

**AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND**

MAURITIUS

COUNTRY PORTFOLIO PERFORMANCE REPORT

**REGIONAL DEPARTMENT ORSB
SOUTH REGION B
JUNE 2008**

SUMMARY REPORT

I. Introduction

1.1 This report is the first ever prepared for the Bank's portfolio in Mauritius, It has the objective to inform the Board members on the performance of the Bank's portfolio and to formulate relevant recommendations for its improvement. The poor Bank's portfolio performance on both on-going and pipelining projects and the pressing needs for the country to shift from the traditional sectors toward more knowledge and skill intensive activities are the main reasons to undertake this mission. The full report, including detailed information for each active project is available on request to ORSB.

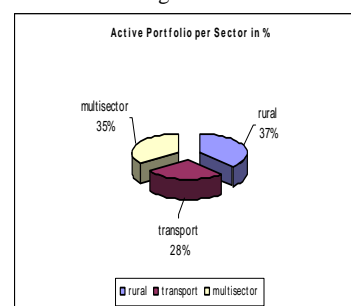
1.2 The Bank Group started operations in the Republic of Mauritius in 1975. Since then, it has approved 32 operations comprising 24 projects, 2 policy-based operations, 1 sector study and 5 lines of credit for a total amount of UA 305.74 million. However, UA 137.563 million representing about 44% of the total commitments has been cancelled, resulting in net public sector commitments of UA 168.2 million of which UA 161.05 million is from ADB resources, UA 2.89 million from NTF resources and UA 4.26 million from ADF resources. The approved operations have covered a wide range of sectors, including Agriculture, Transport and the Social sectors, which have been the main areas of Bank's operations. The lines of credit, 28% of the portfolio, focused on Industry, Energy and Finance and should have impacted the sectoral structure of Bank's interventions. Under the private sector window, the Bank has approved several projects, mostly lines of credit and equity participation in capital of firms, amounting to US\$ 107.00 million net of cancellations. The overall disbursement rate of 34% shows a weak performance owing to a high level of cancellations of ADB loans due to the poor market competitiveness of the Bank's loan conditions.

II. Overall Review of the On-going projects**A. Key characteristics of the on-going projects**

Table 1

Sectors	Commitment (UA million)	Sector %	% of disbursement	Overall assessment	Project at risk	Age (years)
Agriculture	21.55	37.75	0			
1. Irrigation.	7.85		0	2.83	PP	1.17
2.Sewerage	13.7		0	n.a	no	0.08
Transport	15.74	27.60	34.6			
1. Highway	15.74		34.6	1.99	no	5.83
Multisector	19.76	34.65	33			
1. DBSL	19.57	39.05	33.33	2.90	no	0.33
2..MICGrant	0.189	0.37	0	0	PP	1.17
TOTAL	57.05	100	23.88	1.93		2.12

Figure 1



2.1 The Bank's on-going operations are relatively new and yet non active. Only the Highway Road project which is the oldest project of the portfolio and the Budget Support Program were partially disbursed. Three projects have been approved/signed but have not been disbursed. This is mainly due to delays in fulfilling conditions precedent to entry into force of the loans.

B. General Assessment of the Portfolio Performance

Table 2: Summary of Performance of the Portfolio by Project

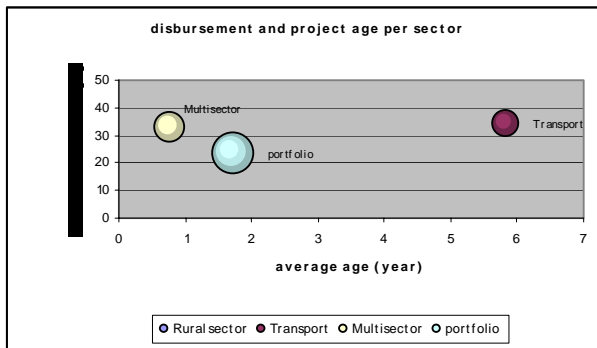
Indicators	Financial data			Rating						Risk Assessment	
	Net Commitments (UA million)	Disbursements (UA million)	Disbursement rate %	Conditions	Procurement performance	Financial performance	Activities and works	Impact on development	Overall assessment	Project at risk	Age (year)
Agriculture Sector	21.55	0	0								
Northern Plains Irr.	7.85	0	0	3	2.5	3	n.a	n.a	2.83	no	1.17
Plains Wilhems Sew.	13.7	0	0	n.a	n.a	n.a	n.a	n.a	n.a	no	0.08
Transport Sector	15.74	5.45	34.6								
South Eastern High.	15.74	5.45	34.6	2	2.5	2.75	2	1.67	1.99	no	5.83
Multisector	19.76	6.52	33								
DBSL-Budget Sup.	19.57	6.52	33.33	2.5	n.a	3	3	3	2.90	no	0.33
MIC-grant Reform P.	0.189	0	0	0	0	0	0	0	0	PP	1.17
Total	57.05	11.97	23.88	1.87	1.67	2.18	1.67	1.56	1.93		1.72

3=highly satisfactory; 2=satisfactory; 1=unsatisfactory; 0=highly unsatisfactory

2.2 As Table 2 shows, the Bank's portfolio global assessment is difficult to measure as three projects are yet to start and be disbursed (Northern plains irrigation, Plains Wilhems sewerage and MIC grant reforms program). A provisional performance measurement showed the rating at 1.93. This low rating is due to delays in fulfilling the conditions prior to the effectiveness of the projects. For example, it took 18 months between the approval by the Board of the South Eastern Highway project and its signature by the borrower. In general, these delays are explained by legal and court disputes that could have been addressed during the projects preparation and appraisal missions. In contrast, the Budget Support Program was declared effective within three months after loan approval indicating that if quality at entry is ensured the conditions for the effectiveness of the projects/programs could be completed in a reasonable time period.

2.3 The loans cancellations are explained by: (i) political changes in the country with implication of cancellation of projects previously agreed on by the preceding Governments; (ii) unfair competition of some Regional Development Banks or bilateral donors coming in and offering cheaper loans conditions after appraisal reports prepared by the Bank; (iii) lack of market competitiveness and flexibility of Bank's financial products and inefficient Bank's business processes with regard to MICs.

Figure 2



At the procurement level, the PIUs did not encounter any particular difficulties as the Bank's procedures were reasonably known by the Executing Agencies. The PIUs even expressed a need for trainings in project cycle and contract management. The low performance of contractor in the South Eastern Highway was due to communication problems between the Executing Agency (EA) and the local workers.

C. Comparison of the Portfolio Performance

Table 3 Compared portfolio performance

Performance Indicators		Evolution		Performance comparison	
		Previous	Current	Bank wide 2006 (ADB countries)	World Bank Mauritius
Implementation and Impact	Project cycle from identification to effectiveness (days)	n.a	320	950	n.a
	Disbursement rate %	n.a	23.88	27.9	80.8
	Supervision mission per year	n.a	1.28	1.5	
	Average project size (US \$ million)	n.a	14.16	87.52	9
	Project cancellation rate (%)	n.a	44.3%		18%
	Projects' overall evaluation	n.a	1.93	2.5	
	Project at risk (%)	n.a	40	19	
Harmonization and Alignment	% Aid provided as Program-based Approaches	n.a	39.43	n.a	n.a
	Nb of co-financed projects (%)	n.a	20	n.a	n.a
	Joint ESW per total ESW (%)	n.a	0	0	n.a

2.4 Several reasons explain the poor performance of Bank's portfolio:

From the Government side,

- Delays in fulfillment of conditions prior to the first disbursement for the South Eastern Highway project;
- No disbursement for the Northern Plain Irrigation project;
- Delays for completion of conditions account for the majority of loan cancellations that occurred over the period;
- Poor Government coordination of donor's assistance and unavailability of a dialogue mechanism. This is to be improved in order to facilitate the pipelining and follow up of new Bank funded projects.

From the Bank's side,

- Few skills mix during preparation and appraisal missions to tackle pricing issues and engage dialogue with the country officials;
- Inappropriate Bank's business processes towards Mauritius which need to be streamlined and more flexible;
- Lack of knowledge and technical services accompanying Bank's financial products e.g. Regional Integration, Aid for Trade etc.

The World Bank's better performance in Mauritius could mainly be explained by its more active dialogue policy with the country and the content and size of its portfolio mainly characterized by Budget supports operations. This was further strengthened recently by the opening of a field office in Port-Louis. Based on the Public expenditure and Financial Assessment (PEFA) and the Public expenditure reports carried out with the assistance of the European Commission and World Bank, and following the Paris Declaration recommendations, the Bank should be advised to increase the use of Budget Support as an intervention tool in Mauritius in order to deepen the implementation of the economic reforms by the Government and improve the projects disbursement rate.

III. Assessment of Management Implementation Capacity and Coordination with Other Donors

3.1 At the government level. Most Bank projects are being implemented using PIUs. These PIUs, which are under the supervision of Executing Agencies (EA), are in general well managed even requesting trainings in project cycle and contract management i.e. (MOFED). In most of cases, these EA are relatively well staffed and able to provide guidance and strategic supervision to the PIUs under the overall coordination of the MOFED.

3.2 However, there is no formal aid coordination mechanism and the GoM has expressed its willingness to implement a new aid coordination system and improve the dialogue mechanism to facilitate the pipelining and follow up of new Bank funded projects. This new aid coordination mechanism is expected to be implemented in the MOFED and sectors leadership among donors is to be identified.

3.3 At the Bank level. The Bank's institutional management capacity is generally satisfactory although the frequency of supervision of the projects is below the average required under the Bank's internal rules. The Bank needs to enhance the skills mix in assessing project performance and to be more pro-active in implementing recommendations made on the BTORs after the supervision missions.

3.4 World Bank, European Union, Agence Française de Développement and UNDP are the other major Official Donors in the country and meet periodically through the Budget Support Instrument to exchange views and to coordinate their programs with the Government. Under the current Bank's decentralization policy it is not planned to open a Bank's Country Office in Mauritius. However, based on a formal request of the Government of Mauritius, the Bank is considering to posting the Country Economist in Port Louis under an administrative arrangement between the Bank and the UNDP Office or other similar Organizations in Mauritius. The Bank's participation in dialogue missions could be enhanced and increased accordingly.

IV. Potential Future Problems and Lessons for CSP and Portfolio Management

4.1 The major concern in Mauritius is the weakness of the portfolio characterized by several project cancellations. These cancellations are explained by lack of competitiveness of Bank's loan interest rates for the Medium Income Countries (MIC) and/or delays in completion of conditions prior to entry into force of loans agreement. Another concern is the lack of alignment of the requests for funding with the government's strategic priorities. Thus, it would be useful to ensure consistency between the requests for MIC grants sent to the Bank with the Government's priorities.

4.2 Moreover, the Bank has not been performing well with regard to the private sector development financing. The proposed Bank's assistance strategy for Mauritius during the period 2004-2008 has been focusing on the promotion of the Bank's private sector facilities to Mauritian entrepreneurs to identify viable private sector operations (including ICT projects). Unfortunately, no activities have been undertaken with respect to this sector by the Bank. The lesson drawn along the recent experiences in the country is a need for better dialogue and a new spirit for doing business in a MIC country like Mauritius. In particular, the Bank could give support to the development of SMEs by combining access to finance with Business Development Support and Technical Assistance and by giving support to Public Private Partnership for infrastructure and health sector development.

4.3 The challenges for the Government and the Bank are to provide a Development Strategy coherent with updated sector strategies in order to facilitate the new Programme-Based Budgeting under a Medium Term Expenditure Framework. The new CSP preparation scheduled for end 2008 will need to focus more on ICT and higher education sectors to match better the economic needs with the vocational training and higher level Education. In the meantime, further direct support to the private sector would be required through the Private Sector Department of the Bank, particularly in agro-industries, fisheries and health tourism. In order to create an enabling and appropriate environment for future interventions of the Bank, ESW would be required. During 2008, in collaboration with other partners and depending on Government request, the Bank could provide support in financing the feasibility studies in the areas related to infrastructure, higher Education and vocational training, ICT and agro-industries in order to facilitate the fine-tuning of the pillars to be retained for the new CSP preparation.

4.4 In order to scale up the soundness and development effectiveness of the Bank's portfolio in Mauritius, it is recommended that some generic actions be taken by both Government and the Bank. At a global level, it is suggested that the following measures for better coordination of Bank's operations, an efficient dialogue mechanism to facilitate the pipelining and follow up of new projects as well as private sector operations financing through tailored instruments and facilities, should be pursued:

- An improved quality at entry through better project preparation and appraisal and reduction of delays in compliance to conditions precedent to entry into force and first disbursement;
- A better dialogue on the Bank's comparative advantage in loan pricing and accompanying technical advisory support to the overall project cycle and development impact assessment;

- Expansion of analytical work with regard to the country needs in order to build comparative advantage in advisory and technical assistance and policy advices;
- A better coherence between Economic Sector Work (ESW), pre-feasibility and feasibility studies proposed for Bank's financing and ensuring that they are aligned with the Government priorities, the Bank's lending operations policy and the projects pipelining process;
- Enhanced trainings for PIUs' staff and civil servants in the Directorates of Studies and Planning of the Technical Ministries in Bank's procedures in procurement, disbursement and audit as well as project cycle and contract management and project monitoring and evaluation;
- New approaches in doing business in order to increase Bank's operations in promoting the private sector. In particular, the Bank needs to combine access to finance with business development support and technical assistance, be more innovative in its financial products with respect to the spread, risks, maturity and grace period and be more efficient in its internal business processes ;

V. Conclusions and recommendations

5.1 It is the first time that the Bank has undertaken such a review of its portfolio in Mauritius. The overall performance of the portfolio is not satisfactory with an overall average rating of 1.93. However, as a MIC with a satisfactory EC-PEFA assessment, Mauritius has shown a reliable financial control and reporting system as well as a transparent and credible budget system. These factors are fundamental in the Bank's pledging of more Budget Support loans in its operations in Mauritius. In the meantime, the Bank has to play a stronger role in the development of the private sector by being more pro-active and by offering a diversified range of financial products matching the priority needs of the private sector.

5.2 Recommendations

At the Government level:

- The GoM should continue working in formulating a Government Development Strategy coherent with the updated sector strategies consistent with the Programme-based budgeting within the Medium Term Expenditure Framework;
- The GoM should ensure the implementation of an efficient aid coordination mechanism in order to facilitate dialogue with the donors and better complementarity and coordination of their development programs;

At the Bank level, it would be recommended to ensure:

- The improvement of quality at entry of the new projects by introducing greater skill mix during project preparation and appraisal in order to reduce delays in compliance to conditions precedent to entry into force and first disbursement;
- The implementation of an information policy in order to enhance the attractiveness of Bank's loans conditions to the MICs based on the Bank's comparative advantage in loan pricing and accompanying this with technical advisory support to the overall project cycle and development impact assessment;
- The provision of relevant trainings for PIUs' staff and civil servants in the Technical Ministries under the coordination of MOFED in Bank's procedures in procurement,

disbursement and audit as well as project cycle, contract management, project monitoring and evaluation;

- The implementation of new approaches in doing business in order to increase Bank's operations in promoting the private sector development and competitiveness in the economy. These new approaches include combining access to finance with business development programs, support to capital market development and public private partnership for infrastructure and health sector through knowledge transfer.

At the Board level:

In light of the foregoing, the Board members are invited to take note of the conclusions of the country portfolio performance report and to approve the recommendations formulated.