universities and private hospitals geared toward foreigners in Mauritius.

**4.2.8 Current Challenges. As part of its long-term development strategy, Mauritius plans to move away from dependency on the exports of sugar and textiles and move into higher value-added niche products and services.** To accomplish this, a critical next step will be to upgrade the country's ability to compete in information and communication technology (ICT), a catalytic industry enabling other services to become competitive. ICT-enabled services have faced numerous obstacles to achieving greater growth, including high prices for bandwidth linkages and a regulatory and legal framework that does not meet international standards. More broadly, while the GoM has made considerable progress in reducing tariffs, a number of non-tariff barriers, such as onerous requirements for export permits, remain high and should be eased to help the entire country's export base compete better.

**4.2.9 Promoting Mauritius' role as a hub for regional trade is also an important goal, both to take advantage of the growing African market for exports of services and to position the country as a bridge between Asian investors and Africa.** The regional agenda is a high priority for trade policy as a potential growth driver for Mauritius and for partner countries in Africa. The country is participating in regional trade bodies, including the Common Market for Eastern and Southern Africa (COMESA). Further, Mauritius will host the COMESA Adjustment Facility, the COMESA Infrastructure Fund (CIF) and the centralized COMESA clearinghouse headquarters. Mauritius is also an active member of Southern African Development Community (SADC). Undertaking policy reforms to promote better ICT linkages will be critical for Mauritius to take fuller advantage of the opportunities presented by regional trade.

**4.2.10 Reform Agenda Going Forward. The GoM views the ICT sector as a key growth area capable of catalyzing many other ICT-enabled service exports,** and is taking policy action such that the sector contributes 6.7% of GDP by 2011, up from 5.5% in 2008. In recent years, ICT companies have been unable to secure important contracts, especially in Europe, because the country lacks full EU accreditation for data protection. Licensing and regulation standards are not up to international standards and are governed by an outdated Information and Communication Technology Act (2001). High bandwidth linkages necessary for ICT business are very costly in Mauritius compared to other countries. Prices decreased from US\$20,000 for 2 megabytes in 2001 to US\$7,800 in 2005, but comparator countries in the region show a cost of only US\$1,000 for 2 megabytes. The GoM is taking important policy actions in this area to improve the country's ICT competitiveness, including: (i) reducing the prices of International Private Leased Circuits from Mauritius to Paris; (ii) preparing and submitting amendments to the Information and Communication Technologies Act (2001) to the Attorney General's Office; and (iii) bringing into force the Data Protection Act (2004) and establishing the office of the Data Protection Commissioner. *These actions are evidence that authorities are taking a number of important steps to review the legal and regulatory environment in line with international best practices and changes resulting from technological convergence for modern competitive ICT markets, and comprise a prior action for this operation* (Table 4, below). In the next year, the GoM plans to undertake a comprehensive mid-term review of its National IT Strategic Plan (NITSP) 2007-2011, which will be critical to set priorities for further regulatory reforms and improvements in the sector. *Undertaking a mid-term review of the NITSP by March 2010 will serve as a condition for disbursement of the second tranche of this operation* (Paragraph 6.2.4).

**4.2.11 Non-tariff barriers still undermining trade competitiveness are an area of reform focus for the GoM.** To ensure that decisions concerning regulations and their implementation are made in an informed and transparent manner, a joint Public-Private Sector Standing Committee was set up in April 2009 and is meeting on a quarterly basis. The committee includes representatives from the private sector and the main line ministries, and is undertaking a thorough review of all non-tariff

barriers to trade, including standards and rules of origin. *Setting up the Public-Private Sector Standing Committee to monitor the implementation of measures to improve the trade regulatory environment and promote a systematic approach to the assessment of trade-related regulations and administrative procedures is a key action in streamlining Mauritius' regulatory framework, and forms a prior action for this operation* (see Table 4, below). Further, under the auspices of the Ministry of Business, a review of permit restrictions inhibiting trade competitiveness by the Business Permits Review Committee is well advanced. The outcome of this review will inform changes to regulations. In this regard, expertise is being mobilized to draw on international best practices to modernize licensing procedures in four ministries, namely Agro-Industry, Finance, Health and Tourism which collectively issue some 440 different licenses. *Undertaking amendments proposed by the Business Permits Review Committee to permit procedures by March 2011 forms a condition precedent to the disbursement of the third tranche of the CPSE* (Paragraph 6.2.4). Collectively, these reforms will enhance Mauritius' trade competitiveness and maintain the country's exports to GDP ratio at 65% of GDP over the period 2010-2011, compared to 64% in 2008

### **Component C: Improve the Investment Climate**

4.2.12 *Achievements Under DBSL-I.* In the 2006-07 budget, the GoM signalled its intention to facilitate investment by doing away with complex and cumbersome procedures and to achieve a ranking below ten in the World Bank's Doing Business survey. Not only are these reforms critical to attract new business activities, but also to ease the way for many informal businesses to incorporate themselves into the formal sector. Measures to reduce the cost of doing business in Mauritius started with the 2006 Business Facilitation Act, which provided a new legal framework. To reduce bureaucratic obstacles to starting businesses, the 2006/07 budget transformed the Board of Investment from an administrator to a promoter/facilitator, and empowered the Registrar of Companies to act as a one-stop-shop for business registration. Overall, the time it takes to start a business was reduced from 46 days in 2005/06 to ten days by 2009 (Table 3). To ameliorate shortages of skilled workers, the entry of foreigners into the labour market was eased by combining residency and work permits and by legalizing the conversion of tourist to business visas. The National Pay Council was established to replace the tripartite wage bargaining mechanisms so as to tie wages closely to worker productivity. To deal with the problem of property registration, the 2008 Finance Act set up statutory time of 15 days, from the date of payment of fees, for the registrar to deliver the final title to the buyer.

<i>Ease of...</i>	<i>DB2010 rank (out of 183)</i>	<i>DB2009 rank (out of 181)</i>	<i>DB2008 rank (out of 178)</i>
Doing Business	17	24	29
Starting a Business	10	8	8
Dealing with Construction Permits	42	35	37
Employing Workers	36	65	64
Registering Property	66	131	157
Getting Credit	87	84	102
Protecting Investors	12	11	11
Paying Taxes	12	11	12
Trading Across Borders	19	24	16
Enforcing Contracts	66	79	73
Closing a Business	73	73	69

*Source: World Bank, Doing Business 2009 and 2010<sup>18</sup>*

4.2.13 **To improve flexibility in the labour market, the GoM recently introduced changes in labour laws.** The Employment Rights Act (2008) introduces a “flexi-security” scheme that aims to strengthen the protection of workers, rather than jobs. The scheme provides for a maximum of 12 months of transitional assistance to employees who wish to seek a new job, undergo training and re-skilling or start a small business. During the transition phase, the redundant employees receive 90

<sup>18</sup> The rankings from the Doing Business (DB) 2010 report cover the period June 2008 through May 2009, DB 2009 report, cover the period June 2007 to June 2008, and the DB 2008 report cover the period April 2006 to June 2007. Doing Business 2008 and 2009 rankings have been recalculated to reflect changes to the methodology and the addition of new countries.

percent of their basic salary for the first three months, 60 percent for the second three months, and 30 percent for six months thereafter, provided that they have not negotiated a package with their employers. The Employment Relations Act (2008) gives prominence to the collective bargaining process to regulate terms and conditions of employment. The act lists the various steps involved in the collective bargaining process, ranging from recognition of trade unions as bargaining agents to the negotiation and registration of collective agreements.

4.2.14 *Current Challenges.* **Despite the progress outlined above and the generally positive business climate in Mauritius, a number of important limitations remain to greater economic dynamism.** Doing Business 2009 and 2010 notes certain areas that require further reforms. Access to credit is a major difficulty in Mauritius, although its ranking improved to 87 (out of 183 countries) in 2009 from 102 (out of 178 countries) in 2007. Lack of credit, combined with the fact that a small number of private sector conglomerates dominate much of the economy, make it difficult for SMEs to establish themselves in the market, especially in traditional sectors. The Doing Business surveys show that little progress has been made since 2007 to eliminate constraints related to resolving bankruptcies. As a result, in the area of closing businesses, Mauritius is ranked 73 (out of 183 countries) in 2009 compared to 69 (out of 178 countries) in 2007. Another important bottleneck is inadequate infrastructure for Mauritius' level of development, as pointed out in the 2009 Africa Competitiveness Report. Many main roads, particularly around the capital, face heavy traffic congestion, and the limited capacity of the container port and the international airport further restrain economic activity. The GoM has an ambitious public investment programme to address some of these bottlenecks (see Technical Annex 3 for more details), and CPSE-supported reforms to enhance the efficiency of the public sector, for example PBB, will be crucial to ensure that this public investment does not reverse gains made to bring public debt and fiscal deficits under control.

4.2.15 *Reform Agenda Going Forward.* **Removing the remaining obstacles to facilitate doing business in Mauritius, is a high priority for the GoM.** In the area of business facilitation, the GoM has set up a specialized Commercial Division of the Supreme Court of Mauritius with jurisdiction to deal with all matters of bankruptcy, insolvency, and matters arising out of the Companies Act, banking, insurance, bills of exchange, offshore, industrial property, patents, sale of goods, and other disputes that are of a commercial nature. The expectation is that this action, that will promote settling of commercial disputes within a maximum period of seven months, will considerably improve the country's Doing Business ranking in this area, in the next survey. Critical legal reforms to further improve the security of contract enforcement in Mauritius, include enacting of the Insolvency legislation. *Setting up the commercial court and approving the Insolvency legislation are both prior actions for this operation* (see Table 4, below). Further, several actions are underway to facilitate the flow of credit. The 2008 Finance Act opened up the market for credit information bureaus, which will ease access to credit, especially for SMEs. Finally, the minimum threshold for loan amounts has been eliminated, and the public credit registry of the Bank of Mauritius now captures information on all credits extended by the financial system.

4.2.16 **One important investment climate policy measure is setting up the Competition Commission to ease the ability of new companies, especially SMEs, to compete in a fair environment.** The commission has been established, with five commissioners and the director appointed by the President of the Republic. The commission is fully independent and has legal authority to compel the release of information and enforce judgments, including closing down companies, forcing changes in pricing and other remedial actions. Its mandate includes hearing complaints and launching independent investigations of anti-competitive behaviour on the part of companies and individuals operating in Mauritius. *The establishment of the Competition Commission is a prior action for this operation* (see Table 4, below). The commission is not yet fully staffed and has not completed drawing up its formal guidelines, and hence is not yet able to start operations or launch investigations. *A fully operational Competition Commission, by March 2011, is a condition precedent to disbursement of the third tranche* (Paragraph 6.2.5).

4.2.17 *Prior Actions*: **The GoM has provided evidence of substantial progress implementing key policy actions in areas supported by this proposed operation.** The prior actions (Table 4) have been carefully chosen to build momentum for reforms in key areas supported by CPSE. These measures have been selected from the policy matrix that was developed by the GoM in consultation with key stakeholders, including the Bank and other DPs. The GoM will provide evidence of their fulfilment prior to Board approval of CPSE.

<b>Table 4: Prior Actions for Board Presentation of the CPSE (By End-August 2009)</b>
<b>Component A: Consolidate Fiscal Performance and Improve Public Sector Efficiency</b>
<ul style="list-style-type: none"> <li>• <b><u>Prior Action #1:</u></b> Prepare at least three line ministry (environment, tourism and industry) strategies for 2010 budget in line with programme-based budgeting requirements (Paragraph 4.2.6).</li> </ul>
<b>Component B: Enhance Trade Competitiveness</b>
<ul style="list-style-type: none"> <li>• <b><u>Prior Action #2:</u></b> Revise the legal and regulatory environment in the ICT sector in line with international best practices and changes resulting from technological convergence for modern competitive ICT markets (Paragraph 4.2.10).</li> <li>• <b><u>Prior Action #3:</u></b> Set up a joint Public-Private Sector Standing Committee to monitor the implementation of measures to improve the trade regulatory environment and promote a systematic approach to the assessment of trade-related regulations and administrative procedures (Paragraph 4.2.11).</li> </ul>
<b>Component C: Improve Investment Climate</b>
<ul style="list-style-type: none"> <li>• <b><u>Prior Action #4:</u></b> Set up a specialized commercial division of the Supreme Court of Mauritius with jurisdiction to deal with all matters of bankruptcy, insolvency, and matters arising out of the Companies Act, banking, insurance, bills of exchange, offshore, industrial property, patents, sale of goods and other disputes that are of a commercial nature (Paragraph 4.2.15).</li> <li>• <b><u>Prior Action #5:</u></b> Get Cabinet approval of insolvency legislation (Paragraph 4.2.15).</li> <li>• <b><u>Prior Action #6:</u></b> Establish the Competition Commission of Mauritius as evidenced by appointment of the five commissioners by the President of the Republic (Paragraph 4.2.16).</li> </ul>

### 4.3 *Financing Needs and Arrangements*

4.3.1 **The proposed CPSE loan will contribute to financing the fiscal gap originated by declining fiscal revenue and the fiscal stimulus package to counteract the impact of the global economic slowdown, and to reducing risks in the public debt profile.** In the wake of the economic downturn, fiscal revenues for 2008/09 declined slightly compared to their expected levels, but they are expected to fall more severely as a share of GDP in 2009-2010 in view of the lag in tax payments by the corporate sector. Further, in December 2008, the GoM announced a stimulus package amounting to 3.8% of GDP, which is expected to require an estimated at 2% of GDP in additional expenditure for 2009 and 2010.

4.3.2 **As a major part of the fiscal stimulus package, the GoM will use loan resources to finance key infrastructure projects that will not only protect employment, but will also lay the groundwork for future increased economic activity.** A sizeable portion of stimulus spending is being directed to addressing transportation infrastructure bottlenecks. Major investments are also planned to modernize the international airport and expand the container terminal at the seaport, both of which will also strongly boost the trade agenda discussed under Component C, of this report. Financing by the Bank and other DPs is essential to create the fiscal space required to undertake these infrastructure projects and close the budget gap of around US\$1 billion between July 2009 and December 2011 (Table 5). The GoM has taken measures to fast-track implementation of infrastructure projects, including enhancing its capacity for project preparation, implementation and supervision, improving institutional framework for public procurement and decentralizing the procurement process (see Technical Annex 3 for more details).

## 4.3.3

<b>Table 5: Government Fiscal Needs</b> (millions of US\$, except as indicated)			
	<b>2009</b> <b>(July-Dec)</b>	<b>2010</b>	<b>2011</b>
Revenues (incl. grants)	954	1780	1947
<i>Of which: EU grants</i>	<b>76</b>	<b>70</b>	<b>55</b>
Expenses	1027	1944	2015
<b>Gross Operating Balance</b>	<b>-73</b>	<b>-164</b>	<b>-67</b>
Net Acquisition of Non-Financial Assets	-143	-278	-240
<i>Of which: Building and structures</i>	<i>-109</i>	<i>-229</i>	<i>-197</i>
<i>Vehicles, machinery, equip. &amp; other</i>	<i>-34</i>	<i>-49</i>	<i>-44</i>
<b>Budget Balance</b>	<b>-216</b>	<b>-442</b>	<b>-308</b>
Net Acquisition of Financial Assets Net of Adjustments	-6	14	6
Government Borrowing Requirements	222	428	302
Domestic Financing	-91	27	-26
Foreign Financing	326	402	328
<i>Of which: AfDB</i>	<b>200</b>	<b>300</b>	<b>200</b>
<i>AFD</i>	<b>76</b>	<b>42</b>	<b>-</b>
<i>World Bank</i>	<b>50</b>	<b>-</b>	<b>-</b>
<i>Other (investment projects)</i>	<b>-</b>	<b>60</b>	<b>128</b>
<b>Memo Items</b>			
Domestic financing (without Bank loan) <sup>19</sup>	64	211	53
Restructuring domestic debt through Bank loan <sup>17</sup>	155	184	79
% of Bank loan used for debt restructuring	78	61	40
Government borrowing requirements (% of GDP)	4.9	4.8	3.2
<i>Source: MoFEE, Bank staff estimates</i>			

**The additional foreign borrowing will also enable the GoM to reduce public debt risks in line with IMF's recommendations in the 2008 Financial System Stability Assessment.** The GoM has relied primarily on domestic, short-term sources for meeting its borrowing requirements. As of June 2009, Mauritius' public sector debt amounted to 59.3% of GDP, of which 49.2% of GDP was domestic debt<sup>20</sup> (see Annex IV). Nearly half of domestic debt had a maturity of less than one year, while only 11% had a maturity of more than five years. To mitigate risks posed by the short maturity of domestic debt, the GoM intends to use about 78% (US\$155 million), 61% (US\$184 million) and 40% (US\$79 million) of the Bank's loan proceeds to restructure public debt during the fiscal periods July-December 2009, 2010 and 2011, respectively (Table 5). As part of the same effort to help reduce public debt risks in Mauritius, the World Bank is working with the GoM to improve the overall management of the public debt portfolio (see paragraph 4.2.5).

**4.3.4 The Bank's special due diligence assessment of Mauritius undertaken from June 29 to July 08, 2009 concluded that this operation is sustainable, and Mauritius' debt servicing record is excellent and default is unlikely over the medium term.**<sup>21</sup> The country's indicative development program financing requirement over the period 2009-2011 is estimated at about US\$952 million of which the Bank's loan in the sum of US\$420 million and EUR186 million in three tranches (US\$125 million and EUR 50 million in 2009; US\$225 million and EUR 50 million in 2010; and US\$70 million and EUR 86 million in 2011) over the period 2009-2011 will be consistent with the country's sustainable level of lending by the Bank.

<sup>19</sup> Domestic financing before Bank financing represent what is reported in the programme-based budget estimates 2009 (July-December) and the indicative estimates for 2010 and 2011. The amount of the CPSE loan proceeds utilized for restructuring public debt portfolio is then derived by comparing the level of domestic debt before and after the proposed program.

<sup>20</sup> Recent estimates by the MoFEE show that Mauritius' public sector debt as of June 2009 was 57.6% of GDP, of which 48.3% of GDP was domestic debt.

<sup>21</sup> Bank's *Special Country Risk Report for Mauritius* (Tunis: AfDB FFMA, 14 September 2009)

#### **4.4 Beneficiaries of the Programme**

##### **4.4.1 Beneficiaries will include the entire population of Mauritius, due to the broadness of the reform agenda and its impact on the entire public administration and economic growth.**

The increased fiscal space generated will allow for greater spending on social programs oriented toward achieving the Millennium Development Goals. Specific groups of beneficiaries will include: (i) users of publicly-provided social services (through more efficient budgeting and service delivery strategies); (ii) taxpayers (through a more judicious and efficient use of fiscal resources); (iii) domestic and foreign investors (through maintenance of overall macroeconomic stability, an improved investment climate and ease of foreign trade); (iv) the Mauritian workforce, including women employees facing layoffs in the textile industry (through greater employment opportunities in higher value-added sectors); and (v) the most disadvantaged members of the population, including the island of Rodrigues (through increased fiscal space for social services and more effective service delivery).

#### **4.5 Impact on Gender**

**4.5.1 The programme is expected to have an impact on gender on two levels.** First, reforms to implement more efficient and effective delivery of public services will strengthen the numerous programs directly supporting women, including specialized health assistance, job re-training for those affected by the contraction of the textile industry and assistance for female micro-entrepreneurs. As well, social safety nets for the elderly will benefit a large proportion of women, as elderly living alone are mostly women. The GoM reform programme also covers key strategic goals such as gender equality in education and gender budgeting. Second, the ongoing transformation of the Mauritian economy is expected to create more and better income-generating opportunities for women. Women form a large portion of the workforce in the textile industry, and developing higher value-added businesses in the textile industry and elsewhere will offer these workers the chance to transition to higher-skilled and higher-paid jobs. Further, reforms supported by this operation to create better conditions for business and trade and to level the country's economic playing field through the creation of a strong and independent Competition Commission will have a significant impact on the ability entrepreneurs to launch and successfully operate SMEs, which in Mauritius are disproportionately owned by women.

#### **4.6 Environmental Impact**

4.6.1 CPSE is classified in Category 3 according to the procedures for the environmental and social impact assessment. Given that CPSE is a budget support operation, the policy changes it supports are not likely to have any significant direct effects on the environment and natural resources.

### **V. IMPLEMENTATION, MONITORING AND EVALUATION**

#### **5.1 Implementation Arrangements**

5.1.1 *Responsible institution:* The executing agency for CPSE is the Ministry of Finance and Economic Empowerment (MoFEE).

5.1.2 *Disbursement:* The Bank loan in the sum of US\$420 million and EUR186 million for a two and a half years period starting July 2009 and ending December 2011 will be disbursed in three tranches according to a schedule directly requested by the GoM to respond to their fiscal needs. Responding to these needs, CPSE programme is uniquely designed to promote greater predictability of funding through a commitment horizon of three budget cycles. The *first tranche of US\$125*

*million and EUR 50 million* will cover the 2009 mini-budget requirements and will be disbursed upon the entry into force of the Loan Agreement and fulfillment of the conditions precedent to the first disbursement. The disbursement of the *second tranche (US\$225 million and EUR 50 million) and third tranche (US\$70 million and EUR 86 million)* will occur in July 2010 and July 2011, respectively, and will be considered after the satisfactory reviews of programme execution, and subject to GoM satisfying the conditions stipulated in Section 4 of this report. The three tranches loan proceeds will be credited to a designated United States dollar account that will be opened in the name of the Treasury in accordance with the Disbursement Letter. These funds will then be credited in Rupee equivalent to the Single Treasury Account maintained in BoM on behalf of the GoM. The GoM will be required to provide confirmation to the Bank that an amount equivalent to the loan proceeds from the Bank has been credited to the Single Treasury Account, with an indication of the exchange rate applied.

5.1.3 Procurement: Under the CPSE, as in prior Bank Group budget support operation in Mauritius, procurement will be conducted according to the current national system. All DPs supporting the GoM's budget have deemed national procurement system to be acceptable.

5.1.4 Audit: A 2007 Public Expenditure and Financial Accountability (PEFA) assessment found Mauritius's PFM systems to be sound, and the overall level of fiduciary risk to be low. The operations of the BoM are audited annually by independent auditors to ensure transparency and accuracy. No problems have been reported by the external auditors in the audit report for the year ended 30 June 2007. Public accounts are audited annually by the Office of the Auditor General. With respect to the proposed operation, the Bank will not request any special audits but rather will rely on the national audit systems. The Office of the Auditor General (the supreme audit institution of Mauritius) will transmit the annual Director of Audit Report to the Bank within a period of six months after the end of each respective financial year.

## **5.2 Monitoring and Evaluation Arrangements**

5.2.1 Responsible institutions: The Financial Secretary in the MoFEE will be the primary counterpart for the Bank in the country, and will facilitate data required for monitoring the programme.

5.2.2 Monitoring: The Bank will monitor actions and review progress of the implementation of the proposed operation in coordination with Mauritius' main DPs. It will maintain dialogue with counterparts in MoFEE, the ministries of Industry, Information Technology, Labour, and other bodies critical to the success of the program. Periodic monitoring by the Bank will take place during semiannual field missions, while the country economist will undertake more frequent in-country monitoring.

5.2.3 Evaluation: To promote mutual accountability, the GoM expects all DPs to fully align their monitoring and evaluation framework and conduct joint review missions. The quantitative indicators included in CPSE's results-based Logical Framework are derived from the Operations Policy Matrix (see Annex II) developed collaboratively with other DPs and agreed with the GoM as priority measures for monitoring progress. At the end of the programme's implementation, the Bank and the GoM will prepare a joint Programme Completion Report to evaluate programme implementation, the outcomes achieved vis-à-vis the envisaged, and derive lessons that will inform future interventions.

## VI. LEGAL DOCUMENTATION AND AUTHORITY

### 6.1 *Legal Documentation*

6.1.1 The financing instrument that will be used for this operation is a Bank Loan in the sum of US\$420 million and EUR186 million in the form of budget support to the Republic of Mauritius from the Bank's resources. The Loan will be disbursed in three tranches, upon fulfillment of the conditions outlined below.

### 6.2 *Conditions Associated With Bank's Intervention*

6.2.1 **Prior Actions:** Before this Loan proposal is presented to the Bank Board for approval, the GoM shall provide evidence to the Bank that the prior actions outlined in Table 4 have been implemented.

6.2.2 **Entry into force of the Loan Agreement** shall be subject to fulfillment of the provisions of Section 12.01 of the General Conditions.

6.2.3 **Conditions precedent to disbursement of the first tranche of US\$125 million and EUR 50 million:** The disbursement of the first tranche of the Bank Loan will be subject to maintenance by the borrower of an appropriate macroeconomic framework (based on IMF's Article IV Consultations), and fulfillment of the following specific conditions:

- Transmit to the Bank the references for the US\$ and EUR Accountant General's accounts with Bank of Mauritius that will receive the Loan resources.

6.2.4 **Conditions precedent to disbursement of the second tranche of US\$225 million and EUR 50 million:** The obligation for the Bank to disburse the second tranche of the loan will be subject to maintenance of an appropriate macroeconomic framework (based on IMF's Article IV Consultations), and fulfillment of the following specific conditions:

- Transmit to the Bank, evidence of:
  - a. Having submitted to the Cabinet the Health Sector Strategy that complies with PBB requirements (paragraph 4.2.6);
  - b. Having completed the mid-term review of the National IT Strategic Plan (paragraph 4.2.10).

6.2.5 **Conditions precedent to disbursement of the third tranche of US\$70 million and EUR 86 million:** The obligation for the Bank to disburse the third tranche of the loan will be subject to maintenance of an appropriate macroeconomic framework (based on IMF's Article IV Consultations), and fulfillment of the following specific conditions:

- Transmit to the Bank, evidence of:
  - a. Having undertaken amendments proposed by the Business Permits Review Committee to permit issuance procedures (paragraph 4.2.11)
  - b. Having made the Competition Commission operational (paragraph 4.2.16).

### 6.3 *Compliance With Bank Policies*

6.3.1 This programme complies with all applicable Bank Group policies and guidelines, including: (i) the 2004 Guidelines for DBSL operations; (ii) the Bank's Governance Strategic Directions and Action Plan, 2008-12; (iii) the Environmental and Social Assessment Procedures (ESAP); and (iv) requirements on cross-cutting issues.

## VII. RISK MANAGEMENT

7.1 **Risk #1: The impact of the deteriorating global economy.** The ongoing global recession could undermine economic growth and fiscal revenues, thus jeopardizing reform implementation. This could slow the transition of the Mauritian economy to high-value service sectors. Slower growth would squeeze out fiscal revenue expansion. As such, the risk for fiscal slippage ahead of the 2010 national elections remains high. Further, as Mauritius' large current account deficits have so far been financed by FDI and net portfolio inflows, continued global financial crisis would lead to lower inflows and widening of the current account deficit.

- *Mitigation:* The authorities are being vigilant and undertaking contingency measures, such as reducing recurrent spending, re-profiling public debt, enacting a fiscal stimulus and maintaining a flexible exchange rate. The Bank's CPSE operation will be useful to mitigate adverse macroeconomic shocks by providing quick-disbursing resources that the authorities may require during the challenging road ahead.

7.2 **Risk #2: Weak capacity to carry out wide-ranging economic reforms.** Inadequate implementation capacity is another constraint. Over the past few years, policy-making has been highly centralized and dominated by the economic reform agenda. As the public sector reverts to a more 'normal' operational mode, capacity shortages are likely to become more visible.

- *Mitigation:* The authorities are reforming the public service to make it more meritocratic through the PMS reforms. The Bank plans to continue providing technical assistance through the MIC grant in several areas, including for the implementation of infrastructure projects, the ICT sector, the health sector strategy and mainstreaming gender in the public service. Further, other DPs continue to provide technical assistance to improve the capacity for implementing reforms in key policy areas related to this operation, including social policy and programme targeting (UNDP and World Bank), education sector strategy (EU) and programme-based budgeting (IMF).

7.3 **Risk #3: The reform agenda will not be sustained.** For a number of reasons—most notably the pressures created by the ongoing economic downturn—the strong momentum that has driven the reform agenda since 2006 could falter.

- *Mitigation:* The Bank and other DPs have selected a limited number of critical reforms from the GoM's policy agenda around which strong ownership and leadership has been demonstrated by the results of DBSL-I and the current policy dialogue. Bank consultations have verified that this ownership is not limited to the current administration, but across the political class, in the private sector and among civil society representatives.

7.4 **Risk #4: Loan cancellation.** Prior to 2005, the GoM cancelled several Bank operations because of uncompetitive pricing. Cancellation is a significant risk that if not addressed has the potential to undermine the realization of the developmental outcomes under the CPSE programme.

- *Mitigation:* The risks of loan cancellation and indeed, those associated with lengthy delays in reaching loan effectiveness are explicitly recognized in the Bank's CSP for Mauritius (2009-2013). The CSP, however, confirm that such risks are only associated with investment projects, and indeed, the past budget support loan was fully disbursed, as planned. Further, the 2008 Strategic Framework for Enhancing Bank Group Support to Middle-Income Countries has positioned the Bank as the preferred partner of MICs, based on a comprehensive approach offering several benefits including a competitive range and pricing of financial products.

## **VIII. RECOMMENDATION**

8.1 Management recommends that the Board of Directors approve the proposed Loan in the sum of US\$420 million and EUR186 million from the resources of Bank to the Government of Mauritius in the form of general budget support for the purposes and subject to the conditions stipulated in this report.

**MAURITIUS:**  
**Competitiveness and Public Sector Efficiency (CPSE) Programme**  
**Appraisal Report**

**Annex I: Letter of Development Policy**

Dr. Donald Kaberuka,  
President of the African Development Bank Group  
ADB Temporary Relocation Agency (Tunis)  
Angle: Av. du Ghana, Rue Pierre de Coubertin et Rue Hedi Nourira  
BP. 323 1002, Tunis Belvédère  
**TUNISIA**

Dear President Kaberuka,

**RE: LETTER OF DEVELOPMENT POLICY FOR THE:  
COMPETITIVENESS AND PUBLIC SECTOR EFFICIENCY  
(CPSE) PROGRAM**

**Shoring up Economic Performance**

1. Mauritius has been implementing wide-ranging reforms and policy measures over the past 3 to 4 years with a view to securing transition from reliance on trade preferences to global competitiveness and setting the stage for robust growth. The broad-based reform programme being implemented since FY 06/07, has received Budget Support from the World Bank (WB), the European Commission (EC), the African Development Bank (ADB) and the Agence Française de Développement (AFD). The International Monetary Fund (IMF) and the United Nations Development Programme (UNDP) are closely associated with the implementation of the programme and have extended technical assistance. Collectively Mauritius has secured Development Policy Loans amounting to US \$ 210 million, representing the third disbursement of a three-year support programme, US \$ 70 million from the EU in the form of grants, US \$ 100 million from WB, US \$ 10 million from ADB and €24 million from AFD. Other Development Partners, namely BADEA, IFAD, OFID, JICA, China and India amongst others, have also provided financing for projects aligned to Government's reform programme while bringing their expertise in their areas of interest.

2. Whilst the reform programme has opened the economy, built resilience by reducing macroeconomic vulnerabilities and improving fiscal sustainability, there remains a number of challenges due to the global financial and economic crisis which have to be dealt with. To cushion the negative effects of the global economic crisis, a host of measures were taken since May 2008. These include increased spending on capital investment, including fast tracking and frontloading of some key investment projects, measures aimed at expediting implementation of projects and programmes through the creation of special funds to realise the Maurice Ile Durable vision, build food security, boost education and knowledge, eradicate poverty, widen the circle of opportunities, save jobs, improve local infrastructure, carry out social housing commitments and to sharpen the competitiveness of domestic industries and SMEs. In addition, the Bank of Mauritius has also been implementing measures in a bid to keep the economy buoyant.

3. The reforms implemented over the last few years have thus been instrumental in cushioning the economy from the crisis. In 2008, in spite of the deteriorating global economic conditions, the Mauritian economy did well with most key indicators showing strong performance. Economic growth reached 5.3% in 2008, the unemployment rate dropped to 7.2%,

FDI reached more than Rs 10 billion, import cover remained close to 8 months of imports and the overall budget deficit was brought down to 2.7% of GDP [07/08]. However, as regards external trade, the current account of the balance of payments recorded a higher deficit in 2008 partly due to the decline in demand for main exports and high food and energy prices in early 2008 that impacted on the import bill.

4. Based on the performance noted during the first semester of 2009, there are indications that the impact of the crisis on the Mauritian economy would be less pronounced than initially expected. For 2009, economic growth is now projected at 2.5 %, investment (gross domestic fixed capital formation) as a percentage of GDP is projected to remain around 24.4%, the rate of unemployment is expected to be around 8%, inflation is expected to fall below 4% while foreign direct investment is likely to remain at comfortable levels. As regards, the overall budget deficit, it is likely to increase from 3% of GDP in 2008/09 to around 4.8% of GDP in FY 2009 (July-December). The increase is mainly due to the stimulus package measures and lower tax revenue.

5. Mauritius has successfully met the targets set out under DPL1, DPL2 and DPL3. The four pillars of the reform programme are:

- A. Fiscal Consolidation and Public Sector Efficiency
- B. Improving Trade Competitiveness
- C. Improving the Investment Climate
- D. Widening the Circle of Opportunity through Participation, Social Inclusion and Sustainability

This will continue to underpin our strategy. The letter of development policy broadly outlines how current and prospective reforms will consolidate and extend the gains in each of the areas.

#### **A. Fiscal Consolidation and Public Sector Efficiency**

6. Fiscal consolidation and improvement of efficiency in the public sector remains high on the agenda given the pressing need to put debt on a declining path to meet the targets set out in the Public Debt Management Act and to further improve quality of spending. As regards the latter, a host of reforms are under way to improve quality of spending. These include the extension of the Programme Based Budgeting (PBB) to parastatal bodies, implementation of performance management systems, restructuring of parastatals, introduction of a social register for Mauritius. In the medium term, government will continue to take measures to improve revenue buoyancy through improved tax administration and review of fees and charges where needed.

7. A Project Plan Committee under the aegis of the Ministry of Public Infrastructure, Land Transport and Shipping has been set up to assess the infrastructure needs of the economy and develop a project pipeline. To fast-track and frontload public infrastructure, Government has set up mechanisms to improve implementation capacity by mobilising support from Development Partners to finance the Public Sector Investment Programme (PSIP). Government has smoothed the progress of the implementation of projects through the advanced purchase of land required for the PSIP, hence reducing implementation delays. In this context, systems have been set up leading to major improvements in the pace of project implementation whilst ensuring value for money and mobilising adequate resources to finance maintenance and operation.

8. In the medium term, the priority remains the bringing down of the borrowing requirements with a view to reducing public sector debt as a share of GDP. For this purpose, a MTEF with PBB embedded has been introduced with the support of UNDP and IMF, so that resources are channeled for optimal outcomes. This modern approach to budgeting is about more

judicious use of public money and greater fiscal responsibility. Promoting ownership by sector Ministries, coherence with the Government Reform Programme, internal consistency and ensuring programmes and projects are fully financed and consistent with the economic reform programme have been encouraged. As DPL4 prior action, at least four line ministries strategies for 2010 budget in line with PBB requirements namely for Ministry of Environment, Ministry of Tourism, Ministry of Industry and Ministry of Public Infrastructure, Land Transport and Shipping have been agreed to.

## **B. Improving Trade Competitiveness**

9. The Additional Stimulus Package (ASP) proposed in the wake of the global economic crisis comprises 59% public infrastructure including land acquisition. Government has initiated an action plan to boost up project realisation capacity in the 2009 Budget. Project realisation capacity is vital for a dynamic bounce back when the world economy reaches its turning point. To boost up this capacity Government will thus act on three core elements, namely human resources, processes in the public sector and institutions.

10. In both the public and private sectors, there is a dearth of skills and expertise that hinders project implementation, undermines the country's competitiveness and constrains growth potential. Reforms have been introduced to make the labour market more flexible. These reforms are vital but not enough. Government recognizes the need to act on human capacity as well. Government has increased the provision for its Capacity Building Programme to Rs 190 million to be partly financed by grants from Development partners. This should enable the Capacity Building Programme to rapidly mobilize technical expertise both at home and abroad to serve in the public sector in line with the ASP and the 2009 Budget. The Service to Mauritius programme has also been expanded. A special window will be developed under the Service to Mauritius Programme to employ newly qualified engineers who are required to undertake industrial and pre-registration training. The Regional Multi Disciplinary Centre of Excellence (RMCE) can be a plus to our efforts on Human Resource Capacity building. Government will pursue negotiation efforts to mobilize more support for the RMCE, which has already rallied the participation of COMESA and the AFD on two training projects.

11. The framework for autonomous campuses has been approved which will have the multiple objectives of opening greater access to tertiary education for students, create jobs for graduates and researchers, attract expertise from other countries and make of Mauritius a centre of excellence for the region. It will also open the way to an investment potential of Rs 1.2 billion over the next two years. In an endeavor to build knowledge and human capital, Government is exempting loans contracted by an individual for educational purposes from payment of registration duty on registration of the loan agreement.

12. Furthermore, considerable progress has been achieved in reducing tariffs. Customs duty on 87% of tariff lines were eliminated by 2008/09, and Government intends to eventually abolish custom duty on remaining tariff lines. A joint Public- Private Sector Standing Committee has been set up to review the design and implementation of the regulatory measures relative to import and export licenses with a view to eliminate unwarranted barriers to trade.

13. ICT is an important pillar of the economy and is at the same time one of the most resilient industries to the global crisis. In fact, ICT enterprises have been expanding by 10 to 12%. To further boost this sector, the BOI will step up its promotion and marketing campaign especially in business outsourcing. Costs have continued to come down with a reduction in IPLC prices of 35% this year which has allowed Internet Service Providers to offer consumers twice the speed for the same price. Significant cost reductions of around 50 % are envisaged in the wake of a second underwater fibre optic cable becoming operational by 2011. This cable is being built as

an open system by regional private investors. Government will support this initiative through the State Investment Corporation (SIC).

14. Our industrial sector needs additional and better infrastructure, further improvements in the doing business environment and measures to enhance competitiveness. Thus there is a need to build public infrastructure and improving competitiveness through modernization of machinery and equipment and upgrading of skills. The Manufacturing Adjustment and SME Development Fund (MASMED) has been restructured into the Saving Jobs and Recovery Fund (SJR FUND) which will have a much broader scope, encompassing all sectors of the economy and enterprises of all sizes. It will support businesses in the services sector, tourism, domestic oriented and export oriented enterprises, including textiles and clothing, diamond, watch-making and other jewelry and seafood and SME's. In the ASP, the mandate of the MASMED FUND was broadened to include support for the export of services and raised its contribution to Rs 1 billion. Government is injecting an additional of Rs 2 billion to the Fund.

15. An innovative scheme- the Mauritius Business Growth Scheme (MBGS) - to promote business growth in SMEs has also been set up. It is conventional wisdom that support is most effective when firms have full freedom to choose services and suppliers. This is a model that has succeeded in other countries and is being replicated in Mauritius. Under this new scheme, eligible firms will receive finance to support their business growth on a cost-sharing basis. In view of soothing financial difficulties of enterprises, an Emergency Export Credit Insurance scheme will be set up for SMEs as well as large enterprises in all sectors until December 2010.

### **C. Improving the Investment Climate**

16. In the 2010 World Bank Ease of Doing Business Survey, Mauritius is at the top in Africa and ranks 17<sup>th</sup> world wide graduating from 24<sup>th</sup> position in 2009. Mauritius has further simplified the transfer of property by abolishing two procedures. It is no longer necessary to obtain a clearance certificate from the Waste Water Authority or a tax clearance certificate for municipal taxes. Start-up is also easier: name verification for a new company is now done online. Getting credit too may be easier: after eliminating the minimum threshold for loan amounts and the public credit registry of the Bank of Mauritius now captures information on all credits extended by the financial system.

17. The priority is to maintain our momentum to further improve on the progress made in the Ease of Doing Business Survey. Regulations are being streamlined further and expertise is being mobilized to draw on international best practices to modernize licensing procedures in four ministries, namely Agro-Industry, Finance, Health and Tourism which collectively issue some 440 different licenses. In the area of business facilitation, Government has set up a specialised Commercial Division of the Supreme Court of Mauritius with jurisdiction to deal with all matters of bankruptcy, insolvency, matters arising out of the Companies Act, banking, insurance, bills of exchange, offshore, industrial property, patents, sale of goods and other disputes that are of a commercial nature. To increase investment in emerging sectors, Government has adopted the Insolvency legislation as a result of improving the quality of the business environment. The Competition Commission has been set up to improve competitive practices and increase the efficiency of firms. Five commissioners have been appointed by the President of the Republic of Mauritius. Government is also giving permanent resident status to purchasers in Real Estate Scheme (RES) developments provided they buy a property worth at least US\$ 500,000.

18. To further encourage private sector investment, Government has adopted the necessary legal and regulatory framework for accelerated decision-making process. The Law Practitioners Amendment Act has been proclaimed and the International Arbitration legislation has been passed to allow us to expand the range of Business Process and Knowledge Process Outsourcing

Services offered from our country. This legislation provides a framework to attract international law firms that will bring the much-needed skills to export legal outsourcing services. Other measures include giving the necessary clearance for the setting up of the Air Cargo Logistics Centre, an airport hotel and business cum commercial centre. This will clear the way for the implementation of 4 major projects in the Air Cargo Logistics Centre for an estimated investment of Rs 1 billion. Support to Board of Investment has been stepped up with an additional Rs 25 million for marketing and promotion to attract Foreign Direct Investment.

#### **D. Widening the Circle of Opportunities through Participation, Social Inclusion and Sustainability**

19. The Government is very much aware that the success and sustainability of the reform programme is conditional upon ownership by the people. The best way to protect the population in these uncertain economic times is to preserve its purchasing power and to empower it through self employment. The stimulus package has achieved this partly by saving jobs and thus reducing the impact of the crisis on the labour force. The centerpiece of the stimulus package is to keep jobs and maintain family income. The implementation of work and training scheme is an example of such timely, targeted and temporary policy action to mitigate the risks of widespread layoffs.

20. In an effort to strengthen and widen protection to shield more citizens from the fallouts of the Great Recession, Government is bringing the different agencies involved in empowerment and in the fight against poverty under one roof. The National Empowerment Foundation (NEF) will, in addition to fulfilling its mandate, provide an overall coordinating framework for the Trust Fund, the Eradication of Absolute Poverty (EAP) programme and the Decentralised Cooperation Programme (DCP). Each agency will continue to operate on its own agenda but with savings on overhead from pooling of common services and better coordination and synergies from being under one roof. Rs 1.5 billion have been earmarked for the collective efforts of all these organizations under the roof of the NEF. Development Partners supported the production of a final poverty map by Central Statistics Office (CSO) combining 2001/02 Household Budget Survey and 2000 Population Census data with the objective to improve capacity for geographical targeting.

21. The DCP will continue supporting various projects by non-state actors and local governments such as basic education, upgrading of social infrastructure and services. In Rodrigues, micro projects have been supported in the field of irrigation, livestock management, reforestation and agricultural and agro-industrial production. Rs 300 million are being provided for the next 18 months. The activities of the EAP Programme are being expanded to include medical screening for around 600 children of pre-primary schools in selected areas. Spectacles, hearing aids, food supplements and other facilities will be provided free to those children who require them.

22. As part of our policy to broaden the circle of opportunities and to ensure that the fruits of development are shared by all, a corporate social responsibility (CSR) scheme was required of the IRS promoters with well defined guidelines for their actions and to align their CSR projects with Government's emphasis on saving jobs and protecting people. To ensure that there is no duplication and that there is an integrated approach, the IRS will work with the NEF and EAP. Out of 6 IRS projects, 3 have developed their CSR plans for a total of Rs 50 million. A special vehicle will be created for the Rs 50 million to be deposited with the NEF and these funds will be supplemented with a matching grant from Government.

23. Funds have been provided to increase old age and other non-contributory pensions and social aid benefits by 5.1%. The Ministry of Women is working with the Ministry of Social Security and NGOs to develop a comprehensive programme to offer shelter and support to

Women and children who need assistance. Government has also introduced a scholarship for all students attending courses at tertiary institutions in Mauritius, who face severe hardship following the death or serious incapacity of a wage earner in the family.

### **Outcome, Past and Projected**

24. It is most crucial to continue with the reforms but at the same time our policy focus has shifted to the need to save jobs and to protect people from the Recession. As a consequence, the resilience of the economy should be reinforced. Resources mobilized from the Development Partners will help us stay on course for the reforms and long-term goals whilst addressing the short term priority of preventing a reversal of the important gains achieved since 2005.

25. The indicators to be used for disbursement of funds for DPL 4 have been agreed. For the World Bank and ADB conditions are to prepare sector strategies, debt management, removal of non-trade barriers and facilitation for doing business among others. As concerns the AFD, disbursement of funds is not linked to indicators.

### **Conclusion**

26. Government is determined to stay on the path of reform and thus to save jobs, protect people and prepare for the recovery. Development Partners are, therefore, requested to continue their support to the implementation of the ongoing economic reform programme. Mauritius relies on the technical expertise of its Development Partners, in aligning the sector strategies and programmes to the reform agenda. The collective challenge is to focus on implementation with the full support and active engagement of our Development Partners.

**For Government of Mauritius**

A handwritten signature in black ink, consisting of a stylized 'R' followed by a large, sweeping curve and a horizontal line extending to the right.

**Dr R. Sithanen**

**Vice-Prime Minister**

**Minister of Finance and Economic Empowerment**

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**Annex II: Operation Policy Matrix**

Program Development Objectives	Indicator	2008/09 (base)	2009 (Jul – Dec)	2010	2011	Data Source
To mitigate the impact of the global downturn on economic growth and employment	GDP growth (%)	2.9	2.5	3.0	4.0	CSO
	Unemployment rate (%)	8.8		9	8.5	CSO

Policy Measures			Indicators				Data Source	Lead Development Partner (s)	
2009 (July-Dec)	2010	2011		2008/09 (base)	2009 (Jul – Dec)	2010	2011		
<b>A. CONSOLIDATE FISCAL PERFORMANCE AND INCREASE PUBLIC SECTOR EFFICIENCY (Paragraphs 4.2.3 – 4.2.6)</b>									
Prepare sector strategies for at least four ministries	(i) Prepare sector strategies complying with PBB for additional two ministries (ii) Health strategy complying PBB is submitted to Cabinet	Prepare sector strategies for additional two ministries	PEFA score on Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+ (2007)			B-	MoFEE www.pefa.org/	AfDB, EU
Strengthen capacity of Parliament to scrutinise external audit reports	Strengthen capacity of Parliament to scrutinise external audit reports	Conduct an update of the Public Expenditure and Financial Accountability (PEFA) review	PEFA score on legislative scrutiny of external audit reports	D+ (2007)			B-	MoFEE www.pefa.org/	AfDB, EU
Initiate implementation of action plan to improve public debts management	Progress on implementation of Public Debt Management Act ceilings	Progress on implementation of Public Debt Management Act ceilings	Debt to GDP ratio	58.5	59.3	60.4	60.1	MoFEE	WB, AfDB
Progress measures to reverse upward trend in fiscal deficits Initiate capacity building for PBB implement in parastatals	Progress measures to reverse upward trend in fiscal deficits Make progress to enhance the capacity of parastatals to implement PBB	Progress measures to reverse upward trend in fiscal deficits Implement PBB in pilot parastatals	Primary spending as % GDP	22.1	22.7	21.4	20.6	MoFEE	WB, AfDB, AFD, UNDP
			Reduction of primary spending and public debt (see above)	Same as above	Same as above	Same as above	Same as above	MoFEE	WB, AfDB, AFD, UNDP

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Policy Measures			Indicators					Data Source	Lead Development Partner (s)
2009 (July-Dec)	2010	2011		2008/09 (base)	2009 (Jul – Dec)	2010	2011		
<b>B. ENHANCE TRADE COMPETITIVENESS (Paragraphs 4.2.7 – 4.2.11)</b>									
Promotional campaign by Mauritius Tourism Promotion Agency			(i) Number of countries with public relations representatives (ii) Number of fairs, workshops, exhibitions, road shows conducted in target countries	13  17	14  18	15  20		Min of Tourism, Leisure & Ext Comm	WB
Setting up of a Joint Public-Private Sector Standing Committee to monitor the implementation of measures to improve the trade regulatory environment	Monitor the implementation of reforms over non-tariff barriers	Undertake amendments proposed by Business Permits Review Committee	Exports as % of GDP	64% (2008)	>62%	>65%	>65%	CSO	AfDB, WB
Sugar Sector Reform: increase productivity of small holder lands and improve competitiveness of the sugar sector	Sugar Sector Reform: increase productivity of small holder lands and improve competitiveness of the sugar sector	Sugar Sector Reform: increase productivity of small holder lands and improve competitiveness of the sugar sector	% of crop exported in white sugar	0	15%	30%	50%	Mauritius Sugar Authority/ Mauritius Sugar Syndicate, MSS	EU
Revise the legal and regulatory environment in the ICT sector (ICT Act, 2001) in line with international best practices and changes resulting from technological convergence for modern competitive ICT markets.	(i) National Broadband Policy developed (ii) Mid-term review of the NITSP (iii) Assessment of the human capital requirement (iv) IOC <sup>22</sup> connectivity		ICT sector as a % of GDP	5.5 (2008)	5.8	6	6.7	Min of ICT/ MoFEE	AfDB, WB

<sup>22</sup> IOC stands for Indian Ocean Commission which groups Mauritius, Comoros, Seychelles, Madagascar and Reunion.

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Policy Measures			Indicators					Data Source	Lead Development Partner (s)
2009 (July-Dec)	2010	2011		2008/09 (base)	2009 (Jul – Dec)	2010	2011		
<b>C. IMPROVE THE INVESTMENT CLIMATE (Paragraphs 4.2.12 – 4.2.16)</b>									
(i) Enactment of: the Insolvency Act; Employment Rights Act 2008; Employment Relations Act 2008; and Finance Act 2008.	Implementation of a cadastre		Achieve top ten ranking in <i>Doing Business</i>	24/181	17/183	<15	<10	<a href="http://www.doingbusiness.org/">http://www.doingbusiness.org/</a>	WB, AfDB
(i) Establish the Competition Commission of Mauritius (ii) Get Cabinet approval for industry and SME strategy (iii) Set up of a specialized Commercial Division of the Supreme Court of Mauritius		Fully operationalize the Competition Commission of Mauritius	As above	As above	As above	As above	As above	As above	As above
<b>D. WIDEN THE CIRCLE OF OPPORTUNITY THROUGH PARTICIPATION, SOCIAL INCLUSION AND SUSTAINABILITY (Paragraphs 4.2.3 – 4.2.6)</b>									
Continued empowerment of unemployed	Increase employment opportunities for employment seekers, especially women	Increase employment opportunities for employment seekers, especially women	Cumulative number of male and female employment seekers who are registered with the National Empowerment Foundation who have been trained and placed in jobs/business networks/self-employment	7,000	8,000	8,200	8,400	National Empowerment Foundation's Project Facilitation Unit/ Empowerment Programme Interactive Platform (EPIP)/ Special Programme for Unemployed Women	WB, EU, AFD, UNDP
Approval of the Industry and Business strategy by cabinet Newly qualified engineers retained to assist SMEs to prepare and submit contracts tender documents.	Implement Industry and Business strategy		Extent of SMEs using 'business growth plan' to access business development services and finance.	-	75	90		Min of Business, Enterprise & Coop	WB, AFD, UNDP

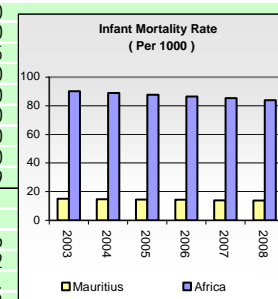
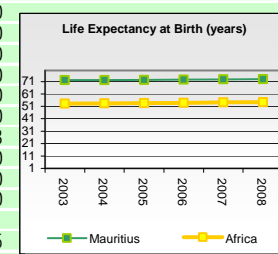
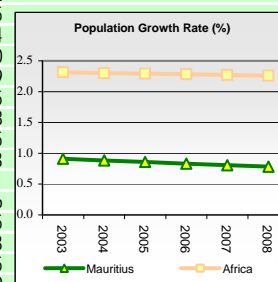
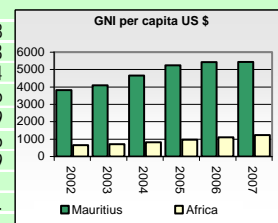
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Policy Measures			Indicators				Data Source	Lead Development Partner (s)	
2009 (July-Dec)	2010	2011		2008/09 (base)	2009 (Jul – Dec)	2010	2011		
Finalize health strategy to MOFEE Introduce regional hospitals as cost centres	(i) Submit health strategy to Cabinet (ii) Launch measures to improve efficiency of health referral system		% of outpatient consultations delivered by hospitals	28%	28%	< 28%	< 28%	Min of Health & Quality of Life	AfDB
Develop collaboration with NGOs including in particular in HIV/AIDS			Number of NGOs receiving funding for projects in priority areas	45	50	75	75	MoFEE	AfDB/ EU
			HIV prevalence	0.6-1.8	< 1.8	< 1.8	<1.8	Min of Health & Quality of Life	AfDB
Increase educational outcomes, specially for underprivileged children	Finalize education strategy Introduce open university		Increase enrolment in tertiary education	40%	43%	45%	47%	Min of Education, Culture and HR	WB
Increase educational outcomes, specially for underprivileged children	Finalize education strategy	Increase educational outcomes, specially for underprivileged children	Increase in enrolment rate in pre-primary schools of children aged 3 and 4 years	87.5%	88.5%	89.5%	90.5%	CSO/ Min of Education and Human Resources/ Early Childhood Care and Education Authority (ECCEA)	EU
Implement measures to enhance environmental sustainability (Maurice Ile Durable agenda)	Make progress on implementation of Maurice Ile Durable agenda	Make further progress on implementation of Maurice Ile Durable agenda	Number of new household connections to public sewer system (cumulative)	64,700	66,700	69,200	72,200	Reports from the Wastewater Management Authority	EU
			% of planned and controlled burnt cane area by the sugar corporate sector prior to harvest	22%	21.5%	21%	20.5%	Mauritius Sugar Authority/ Mauritius Sugar Producers Association (MSPA)	EU
Implement policy objectives included in the Environmental Road Map	Implement policy objectives included in the Environmental Road Map	Prepare Environmental Road Map on adaptation for the period 2011 - onwards.	Indicators per Action Plan for 2009 & 2010	See GoM/ AFD Action Plan for CY 2009	See GoM/ AFD Action Plan for CY 2009	TBD	TBD	Ministry of Environment	AFD

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## Annex III: Comparative Socio-Economic Indicators

	Year	Mauritius	Africa	Developing Countries	Developed Countries
<b>Basic Indicators</b>					
Area ('000 Km <sup>2</sup> )		2	30 323	80 976	54 658
Total Population (millions)	2008	1.3	985.7	5 523.4	1 226.3
Urban Population (% of Total)	2008	42.4	39.2	44.0	74.4
Population Density (per Km <sup>2</sup> )	2008	623.3	32.5	23.0	49.6
GNI per Capita (US \$)	2007	5 450	1 226	2 405	38 579
Labor Force Participation - Total (%)	2005	44.4	42.3	45.6	54.6
Labor Force Participation - Female (%)	2005	34.0	41.1	39.7	44.9
Gender -Related Development Index Value	2006	0.795	0.482	0.694	0.911
Human Develop. Index (Rank among 174 countries)	2006	74	n.a.	n.a.	n.a.
Human Poverty index (HPI-1) (% of Population)	2005	11.4	38.7	...	...
<b>Demographic Indicators</b>					
Population Growth Rate - Total (%)	2008	0.8	2.3	0.3	1.2
Population Growth Rate - Urban (%)	2008	0.9	3.3	2.5	0.5
Population < 15 years (%)	2008	23.1	40.9	16.6	27.4
Population >= 65 years (%)	2008	6.9	3.4	16.7	8.0
Dependency Ratio (%)	2008	42.9	79.5	47.7	53.9
Sex Ratio (per 100 female)	2008	98.4	99.3	94.3	101.5
Female Population 15-49 years (% of total population)	2008	27.3	24.2	24.3	25.8
Life Expectancy at Birth - Total (years)	2008	73.0	54.5	76.7	67.5
Life Expectancy at Birth - Female (years)	2008	76.3	55.6	67.5	80.3
Crude Birth Rate (per 1,000)	2008	14.7	35.7	11.0	20.1
Crude Death Rate (per 1,000)	2008	7.1	13.0	10.4	8.6
Infant Mortality Rate (per 1,000)	2008	13.8	83.9	7.1	48.5
Child Mortality Rate (per 1,000)	2008	16.2	137.4	8.8	72.3
Total Fertility Rate (per woman)	2008	1.9	4.6	1.6	2.5
Maternal Mortality Rate (per 100,000)	2006	23.1	683.0	450	9
Women Using Contraception (%)	2002	75.9	29.7	61.0	75.0
<b>Health &amp; Nutrition Indicators</b>					
Physicians (per 100,000 people)	2006	111.9	39.6	78.0	287.0
Nurses (per 100,000 people)	2006	245.3	120.4	98.0	782.0
Births attended by Trained Health Personnel (%)	2005	99.2	51.2	59.0	99.0
Access to Safe Water (% of Population)	2006	100.0	64.3	84.0	100.0
Access to Health Services (% of Population)	2004	99.0	61.7	80.0	100.0
Access to Sanitation (% of Population)	2006	94.0	37.6	53.0	100.0
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2007	1.7	4.5	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2006	23.0	315.8	275.0	19.0
Child Immunization Against Tuberculosis (%)	2007	98.0	83.0	89.0	99.0
Child Immunization Against Measles (%)	2007	98.0	83.1	81.0	93.0
Underweight Children (% of children under 5 years)	2003	6.0	25.2	27.0	0.1
Daily Calorie Supply per Capita	2004	2 999	2 436	2 675	3 285
Public Expenditure on Health (as % of GDP)	2006	2.1	2.4	1.8	6.3
<b>Education Indicators</b>					
Gross Enrolment Ratio (%)					
Primary School - Total	2007	101.4	99.6	106.0	101.0
Primary School - Female	2007	101.4	92.1	103.0	101.0
Secondary School - Total	2007	87.8	43.5	60.0	101.5
Secondary School - Female	2007	89.7	40.8	58.0	101.0
Primary School Female Teaching Staff (% of Total)	2007	64.7	47.5	51.0	82.0
Adult Illiteracy Rate - Total (%)	2007	12.6	38.0	21.0	1.0
Adult Illiteracy Rate - Male (%)	2007	9.8	29.0	15.0	1.0
Adult Illiteracy Rate - Female (%)	2007	15.3	47.0	27.0	1.0
Percentage of GDP Spent on Education	2006	3.7	4.5	3.9	5.9
<b>Environmental Indicators</b>					
Land Use (Arable Land as % of Total Land Area)	2005-08	49.3	6.0	9.9	11.6
Annual Rate of Deforestation (%)	2000-08	0.6	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2000-08	2.0	10.9	...	...
Per Capita CO2 Emissions (metric tons)	2005-08	2.4	1.0	1.9	12.3



Sources : ADB Statistics Department Databases; World Bank: World Development Indicators;

last update : March 2009

UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports

Note : n.a. : Not Applicable ; ... : Data Not Available;

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**Annex IV: Key Economic and Financial Indicators**

	2007/08	2008/09	Jul-Dec 2009	2010	2011
<b><u>Real Economy</u></b>					
GDP Growth Rate, %	5.3	2.9	2.5	3.0	4.0
Inflation Rate as Measured by CPI (Target)	8.8	7.0	3.6	5.0	5.0
Gross Domestic Investment (as % of GDP)	26.0	23.7	25.2	24.3	24.3
Unemployment Rate (%)	8.2	8.8	8	9	8.5
<b><u>Public Finance (as % of GDP)</u></b>					
Transactions Affecting Net Worth					
Revenue	21.2	22.1	21.3	20.1	20.8
o/w Taxes	19.1	18.3	17.1	17.2	17.6
Grants	0.2	1.2	1.8	1.0	1.1
Expense	22.2	23.6	22.9	21.9	21.5
Gross Operating Balance	-0.9	-1.5	-1.6	-1.8	-0.7
Transactions in Non-Financial Assets					
Net Acquisition of Non-Financial Assets	1.8	2.4	3.2	3.1	2.6
<b>Net Lending (+)/Borrowing (-) (Overall Balance)</b>	<b>-2.7</b>	<b>-3.9</b>	<b>-4.8</b>	<b>-5.0</b>	<b>-3.3</b>
<b>Primary Spending</b>	<b>20</b>	<b>22.1</b>	<b>22.7</b>	<b>21.4</b>	<b>20.6</b>
<b>Primary Surplus (+)/Deficit (-)</b>	<b>1.5</b>	<b>0.0</b>	<b>-1.4</b>	<b>-1.4</b>	<b>0.2</b>
<b><u>Public Debt (as % of GDP) 2/</u></b>					
<b>Total Public Debt (End of period)</b>	<b>56.6</b>	<b>58.5</b>	<b>59.3</b>	<b>60.4</b>	<b>60.1</b>
o/w Domestic (as % of GDP)	48.3	49.2	46.5	43.0	39.0
Foreign (as % of GDP)	8.3	9.3	12.8	17.4	21.1
<b><u>Money (as % of GDP)</u></b>					
Broad Money Liabilities (End of period)	98.0	104.9	105.8	107.0	108.9
Interest Rate (average TBs, Primary Auctions, %)	12.9	8.8	...	...	...
<b><u>External Sector</u></b>					
<b>Current Account Deficit (-)/Surplus (+) as % of GDP</b>	<b>-8.9</b>	<b>-9.3</b>	<b>-12.3</b>	<b>-11.2</b>	<b>-11.0</b>
Exports of Goods and Services - Growth Rate, % 3/	1.4	-4.1	-2.3	0.1	2.0
Imports of Goods and Services (f.o.b) - Growth Rate, %	8.9	-2.9	4.1	3.0	3.7
Net International Reserves (Months of imports)	5.2	7.7	7.6	7.2	6.9
<b><u>Foreign Direct Investment (as % of GDP)</u></b>					
	<b>3.4</b>	<b>3.4</b>	<b>2.0</b>	<b>2.9</b>	<b>3.0</b>

*Note: (1) Projections refer to percentage change compared to corresponding period of previous year; (2) Debt figures are as of end-June 2009. They have been revised after the publication of the May 2009 Transition Budget. New figures do not include the disbursement of the loan to CEB for the power Fort Victoria Redevelopment power project; (3) Export figures are as of end-June 2009.*

*Source: Programme-based budget estimates 2009 (July-December) and indicative estimates 2010-2011, MoFEE 22 May 2009 and AfDB staff estimates.*

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**Annex V: Public Finance**

(In millions of US\$)

	2007/08	2008/09	Jul-Dec 2009	2010	2011
		Estimations	Estimations	Planned	Planned
<i>Transactions affecting net worth</i>					
<b>Revenue (1)</b>	<b>1,717</b>	<b>1,893</b>	<b>954</b>	<b>1,780</b>	<b>1,947</b>
Taxes	1,543	1,570	766	1,528	1,651
Social Contributions	6	29	15	29	30
Grants	15	99	79	87	104
Other Revenue	153	196	94	136	162
<b>Expense (2)</b>	<b>1,793</b>	<b>2,021</b>	<b>1,027</b>	<b>1,944</b>	<b>2,015</b>
Compensation of Employees	410	516	280	540	548
Use of Goods and Services	138	167	98	190	186
Interest 1/	344	329	151	321	328
Subsidies	45	30	14	27	26
Grants	434	525	219	380	438
Social Benefits	330	369	204	370	361
Other Expense	92	85	32	59	68
Contingencies	0	0	29	57	59
<b>Gross Operating Balance (1-2)</b>	<b>-76</b>	<b>-128</b>	<b>-73</b>	<b>-164</b>	<b>-67</b>
<i>Transactions in non-financial assets</i>					
<b>Net Acquisition of Non-Financial Assets</b>	<b>146</b>	<b>203</b>	<b>143</b>	<b>278</b>	<b>240</b>
<b>Net Lending / Borrowing (Budget Balance)</b>	<b>-223</b>	<b>-331</b>	<b>-216</b>	<b>-442</b>	<b>-308</b>
<i>Transactions in financial assets and liabilities (Financing)</i>					
<b>Net Acquisition of Financial Assets</b>	<b>46</b>	<b>50</b>	<b>-4</b>	<b>-12</b>	<b>-10</b>
Domestic	46	41	-4	-12	-10
Loan to Parastatals	9	25	2	0	-
Reimbursement of Loan	16	21	7	12	11
Equity Purchase	53	37	-	-	2
Monetary Gold and SDRs	0	9	0	-	-
<b>Net Incurrence of Liabilities</b>	<b>269</b>	<b>381</b>	<b>212</b>	<b>430</b>	<b>298</b>
Adjustment for difference in cash and accrual	-	0	-10	2	-4
<b>Borrowing Requirements</b>	<b>269</b>	<b>381</b>	<b>222</b>	<b>428</b>	<b>302</b>
Domestic financing	298	259	-91	27	-26
Foreign financing	-30	122	313	402	328
<b>Primary Balance</b>	<b>122</b>	<b>-2</b>	<b>-65</b>	<b>-121</b>	<b>21</b>
<b>Nominal Exchange rate (US\$)</b>	<b>31</b>	<b>32</b>	<b>33.3</b>	<b>34.3</b>	<b>35.3</b>

Notes: 1/As from FY 2008/09, interest is computed on an accrual basis instead of cash basis.

Source: Programme-based budget estimates 2009 (July-December) and Indicative estimates 2010-2011, MoFEE 22 May 2009, and AfDB staff estimates (end of June 2009).

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**Annex VI: Analytical Underpinnings**

Area	Analytic Work
<b>Consolidate Fiscal Performance and Strengthen Public Sector Service Delivery</b>	<ul style="list-style-type: none"> <li>• Budget Speech, 2009: Saving Jobs, Protecting People, and Preparing for Recovery (MoFEE, GoM)</li> <li>• Programme-Based Budget Estimates, 22 May 2009, (MoFEE, GoM)</li> <li>• AfDB's Mauritius: 2009-2013 Country Strategy Paper (CSP)</li> <li>• International Monetary Fund (IMF)'s: Country Reports; Article IV Consultations; Notice on the Executive Board Discussion; Statement by the Staff Representatives; and Financial System Stability Assessment (various)</li> <li>• Country Economic Memorandum 2007 (World Bank)</li> <li>• Public Expenditure and Financial Accountability (PEFA) Assessment, 2007 (EC)</li> <li>• Sector Strategic Plans in line with PBB requirements (all development partners)</li> </ul>
<b>Enhance Trade Competitiveness</b>	<ul style="list-style-type: none"> <li>• Africa Competitiveness Report 2009 (World Bank, AfDB, World Economic Forum)</li> <li>• Investment Climate Assessment 2006 (World Bank)</li> <li>• Investment Climate Assessment 2009 – Ongoing (AfDB and World Bank)</li> <li>• Country Economic Memorandum 2006 (World Bank)</li> </ul>
<b>Improve Investment Climate</b>	<ul style="list-style-type: none"> <li>• Africa Competitiveness Report 2009 (World Bank, AfDB, World Economic Forum)</li> <li>• Investment Climate Assessment 2006 (World Bank)</li> <li>• Investment Climate Assessment 2009 – Ongoing (AfDB and World Bank)</li> <li>• Country Economic Memorandum 2007 (World Bank)</li> <li>• Financial Sector Assessment Program 2007 (World Bank and IMF)</li> <li>• Doing Business surveys (World Bank <i>Doing Business Report, 2009 &amp; 2010</i>)</li> </ul>

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**Annex VII: AfDB's Portfolio**

**(As of 30 June 2009)**

Sector	Project Name	Approval Date	Net Approved Amount (UAm)	Amount Disbursed (UAm)	Disb %	Effectiveness	Closing Date
Water Sup/Sanit	PLAINES WILHEMS SEWERAGE PROJECT - ST.1	20.06.2007	18.18	0.00	0.0%	12-06-08	31.12.2013
<b>Total (effective operations)</b>			<b>18.18</b>	<b>0.00</b>	<b>0.0%</b>		
Social	MIC GRANT HEALTH SECTOR REVIEW	15.06. 2008	0.16	0.00	0.0%	30.09.2008	01.06.2010
Transport	MIC GRANT REVIEW OF OUTLINE PLANNING SC	24.07.2007	0.60	0.00	0.0%	30.08.2007	31.08.2010
Water and Sanitation	MIC GRANT MAURITIUS WASTEWATER MASTER PLAN STUDY	02.06.2009	0.52	0.00	0.0%	Not Yet Effective	02.07.2010

*Source: Quarterly Report Portfolio of Mauritius (ORSB).*

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## Annex VIII: IMF Country Relations Note

Mauritius—Assessment Letter for the World Bank and African Development Bank  
September 29, 2009

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*Mauritius has a long and sustained track record of implementing strong policies, and the authorities have responded appropriately to the global financial crisis by easing macroeconomic policies. While the crisis response has halted the decline in public debt, the public finances are fundamentally sound and external debt is sustainable. In light of the flexible exchange rate, the country's current reserve position is comfortable, and banks have remained liquid and profitable. With these strong economic fundamentals and an effective institutional policy framework, Mauritius is well placed to weather the current challenges.*

### Recent Economic Developments and Short-Term Outlook

The Mauritian economy is suffering from second-round effects of the global financial crisis, with economic growth slowing but expected to remain positive. Direct financial spillovers have been limited, reflecting conservative investment practices of Mauritian banks. As a result, banks had little direct exposure to subprime and other affected assets, and have remained liquid, profitable, and well-capitalized, thus far. The stock market has moved in tandem with global trends.

The global crisis is affecting Mauritius primarily via a sharp drop in external demand for tourism and textiles, and a fall in capital inflows. As a result of these developments, economic growth is projected to slow to 2 percent in 2009—down from 5.3 percent in 2008—with depressed imports likely to keep the current account deficit in single digits, as a share of GDP. At the same time, inflation, which has dropped below 1 percent (year-on-year) in August, is expected to stay subdued for the remainder of this year.

### Economic Policy Response

In light of the global financial crisis, the authorities have responded with an appropriate easing of macroeconomic policies:

- **Fiscal policy.** The government is implementing a fiscal stimulus package of about 5 percent of GDP spread over 2009-10. The targeted and temporary stimulus measures focus on advancing planned infrastructure spending and providing financial relief to those firms hit hardest by the global crisis. These stimulus-related expenditures will lead to a deterioration of the fiscal deficit during 2009-10 (Box 1). To keep the deficit and the debt dynamics under control, the government has also introduced partially offsetting adjustment measures in its recent budget, which should help bring the primary balance back to a small surplus by end-2011. Public debt has declined sharply in recent years but still stands at around 60 percent of GDP, and medium-term fiscal policy will need to aim at bringing it down further to reduce potential vulnerabilities. Financing on favorable terms will thus be important to keep both the public finances and debt ratio on a sustainable path.

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- **Monetary policy.** The Bank of Mauritius (BoM) shifted to an accommodative stance in the fall of 2008, when it cut the repo rate by 250 basis points and reduced reserve requirements. Since then, the policy rate has been left unchanged. In addition, the central bank has preemptively established a foreign currency credit line—which has only been drawn thus far by one bank, to a very limited extent.
- **Exchange rate policy.** The BoM has refrained from interventions in the foreign exchange market since December 2008. This has kept official reserves at a comfortable level, while resulting in a depreciation of the rupee by 4 percent, in nominal effective terms, between end-December 2008 and end-August 2009.

### Box 1. Fiscal Policy Stance and Measures

*Based on the budget approved in May 2009, and in light of the government's fiscal stimulus package, Mauritius is expected to record a deficit, including grants, for the six month budget (July-December) of 5 percent of GDP (about 4 percent for full calendar year 2009) and in FY 2010 of again around 5 percent of GDP.*

- **Revenue are projected to decline across the board:** Customs and excise revenues are falling because of lower imports; VAT because of lower domestic consumption, including significantly lower spending by tourists; real estate taxes due to depressed activity; corporate taxes because of a lower level of profits, reflecting depressed demand together with actions to preserve employment; and dividends because of lower profitability of state owned enterprises.
- **Spending is projected to increase.** Starting in the first half of 2009, the authorities began to implement the stimulus package announced in December 2008 that is targeted and temporary. As programs get into full gear, spending is expected to accelerate over the next 18 months. During this period, the stimulus package accounts for about 5 percent of GDP of which 3 to 3.5 percent of GDP will be carried out through dedicated funds. The latter were established at the end of the 2007/08 fiscal year, when funding was set aside as a contingency against an economic slowdown, and were stocked up further in FY2008/09.

### External Sector Vulnerabilities

Economic vulnerabilities have been reduced in recent years and risks appear manageable. The main risks arise from much lower demand for tourism, textiles, and real estate development. Also, continued turmoil in global financial markets and reduced appetite for emerging market assets could diminish FDI inflows further and reduce activity of the important Global Business Companies. However, the external position remains sustainable and medium-term risks, including for external debt sustainability, are manageable. In addition, the solid level of international reserves (as of July about 6 months of imports) provides a welcome cushion, while the orderly depreciation of the rupee is helping export competitiveness, without having hindered a significant decline in inflation.

### Relations with the IMF

The 2008 Article IV consultation was completed on July 2, 2008. The next consultation is expected in the fourth quarter of 2009.

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**Annex IX: Development Partners' Support and Coordination**

1. **The GoM has taken the initiative to lead coordination among the various Development Partners (DPs) active in the country.** The GoM is progressing towards a program approach with greater harmonization of donor support. It has established a formal coordination mechanism among DPs based on the PBB, to which DPs are required to align their assistance. The involvement of all DPs in different areas of the development agenda, as depicted in the Table below, are discussed formally each year during the Annual Business Planning, ensuring clear realms of activity, complementary actions and lack of overlap.

**Table: Development Partners' Sector Presence (2009)**

Sector	European Commission	World Bank	Agence France de Development	African Development Bank	United Nations Development Program	China Development Bank	China	European Investment Bank	India	Commonwealth Secretariat	International Finance Corporation
Agriculture, Livestock, and Forestry	●								●		
Governance and Budget Support	●	●	●	●	●						
Education	●	●			●		●		●	●	
Energy		●	●	●	●	●		●			
Environment and Climate Change	●		●		●						
Health and HIV/AIDS		●		●	●				●		
ICT/Science and Technology		●		●					●		
Public Administration & Capacity Building	●	●	●	●	●		●		●	●	
Political Governance	●				●				●		
Private Sector Development		●	●	●							●
Reintegration/Community Development		●			●						●
Roads, Transportation and Infrastructure		●	●	●		●	●				
Water and Sanitation	●		●	●		●	●	●	●		

Note: 1/ ● Active Donor.

Source: MoFEE.

4. The rest of this section outlines coordination of DPs support for policy reforms in the area of budget support operations. In this regard, the GoM has organized joint field missions for monitoring progress using a framework underpinned by a common policy matrix (see Annex II, of this report). This has ensured that the policy discussions of each development partner with the MoFEE and line ministries are fully coordinated and harmonization of donor practices is realized.

3. **World Bank:** The World Bank's Trade and Competitiveness Development Policy Loan (DPL) IV is currently under preparation for an indicative amount of US\$50 million. This program, builds on the DPL III that disbursed in June 2009 for an amount of US\$100 million, under the Deferred Drawdown Option modality. The DPL IV, which has been designed in close cooperation with the AfDB's CPSE programme, continues the World Bank's support to a range of GoM reforms in several areas of public policy, including (i) fiscal consolidation and public sector efficiency; (ii) trade competitiveness; (iii) the business environment; and (iv) widening the

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circle of opportunities. DPL IV is the last planned loan in the series, and as yet the World Bank does not have plans for future budget support operations. In January 2009 the World Bank launched a US\$16 million technical assistance facility geared toward improving the efficiency of parastatal enterprises and promoting public-private partnerships for infrastructure projects. Two other technical assistance projects on SME development and poverty eradication are under preparation for 2010. As part of the effort to help reduce public debt risks in Mauritius, the World Bank and AfDB are working with the GoM to improve the overall management of the public debt portfolio. While the World Bank is supporting the GoM to design and implement an action plan that will build its capacity to manage risks related to public debts, the AfDB is supporting the Government to re-profile, through the proceeds of this budget support operation, a significant portion of its short-term domestic debt to longer-term foreign currency debt.

**4. Agence France de Développement (AFD):** AFD has participated with the Bank, the World Bank and the EC as a co-financer of the previous and current budget support harmonized operations, with a loan of €30 million for each operation. The AFD has a strong focus on environmental sustainability issues, and is involved—with EC—in the GoM's Maurice, Ile Durable programme to support the development of renewable energies with a US\$1 million technical assistance project. Going forward, AFD's budget support is likely to move to a more sectoral approach, continuing the agency's emphasis on environmental issues. AFD is also undertaking a number of investment operations in Mauritius, including in the transport, energy and sewerage sectors, as well as a "green lending scheme" with local banks and guarantees to facilitate financing to SMEs.

**5. European Commission (EC):** The EC has engaged with budget support grants on the previous and current harmonized operations, with the 2009 contribution programmed for €3 million. Part of the grant resources come from the EC's ongoing support to the sugar sector as preferential access to the EU is removed, and another part derives from general budget support grant resources. Going forward, the EC has programmed €49.5 million for budget support in 2010, and expects further budget operations in 2011. The EC is also providing €13.5 million (combined with GoM co-financing of €2.5 million, for a total of €16 million) in support of non-state actors between 2006 and 2010, a large portion of which is focused on the island of Rodrigues. A further €5.5 million continuation programme is currently under preparation. The EC has funded several technical assistance operations in different areas, including a recently-started project to improve the water quality of Mauritius' lagoons.

**6. United Nations Development Program (UNDP):** The UNDP's current country programme runs to 2013, with total funding of US\$16.5 million. UNDP activities are strongly focused on technical assistance to improve the effectiveness of Mauritius' social policy interventions. As such, it is engaged in the implementation of programme-based budgeting and performance management system in several agencies dealing with social programmes, as well as in the strengthening of the Social Registry of Mauritius. UNDP is also involved in the National Empowerment Foundation, with special attention given to activities on the island of Rodrigues (which has weaker social indicators than the rest of the country, on average) and HIV/AIDS.

**7. International Monetary Fund (IMF):** Mauritius is not participating in any formal programme with the IMF, but it receives regular IMF missions to undertake analytical work and Article IV reviews. The most recent Article IV review was completed July 2, 2008, and the next review is expected in September 2009. Technical assistance work on performance-based budgeting, banking supervision and monetary modelling are underway.

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## Annex X: Map of the Programme Area

