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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT

FOR

A PROPOSED LOAN

IN THE AMOUNT OF GBP 9.6 MILLION
(US$15 MILLION EQUIVALENT)

TO THE

REPUBLIC OF MAURITIUS

FOR A

SECOND PRIVATE SECTOR COMPETITIVENESS DEVELOPMENT POLICY LOAN

February 25, 2013

Finance and Private Sector Development
AFCS4 Country Management Unit
Africa Region

MAURITIUS - GOVERNMENT FISCAL YEAR
January 1 – December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of January 31, 2013)

Currency Unit = Mauritius Rupee
US$1.00 = Rs. 30.30
Weights and Measures
Metric System

ABBREVIATIONS AND ACRONYMS

ADSL	Asynchronous Digital Subscriber Line (a fixed-line broadband technology)
AFD	*Agence Française de Development (French Development Agency)*
AfDB	African Development Bank
BDS	Business Development Services
BoI	Board of Investment
BoM	Bank of Mauritius
CA	Certification Authorities
CCM	Competition Commission of Mauritius
CPS	Country Partnership Strategy
DBM	Development Bank of Mauritius
DPL	Development Policy Loan
EoI	Expression of Interest
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoM	Government of Mauritius
IBRD	International Bank for Reconstruction and Development
ICA	Investment Climate Assessment
ICAC	Independent Commission against Corruption
ICT	Information and Communication Technology
ICTA	Information Technologies Communication Authority
IDA	International Development Association
IFC	International Finance Corporation
IFCC	International Finance Consulting Group of Canada
IMF	International Monetary Fund
LAVIMS	Land and Administration Valuation Information Management System
MBGS	Mauritius Business Growth Scheme
MCIB	Mauritius Credit Information Bureau
M&E	Monitoring and Evaluation
MNF	Moving the Nation Forward
MoBEC	Ministry of Business, Enterprise and Cooperatives
MoFED	Ministry of Finance and Economic Development
MSME	Micro, Small and Medium Enterprises

NEF	National Empowerment Foundation
NICE	National Institute for Cooperative Entrepreneurship
NLTA	Non-Lending Technical Assistance
NRF	National Resilience Fund
NWEC	National Women's Entrepreneur Council
OCW	Out of Court Workout
PBB	Program Based Budgeting
PDMA	Public Debt Management Act
PEFA	Public Expenditure Financial Accountability
PFM	Public Financial Management
PKI	Public Key Infrastructure
PPP	Public Private Partnership
PSC	Private Sector Competitiveness
PSP	Public Sector Performance
RTA	Reimbursable Technical Assistance
ROSC	Report on the Observance of Standards and Codes
SBM	State Bank of Mauritius
SMEs	Small and Medium Enterprises
SMP	Significant Market Power
SMEDA	Small and Medium Development Authority
TA	Transactions Advisor
UBEB	United Business Enterprise Board
UNDP	United Nations Development Program

Vice President:	Makhtar Diop
Country Director:	Haleh Z. Bridi
Sector Manager:	Irina Astrakhan
Task Team Leader:	Smita Kuriakose

REPUBLIC OF MAURITIUS

SECOND PRIVATE SECTOR COMPETITIVENESS DEVELOPMENT POLICY LOAN

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This Loan was prepared by an International Bank of Reconstruction and Development (IBRD) team consisting of Smita Kuriakose (Task Team Leader, Economist), Tim Kelly (Senior ICT Policy Specialist), Antonia Preciosa Menezes (PSD Specialist), Mahesh Uttamchandani (Lead PSD Specialist), Brinda Devi Dabysing (PSD Specialist), Asya Akhlaque (Senior Economist), Nataliya Mylenko (Senior Financial Sector Specialist), Kailash Sharma Ramnauth (Senior Investment Officer), Aurora Ferrari (former Service Line Manager- Financal Inclusion), Andrew Lovegrove (Consultant), Andrew Singer (Consultant), Rafael Munoz Moreno (Senior Economist), Vasish Ramkhalwon (Operations Officer), Patrick Kabuya (Senior Financial Management Specialist), Wolfgang Chadab (Senior Finance Officer), Solange Alliali (Lead Counsel), Shahrzad Mobasher Fard (Research Analyst), Yeshareg Dagne (Program Assistant) and Khurshid Banu Noorwalla (Team Assistant).

LOAN PROGRAM SUMMARY

REPUBLIC OF MAURITIUS

SECOND PRIVATE SECTOR COMPETITIVENESS DEVELOPMENT POLICY LOAN

Borrower	Republic of Mauritius
Implementing Agency	Ministry of Finance and Economic Development
Financing Data	IBRD Loan: Development Policy Loan (DPL). The proposed loan amount is US$15 million.
Operation Type	Programmatic DPL (two operations). The proposed operation is the second and the final of the series.
Main Policy Areas	Enterprise Competitiveness, Access to Finance, and Information and Communications Technology (ICT) including e-Government.
Key Outcome Indicators	1. *Improving Enterprise Growth and Competitiveness* • Number of enterprises accessing "generic" and specialized business development services (BDS) increased; • Development of a Monitoring and Evaluation Framework for BDS schemes; • Number of insolvency practitioners registered; • Number of banks using out-of-court workouts; 2. *Improving Access to Finance* • Development Bank of Mauritius (DBM) restructured by the sale of its non banking assets; • A new licensed commercial Bank with a focus on the Micro, Small and Medium Enterprises (MSME) segment established; • Reduction in time taken to register property; • Completion of the necessary legislative amendments for the facilitation of secured lending transactions; • Increase in coverage of the credit information bureau; 3. *Promoting ICT usage and e-Gov Reforms for Increased Efficiency and Transparency Gains* • Increase in number of broadband subscriptions with actual speeds of at least 10 Mbit/s; • Decrease in the price per 1 Mbit/s per month of broadband service, fixed and mobile; and • Increase in the number of public services that can be

	executed via secured online transactions.
Program Development Objective(s) and Contribution to Country Partnership Strategy (CPS)	The development objective of the programmatic series is to strengthen the policy and institutional environment in Mauritius to support competitiveness and enterprise development. The operation will achieve this by supporting reforms in three integrated and mutually reinforcing pillars: (i) Improving enterprise growth and competitiveness; (ii) Improving access to finance; and (iii) Promoting ICT usage and e-Government reforms for increased efficiency and transparency gains. For each of these pillars, prior actions have been identified that create the underpinnings to support the reform processes. A facilitative business environment and greater access to finance, coupled with improvements in the ICT sector, will increase enterprise competitiveness and facilitate access to export markets. The proposed DPL is consistent with the objectives of the Country Partnership Strategy (CPS) for the period 2007-13 which was presented to the Board in October 2006 and the CPS Progress Report of May 2011. The proposed DPL is aligned with four CPS pillars, in particular improving competitiveness and investment climate along with inclusion and fiscal consolidation themes of reform.
Risks and Risk Mitigation	The implementation of the proposed reform program entails a number of risks: (a) The challenge of maintaining macroeconomic stability in the face of continuing uncertainty in global developments and the ongoing economic slowdown. The Government has the means and tools to cope with external economic uncertainties, though a firm commitment will be needed to rein in public expenditure and accelerate economic reforms if the global economic slowdown lingers. (b) Political risks that may affect the pace of the reform program at a time when the need for reform is most urgent, given the economic slowdown and global economic uncertainties. This DPL aims to mitigate this risk by supporting reforms where consensus exists, helping to put in place building blocks to expedite the reform program in the medium term. In addition, the policies supported by the proposed DPL will contribute significantly to help mitigate the political risks through measures that emphasize equity

	concerns by focusing particularly on the development of SMEs. (c) Limited institutional capacity within the sector ministries to lead and implement the reforms. The DPL series has been instrumental in building bridges among different ministries involved in the implementation of the reform program, thereby enhancing coordination. The Bank is supporting the government to help mitigate this risk by bringing specialized staff to complement the DPL dialogue in selected areas, and promoting a public debate through articles and technical notes. Through the Non Lending Technical Assistance which complements this operation, the Bank has provided analytical and operational support to line ministries. Additionally, the DPL itself is a catalyst between the different ministries involved in the reform program, thereby enhancing coordination. Furthermore, a Services Agreement for Reimbursable Technical Assistance (RTA), signed by the Bank and the government, is available to further strengthen institutional capacity in line ministries where needed.
Operation ID	P132510

PROGRAM DOCUMENT DATASHEET
REPUBLIC OF MAURITIUS

SECOND PRIVATE SECTOR COMPETITIVENESS DEVELOPMENT POLICY LOAN

Date: February 25, 2013 Country: Republic of Mauritius Operation: Mauritius Second Private Sector Competitiveness Development Policy Loan Operation ID: P132510 Team Leader: Smita Kuriakose Sector Manager: Irina Astrakhan Sector Director: Gaiv Tata Country Director: Haleh Z. Bridi	Lending Instrument: Development Policy Lending Board Approval Date: March 26, 2013 Effectiveness Date: June 26, 2013 Closing Date: June 30, 2014 Environmental screening category: N/A Sectors: General industry and trade sector (45%); SME Finance (20%); Information technology (20%); Credit Reporting and Secured Transactions (15%) Themes: Other Private Sector Development (60%); Other Financial Sector Development (20%); e-Services (20%)

Special Development Policy Lending:	[ ] Yes	[X] No
Crisis or Post-Conflict Situation (exception to OP8.60):	[ ] Yes	[X] No
Programmatic:	[X] Yes	[ ] No
Deferred Drawdown Option:	[ ] Yes	[X] No
Subnational Lending:	[ ] Yes	[X] No

Operation Financing Data
[X] IBRD Loan [] IDA Credit [] Grant [] Other: Total Bank financing (US$m.): 15 Proposed terms: Fixed spread loan payable in 18 years, (including 5 years grace period)

Tranche Release Information
Single tranche to be released upon effectiveness.

Does the operation depart from the CAS in content or other significant respects?	[ ]Yes [X] No
Does the operation require any exceptions from Bank policies?	[ ]Yes [X] No
Have these been approved by Bank management?	[ ]Yes [X] No
Is approval for any policy exception sought from the Board?	[ ]Yes [X] No

Program Development Objective of the DPL programmatic series is to strengthen the policy and institutional environment in Mauritius to support competitiveness and enterprise development. The operation will achieve this by supporting reforms in three integrated and mutually reinforcing pillars: (i) improving enterprise growth and competitiveness, (ii) improving access to finance, and (iii) promoting ICT usage and e-Government reforms for increased efficiency and transparency gains.

PROGRAM DOCUMENT

REPUBLIC OF MAURITIUS

SECOND PRIVATE SECTOR COMPETITIVENESS DEVELOPMENT POLICY LOAN

I. INTRODUCTION

1. Having successfully become an upper middle income country, Mauritius now strives to become a high income nation[1]. Ranked only behind South Africa in the Africa Region on The World Economic Forum's Competitiveness Index and the first in Africa on the World Bank Ease of Doing Business indicator; Mauritius is recognized as one of the most competitive and business-friendly locations[2]. Mauritius has moved from an import substitution strategy which was not very successful given its small local economy towards greater export diversification through industrialization. From being a predominantly agricultural economy, based on sugar production it has been able to diversify into textiles exports, tourism and more recently financial services, offshore global business and ICT which have developed as the economy's new pillars. However, achieving the high income nation status requires keeping up to and surpassing the pace of reforms set by its competitors.

2. The manufacturing sector in Mauritius is facing increasing competitive pressure from increasing global competition in the export markets especially in light of the ongoing European slowdown which being the country's main export market is taking a toll on Mauritius' economy. Gross Domestic Product (GDP) growth is estimated to be 3.3 percent in 2012, vis-à-vis the 3.7 percent projection made when the first operation of this DPL series was approved (March 2012), and below government budget projections of close to 4.1 percent. The European economic downturn has had a significant impact on Mauritian exports in 2012 with a noted decline in tourist arrivals from the major European markets.

3. The competitiveness agenda, thus, remains central to achieving the Government's program of reforms. With a view to weather the slowdown accompanied by the current global economic crisis; to boost economic growth through higher productivity and to increase high value added exports, the new Government Program, namely *Moving the Nation Forward (MFN)* adopted in April 2012, and the 2013 Budget Speech astutely remain committed on continuing to support the competitiveness agenda for development of the manufacturing and services sector. It emphasizes the need to gain greater global competitiveness through the need to promote technology investments to improve quality of Mauritian exports to enable entry into new markets abroad. Also, this reemphasizes the need to prioritize the Small and Medium Enterprise (SME) sector which is an important source of job creation and growth.

4. The DPL series is consistent with the objectives of the Country Partnership Strategy (CPS) 2006, and the CPS Progress Report of May 2011, that underlines improving competitiveness and investment climate as its central theme of reforms, along with promoting

[1] Government Program 2012-15, GoM, April 2012.
[2] The Doing Business Ranking has moved from 24 to 19 in the 2013 Doing Business Report.

inclusion and fiscal consolidation. Further, the DPL programmatic series is well aligned to the *World Bank's Africa Strategy* that focuses on competitiveness and employment, and vulnerability and resilience as its two pillars, with governance and public sector capacity as its foundation.[3]

5. This Second Private Sector Competitiveness Development Policy Loan (PSC-DPL2), in an amount of US$15 million, is the second and the last in a series of two annual programmatic operations in support of the Government's medium-term reform program that centers on competitiveness and equity as its twin pillars. The series aims at strengthening the policy and institutional environment in Mauritius to support competitiveness and enterprise development. This DPL operation will continue to focus on accelerating reforms in support of private sector competitiveness by (i) supporting the growth of new business enterprises through demand driven business development schemes (BDS) and greater access to finance; (ii) making business exit easier; and (iii) promoting ICT usage and e-Government reforms for increased efficiency and transparency gains.

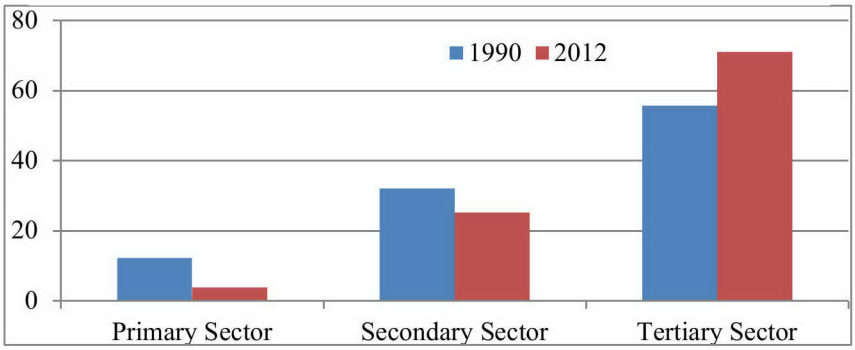
6. There has been encouraging progress in implementing the reform program since the PSC DPL1, with reforms in some sectors going beyond what was initially envisaged. These include more substantial regulations being passed to operationalize the Mauritian Insolvency Act 2009 making debt resolution regimes more effective; the development of a National Broadband Policy (NBP); and the implementation of policy reforms to increase competition in the ICT sector. Progress to date on the measurable indicators is highlighted in Annex 1. Through the Bank's non-lending technical assistance (NLTA), technical assistance and support was provided to help develop a pipeline of financial and private sector development policy reforms for this Second PSC DPL. This proved to be a very useful tool, as it helped provide technical expertise and global best practice on policy and institutional issues informing policy dialogue.

7. The Second PSC DPL is being designed in coordination with the Second Public Sector Performance (PSP) DPL which is being presented jointly to the Board. The two DPL series are designed to be mutually reinforcing to address complementary aspects of Mauritius' reform program and the CPS for the period 2007-13. The PSP DPL focuses primarily on the performance of the public sector, while this PSC DPL focuses primarily on strengthening the policy and institutional environment for private sector competitiveness. It is the combination of the reforms supported by these two DPL series that will help the Republic of Mauritius improve its competitiveness, increase its economic resilience, and prepare it for the next phase of rapid and inclusive economic growth.

[3] Refer to *Africa's Future and the World Bank's Support to It*. World Bank (March 2011).

II. COUNTRY CONTEXT

Figure 1: Value Added as a share of GDP (in percentage)



Source: Statistics Mauritius

8. The Republic of Mauritius has had an impressive development record. Between 1985 and 2007, the Mauritian economy expanded at an average annual growth rate of 5 percent on the strength of the exports of garments, agricultural commodities (principally sugar), seafood, and tourism services. Years of rapid growth have transformed the economy. Agriculture now accounts for less than 4 percent of GDP, manufacturing for 17 percent of GDP, and the share of services is increasing (Figure 1). The manufacturing sector remains a strong contributor to employment in Mauritius.

9. However, the economy is showing signs of slowdown due to the current global economic uncertainty**.** GDP growth though positive, has remained below the level necessary to achieve the country's aspiration of becoming a high-income nation by the next decade. The main export market remained the European continent with a share of 57.8 percent, while at a country level the United Kingdom was the main buyer, accounting for 19.2 percent of total exports. The other main markets were France (13.0 percent); USA (9.9 percent); South Africa (9.9 percent) and Spain (7.4 percent). There have been some improvements in 2012, where the exports to Europe have increased by 2.6 percent as compared to 2011. The unemployment rate is estimated at 8.0 percent for the year 2012, as compared to 7.9 percent in 2011.

10. The *MNF, April 2012*, lays emphasis on focused export promotion to improve opportunities in new emerging markets; an increased focus on economic diversification by helping build industrial expertise; and providing value added services in the financial services sector. Among other things, the program continues to promote better targeting of foreign investment into the services sector, promote SMEs development through access to finance and business development services, upgrade tertiary level technical skills, and improve infrastructure, particularly in ICT.

A. RECENT DEVELOPMENTS AND MACROECONOMIC POLICY FRAMEWORK IN MAURITIUS

11. Expansionary macroeconomic policies have enabled the economic recovery in Mauritius that followed the 2008/2009 global financial crisis. Real GDP growth slowed from 5.5 percent in 2008 to 3.1 percent in 2009 amid the financial crisis, before rising to around 4.2 percent in 2010. GDP growth subsequently slowed to 3.8 percent in 2011 and 3.3 percent in 2012 in the wake of renewed turbulence in the global economy. The government's consolidation efforts initiated prior to 2008 had created the fiscal space needed to adopt an expansionary macroeconomic policy stance. Between 2009 and 2011, fiscal stimulus measures, which mostly consisted of targeted programs to assist firms and workers,

cumulatively accounted for about 7.5 percent of GDP. On the aggregate demand side, government consumption and investment contributed the most to growth in 2009, followed by a recovery in exports in 2010, and an increase in inventories in 2011. On the supply side, in line with the evolving structure of the economy over the last decade, overall growth was led by the service sector, particularly real estate services, hotels and restaurants, and financial intermediation. These together now account for 23 percent of GDP, up from 18 percent in 1990. Hotels and restaurants, the sectors that suffered the most in 2009, rebounded in 2010.

12. Despite the challenges to growth on the external front and the lower-than-expected expansionary fiscal policy, the economy is still projected to have grown by 3.3 percent in 2012 according to latest estimates from Statistics Mauritius. This is below the 3.7 percent that was projected when the first operation in this DPL series was approved (in March 2012) and below the government's 2012 budget projections of 4.1 percent. This could be attributed to a large extent to the slowdown in the European market to which Mauritius is very exposed to (Box1).

Box 1: The Impact of the European Economic Slowdown on the Mauritian Economy

The main areas where economic shocks from the global economy have manifested in Mauritius are tourism, exports and commodity imports. The European economic downturn is adversely affecting Mauritius as the country remains highly dependent upon European markets. Exports and tourism from major European markets has stagnated during 2012 in terms of arrivals (see table below). This is being compensated for by increasing tourist arrivals and exports from Africa and Asia, but overall tourist arrivals remained lackluster during 2012. Imports, in turn, rose by 19 percent in 2012 compared to 2011, led by rising food (20 percent increase) and fuel (35 percent increase) imports.

Table 1: Exports and Tourist Arrivals, 2011 and 2012

	2011	2012	% Change
Exports of Goods	**62,358**	**67,991**	**9.0**
To Europe	38,328	39,308	2.6
To Africa	3,488	5,137	47.3
To Asia	13,140	15,980	21.6
Tourist Arrivals	**964,642**	**965,441**	**0.1**
From Europe	609,648	560,699	-8.0
From Africa	231,174	265,215	14.7
From Asia	91,057	104,336	14.6

Source: Statistics Mauritius

13. The fiscal position is improving, and the Government achieved greater debt consolidation in 2012 than had originally been expected. The budget deficit for 2012 is now likely to be lower than projected (2.3 percent of GDP actual versus 3.7 percent of GDP projected).[4] There has been a stronger than anticipated decline in recurrent expenditures as

[4] Both the total spending and the fiscal deficit figures have been corrected taking into account the spending from extra-budgetary funds. For 2012, we estimate a 0.4 percent of GDP contribution from extra-budgetary funds to the overall fiscal deficit.

well as in public investment – each amounting to 1.1 percent of GDP – that were only partially offset by a 0.8 percent decline in revenues induced by the economic slowdown. As a result, total public sector debt was brought down to 56.5 percent of GDP in 2012 compared to 57.4 percent in 2011 (Table 2).

14. The Government adopted a slightly more accommodating monetary policy stance in 2012 than in 2011, but it remains cautious nonetheless. The Bank of Mauritius reversed its tightening monetary policy in December 2011 as a result of the domestic economic slowdown and global uncertainties. The repo rate was further reduced to 4.9 percent in March 2012 and has been kept unchanged ever since. This more accommodative monetary policy was facilitated by a decline in inflation from 6.5 percent in 2011 to 3.9 percent in 2012, in part related to the slowdown in food prices as well as the appreciation of the rupee against, most notably, the Euro. In November 2012, the Bank of Mauritius' Monetary Policy Committee expressed its concerns over the projected increase of the inflation rate to 6 percent in 2013 due to increasing food and oil prices, the recent rupee depreciation, and the impact of the public sector salary increase due to be awarded in 2013 as part of the Pay Research Bureau report. This adds to the MPC's previous worries about the effects of prevailing negative real interest rates on savings deposits and on corporate indebtedness. As such, the Bank of Mauritius stands ready to revisit its policy in order to avoid any second-round effects on prices and wages.

15. The Bank of Mauritius has stepped up its sterilized interventions in the foreign exchange market to respond to the rupee appreciation and to build additional buffers against a potential economic slowdown. The rupee's appreciation – 5.5 percent nominal appreciation vis-à-vis the Euro between June 2011 and June 2012 – largely stemmed from relatively buoyant capital inflows, including Foreign Direct Investment (FDI), growing government external borrowing (albeit on a sustainable trajectory), and large net capital inflows to the banking sector. In response, the Bank of Mauritius is implementing a medium-term program to increase foreign exchange reserves to six months of imports of goods and services (from 4.3 months as at the end of December 2011), with parallel sterilization of the additional money supply. By December 2012, foreign reserves increased by US$268 million to reach US$2.9 billion or 4.5 months of imports of goods and services. As a result of this intervention, the rupee has depreciated by 3.4 percent vis-à-vis the Euro between June 2012 and December 2012.

B. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

16. Real gross domestic product (GDP) is projected to rise by 3.7 percent in 2013, but this forecast remains subject to a downward revision should various risks to global economic growth materialize. This forecast is based on the assumptions that measures will be implemented to stimulate private investment, implement public investment, expand market share in emerging economies and support growth in emerging sectors while traditional sectors experience some consolidation. This projection also remains subject to a downward revision should external uncertainty linger and global economic growth continue to stagnate. Growth in GDP is expected to trend towards 4.5 percent by 2015 in line with the global economic recovery and a fiscal policy that is guided by the debt strategy requirement of reducing the total public sector debt-to-GDP ratio to 50 percent by 2018.

17. However, some downside risks to the economic outlook exist that could result in economic growth deviating from these projections. Domestically, the main downside risks to the economic outlook remain the slow pace of structural reforms to support growth, chief among which is the need to increase the efficiency of the public sector. This is essential in order to tackle critical bottlenecks in education and infrastructure. On the external front, the key downside risks remain sluggish growth in external demand and the pressure that this may put on the current account balance. Overall, these risks are manageable considering the resilience that the Mauritian economy has shown in 2012 and given the available means and tools to cope with external uncertainty.

18. The Government envisages a prudent fiscal policy in 2013. The budget deficit for 2013 is projected to be 2.5 percent of GDP. Public spending is expected to edge up to 24.5 percent of GDP in 2013 (compared to 23.7 percent of GDP in 2012),[5] with capital spending projected at 3.1 percent of GDP, above 2012 outlays. Public revenues and grants are expected to slightly increase to 21.9 percent of GDP and the Budget's fiscal deficit, including spending from extra-budgetary funds, is expected to widen to 2.5 percent of GDP, up from an anticipated 2.3 percent of GDP this year. The Government is seeking to strike a balance between budget consolidation and measures to support growth. Special programs are being implemented to support vulnerable sectors (such as SMEs) and groups (such as unemployed youth and children) while seeking to ensure fiscal consolidation. The Government is trying to achieve significant containment in transfers and subsidies (mostly transfers to parastatals and the public sector), which reflects the Government's efforts to increase public sector efficiency in these areas. These transfers and subsidies have already been reduced from around 6.3 percent of GDP in 2011 to 5.0 percent of GDP in 2012. A further decrease to 4.4 percent of GDP is projected in 2013. The Government contemplates, in the event of lower than accounted revenues; the key expenditures will be protected using the remaining resources from the National Resilience Fund (1.1 percent of GDP).

19. Debt consolidation will be achieved despite the implementation of the recommendations of the 2012 Pay Research Bureau report, which will raise the central government's wage bill by 19 percent in 2013. In practical terms, this adjusts public sector wages by the equivalent of the accumulated inflation over the last five years. As only partial adjustments were made during that time, mostly for lower rank grades, the PRB recommended broadening the top to bottom pay ratio, which was only 7:1. For the central government,[6] the 19 percent increase in the wage bill for 2013 represents a sizeable amount of its budget (0.6 percent of GDP), particularly considering the uncertain external environment and the impact that it may have on the negotiation of private sector salaries. Private sector salaries in the past have followed increases in the public sector, which, if this happens again in this case, may put inflationary pressures on the economy.

[5] For 2013, this includes additional 0.7 percent of GDP contribution from extra-budgetary funds.

[6] The PRB projects the wage bill for the central government, parastatals, and local entities at 8.8 percent of GDP in 2013, which represents an increase over the 8.2 percent of GDP recorded in 2008 at the time of the adoption of the last pay review.

Table 2: Selected Economic Indicators and Projections, 2009-2015

	2009	2010	2011	2012 Est.	2013 Proj.	2014 Proj.	2015 Proj.
	(Percent of GDP, unless otherwise indicated)						
National income, prices and employment							
Real GDP Growth at market prices (%)	3.0	4.1	3.8	3.3	3.7	4.3	4.5
Growth in consumer prices (%)	2.5	2.9	6.5	3.9	5.7	4.6	4.7
Unemployment rate (%)	7.3	7.8	7.9	8.0	8.2	8.0	7.7
Savings and investment							
Gross national savings	13.8	13.3	13.1	14.7	15.4	16.2	16.7
Gross domestic investment	26.4	23.6	25.7	24.7	25.1	25.3	25.5
Government budget							
Revenues and grants	22.8	21.9	21.4	21.4	21.9	21.3	20.3
Tax revenue	19.1	18.5	18.3	18.8	18.7	18.4	18.4
Total expenditure	26.3	24.9	23.5	23.7	24.5	23.2	21.7
Current expenditures	23.6	22.2	20.8	20.9	21.4	20.7	19.4
Compensation of employees	6.0	5.9	5.6	5.4	6.0	6.0	5.8
Use of goods and services	2.8	3.1	2.6	2.6	2.9	2.9	2.7
Interest payments	3.8	3.4	3.0	3.0	2.7	2.6	2.6
Transfers and subsidies	6.6	5.5	6.3	5.0	4.4	4.0	3.7
Net acquisition of non-financial assets	2.7	2.7	2.7	2.8	3.1	2.5	2.2
Fiscal balance (including extrabudgetary funds)	-2.0	-3.0	-2.1	-2.3	-2.5	-1.9	-1.4
Net acquisition of financial assets	0.3	0.0	0.9	0.4	1.8	2.5	3.2
Borrowing requirements	2.2	2.9	2.9	2.5	4.1	4.2	4.3
External sector							
Balance of goods and services	-10.5	-12.2	-13.2	-13.0	-12.5	-11.9	-11.5
Exports of goods and services	47.1	50.9	52.6	53.8	55.1	54.9	54.5
Imports of goods and services	-57.6	-63.1	-65.8	-66.8	-67.6	-66.8	-66.0
Current account balance	-7.4	-10.3	-12.6	-10.0	-9.6	-9.1	-8.7
FDI	2.5	3.1	1.6	1.7	1.5	1.5	1.6
Overall External Balance	4.3	2.1	1.6	1.8	1.2	1.3	1.1
Net international reserves (Mlns USD)	2,304	2,448	2,631	2,892	3,044	3,195	3,368
Months of imports of goods and services, f.o.b.	5.1	4.8	4.3	4.5	4.6	4.6	4.6
Memorandum items							
Public sector debt	59.6	57.4	57.4	56.5	55.8	55.0	54.3
Total external debt	22.0	22.3	23.7	23.7	25.1	26.7	26.5
GDP at current market prices (Rs. Blns)	282.4	298.8	322.8	344.6	377.9	412.1	451.0

Sources: Mauritian authorities; IMF and World Bank staff estimates and projections

20. The net financing requirements of the government are projected to increase from 2.5 percent of GDP in 2012 to 4.1 percent of GDP in 2013, around half of which will be used to provide loans for infrastructure development. Significant efforts have been made to lengthen the maturity of the domestic debt, with long-term debt (with a minimum maturity of five years) having increased to 52 percent of total domestic debt in 2013, up from 49 percent in 2012 and 43 percent in 2011. This will help to alleviate some of the risk involved in the significant amount of securities that were approaching maturity that had to be rolled over at a potentially higher interest rate. In order to lengthen the maturity on its debt and reduce its debt

servicing costs, the government is also increasingly relying on external loans. These will represent 13.3 percent of GDP in 2013, up from 11.9 percent of GDP in 2012 when external loans already financed more than half of the budget deficit. External loans are mostly provided by international financing institutions. With these loans, the Government is seeking to: (i) take advantage of low global and concessional interest rates; and (ii) extend term maturities to reduce the risk of roll-over needs. These loans will mostly support government investments in transport, energy, and water.

21. The current account deficit will be financed by financial flows and, to a lesser extent FDI. The current account deficit has widened from 7.4 percent of GDP in 2009 to 12.6 percent of GDP in 2011 mainly as a result of rising FDI-funded imports. This trend was reversed in 2012 as a result of the growth in exports. Also despite an increase in imports, the current account deficit is expected to narrow to 10 percent of GDP. Moving forward, the current account deficit is projected to be further reduced to 9.6 percent of GDP in 2013 and 9.1 percent of GDP in 2014. Although the deficit is expected to be financed by financial flows and FDI, further increases in the price of food and fuel, and a more severe and protracted economic downturn in Europe than envisaged could lead to some deterioration in the deficit and in the ease of access to FDI.

22. The March 2012 Debt Sustainability Analysis projects a sustainable public sector debt level for Mauritius over the medium-term. There was an increase in public sector debt from 52 percent of GDP in 2008 to 57.4 percent in 2011, resulting mainly from the implementation of the stimulus packages but subsequent fiscal consolidation is projected to bring down the total stock of public sector debt to 57 percent of GDP in 2013. The 2008 Public Debt Management Act (PDMA), amended in 2010, imposed a ceiling of 60 percent of GDP on the total amount of outstanding public sector debt, with the aim of reducing it to 50 percent of GDP by the end of 2018[7]. Given current trends and policy, the medium-term debt trajectory is likely to comply with the Act. Under a baseline scenario with a slight acceleration of economic growth from 3.3 percent in 2012 to 4.2 percent beyond 2013 and a gradual reduction of the fiscal deficit to 2 percent of GDP by 2014, the debt-to-GDP ratio would gradually reach the PDMA 50 percent debt-to-GDP target by 2018.

23. Risks of deviations from a sustainable trajectory remain. Under alternative scenarios such as a depreciation of the rupee by 30 percent caused by a severe contraction of world economy, the debt-to-GDP ratio could exceed 65 percent in 2018 which would be above the PDMA ceiling. This would require the government to adopt more ambitious medium-term fiscal consolidation measures, including slowing down the implementation of the investment program and making efficiency gains in public expenditure. In the same vein, total external debt (estimated at 23.7 percent of GDP in 2012) is projected to be sustainable, though it may rise over the next few years to finance the public infrastructure program before stabilizing. External debt sustainability is resilient to a 30 percent real depreciation of the rupee, but external debt dynamics would become unsustainable over a five-year period should the external current account deficit increase by 3 percentage points of GDP compared to the baseline scenario.

[7] The Public Debt Management Act 2008, as amended provides that for the purpose of Public Sector Debt ceiling, public enterprise debt be discounted on the basis of prescribed criteria (i.e. managerial independence, solid governance structure, market access, and limited risk). For 2012, public sector debt for the purpose of debt ceiling was 53.1 percent of GDP compared to total public sector debt of 56.5 percent of GDP.

24. The November 2012 Bank of Mauritius Annual Report presents a picture of a sound banking sector. Bank profits are high and their capital position is strong, with moderate exposure to market risk and changes in interest rates. Stress-tests by International Monetary Fund (IMF) staff have confirmed resilience of the banking sector to a variety of shocks. Loans to non-residents accounted for more than 50 percent of total bank loans and 29 percent of banks' total assets in 2011. These loans, predominantly financed by domestic residents and to a lesser extent Europe, were heavily concentrated in Asia and particularly, in India, with Mauritius serving as an intermediary of funds to this country. During the first nine months of 2012, roughly 73 percent of bank credit to residents was offered to the domestic corporate sector, with construction receiving the largest share at 26 percent followed by tourism (18 percent), trade (12 percent) and manufacturing (8 percent). The Bank of Mauritius is offering credit lines in foreign exchange accounts to cushion potential currency mismatches. Also, household indebtedness to banks rose from 12.8 percent of GDP to 17.2 percent between 2006 and 2011, 61 percent of which was for mortgages.

25. Overall, the macroeconomic framework is adequate for development policy lending. While the global economic slowdown took a toll on the Mauritian economy in 2012 and global economic uncertainties may continue in 2013, the economy has already proved – as in 2008 – to be highly resilient to external shocks, and the government has the means to cope with these external shocks in the short and medium term.

III. THE GOVERNMENT'S PROGRAM AND PARTICIPATORY PROCESSES

A. GOVERNMENT PROGRAM

26. Mauritius has built much of its successful development record since its independence on pro-active and effective growth strategies. The National Long-Term Perspective Study, also known as Vision 2020, was a long-term development vision conceived in the 1990's with the objective of opening up and diversifying the economy by moving towards high value-added products, skills development and a knowledge-intensive economy. In April 2012, the Government presented its new program, *"Moving the Nation Forward" (MNF)* for 2012-15. The MNF represents the third major policy platform since the current Government came to power in 2005, providing a broad vision for development of the country. A commission has been established to translate the MNF vision into a set of coherent programs with well-defined priorities, timelines and performance indicators. The MNF proposes the setting up of a National Strategic Transformation Commission, which will in consultation with all stakeholders, make recommendations on: optimal use of resources, inclusive growth, sustainable development, urban planning and land zoning as well as promotion of new sectors. MoFED is coordinating the preparation of the 10-year Economic and Social Transformation Plan. This plan will focus on enhancing the incentive framework and developing and upgrading human resources to support job and income growth in a sustainable and equitable way so that Mauritius can move to a High-Income Nation status.

27. The main objective of the MNF is to assist the country in becoming a high income country over the next ten years with per capita income rising from US$8,000 to more than US$14,000. The MNF seeks to *"...raise the skills and capacities of our people, harness the power of technology, modernize and streamline...institutions, accelerate innovation in existing industries and encourage diversification and growth in new and more sophisticated sectors."*[8] The MNF contains the following six pillars covering economic, political, social and environmental issues.

Pillar 1: Prosperity for all

28. The Government remains committed to the path that has produced economic growth in the last seven years, particularly with regards to the principles of promoting an open and market friendly environment, low taxes and streamlined regulations. However, in view of the rapidly changing world economy, including the rising importance of emerging markets and the new challenges that the domestic economy faces, the Government aims to reduce the country's dependence on Europe, increasing its exposure to higher growth economies, while at the same time moving up the value chain and encouraging growth, investment and jobs in new sectors.

29. New sectors such as the "ocean economy" are being harnessed to accelerate growth in the medium term. The Government intends to prepare a plan for the development of an ocean economy taking advantage of its very large exclusive economic zone (2.3 million square kilometers or about 1,000 times the country's land area). This includes fundamental and applied research on the ocean and the development of a regional fisheries management plan and related legislation, which will ensure that the fishing industry remains economically and environmentally sustainable.

30. Reform in traditional sectors such as sugar and tourism will be accelerated. The sugarcane sector continues to face the consequences of the dismantling of the Sugar Protocol that is part of the continuing reform of the European Union (EU) Common Agricultural Policy, as well as the abandonment of lands by small planters. Hence, the Government intends to step up the reform of the cane industry as well as modernize and diversify the agro-food production sector to make it competitive and sustainable.[9] In tourism, the Government aims to attract visitors from a broader spectrum of countries, increasing spending per tourist, and developing new tourism products. This will be achieved by improving the country's attractions, visibility and accessibility.

31. In the financial sector, the Government intends to support the diversification of the global business sector. In particular, it will upgrade the legal and regulatory framework to encourage the sector to provide more value added products to enhance Mauritius' attractiveness as an international financial center, with a major focus on providing fully integrated services and tapping into greater opportunities in Africa. For the domestic financial

[8] Moving the Nation Forward, Introduction, para 10.

[9] Key priority measures to be implemented in partnership with all stakeholders include: (i) redefining land and agricultural policies; (ii) creating new financial schemes; (iii) offering risk management schemes; (iv) constructing modern slaughter house meeting export norms; (v) improving access to markets; (vi) building institutional and human capacity, including empowering women; and (vii) strengthening governance for institutions.

services, the Government is encouraging providers to offer innovative financial products and improving access to financial services for all segments of the population.

32. Efforts to improve the investment climate and to provide clear and transparent guidelines for investors will continue. The Government will seek to attract FDI into high value added sectors as well as in infrastructure. In particular, the Government intends to finance 10 percent of the Public Sector Investment Plan through FDI by 2015. The Government will continue its support to the SME sector through various instruments to boost financing, promotion and employment, including reinforcing support to women entrepreneurs and making access to finance easier for SMEs. It was agreed as part of this DPL dialogue to develop an overarching Monitoring and Evaluation (M&E) framework and include six of the twenty two schemes under the National Resilience Fund (NRF) that particularly deal with providing Business Development Services (BDS).

33. Regional integration and connectivity with Africa remain a top priority. To broaden Mauritius economic space, the Government intends to promote opportunities for increasing cross-border investment and trade in the region including cooperating with neighboring countries in setting up Special Economic Zones. It will seek to improve air transport to Africa to facilitate the movement of business people and tourists with the aim of becoming a regional transport hub. The Government also intends to assist the manufacturing sector increase exports through market intelligence, focused export promotion campaigns, and improved visibility of Mauritian products to capture new opportunities in existing and emerging markets.[10]

34. The Government intends to implement a set of measures to address skills mismatches, to assist employers unable to find qualified personnel and unemployed workers having difficulties finding jobs. A new National Training Strategy will be developed to ensure that reforms in education and training are informed by the changes in the labor market so as to cater to the skills needs of the country for 2012-2025. Particular efforts will be made to improve employability of the youth. To enhance skills and employability among the youth, Government has launched a three-year National Youth Employment Program for those aged between 16 and 30 years to provide them with apprenticeship, training and placement in various sectors of the economy. A stipend will be offered to the unemployed youth, and their training costs will be subsidized.

35. Continued effort will be made to consolidate public finances to reduce public debt to 51 percent of GDP by 2015 and below 50 percent by 2016, two years earlier than initially envisaged. It will do so by ensuring that domestic revenues cover recurrent expenditures, and net new Government borrowing goes towards financing investment. While continuing its low tax policy, tax collection will be strengthened to broaden the tax base and raise Government revenues. The Government will also seek to rationalize parastatal agencies and state owned enterprises to reduce their cost and improve the quality of their services.

[10] To that end, the Government proposes to implement a long list of measures comprising: (i) promoting a cluster based approach in the manufacturing sector; (ii) introducing an industrial productivity enhancement program; (iii) formulating an industrial technology development plan; (iv) revamping the export promotion strategy and plan; (v) establishing dedicated technology parks; (vi) developing a new industrial investment promotion strategy; (vii) ensuring the effective implementation of antidumping and countervailing legislation; and (viii) recognizing excellence in the manufacturing sector as well as in handicrafts.

Pillar 2 & 3: Enhanced Connectivity and Empowering People

36. The Government will continue to invest in the expansion and modernisation of public infrastructure with the aim of becoming a regional transport hub. This will be achieved through the selection of a strategic partner for the Cargo Handling Corporation to contribute to investment in port infrastructure and increases in the volume of container traffic and through the restructuring of Air Mauritius to achieve greater global connectivity and efficiency. Also, several major projects to ease road traffic are currently being implemented as a continuation of the on-going Road Decongestion Program. Overall, investment in land transport will be managed through Public Private Partnerships (PPP), taking advantage of the substantial private sector financing available along with expertise in successful infrastructure projects. The Government is aware that this program is ambitious given current investment levels as well as the limited capacity and the lack of expertise, as demonstrated by the slow implementation rate of the public investment program. To address this, a Project Management and Delivery Unit under the Prime Minister's Office will be in charge of the timely implementation of all infrastructure projects.

37. The Government will accelerate the development of the ICT sector to help leverage investment, FDI and youth employment. The 2013 Budget offers a range of innovative ICT measures, including a commitment to subsidize broadband access charges to bring down the price from Rs. 349 to Rs. 200 per month (or US$6.35) and a commitment to invest Rs. 600 million (US$19 million) in a submarine cable to Rodrigues (with enhanced satellite connectivity in the interim). Other measures in the 2013 Budget include the use of digital signatures and Public Key Infrastructure (PKI) encryption to allow a wider range of government services to be transacted online and measures to strengthen the ability of the regulator to intervene on issues of pricing and market dominance both of which are supported under this Second PSC DPL. Further, GoM will support setting up an ICT academy to produce skilled professionals and increase value added per worker in the sector. Once the new submarine fiber optic cable is operational, the Government plans to connect every household with at least one megabyte per second by 2015 and is implementing the WiFi Mauritius Programme for the provision of free Internet access points across Mauritius and Rodrigues with a view to achieving full universal Internet access. In addition, the Data Protection Act will be amended to incorporate new international data protection principles to strengthen the safeguards to process personal data and help further attract investments in the ICT sector through a free and secure flow of data. The Government will provide necessary support for the development of the ICT sector in Rodrigues and will proceed with the laying of a sub-marine fibre cable to link Rodrigues with Mauritius.

38. The Government is committed to sustaining efforts to transform the education system by emphasizing equitable access, enhanced quality, and improved learning. With a view to broaden skills, the Government will enhance primary school curriculum[11]. At the tertiary education level, the Government will introduce a tertiary education bill that will provide a framework for the development and regulation of tertiary education, including enhanced tools to ensure quality assurance.

[11] The primary school curriculum will be enhanced by including new topics such as Civic Education, Health Literacy, Information Technology, and Sustainable Living.

Pillars 4, 5 & 6: Cohesive Society, Strong Nation and Sustainability

39. The Government will continue to modernize the civil service and provide it with the resources required to deliver high quality services. To that end, it will set up a Civil Service College, which will include a School of Diplomacy and International Relations. The College is to become a regional center for public sector management and governance. The Government will continue supporting the Independent Commission Against Corruption and is committed to fighting corruption by implementing international and regional anti-corruption instruments such as the United Nations Convention Against Corruption, the Southern African Development Community Protocol against Corruption, and the African Union Convention on Preventing and Combating Corruption.

40. The Government is currently implementing the Maurice Ile Durable project, which provides a broad framework for a modern and sustainable Mauritius. In the energy sector, the Government will continue to implement the Power Sector Expansion Plan, which seeks to provide reliable electricity supply using least cost clean technologies. In addition, measures will be implemented to promote energy saving and efficiency increasing technologies. As renewable energy will be insufficient to meet increased demand, the Government is studying alternatives such as using liquified natural gas and building a 100 MW coal power plant by 2015. The Government has also developed a framework for the local production and use of ethanol, which will bring environmental benefits, increase the production of renewable energy and reduce the country's dependence on imported fossil fuels. The National Development Strategy will be the national planning instrument that will set the vision of the government on Land Use Strategy for the next twenty years to ensure sustainable management of land use to better support the economy and the environment. A Land Use Planning Bill will be introduced to provide for strategic and detailed planning processes to promote investment opportunities and orderly development. Also, a Land Administration, Valuation and Information Management System (LAVIMS) Project is being implemented to modernize land management. With the implementation of LAVIMS, the time taken to register land titling is now reduced to two days. In addition, the Budget Speech for 2013 announced the Government's decision to further facilitate the use of movables and intangibles as collateral with a view to increase access to finance. These measures are supported by this PSC DPL.

B. PUBLIC BUDGET CONSULTATIVE PROCESS AND TRANSPARENCY

41. There are various ways in which stakeholders and civil society are consulted during the preparation of the annual public budget, which is the main instrument for introducing economic reforms in Mauritius. Each year, the Joint Economic Council, the largest private sector coordinating body in Mauritius, discusses private sector business priorities with the Ministry of Finance and Economic Development (MoFED) as part of the preparation of the public budget. MoFED also discusses sector issues and proposals with industry associations and labor unions. More recently, MoFED has solicited proposals from civil society and has posted some documents on their website to solicit feedback during budget preparation.

42. With regard to the reforms supported by this operation, the World Bank has undertaken extensive consultations with all relevant line ministries, who in turn led the consultations with a wide range of stakeholders. For example, consultative stakeholder

workshops were held to discuss the new guidelines introduced for out-of-court workouts as well as revisions in the insolvency regulations. Stakeholder consultations were also held to discuss the restructuring options for the DBM. MoFED has set up a stakeholder committee comprising Government and private sector representatives including private commercial banks to suggest recommendations for the potential legal amendments required to further facilitate the use of movable and intangible assets as collateral. Under the ICT component, consultative workshops were held to discuss and solicit feedback on the suggested legislative changes in the ICT Act to liberalize spectrum management as well to discuss the findings of the Significant Market Power (SMP) assessments which has led to the finalization of tariff guidelines.

43. A Public Expenditure and Financial Accountability Assessment (PEFA) report prepared jointly by the IMF, the World Bank, the United Nations Development Program (UNDP), and the EU in 2010 confirmed the high transparency standards of the Mauritian public budget. The report found that public access to key fiscal information is adequate, with budget documents being made freely available to the public in a timely fashion. All budget documents are placed on the Government website immediately upon the submission of the budget to Parliament, and published documents are also made available. Audited year-end financial statements are also made public well within the six-month period after the completion of the audit, and contract awards are also published on the websites of the relevant executing agencies. The PEFA report gave the classification and comprehensiveness of the information included in the budget documentation its highest possible ranking according to the Government Finance Statistics 2001 classification system adopted by the Government in 2008. However, the reporting of extra-budgetary expenditures could be improved, and with this in mind, the Government is consolidating the various off-budget funds into one single consolidated fund.

IV. BANK SUPPORT TO THE GOVERNMENT'S PROGRAM

A. LINK TO THE COUNTRY PARTNERSHIP STRATEGY

44. The PSC DPL Series and the Country Partnership Strategy (CPS) (2007-13) are closely linked to each other and to the Government's reform program. The CPS Progress Report, approved in May 2011, extended the CPS to FY15 to align it with the electoral cycle in Mauritius. The proposed Loan (PSC DPL2) continues to be aligned with the four pillars of the CPS: (i) fiscal consolidation and improving public sector efficiency; (ii) improving trade competitiveness; improving investment climate; and (iii) democratizing the economy through participation, inclusion and sustainability. The PSC DPL Series is also well aligned with the Bank's Africa Region Strategy that focuses on competitiveness and employment, and vulnerability and resilience as its twin pillars.

B. COLLABORATION WITH THE IMF AND OTHER DONORS

45. The Government's aim at the outset was to coordinate development partner assistance around the DPL policy dialogue. The previous DPL Series (2006-09) benefitted from close collaboration between all of the development partners operating in Mauritius, including the harmonization of prior actions and indicators in line with Government priorities. With a view

to aim at a similar level of coordination with this DPL Series, the task team has held regular meetings with development partners to provide progress updates on the reform agenda and identify areas of mutual collaboration and as a basis for developing a platform for unifying policy recommendations. African Development Bank (AfDB), the EU, the UNDP and *Agence Française de Dévelopement (AFD)* have all participated in the various development partner meetings that have been held during the implementation of this reform program.

46. **International Monetary Fund:** Mauritius has no formal program with the IMF, though the annual Article IV reports have provided technical insights on sources of growth, labor markets, inflation, exchange rates, and monetary and fiscal policy. Also, key support has been provided in the area of fiscal efficiency and budget reform, with a focus on performance-based budgeting and the Medium Term Expenditure Framework. In 2011, the IMF established the Africa Regional Technical Assistance Center South in Mauritius to provide technical assistance to countries in Southern Africa in areas such as macroeconomic policy, macro-fiscal policy, and public financial management. The recently completed PEFA for Mauritius were prepared jointly by the IMF, the World Bank, UNDP and the EU.

47. **European Union:** The World Bank and the EU collaborated on a joint diagnostic and results matrix for the World Bank's CPS for the period 2007-13 and the EU's 10th European Development Fund (EDF) Country Strategy Paper for the period 2008-2013. Between 2006 and 2013, the EU has provided Mauritius with two sector budget support operations, namely on the wastewater sector for €38 million and on the sugar sector for €11 million. The latter was aimed at restructuring the sugar industry in the context of the phasing out of sugar price guarantees awarded under the former Africa Caribbean and Pacific Sugar Protocol. Also, it has supported the economic reform program of Mauritius through three general budget supports, with additional focus on education and socio-economic empowerment, particularly among the most vulnerable. The EU has finalized preparation of a new three year general budget support program of around €86 million that will span over 2013-2015. In addition to its traditional areas of engagement (macroeconomic stability, sound public financial management system and implementation of the government program), the EU support program will focus on performance indicators related to the sugar reform measures, education, State Owned Enterprises, health and social protection. The EU recently assisted Mauritius in aligning its national data protection legislation with EU guidelines.

48. **African Development Bank:** The main African Development Bank (AfDB) program in Mauritius is the ongoing US$700 million budget support operation (of which US$200 million has already been disbursed). This was approved in 2009 to mitigate the impact of the global downturn on economic growth and employment while improving trade competiveness, health, ICT, and public financial management. These policy reforms were aligned with the World Bank's previous DPL series (2006-09). The AfDB has also provided around US$3.5 million of technical assistance between 2005 and 2011 in areas such as ICT, Program Based Budgeting (PBB), and public debt management. The AfDB and the World Bank have also closely collaborated on the production of economic and sector work, including the Africa Competitiveness Report, the Investment Climate Assessment (ICA), the Country Economic Memorandum Update and the eTransform Africa Report. The AfDB has previously been active in the ICT sector, for instance funding the development of the National ICT Strategic Plan, updated most recently for 2011-2014.

49. **United Nations Development Program (UNDP):** The US$15 million UNDP Country Program (2009-2012) for Mauritius was jointly undertaken with the Government and in consultation with non-state actors and development partners. The Country Program is guided by principles of national ownership, multi-stakeholder partnerships and synergies and it focuses on capacity development in four strategic initiatives, aiming at creating more growth opportunities to restore the economy. These four strategic initiatives are: (a) the Empowerment Program; (b) the "Zone d' Education Prioritaire; (c) PBB; and sector strategies and (d) environment protection, energy and management of natural resources. The new Country Program for 2013-2016 will focus on planning and resource management for inclusive growth; social inclusion and empowerment; and energy and environment.

50. ***Agence Française de Developpement* (AFD)**: The AFD supports the Government both in the form of budget support and project financing in Mauritius. The main sectors of intervention are: Infrastructure (transport, water, and wastewater), private sector development and sustainable development (Maurice Île Durable process, energy efficiency, green energy). The AFD disbursed €24 million per year between 2007 and 2009 in alignment with the DPL series calendar. In 2010, the AFD budget support operation focused on a sector approach in the form of an Environment Aid Program. A new Energy Development Policy Loan initiated in 2012 is going to focus on a policy dialogue on energy, and is being supported by technical assistance to strengthen planning. There is a €1.5 million grant available to support business growth, of which half has been disbursed, as well as a €50 million program to support "green investments" by companies which is nearly fully disbursed.

C. RELATIONSHIP TO OTHER WORLD BANK OPERATIONS

51. This PSC DPL series is being implemented in parallel with the PSP DPL series. The PSP DPL is focusing primarily on the performance of the public sector, while this DPL is focusing on strengthening the policy and institutional environment for private sector competitiveness. It is the combination of the reforms supported by these two DPLs that will help Mauritius improve its competitiveness, increase its resilience; and prepare it for the next phase of rapid and inclusive economic growth. The reforms supported through both DPL series are, thus, complementary and the two operations have been prepared in coordination to ensure the coherence of the entire reform program and to keep transaction costs low for both the government and the Bank.

52. The PSC DPL series has been complemented by just-in-time knowledge services through NLTA. This technical assistance has supported the programmatic PSC DPL Series by developing a pipeline of financial and private sector development policy reforms to be supported under the Second PSC DPL. Areas where analytical work has been conducted also include new areas such as technical assistance to the newly formed tertiary education ministry which is critical, given the skills development and infrastructure bottlenecks facing Mauritius. Aligning tertiary education outcomes with the needs of a knowledge economy, increasing quality of research, and adopting global good practices towards implementation of reforms in the sector are important for realizing the country's ambitious vision. Assistance was provided by conducting a high level policy workshop to discuss the draft strategy of the newly formed Ministry of Tertiary Education, Science, Research and Technology as well as conducting a diagnostic review of the sector to outline the strengths, weaknesses and opportunities of the

sector in light of the country's ambition of being a knowledge hub. The Technical Assistance will serve as a platform for future reforms in this important area.

53. Policy reforms supported by Bank DPLs are complemented with a Specific Investment Loan project in the infrastructure sector. The US$50 million Mauritius Infrastructure Project approved in 2009 aims to accelerate public investment and reduce critical infrastructure bottlenecks mostly in the transport sector. The Government aims to further strengthen infrastructure capacity-building and is seeking a second infrastructure project to reduce transport costs, improve road maintenance, and contribute to improved road management and road safety in Mauritius. The forthcoming project that is expected to be approved in FY14 is tentatively considering to pilot output and performance based road contracts, improving road safety management; strengthening institutional framework and building institutional capacity in the transport sector.

54. The International Finance Corporation (IFC) has focused its interventions on three key sectors: (i) infrastructure, (ii) tourism and (iii) financial services. Interventions are targeted at supporting the mobilization of FDI to these sectors; introducing climate change mitigation and cleaner production standards and best practices; promoting South-South transactions; and improving access to finance for SMEs. In particular, the IFC has supported funding and capacity building activities for SMEs. Since 2009, IFC has provided a global trade-line guarantee to two local commercial banks to act as confirming banks to second tier banks in Africa and the Indian Ocean region. In 2010, IFC committed and disbursed a US$75 million senior loan to State Bank of Mauritius (SBM) to support the bank's regional focus and strengthening its balance sheet. To support its investment, IFC also provided a year-long program in capacity building and training of SME loan officers and owner/managers, which was recently completed. In February 2012, IFC committed €10 million in a private equity fund that invests in private sector businesses in the Indian Ocean region, with a view to increase regional cooperation and cross-border investments. IFC also conducted an MSME capacity diagnosis at the Development Bank of Mauritius (DBM), on behalf of the Government of Mauritius (GoM), and made recommendations to the GOM on the way forward. IFC's mandate as advisor to the GoM with respect to Cargo Handling Corporation for the search of a strategic partner is still ongoing.

D. LESSONS LEARNED

55. The progress since the First PSC DPL and the implementation of the last programmatic DPL series (2006-09) both yield important lessons that have informed the preparation of this DPL. These lessons included the need to ensure that: (i) the DPL is aligned with the Government's priorities and leadership; (ii) there is ownership by line ministries, (iii) there is strong coordination with development partners; and (iv) the loan is designed to include an appropriate degree of flexibility to allow the Government to respond to emerging crises as well as for the reform program to evolve over time.

56. The success of a DPL in Mauritius is measured primarily by its capacity to stimulate and support the policy agenda rather than its financing. In Mauritius, the Bank's budget support is viewed by the Government as a catalyst for stimulating and coordinating the Government's policy agenda. The previous DPL series was effective in helping MoFED to bring sector ministries and agencies on board and to align other donors around the reform

effort. This was also observed in the preparation and implementation of the First PSC DPL. The Government has repeatedly emphasized that this is, and will remain, the main value added of World Bank support, as it remains possible for the government to close its financing gap in both the domestic and external markets. The Government's continued realignment of the Bank portfolio away from Investment Loans towards DPLs further underscores this.

57. Ownership by line ministries is critical for the implementation of the reform agenda. Progress since the First PSC DPL has highlighted that varied degrees of progress across identified reform agendas are in part due to the varied levels of ownership by respective line ministries. The Government has a strong sense of direction with regard to its reform program and the technical expertise to undertake upstream policy dialogue with the Bank and other development partners. The Bank has contributed to this through its parallel preparation of economic and sector work in priority areas. The dialogue gradually built consensus for the reforms and helped the participants to articulate country priorities linked to clear and achievable outcomes. Leadership and political commitment from the Government complemented by strong institutional capacity in designing and implementing the policy reform agenda have been the critical factors in the success of previous operations.

58. Strong coordination with development partners reinforces the Government's program implementation. The previous DPL series succeeded to a large extent due to the harmonized policy dialogue among all development partners. This often translated into joint prior actions, missions, and singular reporting for all development partners, thus significantly reducing the government's transaction costs. The operations in the programmatic series were aligned with the government's budget cycle to reinforce national institutions and to use the annual Budget Speech to sustain the reform process. Furthermore, the timing of the operations was adapted to match the revised budget calendar. Experience from the First PSC DPL suggests that this was an important impetus to ensure that reforms were achieved. This has been further demonstrated in the 2013 Budget where critical reform measures were introduced in areas such as increasing coverage under the credit information bureau and the decision to further facilitate secured lending transactions.

59. It is critical to build into the loan enough flexibility for the Government to be able to adjust and respond to the country's changing needs. The previous DPL series (2006-09) included this flexibility in two important ways. First, the DPL series was able to adapt to immediate changes in the external environment, particularly the 2008 crisis, through a rapid deferred draw down option as well as through an increase in the value of the loan of the third operation. This helped to keep the reforms on track and provided the resources needed to reduce any potential economic risks. Also, one additional operation was added to the series to align it with the electoral cycle. Second, the previous DPL series took a flexible approach in building support for and a consensus around the reform program, thus allowing the Bank to be perceived as an honest broker of diverging views. This allowed the reform program to develop over-time with the DPL serving to bolster the program and supporting the development of an overall vision.

E. ANALYTICAL UNDERPINNINGS

60. The preparation of the PSC-DPL series is based on analytical work carried out by the World Bank, the Government and other development partners. In addition, the design of the

PSC-DPL series benefited from the extensive dialogue and analytical work that underpinned the Manufacturing Services Development and Competitiveness Project and Mauritius Economic Transition Technical Assistance Project investment operations that focused on private sector competitiveness, enterprise growth and business environment matters.

61. The second 2009 ICA for Mauritius identified obstacles that hinder firms' competitiveness, particularly access to finance for small firms and the lack of skilled labor. Recommendations stemming from the ICA have contributed to the reforms outlined under the access to finance component. The three subcomponents under this pillar all aim at further facilitating the access to finance especially for SMEs. This is being pursued through the restructuring of DBM to provide specialized SME products and services, increased coverage under the credit information bureau and the use of movables and intangibles as collateral.

62. The Government's mid-term review of the National ICT Strategic Plan 2007-2011, carried out with the support of the AfDB, served to guide the preparation of the ICT and e-Gov component of this operation. The review underlines clearly that the Strategic Plan has to be updated to take into consideration new priorities of this fast evolving sector. The Plan was extended to 2011-2014 with the following focus: (i) policy and regulatory review; (ii) institutional review of the ICT sector; (iii) development of a broadband policy; (iv) market review of competition and prices; (v) reinforced cyber security with the setting up of the Mauritius PKI; (vi) effective design and deployment of e-Government initiatives; and (vii) improved spectrum management. The prior actions supported under this DPL have implemented this National ICT Strategic Plan with the legal amendments to facilitate spectrum management and the deployment of e-Government services.

63. The 2011 joint IMF, World Bank, and EU PEFA shows the progress achieved by the government since the 2007 PEFA assessment (conducted by EU) in moving forward the public financial management (PFM) reform agenda. The main achievement has been the strengthening of the budget formulation and management framework by implementing PBB in the past three years. There has also been substantive work undertaken to strengthen complementary reforms, including procurement, budget execution and external audit processes. This has resulted in improvements in the PEFA indicators relating to budget credibility, comprehensiveness, and transparency and a move towards policy-based budgeting. The assessment, however, highlighted a number of areas where reforms were required: (i) strengthening the macro-fiscal strategy to incorporate more effective Medium Term Expenditure Framework buy-in from ministers and controlling officers; (ii) stronger links between the multi-year estimates and subsequent annual estimates; (iii) more credible project appraisal of capital projects; further strengthening of tax collection arrangements; (iv) reducing the frequency of in-year budget adjustments; (v) strengthening debt management and internal and external audits; and (vi) increasing the effectiveness of parliamentary oversight. The Government designed and has made positive progress in implementing a post-PEFA Action plan (2011-2013) focused on the reforms noted above. Public Finance Management legislation is being developed to replace the Finance and Audit Act, with the aim of embedding PFM requirements in legislation. Specifically, the law is aimed at enhancing regulation of transparency, accountability and sound management of the revenue, expenditure, assets and liabilities of the government.

64. There have been a number of diagnostic reviews undertaken on DBM in the past. In 2008, the GoM commissioned a restructuring study on Development Bank of Mauritius (DBM) that was undertaken by the International Financial Consulting Group of Canada (IFCC). The IFCC Report provided a detailed diagnostic of the institution, and the development of a road map to restructure the operations of DBM. The IFCC proposed six policy options for the DBM restructuring. [12] After detailed deliberation and consultations with the relevant stakeholders, the Government undertook the decision to transform the DBM into a financially viable MSME Bank, licensed by the Central Bank, and with private sector participation. This decision was announced in the November 2011 budget speech, following which IFC was given the mandate to attract a strategic partner that specializes in MSME Banking in December 2011. Prior to signing the mandate to act as a strategic advisor, IFC undertook a diagnostic analysis on DBM which identified its chronic operational and governance weaknesses recommending against its transformation into an MSME Bank and instead recommending its orderly closure and issuing an Expression of Interest (EoI) to invite a credible international SME Bank, with a verifiable record to set up such an institution in Mauritius. In May 2012, the findings of the study led IFC to reconsider and decline the offer to act as the Government's advisor on transforming DBM into an MSME Bank. Subsequently, in August 2012, as part of the technical assistance supporting the proposed PSC DPL2 operation, the World Bank undertook an updated diagnostic review of DBM. It was found that transforming DBM into an MSME Bank was not a viable option as the institution was structurally unprofitable. The two viable options recommended included either (i) winding up or (ii) selling DBM's banking assets to a new commercial bank with a focus on the MSME market segment within a broader sustainable business model. GoM chose the second option and has hired an international transactions advisor to assist in the restructuring process.

65. In March 2004, the World Bank, at the request of the GoM, delivered a Report on the Observance of Standards and Codes (ROSC) which benchmarked Mauritius' insolvency and creditor rights framework against international standards. The ROSC found that many aspects of the insolvency framework in Mauritius were inconsistent with international best practice, resulting in, low recoveries for creditors in Mauritius. The ROSC found that the Mauritian system produced a liquidation bias that saw very few viable businesses rehabilitated, thereby destroying significant company value. The Insolvency Act 2009 incorporates many, but not all, of the main recommendations of the ROSC and is modeled closely after the insolvency legislation of New Zealand. In addition, the World Bank conducted a review of accounting and auditing practices in the country and issued a ROSC – Accounting and Auditing in 2011. The report highlighted improved adoption of good accounting and auditing practices necessary to produce quality financial reports by the private sector and State Owned Enterprises. The report recommended improved support to accountants and auditors to ensure they fully comply with the stipulated financial reporting standards in order to issue quality reports that support accountability and necessary decision making. The prior actions supported under this DPL aims at strengthening the insolvency framework in Mauritius.

[12]The six options proposed were: (i) do nothing, (ii) keep DBM as it is but spin off the industrial parks and properties, (iii) turn DBM into a full-fledged commercial bank, (iv) convert DBM into a Development Finance Agency, (v) Development Finance activities as part of a Development Agency/soft liquidation of DBM, and (vi) hard liquidation.

66. In April 2007, the IFC was appointed to provide GoM with advisory services to prepare a Feasibility Assessment for the Expansion of the Credit Reporting Infrastructure to review the legal framework governing credit information reporting in Mauritius. The assessment provided (i) a review of the existing legal and regulatory framework that will allow for the effective operation/supervision of a world-class benchmarked credit bureau; (ii) an in-depth assessment of all major credit providers and their respective reporting capabilities, and report on the main issues and requirements which need to be resolved in preparation for the expansion of the credit bureau in Mauritius; and (iii) advice on the formulation of a business plan for credit reporting in Mauritius including possible options for the credit bureau's ownership structure. Some of these recommendations were implemented through amendments to the Bank of Mauritius Act in July 2008.

V. PRIVATE SECTOR COMPETITIVENESS DEVELOPMENT POLICY LOAN

A. OPERATION DESCRIPTION

67. The proposed PSC DPL, in an amount of US$15 million, is the second and the last in a series of two annual programmatic operations in support of the Government's medium-term reform program to increase competitiveness. This DPL series is aligned with the mandate of the Government's program and is consistent with the objectives of the CPS 2006, and the CPS Progress Report of May 2011, that underlines improving competitiveness and investment climate as its central theme of reforms, along with promoting inclusion and fiscal consolidation. This operation builds on the reforms supported by the last DPL in this series, which was approved by the Executive Board on March 27, 2012. To date, good progress has been made in implementing most of the actions supported by the DPL series. In many cases, initial commitments included as prior actions under the first operation have now resulted in concrete changes in government policy and programming. The objective of this operation is to continue to support the trend of these changes. The DPL series is aligned with the government's budget cycle, which is the primary vehicle used by the government to introduce new policy initiatives.

B. POLICY AREAS

68. The development objective of this PSC DPL programmatic series is to strengthen the policy and institutional environment in Mauritius to support competitiveness and enterprise development. The operation will achieve this by supporting reforms in around three integrated and mutually reinforcing pillars (i) improving enterprise growth and competitiveness; (ii) improving access to finance; and (iii) promoting ICT usage and e-Government reforms for increased efficiency and transparency gains. Facilitative business environment and greater access to finance have been identified as key elements for improving enterprise competitiveness and growth in Mauritius. ICT is considered a key pillar for supporting competitiveness, and indeed the hope is that it will become a "fifth pillar" in the national economy contributing at least 7 percent of national GDP. Table 3 presents the final prior actions for the PSC DPL2, along with a comparison of how these prior actions have evolved from the indicative triggers presented in PSC DPL1. Annex 1 presents the policy matrix for the overall PSC DPL series.

69. Private Sector Competitiveness includes many aspects, and this program has in particular focused on those that are outlined under the three pillars of this programmatic series. Issues such as the prevalent skills mismatch and the lack of an appropriate PPP framework are important constraints to economic private-sector-led growth which this operation does not address, and are, therefore, deserving of greater focus in future engagements in the private sector development agenda.

Box 2: Good Practice Principles for Conditionality

Principle 1: Reinforce ownership
The proposed operation is rooted in the Government's reform program as laid out in the President's address of 2012 and subsequent Budget Speeches. The New Government Program launched in April 2012 further reiterated this commitment. The sectors selected for the DPL series were proposed by the Government and the World Bank endorses their relevance in terms of their potential growth and equity impact. Furthermore, the Government's commitment to reforms is demonstrated by the Budget Speech 2013 that endorsed key reforms, along with the quick endorsement by the Cabinet of the proposed prior actions for the Second PSC DPL.

Principle 2: Agree up-front with the Government and other financial partners on a coordinated accountability framework
In line with the Government's request and the World Bank Africa Strategy, the DPL Series has sought to harmonize policy dialogue and financing of relevant development partners, around Government priorities, to the extent possible. Regular meetings between all development partners have been taking place around the preparation of this and the previous operation, to pool resources. Government sees the DPL series as an important vehicle for achieving the objective of harmonizing policy dialogue and financing.

Principle 3: Customize the accountability framework and modalities of Bank support to country circumstances
The proposed DPL focuses on issues of strategic importance, but also on those where the Government sees a particular benefit to World Bank engagement and support, for instance in order to build consensus among all stakeholders or overcome capacity limitations. The DPL also reflects Mauritius' particular interest for knowledge services from the World Bank, and incorporates a particularly rich set of analytical work to underpin its support to the Government's reform agenda.

Principle 4: Choose only actions critical for achieving results as conditions for disbursement
The proposed DPL operation has identified a small number of critical activities needed to unlock the reforms in the three policy areas that underpin the Government's reform program supported by the operation.

Principle 5: Conduct transparent progress reviews conducive to predictable and performance-based financial support
The programmatic nature of the proposed DPL series, aligned with the term of the current Government, has ensured regular and systemic supervision and preparation of each phase of the DPL series in line with the annual budget. This has traditionally been the major vehicle for announcing policy reforms in Mauritius.

Table 3: Evolution of Proposed Indicative Triggers to Prior Actions for DPL2

Indicative Trigger for DPL2 *(at time of DPL 1 approval)*	**Prior Action for DPL2**	**Explanation**	**Status**
PILLAR I: IMPROVING ENTERPRISE GROWTH AND COMPETITIVENESS			
Implementation of an Action Plan for consolidation of SMEs program under Ministry of Business, Enterprise and Cooperatives (MoBEC) that includes (a) establishing an inter-agency strategic coordination committee and (b) developing a framework that sets up guidelines on cost-sharing, target groups and types of services, and M&E systems.	Implementation of the consolidation of SMEs programs that includes (a) establishing an inter-agency coordination committee under MoBEC and (b) the issuance of a Request for Proposal to develop an overall M&E Framework for Business Development Services schemes.	The development of the M&E Framework would be led by MoFED in order to capture all the relevant BDS schemes (some of which are not under the aegis of MoBEC). The Request for Proposal for the consultancy of the M&E Framework was issued in September 2012 but did not attract any response. MoFED has reissued the RFP with an emphasis on wider outreach to the international consultancy pool. The development of the M&E Framework is envisaged to be completed by June 2013 and will be disseminated amongst the various agencies so it can be used before the next budget cycle.	Completed
Ministerial approval and publication of a code of ethics for insolvency practitioners.	Publication of the amendment to Insolvency Act 2009 to include the *Rules relating to the Performance and Conduct of Insolvency Practitioners* in the national gazette.	No Change	Completed
Establishment of procedures by the Director of the Insolvency Service to deal with the suspension and removal of insolvency practitioners from the registry.	Publication of Regulations related to the registration and removal of insolvency practitioners in the national gazette.	No Change	Completed

Indicative Trigger for DPL2 *(at time of DPL 1 approval)*	**Prior Action for DPL2**	**Explanation**	**Status**
	Publication of the Out-of-Court Workout Guidelines to promote safeguarding viable businesses on the insolvency website upon endorsement of guidelines from BoM.	New Prior Action	Completed
PILLAR 2: IMPROVING ACCESS TO FINANCE			
Adoption of a detailed transformation plan and implementation of selected actions.	DBM restructuring initiated by the appointment of a transaction advisor, endorsement by steering committee of an inception report and the issuance of letters of invitation to potential investors for the sale of DBM's non-banking assets.	Prior Action spells out the actions that needed to be implemented.	Completed
Cabinet approval of legislative amendments to Civil Code and other laws to allow the setting of a modern movable collateral registry.	Government decision to further facilitate the use of movable and intangible assets as collateral and the establishment of a modern movable collateral registry.	The indicative trigger was reconsidered to be not feasible as due process is required to be completed prior to cabinet approval of the legislative amendments to laws and the Civil Code. The Government has announced its decision via the budget speech of November 2012, the need to further facilitate the use of movable and intangible assets as collateral. A stakeholder committee set up is discussing the nature of legal amendments required. The objective is to have the specific legal amendments approved by cabinet prior to Nov 2013 so that they are included in the Finance Bill of Dec 2013.	Completed

Indicative Trigger for DPL2 *(at time of DPL 1 approval)*	Prior Action for DPL2	Explanation	Status
The Bank of Mauritius to establish and publish eligibility criteria and licensing guidelines for the setting up of private credit information regulation from the Ministry of Public Utilities to enforce the accuracy of the name on utility bill to match the name of the actual user	The Bank of Mauritius to amend the Bank of Mauritius Act in order to define 'Utility Body[13]' to further increase coverage of the Credit Information Bureau.	In order to further the objective of increased coverage, it was considered more critical to focus on including utility bodies under the coverage of the credit information bureau which are an important source of credit information. Furthermore, there may not be a market for a private credit bureau. Past experiences of BoM inviting private credit bureaus in the region have not yielded any results.	Completed
PILLAR 3: PROMOTING ICT USAGE AND E-GOV REFORMS FOR INCREASED EFFICIENCY AND TRANSPARENCY GAINS			
Establish protocols to strengthen the independence of Information Communication and Technology Authority (ICTA).	Draft legal changes to pertinent sections of the ICT Act 2001 related to licensing adopted by the ICTA Board.	Prior Action spells out specific changes required. This action relates, in particular, to reform the ICT Act 2001, as amended. In 2011, section 30 on defining significant market power was amended. In November 2012, changes to section 24 on issue spectrum-based licenses were proposed and adopted by ICTA Board, and will be submitted to Parliament for approval in the next session. Both changes will provide more transparency and legitimacy for regulatory decisions.	Completed
Setting up of system to collect market-level data to be able to assess the existence of significant market power in five markets in Mauritius.	Publication of guidelines for tariff setting on ICTA website.	This has gone beyond the intended trigger. Collection of market level data was completed as were market assessments for significant market power in two markets considered bottlenecks. This was followed by stakeholder consultations, feedback from which was incorporated into the tariff	Completed

[13] As a body corporate which provides utility service to the public and includes the Central Electricity Board, the Central Water Authority, the Waste Water Management Authority, and companies offering information, communication and telecommunication services.

Indicative Trigger for DPL2 *(at time of DPL 1 approval)*	Prior Action for DPL2	Explanation	Status
		guidelines that have been published.	
Cabinet approval of targets for increasing paperless G to B and G to G transactions.	Contract with a competitively selected partner to develop a Government Services Platform for eGovernment services, protected by a Public Key Infrastructure (PKI).	This goes beyond the indicative trigger and is a concrete action indicating future developments in this area.	Completed

PILLAR 1: Improving Enterprise Growth and Competitiveness

70. The entry of new firms, their expansion in the initial years of life, and the exit of distressed or obsolete firms[14] is part of firm dynamics. Research based on firm-level data supports the assertion that the continuous process of reallocation of resources plays an important role for aggregate productivity and output growth.[15] Improving entry, survival and growth of innovative and entrepreneurial firms and facilitating firm exit are thus an important part of the "creative destruction" process that underpins economic growth.

71. *Facilitating firm entry, growth and survival:* Over time, the Government of Mauritius has undertaken several "market completing" interventions[16] focusing on skills and training, technology development, and information services gaps. The Ministry of Business, Enterprise and Cooperatives that targets SME development has three institutions that offer Business Development Services (BDS) programs, i.e. the Small and Medium Enterprise Development Authority (SMEDA),[17] the Mauritius Business Growth Scheme (MBGS) and the Cooperatives Division of the Ministry. Most of these programs were considered as not meeting changing market needs of SMEs, and were of mixed quality. Cognizant of the shortcomings, MoBEC piloted a new Mauritius Business Growth Scheme (MBGS) in 2010 that provides BDS on a market driven platform. The MBGS model supports enterprise productivity and competitiveness in line with the evolving needs of private sector firms. The Scheme offers reimbursable financing, on a cost-sharing basis, to buy specialized expertise in the areas of: skills and training; technology upgrading and standards; and marketing. The effectiveness of these programs, however, was further hampered by coordination challenges among the multiple agencies and between programs with overlapping objectives, roles and cumbersome procedures.

[14] Porter 1990; Audretsch 1991; Nickell 1996; Klapper, Laeven, and Rajan 2006.
[15] Bartelsman, Haltiwanger, and Scarpetta 2009.
[16] Hallberg, K (2000), *A Market-Oriented Strategy For Small and Medium-Scale Enterprise,* IFC, Discussion Paper No. 40.
[17] SMEDA targets firms with less than 50 employees and provides services related management training, export assistance, technology and export awards, management guides, in-house consultancy services, business counseling, and a number of grant schemes.

72. There was widespread agreement - both within the private and public sector - that a multiplicity of service providers with overlapping roles and responsibilities hinders the ability of firms to identify and obtain the required support.[18] Fragmented BDS assistance programs to small enterprises raise the overall cost and reduce effectiveness of the programs. With a view to undertake a strategic reorientation of SME programs, MoBEC sought cabinet approval of consolidating its SME programs which was the agreed prior action for the first PSC DPL. This was envisaged under the United Businesses Enterprise Board (UBEB) to be brought under the aegis of MoBEC.

73. However, challenges in implementing this proposed consolidation as well as new developments in this area, led to a shift in the implementation of this proposed consolidation. A diagnostic review, conducted under the World Bank NLTA, identified that there were new schemes that had been established for enterprise development (including SMEs) and financed under the NRF.[19] The majority of the schemes are overseen by the Restructuring Working Group, which operates under the NRF Management Committee headed by Financial Secretary, MoFED. The schemes are of two types (i.e. financing and business development).[20] The NRF funds specific projects while the operating costs (salaries, rent, utilities etc) of the various implementing agencies are paid through the annual budget. The NRF has available funding of MUR 7.3 billion (approximately US$240,000), to be utilized over three years 2012-14. These changes have shown that the Government has shifted its support away from the previous focus on direct centralized supply of BDS by parastatals. Hence, there has been a clear shift towards support to the user of BDS's, and not the supplier which is a positive development.

74. As part of the NRF, Government support to firms to assist them in becoming export-ready is currently being directed primarily through MBGS, which falls under the remit of MoBEC. Since the first operation, there has been an 84 percent increase in the number of firms that have received specialized BDS services from a baseline of 80 to an actual number of 147 in December 2012. There are no new activities being undertaken by SMEDA, the National Women Entrepreneur Council (NWEC),[21] or the National Institute for Cooperative Entrepreneurship (NICE),[22] and they only provide basic training services to SMEs. It is critical that this new model of service delivery should build on (i) a sustainable institutional structure; (ii) a robust M&E system that focuses on enhanced accountability and impact feedback learning mechanism; and (iii) a framework that provides clarity regarding target groups and types of services, along with potential for cost-sharing for the SMEs programs.

75. To ensure that the Government receives value for money for its support through BDS schemes to enterprises, a robust Monitoring and Evaluation (M&E) system is vital. It was thus agreed that the M&E arrangements put in place are introduced on a consistent basis for all BDS-related schemes being funded out of the NRF[23].

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[18] For details please refer to Mauritius ICA, (2010); and Jenders (Nov. 2008), *Mauritius: Industrial and SME Strategy, Final Report.*

[19] The NRF was set up in January 2012 under the Finance and Audit (National Resilience Fund) Regulations 2012.

[20] It may be noted that as of date, none of the new schemes are directly being implemented by SMEDA.

[21] National Women Entrepreneur Council is similar to SMEDA, but with a special focus on firms led by women.

[22] These implementing agencies do however receive their operating costs through the Annual Budget.

[23] These schemes include: (i) MBGS, which is the main scheme of cost-sharing support to firms for the purchase of primarily private BDS's;

76. This will allow relevant stakeholders to compare the value for money achieved by the various mechanisms of support currently being funded, given the similar objectives. The M&E system will also be developed with a view to capture the results of agencies such as SMEDA, currently left out of NRF funding. SMEDA is using public funds to support BDS-related activities, even though these are from the Annual Budget alone, with nothing currently from the NRF. It was therefore agreed that SMEDA be included in the new proposed M&E framework to be spearheaded by MoFED.

77. The main objective of this exercise is to provide a broad framework for the establishment of a new M&E system that focuses on improved results through verifiable indicators, enhanced accountability and impact feedback learning mechanism. In addition, the proposed framework would also provide clarity regarding target groups and types of services, along with potential for cost-sharing for future SMEs programs.

78. The development of the framework was initially planned to be completed by January 2013, however the initial RFP issued by MoFED did not attract any relevant expressions of interest. MoFED has made a concerted effort to reach out to the international consultant pool by re-issuing the RFP on international websites with larger outreach as well as reaching out to reputable firms to inform them of the proposal. The standard procedure requires that expressions of interest are solicited within one month of the RFP being issued followed by a selection process that could take 4-6 weeks. Upon selection, the consultant would be required to develop an M&E framework within two months to be discussed, finalized and disseminated to the relevant agencies by June 2013 in time for the next budget cycle. The M&E framework will inform MoFED and various agencies of the effectiveness of the various schemes and will further inform the design and implementation of future BDS schemes.

Co-ordination between Institutions

79. Co-ordination among the various implementing agencies continues to be poor. MBGS, SMEDA, NICE, NWEC, National Productivity and Competitiveness Council (NPCC) and Enterprise Mauritius (EM) are all involved in closely-related activities. Since UBEB did not materialize, there is no formal co-ordination mechanism in place, at the implementing agency level, to allow the senior managements of these agencies to compare progress; seek synergies and deal with issues in a systematic manner. The proposed inter-agency committee under MoBEC has been established and received cabinet endorsement. The committee includes senior management representatives from Ministries of Finance, Industry, Gender and Tourism as well as agencies such as MBGS, NICE, NWEC, SMEDA, Enterprise Mauritius, Board of Investment, and Development Bank of Mauritius (DBM). The inter-

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(ii) The new MBGS Start-up Entrepreneurship Scheme;
(iii) Market Development Support that supports participation in international trade fairs and other similar events by manufacturers, which is being implemented by EM;
(iv) Participation in International Fairs SME Refund Scheme, for SME's only, but covering all sectors, and with the manufacturing sector being implemented by EM, tourism sector by Mauritius Tourism Promotion Agency (MTPA) and services sector by Board of Investment (BoI);
(v) Fair Trade Development, that is supporting co-operatives in obtaining "Fair Trade" certification, with the market identification undertaken by EM and the implementation of certification support carried out by MoBEC;
(vi)Enterprise Restructuring, that is supporting firms wishing to restructure debts, or to raise new working capital, and which includes support for financial analysts to carry out detailed assessments.

agency committee aims to serve as a platform to share information of existing initiatives amongst the members as well as gauge the existing gaps that need to be addressed to service entrepreneurs and SMEs. The indicators for this component were the number of enterprises accessing (i) generic and (ii) specialized business development services increases. These indicators are being retained. In addition, "development of a Monitoring & Evaluation framework for BDS schemes" shall be added.

- The *prior action for DPL2* is "*Implementation of the consolidation of SMEs programs that includes (a) establishing an inter-agency coordination committee under MoBEC and (b) the issuance of a Request for Proposal to develop an overall M&E Framework for Business Development Services schemes.*"

80. *Facilitating firm exit and promoting business rescue of viable firms:* Strengthening the Mauritian credit environment through more effective debt resolution regimes has been identified as a priority area in the Government's efforts to improve competitiveness and growth of enterprises. A strong insolvency regime is not only concerned with streamlining regulatory mechanisms to allow insolvent businesses to exit the market, but also with saving financially distressed but still viable businesses, in order to ensure job retention and longer-term debt recovery for stakeholders. Moreover, the professionals who help implement these insolvency regimes, namely insolvency practitioners, need to be well regulated in a transparent and coherent manner in order to ensure effective and fair outcomes. Faster exit, effective restructurings and insolvency practitioner regulation, all help form a robust insolvency regime that seeks to improve the overall credit environment of the country.

81. Insolvency proceedings in Mauritius are significantly faster, cheaper, and return more to creditors than those in other parts of Sub-Saharan Africa. However, according to the WBG's 2013 *Doing Business* Report (DB 2013), Mauritius performs worse in the 'Resolving Insolvency' indicator than it does in any of the other nine indicators. Mauritius ranks 64 out of 183 globally in this indicator, compared to its highest ranking, which is eleven, in the Paying Taxes indicator. Resolving Insolvency is the DB indicator that tracks the efficiency of exit from the market for businesses, and thus this ranking reflects, in part, the poor health of the insolvency system.

82. Part of Mauritius' weak performance in this indicator is due to several reforms relating to the Insolvency Act remaining outstanding or incomplete. Although the Insolvency Act represented a significant advancement in the development of Mauritius' insolvency framework, in order to be fully operationalized and implemented, it requires significant secondary legislation that remains outstanding. In particular, although insolvency practitioners were given a greatly expanded set of responsibilities under the Insolvency Act, and commensurately, their regulation was contemplated, they remain largely unregulated.

83. As part of the 'Prior Actions' for DPL1, the GoM introduced regulations related to Insolvency Practitioners' qualifications and appointment[24]. The prior actions in DPL1 focused

[24] The Insolvency (Prescribed Forms) Regulations 2012 were made by the Minister under section 411(1)(a) of the Insolvency Act and were published in the Government gazette in February 2012. These provide various prescribed forms under the Insolvency Act, including the Notice to Appoint an Insolvency Practitioner. The GoM has also introduced the Insolvency (Qualifications of Insolvency Practitioners) Regulations 2012 under section 411(3) of the Insolvency Act 2009. These regulations provide for individuals who are qualified to be

on operationalizing the Mauritius Insolvency Act 2009 through more substantive regulations, in particular, in relation to insolvency practitioners. The prior actions in PSC DPL2 sought to build upon these reforms, better implement the Insolvency Act 2009, and enhance the overall effectiveness of the country's insolvency regime. In particular, the PSC DPL2 has the following three prior actions in the area of insolvency.

84. *(i) Publication of rules of professional conduct for insolvency practitioners:* there are currently no uniform standards that provide insolvency practitioners with professional and ethical guidance for carrying out their functions. This ethical code of conduct, published by the Insolvency Service under rules, will apply to all insolvency practitioners appointed in compliance with the Insolvency Act. These rules will enhance transparency, fairness and professionalism amongst insolvency practitioners, and ultimately will enable more effective processes under the law.

85. The draft codes of professional conduct were shared at stakeholder consultation meetings and comments received were incorporated into the final Rules which were also shared with all relevant professional bodies in order to ensure that there are no conflicts with other professional codes of ethics. These rules of professional conduct were published on October 19, 2012 under General Notice No. 2260 in the National Gazette, and all registered insolvency practitioners are currently expected to abide by these rules.

86. *(ii) Establishment of procedures by the Director of the Insolvency Service to deal with the suspension and removal of insolvency practitioners from the Registry*: the Insolvency Service has prepared three draft guidance forms under section 374 of the Insolvency Act[25]. The purpose of these forms is to ensure that there are uniform procedures in place for registering and removing insolvency practitioners. Together with the rules on professional conduct, they will help ensure a more streamlined, transparent regulation of the profession. In order to ensure that these forms are binding on insolvency practitioners (and not merely guidance forms), and as a means of complementing and supporting the previous regulations in relation to insolvency practitioner qualifications, it was recommended that these draft forms be issued as regulations under section 411(1)(a) of the Insolvency Act. This section provides for the Minister of Finance to make such regulations as he thinks fit for the purposes of the Insolvency Act. The forms were submitted to the State Law Office, and were published under Government Notice No. 157 of 2012. The Regulations came into operation on September 1, 2012 and are now binding on all registered insolvency practitioners in Mauritius.

87. *(iii) Publication of Out-of-Court Workout (OCW) guidelines by the Insolvency Service to promote safeguarding viable businesses*: seeking to keep viable businesses alive can help maximize stakeholder returns, retain jobs and preserve supply networks. Out-of-Court Workouts promote restructuring arrangements between lenders and debtors in an informal and flexible manner that does not drain court resources and seeks to preserve viable businesses.

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company secretaries under the Companies Act to act as insolvency practitioners, which includes legal practitioners and accountants.

[25] These forms are the following:

(a) Form 1: Application for Registration as an Insolvency Practitioner;
(b) Form 2: Notice of Ceasing to hold Office as an Insolvency Practitioner; and
(c) Form 3: Notice of Suspension or Removal from Professional Practice of an Insolvency Practitioner

Guidelines help ensure that all parties to the restructuring abide by the same general principles of good faith, confidentiality, a standstill period, rescue funding and transparency. The publication of these guidelines by the Insolvency Service will help encourage out-of-court tools that will aim to save businesses before they have reached severe financial distress. Implementing Out-of-Court Workouts will complement the formal procedures set out in the Insolvency Act 2009

88. These guidelines were discussed at stakeholder consultation meetings and have received the endorsement of the Bank of Mauritius. The Mauritian Banker's Association has also agreed to further disseminate these guidelines amongst its members. The Insolvency Service has published these guidelines on its website and also intends to publish it by way of General Notice in the National Gazette. The Prior Action, "*Publication of Out-Of-Court Workout Guidelines by the Insolvency Service*" was not in the first DPL. It is an additional prior action, given the strong stakeholder demand in this area and the Insolvency Service's willingness to help establish a debt restructuring framework.

89. The indicator of "Number of Insolvency Practitioners Registered" is still used. However, the baseline has changed since all insolvency practitioners had to re-register after the new regulations were passed. The indicator of "number of businesses with approved restructuring plans" has been amended to "*number of bank using out-of-court workouts*" as this is a more reliable measure. Whereas restructuring plans are confidential, and therefore difficult to count, it is easier to ask the banks whether they will be using any out-of-court process in order to achieve restructuring, making the indicator more measurable.

- *The prior actions for DPL2* are: *(i) Publication of the amendment to Insolvency Act 2009 to include the Rules relating to the Performance and Conduct of Insolvency Practitioners in the national gazette; (ii) Publication of Regulations related to the registration and removal of insolvency practitioners in the national gazette* and (iii) *Publication of the Out-Of-Court Workout Guidelines to promote safeguarding viable businesses on the insolvency website upon endorsement of guidelines from BoM.*

PILLAR 2: Improving Access to Finance

90. Access to finance is an important driving force in economic growth, and it ranks high on the list of factors emphasized by individual entrepreneurs as critical to the survival and growth of their businesses. The overall financial intermediation picture yields a relatively well-banked view of Mauritius. It ranks quite well compared to other Sub-Saharan countries, with growth in the Banking Sector at 13.5 percent at the end of June 2012 compared to 11 percent in 2011. However, there are differences among the various segments with SMEs citing access to finance as a constraint to doing business in Mauritius.

91. Further analysis and consultation with stakeholders indicate that the constraint may be linked to both supply side issues along with demand side factors outside the credit market. On the supply side, consultations with stakeholders revealed that commercial banks are, in general, not inclined to lend to SMEs. This is mainly because SME property and assets are usually in the form of machinery, inventory or accounts receivable and these do not, therefore,

qualify as collateral for bank loans. While some commercial banks are lending to SMEs, their lending procedures tend to be lengthy, and the overall borrowing costs including interest, time to get the loan approved, and cost to prepare the documents is considered too high. Furthermore, SME businesses face a dearth of specialized financial products and services that cater to their needs.

92. On the demand side, SME entrepreneurs in the country usually lack the financial literacy skills or support to prepare bankable business plans that are required as part of the documentation for the lending process. Commercial banks identify building SME capacity to prepare and present bankable projects as the main obstacle to an expansion of their SME lending. In the same vein, the country lacks proper systems to monitor the credit-worthiness of most individual entrepreneurs who do not appear in the existing credit bureau database. The majority of these entrepreneurs are also absent from the land registry database since the procedures, time and cost to register inherited real estate is forbidding. The PSC DPL is supporting demand side factors through credit bureau and land titling reforms. While addressing the demand side issues is a necessary condition for addressing access to finance constraints, it may not be sufficient to meet SME financing needs.

Supply side constraints to access to finance:

Restructuring the Development Bank of Mauritius

93. The Mauritian banking industry comprises 20 banks, of which seven are local banks, eight are foreign-owned subsidiaries, one is a joint venture and four are branches of foreign banks. All the banks are licensed by the Bank of Mauritius to carry-out banking business locally and internationally. The total number of Non-Bank Financial Institutions, licensed under the Financial Services Commission, is currently 729. These include institutions that operate under the Insurance Act, the Securities Act and the Financial Services Act. Directed and subsidized credit programs have been offered by the public sector institution, Development Bank of Mauritius.[26] These programs, however, have done little to achieve the fundamental objective of increasing the access of small enterprises to financial services.

94. There has been a recent development in the move towards greater access to finance for SMEs. With a view to increase access to finance to SMEs, the 2012 Budget Speech also put in place a major reform to boost the supply of bank credit available to MSME entrepreneurs by (i) setting up a MUR 3 billion fund (approximately US$100,000) from which loans will be disbursed to MSMEs through commercial banks over a three year period; and (ii) agreeing with participating banks to offer these loans at a reduced interest rate of 8.5 percent per annum (compared to the commercial rate of 14 percent per annum). In the processing of these loans, all related costs and charges are to be borne by the lending institution (but offset by the low cost of program funds) and are not passed on to the customer. To facilitate this, the GoM has abolished inscription fees that are levied on registered loans and removed registration duty on loans of less than MUR 1 million. A total of 14 commercial banks have been allocated a portion of the Fund for on-lending to SMEs.

[26] The DBM was set up as an SME Bank in 1964 to provide affordable financing to the agricultural sector and SMEs in general.

95. DBM has performed poorly and over time fostered a "non-payment culture", as indicated by a very high volume of non-performing loans. Maintaining the status quo is thus not a viable option. To better respond to its policy development objectives, the Government has decided to restructure DBM. The prior action for DPL1 was fulfilled with the 2012 Budget Speech confirming the Government's intention to seek a specialized private financial institution to transform the DBM into a financially viable MSME Bank. IFC was given the mandate to attract a strategic partner that specializes in MSME Banking. Prior to signing the mandate to act as a strategic advisor, IFC undertook a diagnostic analysis on DBM which identified its chronic operational and governance weaknesses recommending against its transformation into an MSME Bank and instead recommending its orderly closure and issuing an EoI to invite a credible international SME Bank with a verifiable record to set up such an institution in Mauritius. The findings of the study also led IFC to turn down the offer to act as the Government's advisor on transforming DBM into an MSME Bank. In August 2012, the World Bank undertook a technical mission to work with the authorities and DBM and conducted a diagnostic review of DBM. This review also highlighted that status quo is not viable and identified only two viable options for DBM: (i) winding up; or, (ii) selling of DBM's banking assets to a new commercial bank with a focus on the SME market within a broader sustainable business model. While the details of the restructuring process required to downsize DBM and pay off its liabilities will be identified by the Transaction Adviser (TA) retained by the GoM in October 2012, the steps so far identified by the technical team include the sale of DBM's property portfolio.

96. Deloitte (India) has been appointed as the TA to assist the restructuring of the DBM by the State Investment Corporation led steering committee. The TA has prepared an inception report outlining the timeline and the detailed work flow required for the restructuring to be completed. This inception report was approved by the committee in December 2012. The two main tasks of the transaction advisor are to (i) devise disposal mechanisms for the banking assets that will not be transferred to the new commercial bank with a focus on the MSME market segment (real estate, investment portfolio and non performing loans); and (ii) explore restructuring options, to ensure that the new MSME bank obtains a license from the banking regulator under the Banking Act (2004).

97. To date, two half-day workshops have been held with stakeholders including the DBM management, board and shareholders to discuss the above and to obtain consensus on the preferred option. A Restructuring Plan, incorporating feedback from these stakeholder workshops was prepared and submitted to the committee for approval on January 21, 2013. Meanwhile, in parallel, letters of invitation of sale have been sent to DBM's existing land tenants, providing them with the right of first offer on the area they are currently leasing. So far, over 75 percent of these tenants have expressed their intention to buy. The business plan for the new MSME Bank is due in April 2013 with the objective of: (i) having an equity partner, and (ii) applying for a banking license no later than August 2013.

- *The prior action for DPL2* is *"DBM restructuring initiated by the appointment of a transaction advisor, endorsement by steering committee of an inception report and the issuance of letters of invitation to potential investors for the sale of DBM's non-banking assets."*

98. The indicators have been changed to reflect the fact that the options could include a new commercial bank taking over the assets of DBM and catering to the MSME space. The new proposed indicators are:

i. DBM restructured by the sale of its non banking assets; and
ii. A new licensed commercial Bank with a focus on the MSME segment established.

Demand side constraints to access to finance:

(a) Facilitating access to finance through movable and immovable collateral

99. The problem of access to finance for SMEs in Mauritius also depends on factors outside the credit market, underlining demand side constraints.[27] Insufficient suitable collateral is cited as among the top constraints to accessing credit. Although the legislation in Mauritius provides for a wide range of movable property that can be used as collateral, its secured transaction system is fragmented and different security rights are available for different types of grantors and different types of assets.

100. Credit is more readily available to businesses that have immovable property (land and buildings) to be used as collateral than those having movable assets as banks heavily prefer immovable property such as land or buildings to secure a loan. For immovable assets, ensuring formal property rights is fundamental. Effective administration of land is part of that. If formal property transfer is too costly or complicated, formal titles might go informal again. The prior action for DPL1 was the amendment of the *Transcription and Mortgage Act* in order to prescribe time limits consistent with business standards to register property. This has enabled the implementation of the Land and Administration Valuation Information Management System (LAVIMS) project.[28] The time taken to register land tilting was reduced from 210 to 26 days in 2009, as recorded by the DB Survey and is now expected to reduce to two days with the implementation of LAVIMS. The Registrar General has also computerized the electronic Register of Deposit that would enable the platforms to become fully transactional in the medium term to allow online access, e-submission of documents and e-payments. The indicator for this component was "*reduction in the time taken to register property*", which is being retained.

101. Around the world, movable assets, not land or buildings, often account for most of the capital stock of private firms and an especially large share of the assets for micro, small and medium-size enterprises. The existing legal and regulatory regime for secured transactions in Mauritius has not been reformed in recent years to reflect the new financial and commercial needs of the banking and business community. The World Bank through the NLTA provided a technical assistance note with an assessment of the legal and regulatory framework for secured transactions as a means to improve access to credit. The Government has announced the decision to further facilitate the use of movable and intangible assets as collateral and the establishment of a modern movable collateral registry. In order to do so a stakeholder committee has been set up to review the necessary legislative amendments relating to secured

[27] The factors behind Doing Business ranking – with Mauritius standing 53rd out of 183 economies – also highlight issues outside the financial sector (Doing Business, World Bank 2013).
[28] The LAVMIS project is a separate Government funded project that aims to establish a modern, cost efficient land administration, valuation and management system in Mauritius.

transactions and collateral registries reform. The substance of this reform will address issues relating to the creation, registration and enforcement of security interests over moveable collateral. Specifically, the reform will involve the movement to a 'notice-filing' system consistent with modern personal property security legislation and an electronic notice-filing registry. The due process required to complete these amendments will require more time and hence the intended trigger was ambitious in its intended timeline. The intention is to have the proposed amendments completed prior to November 2013 so that they are introduced in the Finance Bill of December 2013. This will be followed by the establishment of a modern movable collateral registry. A new indicator will be added to reflect this prior action, namely the "*completion of the necessary legislative amendments for the facilitation of secured lending transactions*".

- *The Prior Action for DPL2 is: "Government decision to further facilitate the use of movable and intangible assets as collateral and the establishment of a modern movable collateral registry."*

(b) Increasing coverage of Credit Bureau:

102. Credit bureaus play an important role in financial stability by helping control over-indebtedness and are critical to the expansion of credit for both individuals and small businesses. The Mauritius Credit Information Bureau (MCIB) was established in December 2005 by the BoM as a public registry of borrower information with the main objective to ensure the development of an overall sound credit environment in Mauritius. The MCIB collects information from and shares information with financing institutions to enable them to make more informed lending decisions, thereby lowering their default rate and improving the quality of lenders' loan portfolio.

103. Since December 1, 2005, it became mandatory for participating institutions to make the necessary inquiry from the MCIB before approving, increasing or renewing any credit facility of customers. The MCIB provides factual information on the creditworthiness of borrowers, i.e., it generates credit profile reports but does not provide credit scores. To further reinforce its contribution to the financial stability of the economy, the MCIB needed to expand its coverage to include non banking financial and credit-granting institutions, and utility companies. Lack of information on overall consumer indebtedness is an area of concern from the perspective of financial stability as borrowers may accumulate large debts through small facilities from credit providers other than those falling under the purview of the Bank and related liabilities could remain hidden from lenders and lead to flawed creditworthiness assessment. It is, therefore, important to pool information from all credit-granting institutions including credit financing institutions which provide direct consumer financing to individuals.

104. The prior action for DPL1 was to expand coverage of the credit information bureau to include all non-bank financial institutions. This led to an increase in coverage from 407,160 customers in June 2011 representing 49.8 percent of the adult population to covering 554,809 registered entities representing 67.8 percent of the population in December 2012. Participants of the MCIB currently comprise 17 banks including the Bank of Mauritius, nine leasing companies, eight insurance companies, the Mauritius Housing Company Ltd, the

Development Bank of Mauritius, the National Housing Development Co Ltd, the Mauritius Civil Service Mutual Aid Association, and the Employees Welfare Fund.

105. Another critical source of data especially for those who are outside the credit mainstream is utility companies. These include the Central Electricity Board and the Central Water Authority, waste water management and companies offering information, communication and telecommunication services. In order to make it obligatory for these utility companies to share information with the Bank of Mauritius, it was proposed that Section 52 of the Bank of Mauritius Act be amended to add the definition of the words 'Utility Body' as a corporate body which provides utility service to the public and includes the Central Electricity Board, the Central Water Authority, the Waste Water Management Authority, companies offering information, communication and telecommunication services, which is the prior action for this operation. Further, in order to facilitate the transfer of data from the utility companies to MCIB, there have been system enhancements that have been undertaken to facilitate data transfer and decrease the transactions costs involved. Future enhancements would include the development of a file transfer protocol to make the transfer possible online expeditiously.

106. With the amendment to the Banking Act, this prior action directly increases the coverage of the MCIB by including utility companies which is critical towards achieving the objective as laid out in this component. The indicator of increased coverage under the credit information bureau is retained.

- *The Prior Action for DPL2: "The Bank of Mauritius to amend the Bank of Mauritius Act in order to define 'Utility Body[29]' to further increase coverage of the Credit Information Bureau."*

PILLAR 3: Promoting ICT usage and e-Government reforms for Increased Efficiency and Transparency Gains

107. ICT is considered a key pillar for supporting competitiveness, and indeed the hope is that it will become a "fifth pillar" in the national economy contributing at least 7 percent of national GDP. Given its potential to have significant positive spill-over effects on other sectors of the economy, the Government of Mauritius has prioritized the development of a high performance broadband infrastructure on which ideas and services can be transmitted.

108. To develop a high performance broadband infrastructure, Mauritius will have to rely on large private sector investments in high bandwidth networks, both wireless and fixed. It has long been recognized that slow broadband speeds and relatively high prices, compared to its international peers, are the Achilles heel of communication services in Mauritius and a barrier to enhanced competitiveness. Here there is some progress to report, with a number of recent developments that have the potential to be "game changers" that include (i) the market

[29] As a body corporate which provides utility service to the public and includes the Central Electricity Board, the Central Water Authority, the Waste Water Management Authority, companies offering information, communication and telecommunication services.

entry of Bharat Telecoms, with a US$50 million investment in creating a 2,900 km fibre network to cover Mauritius, using a technology known as Internet Protocol TV; (ii) the entry of Belgacom as a third supplier of international bandwidth (after Mauritius Telecom and EMTEL), with a price offering around one-third that of the incumbent; (iii) the launch of 4G mobile broadband services, which will put competitive pressure on fixed-line broadband services; and (iv) the Government announcement of the use the Universal Service Fund to subsidize entry-level broadband price in the retail market of 2 Gb of data per month at 256 kbit/s for 200 Rupees (US$6.50) which is intended to supplement the operation of market forces in reducing prices at higher-usage levels.

109. Nevertheless, market determined broadband prices remain relatively high in Mauritius for both fixed-line and mobile services, when compared with a representative range of other low and middle income countries (see Figure 2). Using a measure of performance – the typical speed for broadband services (as measured by NetIndex in January 2013) -- Mauritius ranks only 171st in the world (out of 180 countries), with an average download speed of around 1.57 Mbit/s. Developing a data collection framework for monitoring broadband quality of service is an urgent task to tackle the slow broadband speeds.

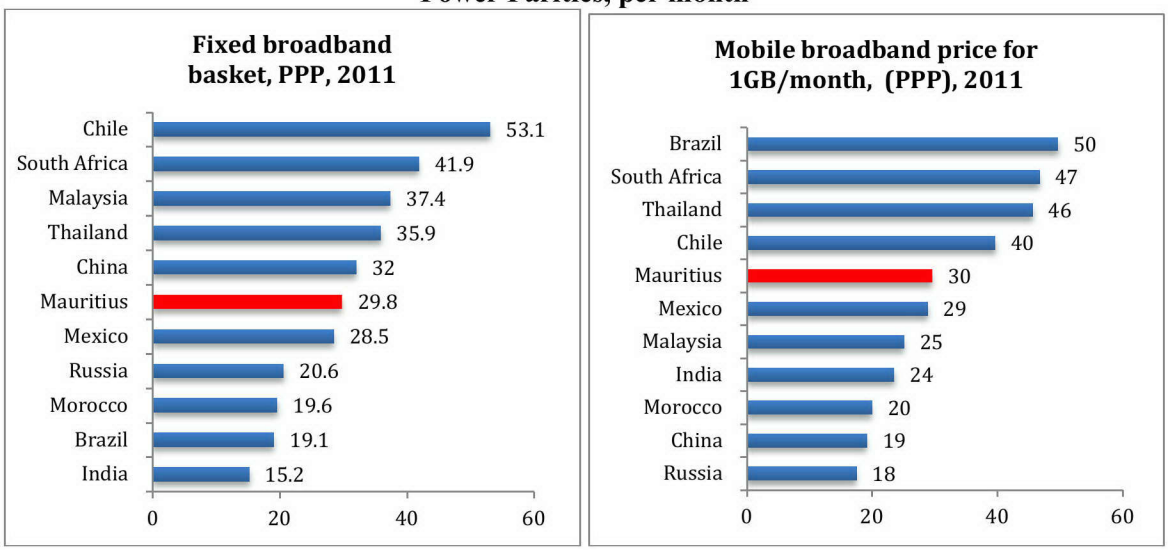
110. Mauritius lacks strong Internet Service Providers (ISPs) that are independent of the main operators. The ongoing work to define markets and determine which operators have SMP should provide the impetus for regulatory action to encourage the development of independent ISPs by providing equal access to core facilities. A first step would be to carry out a study, and assess stakeholder opinions, on the possible need to consider structural separation of the incumbent's network, and to extend open access principles inland from the cable landing stations. The exercise of SMP by the incumbent operator, Mauritius Telecom, was highlighted in the December 2012 ruling, of the Competition Commission into Mauritius Telecom's MyT offering. My T is a bundled "triple play" offering of Pay TV, internet access and telephone service. The Competition Commission found that Mauritius Telecom had been leveraging its market power in residential fixed-line broadband access to restrict competition in the supply of Pay-TV. Following the ruling, Mauritius Telecom has undertaken to unbundle the service offering to allow for separately priced services.

111. The prior action for DPL1 was the development of a National Broadband Policy (NBP), which is part of the process of signaling the Government's intentions clearly, credibly and convincingly. The Policy, which was published online in January 2012, outlines a policy framework that will guarantee the predictability to the business environment while at the same time aiming to achieve robust competition that will improve consumer welfare through lower prices, more abundant offerings and an increased set of choices.

112. The indicative trigger for DPL2 was to *"Establish protocols to strengthen the independence of ICTA."* Here the independence of ICTA, which is the regulatory body, is more a question of perception rather than of legal status. Since the incumbent operator is still 60 percent owned by government, there is a perception that the market is closed to new operators. The prior action for DPL2 relates to a more transparent process of spectrum allocation. The civil radio frequency spectrum is an increasingly vital resource for information and communication services, especially for mobile broadband. The ICT Act, originally enacted in 2001, offers a traditional "command and control" approach to spectrum, based on the principle of "first come, first served". Draft legislation revising section 24 (licensing) of

the ICT Act has been prepared following extensive stakeholder consultation workshops. The new draft legislation has been adopted by the ICTA Board prior to being presented for Parliamentary approval in the next session commencing in March 2013.

Figure 2: Broadband prices in selected low and middle-income economies, in US$ Purchasing Power Parities, per month



Note: Right chart based on a monthly basket of fixed broadband services. Right chart based on monthly cost of subscription with 1 GB equivalent data download. This comparison pre-dates the new subsidized price for broadband introduced in the 2013 Budget Speech and should be reflected in future price comparisons.
Source: ITU, ictData.org.

113. The new draft legislation recognizes class licenses and introduces a new section 24B on spectrum management. This *inter alia* creates a framework for allowing spectrum auctions, spectrum sharing and even secondary spectrum trading. The use of market mechanisms for spectrum allocation will reinforce the perception of regulatory independence because it will free the regulator from having to make arbitrary decisions for spectrum allocation based on the principle of "first-come, first-served". The use of spectrum sharing and trading will promote efficiency and innovation in the use of spectrum. In the longer term, the possibility of raising government revenues from spectrum usage may provide a welcome boost to the public purse and would prove a superior alternative to the "solidarity tax" currently being imposed on the profits of telecom operators. The first opportunity to use the new powers may come with the refarming of analogue broadcast frequencies, due to be released with the digital switchover in broadcasting, planned for later this year – the so called "digital dividend".

- *The prior action for DPL2 is "Draft legal changes to pertinent sections of the ICT Act 2001 related to licensing adopted by the ICTA Board."*

114. The expected outcomes from this action was defined as an "Increase in the number of homes that have access to download speeds of at least 10 Mbit/s and upload speeds of at least 5 Mbit/s by 2013." This indicator, however, is not technologically-neutral as it fails to address competitiveness because it is concerned only with residential usage rather than business usage. Furthermore, it is a supply side indicator, whereas, the indications are that Mauritius's problems are more on the demand side. For these reasons, an alternative statement of this

outcome indicator would be "*Increase in number of broadband subscriptions with actual speeds of at least 10 Mbit/s*". Note that the threshold figure of "actual speeds of at least 10 Mbit/s" is one of the stated targets in the NBP, and is a more meaningful indicator than advertised speeds. The prior action on spectrum reform should lead to an increase in the supply of spectrum and with a more market based approach to spectrum allocation result in possible new entrants into the mobile broadband market and potentially reduce unit prices for mobile broadband. This should in turn force down prices for fixed broadband and potentially increase the overall number of broadband subscribers.

115. The *second prior action* in DPL1 recommended the adoption of a set of regulatory tools that will allow the regulator to achieve some of the competition goals set out by the NBP. Specifically, it recommended that an amendment to the Information and Communications Technology Act of 2001 would provide ICTA the required authority to regulate markets where an operator is deemed to have a SMP. Amendments to that Act were approved in December 2011, as part of the *Implementation of New Economic and Financial Measures (Miscellaneous Provisions) No. 2 Act*. The amendment was drawn up through a consultative process with the full support of the Competition Commission of Mauritius (CCM).

116. Defining SMP is an important first step both for determining whether any remedies are necessary to avoid market distortion or to promote open access, for instance through structural separation. It is also a first step towards lifting the burden of regulation in markets that are deemed to have effective competition, or lifting obligations from operators that are determined as not having SMP, for instance by waiving the requirement for pre-approval of tariffs. The corollary of this is that any remaining regulation can be better targeted. The progress has gone beyond the intended trigger.

117. As noted above, the work on SMP has been carried out in close collaboration between the regulator and the CCM. The two agencies identified two markets for urgent action – Wholesale Internet-Digital Subscriber Line and International Bandwidth. The aim was to complete the SMP analysis for these markets first before defining and analyzing other, more competitive markets. The definition of SMP in broadband markets played a significant part in the determination of the Competition Commission concerning the Mauritius Telecom MyT bundled services offering. Work on defining different market segments has also enabled more precise and limited collection of tariff data to be carried out, and an ICT Market Observatory has been established. Based on the data collected and the SMP analysis undertaken and stakeholder consultations held, the guidelines for tariff applications together with the required application forms have been published on the ICTA website.

- *The prior action* is "*Publication of guidelines for tariff setting on ICTA website.*"

118. The expected outcome indicator from this prior action was a *decrease in average monthly retail price of broadband ADSL 256 kbps with 3 GB allowance service to households*. Again, this indicator is not technologically-neutral in that it presupposes that Asynchronous Digital Subscriber Line (ADSL) is the relevant technology as opposed to fibre to the home (offered by Bharat Telecom) or 4G mobile (offered by EMTEL and Mauritius Telecom and soon by MTML). Furthermore, the indicator accepts the notion of a 3GB per

month bandwidth cap, whereas such caps are being lifted in most competitive markets around the world. The subsidized entry level broadband price also uses a cap of only 2GB per month. A restatement of this outcome indicator would be *a decrease in the price per 1 Mbit/s per month of broadband service (fixed) and/or per GB of data (mobile).* By using a unit price rather than a price based on a current service, it should be easier to make comparisons between different services and to "future proof" the indicator for the days when data caps are lifted and slower speed services are no longer available. The link between the prior action and the outcome indicator is that, now that markets vulnerable to SMP have been defined, it will be easier to track price trends. The publication of tariff guidelines will not only promote transparency but should, in the longer term, reduce the requirement for pre-approval of tariffs by non-dominant operators, thereby promoting greater price innovation.

119. For the *E-Government Component:* the prior action for DPL1 was intended to support the Government's efforts to promote the widespread adoption and use of public key infrastructure (PKI) which is a secure encryption technique, to execute secure electronic transactions. In order to enable a secure electronic transactions operating environment, the Electronic Transactions Act was amended, and the Electronic Transactions (Certification Authorities) Regulations 2010 came into effect on December 1, 2010, providing for the licensing framework as well as the regulation of Certification Authorities (CA) activities in Mauritius. In addition, there is a Data Protection Commissioner responsible for upholding the rights of individuals as set out in the Data Protection Act, 2004.

120. The indicative *trigger for DPL2* was stated as "*Cabinet approval of targets to increasing paperless G to B and G to G transactions".* One manifestation of this was the decision in the 2013 budget to reduce each Ministry's stationery budget by 25 per cent, generating a saving of US$1.4 million. Nevertheless, this is a relatively weak indicator of future progress towards e-Government. In order to make the prior action more positive, it was suggested that it be made dependent on signing a contract to establish a Government Services Platform, based on Public Key Infrastructure (PKI), which will support a wider range of government services, some of which may replace paper-based alternatives (such as secure email replacing memos) but others of which are new (for instance, permitting the use of credit cards to pay for services such as online business registration). ICTA itself has been nominated as the Certification Authority for PKI and serves as the root authority for issuing digital signature certificates. E-Mudra, a company based in India is expected to become the first commercial registry. Work is underway on a national ID system and a partner, from Singapore, has been identified and a contract negotiated and signed in October 2012. The system of national digital ID cards is expected to cover some 900'000 citizens by the end of 2014. A national digital ID would provide a platform for a number of other eGovernment and eCommerce services that require identity authentication. Work to clean up the government data base of citizens, for instance to remove duplicates, is underway. But the national digital ID is only one of many services that could be developed once a secure platform exists. For this reason, the prior action is "*Selection of a competitively selected partner to develop a Government Services Platform for eGovernment services, protected by a Public Key Infrastructure (PKI)*". The expected outcome indicator for the eGovernment components is *an increase in number of public services that can be executed via secured online transactions.* This will be retained.

- *The prior action for DPL2 is: "Selection of a competitively selected partner to develop a Government Services Platform for eGovernment services, protected by a Public Key Infrastructure (PKI)".*

VI. OPERATION IMPLEMENTATION

A. POVERTY AND SOCIAL IMPACTS

121. The DPL supported reforms are expected to have in general a positive impact on the poor and the vulnerable in the following ways: (i) strengthening the SME programs that will enable SMEs to become more productive; (ii) increasing access to finance to firms that do not have access to immovable collateral and alleviating this constraint by further facilitating the use of movable collateral; (iii) the introduction of a specialized MSME bank and (iv) increasing competition in the telecom sector making mobile services more affordable. Combined, these measures are aimed at raising private sector competitiveness and increasing investment, including FDI, and designed to support a virtuous cycle of growth, employment generation and productivity gains. Reform measures supported by the three pillars are targeted at decreasing business costs and creating better conditions for private local and foreign investments and ultimately leading to job creation.

122. Reforms under Pillar 1 support the growth of enterprises by facilitating both entry and exit. The rationalization of SME programs will improve the capacity of the Government to provide targeted business development services, which will enable greater productivity gains for SMEs and start ups. The other prior actions under this pillar facilitate firm exit through the implementation of existing legislation, by providing the framework for the rehabilitation of stressed enterprises to seek temporary protection from its creditors without forcing them into bankruptcy and loss of jobs. Reforms under Pillar 3 aim at promoting ICT usage for increased competitiveness and transparency. In particular, the prior actions are aimed at increasing competition in the market, making prices more affordable, thus implying greater access to these technologies by the population.

123. Reforms under Pillar 2 aim at increasing access to finance which will yield direct benefits to lower income segments of the population. The reforms under this pillar, increase access through three areas of support: firstly through restructuring of DBM and the establishment of a commercial Bank with a focus on the MSME segment; secondly increasing the coverage of the credit bureau and facilitating access to finance by reducing the risks associated with limited information on potential borrowers and thirdly through facilitating the use of movable property and intangible assets and the establishment of a movable collateral registry to facilitate secured lending transactions. This will enable firms and individuals who do not have fixed assets to be able to access credit.

124. Supported policies under this second operation will not have a significant distributional impact. The restructuring of the DBM will not have any adverse effects on its employees since the Government plans to have a robust plan that includes placing any redundant staff in various government institutions based on their specific skill sets. The specific risks will be clearly identified during the due diligence carried out by the professional transaction advisor, and formal measures to mitigate the employment shock on redundant workers will be put in place by ensuring that (i) appropriate clauses are included in the

divestiture contracts, (ii) proper budgeting measures are made to compensate potential retrenched workers according to the law, and (iii) a retraining and re-skilling program is put in place through the Placement and Training Program under the National Empowerment Foundation (NEF). Further, The World Bank is supporting the strengthening of active labor market programs of the NEF under the Public Sector Performance DPL.

B. ENVIRONMENTAL ASPECTS

125. None of the reforms supported by the DPL series are likely to have a direct effect on the environment, natural resources, or forestry. Beyond the immediate focus of the DPL, other Government policies and development objectives such as increasing tourist arrivals by 2015, expanding the port and airport, relieving traffic congestion, and making the business climate more investor friendly may have an environmental impact. Historically, the record of environmental management, though not perfect, has been relatively good.[30] The Safeguard Diagnosis Review carried out in October 2010[31] shows that Mauritius' environmental policies are sufficiently robust and are being implemented satisfactorily.

C. IMPLEMENTATION, MONITORING AND EVALUATION

126. It was decided at the outset of the preparation of the First PSC DPL that the Government and the World Bank will meet twice a year to review the progress of the DPL. MoFED will be responsible for the overall coordination of supervision and monitoring of the reform program supported by the proposed DPL series. MoFED has been liaising with focal points in the Ministries, departments and agencies involved. Periodic monitoring and dialogue with relevant line ministries and other stakeholders involved in the implementation of the reforms have taken place through field missions that produce detailed aide memoires documenting the progress on the reform program and on a daily basis through staff based at the World Bank's country office. An Implementation, Status and Results report has been prepared to track the progress since DPL1 was approved by the Board. MoFED, as the primary counterpart of the operation, will be responsible for furnishing information to the World Bank, as required, to monitor outcomes in the policy matrix (Annex 1). This has been complemented by intensive dialogues and assessment between World Bank and the relevant ministries, departments and agencies with a view to identify constraints, and areas where technical support is needed.

D. FIDUCIARY ASPECTS

Public Financial Management System and Fiduciary Issues

127. Mauritius has a satisfactory financial management system. The country's fiduciary framework is adequate to support the proceeds of the credit. This fact is supported by conclusions of the 2010 PEFA report that noted (a) an improved Public Financial Management (PFM) performance since the 2007 PEFA assessment, and (b) that 90 percent of all loans and grants received by Government in 2009 were managed using government

[30] See EU "Mauritius Country Strategy Paper 2008-2013," Annex 3, Executive Summary of the Country Environmental Profile.
[31] Safeguard Diagnostic Review for the Republic of Mauritius, October 2010, World Bank

systems with a few exceptions for loans and grants from China and India. As summarized in paragraph 63, GoM designed and has been implementing a post PEFA PFM Action Plan 2011-13 aimed at further strengthening PFM systems.

128. External auditors have not reported any concerns with the audited financial statements of the BoM. The IMF has not undertaken a safeguard assessment on the Bank of Mauritius. The independent external auditors issued an unqualified audit report on June 30, 2012, and the BoM's audited financial statements are published on the BoM website.

Funds Flow Arrangements

129. The loan disbursement will follow the World Bank's procedures for development policy lending. The loan will be disbursed in a single tranche upon effectiveness. The loan proceeds from the World Bank will be credited to an account that is part of the country's official foreign exchange reserves at the BoM. The rupee equivalent of the loan proceeds will be reflected in the budget to finance budgeted expenditures. The Government will provide a letter to the World Bank within 30 days of receiving the loan proceeds written by the Accountant-General confirming that: (i) the accounts used to deposit the loan proceeds are part of the country's official foreign exchange reserves; and (ii) the rupee equivalent of the loan proceeds has been reflected in the budget and in the Government's accounts on the date reflected. The loan proceeds shall not be used to finance excluded expenditures as defined in Section 2 of the Appendix in the loan agreement. If any portion of the loan is used to finance ineligible expenditures as so defined, the Bank will require the government to promptly refund the amount upon notice.

Accounting

130. The accounting of the loan proceeds will be the responsibility of Accountant-General at the Ministry of Finance and Economic Development. Government procedures will be followed to administer and account for the loan proceeds and related payment. Since the control environment is considered to be adequate, no additional fiduciary requirements shall apply.

E. RISKS AND RISK MITIGATION

131. The implementation of the proposed reform program entails a number of risks that had been identified at the preparation of the First DPL and are still relevant: (a) the challenge of maintaining macroeconomic stability under growing uncertain global developments; (b) a slowdown in the momentum of reforms; and (c) limited institutional capacity within sector ministries to lead and implement the reforms. The more detailed identification of these risks and the proposed mitigation measures are provided below.

132. The first and perhaps the most important risk is that the macroeconomic stability may be affected given the growing uncertainty in the global economic climate, particularly in the European economies to which Mauritius remains highly exposed. These global economic uncertainties represent a significant threat to a small open economy such as Mauritius. While the impact of the global economic slowdown has been partially contained so far and GDP growth is estimated to be 3.3 percent in 2012, a more protracted and extended slowdown

could further deteriorate Mauritius' economic prospects primarily on two fronts – the fiscal position and the current account deficit. Slower global economic growth is already depressing domestic growth and tax revenues, thus making it more difficult to finance the Government's priorities. Despite this difficult environment, the Government is consolidating the fiscal deficit and reducing public debt. Current account deficits, although high, have been adequately financed, mostly by high FDI and inflows to the financial sector. However, this could quickly reverse if international financial markets were to deteriorate. Finally, the concentration of the country's exports on a few markets (Europe) and products (tourism and textiles) and its large share of imported commodities could further increase the current account deficit.

133. The economy has proved its resilience in 2012, and the Government has the means to cope with external economic uncertainties, but a firm commitment will be needed to rein in public expenditure if a more substantial slowdown materializes. Furthermore, on the external front, the increasing levels of foreign exchange reserves (projected to be at six months of imports in the medium term) provide an additional buffer against a potential deterioration in the balance of payments. Mauritius' floating exchange rate also facilitates correction of external imbalances in the medium term. The recent trend towards reorienting exports towards new markets (particularly Africa) will also help. On the fiscal front, the slowdown in the growth of public revenues is being more than compensated for by the containment of public expenditure, with a reduction of the fiscal deficit and public debt. Should revenues dip, this would require an acceleration of efficiency gains in the public sector, and additional use of the remaining funds from the National Resilience Fund created in 2011. The Government is also extending the maturity of the public debt further reducing roll-over risks, as the majority of debt is domestic, and there is currently excess liquidity in the domestic capital markets.

134. The second risk is that a narrowing political reform space affects the pace of the reform program at a time when the need for reform is most urgent. There are a few champions for strong reforms and the effective voice and demand for reform by other stakeholders is limited. This reflects the fact that many of these new reforms will have redistributive effects, sometimes eliminating the rents and subsidies.

135. There are several ways to mitigate this risk**.** To the extent that the proposed program has been designed to mitigate this risk by supporting reforms where consensus exists, helping to put in place building blocks to expedite the reform program in the medium term. An example is the fact that UBEB as envisaged when DPL1 was presented to the Board did not materialize due to apprehension of its possible social impacts. However, as a second best option moving towards the objective of greater efficiency of government resources, the inter-agency committee aims to serve as a platform to share information of existing initiatives amongst the members as well as gauge the existing gaps that need to be addressed to service entrepreneurs and SMEs. The Government's focus on growth of SMEs shall support its inclusion agenda. Moreover, over the medium-term the accelerating reforms for engendering competitiveness and growth will generate better conditions for job creation. Finally, better communication will be key to building consensus around the reforms to raise the awareness and understanding about the reforms and their benefits among all stakeholders. This has been useful in the implementation of the reforms supported under this operation. All major reforms, be it the restructuring of DBM, the legislative changes introduced for spectrum management and greater competition in the ICT market and the regulations and guidelines introduced to

make the insolvency regime more efficient have been done in consultation with all the relevant stakeholders so that it is an inclusive process and can take on board feedback from these players before the finalization of these reform measures.

136. The third risk is that of institutional constraints, including limited capacity in sector ministries, which might make it more difficult to effectively design, implement and monitor the reforms. Underlying institutional political economy constraints and the narrowing reforms space identified above combined with limited institutional capacity in some sector ministries can limit the effectiveness and progress of reforms. This is evident from the different pace of reforms across line ministries. Compared to previous reforms in which MoFED played an active role in leading and coordinating the efforts, the on-going reform processes are overseen in most cases by sector ministries. This involves a broader set of stakeholders, which requires additional effort in building and broadening consensus around the reform agenda. However, the institutional capacity of sector ministries to design and implement these sector reforms may be limited, particularly in the newly created ministries. In addition, after a period of ambitious reforms, a certain reluctance to change from some stakeholders has sometimes been observed.

137. The World Bank is supporting the Government to help mitigate this risk by bringing specialized staff to complement the DPL dialogue in selected areas, and promoting a public debate through articles and technical notes. Through the NLTA which has complemented this operation, the Bank provided analytical and operational capacity in line ministries such as MoBEC and the Ministry of Tertiary Education, Science, Research and Technology. Additionally, the DPL itself is a catalyst between the different ministries involved in the reform program, thereby enhancing coordination. Also, the World Bank's portfolio in Mauritius is designed to help strengthen capacity tailored to the needs of a Middle Income Country. This will be done on the one hand through analytical work, coordinated with other development partners to leverage limited resources to support selected capacity-building in priority areas. On the other hand, the portfolio includes strategic technical assistance on selected governance areas, such as on capacity-strengthening in anti-corruption, both horizontally and vertically. Furthermore, a Services Agreement for Reimbursable Technical Assistance (RTA) signed by the World Bank and the Government is available to further strengthen institutional capacity in line ministries where needed.

Annex 1: Operations Policy Matrix

Medium-term Objectives	Policy Actions		Indicators	Baseline (2011)	Targets	Responsible Entity
	DPL1 (prior actions)	DPL2 (prior action)			2013	
Improve outreach and quality of Business Development services (BDS) programs targeted towards SMEs.	Cabinet approval of consolidation of SME programs under Ministry of Business, Enterprise and Cooperatives (MoBEC).	Implementation of the consolidation of SMEs programs that includes (a) establishing an inter-agency coordination committee under MoBEC; and (b) the issuance of a Request for Proposal to develop an overall Monitoring & Evaluation Framework for Business Development Services schemes.	Number of Enterprises accessing (i) *Generic* and (ii) *Specialized* BDS increases. Development of an M&E Framework.	Generic BDS = 200 Specialized BDS =80 No	(i) 25 percent increase (ii) 50 percent increase Yes	MoBEC
Facilitating, through the implementation of existing legislation, firm exit by providing the framework for the rehabilitation of stressed enterprises to seek temporary protection from its creditors without forcing them into bankruptcy.	Ministerial approval of the registration guidelines and prescribed application form to register Insolvency Practitioners in Mauritius.	Publication of the amendment to Insolvency Act 2009 to include the *Rules relating to the Performance and Conduct of Insolvency Practitioners* in the national gazette. Publication of Regulations related to the registration and removal of insolvency practitioners in the national gazette. Publication of the Out-Of-Court Workout Guidelines to promote safeguarding viable businesses on the insolvency website upon	Number of insolvency practitioners registered.	Zero	50	Registrar of Companies/ MoFED

Medium-term Objectives	Policy Actions		Indicators	Baseline (2011)	Targets	Responsible Entity
	DPL1 (prior actions)	DPL2 (prior action)			2013	
		endorsement from BoM.	Number of banks that have used the OCW guidelines.	0	4	
Provision of suitable menu of financial products/services for SMEs through the restructuring of DBM, and the establishment of a specialized MSME financial institution.	Cabinet Approval of a decision to transform DBM into a financially viable MSME Bank, licensed by the Central Bank, and with private sector involvement.	DBM restructuring initiated by the appointment of a transaction advisor, endorsement by steering committee of an inception report and the issuance of letters of invitation to potential investors for the sale of DBM's non-banking assets.	DBM restructured by the sale of its non banking assets A new licensed commercial Bank with a focus on the MSME segment established.	No No	Yes Yes	MoFED/DBM
Increase access to finance through reforming land titling procedures and further facilitating the use of movable assets as collateral.	The Transcription and Mortgage Act is amended in order to prescribe a time limit consistent with business standards to register property.	Government decision to further facilitate the use of movable and intangible assets as collateral and the establishment of a modern movable collateral registry.	Reduction in time taken to register property. Completion of necessary legal amendments to facilitate secured lending transactions.	15 days No	2 days Yes	Registrar General /MoFED
Facilitate enhanced access to finance by reducing the risks associated with limited information on potential borrowers.	The coverage of the credit information bureau is expanded to include all non banking financial institution.	The Bank of Mauritius to amend the Bank of Mauritius Act in order to define 'Utility Body[32]' to further increase coverage of the Credit Information Bureau.	Increase in coverage of the Credit Information bureau.	50%	70%	Bank of Mauritius/ MoFED

[32] As a body corporate which provides utility service to the public and includes the Central Electricity Board, the Central Water Authority, the Waste Water Management Authority, companies offering information, communication and telecommunication services.

Medium-term Objectives	Policy Actions		Indicators	Baseline (2011)	Targets	Responsible Entity
	DPL1 (prior actions)	DPL2 (prior action)			2013	
Promote investments in affordable and ubiquitous broadband networks by increasing transparency and legitimacy for regulatory decisions.	Cabinet approval of National Broadband Policy.	Draft legal changes to pertinent sections of the ICT Act 2001 related to licensing adopted by the ICTA Board.	Increase in number of broadband subscriptions with actual speeds of at least 10 Mbit/s	300,200[33]	15% increase	ICTA
To reform regulation so that is applied in only markets where necessary and allows competition where possible.	Cabinet approval to amend ICT Act to introduce a definition of Significant market Power (SMP) and equip the ICT Authority with the appropriate tools to regulate markets in which there is evidence of SMP.	Publication of guidelines for tariff setting on ICTA website.	Decrease in the price per 1Mbit/s per month of broadband service fixed and mobile.	Fixed: $27.83 Mobile: $17.38	10 percent decrease	ICTA
To promote widespread adoption and use of public key infrastructure (PKI) so that secured electronic transactions can take place.	Cabinet approval of the Action Plan to ensure the widest adoption of the PKI technology.	Contract with a competitively selected partner to develop a Government Services Platform for eGovernment services, protected by a Public Key Infrastructure (PKI).	Number of public services that can be executed via secured online transactions.	0	10	Ministry of ICT

[33] Includes all broad band subscription including ADSL, 3G, Fiber optics/ LAN and WiMax

Annex 2: Letter of Development Policy

REPUBLIC OF MAURITIUS

Office of the Vice-Prime Minister, Minister of Finance & Economic Development

Government House, Port Louis, Republic of Mauritius
Tel. (230) 201 2431 Fax : (230) 213 6450
Email : xlduval@mail.gov.mu

In reply please quote **CF/92/4/B** **Date: 15 February 2013**

Mrs Haley Bridi
Country Director for Mauritius
Africa Region, World Bank
Rue Andrialifidy
L.Razafimanantsoa Ansoy
Boite Postate: 4140
Antananarivo,Madagascar

Dear Madam

Second Private Sector Competitiveness Development Policy Loan and Second Public Sector Development Policy Loan- Mauritius Invitation to Borrower to negotiate

I thank you for inviting the Government of Mauritius to negotiate for the proposed Second Private Sector Competitiveness Development Policy Loan in the amount of US$ 15 million and the proposed Second Public Sector Development Policy Loan in the amount of US$ 20 million and I would like to confirm that February 20, 2013 is convenient for the Mauritian Delegation to negotiate the Public Sector and Private Sector Development Policy Loans.

We have noted the content of the discussions as part of the negotiations. The Mauritian Delegation will be headed by Mr G. Bussier, Acting Director and he will sign the Minutes of Negotiations once negotiations have concluded in the name of the Republic of Mauritius. The list of the Mauritian Negotiating Team is attached.

The Mauritian authorities took note of the Bank Policy on Access to Information and confirm that we have no objection to the Bank publicly releasing the Program Documents for both Development Policy Loans and the Letter of Development Policy upon distribution to the Bank's Board of Executive Directors.

We look forward to the negotiations, and would like to thank you and your team for their assistance in getting us to this stage in the loan process.

Regards

Yours Sincerely,

Charles Gaëtan Xavier-Luc DUVAL, G.C.S.K
Vice-Prime Minister, Minister of Finance and Economic Development

Letter of Development Policy

Over the last seven years Mauritius has undergone a series of reforms, with the help of its development partners, to maximise the country's potential to transform itself into a high-income economy. These reforms were designed to enhance the country`s competitiveness and to put the economy on a higher growth trajectory whilst creating opportunities for the most vulnerable groups through economic empowerment.

Whilst the reforms undertaken helped build resilience by reducing macroeconomic vulnerabilities and improving fiscal sustainability, challenges remain due to the continuing difficulties being faced by the global economy. Sustaining the quality and pace of implementation of reforms is, therefore, vital to increase the economy's long-run growth potential and to help reinvent itself in the face of adversity.

The 2013 Budget includes a number of measures to support the on-going reform programme, namely, improving the business environment, encouraging the adoption of technology, modernising access to innovative public services and implementing an Africa strategy. New impetus has been given to all sectors including financial services, education, health, tourism, entertainment and shopping, manufacturing and other export-oriented industries, agriculture and fishing and ICT-BPO.

In spite of the downside risks and uncertainty prevailing worldwide, latest available information indicate that GDP growth rate was 3.3 percent in 2012. This performance can be attributed to pro-growth policies, sound macroeconomic management, improved public sector governance, and ongoing reforms. Based on the current global economic outlook, and policy measures taken in the 2013 Programme Based Budgeting (PBB), the Ministry of Finance and Economic Development is forecasting a growth rate of 4 percent this year-assuming recovery of our main trading partners coupled with diversification of markets and higher implementation rate of budget measures, more specifically those related to public infrastructure projects. Investment rate is likely to rise to around 23.8 percent this year and is mainly driven by the public sector.

On the other hand, inflation reached 3.9% by the end of 2012, lower than the 6.5% recorded in 2011. For this year, unemployment rate is likely to remain stable at 8 percent with a higher net job creation of around 5,100. Current account deficit will be around 10-11 percent of GDP while the overall balance of payments would remain in surplus. 2012 was an exceptional year for Mauritius whereby Foreign Direct Investment inflows is estimated to have reached some Rs 12 billion , higher than Rs 9.5 billion in 2011. This is among the highest levels of FDI recorded.

The implementation of the reform agenda will require the financial and technical support of all the development partners, including the World Bank (WB), the European Union (EU), the African Development Bank (ADB) and the Agence Française de Développement (AFD), the United Nations Development Programme (UNDP) and the International Monetary Fund (IMF).

The four pillars of the reform programme namely (i) improving public sector efficiency, (ii) sharpening competitiveness, (iii) improving the investment climate and (iv) widening the

circle of opportunities, continue to underpin the country's growth strategy. Government relies on the continued support of the Bank through Development Policy Loan (DPL) operations as an important vehicle for supporting policy reform in Mauritius. While financing is needed, Government values the policy dialogue and technical support from the World Bank.

In this context, the second DPL operations will help reinforce Government's medium term reform programme. The *Second Public Sector Performance Development Policy Loan* (PSP-DPL) of US$20 million will focus primarily on the performance of the public sector while the *Second Private Sector Competitiveness Development Policy Loan* (PSC-DPL) of US$15 million will put emphasis on the competitiveness agenda. The combination of the reforms proposed by these two complementary DPLs will help improve the country's competitiveness and resilience and prepare the economy for rapid and inclusive economic growth.

This letter of development policy broadly outlines how current and prospective reforms will consolidate and extend the gains in each of these areas.

A. Improving Public Sector Efficiency

Government is well aware of the need to exercise fiscal prudence in the wake of sustained international economic crisis and has laid out measures to improve efficiency in the public sector. Discounted Public Sector Debt as a percentage of GDP has continued its declining path reaching 53.1 per cent GDP by end December 2012 while overall budgetary central government deficit dropped to around 1.8% of GDP last year. Government is relentlessly pursuing the objective of bringing public sector debt as a ratio of GDP to 50 percent by 2018.

National Audit Office will be reinforced to produce interim audit for timely monitoring and the Public Accounts Committee would be empowered to better bring public expenditure under parliamentary control. Public Procurement Act would be reviewed to expedite the implementation of infrastructure projects while providing transparency, as all outcomes of tender exercises will now be displayed as from Rs 5 m, well below the present threshold of Rs 15 m.

To ensure Government gets value for money out of its support to the use of Business Development services (BDS) to serve economic growth, a robust system of Monitoring & Evaluation is in the process of being established that focuses on improved results on verifiable indicators, enhanced accountability and impact feedback learning mechanism.

Similarly, to help improve human resource management the Ministry of Civil Service and Administrative Reforms (MCSAR) would pilot the establishment of the Human Resource Management Information System in six organizations in 2013. The organisations concerned are: (a) Ministry of Civil Service and Administrative Reforms; (b) Ministry of Information and Communication Technology (including CIB, CISD);(c) Ministry of Finance and Economic Development (Headquarters only);(d) Ministry of Education and Human Resources (including the 4 education zones); (e) Public Service Commission; and (f) Accountant General. Based on the assessment of the pilot programme, improvement as well as extension to 10 Ministries will be done in 2014 with full implementation scheduled for 2015. MCSAR is also working to reduce Schemes of Service from more than 2,500 to around 2,375 in 2013 and further to

around 2,156 by 2014 and to 1,918 by 2015. This will be also complemented with reforms to reduce the time required to amend a scheme of service from six to four months in 2013 and further to three months in 2015.

As concerns efficiency in public enterprises, Government has decided in 2012 to undertake reforms on a number of state owned enterprises which are either loss making or have accumulated significant amounts of debt and to implement a restructuring plan to generate, on a cash basis, a 5% return on all new money injected in the selected enterprises. The objectives of the reforms are to redress the general operational and financial deficiencies in the business model of these public enterprises so as to improve their general economic efficiency, service delivery and to impose financial discipline so as to minimise their fiscal burden. Some 11 state owned enterprises (SOEs) have been targeted with total arrears and loans amounting to Rs 2.1 bn. Three of the SOEs have already had their restructuring plans approved: Business Parks of Mauritius Ltd, Cyber Properties Investment Ltd (CPIL) which is a subsidiary of the BPML and the National Transport Corporation. The Office of Public Sector Governance (OPSG) as part of its mandate will be reviewing the implementation process of these restructuring plans. Also, as part of its monitoring function, the OPSG is in the process of implementing a comprehensive performance monitoring framework to improve corporate governance and has prepared a first review on SOE sector performance which captures the latest financial information stemming from the Parastatals Information Management System (PIMS) on 22 enterprises.

In the absence of effective planning, many middle-income countries get caught in a middle-income country trap. The few that have escaped this trap have relied on an improved long-term planning process that is integrated into the budgeting framework. In this context, Government is in the process of preparing a 10-year Economic and Social Transformation Plan (ESTP) that will set out the long-term national goals and strategies which seek to achieve a balance between growth, equity and sustainability objectives. The development of the ESTP will strengthen the framework for medium-term strategic planning, at the level of line ministries, and reinforce the benefits of Performance-Based Budgeting (PBB). Thus the ESTP will provide the framework for ensuring coherence and coordination between ministry strategies. Also the ESTP is complementary to the work of the Maurice Ile Durable (MID) vision and establishes the important link with the budgeting exercise.

B. Sharpening Competitiveness of the Economy

The world is in transition and new challenges are emerging. Mauritius needs to seize this opportunity to rise to the competitive challenges.

As a measure to improve access to credit especially for SMEs and start-ups use of movables (such as plant and machinery, shares/securities, goodwill, intangibles and intellectual property rights) as collateral for obtaining credit will be facilitated and promoted. A committee of stakeholders is entrusted with the responsibility for making appropriate recommendations on required legislative and other changes. It is expected that this revised secured transactions framework will improve accessibility of businesses to credit in Mauritius.

A measure to improve the menu of credit facilities available to entrepreneurs in the micro, small and medium bracket is to create the space for a Micro, Small and Medium Enterprises (MSME) bank to operate in the country. The restructuring process of the Development Bank of Mauritius is underway with the aim of having a commercial Bank with a focus on SME lending applying for a banking licence before the year end.

A Trade Portal is being developed to have swift access on line to all trade related processing systems for tariff and non tariff measures. Once operational, the Trade Portal will facilitate exchanges of information on regulatory policy among stakeholders, thus fostering public participation and stakeholder involvement. The Trade Portal is expected to be fully operational by June 2013. The tender has already been awarded to a firm to develop and implement this project. In parallel, to fully integrate all trade-related processing systems, the Government has started developing a 'Single Window' system. This Single Window system is designed to provide on-line facility to submit applications for import/export licenses and permits and receive clearance from all government agencies. The development of the Single Window system will enable traders to track the progress of their applications in real time and facilitate data harmonization and standardization among Ministries and agencies. This will reduce time for processing as well as related transaction costs. It will also assist in improving our Ease of Doing Business and Logistics Performance and Competitiveness Indicators. The Single Window system is expected to be fully operational by December 2014 and Mauritius would be amongst the first countries to implement such a system in the Eastern and Southern Africa region.

The Joint Public Private Business Facilitation Task Force, set up with a broad mandate to review existing systems and processes, and streamline regulations and facilitate investment and trade for goods and services, made some recommendations. These were reviewed and acted upon by an Inter-Ministerial Committee (IMC) set up in July 2012. Concrete results include the adoption of a silent agreement rule for processing building and land use permits at the local authority level, in which permits are deemed to have been approved two weeks after the effective date of receipt of the application if the local authority has not responded by then. Government through the IMC continues to review existing regulations and processes with a view to making the regulatory environment more business-friendly.

A predictable and competitive regulatory environment will be secured for the development of ICT by allowing for additional players to operate on an equal footing, including through greater use of open access principles and the use of market mechanisms to avoid arbitrary decisions for spectrum allocation. The adoption of these regulatory tools will allow the regulator to achieve some of the competition goals as set out by the National Broadband Policy.

C. Enhancing the Investment Climate

The performance of Mauritius in many international rankings is a source of pride and joy for the entire nation including the ranking on the Mo Ibrahim Index of African Governance and the World Bank Group's *Doing Business* Report. These indicators should not be grounds for complacency.

Government will continue to facilitate the operations of businesses by enhancing the regulatory environment to make it more transparent, predictable, and business friendly. Hence, the Business Facilitation Act will be revisited to adopt a "whole of Government" approach to investment facilitation and to remove bottlenecks and streamline procedures when investing in Mauritius. In addition, the Board of Investment will set up a Business Facilitation Unit whose main objective would be to support investors in the implementation of large projects.

In line with the strategy of Government to further open up the economy, a number of measures will be implemented. These measures include:

- increasing the options of non residents to acquire immovable property;
- a new system to modernize land management which will reduce the processing time for registering properties from 15 to 2 days; and
- the amendment to the visa regime which will have a favourable impact on FDI inflow with an expected increase in transfer of technology, knowledge, talents and capital.

These measures will also facilitate movement of the business community to and from Mauritius.

One of the Doing Business indicators in which Mauritius does not perform well is Resolving Insolvency. A cost effective and efficient regime is, therefore, gradually being established to allow businesses to exit the market or give the possibility of rehabilitating the businesses without forcing them into bankruptcy. Thus, publication of rules of professional conduct for insolvency practitioners will enhance transparency, fairness and professionalism amongst insolvency practitioners, and ultimately will enable more effective processes under the law.

Credit bureaus play an important role in financial stability by helping control over-indebtedness and are critical to expansion of credit for both individuals and small businesses. All banking institutions, insurance, leasing companies and utility bodies have already joined and are contributing data to the Mauritius Credit Information Bureau (MCIB). In addition, recent amendments introduced in the Banking Act will enable data from utility bodies such as the WMA, ICTA and telecommunication operators to be included in the MCIB. It is expected that the coverage of the MCIB will increase to 90%.

In a bid to increase transparency and to make the regulatory environment more business-friendly, government has adopted a prescribed schedule of administrative penalties to apply at Customs to make the system more transparent, simplified, predictable and efficient. This will increase transparency and predictability within the Customs department, thus ensuring the independence and fairness of the appeals process. It is expected that the time allowed to operators to settle their Customs administrative penalty will be reduced from six to three weeks.

D. Sharing Prosperity with All

Ownership by the people is a crucial element for the success and sustainability of the reform programme Government. Efforts are being pursued to exploring shortfalls in development to

achieve a more inclusive society, as well as improving the ranking of Mauritius on the human development index.

In 2012, Government implemented the Social Register of Mauritius (SRM). The objective of the SRM is to collect more comprehensive information about social protection clients. The SRM will also allow Government to better track clients over time and evaluate progress towards empowerment. In June 2012, Cabinet determined that new social protection programs should use the SRM and a number of new programs launched by the Government since have started enrolment through this system. The SRM will be a key policy design and planning tool to assess the needs of the potential beneficiaries and help them to access the social aid programmes provided by Government. The SRM will gradually become a powerful tool to maximise policy effectiveness in the fight against poverty and for effective public service delivery.

The National Empowerment Foundation, operating under the Ministry of Social Integration and Economic Empowerment implements programmes designed to alleviate poverty and empower vulnerable people through the intervention of non state actors. To improve performance and its effectiveness a number of measures are being implemented. The NEF has now completed its restructuring with an emphasis on case management at the household level and a focus on monitoring and evaluation. A business process review is underway to further improve service delivery. A strategic plan for the Ministry of Social Integration and Economic Empowerment, to be implemented by the NEF, has also been approved. Capacity building of NGOs will be carried out and the use of the Social Register of Mauritius (SRM) are being actively promoted in all NEF programs.

Education and training are prime movers of our economic development objectives and crucial to ensuring the sharing of prosperity with all. A number of measures will thus be implemented. A daily hot meal will be provided in every ZEP school. Scholarships will be given to children from vulnerable families if they cannot get a student loan and provided they qualify through the SRM. To ensure access to information to the student population, Government will distribute one tablet computer to students in Form IV. This will open tremendous opportunities for digital learning, give access to a world of data stored online and enable students to do research and to develop their skills. In addition, high speed fibre optic cables will be extended to every secondary school and a subsidised price for entry level broadband introduced.

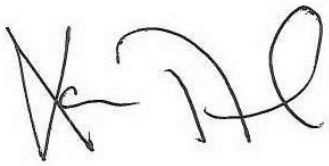
CONCLUSION Way Forward

Successive economic and financial crises which are hitting the world and the main markets of Mauritius may make it difficult to continue with the ambitious reforms that would allow Mauritius to become a High Income Country within the next 10 years. We are thus requesting the World Bank to support us in staying on course for the reforms and long-term goals whilst addressing the short term priority of preventing a reversal of the important gains.

Government wishes to continue having recourse to the support of World Bank and instruments like Development Policy Loans to help design and implement pro-growth reforms that will propel the economy on to a higher growth trajectory, attain full employment, and

improve the quality of life of its population. Areas of future interventions can be property tax reform, labour efficiency and productivity, diversification of markets and improvement in the implementation of public sector capital projects. We would also appreciate if the World Bank can offer assistance to ministries where institutional capacity to design and implement reforms may be limited.

For Government of Mauritius



Charles Gaëtan Xavier-Luc DUVAL, G.C.S.K
Vice Prime Minister, Minister of Finance and Economic Development

Annex 3: IMF Relations Note

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

CABLE ADDRESS
INTERFUND

January 24, 2013

Mr. Makhtar Diop
Vice President
Africa Region
World Bank
Washington, D.C.

Dear Mr. Diop:

I am writing to update you on the economic developments and outlook for Mauritius. Prudent macroeconomic policy making since the 2008/09 financial crisis and the reforms implemented over the past few years contributed to a solid performance of the Mauritian economy in 2012.

The challenge in 2013 will be to safeguard growth in a difficult external environment and to set the foundation for future growth through increased public investment and structural reforms while continuing fiscal consolidation to reduce economic vulnerabilities.

We welcome the Bank's initiative on two Development Policy Loans which should facilitate the continued implementation of the next phase of structural reforms.

Please note that consent is being sought from the authorities regarding publication of the letter. We will inform you of the authorities' decision as soon as it is obtained.

Sincerely yours,

Antoinette M. Sayeh
Director
African Department

Attachment

MAURITIUS—ASSESSMENT LETTER FOR THE WORLD BANK
January 24, 2013

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1. This note provides the IMF staff's assessment of Mauritius' macroeconomic conditions and prospects.

Recent Economic Developments and Outlook

2. **The volatile external environment dampened domestic economic activity in 2012.** Growth is estimated to have slowed to 3¼ percent, driven by a slowdown in tourism and manufacturing, while the real estate sector, financial intermediation and transport and telecommunications have sustained growth momentum. Despite this deceleration, the output gap is estimated to be small (below ½ percent). Inflation remained broadly stable at 4 percent. Credit to the private sector has continued its recovery over the year, with an estimated growth of 13 percent. On the external front, exports are estimated to have grown moderately (5 percent in dollar terms), reflecting broadly unchanged tourist arrivals. FDI inflows are projected to decline modestly, but remain around 2 percent of GDP and international reserves are projected to increase somewhat. In June 2012, Moody's upgraded the country's credit rating to Baa1.

3. **Macroeconomic policies were broadly accommodative in 2012.** In line with staff recommendations, the fiscal policy stance was not as expansionary as envisaged in the 2012 budget. The structural primary deficit excluding grants was broadly unchanged relative to 2011 (compared to a discretionary fiscal impulse of 1.5 percentage points projected in the last staff report). The Bank of Mauritius (BOM) adopted an accommodative monetary policy stance for most of the year. In March 2012, the BOM reduced the policy rate by 50 basis points to 4.9 percent given the deceleration in global growth. In the three subsequent Monetary Policy Committee (MPC) meetings, the BOM maintained the policy rate at that level in light of continued uncertainty in the global outlook. Since June 2012, the authorities started to intervene more actively in foreign exchange markets to moderate exchange rate fluctuations and to build up a buffer in international reserves. Reserves are generally adequate but given the characteristics of the Mauritian economy, including exposure to natural disasters, some build-up appears justifiable.

4. **Economic growth is expected to pick-up, but the outlook for 2013 faces some headwinds.** Staff projects that real GDP growth in 2013 will continue to be slightly below potential (with an output gap of about 1 percent) reflecting subdued demand from Mauritius' main markets. In subsequent years, real GDP growth is expected to accelerate in line with potential growth, estimated at around 4½ percent. Inflation would stabilize at around 5 percent. Staff projects the current account deficit to gradually narrow to around 7 percent of GDP by 2018, in part as a result of sustained fiscal adjustment and reforms improving external competitiveness (including public enterprise reforms, infrastructure investment, streamlining of trade regulations,

land law reform, among other areas). Mauritius' growth prospects depend heavily on the global economy, especially on developments in Europe.

5. **Fiscal policy as planned for 2013 is broadly neutral and includes a modest discretionary fiscal impulse.** The fiscal policy stance is reasonable given the projected slow-down in economic activity, although the small discretionary fiscal stimulus will likely have a limited impact in a small open economy with a flexible exchange rate. From a medium-term perspective, a fully neutral fiscal stance in 2013 might be preferable to smooth the projected strong fiscal adjustment in 2014-15, which is aimed at building primary surpluses needed to address external imbalances, reduce debt vulnerabilities and rebuild policy buffers.

6. **The current accommodative monetary policy stance is broadly appropriate, but inflationary pressures may arise from wage increases in the private sector or higher fuel prices.** Staff currently forecasts inflation to marginally exceed the unannounced target of 5 percent. The current monetary policy framework of "hybrid inflation targeting" remains well-suited for Mauritius–a small and open economy. Though broadly appropriate with current inflation below the unannounced target of 5 percent, the authorities should stand ready to tighten policy in response to inflation developments. There may also be a need to reduce excess liquidity to align market driven interest rates more closely to the BOM's policy rate, particularly if inflationary pressures emerge.

7. **Further fiscal consolidation over the medium-term and structural reforms would facilitate external adjustment.** Fiscal adjustment would contribute to addressing external imbalances in a sustained manner. The current flexible exchange rate regime has served Mauritius well in terms of responding to external shocks. Efforts to improve competitiveness through structural reforms are crucial to facilitate the reduction of the large current account deficit.

8. **The updated debt sustainability analysis shows a broadly positive debt outlook for Mauritius**. Both total public debt and external debt are on sustainable trajectories and the results of stress tests indicate that debt dynamics are resilient to several shocks. Nevertheless, the authorities will need to implement their planned fiscal adjustment over the medium-term—as previously envisioned. Current projections suggest that the public debt target of 50 percent of GDP in 2018—as mandated by law—can be met, but a more ambitious fiscal adjustment path over the medium-term would contribute to reducing debt vulnerabilities.

Fund Relations

9. Mauritius is on the standard 12-month cycle for bilateral consultations under Article IV of the IMF's Articles of Agreement. The last Article IV consultation (Country Report No. 12/62, March 2012) was completed by the Executive Board on March 14, 2012. A Financial System Stability Assessment update was completed by a joint IMF–World Bank team on April 20, 2007.

Table 1. Mauritius: Selected Economic and Financial Indicators, 2010–2018

	2010	2011	2012		2013		2014	2015	2016	2017	2018
	Actual	Actual	Last SR	Est.	Last SR	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percent change, unless otherwise indicated)										
National income, prices and employment											
Real GDP	4.1	3.8	3.7	3.3	4.1	3.7	4.4	4.7	4.6	4.5	4.5
Real GDP per capita	3.6	3.4	3.1	2.7	3.5	3.2	3.8	4.1	4.2	4.1	4.1
GDP per capita (in U.S. dollars)	7,562	8,725	8,403	8,851	8,789	9,389	9,913	10,487	11,102	11,807	12,562
GDP deflator	1.7	4.1	3.9	3.3	5.9	5.7	4.6	4.7	5.0	5.0	5.0
Consumer prices (period average)	2.9	6.5	4.8	3.9	5.3	5.7	4.6	4.7	5.0	5.0	5.0
Consumer prices (end of period)	6.1	4.9	5.0	3.2	5.5	6.0	5.1	5.0	5.0	5.0	5.0
Unemployment rate (percent)	7.8	7.9	...	8.0	...	...	...	...	...	...	...
	(Annual percent change, in US Dollars)										
External sector											
Exports of goods and services, f.o.b.	18.9	19.6	3.0	4.8	6.1	6.7	6.3	6.7	6.8	7.1	7.3
Of which: tourism receipts	15.9	23.0	2.9	1.7	10.3	4.3	5.5	5.4	5.8	5.8	5.9
Imports of goods and services, f.o.b.	20.5	20.8	3.0	3.9	4.3	5.9	5.3	6.0	5.7	6.5	6.5
Nominal effective exchange rate (annual averages)	3.2	3.3	...	0.5	...	...	...	...	...	...	...
Real effective exchange rate (annual averages)	3.2	6.2	...	1.3	...	...	...	...	...	...	...
Terms of trade	-5.5	-5.3	...	0.5	...	...	...	...	...	...	...
	(Annual change in percent of beginning of period M2)										
Money and credit											
Net foreign assets	20.2	-7.7	16.9	8.7	...	7.4	...	...	...	...	...
Domestic credit	10.3	8.6	10.0	12.7	...	11.5	...	...	...	...	...
Net claims on government	1.0	-1.4	1.5	0.2	...	1.0	...	...	...	...	...
Credit to non-government sector [1]	9.9	10.2	8.2	15.0	...	10.4	...	...	...	...	...
Broad money (end of period, annual percentage change)	7.6	4.6	12.3	6.4	...	9.7	...	...	...	...	...
Income velocity of broad money	0.9	1.0	0.9	1.0	...	1.0	...	...	...	...	...
Interest rate (weighted average TBs, primary auctions)	3.9	4.6	...	3.3	...	...	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)										
Central government finances											
Overall consolidated balance (including grants) [2]	-3.0	-2.1	-3.7	-2.3	-3.2	-2.6	-1.9	-1.4	-1.5	-1.5	-1.8
Primary balance (including grants)	0.4	0.9	-0.5	0.7	-0.6	0.1	0.7	1.2	1.1	1.1	0.9
Revenues and grants	21.9	21.4	21.8	21.4	20.9	21.9	21.3	20.3	20.2	20.2	20.3
Expenditure, excl. net lending	24.9	23.5	25.5	23.7	24.1	24.5	23.2	21.7	21.7	21.8	22.0
Domestic debt of central government	43.1	42.6	40.5	41.5	38.1	39.7	37.6	37.4	36.0	34.5	33.2
External debt of central government	7.5	8.4	10.0	8.7	11.6	10.3	12.4	12.6	12.6	11.7	10.9
Investment and saving											
Gross domestic investment	23.6	25.7	24.8	24.7	25.3	25.1	25.3	25.5	25.6	25.8	25.9
Public	6.1	5.5	7.4	5.5	7.7	7.6	7.1	7.2	5.6	5.4	5.0
Private	17.5	20.2	17.5	19.2	17.5	17.5	18.2	18.2	20.0	20.4	20.9
Gross national savings	13.3	13.1	14.8	14.7	16.4	15.4	16.2	16.7	17.5	18.1	18.7
Public	-0.5	-0.5	0.2	1.0	0.5	1.3	1.1	0.9	0.7	0.7	0.4
Private	13.8	13.6	14.7	13.7	15.8	14.1	15.2	15.8	16.7	17.4	18.2
External sector											
Balance of goods and services	-12.2	-13.2	-13.8	-13.0	-12.7	-12.5	-11.8	-11.5	-10.8	-10.5	-10.1
Exports of goods and services, f.o.b.	50.9	52.6	53.9	54.0	54.4	54.1	54.1	54.3	54.6	54.8	55.0
Imports of goods and services, f.o.b.	-63.1	-65.8	-67.7	-67.0	-67.2	-66.5	-66.0	-65.8	-65.4	-65.2	-65.1
Current account balance	-10.3	-12.6	-10.2	-10.0	-9.1	-9.7	-9.1	-8.8	-8.1	-7.7	-7.2
Overall balance	2.1	1.6	-2.4	1.8	0.2	1.2	1.3	1.1	1.4	1.7	1.7
Total external debt [3]	22.3	23.7	16.1	23.7	17.7	25.1	26.7	26.5	25.9	24.9	23.8
Net international reserves (millions of U.S. dollars)	2,448	2,631	2,420	2,834	2,512	2,977	3,144	3,298	3,497	3,766	4,044
Months of imports of goods and services, f.o.b.	4.8	4.3	3.9	4.4	3.9	4.4	4.4	4.4	4.4	4.4	4.5
Memorandum items:											
GDP at current market prices (billions of Mauritian rupees)	298.8	322.8	350.0	344.6	385.9	377.9	412.5	451.9	496.2	544.5	597.5
GDP at current market prices (millions of U.S. dollars)	9,706	11,244	...	11,467	...	...	...	...	...	...	...
Public sector debt (percent of GDP) [4]	57.4	57.4	57.0	56.2	55.7	55.8	55.0	54.2	52.6	50.0	47.6
Foreign and local currency long-term debt rating (Moody's)	Baa2	Baa2	...	Baa1	...	...	...	...	...	...	...

Sources: Mauritian authorities; and IMF staff estimates and projections.

[1] Includes credit to parastatals.

[2] *GFSM 2001* concept of net lending/net borrowing, includes special and other extrabudgetary funds.

[3] Numbers were revised to include private external debt transactions as reported in the 2011 Foreign Assets and Liabilities Survey (FALS).

[4] These figures do not discount certain types of State-owned enterprises' debt. Such discounting is envisaged under the 2008 Public Debt Management Act for the purposes of calculating the public debt ceiling. In 2011, discounted SOE debt amounted to 3.3 percent of GDP.

Annex 4: Statement of Loans and Credits

Project ID	FY	Purpose	Original Amount in US$ Millions IBRD	IDA	SF	GEF	Cancel.	Undisb.	Difference between expected and actual disbursements Orig.	Frm. Rev'd
P091828	2010	MU-Infrastructure Project	50.00	0.00	0.00	0.00	0.00	29.46	25.34	25.76
		Total:	50.00	0.00	0.00	0.00	0.00	29.46	25.34	25.76

MAURITIUS
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

FY Approval	Company	Committed IFC Loan	Equity	Quasi	Partic.	Disbursed IFC Loan	Equity	Quasi	Partic.
2012	I&P (III) Capital		12.5				3.5		
2011	State Bank of Mtius (SBM)	75.0				75.0			
2009	Stanbic Mtius			20.0				20.0	
2006	I&P Capital (II)		9.6				9.6		
	Total portfolio:	75.0	22.1	20.0	0.00	75.0	13.1	20.0	0.00

FY Approval	Company	Approvals Pending Commitment Loan	Equity	Quasi	Partic.
2012	tbd[34]	10.0			
	Total pending commitment:	10.00	0.00	0.00	0.00

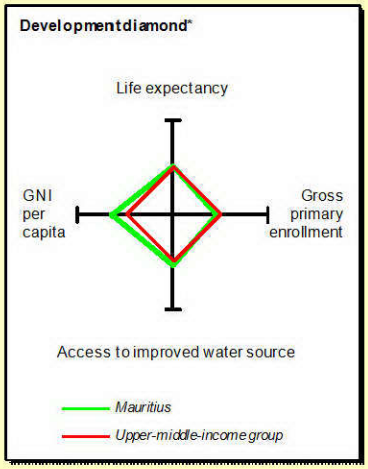
[34] Tbd: to be disclosed

Annex 5: Country Context

Mauritius at a glance

3/29/12

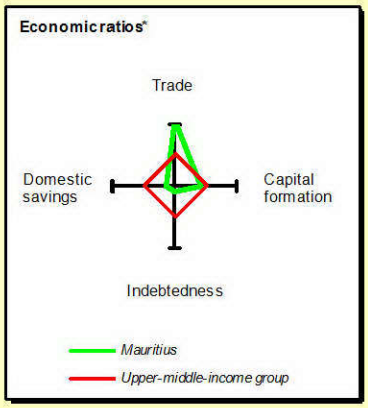
POVERTY and SOCIAL	Mauritius	Sub-Saharan Africa	Upper-middle-income
2010			
Population, mid-year *(millions)*	1.3	853	2,452
GNI per capita *(Atlas method, US$)*	7,750	1,176	5,884
GNI *(Atlas method, US$ billions)*	9.9	1,004	14,429
Average annual growth, 2004-10			
Population *(%)*	0.6	2.5	0.7
Labor force *(%)*	1.7	2.8	1.2
Most recent estimate (latest year available, 2004-10)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	43	37	57
Life expectancy at birth *(years)*	73	54	73
Infant mortality *(per 1,000 live births)*	13	76	17
Child malnutrition *(% of children under 5)*	..	22	3
Access to an improved water source *(% of population)*	99	61	93
Literacy *(% of population age 15+)*	88	62	93
Gross primary enrollment *(% of school-age population)*	99	100	111
Male	99	104	111
Female	100	95	111



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

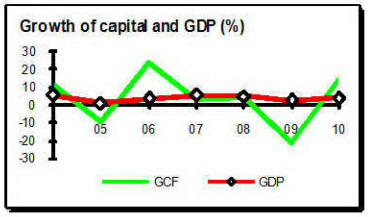
	1990	2000	2009	2010
GDP *(US$ billions)*	2.7	4.6	8.8	9.7
Gross capital formation/GDP	30.2	26.1	21.2	23.8
Exports of goods and services/GDP	65.0	61.4	49.0	52.4
Gross domestic savings/GDP	23.0	25.6	10.5	10.1
Gross national savings/GDP	25.8	26.3	15.0	16.5
Current account balance/GDP	-3.1	0.6	-7.4	-8.2
Interest payments/GDP	1.8	1.1	0.2	0.2
Total debt/GDP	35.1	20.6	9.4	11.1
Total debt service/exports	9.3	16.1	2.0	1.8
Present value of debt/GDP	..	..	..	8.3
Present value of debt/exports	..	..	..	11.1

	1990-00	2000-10	2009	2010	2010-14
(average annual growth)					
GDP	5.2	3.9	3.0	4.2	4.4
GDP per capita	4.0	3.1	2.5	3.7	3.9
Exports of goods and services	5.6	2.4	-3.5	10.0	5.4

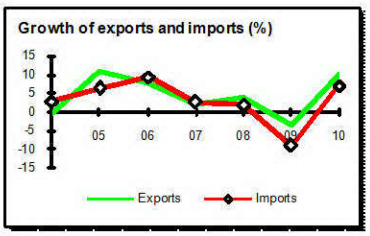


STRUCTURE of the ECONOMY

	1990	2000	2009	2010
(% of GDP)				
Agriculture	12.9	7.0	4.3	4.2
Industry	32.8	31.0	29.1	28.6
Manufacturing	24.4	23.5	19.4	19.1
Services	54.4	62.1	66.6	67.2
Household final consumption expenditure	63.4	60.3	74.0	73.6
General gov't final consumption expenditure	13.6	14.1	14.1	13.9
Imports of goods and services	72.2	61.9	58.4	63.8



	1990-00	2000-10	2009	2010
(average annual growth)				
Agriculture	0.0	-0.4	8.8	-1.3
Industry	5.4	2.0	2.9	2.7
Manufacturing	5.3	0.7	2.1	2.1
Services	6.3	5.9	3.8	5.0
Household final consumption expenditure	5.1	3.4	5.1	-0.4
General gov't final consumption expenditure	3.6	3.4	5.1	3.4
Gross capital formation	4.8	4.1	-20.9	14.1
Imports of goods and services	5.1	2.0	-9.1	7.1



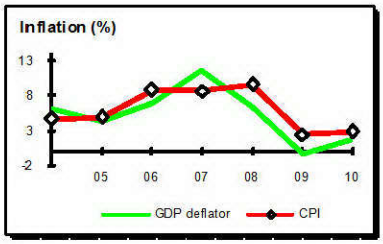
Note: 2010 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

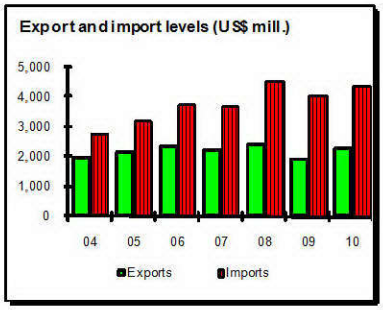
PRICES and GOVERNMENT FINANCE

	1990	2000	2009	2010
Domestic prices				
(% change)				
Consumer prices	13.5	4.2	2.5	2.9
Implicit GDP deflator	10.1	2.1	-0.2	1.9
Government finance				
(% of GDP, includes current grants)				
Current revenue	23.0	19.0	22.8	21.9
Current budget balance	2.7	-1.9	0.0	-0.7
Overall surplus/deficit	-1.9	-4.8	-3.5	-3.8



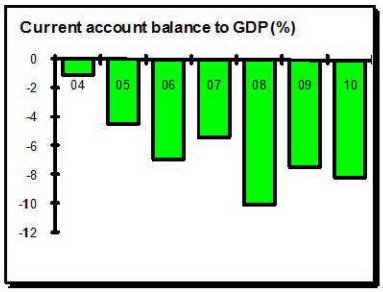
TRADE

	1990	2000	2009	2010
(US$ millions)				
Total exports (fob)	1,163	1,578	1,929	2,259
Sugar	329	240	214	348
n.a.	..	..	282	329
Manufactures	718	1,174	1,126	1,293
Total imports (cif)	1,431	2,158	4,091	4,398
Food	187	299	762	821
Fuel and energy	105	151	641	865
Capital goods	328	653	956	916
Export price index *(2000=100)*	105	100	114	121
Import price index *(2000=100)*	101	100	130	145
Terms of trade *(2000=100)*	104	100	88	83



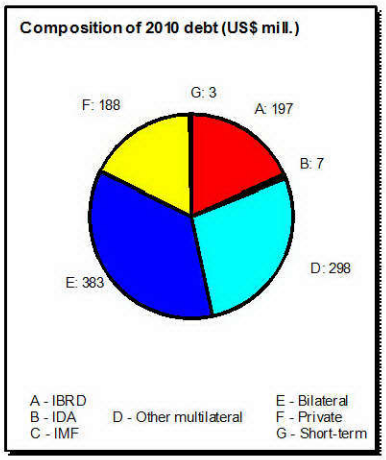
BALANCE of PAYMENTS

	1990	2000	2009	2010
(US$ millions)				
Exports of goods and services	1,621	2,686	4,156	4,942
Imports of goods and services	1,784	2,725	5,080	6,127
Resource balance	-163	-39	-923	-1,185
Net income	-8	-11	53	205
Net current transfers	87	79	216	183
Current account balance	-83	29	-654	-797
Financing items (net)	244	106	1,033	998
Changes in net reserves	-161	-135	-379	-201
Memo:				
Reserves including gold *(US$ millions)*	521	688	2,824	3,141
Conversion rate *(DEC, local/US$)*	14.9	26.2	32.0	30.8



EXTERNAL DEBT and RESOURCE FLOWS

	1990	2000	2009	2010
(US$ millions)				
Total debt outstanding and disbursed	932	946	826	1,076
IBRD	176	86	204	197
IDA	19	13	8	7
Total debt service	151	453	129	131
IBRD	30	23	11	9
IDA	0	1	1	1
Composition of net resource flows				
Official grants	25	9	95	73
Official creditors	57	-12	146	247
Private creditors	44	-261	31	27
Foreign direct investment (net inflows)	41	266	257	431
Portfolio equity (net inflows)	0	-4	206	-40
World Bank program				
Commitments	30	5	218	20
Disbursements	6	4	109	3
Principal repayments	16	19	9	7
Net flows	-11	-15	100	-4
Interest payments	14	5	3	3
Net transfers	-25	-20	97	-6



Note: This table was produced from the Development Economics LDB database. 3/29/12

IBRD 33446

MAURITIUS

- SELECTED CITIES AND TOWNS
- DISTRICT CAPITALS
- NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- DISTRICT BOUNDARIES
- INTERNATIONAL BOUNDARIES

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DECEMBER 2004