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COUNTRY PARTNERSHIP STRATEGY

FOR

THE REPUBLIC OF MAURITIUS

October 12, 2006

Southern Africa Country Department
Africa Region

REPUBLIC OF MAURITIUS
COUNTRY PARTNERSHIP STRATEGY

CURRENCY EQUIVALENTS

Currency Unit: Mauritius Rupee (MUR)
US$1 = MUR 32,5 (September 2006)

WEIGHTS AND MEASURES

Metric System

FISCAL YEAR

July 1 - June 30

ACRONYMS AND ABBREVIATIONS

AAA	Analytical and Advisory Activities
ABP	Annual Business Plan
AFD	Agence Française de Développement
AfDB	African Development Bank
AIMS	Atlantic, Indian Ocean, Mediterranean, and the South China Sea
AIMS SIDS	AIMS Small Island Developing States
BADEA	Arab Bank for Economic Development in Africa
CAS	Country Assistance Strategy
CAS CR	CAS Completion Report
CEM	Country Economic Memorandum
COMESA	Common Market for Eastern and Southern Africa
CPE	Certificate of Primary Education
CPS	Country Partnership Strategy
DPL	Development Policy Loan
EASSy	East Africa Submarine System
EIB	European Investment Bank
EPZ	Export Processing Zones
ESW	Economic and Sector Work
EU	European Union
FIAS	Foreign Investment Advisory Service
FSAP	Financial Sector Assessment Program
FY	Fiscal Year
GDP	Gross Domestic Product
GEF	Global Environment Facility
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion Report
ICT	Information and Communication Technologies
IDF	Institutional Development Fund
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IMF	International Monetary Fund
IOC	Indian Ocean Commission
MDG	Millennium Development Goal
MFA	Multi-fiber Agreement
MIC	Middle Income Country
MIGA	Multilateral Investment Guarantee Agency
MTEF	Medium-Term Expenditure Framework
NEA	New Economic Agenda
NEAP	National Environmental Action Plan
OPEC	Organization of Petroleum Exporting Countries
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PERL	Public Expenditure Reform Loan
PFM	Public Financial Management
PIU	Project Implementation Unit
QAG	Quality Assurance Group
SACU	Southern African Customs Union
SADC	Southern Africa Development Community
SME	Small and Medium Enterprise
TCF	Technical Cooperation Facility
TDS	Technology Diffusion Scheme
UNDP	United Nations Development Program
WBI	World Bank Institute
WMA	Wastewater Management Authority
ZEP	Zones d'Education Prioritaires

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This CPS was produced by a core CPS team including Lilia Burunciuc, Janet Dooley, Robert Keyfitz, Luis Alvaro Sanchez, and Harifera Raobelison, under the overall guidance of James Bond. Richard Newfarmer, Sascha Djumena, Ann Rennie, Alain Labeau, Marc Juhel, Ganesh Rasagam, John Donaldson, Maria-Teresa Benito Spinetto, Isabel Neto, and other members of the Bank Group-wide Mauritius Country Team also made valuable contributions throughout the process. Helpful guidance and advice was provided by Tevfik Yaprak (OPCS). From the European Commission, Hans Rhein and Vikramdityasing Bissoonauthsing greatly contributed to the development of this CPS.

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Foreword

This Country Partnership Strategy has been prepared together with the Government and with the European Commission's 2007-2013 Country Strategy Paper. This joint work is part of the harmonization agenda, following the presentation of the reform program of the Government of Mauritius. It includes a shared diagnostic and results matrix. The European Commission and the World Bank have also agreed to undertake joint implementation by supporting common programs and carrying out joint evaluations and mid-term review.

EXECUTIVE SUMMARY

(i) Since independence in 1968, Mauritius has achieved remarkable economic and social success, based on good governance, exceptional use of preferential trade agreements for its sugar and textile exports, and the development of strong tourism and financial services industries. At independence, the country was poor, with a per capita income of about US$260. Today, per capita income is US$5,250, the second highest in the Africa region after Seychelles, with good social indicators.

(ii) However, while economic performance remains good by international standards, Mauritius is facing significant economic and social challenges as it is forced to transition from dependence on trade preferences to open competition in the global economy. Average growth has slowed from over 7.5 percent in the second half of the 1980s to 3.5 percent during the past five years. The fiscal deficit is estimated at 5.4 percent of GDP for FY05/06. And unemployment (currently at 8-10 percent) is on the rise due to a mismatch in labor skills and labor market rigidities. The country's challenge is now to boost economic growth through higher productivity; develop human capital through education reform to raise skill levels; promote new emerging sectors and move Mauritius to a more knowledge based economy while preserving its long standing commitment to social welfare.

(iii) To address these challenges, the Government of Mauritius has laid out a plan to get Mauritius back on a high growth path, and protect Mauritians who are being negatively affected by the transition. The reform program presented in the budget on June 9, 2006 has four pillars: (i) Fiscal Consolidation and Improved Public Sector Efficiency; (ii) Improving Trade Competitiveness; (iii) Improving the Investment Climate; and (iv) Democratizing the Economy through participation, social inclusion and sustainability. The new reform program lays out an impressive roadmap in addressing the challenges ahead by liberalizing the economy, improving the public sector, reforming the tax base, promoting investment, and establishing a new social program. The challenge is to now develop sector programs and implement reform.

(iv) Given the magnitude of the country's economic and social challenges, the Government has asked for increased support from the World Bank, especially in terms of the provision of knowledge, and from the European Union (EU), with whom the country has had longstanding trade ties and assistance through the European Development Fund.

(v) This FY07-13 Country Partnership Strategy (CPS) is based on three guiding principles: (i) alignment with the Government Program; (ii) flexibility; and (iii) harmonization. It has been developed in close collaboration with the Government of Mauritius and the European Union to ensure that it responds to the country's emerging needs, and reflects a coherent approach of Mauritius' major development partners. This CPS builds on lessons learned from previous Bank experience in Mauritius and on the flexible approaches developed elsewhere in the Bank for Middle-Income Countries. It is grounded in the Bank's recognition that it needs to adapt its business model to Mauritius' development agenda, and the Government's recognition that the Bank brings much more than financial resources to the table.

(vi) The CPS takes as a starting point the four pillars of the Government's strategy. Details of the Bank Group program in Mauritius will be set out each year in an Annual Business Plan (ABP). The ABP will be developed in parallel with the Government's annual planning and budget processes to ensure that the Bank is fully in step with Mauritius' development agenda, and with other donors' support.

(vii) The CPS objective is to help the Government deal with short-term trade shocks and the transition to a more competitive and sophisticated economy, while minimizing negative social impacts. It is built around a results framework outlining a broad list of potential outcomes agreed with the Government of Mauritius and the EU. However, because the CPS sets out a broad program, the elements of which will be determined every year through Annual Business Plans, it is not expected that the Bank will contribute to all of the pre-identified outcomes, but only to those in which it will be involved.

(viii) The Government has indicated its interest in a range of Bank instruments to help it implement its reform program and achieve its strategic objectives over the next seven years. *First*, the Government has requested a series of annual development policy loans (DPLs) to help implement key facets of the reform program, for an expected IBRD amount of US$30 million each, starting from FY07. This budget support program will be done jointly with other development partners, particularly the EU, France, and the African Development Bank. *Second*, the Government has requested infrastructure investment loans, for which cofinancing will also be sought, notably with the EIB. *Third*, the Government would like analytical and advisory work to continue and intensify. To support the Government's research needs, the Bank is putting in place a Rapid Response Facility and the EU a Technical Cooperation Facility. The two institutions are exploring with Government the possibility of a Joint AAA funding arrangement to create a coherent EU/World Bank framework for technical assistance and analytical work for the Government's reform program. It is hoped that this arrangement will catalyze additional resources for analytical work, and be done jointly with Government. *Finally*, over the CPS period, the Government will be seeking increased partnerships with the other parts of the Bank Group (IFC and MIGA), to assist in the mobilization of private investment.

(ix) The strategy faces several key risks, the most important of which are as follows. *First*, there may be erosion of support for the reform program in light of the difficult transition. The Bank will monitor the situation and adjust the program as necessary. *Second*, there is a risk that the Government may not borrow from the Bank. To better manage the work program and adjust if the Government does or does not borrow, the Bank and Government have agreed to plan and review the work program on an annual basis. *Finally,* there is a risk that the Bank may not be able to meet the expectations of the client, especially as far as the analytical and advisory work is concerned. The demand of the Mauritian Government for the Bank's services currently exceeds what the Bank can reasonably finance out of its operational budget. Therefore, this strategy proposes the creation of the joint donor-government AAA fund that can finance analytical work and technical assistance to meet the government's research and capacity needs.

Executive Directors may wish to consider the following issues for discussion:

- Does the CPS and its companion Annual Business Plans, appropriately respond to Mauritius' needs, balancing flexibility with accountability?

- Predicting results for a MIC program where Bank support will only be determined on an annual basis is a challenge. Is the proposed framework, providing a menu of possible results depending on what tasks the Bank carries out and doing it jointly with the EU, appropriate?

- Given the limited Bank resources for Mauritius, is the proposed approach to partner with other donor institutions and to catalyze additional resources, including from the Government, a sensible one?

Mauritius Country Partnership Strategy 2007-2013

I. COUNTRY CONTEXT AND OUTLOOK

What Drove the Success of Mauritius' Economy

1. Mauritius is a small island economy in the Indian Ocean with a population of 1.2 million people and an income per capita of US$5,250. It has achieved spectacular economic success since independence in 1968, outperforming most other countries in the region and middle-income and small island states as well. From 1968-2004, per capita GDP growth averaged 3.8 percent[1] compared to 2.3 percent for low- and middle-income countries overall, as successive waves of diversification transformed the country from a monocrop sugar producer to an exporter of sugar, textiles and clothing, tourism and financial services. Underpinning this success was a well-conceived and executed strategy to create growth and employment through labor-intensive, export-oriented manufacturing, while maintaining social harmony through an elaborate social welfare system. In this context, Mauritius has been successfully benefiting from preferential trade regimes in sugar and textiles.

2. Mauritius boasts a vibrant democracy along with well established traditions of consensus building and maintenance of social harmony.[2] The system of parliamentary democracy has helped boost democratic values and political stability, an essential ingredient for steady economic growth. These were well reflected in the July 2005 election of a new government as, despite a keenly contested election, some policy continuity has been maintained. Indices for voice and accountability, government effectiveness, regulatory burden and rule of law are sharply more favorable in Mauritius, not only compared to other countries in Africa[3], but also to fast growing emerging Asian countries.

The Situation Today

3. Today, Mauritius is facing a sharp transition from dependence on trade preferences to open competition in the global economy. Moreover, it is doing so in an unusually difficult environment because of a "triple trade shock" caused by the erosion of trade preferences in sugar and textiles and the rise in oil prices. As a small island economy heavily dependent on sugar and textiles, Mauritius is among the most vulnerable countries in the world to current changes in the world trade regime. The fact that the rest of the economy is less sophisticated than the sectors subject to international competition (EPZ and tourism) does not help.

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[1] Average GDP growth for the same period was 6 percent.

[2] Mauritius has been a parliamentary democracy based on the Westminster system of democracy model since independence in 1968. National and local elections are held every five years under the supervision of an independent Electoral Commission. The political landscape consists of numerous political parties, both small and large. Mauritius has an independent judiciary based on a combination of English Common Law and the Napoleonic Code.

[3] Mauritius ranks 51 out of 158 country rankings in the 2005 Transparency International Corruption Perception Index, third in the Africa region after Botswana and South Africa.

4. So far, trade preference erosion has mainly affected the clothing sector. Mauritius is a relatively high-wage country, and with the end of the Multi-fiber Agreement (MFA) in January 2005 it is no longer able to compete in traditional market segments. As a result, the export processing zones (EPZ) apparel sector has downsized by over a third in the past several years. A similar fate likely awaits its sugar sector when the EU begins implementing price cuts in 2006, leading to a sugar price reduction by 36 percent by 2009. Meanwhile, the rise in oil prices from $24/bbl in 2002 to more than $70/bbl in early 2006 has added nearly 4 percent of GDP to the annual oil import bill. From 2003 to 2005, its terms of trade deteriorated by nearly 15 percent, equivalent to a massive 10 percent of GDP. In addition, export growth has been depressed further by sluggish economic conditions and weak import demand from Europe, which is Mauritius' main trading partner.

5. The combined effect of these developments has been a slowdown of growth from 5-6 percent in the late 1990s to 3-4 percent over the last five years. Exports have stagnated in real terms, and productivity growth has slowed sharply. In 2005, the growth rate slowed further to just 2.5 percent, as a poor sugar harvest coincided with a sharp contraction of the EPZ. The creation of new jobs has not been fast enough to prevent an increase in unemployment. Domestic investment has fallen, the current account has deteriorated sharply and foreign exchange reserves have fallen. Fixed investment slumped to an average of just 22 percent of GDP in 2001-2005 from as much as 30 percent in the mid-1990s; both public and private investment shared in the retrenchment, except for a brief spike in public investment in 2003 associated with the Government's New Economic Agenda and construction of a Cyber Tower and business park including an ICT infrastructure platform.

6. Mauritius' economic success has translated into welfare improvements, but these achievements are under threat. The incidence of absolute poverty is relatively low, although pockets still prevail in some suburban and coastal regions in Mauritius and on the Island of Rodrigues, and certain groups have remained marginalized. Some 12 percent of the population is estimated to be poor, based on a poverty benchmark calculated at 50 percent of the median monthly household expenditure. According to the Household Survey (2001-2002[4]), 10.2 percent of households were earning less than Rs 5000 (about US$154) a month. Significant gender and regional differences exist. The incidence of poverty is relatively higher among female-headed households (33.8 percent) than among male headed households (8 percent). On the island of Rodrigues, the poverty rate is 30.2 percent. The incidence of poverty in rural areas is more than three times that of urban areas.

7. Unemployment has become a serious social problem, climbing steadily from below 3 percent in 1991 to nearly 10 percent today. There is an important social dimension to unemployment: nearly a third of the unemployed live in households in the bottom quintile of income distribution, 15 percent live in households with no other sources of income, and a high proportion of unemployed are women (who account for two-thirds of the unemployed in the EPZ sector). The unemployed also are disproportionately young; in 2005, the 12-24 year age bracket comprised 16 percent of the active population but 43 percent of the unemployed, and the unemployment rate among youth (under 25 years old) was 26 percent compared to a moderate 6.5 percent for those 25 or older. Most of the unemployed have low educational attainment – 88 percent have not received a high school

[4] These are the latest data available; household surveys are carried out every five years.

certificate. Meanwhile, other social problems such as crime, domestic violence and HIV/AIDS are on the rise. These issues aside, the overall social picture is quite positive and encouraging, as demonstrated by good progress on the Millennium Development Goals (MDGs).

Millennium Development Goals

8. Mauritius is one of the few countries in Africa that have either met or are highly likely to meet all but one of the Millennium Development Goals (MDGs) by the year 2015. It has accomplished remarkable results over 15 years in terms of the MDG indicators, with four out of the eight specific goals already achieved, largely due to the maintenance of free health care and free primary and secondary education. The overwhelming majority of the population has access to safe drinking water. Primary education is universal. The general state of health of the population is good. Life expectancy has increased from 62 years at the time of independence in 1968 to 73 years (2005), and infectious diseases such as malaria, polio, diphtheria, typhoid and cholera have been virtually eradicated.

9. The only MDG that Mauritius is unlikely to meet is the reduction by two-thirds in child mortality. Mauritius' infant mortality rate currently stands at 14 deaths per 1,000 births. This is well lower than the rate in most middle-income countries. Bringing the rate down from 14 to 6 (below the level the USA has today) is considered unlikely given Mauritius' level of income, especially in the various pockets of poverty. On the whole, Mauritius' development challenges go well beyond the reaching of the MDGs and focuses on successfully guiding Mauritius to the next level of development.

Main Challenges

10. **Economic challenges**. Considering the severity of the external shocks, the economy's resilience to the removal of textile preferences and increase in oil prices has so far been impressive. Nevertheless, with its traditional exports no longer globally competitive, Mauritius' most urgent challenge is economic. To stimulate the growth of new, emerging sectors and facilitate the movement of resources into them, a nexus of problems must be addressed.

11. The ***first*** task is to move resources – land, labor and capital – out of slow-growing, low-productivity sectors into dynamic, new activities where Mauritius has a potential competitive advantage internationally and may be able to achieve rapid productivity growth. This will require integrating the large and growing informal sector back into the formal economy. In addition, the present system of overly complex industrial regulations, fiscal incentives and inflexible labor-market institutions will have to be reformed; they currently are biased toward stasis rather than innovation, toward production for protected domestic markets rather than exports, and toward capital-intensive technologies rather than labor. The problems are especially severe for small enterprises, which lack not only the necessary sophistication, but also access to legal, marketing and other support services.

12. A ***second*** element necessary to reignite growth is to upgrade services that are crucial inputs into internationally competitive sectors. High telecommunications costs often run two to four times higher than comparator countries, hobble the off shoring and ICT industries, and discourage essential internet access for businesses trying to sell Mauritian products in export markets. Restrictions on air access keep passenger and

freight transportation costs high. Electricity costs, meanwhile, are higher than in comparator countries while the public provider is accumulating losses. While there is a potential of alternative energy sources (biofuels, including ethanol and bagasse, and wind energy), a clear, sound energy policy is needed, in particular as concerns independent power producers. Transportation infrastructure is also inadequate for a more advanced economy and congestion is becoming increasingly costly in terms of direct costs on business, loss of time, use of fuel and impact on the environment.

13. ***Third***, critical lapses in education and barriers to hiring foreign workers have created shortages of people with essential technical and managerial skills. Mauritius is turning out too few workers and professionals with the world-class skills needed to compete effectively in tourism and hotel management, off shoring and ICT businesses and other dynamic global industries. At the heart of the problems in education is the fact that only two-thirds of children reach secondary school, only 36 percent complete high school and only 14 percent obtain tertiary qualifications compared with about 40 to 60 percent for countries at similar PPP income per capita.

14. ***Fourth***, bureaucratic procedures, red tape and corruption highlight the need for public sector reform. Greater efficiency is needed at a time when there are exceptional demands for social spending, transitional support and investments in infrastructure, but public sector debt of around 70 percent[5] of GDP is constraining fiscal space. Poor fiscal discipline, misalignment of budget allocations with national priorities, widespread and costly tax expenditures and poorly targeted subsidy programs all contribute to low overall public-sector efficiency.

15. **Other challenges.** Apart from the need for economic reform, the country also faces *social* challenges. Mauritius' developmental success is built on social cohesion. With the rise of unemployment and educational inequalities the restructuring of the economy may risk increasing the poverty among certain segments of the population, unless appropriate and well targeted social safety nets are put in place.

16. In the *health* sector, the overall indicators are good. But Mauritius has the second highest prevalence rate of diabetes in the world, and HIV/AIDS incidence, though relatively low, has been rising, particularly among drug users. It is estimated that there are some 18,000 injecting drug users in Mauritius, and that some 13 percent of these are infected with HIV/AIDS virus. Without sustained and determined action now HIV/AIDS could soar within a decade as has been observed in other countries with similar profiles.

17. *Environmental* challenges are also important. Tourism has proved to be a reliable pillar of growth, but the country's goals of nearly tripling arrivals to two million over the next decade and constructing 18,000 new hotel rooms will call for careful environmental management. A strategy is needed for waste management and protection of ocean resources. The environmental implications of withdrawing significant amounts of land from sugar cultivation also need to be addressed. As a small island, Mauritius is also exposed to climate change, cyclones, and rising sea levels, requiring disaster management and early warning systems. Mauritius also faces a risk of oil spills, which would threaten such environmental resources as coral reefs, sea grass beds and beaches, and thus affect tourism.

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[5] Including parastatal debt.

18. *Gender* issues have been brought to the fore by downsizing in the textiles and clothing industries, where layoffs have predominantly affected women, whose unemployment rate far exceeds men's.

Medium Term Economic Outlook

19. Mauritius' long term prospects are good. Over the past quarter century the country has been a star performer and the recent resilience in the face of a difficult structural transition and a sharp trade shock has also been impressive. Strong institutions and a pragmatic approach to economic management provide a solid platform for reforms which the Government is introducing. While this is a time of considerable uncertainty, there is no reason to anticipate a radical break from past trends. Long term (20 year) scenarios prepared for the *Country Economic Memorandum* indicated that growth in the range of 4-6 percent annually should be feasible (Table 1). However, moving the outcome toward the top of the range would entail a significant reform effort in a range of areas.

Table 1 – Long Term Growth Scenarios

average percentage growth, 2005-25

	Low	Medium	High
Output	3.2	4.8	6.5
Employment	0.6	1.2	2.1

Source: Mauritius CEM

20. In the medium term, the expectation is that growth will recover progressively from recent levels toward that range (Table 2). Of course, the speed of the recovery depends on the quality and credibility of the Government's reform program and the assumption underlying the outlook is that it will continue and have a significant impact. Table 2 anticipates an acceleration in GDP growth from 3.5 percent in FY 05/06 to an average of 5.3 percent in FY 10/11-12/13, while inflation, though relatively high as a result of exchange rate depreciation, remains stable. Both savings and investment rates trend higher, with private investment rising by two percentage points of GDP. The current account deficit remains around 4 percent of GDP. The outlook assumes the successful implementation and acceptance of structural reforms, although it is somewhat more pessimistic than the Government's own projections.

Table 2: Medium Term Outlook

	05/06	06/07	07/08	08/09	09/10	Avg 10/11-12/13
Real GDP growth (%)	3.5	3.5	3.6	3.8	4.3	5.3
Inflation (%)	5.1	8.5	6	6	5.5	4.5
Gross Domestic Investment/GDP (%)	23.7	26.6	24.5	24.0	24.3	26.5
-Private (%)	15.0	15.8	16.1	16.4	16.5	18.2
Gross domestic savings (% GDP)	14.8	18.5	19.3	20.1	21.8	24.5
Current account balance (% GDP)	-5.2	-7.0	-4.8	-3.8	-2.4	-2.2
Government deficit (% GDP)	-5.4	-4.7	-4.2	-4.1	-3.5	-3.0
Government debt (% GDP) [1/]	59.0	58.5	57.9	57.4	55.8	51.9

Source: World Bank Local Data Base, September 2006.

[1/] *Excludes parastatals.*

21. The issue of fiscal sustainability is of critical importance. Consolidated central government debt is currently around 59 percent of GDP and total public sector debt (including parastatals) is around 70 percent of GDP, with the assumption that it will trend down. While that level of debt does not threaten an imminent melt-down, it does expose the economy to downside risks. The IMF[6] assesses medium term vulnerability by estimating the impact of various shocks on 2007/08 debt/GDP (Table 3). The initial conditions in their scenarios are near to current values. The scenarios begin with a 2004/05 debt of 71.8 percent of GDP. Under the baseline assumption of a moderate fiscal consolidation, the debt to GDP ratio falls to 63.9 percent while with no adjustment it rises slightly to 75.7 percent. But with adverse developments in growth and world interest rates, the no-adjustment situation quickly gets out of control and debt rises to 112.3 percent of GDP.[7] By contrast, with adjustment the outcome is a still manageable 75.7 percent of GDP.

Table 3 – Public Debt/GDP Ratios Under Various Scenarios

Percent

	FY 07/08
Baseline	63.9
- Low growth	70.7
- Low growth and high interest rates	75.7
No adjustment	76.4
- Low growth	86.6
- Low growth and high interest rates	112.3

Source: Sacerdoti et al 2005. Note: initial debt level is 71.8% of GDP in 2004/05.

Government's Actions to Date

22. Since the publication of the long-term prospective study, *Vision 2020*, in the mid-1990s, there has been a widespread acceptance that Mauritius' long term development depends on moving away from low-wage, labor-intensive commodities exports to more skilled, high value-added, knowledge-based services. The country has taken many steps towards realizing this vision, including restructuring the sugar and textiles sectors; establishing an offshore financial sector utilizing a network of double tax treaties; promoting information technology and other priority sectors through various incentive schemes; designation of a Cyber Park and construction of a publicly funded, Rs 1.5 billion, state of the art, Cyber Tower with fiber optic wiring; modernizing the port and establishing a Freeport which provides a duty-free logistics, distribution and marketing hub; strengthening and deregulating telecommunications; and more. Many firms have upgraded their technology, some with assistance from the Government's technology diffusion scheme (TDS). Signs of a fledgling new economy taking hold offer encouraging support for the overall concept. But the new economy, comprising activities such as seafood, information technology and business process outsourcing, remains small in terms of output, exports and employment.

[6] Sacerdoti, Emilio, Gamal El-Masry, Padamja Khandelwal and Yudong Yao 2005, Mauritius: Challenges of sustained growth, (Washington, IMF)

[7] The shocks modeled are a two standard deviation fall in growth and a two standard deviation rise in interest rates for a two year period.

23. Today there is broad acceptance of the need for deep structural reform and an awareness that speeding up transformation will require more than just tweaking incentives at the margin.[8]

II. GOVERNMENT DEVELOPMENT PROGRAM

24. The Government's program entails a delicate balance of economic and political factors for which it expects to harness broad support. But while the program lays out long term issues, details still need to be spelled out.

(i) Fiscal Consolidation and Improved Public Sector Efficiency

25. Fiscal consolidation is based on explicit rules intended to put deficits and debt on a downward path by: (i) limiting government borrowing to the financing of the capital budget; and (ii) reducing the ratio of net public debt to GDP. Projections from the Ministry of Finance anticipate revenue stabilizing at around 19 percent of GDP, accompanied by a decline in the share of expenditure from 25.4 and a narrowing of the overall central government budget deficit.

Table 4 : Fiscal Projections
(as % of GDP)

	05/06	06/07	07/08	08/09	09/10	Avg 10/11-12/13
Current revenues	19.9	20.1	19.3	19.1	19.3	19.4
Current expenditures	22.1	21.5	20.1	19.8	19.2	18.8
Capital expenditures and net lending	3.2	3.4	3.4	3.5	3.5	3.6
Budget balance	-5.4	-4.7	-4.2	-4.1	-3.5	-3.0
Primary balance	-0.6	-0.1	-0.2	-0.2	0.2	0.0
Government debt [1/]	59.0	58.5	57.9	57.4	55.8	51.9

Source: World Bank Local Data Base, September 2006.
[1/] *Excludes parastatals.*

26. The Government's Medium-Term Expenditure Framework (MTEF), supported by Sector Ministry Support Teams set up at the Ministry of Finance and Economic Development, will underpin this consolidation, anchoring annual budgets within an aggregate multi-year framework and enabling the Government to set priorities and resolve budgetary trade-offs. Operationalization of the Mauritius Revenue Authority and a reduction in tax expenditures and discretionary ministerial powers to remit taxes and duties are expected to improve revenue collections. At the same time, proposed modifications to the structure of direct taxes will streamline incentives and increase equity. The expectation is that the new tax structure will better reward effort, innovation and entrepreneurship, increase transparency, and encourage investment and job creation, especially by small and medium enterprises (SMEs).

[8] A preliminary communications assessment found that there was an overwhelming awareness of the economic challenges Mauritius is facing and agreement that action needs to be taken; however, as with all complex reform transitions, there is not a full agreement among all stakeholders on how to minimize the impact of the transition on the population.

27. On the expenditure side, policy measures focus on eliminating waste and increasing efficiency. More careful monitoring of capital projects is intended to improve the quality of public investments and discourage unjustified cost overruns. Closer scrutiny of recurrent expenditures will reduce waste and improve efficiency.

(ii) Improving trade competitiveness

28. The centerpiece of the effort to improve trade competitiveness is an overhaul of the incentive framework to reduce distortions and biases. A three-year program to liberalize tariffs and turn Mauritius into a duty-free island is aimed at leveling the playing field between producing for the domestic and export markets. In the first year, the maximum tariff will be lowered from 65 percent to 30 percent, and the number of bands reduced from 7 to three. Subsequently, revenues will be brought down to 0.1 percent of GDP by 2008-2009 from 1 percent before reforms. In addition, the incentive regimes for EPZ and non-EPZ firms will be unified; among other things, that will include setting all corporate taxes at a neutral 15 percent (also to be phased in over three years).

29. A second phase of the program will tackle the high cost of services. The cost of International Private Leased Circuits will be reduced by 25 percent immediately, while increasing competition and strengthening the telecommunications regulator (ICTA) will promote more cost-effective supply in the future. Other measures call for liberalizing air access, developing ports infrastructure, increasing training and promotional efforts for the hospitality and tourism sector, and strengthening financial institutions.

30. Restoring global competitiveness also requires modernizing and restructuring existing sectors (sugar and textiles and clothing) and, where a role for the public sector is indicated, providing public support for the development of new activities such as ICT, financial services, specialty tourism, seafood and land-based ocean activities. Achieving these objectives will entail adequate planning and preparation of long term development plans and sectoral strategies as well as enhanced access to financial services.

(iii) Improving the Investment Climate

31. A range of reforms is proposed to make the regulatory environment more transparent and less burdensome. The plethora of incentive schemes will be streamlined, development and building permits merged, and the system administered on the basis of ex-post verification rather than ex-ante approval, with the goal of reducing the time to start a business to three days (from 46 in 2005). Overhauling the current tripartite wage-setting machinery and easing restrictions on redeploying workers will increase labor market flexibility, while liberalization of the regime for issuing work permits will enable employers to hire workers with needed skills. Most importantly, the Board of Investment will be converted from an administrator to a facilitator and promoter of investment. The aim is to secure a position for Mauritius in the top ten most investment- and business-friendly locations in the world (according to the *Doing Business* survey).

(iv) Democratizing the economy through participation, social inclusion and sustainability

32. The Government announced an Empowerment Program to ease the burden of unemployment, enhance job prospects, reduce labor and skills mismatches and promote

small and medium enterprise (SME) development. A major plank of the program will provide wage subsidies for on-the-job training or retraining for 20,000 unemployed and redeployed workers over the next five years. There also will be special programs for women who have been particularly affected by the downsizing of the textile sector. Other components will make land available for small entrepreneurs, provide social housing and increase financial and technical support for SMEs.

33. Education and training will be key components of the Program, designed both to broaden workers' access to jobs and increase the skills base available to employers. Two priority areas for skills development and upgrading are the tourism sector and ICT. The Government also will support upgrading and training of teachers and supervisory personnel, review the educational curriculum to encourage creativity and cognitive thinking, revitalize the Zones d'Education Prioritaires (ZEP) providing special support to pupils attending low performing primary schools, and develop a national strategy for tertiary education to enhance competitiveness in the global economy.

34. To ensure sustainability of social spending, social subsidy programs will be reconfigured to target income support to the needy, and the pension age will be progressively raised from 60 currently to 65 years. Another objective is to ensure access to high quality health care for all, with special attention to vector borne disease (Chikungunya), HIV/AIDS which has been on an upward trend among drug users, and diabetes, as Mauritius has one of the world's highest prevalence rates.

Bank and EU Assessment

35. Despite the formidable nature of the challenges ahead, the government is enacting its program with considerable and well known assets – a substantial tourism related infrastructure and attractive beaches, a multi-lingual and moderately well educated work force, a strong system of governance, and a culture of democracy. No less important is the credibility of its policy framework, a credibility carefully constructed over several political administrations and recognized around the world. Putting these assets to work in ways that will propel the country back to a higher growth rate requires tackling lingering policy problems with a decisive and coherent national strategy that enjoys broad support among senior policy makers and the society at large. A dialogue with all stakeholders is an important element for its success.

36. The authorities are fully aware of Mauritius's major economic challenges and their reform plan is entirely homegrown. Realizing that business-as-usual is not an option given the immediate threats to macro-stability, the Government's bold budget represents a break from the system that worked well in the past but is no longer viable. It seeks to move away from "an outdated socio-economic model … a non-functional system which is very complicated, hard to understand and open to abuse."[9] and accepts that a failure to adapt to globalization has slowed growth and contributed to a deterioration in macroeconomic performance. It charts a new course toward more market-driven, transparent and rules-based economic management based on clear rules and guidelines to replace the current regime of special incentives and interventions.

[9] Securing the Transition: From Trade Preferences to Global Competition, Government of Mauritius, Budget Speech 2006-2007, June 2006.

37. While the World Bank, IMF, EU and other donors fully support the direction of this initiative, several structural reform measures outlined in the 2006/07 budget must be more fully spelled out, including costing and prioritizing over the medium and long term. Notably, a more detailed program addressing needs in education, the financial sector, infrastructure, energy, institutional development, parastatal-sector reform, price liberalization, air access and telecommunications regulation needs to be developed.[10]

38. The 2006 budget is the first step in an ambitious program that entails significant political challenges. Its ability to move forward with the reform program over the medium and long term will depend on its ability to get buy-in both within Government as well as from the broader population. Additionally, the Government will have to address the challenges of implementation by overcoming capacity and organizational constraints within Government.

39. To fund the program, the Government is rightly seeking the additional internal and external resources by improving fiscal management, proactively seeking more investment, getting the diaspora engaged, and seeking higher levels of support from the international community, including greater coherence among development partner programs. The speed and scope of the reform efforts will depend to a certain extent on the Government's ability to mobilize necessary funding and prioritize and sequence investments over the medium-term.

III. LESSONS LEARNED FROM PAST WORLD BANK EXPERIENCE

40. In preparation of this Country Partnership Strategy, the Bank carried out a Completion Report of the previous FY02-04 CAS (Annex 2). Several important lessons from this analysis have been factored into the design of this Strategy. In terms of overall approach, the alignment of the Bank's assistance to the Government's program worked well as the Bank's activities were strategically relevant and led to results. However, predetermining a multiyear program did not work well, as the Bank's work over the CAS period diverged from what was planned. In particular, the Government did not borrow two out of the three expected loans, and the analytical work that was carried out differed from what had been planned.

Box 1: Main Recommendations from the CAS Completion Report

1. The Bank should continue to align its program to the Government's.
2. It should use a more flexible approach in its work with Mauritius through a joint Annual Business Planning process.
3. The Results Framework should be realistic and linked to areas where the Bank can have impact.
4. Additional resources for AAA work should be leveraged over and above the Bank's budget.
5. Greater emphasis should be given on dissemination of findings of analytical work and collaboration with other donors.
6. All arms of the World Bank group should support an integrated program.
7. A one-person liaison office in Port Louis should be established to maintain regular dialogue and outreach efforts.

[10] A more detailed assessment outlining the main reform challenges will be provided in the documentation

41. On the lending program, an important lesson from the last CAS was that the Government found the transaction costs of borrowing from the Bank too high. Since the planned lending did not transpire, the CAS Completion Report recommends allowing flexibility for adjustment or investment lending, and having a fall back position if no lending occurs. Although the Bank did not carry out all the planned operations, the activities that the Bank did finance led to results, contributing to the conclusion that Mauritius is a country where donor interventions can lead to development impact.

42. Over the CAS period, the Government expressed particular interest in the Bank's analytical and advisory assistance (AAA) and access to worldwide experience. According to the various evaluations, Bank AAA for Mauritius was generally considered of high quality and informed Government policy making. However, the limited budget for Mauritius posed constraints in always meeting the Government's needs in a timely manner. For example, greater emphasis could have been placed on dissemination and follow-up, which was constrained by the limited budget for Mauritius. Moreover, the AAA work diverged from the CAS program as the Bank tried to be responsive to the Government's needs. The assessment of the last CAS therefore suggested that a jointly agreed list of prioritized activities prepared on an annual basis with participation of line ministries would increase clarity on Bank support to Mauritius. In addition, it is recommended to leverage Bank financing of AAA – for example, through a cost sharing arrangement with the Government. Another possibility would be for the Government to use its own resources for project preparation in cases of lending, which would free up the budget for AAA.

43. On the monitoring of program results, the last CAS policy matrix focused on higher order goals of the Government's reform program, to which Bank assistance was aligned but over which the Bank's interventions would have only an indirect influence. Forecasting expected results of the Bank's support remains a challenge, however, as its program will only be determined on an annual basis.

44. Finally, coordination with other donors was good in specific sectors, but less effective at a strategic level. In addition, more could be done to leverage the limited IBRD program through the other arms of the Bank Group – IFC, FIAS, MIGA, GEF and WBI. Partnerships and harmonization, therefore, could be enhanced, and form an important part of the new strategy.

45. Based on these lessons and in line with recommendations from the Bank's Middle Income Country Task Force, this CPS sets out a new approach for the Bank's engagement in Mauritius as described below.

IV. COUNTRY PARTNERSHIP STRATEGY

Why should the World Bank be involved in Mauritius?

46. Mauritius has demonstrated over the past decades a capacity to address challenges, profit from opportunities, and increase the welfare of its population even in an environment where institutions are imperfect. Today, as the country embarks on implementation of its new bold program, the Government expects assistance from the

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for the Development Policy Loan series.

Bank to help design and implement reforms using experience and best expertise from around the world.

47. The Bank's involvement in Mauritius is consistent with its comparative advantage as a knowledge institution in line with the Middle Income Country (MIC) approach. Additionally, involvement with middle income clients like Mauritius affords the Bank the opportunity to enrich its knowledge on how to help more advanced clients to continue improving the welfare of their people and to adjust to new global world realities.

CPS Objective

48. The objective of this Country Partnership Strategy is to help Government deal with short-term trade shocks and the transition to a more competitive and sophisticated economy, while minimizing negative social impacts.

Overall Approach

49. The proposed approach is a flexible strategy with annual adjustments to the work program. It is aligned with the EU assistance strategy. The three main principles of the CPS approach are: (i) alignment with the Government program; (ii) flexibility; and (iii) harmonization with other donors.

50. **Alignment with the Government program**. The CPS builds on the Government program, which outlines a broad vision for the long term and includes well defined short-term actions. The government is still operationalizing its vision over the medium-to-longer term; it plans to take into account results on the ground and other relevant developments in this process. The CPS defines a strategic framework that is consistent with the Government strategy, and lays out the broad outcomes the Bank and the EU intend to support.

51. **Flexibility**. The design of the CPS allows for flexibility to assure responsiveness to the Government's demands and to take account of evolving circumstances. The objective is for the Bank to be able to provide the assistance that is needed when it is needed by the client. At the core of the flexible approach are annual business plans prepared jointly with the government and synchronized with the Government's budget and decision-making processes. The annual discussions will include a review of the effectiveness of the Bank's program and whether it is reaching the agreed results. The business plan discussions will take place at the beginning of each calendar year (January-February), right before the start of the Government's and Bank's budget cycles.

52. **Donor harmonization**. In line with the Government's request and consistent with the Paris Declaration on harmonization, the Bank assistance to Mauritius is aligned with that of other donors to provide a package of coordinated support around a common program. Specifically, this CPS includes a common EU-World Bank diagnostic of the political, economic and social situation, a common assessment of the government's program, and a common results matrix, thus providing a platform for joint work on CPS program implementation and monitoring of results. The CPS is designed to facilitate maximum harmonization with other donors, such as Agence Française de Développement

(AFD), African Development Bank (AfDB) and United Nations Development Program[11]. This includes efforts to design and implement joint operations (budget support, investment) and setting a mechanism with donor and government contributions (possibly through a trust fund arrangement) to finance analytical and technical assistance work.

CPS Program

53. The Government has signaled its strong interest in the Bank's analytical and advisory services and policy advice on key strategic issues. The specific services designed to respond to Government's knowledge needs will be agreed upon as part of the annual business-planning process. The Bank and the EU intend to set a mechanism for joint research through a AAA fund to which the government may contribute its own resources. This fund will finance analytical and technical assistance work involving local research institutions and universities. This approach will allow for a greater alignment with the government needs and better transfer of knowledge.

54. The Government has indicated that it plans to borrow US$30 million a year for a series of development policy loans (DPLs). This will be provided as part of a financing package supported by the EU, AFD, AfDB, and possibly other donors. The government also is prepared to borrow for investment operations, but it would like these to be supplemented with concessional or grant money from other donors. Hence, the Bank's investment loans are likely to be part of broader financing packages involving the European Investment Bank (EIB), AfDB and other financiers. The IFC is expected to be a player in supporting investments with particular focus on tourism, financial markets and ICT sectors. The IBRD annual lending volume for FY07-10 is not expected to exceed US$60 million.[12] The IBRD annual lending volume for the period FY11-13 will be determined by the Bank during FY10.

55. Other instruments such as Global Environment Facility (GEF) and Institutional Development Facility grants and WBI training programs will be employed to deal with the environmental and capacity building challenges. Mauritius has requested to be included on the WBI list of focus countries as part of its efforts to develop a regional knowledge hub to serve the Indian Ocean Rim and the network of Small and Vulnerable States, possibly with EU support. FIAS and MIGA will support the government's efforts to increase investments. Finally, Mauritius has signaled its strong interest in participating in regional programs.

[11] Abu Dhabi Fund, BADEA, IFAD and the OPEC Fund have indicated agreement to be part of the coordinated external support and India and China have also been requested by Government to fit their support into the same framework.

[12] For the purpose of the Bank's internal risk exposure analysis it is important to note that if there is a demand for higher levels of funding, the loan package would include a creditworthiness review confirming that funding levels remain within prudent levels.

Box 2: Development Policy Loans

The Bank's budget support consists of a series of Development Policy Loans (DPLs), starting with a US$30 million Trade and Competitiveness DPL in FY07. The loans provide a framework among Government and major development partners (EU, France, and African Development Bank) to support the Government's objective to boost growth and remain competitive while protecting the vulnerable, by implementing structural reforms in public sector management, industrial regulation, labor relations and provision of social safety nets.

The first DPL will support a broad array of strategically important measures including:

- Fiscal consolidation including allocation of budgets according to preset ceilings, reducing tariff protection as a first step toward making Mauritius a duty-free island, and reconfiguring subsidies on rice and flour to take the form of increased income support to the needy;
- Improving the investment climate by streamlining business regulations, including shifting from ex ante approval to ex post verification of license requirements for starting a business; and
- Reforming the labor market by rationalizing the wage setting mechanism and easing restrictions on work and residency permits.

The Strategic Framework of Bank Engagement

56. The Bank's assistance will be structured around the Government's four reform pillars: (i) fiscal consolidation and improving public-sector efficiency; (ii) improving trade competitiveness; (iii) improving the investment climate; and (iv) democratizing the economy through participation, social inclusion and sustainability. This assistance will be provided in an integrated manner by the different arms of the World Bank Group, and will be harmonized with other donors as discussed below. The results matrix in Annex 1 outlines the Government's long-term objectives and the outcomes to which the Bank and EU may contribute. The specific outcomes and impact of the Bank program will depend on the work program that is determined annually.

57. **Fiscal consolidation and improving public sector efficiency.** The Bank, in close cooperation with the EU, AFD and other donors, will support the government's goal to reduce public-sector debt over the long term as a key element of sound macroeconomic management. The assistance under this pillar will target improvements in the quality and effectiveness of public expenditures by making the MTEF operational and enhancing debt-management policies and capacity. The Bank also may support improvements of the tax system. Another potential area is reform of the state-owned enterprise sector to increase its efficiency and reduce the fiscal risks. Development Policy Loans will be a key tool for policy dialogue in these areas. In addition, a series of AAA products will provide the needed analytical underpinning. A planned programmatic Public Expenditure Review (PER), possibly done jointly with the AFD, will play a key role in this regard by focusing on sector strategies and their implications for public finance. In addition, the Government has requested a Public Expenditure and Financial Accountability (PEFA) assessment for Mauritius to be financed by the EC. This assessment should contribute to defining areas for further public financial management reforms with the Government and contribute to the efforts to make public spending more effective.

58. **Improving trade competitiveness**. Assistance under this pillar will support the government's goal of increasing the country's trade competitiveness by removing a series

of constraints such as the anti-export bias of the current institutional set-up, the limited use of regional trade opportunities, the high cost of logistics, and rigidities that prevent rapid adjustment to the external shocks. The reform efforts under this pillar will build on the Country Economic Memorandum (CEM) and Aid-for-Trade work carried out by Bank in FY06. The outcomes that the CPS seeks to influence include the creation of a level playing field for all actors in the economy, an increase in regional trade, and reduced costs of supporting logistics – transportation and telecommunications. Government's efforts to restructure the sugar industry and to improve the viability of the energy sector will continue receiving attention, especially from the EU side. A financial sector assessment (FSAP) to be conducted jointly by the Bank and the IMF will support the government's intention to deepen the financial sector and improve the effectiveness of financial services as a key means of improving competitiveness and integrating small and medium enterprises into the formal economy. This will enable IFC to support second tier banks, thus contributing to deepening of the financial sector, provided that IFC pricing is attractive enough in the context of Mauritius' competitive financial market.

59. While the DPL series and AAA will be the main instruments to support policy dialogue, possible investment projects will support infrastructure upgrades needed for a more advanced and competitive economy. For example, Mauritius has expressed interest in joining the East Africa Submarine System (EASSy), a regional telecommunications project which will finance a fiber optic cable connecting the east cost of Africa to the rest of the world (See paragraph 64). Other potential infrastructure projects include airport and port expansion, and measures to reduce road congestion and travel time. IFC investments will complement the Bank's and other donors' work on infrastructure and energy; these investments may include support for setting up land markets through auctions and assistance in finding strategic partnerships and promoting Private Public Partnerships in the ports, airports and the communications sector, as well as help catalyzing foreign direct investment in key industrial and financial sectors.

60. **Improving the investment climate**. The CPS will support the government's stated intention to join the ranks of the most business-friendly countries in the world. In particular, it will support policy changes initiated by the Government in its regulatory framework, which currently limits the mobility of resources and attraction of additional resources. Specific changes include measures to eliminate labor market rigidities and improve business and land regulations. As with the trade competitiveness pillar, the joint donor budget-support package and selective AAA will support the objectives of this pillar. In FY2007 the Bank will finance an Urban Land Policy Note, and will continue providing advice on the investment climate through IFC and FIAS. Analytical work on the tourist sector under the programmatic PER will provide the underpinning for the tourist sector expansion with possible investment projects supported by IFC. MIGA will help improve investor confidence through the provision of political risk guarantees as needed. MIGA also may help promote private sector investment in the water and wastewater sectors at the sub-sovereign level.

61. **Democratizing the economy**. Important objectives of the Mauritius government are to make the adjustment of the economy to the triple trade shocks as painless as possible for its people, to make sure that the pain is shared equally, and to offer everyone equal opportunities to participate in the new, more competitive economy. Under this pillar, the Bank, the EU and other donors may help with improving the effectiveness of social

assistance in reaching the needy; promoting the inclusion of vulnerable groups of the population; developing an education system that supplies the skills needed in the new economy; and protecting the environment. Bank assistance will build on work undertaken under the previous CAS on education, social assistance and pensions. The programmatic PER (FY07-09) will look into education and retraining needs. A joint World Bank-UNDP effort, supported by an IDF grant, will seek to help the Government deal with the rising threat of HIV/AIDS. In environment, the Bank is likely to continue supporting improvements in wastewater management and other environmental programs, including through the GEF, to protect the environment as tourism and other economic activities expand.

62. The World Bank and AfDB will continue assisting the government's efforts to communicate effectively with the citizenry on the objectives and content of the reform program. This may be the area where the greatest efforts are required to mitigate the implementation risks.

Regional Cooperation Programs

63. With a view to achieving sustainable economic development and full participation in the new international economy, Mauritius has been proactive in promoting its interests at various bilateral, regional and multilateral levels. It also has championed a number of initiatives to support the cause of developing states, including Small Island Developing States (SIDS), and to strengthen regional cooperation and integration. The EU is actively supporting the regional agenda by providing funds at the regional level to promote economic integration, including the sustainable management of natural resources. The EU further intends to sign Economic Partnership agreements with both the Eastern and Southern Africa and Southern Africa Development Community (SADC) regions by 2008.

64. The Government of Mauritius is particularly interested in participating in regional initiatives. It would like to be linked to the East Africa Submarine System (EASSy) fiber optic submarine cable, in which the Bank Group has a coordinating role. This would lower telecommunications costs and increase interconnectivity with the rest of the world – a particularly important goal if Mauritius is to become an ICT hub. The Bank also has been asked to oversee a study of the feasibility of setting up a Center of Excellence in Mauritius to provide public sector training to African Government officials.

65. At the same time, the Bank is ramping up its engagement with the Indian Ocean Commission (IOC), and is in discussions on the possibility of a regional work program that also would benefit Mauritius. Topics include regional waste and energy management, follow-up on the oil spill contingency plan project, follow-up of regional network of coral reefs, promotion of the recommendations of the World Bank-Commonwealth Secretariat Task Force on Small States and the role of the IOC in the (i) Small States Forum 2006 - 2007 and (ii) the project to promote sustainable development in the Atlantic, Indian Ocean, Mediterranean, and the South China Sea (AIMS) Small Island Developing States (AIMS SIDS). The Bank also is discussing technical assistance to support the IOC on tourism, regional fisheries management, trade, ICT, regional maritime transport, hazard risk management and illegal trade control.

Guidelines for Bank Involvement

66. The flexible nature of the CPS creates a need for guidelines as to when and where the Bank should be engaged in Mauritius. Based on Mauritius' financial circumstances and its defensible development agenda, the first basis for any engagement must be demand by Mauritius, which will also ensure that activities undertaken are a country priority. However, on its side, the Bank must ensure that its work in Mauritius serves the institution's broader goals and meets institutional standards. For this purpose, management will regularly monitor both reforms and the environment into which Bank resources are placed.

67. The Bank will ensure that the environment into which Bank resources are placed is adequate in terms of policy direction and governance. This will require regular monitoring of Mauritius' overall reform efforts, particularly progress in areas such as macroeconomic and fiscal management, and the various aspects that could contribute to greater competitiveness, as evidenced by actions in these areas as outlined above. Outcomes in the four pillars of the Government reform program will be monitored through the CPS results matrix and the DPL as outlined below.

68. Under the unlikely scenario of a major departure from sound macroeconomic policies, the Bank would respond by reducing lending volumes, and DPLs will not be available in a context where the macroeconomic framework is unsatisfactory, including, for example, were public debt to rise to a level approaching 80 percent of GDP. Any significant changes in the proposed strategy would be reflected in the CPS Progress Report.

Monitoring and Evaluation

69. The results matrix presented in this CPS is a joint EU-World Bank monitoring tool. It includes outcome indicators for both EU and World Bank programs. Because the CPS sets out a flexible, broad program, the elements of which will be determined every year through Annual Business Plans, the CPS results framework includes a broad list of potential outcomes. It is not expected that the Bank will contribute to all of these outcomes, but only to those in which it will be involved. In addition, given that this is a joint EU-World Bank matrix, it includes outcomes in areas of EU involvement that may not be part of the Bank program. It also is important to note that the Bank may contribute to outcomes that are not reflected in the results matrix, if any are added to the program as a result of the annual business planning exercise. Therefore the results matrix will be further refined as the program is developed as part of the Annual Business Planning exercise.

70. In addition to the results matrix, the CPS program will be monitored and evaluated through two instruments, which have been harmonized with other donors and the Government. *First*, the annual business plan discussions will be used to evaluate the results of the Bank's program and assess whether it is meeting its broad development objectives under the four CPS pillars. The Annual Business Plans also will provide an opportunity to update and fine-tune the results framework in line with the agreed assistance program for each particular year. This exercise will be carried out jointly with the EU. The changes will be reflected in the updated results matrix as part of the regular CPS progress reports (once in 2-3 years). This approach to monitoring and evaluation differs from the traditional approach of a pre-determined program with pre-defined objectives. It

is an approach that fits best a flexible program designed to respond to the needs of middle income countries.

71. *Second*, the joint donor budget support program includes a common results framework which will be used to monitor the overall Government program. The Bank will be supporting the implementation of this program through the DPL series. This framework also will be used to stimulate communication among the different players on results.

72. Should Bank assistance become limited to technical assistance and AAA if Mauritius determines that Bank lending is not sufficiently competitive with other sources of finance available in the market or from other institutions, program monitoring would need to be tailored to the impact of increased knowledge and policy advice. The Bank should then be evaluated on its effectiveness in responding quickly to requests for technical assistance which may occur.

CPS Consultation Process

73. Consultations with Government and non-Government actors were held to better inform this CPS on the challenges Mauritius is facing and their impact on the Mauritian people. As mentioned previously, the CPS was prepared jointly with the European Commission. Input for the CPS was gathered through meetings with stakeholders during Bank mission visits, an assessment on perceptions in the country to the economic challenges done by an external communications group, a CPS website, an online survey, focused group discussions, and distribution of informational materials to broaden the understanding of this Strategy and Government's economic reforms. The feedback received during the consultations was very useful in improving the understanding of the country's needs, and has contributed to an improved CPS design. A fuller account of the consultation process can be found in Annex 5.

V. RISK AND MITIGATION MEASURES

74. The Strategy incorporates measures to deal with foreseeable country and Bank program risks.

75. **Country risks.** There is a risk of erosion of political support for the bold reforms initiated by the Government. It is difficult to predict the outcomes of these reforms, and the results may be slow to come. The ethnic harmony is fragile and tensions could turn into violence unless the economic transition is handled carefully. Hence, there could be a political backlash that may force the government to slow down. There also is the risk that the Government may fail to communicate the reform program effectively to internal and external stakeholders, leading to lack of buy-in and a slow down of reform. The Government may muddle through or focus energies on less strategic efforts that may fail to produce substantive results. In addition, persistent fiscal deficits and excessive demands on domestic credit markets risk crowding out needed investment spending. Finally, external price shocks (particularly oil) may end up in perennial high prices with potentially negative implications. The Bank will monitor the situation and adjust the program as necessary. The joint budget support program with other donors will help the government maintain good macroeconomic management and sustain the pace of reform.

76. **Risks to the Bank program**. There is a risk that the Government may not borrow from the Bank as happened during the implementation of the previous Country Assistance Strategy. During the preparation of this CPS, the Government has repeatedly indicated that it intends to borrow from the Bank over the medium term as it needs: (i) financing for its new reform program; and (ii) the Bank's technical expertise and worldwide experience to help see the country through the challenging time ahead and minimize the social impact of transition. To address this risk, rather than pre-determining the work program over the next several years, the Bank and Government have agreed to plan and review their work program on an annual basis so that necessary adjustments can be made. There is also a risk that the Bank may not be able to meet the expectations of the client, especially as far as the analytical and advisory work is concerned. The Bank's operational budget for Mauritius is relatively small and inadequate to meet the client's expectations. Given the uncertainty concerning how much the government will borrow for either policy or investment loans during the CPS period, the operational budget may be even smaller in the future. The strategy tries to address this risk through the creation of a proposed joint donor-government AAA fund that can finance efforts to meet the Government's analytical and technical assistance needs.

Creditworthiness

77. Mauritius' foreign currency issuer ratings are Baa2/P-2, and the rating for the government's rupee-denominated debt is A2. These ratings reflect the country's modest external debt burden and its economic dynamism within a stable political framework. However, in December 2005, Moody's Investors Service lowered the outlook on Mauritius' debt ratings to negative from stable, "...in light of the unfavorable direction of government finances over recent years, including high levels of government debt."[13] Mauritius debt stands currently at around 70 percent of GDP, but most of this is borrowed internally and poses little exchange risk, especially with foreign reserves at a comfortable level equal to around eight months of imports, however the decline in EPZ export earnings and the higher import bill are placing increasing pressure on external liquidity. The situation is not imminently unsustainable, but the country is vulnerable to macroeconomic risks arising from slower growth, further adverse movements in the terms of trade and rising interest rates. Government has recognized the need for strong fiscal consolidation which was announced in the 2006-2007 Budget Speech. The credit risks to the Bank are low but increasing.

VI. CONCLUDING REMARKS

78. This CPS is designed to ensure strong Government ownership of the Bank's program, to allow the Government and the Bank to adjust that program to changing Government priorities and country circumstances, and thereby to maximize the Bank's contribution to Mauritius' development. As is the case of any new relationship, the strategy will challenge both the Bank and the Government, but if it is successful, it will create a real partnership in service to the people of Mauritius.

[13] Moody's Investors Service Press Release, 21 December 2005

Results Matrix

FY07-13

Government Long Term Objectives	Main Constraints to achieving long term goals	Possible EC and World Bank Strategy Outcomes[1]	Milestones / Process Indicators	Potential Instruments
Strategic Objective: Increase competitiveness of the economy while protecting the vulnerable *Government indicators:* • Achieve sustained growth of around 5% in the medium term • Reduce unemployment from the current level of 10%				
Pillar 1: Fiscal Consolidation and Improving Public Sector Efficiency				
Reduce debt to GDP ratio from 59%[2] of GDP to 46%.	• High debt is threatening macro stability • Public expenditure management not efficient and prioritized • Tax system is unfair and distorts incentives • Lack of transparency in public procurement	• Improved fiscal management by: • Making the MTEF operational • Reducing tax expenditures • Enforcement of new procurement rules as measured by audits	• Compilation and publication of tax expenditures in the budget • PEFA review* • Allocation of budget according to pre-set ceilings • Adoption and Implementation of new Procurement Act • ICAC independence to strengthen effectiveness in investigation • Minister of Finance relinquishing discretionary power to remit duties and taxes and grant exemptions	World Bank Budget Support Rapid Response TA Facility Debt Management Work Public Expenditure Review EC Budget Support (EDF 10 and Sugar Accomp. Measures) Technical Cooperation Facility Other EC instruments as appropriate AFD Budget Support Public Expenditure Review

[1] Because the World Bank's Country Partnership Strategy and the EU's Country Strategy Papers set out a flexible, broad program, the elements of which will be determined every year through Annual Reviews and Business Plans, the results framework presented here includes a broad list of potential outcomes, and will be further refined as the program is developed. It is not expected that the World Bank or EC will necessarily contribute to all of these outcomes, but only to those in which they will be involved. In addition, given that this is a joint EU-World Bank matrix, it includes outcomes in areas of EU involvement that may not be part of the Bank program and vice versa. It also is important to note that the Bank or donors may contribute to outcomes that are not reflected in the results matrix, if any are added to the program as a result of the annual review and business planning exercise. More specific results matrices will be developed in project documents.

*Outcome/milestone to be addressed by EC support. Others include those that the Bank may be contributing to alone or jointly with the EC and other donors.

[2] Excludes parastatal debt

Government Long Term Objectives	Main Constraints to achieving long term goals	Possible EC and World Bank Strategy Outcomes	Milestones / Process Indicators	Potential Instruments
Pillar 2: Improving Trade Competitiveness				
Reduce anti-export bias regulations and put in place supporting infrastructure to promote Mauritius by increasing export/GDP ratio from 60% through improving competitiveness of existing and new emerging sectors	• Tariff protection creates anti-export bias • Difficulties in moving resources out of inefficient activities • Lack of competition in the hotel industry as well as in air access • Limitations in port operational capacity • High telecom prices and limited connection capacity • Lack of a coherent energy policy • Weakness in veterinary controls and framework for fishery exports	• Creation of a level playing field throughout the economy as measured by increase in tradables • Sugar industry made a cost competitive supplier and value added and use of by-products optimized* • Increase of competition in air transport as measured by increased number of carriers • Deepening of the financial sector as measured by the increase in the ratio of private sector credit/GDP • Improvement in port performance as measured by shorter turnaround time, lower average costs, and attracting new business • Reduction in cost of International Private Leased Circuits by 20-35% from 2Mbps = US$7.9K (June 2006) • Sustainable and cost effective energy supply* • Increase in exports with the SADC countries from 1% of GDP (2003), and export with the COMESA countries from 3% of GDP (2003)* • Increase in fishery exports*	• Unification of incentive regime for EPZ and non-EPZ firms • Implementation of the multi annual adaptation strategy for sugar • Adoption of a Tourism expansion strategy (product development & destination promotion strategy) • Development of a plan for strengthening financial sector • Implementation of the port master plan • Establishment of a fiber optic cable under EASSy project • Development of Energy Plan for medium-long term* • Tariff reduction program under implementation • Identification and removal of non-tariff barriers for SADC region towards the development of a free trade regime • Effective free trade regime with COMESA & SADC in place • Strengthening of legal veterinary framework and updating of veterinary controls*	World Bank Budget Support EASSy fiber optic cable Infrastructure investments and TA (port, airport) Rapid Response TA facility Financial Sector FSAP with IMF Land Administration Policy Note Public Expenditure Review EC Budget Support (EDF 10 and Sugar Accomp. Measures) Technical Cooperation Facility Regional Programs ACP-EU global facilities and other intra-ACP programmes EU-Africa/global initiatives (Infrastructure , Water, Energy) Other EC instruments (EDF and Budget), including SPF and Fisheries Agreement EIB projects AFD Budget Support

*Outcome/milestone to be addressed by EC support. Others include those that the Bank may be contributing to alone or jointly with the EC and other donors.

Government Long Term Objectives	Main Constraints to achieving long term goals	Possible EC and World Bank Strategy Outcomes	Milestones / Process Indicators	Potential Instruments
Pillar 3: Improving the Investment Climate				
Become one of the top ten business friendly countries as measured by Doing Business indicators and increase FDI inflows from Rs 2.9 billion in 2005	• Costly regulatory compliance (business registration, work/residence permits)/corruption • Rigid labor market • Low level of technological sophistication • Inadequate land use planning to support the new economy and fast track investments	• Reduction in cost of doing business as measured by surveys (land, labor regulations) • Increase in availability of skills required in emerging sectors • Improved traffic flow along the main corridor in compliance with road safety measures • A working land market with reduced Government intervention	• Creation of a one stop shop business registration mechanism • Revision of legislation to facilitate investment (ex post verification) • System in place that facilitates entry of foreign labor • Setting up of the National Wages Council to replace the present wage setting mechanism • Implementation of an integrated plan for traffic decongestion and public transport improvement • Development and adoption of a land administration and management system • Preparation of action area plans for tourism growth zones and urban urban/rural regeneration areas	World Bank Budget Support Infrastructure investments (traffic decongestion) EASSy Rapid Response TA facility Financial Assessment FSAP (IMF) Land Administration Policy Note Public Expenditure Review EC Budget Support (EDF 10 and Sugar Accomp. Measures) Technical Cooperation Facility Regional Programs EU-Africa/global initiatives (Infrastructure , Water, Energy) Other EC instruments (EDF and Budget) EIB projects AFD Budget Support

*Outcome/milestone to be addressed by EC support. Others include those that the Bank may be contributing to alone or jointly with the EC and other donors.

Government Long Term Objectives	Main Constraints to achieving long term goals	Possible EC and World Bank Strategy Outcomes	Milestones / Process Indicators	Potential Instruments
Pillar 4: Democratizing the Economy through participation, inclusion and sustainability				
Education system facilitates the delivery of the right skills for the economy *Enhance opportunities for SME development* *Empower the Vulnerable Groups* *Sound Environmental Management for Sustainable Development* *Keep HIV/AIDS rate under control not to exceed the current prevalence rate of 0.3%*	• Education attainment levels too low • Access to tertiary education too limited • High unemployment among women • Bias against SMEs in favor of large firms • Social safety nets are costly and not targeted to most needy • Lack of adequate sanitary infrastructure for sustainable development • High rate of increase in HIV/AIDS cases	• Improvement in education outcomes as measured by reduction in failure rate at CPE below 35% (2005) • Elimination of bias (financing, regulatory, skills, etc) against SMEs as measured by increased number of new SMEs registered • Protection programs reach the needy as measured by household surveys • Improvement in the environment by increased use of cleaner technologies in the industrial sector • Adequate wastewater management system in place, ensuring improved health and sanitation • Stabilization of the prevalence of HIV/AIDS at 0.3%	• Development and early implementation of education sector strategy • Redeployment and training programs in place for unemployed and retrenched workers, with a special emphasis on women • Development and introduction of a targeted social assistance scheme • An SME consultancy services scheme to assist start-ups and existing SMEs put in place • Revision of the NEAP 2 and implementation started • Development of a Policy Framework and Action Plan for the Management of the Coastal Zone • Introduction and promotion of the use of cleaner technologies in the industrial sector • Development of Strategy Plan for HIV/AIDS (2006-2010)	<u>World Bank</u> Budget Support Rapid response TA facility Infrastructure Investments GEF projects Public Expenditure Review HIV/AIDS IDF <u>EC</u> Budget Support (EDF 10 and Sugar Accomp. Measures) Technical Cooperation Facility Regional Programs Support to non state actors/ Anti-poverty Program Environment EU-Africa/global initiatives (Infrastructure , Water, Energy) Other EC instruments (EDF and Budget) EIB projects <u>AFD</u> Budget Support <u>UNDP</u> HIV/AIDS Environment

*Outcome/milestone to be addressed by EC support. Others include those that the Bank may be contributing to alone or jointly with the EC and other donors.

Annex 2: 2002 CAS Completion Report

Evaluation Summary

(i) Overall, the Bank did well over the CAS period in substance and quality, which led to results. It aligned itself to Government objectives, and showed flexibility in diverging from the program to respond to Government requests. However, the CAS did not evaluate risks properly as it did not foresee the risk that the country would not borrow, and it put all its eggs in one basket by centering the whole program on the PERLs and underpinning AAA. Because the Bank's program was to provide budget support, the CAS monitoring matrix was broad and too ambitious to track the Bank's results as opposed to the Government's own objectives and outcomes. Finally, the lack of a local presence also hindered Bank effectiveness. However, because the Bank program led to satisfactory results and the Bank adjusted itself and responded effectively to meet the needs of the client, the Bank assesses its work over the CAS period as satisfactory.

(ii) In 2001, the Government of Mauritius developed an ambitious development program, the New Economic Agenda (NEA), with the objective to change the course of the country's economy and turn it into a "high-tech, high-income service and knowledge economy." The key components of this program were: (i) improvement in the competitiveness of Mauritius' private sector; (ii) investment in people and society; (iii) preservation of Mauritius' fragile environment; and (iv) improvement in economic management.

(iii) In preparing the NEA, the Government demonstrated a strong commitment to sound fiscal management and improved development prospects by taking important actions to stabilize the economy and introduce a much needed education reform. In view of this commitment and the appropriateness of the NEA to address Mauritius' development objectives, the 2002 Country Assistance Strategy was prepared to fully support the NEA.

(iv) Designed around program support and analytical and advisory services, the CAS represented a departure from traditional project financing. It foresaw up to three independent Public Expenditure Reform Loan (PERL) program support operations over the three-year CAS period, depending on the government's external financing needs. Although program support under the PERLs would cover all budgetary expenditures, analytical and advisory services would give priority to human development, the environment, transportation and economic management.

(v) This evaluation shows that the Bank was able to provide positive input and achieve results in all priority areas for Bank support. In the financial sector, a complete overhaul of banking legislation led to an improved financial reputation and framework for accounting, auditing and corporate governance. With Bank support, Mauritius established a modern payments system and Financial Services Commission to regulate the non-bank financial services sector. In education, reforms over the CAS period led to a more equitable system with the elimination of star schools, and increased access, particularly in secondary education, with decentralization of the secondary education system and creation of 45 secondary schools. Exam pass rates improved in secondary and higher secondary, although

primary exam rates slightly declined. At the tertiary level, the number of students increased from 16,759 in 2000-2001 to 25,715 in 2004-2005. In wastewater, cost recovery has been achieved, and tariffs have been put in place at agreed sector policy levels. The Wastewater Management Authority registered an improvement in the collection performance of wastewater bills. As of January 2005, 56,153 houses had been connected to the WMA, and an additional 1,300 houses had been connected and were being processed for billing network. In sewerage, all sector and institutional reforms were completed according to the agreed sector policy letter. In addition, standards for industrial discharge were implemented in compliance with environmental standards. Through its long standing dialogue on transport during the CAS period, the Bank assisted in major road network upgrading, and is currently financing a Project Preparation Facility to examine options for reducing traffic congestion in Port Louis. The Bank also continued to provide technical assistance in port and maritime transport to help the authorities cope with higher-than-anticipated growth in port transshipment traffic. Finally, to improve budgeting, a Medium Term Expenditure Framework (MTEF) unit was established, and MTEFs were prepared in six pilot ministries.

(vi) The overall approach the Bank took in Mauritius was sound at the time. Mauritius' borrowing was limited, but was highly interested in the Bank's analytical and advisory services. Rather than undertaking multiple investments, this approach was planned to enable the Bank to closely support the country's new reform program and resolve the restrictions on the Bank's internal budget. However, the strategy and dialogue through the adjustment program unraveled after the first PERL. Only one project, the first PERL, was approved during the CAS period, and AAA diverged from what was planned. After the first PERL, the Government indicated that it did not need further borrowing from the Bank for budget support, as it found the transaction costs – such as the Bank's conditions and triggers to move from the first to second PERL – relatively high. In addition, its borrowing was likely spurred by continued demand for Bank services and access to international expertise and advice, rather than actual financial need.

(vii) The Analytical and Advisory assistance (AAA) program rated highly on Strategic Relevance and Quality. The Bank was also flexible in diverging from the CAS to address emerging needs of the Government. However, a lack of human and financial resources for Mauritius created difficulties for the Bank to respond quickly and with high quality to ad hoc requests not included as part of the normal business planning process. On one hand, work programs of Bank sector staff are planned for the year ahead, and it proved difficult to mobilize top expertise for Mauritius on short notice. In addition, Government requests were sometimes put directly to sectors, with no prioritization. Aside from the process, other areas which could be improved include greater dissemination of findings of analytical work and follow up.

(viii) Coordination with other donors was good in specific sectors, but less effective at a strategic level. In addition, more could be done to leverage the limited IBRD program through the other arms of the Bank Group – IFC, MIGA, GEF and WBI.

(ix) Based on lessons learned, this report outlines actionable recommendations to be incorporated into the new Country Partnership Strategy to the extent possible:

- The Bank should continue to align its program to the Government's.
- It should use a more flexible approach in its work with Mauritius through joint Annual Business Planning.
- The Output Matrix should be realistic and linked to areas where the Bank can have impact.
- The Bank should allow flexibility for adjustment or investment lending, and diversify the portfolio.
- Additional resources for AAA work should be leveraged over and above the Bank budget.
- Bank AAA should be more practical, and answer the "how" rather than "why" or "what."
- Greater emphasis should be given to dissemination of findings of analytical work and collaboration with other donors.
- The limited IBRD program should be leveraged through other arms of the Bank Group – IFC, MIGA, and WBI.
- A one-person liaison office in Port Louis should be established to maintain regular dialogue and outreach efforts.

I. Country Context and Long -Term National Development Goals

1. Mauritius, a middle income country with a population of about 1.2 million people, is heralded as an example of successful development worldwide. At independence in 1968, the country was poor, with a nominal per capita income of about US $260. Today that figure has risen to about US$5,250, and poverty has fallen to only about 10 percent of the population. Real per capita GDP growth averaged 6 percent a year from 1968 to 2004, better than all but a handful of countries and considerably above the average for all low- and middle-income countries. Now, Mauritius has the second highest per capita income in Africa after Seychelles, and ranks at the top in CPIA ratings in the Africa region. Transparency International ranks Mauritius 54th out of 145 countries, making the country the second lowest after Seychelles among African countries in perceived corruption. *Doing Business* ranks Mauritius among the top 30 economies in the world in ease of doing business. Mauritius has accomplished these gains through (i) political stability, (ii) generally sound fiscal management, (iii) aggressive export promotion, (iv) support for the private sector, and (v) a strong social welfare system.

2. At independence, the Mauritian economy was almost completely dependent on sugar. Since then it has diversified impressively into manufacturing (EPZ textile and clothing exports) and services (tourism and, more recently, financial services). But continued growth and development will require making a transition to new, higher value-added, more skill-intensive activities. Over the past decade, Mauritius has been promoting diversification into knowledge-based sectors such as information and communications technology (ICT), financial services, ocean resources and a knowledge hub. Nevertheless, the economy remains dominated by the traditional pillars – sugar, apparel and tourism. Accelerating the transition is the main challenge facing the country today.

Macroeconomic, Structural, and Political Developments since the Last CAS

3. Recently, a sense of urgency has been added because of the phase-out of trade preferences for sugar and textiles apparel (which together account for 80 percent of Mauritius' merchandise exports). In January 2005, MFA textile quotas ended. A 36 percent decrease in sugar prices under the EU sugar protocol beginning in 2007 will cost Mauritius around €100 million per year. Anticipation of these developments has depressed private investment over the past several years, leading to a slowdown in growth. Up to 40,000 jobs already have been lost in sugar and apparel, and the eventual total is likely to reach 50,000 or more – or 10 percent of the work force. Meanwhile, the new higher value-added, knowledge based economy has been slow to take off. Productivity growth has stagnated and unemployment has risen to near 10 percent.

4. Slower growth and major public initiatives on education and infrastructure have taken their toll on the public finances. Government deficits rose sharply beginning in 2001, and have remained high in contrast to the government's medium-term fiscal strategy, which called for them to decline to 3 percent by FY 2004/05. Public sector debt stands at nearly 70 percent[1] of GDP. The current situation and near term prospects pose no urgent threat to solvency, but increasingly there is a need for modest corrective action to reduce vulnerability to external risks (terms of trade, weather and world interest rate shocks) and internal ones (lower growth). Notably, Moody's recently downgraded its outlook on Mauritius from stable to negative.

5. Economic performance has been respectable, if below long-term trends. Along with the structural challenges that Mauritius has been facing, weather poses a constant threat and output was depressed by Cyclone Dina in 2002, especially in the agricultural sector. Nevertheless, growth has remained positive. In FY04/05, GDP growth at factor costs was 4.0 percent, as disappointing results in agriculture and a 9.5 percent contraction in the EPZ sector were offset by strong growth in tourism, fueled by a 5.9 percent increase in arrivals to 761,063. A resoundingly pessimistic outlook – over 80 percent of respondents polled about their expectations reported they were somewhat or very pessimistic about the economy at year-end 2005 – has depressed investment and contributed to weak private demand. But all things considered, this is not a bad performance.

	1997-2001	2002	2003	2004	2005
Real output growth (percent)	5.8	1.8	3.8	4.5	2.9
- EPZ	5.9	-6.0	-6.0	-6.8	-13.0
Investment rate	24.3	21.8	22.7	21.7	21.3
- private	16.5	14.9	13.8	15.0	14.7
CPI inflation (percent)	6.0	6.4	3.9	4.7	4.9
CA balance (percent GDP)	-0.3	5.2	2.3	0.8	-3.3
Fiscal balance (percent GDP)	4.5	6.0	6.2	5.4	5.0

[1] Including parastatal debt

II. CAS Objectives and Outcomes, Bank Performance and Quality of Services

The FY02 CAS Framework and Objectives

6. The 2002 CAS underwent a broad consultation process with government, civil society, labor unions, vulnerable groups, and donors. The consultations provided input to the Strategy on the challenges facing the country. For example, one focus group was made up of unemployed men and women in their 40s and 50s. The majority in this group were women divorced or abandoned by their husbands who had been previously employed at closed textiles factories, let go with few or no benefits and generally without other skills. Another group consisted of labor unions to discuss in particular, the proposed reforms in education. These issues surrounding the challenges of maintaining Mauritius' competitiveness and of the top priority of education featured heavily in the Strategy.

7. The 2002 CAS sought to cover a wide ground with limited resources. It set out to support the Government's ambitious reform program, the New Economic Agenda (NEA), the goals of which were to maintain the country's growth performance and improve the welfare of its citizens. The NEA's key components include: (i) improvement in competitiveness of Mauritius' private sector; (ii) investments in people; (iii) preserving and protecting Mauritius' fragile environment; and (iv) improvement in economic management.

8. The Bank's CAS highlighted the expansion of education and improvement in quality as the most important requirements for the success of the NEA, and also pinpointed other development areas that deserved greater focus, including social programs, environmental issues, mass transit, and public resource management.

9. More specific medium-term outcomes which the Bank set out to support during the CAS period were as follows (Annex 1 indicates the Bank instruments employed to support outcomes in these areas, as well as results achieved).

Improving competitiveness

a. Reform the financial sector
b. Encourage better corporate governance

Investing in people and society

c. Produce a better educated workforce that fully meets the requirements of the public and private sectors.
d. Improve social cohesion and seek a fairer distribution of the benefits of growth and greater inclusion for all population groups on the island.

Environment and transport

e. Ensure the liquid waste, solid waste and transport sectors are financially, institutionally and legally sustainable, and that they operate in full compliance with environmental standards.

Economic management

f. Ensure medium and long-term fiscal sustainability.
g. Better align expenditures with the country's strategic priorities.

Monitoring Results and Outcomes

10. In assessing the Bank's contributions to Mauritius' development progress over the CAS period, the CAS Completion Report builds on multiple assessments, including the Quality Assurance Group (QAG) 2005 Country Analytical and Advisory Activity (AAA) Assessment, project Implementation Completion Reports, internal reviews, Country Partnership Strategy (CPS) consultations, and a stakeholder survey.

11. In general, these reviews found that the Bank continues to be relevant, and provides substantive input to Mauritian policy. Nonetheless, the task of assessing Bank performance in a country with a minimal lending program faces several challenges, which limit the precision with which the Bank's contributions can be described. In particular:

- Because the Bank has been largely involved in analytical work in Mauritius, impacts and influence on policy decisions are difficult to identify.
- Having no presence in the country limits the Bank's contacts and knowledge about how its contributions are perceived.

12. The CAS matrix was overly ambitious. It included over 100 outcomes, most of which were the Government's own indicators for its reform program, which the Bank intended to broadly support through budgetary assistance. Many benchmarks represented higher order goals to which Bank assistance was aligned but over which the Bank's interventions would have only an indirect influence, with the result that Bank performance could be assessed only in terms of Bank contributions to particular outcomes. Out of these outcomes only ten can be considered to be linked with Bank activities, and even many of these have no baseline nor target. Due to these shortcomings, this CAS CR does not reproduce the CAS's original program matrix stating the status at completion for each CAS benchmark. Instead, the CAS CR aims to identify the key results that the CAS achieved, the contributions that the Bank made, and the lessons learned. Moreover, given that the Bank's impact arises indirectly from its interventions and policy advice, this report presents a largely qualitative review of Bank assistance over the past three years.

FY02 CAS Outcomes in Achieving Mauritius' Strategic Goals

13. Despite the small Bank program in Mauritius, some good results were obtained in priority areas for Bank support – notably in the education, financial, transport, environment, sewerage and sanitation sectors, as well as in economic management. The following section outlines outcomes in each of the Government's strategic objectives that are linked with Bank support.

Improving Competitiveness: reforming the financial sector and improving corporate governance

14. The development of the financial services industry has been one of the success stories of the Mauritian economy over the past 15 years. The sector is often referred to as the "Fourth Pillar" of the economy. Its contribution to GDP, in fact, now exceeds that of

sugar, the EPZ, and tourism.[2] It has grown at a compound rate of approximately 9 percent per year since the early 1990s, and, while growth has slowed in the past few years, it continues to outpace growth in the economy as a whole (7.6 percent in 2005). Moreover, if one excludes the one-off sale of Mauritius Telcom, it has also been the largest single source of foreign direct investment into Mauritius in recent years. FDI in banking alone (i.e. excluding non-bank financial services), has accounted for 25 percent of all FDI in Mauritius since 1995 and 41 percent if the Mauritius Telcom sale is excluded.

15. Over the CAS period, the Bank has been actively involved in the successful reform and transformation of the financial sector in Mauritius and the quality of the Bank's input has been highly appreciated by the authorities. At the beginning of the CAS period, the Financial Stability Forum categorized the country's offshore financial center as a poorly regulated jurisdiction. The strengthening of the regulatory and supervisory framework, and the complete overhaul of financial sector legislation resulted in an improved financial reputation recognized by the international community and an improved framework for accounting, auditing and corporate governance. In particular, the Bank's two projects in the financial sector, the Financial Sector Infrastructure Project ($4.75 million) and the Financial Sector Supervisory Authority Project ($1.81 million) helped Mauritius establish a modern payments system and set up the Financial Services Commission as the regulator for the non-bank financial services sector. As follow up to the FSAP, the Bank worked with FIRST Initiative to provide technical assistance to establish a code of corporate governance, implement anti-money laundering measures, draft a new Securities Act and establish a Financial Reporting Council. The instruments the Bank used in this sector were Economic and Sector Work (ESW), policy advice, technical assistance, and IBRD investment loans. ESW included a comprehensive financial Sector assessment (FSAP) in 2002-03, pension reform work, and assessments on Corporate Governance, Accounting and Auditing, and Corporate Insolvency.

16. The Government has translated high priority recommendations from the Study on Corporate Governance into action, including regulation of the auditing profession and development of a voluntary corporate governance code. The Code of Corporate Governance for Mauritius was institutionalized by its publication in October 2003. Mauritian-listed companies, banks and non-bank financial institutions, large public companies, state-owned enterprises (including statutory corporations and parastatal bodies) and large private companies are now required to report according to the recommendations of this code. A National Committee on Corporate Governance, which acts as the national coordinating body responsible for all matters pertaining to corporate governance, and the Mauritius Institute of Directors, which acts as the body responsible for promoting the highest standards of corporate governance and of business and ethical conduct of directors, were established in February 2005.

17. The Bank has also helped the Government build its knowledge base concerning competitiveness and productivity by preparing an Investment Climate Assessment, a Labor Market Study and an Education and Training Sector Note. Most recently, the Bank prepared a Country Economic Memorandum, "Managing Change in a Changing World",

[2] According to the Central Statistics Office, financial intermediation represented 9.7 percent of GDP in 2005, as compared to 4 percent for sugar, 8 percent for the EPZ, and 7.5 percent for tourism.

May 2006 and a just in time Aid for Trade TA and Report: From Preferences to Global Competitiveness, April 2006. These analyses on growth and competitiveness formed the basis for the Government's ambitious reform program laid out in the June 2006 budget. The Bank also provided some complementary support by convening four international practitioners from Ireland, Chile, New Zealand, and Mexico to Mauritius in September 2006 to share lessons learned on what worked well and what worked less well in reform programs. This was a practical way to learn from experience as well as to communicate with the broader public around reform and transition.

Investing in people and society: Education and training, poverty alleviation and pensions

18. During the CAS period, the Government of Mauritius fully met its objective of launching its landmark education reform. Prior to the PERL preparation, the government had already extended mandatory education from six to 11 years of schooling. Subsequently, the government made good progress, as follows: (i) a new exam system, which has effectively eliminated national ranking for entrance into secondary schools in favor of a regional structure, was introduced in December 2002; (ii) the secondary education system was decentralized; (iii) both the primary and secondary school curricula have been largely revised; and (iv) a program has been formulated to address the problems of low-performing schools (*Zones Education Prioritaires ZEPs*), which is being implemented in 27 schools mostly located in deprived regions and reaching 11,000 pupils. The enrollment rate of the 12-16 age group is at around 80 percent in 2004, up from 76 percent in 2001. Access also has increased through the creation of new secondary schools, from 34 in 2000 to 70 in 2005. Despite the widespread reforms, however, the downward trend of Certificate of Primary Education (CPE) pass rates has not yet been reversed (63 percent in 2004 from 66 percent in 2000), although the secondary and higher secondary pass rates have improved from 76 percent in 2001 to 77.5 percent in 2004 and from 72 percent in 2001 to 76.2 percent in 2004, respectively. At the tertiary level, the total number of students has increased from 16,759 in 2000/2001 to 25,715 in 2004/2005.

19. The Bank's value added in this reform has been in: (i) meeting the urgent and critical need to cost the entire education reform; (ii) offering advice on curricula development, and (iii) providing assistance in developing the Mauritius Qualifications Authority as a regulatory agency for vocational training. The Bank's Education and Training Sector Note brings together policy, institutional management and reform management issues, and provides lessons from Mauritius' Asian competitors in the education sector. Once Bank support through the preparation of the second PERL ended and the Education and Training Sector Note was finalized, the Bank has virtually stopped its sector support to education in Mauritius, as no lending or AAA was requested, although the Bank has provided policy advice through the recent CEM on growth. Today, the new Government's reform program includes reversing some of the policy decisions taken by the previous Government, notably by reuniting the Form I-V and Form VI colleges, which has become the subject of a major nationwide debate.

Environment and Transport

20. The Government of Mauritius has fully met its objective of obtaining cost recovery in the wastewater sector, and tariffs have been put in place as per agreed sector policy

levels. Prior to the PERL preparation, the government had enacted the Wastewater Management Authority (WMA) Act and published the revised wastewater tariffs for 2002. Since then, the amendment to the WMA Act to provide for compulsory house connections (both domestic and non domestic) was approved by Government and enacted in August 2004. The WMA has been established as a financially sustainable, autonomous corporate body, and the progression and structure of tariffs are in place at agreed sector policy levels. A joint billing system was introduced in January 2004. The WMA has registered an improvement in the collection performance of the wastewater bills, with the rate of tariff collection averaging 85 percent during 2003-2004, and 82 percent during 2004-2005. As of January 2005, 56,153 houses have been connected to the WMA, and an additional 1,300 houses have been connected and are being processed for billing network. In sewerage, the Government also met its objective of completing all sector and institutional reforms according to the agreed sector policy letter. This is now being revised for the period 2005-2010. Finally, standards for industrial discharge have been implemented in compliance with environmental standards. Notwithstanding these achievements, progress in the sector is somewhat behind initial plans due to poor management at the agency.

21. The value added of the Bank in the environment sector has been in: (i) supporting the development of National Environmental Action Plans (NEAPs); (ii) providing advice on the financial sustainability of the sewerage sector, which resulted in water and sanitation reforms and investment program and an introduction of a joint billing system for clean water and sewerage; (iii) aiding the institutional reform of the WMA; (iv) assisting in the implementation of the household connection system; and (v) supporting biodiversity conservation through GEF. With Bank support a national Solid Waste Master Plan and Strategy was put in place. The Bank introduced the Prototype Carbon Fund for the reduction of emissions, and supported participation of the private sector in developing solid aste management systems. Achievements in the Environment, Sewerage, Solid Waste and Water Sectors are examples of successful processes and partnerships between the Government and donors, which first developed sector strategies and priorities, and then addressed priority areas through projects, with the donor community working together according to comparative advantage. Specifically, while the Bank helped the Government develop the NEAPs, the African Development Bank helped Mauritius develop a National Sewerage Master Plan, which different donors supported through projects and regularly held joint Government donor meetings on sewerage.

22. The transport sector underwent a similar process where the Bank supported a National Strategy, followed by ESW, which is now leading to lending, with a view to partnering with the private sector and donors. The Bank developed a Transport Action Plan in 2003, which included a financial tool for government to determine the phasing and sequencing of all investments in the transport sector. Through its longstanding dialogue on transport throughout the CAS period, the Bank assisted in major road network upgrading, and is currently financing a Project Preparation Facility to examine different options for reducing traffic congestion in Port Louis. In the wake of the successful implementation of the Port Development and Environment Protection Project, the Bank also continued to provide technical assistance in port and maritime transport, to help the Authorities cope with higher-than-anticipated growth in port transshipment traffic, which enhanced Port Louis' regional role and benefited Freeport activities as well, but strained existing institutional and operational arrangements. An Environmental Transport Investment project

is currently being prepared. With about 610 people per square kilometer, Mauritius is one of the most densely populated countries in the world. Traffic congestion around the capital is a major problem for the small island economy, and detrimental to its continued growth.

Economic Management

23. The emergence of sustained budget deficits since 2000 indicates underlying problems with fiscal management. Less evident but also a problem is a failure to align budget resources with national priorities. To address these issues, the Bank supported the introduction of a Medium Term Expenditure Framework (MTEF). Significant progress has been achieved, with the establishment, staffing and training of a central MTEF unit in the Ministry of Finance and Economic Development; development of a three-year framework of revenues and spending which is published as an annex in the Budget Estimates; and preparation of six pilot MTEFs incorporating results-based formats. More recently, in response to some loss of momentum, the Bank reviewed the implementation strategy, and recommended some changes to increase awareness and ownership of both MTEF and the Government's fiscal framework. A fully operational MTEF is well within Mauritius' grasp, and the recent Country Economic Memorandum has outlined steps to revitalize the implementation process.

24. The stock of knowledge has improved, and the Bank has contributed to policy reform, particularly in the areas of public-sector management, education and development of the private sector, including the investment climate and labor market. The Bank's ESW on Pension Reform contributed to national dialogue, which led to the introduction of means testing on the basic pension. This measure, however, was controversial, and has been reversed by the current Government. ESW on the labor market and unemployment led the Central Statistics Office to revise its procedures for compiling data on labor.

Measuring Bank Performance

25. Overall, the Bank did well during the CAS period in both substance and quality, which led to results. It also aligned itself to Government objectives, and showed flexibility in diverging from the program to respond to Government requests. However, the CAS did not evaluate risks properly, as it did not foresee the risk that the country would not borrow, and it put all its eggs in one basket by centering the whole program on the PERLs and underpinning AAA. Because the Bank's lending program was to be implemented through budget support, the CAS monitoring matrix was broad and too ambitious to track the Bank's results as distinct from the Government's own objectives and outcomes. Finally, the lack of a local presence hindered Bank effectiveness.

26. The Bank's lending and non lending program described in the last CAS aimed at supporting the New Economic Agenda, through a series of umbrella Public Expenditure Reform Loans (PERLs) and AAA. These adjustment operations were to be supported by a heavy program of ESW, designed and agreed upon with the Government and selected donors. While the principles underlying the last CAS, in terms of aligning to the Government program and providing international expertise and advice remain valid, the actual work program diverged from what was envisaged. The first PERL was approved in 2002, but the two subsequent PERLs totaling US$80 million did not materialize. As only

one PERL transpired, the impact of Bank assistance and the quality of overall policy reform monitoring and influence was less than envisaged in the CAS. Through the ongoing portfolio and a strong AAA program of technical assistance and ESW, however, the Bank continued to provide policy advice and keep informed of sector developments.

27. A shortcoming of the 2002 CAS was in identifying the risk that the country would not borrow, and the divergence from the planned AAA. As the tasks undertaken changed from the planned CAS to accommodate new Government priorities, the Bank considered preparing a progress report to revise the program. Since the CAS timeframe was only two years, however, the decision was taken to prepare a new CAS instead, and to focus the new Strategy on emerging good practices from other Middle Income Countries. This undertaking was started but delayed upon the request of the Government due to elections. In hindsight, despite the problems that occurred from the deviation from the planned program, this worked out well, as the Government changed, and with the new Government came completely new ideas for Bank support.

Quality of Services

28. ***Lending Services.*** The Bank's decision to phase out multiple investment operations and focus on single tranche PERLs reflected both its intention to support Mauritius' ambitious reform program and its limited resources for activities in Mauritius. PERLs were planned to be timed to coincide with Mauritius' budgetary cycle so that proceeds of World Bank loans would be available at the beginning of Mauritius' fiscal year.

29. In terms of objectives, the first PERL aimed to assist the government set the foundation for attaining its medium-term outcomes. The ICR for the first PERL rated Bank and Borrower performance as satisfactory. The Bank was considered to have supported Mauritius adequately through the core advisory services that were rendered under supervision, and in helping track the overall Government program. The second PERL would have been aimed at helping the Government implement its landmark education reform. The preparation process for the second PERL had a useful impact since it led the Bank to provide close technical assistance and advice as the government undertook its education reform. Results from this work and the education support provided through the AAA are documented in the previous section. Once the second PERL was dropped and the ESW finalized, the Bank stopped actively supporting the government on education reform. Country elections took place thereafter, and some of the policy decisions under the previous Government have since been reversed.

30. The Bank has received some mixed feedback as to the underlying reasons for the discontinuation of borrowing. On the one hand, the Government indicated that it did not need further borrowing from the Bank for budget support. Another reason given was that the transaction costs, such as the Bank's conditions and triggers to move from the first to second PERL, for Bank financing were found to be relatively high for what Government was getting in return. The borrowing was actually likely spurred by continued demand for Bank services, and access to international expertise and advice rather than actual financial need.

31. ***Analytical and Advisory Assistance Services:*** On the analytical and advisory services side, a Country Procurement Assessment Report, a Public Expenditure Review to assess financing for the NEA, a Transport Action Plan, and a CEM were undertaken. A Financial Sector Assessment Plan (FSAP) also was completed in FY03. Some of the AAA tasks indicated in the CAS, for example, Welfare Reform, Health Sector reform, Gender Assessment and ESW on the Informal Economy and Taxation, were not undertaken. On the other hand, several AAA activities not included in the CAS were carried out upon the request of the Government; these included an ESW on Occupational Pension Funds, Insurance Industry, Anti-Money Laundering/CFT Assessment, Real-time Gross Settlement, Membership in SACU and Corporate Governance. Aid for Trade TA and report has recently provided an important underpinning for the new Government reform program. Also, as part of non-lending services, the Bank established an IDF grant (US$494,000) to help with capacity building for implementation of the MTEF.

32. For several pieces of ESW, the Bank reacted quickly and efficiently to meet just-in-time knowledge needs of the Government. The Strategic Relevance and Internal Quality of Bank AAA were rated highly. Most importantly, the client has greatly appreciated the Bank's technical and analytical work and continues to seek more than the Bank can provide within its limited resource envelope. An internal Bank assessment by the Quality Assurance Group (QAG) revealed areas for improvement in the AAA program, which the Bank has already begun to take into account. It proved to be too ambitious to pre-program a three-year AAA program, as several activities were not undertaken and replaced by others. Financing an ambitious AAA program also proved to be difficult once the Government stopped borrowing from the Bank.

33. QAG found that the Bank should have moved more aggressively not only in the development of high quality analytical work, but in its dissemination and follow up. The level of dissemination and follow up were in part due to limited resources for the Mauritius program in the absence of borrowing, and in some cases dissemination was kept at a low level due to the preference of the Government. Some counterexamples include AAA involving pensions, FSAP and the Corporate Governance ROSC; these AAA provide good examples of where results were presented at well-attended national workshops and conferences. For both the FSAP and Corporate Governance ROSC, grant funding was obtained from FIRST Initiative (a multi-donor agency that is partially funded by the Bank and provides grants for financial-sector work) to help the Mauritians implement some of the recommendations.

34. In the absence of a regular lending program, the major constraint in the Bank / Mauritius partnership is the limited human and financial resources allocated to the Mauritius program, as highlighted in the QAG's AAA assessment. This, together with the absence of structured joint work planning sessions, hampered the effectiveness of Bank support and Bank responsiveness to new needs of the Government.

35. ***Mix of instruments.*** Even though borrowing was less than expected, there was generally an appropriate mix of instruments. QAG has suggested a greater use of technical assistance; and programmatic ESW is being integrated into the new Country Partnership Strategy.

Portfolio and Other Performance Indicators

36. Portfolio indicators and ICRs for the projects carried out during the CAS period, the Public Expenditure Reform Loan and the Financial Sector Infrastructure and Supervisory Authority Projects, were systematically rated satisfactory on both Bank and Borrower performance. Throughout the CAS period, the Bank has had no problem projects, or projects at risk. This reflects Mauritius' high technical capacity and strong institutions.

37. OED rated four tasks within the timeframe of the CAS: (i) Port Development and Environmental Protection; (ii) Biodiversity Restoration; (iii) PERL; and (iv) Financial Sector Infrastructure Project. The Port Development Project and the Financial Sector Infrastructure were rated Highly Satisfactory; the Biodiversity Restoration Satisfactory; and the PERL Moderately Satisfactory. All Projects were rated likely or highly likely for sustainability; substantial for impact; satisfactory for Bank performance, and satisfactory or highly satisfactory for Borrower performance.

Conclusion

38. While Mauritius clearly has all the necessary ingredients for successful programs that have led to good outcomes from Bank support, the problems in the Mauritius-Bank partnership lie not in the tasks themselves, which are carried out successfully, bringing to bear the Bank's global knowledge and resources, but rather in the process of identifying, prioritizing, and funding tasks. The traditional pre-determined three-year CAS is not well suited for the Mauritian context. Rather, a more regular dialogue on the country program is needed.

III. ACTIONABLE RECOMMENDATIONS

39. ***Recommendation 1: Continue to align the Bank's program to the Government's.*** Aligning the Bank's program to the Government worked well, and Bank input was consistently highly rated in achieving strategic relevance.

40. ***Recommendation 2: The Bank should use a more flexible approach in its work with Mauritius through a joint Annual Business Planning process with Government.*** The Bank's work program over the CAS period diverged from what was planned. While this showed responsiveness on the side of the Bank, some difficulties emerged with staffing and financing tasks outside of normal business planning. To avoid this problem, the Bank and the Government should agree upon a list of prioritized activities for which the Government would like the Bank's support. A jointly agreed, strategic approach that involves participation from line ministries prepared on an annual basis would increase clarity on both sides about Bank support to Mauritius. A complementary approach would be to define just one or two flagship areas for in-depth assistance and to limit just-in-time advice to a few products only. While the 2002 CAS made best use of available instruments at the time, this new approach reflects emerging good practices in other Middle-Income Countries.

41. ***Recommendation 3: The output matrix should be realistic and linked to areas where the Bank can have an impact.*** The last CAS policy focused on higher order goals of the Government's reform program, to which Bank assistance was aligned but over which the Bank's interventions would have only an indirect influence. The CAS matrix therefore was overly ambitious.

42. ***Recommendation 4: Allow flexibility for adjustment or investment lending by diversifying the portfolio, and have a fall-back position if no lending occurs.*** The 2002 CAS planned to carry out umbrella adjustment operations rather than multiple investment operations due to both substantive and budgetary reasons. The Bank should not put all its eggs in one basket. Given that the Government chose not to continue borrowing, this approach was not meeting the needs of the Government at the time.

43. ***Recommendation 5: Leverage additional resources for AAA work over and above the Bank's budget.*** Given that financing an ambitious AAA program proved to be difficult once the Government stopped borrowing from the Bank, it will be important to leverage Bank financing of AAA, for example, through a cost sharing arrangement with the Government. Another possibility would be for the Government to use its own resources for project preparation in cases of lending, which would free up bank budget for AAA.

44. ***Recommendation 6: Answer the "how" rather than the "why" in AAA.*** While the quality of Bank work is appreciated, it is important for this sophisticated client to focus more on how to implement reforms than the underlying analysis.

45. ***Recommendation 7: Give greater emphasis to dissemination of findings of analytical work and collaboration with other donors.*** Emphasis should continue to be put on dissemination of findings of analytical work and collaboration with other donors. Given its lack of local presence, the Bank could cooperate more with other donors in knowledge dissemination and sharing. Coordination with other donors was good in specific sectors, but, in line with the weaknesses in joint programming with the Government, has been less effective at a strategic level. The Bank also should leverage its assistance more against Government resources and those of other donors.

46. ***Recommendation 8: Leverage the limited IBRD program through greater involvement of the other arms of the Bank Group, IFC, MIGA, GEF and WBI***, for example, in private sector development and the financial sector, and in positioning Mauritius as a global knowledge hub.

47. ***Recommendation 9: Establish a one-person liaison office in Port Louis*** to enhance dissemination and follow-up of analytical work as well as outreach efforts.

Planned Outcomes in Priority Areas and Bank Instruments

Outcome[3]	*Description*	*Bank Instruments*	*Performance of Bank instruments Completed/ Satisfactory*[4]	*Status* *Results in terms of strategic objectives*
Improving competitiveness				
Reform the financial sector	Build essential financial system infrastructure to facilitate the secure, rapid and certain transfer of funds, and assist in an institutional framework to better manage government's debts and reform the non-bank regulatory system (legal, regulatory and institutional)	Financial Sector Infrastructure Project (FY00), Financial Sector Supervisory Authority (FY02), FSAP, financial sector dialogue	Highly satisfactory to Satisfactory outcomes and performance, high institutional development impact.	With the Bank's support, the Government succeeded in putting a modern payment system in place and in establishing a Financial Services Commission regulatory body. A complete overhaul of financial sector legislation resulted in an improved financial reputation recognized by the international community and an improved framework for accounting, auditing and corporate governance.
Encourage better corporate governance		Study on Corporate Governance	Rated satisfactory	The Code of Corporate Governance for Mauritius was institutionalized in October 2003. A National Committee on Corporate Governance, and the Mauritius Institute of Directors, which acts as the body responsible for promoting the highest standards of corporate governance and of business and ethical conduct of directors, were established in February 2005
Investing in people and society	*Description*	*Bank Instruments*	*Performance of Bank instruments*	*Status* *Results in terms of strategic objectives*
Contribute to a better educated workforce that meets the requirements of the public and private sector.	Design an education reform, obtain public support for that reform, and make the necessary infrastructure, curriculum and institutional changes to support the reform.	PERL (FY03), Education and Training Sector Note, education dialogue, MTEF	Rated satisfactory	• Expanded capacity of secondary education through creation of 45 secondary schools • Education reform, including the elimination of star schools, and decentralization of the secondary education system • Enrollment rate in the 12-16 age group is up to 80 percent in 2004 from 76 percent in 2001. • Certificate of Primary Education pass rates have not yet been reversed (63 percent in 2004 from 66 percent in 2000), although secondary and higher secondary pass rates have improved from 76 percent in 2001 to 77.5 percent in 2004 and from 72 percent in 2001 to 76.2 percent in 2004,

[3] Policy measures, monitorable outcomes, implementation and remarks are included in the CAS Matrix provided by Government found in Annex1.
[4] Based on ICRs and QAG reports

				respectively • MTEF budgeting process
Improve social cohesion and seek a fairer distribution of the benefits of growth and greater inclusion for all population groups in the island.	Poverty alleviation and pensions Develop a comprehensive approach to poverty alleviation in Mauritius and to expeditiously provide assistance to Mauritius' most poverty stricken region, the island of Rodrigues. Complete background work for a strategy to reform the national pension scheme.	PERL (FY03); IDF grant PERL (FY03); Pension ESW (FY03)	PERL carried out satisfactorily with Government program on track. Pension ESW completed	Means testing was introduced by the previous Government, but was unpopular, and reversed by the current Government as pledged during the election.
Environment and transport	*Description*	*Bank Instruments*	*Performance of Bank instruments*	*Status* *Results in terms of strategic objectives*
Ensure the liquid waste, solid waste and transport sectors are financially, institutionally and legally sustainable and that they operate in full compliance with environmental standards.	Obtain limited cost recovery in wastewater management. Make important decisions on transport to alleviate congestion on Mauritius' main urban corridor.	Environmental Sewerage and Sanitation Project (one project of National Sewerage Program) ESW: Transport Master Action Plan. PPF for identification of project preparation	Project still underway, but performance indicators all satisfactory.	• Cost recovery for waste and water in place • Tariffs in place as per agreed sector policy levels • Standards for industrial discharge have been implemented in compliance with environmental standards • In sewerage, all sector and institutional reforms completed according to the agreed sector policy letter Urban transport program and project identified and being financed under a PPF with partners involved in sector reform
Economic management	*Description*	*Bank Instruments*	*Performance of Bank instruments*	*Status* *Results in terms of strategic objectives*
Ensure medium- and long-term fiscal sustainability.	Stabilize the economy.	PERL (FY03); Economic monitoring and dialogue	First PERL completed satisfactorily. Second and third PERLs not disbursed.	Government recognizes importance of fiscal management, but situation not resolved.
Better budget management and alignment of expenditures with the country's strategic priorities.	Define a course for improved public expenditure management over the medium term.	MTEF; IDF grant	IDF grant not fully disbursed.	Central MTEF unit established in MOFED and pilot MTEFs prepared in six pilot ministries. However, MTEF not used as a tool to discipline fiscal spending.

Annex 3: MAURITIUS: COUNTRY FINANCING PARAMETERS

Item	Parameter	Remarks / Explanation
Cost sharing. Limit on the proportion of individual projects that the Bank may finance	Up to 100%	The government's preference is for Bank investment loans to be supplemented with concessional or grant financing. The Bank's lending is likely to be part of broader financing packages involving the European Investment Bank (EIB), AfDB and other financiers, and the Bank's financing share in most instances is likely to be less than 100%.
Recurrent cost financing. Any limits that would apply to the overall amount of recurrent expenditures that the Bank may finance	No country level limit on recurrent cost financing	Bank financing of recurrent costs at the portfolio level is expected to remain within the recent modest ranges. At the project-level, the Bank may finance recurrent costs after a careful consideration of the sustainability of project achievements and implied future budgetary outlays within the overall context of Mauritius' aggregate fiscal position and prospects.
Local cost financing. Are the requirements for Bank financing of local expenditures met, namely that: (i) financing requirements for the country's development program would exceed the public sector's own resources (e.g., from taxation and other revenues) and expected domestic borrowing; and (ii) the financing of foreign expenditures alone would not enable the Bank to assist in the financing of individual projects	Yes	The Bank may finance local and foreign costs in any proportions as needed for individual projects.
Taxes and duties. Are there any taxes and duties that the Bank would not finance.	No	Taxes and duties have been judged to be reasonable. At the project level, the Bank would examine whether taxes and duties constitute an excessively high share of project costs.

MAURITIUS: COUNTRY FINANCING PARAMETERS

Introduction. This Annex provides additional information on the country financing parameters for Mauritius established pursuant to OP/BP 6.00, *Bank Financing*. The Government has been consulted on the country financing parameters, and has indicated that it welcomes the increased flexibility in the World Bank's approach to financing of investment projects, and believes that this should facilitate implementation and achievement of results[1].

Public Financial Management. Overall, the Mauritius PFM system is satisfactory. The budget adequately reflects policy priorities by the Government. An MTEF together with a results-based management framework was introduced in 2003 and MTEFs were prepared for 6 sector ministries in the last budget. The MTEF will require further deepening and the government is committed to this. Budget preparation is undertaken in close consultation with the spending ministries, but while multi-year projections exist for most parts of the administration, the prioritization of public expenditure has made little progress. The budget classification system is comprehensive and in line with international standards. No significant funds are controlled outside the budget, although large losses in the parastatal sector, largely stemming from subsidized oil imports, are off balance sheet. Financial management and control system are comprehensive and effective; the Mauritius IFMIS is considered a "model" case and covers all relevant stages of the budget preparation and execution process. There is no significant deviation between planned and actual budget. Payment arrears do not exist. Reconciliation between fiscal and central Bank accounts is made regularly and comprehensively (at least weekly). The Accountant General produces (high quality) budget execution reports on a regularly (monthly) basis which form the basis for discussions at the Cabinet level. Public accounts are prepared within a month after the fiscal year ends. The Government Audit Office (external independent auditor reporting to Parliament) reports within a few months. Recommendations of the Audit Office are discussed with adequate actions taken by the Government.

Cost Sharing. Government ownership of projects is strong. The political leadership has shown a firm commitment to its vision and reform program, which is entirely homegrown. As noted, the CPS is based on the four pillars of the Government's strategy, and the Bank Group's program will be set out each year in an Annual Business Plan (ABP), which will be developed in parallel with the Government's annual planning and budget processes to ensure that the Bank is fully in step with Mauritius' development agenda, and with other donors' support. The Government's new reform program is currently estimated to cost as much as Rs 150 billion (US$4.5 billion) over the next ten years, most of it frontloaded in the first 3 to 5 years. Of this, the Government is anticipating Rs 80 billion (US$2.4 billion) from local private investment; Rs. 70 billion (US$2.1 billion) from foreign investment, and the remainder (US$300 million) from public sector investment and foreign aid. The Government is further costing and refining the program. Bank financing of projects is fully integrated into the budget. As noted in the CPS, portfolio performance has been satisfactory. Government has requested that the Bank finance up to 100 percent of the costs of individual operations, particularly for sectors that the Government considers will trigger rapid growth in the short to

[1] Discussions with the Government took place in July 2006, and written comments were received in August 2006.

medium term. Based on the above considerations, the cost sharing limit is being set at 100 percent. The government's preference is for Bank investment loans to be supplemented with concessional or grant financing. The Bank's lending is likely to be part of broader financing packages involving the European Investment Bank (EIB), AfDB and other financiers, and the Bank's financing share in most instances is likely to be less than 100 percent.

79. **Recurrent Cost Financing.** Only a small proportion of the Bank's current portfolio in Mauritius involves financing of recurrent costs, and the Government has so far not expressed interest in World Bank financing of substantial amounts of recurrent costs. There are no PIUs in Mauritius, and therefore no PIU related operational running costs. As discussed in the CPS, the Government has made fiscal consolidation a pillar of their reform strategy, based on explicit rules intended to put deficits and debt on a downward path. Projections from the Ministry of Finance anticipate revenue stabilizing at around 19 percent of GDP, accompanied by a decline in the share of expenditure and a narrowing of the overall central government budget deficit. Mauritius' debt situation is not imminently unsustainable, but the country is vulnerable to macroeconomic risks arising from slower growth, further adverse movements in the terms of trade and rising interest rates. Bank financing of projects is fully integrated into the budget and thus subject to Mauritius's overall fiscal targets and legal framework. The Government has been implementing a MTEF budgeting framework, which explicitly addresses the recurrent cost implications of project spending. Bank recurrent cost financing will remain subject to consideration of overall medium-term fiscal sustainability and is expected to be small and not jeopardize overall fiscal or debt sustainability. On a project by project basis, the Bank may finance recurrent costs after careful consideration of the sustainability of project achievements; and implied future budgetary outlays, within the overall context of Mauritius' aggregate fiscal position and prospects.

Local Cost Financing. The Government has an ambitious strategy to implement needed structural reform which exceed its own resources and expected domestic borrowing. The reform program will be implemented over the ten year period costing about US$4.5 billion, which will be partly sourced from the Government, the domestic private sector and FDI. There currently remains an unmet financing gap of about US$1.6 billion over the next ten years. (The numbers are preliminary and would be further refined following sector analyses). On average, from FY99-04, local costs accounted for 23 percent of the Bank's investment lending disbursements for Mauritius (68 percent in FY04). The local cost component of envisaged investment lending is expected to continue to be significant. The two requirements for Bank financing of local costs are met, and the Bank may finance local and foreign costs in the proportion required for individual projects.

Taxes and Duties Financing. In 2006/07, the Government put in place a new tax regime to remove distortions and create a level playing field across sectors, business units and individuals.[2] The relinquishing of the discretionary power of the Minister of Finance for granting exemptions has already reduced much of distortion. Major taxes and duties are summarized below:

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[2] By 2008-09, the Government is expected to eliminate almost all of its custom duties and consequently the associated duty draw-backs, relying on its VAT base to mobilize indirect tax revenues. The VAT base is expected to be at a single rate as will the corporate and personal income taxation.

Item	Tax rates (range)
Personal Income Tax	- For first Rs 500,000 of chargeable income, the tax rate is 15 %. - For non-interest related chargeable income above Rs 500,000, the rate is 22.5% - 15% tax rate for chargeable income from interest
Corporate Income Tax	- Non-incentive rate 22.5% in 2006/07 - Incentive rate 15%
Value-added tax	- Standard rate of 15%
Customs tariffs	- 4 Tariff Bands – 0 %, 10%, 15%, 30%

Currently, there are no excessive taxes or duties in Mauritius. Therefore, the Bank may finance all taxes and duties associated with project expenditures. At the project level, the Bank will examine whether taxes and duties constitute an excessively high share of project costs. Changes in tax and customs and/or related exemptions could trigger a review of this parameter.

Annex 4: Partner Institutions

Reflecting Mauritius' past success and improved access to capital markets, official donor assistance to the country declined over the past few years, and has become more selective. The few donors that are active in Mauritius are cooperating on specific programs, notably in wastewater, and stepping up overall coordination at the strategic level. Though donors have played a relatively small role in Mauritius in the past few years, the Government is stepping up its efforts to win financial, technical and moral support from the outside world. As described earlier, improved donor coordination in line with the harmonization agenda is an underlying principle of this CPS.

Donors to Mauritius include the European Commission, the European Investment Bank, the World Bank, Agence Francaise de Developpement, the Indian Government, the Chinese Government, the Kuwait Fund, the African Development Bank, and the Arab Bank for Economic Development. In addition, the IMF is helping the Government with fiscal policy.

The **IMF** has no lending program in Mauritius given the country's strong macroeconomic position, but it conducts routine macroeconomic surveillance. Collaboration with the IMF will continue; for example, the Bank is working with IMF on the Aid for Trade work, and going on joint missions on the fiscal impact of transition.

The **EU** is present in Mauritius and has been active in the areas of environment (particularly the wastewater sector) and poverty reduction for the most vulnerable, marginalized groups who are not benefiting from Mauritius' development success. The European Commission is currently preparing its Country Strategy Paper for Mauritius in conjunction with the Bank's strategy and is programming the 10th EDF funds for Mauritius. In addition to EDF funds, Mauritius will benefit from the sugar accompanying measures which will be fully integrated in the CSP. This includes €6.5 million for sugar sector budget support in 2006-2007, followed by non targeted budget support together with the World Bank and the French government in 2007-2008 and beyond. Like the Bank's Rapid Response TA Facility, the European Commission will set aside some resources in a technical cooperation facility (TCF) for Government requests as they arise. The Bank and EU will coordinate on the analytical and advisory activities through these facilities to better fill knowledge gaps or other needed non lending support. The EC will also continue direct support to non-State actors. The European Investment Bank will continue to work in Mauritius, particularly on infrastructure investments.

The **Agence Francaise de Developpement** has also confirmed its support to Mauritius' transition as the country moves toward greater integration in the world economy, through better productivity and competitiveness. The AFD has proposed to support the investments in the clusters, with public entities and/or private sector, and to accompany the reforms program launched by the State within the initiative "Aid for Trade".

AFD will look to intervene in coordination with other Development Partners, and can provide three types of support: (i) **Budget Support**, in partnership with WB (DPL) and EC (10th European Development Fund and Funds for the Sugar Action Plan). Within the policy

dialogue between the Government and the Development Partners, a Budget Support would be conditioned to i) an alignment with the Mauritius Reform Strategy and the National Action Plan for Poverty Alleviation, ii) a process of coordination and harmonization with the main donors iii) a monitoring and evaluation of the reforms implemented within a Performance Assessment Framework based on priority areas and sector identified by the Government and Development Partners (set of performance indicators); (ii) **Project Financing**, in the clusters through public bodies and/or private sector in order to support government policy; and (iii) **Technical Assistance**, for the definition and/or implementation of sectoral strategy (ICT, vocational training, etc).

As a member of the UN family, the Bank works with the local **UNDP** office. The Bank is working with the UNDP to prepare an HIV/AIDS IDF grant proposal, and there is scope for collaboration on other issues related to the MDGs, including poverty and gender.

The World Bank and **African Development Bank** are working together in the sewerage and sanitation sector. They also have contributed to the first budget support operation and the two institutions will continue to cooperate on Mauritius.

India has economic, social, and cultural ties to Mauritius, and the Bank is exploring how to work jointly together.

Annex 5: Consultations with Stakeholders

1. The World Bank held three sets of consultations to obtain feedback on the Bank's proposed program in Mauritius, in Port Louis and Rodrigues in February and July 2006. The European Commission, with whom the Bank is jointly preparing its strategy, joined in some of the consultations. The purpose of these discussions was to receive direct feedback from stakeholders on the country's main challenges and seek views on how the Bank might assist in the country's transition. The Bank briefed the participants on the Country Partnership Strategy and explained how and in what areas the Bank can be involved in Mauritius. The European Commission, who had already held consultations with civil society on its Strategy, also participated, emphasizing how the donors are working together to support the Government's program, that the Country Strategies are fully aligned with the Government's reform program, and how the EU will be supporting Mauritius.

Consultations in Port Louis

2. Participants welcomed the consultative approach and agreed with the broad thrusts of the Bank's assistance to Mauritius. There was also a general consensus on and awareness of the economic problems the country is facing in light of the erosion of international trade preferences, in particular all agreed on the four pillars of the Reform Program, which is also the pillars of the CPS. However, as with all complex reform transitions, there are differing views among stakeholders about how to go about change and how to minimize the impact of the transition on the population.

3. At all the consultations, participants stressed that communications was essential and that communication with Government on reform should be a two way street where the views of stakeholders are taken into account and the government communicates what it is doing and why.

4. The consultations in Port Louis prior to the 2006 Budget Speech reflected a general feeling that the situation in Mauritius today is worse than ten years back, that a fresh look should be taken at the role the State plays in the economy to reduce and update outdated regulation, and increase clarity and transparency, to open up the economy and that growth must be private sector led. Problems with implementation were stressed several times, and the sense that the public sector was not moving forward. There was a recognition that Mauritius is not competitive: labor costs and unemployment were increasing; growth was being strangled by constraints in education and training and there is a need for skilled people. Other suggestions were to encourage clustering among sectors and small companies; diversify agriculture and find niche markets. Other issues were raised such as land, how to operationalize Mauritius as a knowledge hub, and a few participants stressed the importance of not squandering money, including for Aid for trade.

5. The Consultations a month following the announcement of the Government's program in its 2006-2007 Budget speech focused on the following issues:

- **Social impact of economic transition.** Participants stressed the need for involvement of social partners in the economic reform program and expressed concern over the social impact that would be caused by the transition Mauritius is facing.

- **Governance and Education** were raised as important issues**. Energy** was mentioned as a sector where assistance could be helpful. And **Sugar** was raised as an important sector for the economy, which has to become more competitive. As the sugar price cut will hit by 2009, reforms need to be completed by then.

- **HIV/AIDS** was noted as a growing threat in Mauritius, whose rate of increase could follow the case of Botswana. It was suggested that support from donors for HIV/AIDS could be given partly to Government and partly to civil society. HIV/AIDS is stigmatized and the Government will need community workers to gain people's trust.

- **Capacity building for civil society** was mentioned as an area that should be supported.

6. On the **Bank's support**, the two sets of consultations in Port Louis yielded mixed views among the stakeholders. It was felt that past collaboration had been successful, and that the Bank could usefully bring to bear its economic analyses such as the Investment Climate Assessment, and support implementation and policy decisions. Trade unions, however, expressed concern that the World Bank was too prescriptive in its advice to Government. The Bank answered that Mauritius is a country which listens to advice and does what it thinks best. The Bank believes the Government is doing the right thing by learning about worldwide experience in transition, which allows it to make more informed decisions based on the country's needs. It was noted that these consultations are only on the Bank's strategy and the Bank is only one actor. While useful, it is more important that stakeholders provide input to the government program.

Consultations in Rodrigues

7. Participants appreciated the consultation and the Bank team noted the impressively vibrant and active civil society that exists in Rodrigues. The specificity of Rodrigues was underscored, with its 36,000 people, specific economy mainly driven by fishing, agriculture, tourism are the main sectors of the economy. Unemployment was raised as an important problem in Rodrigues.

8. Issues raised included:

(i) **the need to develop tourism.** Constraints identified included high costs of plane tickets, capacity, need to develop airport and port, visibility (Rodrigues is not well known; need to brand), and lack of entertainment.
(ii) **fisheries and agro-industry development.**
(iii) **Water** was mentioned several times as a serious problem for Rodrigues, including for growth such as industry and irrigation.

(iv) **Energy was also mentioned as** many subscribers are in arrears; people can not afford mandatory new security device to prevent electric shock

(v) **Lack of a good regulatory framework**; slowness; creating an enterprise is not easy; should create a one stop shop. Should help SME development. Problems with training and market.

(vi) **Education**. Children go irregularly to school. Can not read, illiteracy

(vii) **Social ills also exist** including drug abuse, theft, violence, criminality. Lack of security hinders investors.

9. On the **Bank's support**, participants mentioned the following suggestions and ideas:

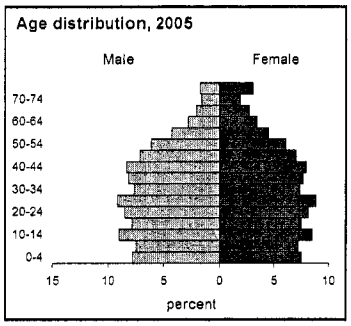
- **Community Driven Development** to empower local government to tackle issues of importance for the community and improve capacity
- **Microcredit schemes:** identify potential entrepreneur; provide seed money to start project; have peer system of credit and create cohesion among entrepreneurs.
- **Airport infrastructure:** New project for a new airline strip; add more length and width to runway. Find aircraft that can land with more people. Problem of high cost of oil.
- Participants noted the importance of making sure money being invested is well used. IFAD program is good example Rs 40 million going to things such as infrastructure and primary schools.

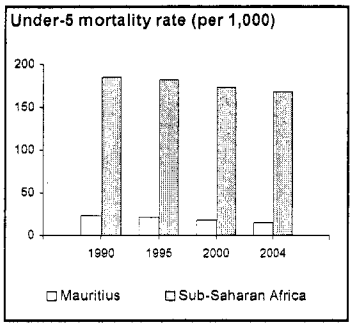
10. The World Bank confirmed that it can work in any of these areas. It has an expansive network of expertise in most sectors of the economy. In order for the Bank to be engaged in any of these areas, either through project or analytical work, a request must be made by the Ministry of Finance in Mauritius. It was noted that the World Bank provides loans rather than grants as some other institutions or bilateral donors, so this has monetary implications for the Government of Mauritius. The appropriate avenue is that the needs of Rodrigues are factored in to the annual business plan discussions in January/February each year so that they can be considered for World Bank support. This should be done through the authorities of Rodrigues to the Ministry of Finance in Mauritius. If the World Bank knows of Rodrigues' needs, it can also mention these areas to the Government for consideration for Bank support.

Mauritius at a glance

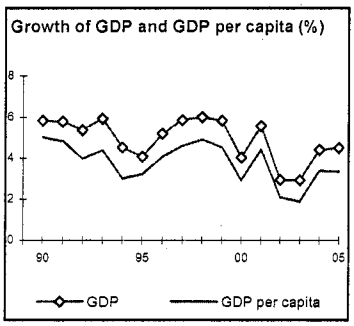
8/12/06

Key Development Indicators	Mauritius	Sub-Saharan Africa	Upper middle income
(2005)			
Population, mid-year (millions)	1.2	741	599
Surface area (thousand sq. km)	2.0	24,265	30,135
Population growth (%)	1.1	2.1	0.4
Urban population (% of total population)	44	37	72
GNI (Atlas method, US$ billions)	6.5	552	3,368
GNI per capita (Atlas method, US$)	5,250	745	5,625
GNI per capita (PPP, international $)	12,450	1,981	10,924
GDP growth (%)	4.6	5.3	5.5
GDP per capita growth (%)	3.3	3.1	5.0
(most recent estimate, 2000–2005)			
Poverty headcount ratio at $1 a day (PPP, %)	..	44	..
Poverty headcount ratio at $2 a day (PPP, %)	..	75	..
Life expectancy at birth (years)	73	46	69
Infant mortality (per 1,000 live births)	14	100	23
Child malnutrition (% of children under 5)	15	29	7
Adult literacy, male (% of ages 15 and older)	88	..	95
Adult literacy, female (% of ages 15 and older)	81	..	92
Gross primary enrollment, male (% of age group)	102	99	108
Gross primary enrollment, female (% of age group)	102	87	106
Access to an improved water source (% of population)	100	56	94
Access to improved sanitation facilities (% of population)	94	37	84





Net Aid Flows	1980	1990	2000	2005 [a]
(US$ millions)				
Net ODA and official aid	33	89	20	38
Aid (% of GNI)	2.9	3.8	0.5	0.6
Aid per capita (US$)	34	84	17	31



Long-Term Economic Trends	1980	1990	2000	2005	1980–90	1990–2000	2000–05
					(average annual growth %)		
Consumer prices (annual % change)	42.0	13.5	4.2	4.9			
GDP implicit deflator (annual % change)	*10.6*	10.6	3.6	5.6			
Exchange rate (annual average, local per US$)	7.1	15.4	25.5	28.9			
Terms of trade index (2000 = 100)	..	104	100	92			
Population, mid-year (millions)	1.0	1.1	1.2	1.2	0.9	1.2	1.0
GDP (US$ millions)	1,153	2,383	4,465	6,290	6.0	5.2	3.9
		(% of GDP)					
Agriculture	16.5	13.1	6.0	6.1	2.6	-0.5	1.9
Industry	26.3	33.1	31.2	28.2	9.2	5.5	1.9
Manufacturing	15.7	24.7	23.7	20.3	10.4	5.3	0.6
Services	57.2	53.8	62.8	65.7	5.1	6.4	5.7
Household final consumption expenditure	71.0	63.7	63.0	66.7	5.4	5.4	3.0
General gov't final consumption expenditure	14.4	12.8	13.1	14.4	3.3	4.8	4.5
Gross capital formation	25.4	30.7	25.9	23.3	10.3	4.7	4.6
Exports of goods and services	46.8	64.2	62.7	56.5	10.2	5.4	1.8
Imports of goods and services	57.6	71.4	64.7	60.9	10.3	5.2	1.4
Gross savings	14.0	26.3	25.3	19.7	*11.1*	5.7	*3.1*

Note: Figures in italics are for years other than those specified. 2005 data are preliminary estimates. .. indicates data are not available.

Macro-data, balance of payments and fiscal data refer to fiscal years, i.e., 2005 refers to FY starting on July 1, 2004 and ending on Ju

a. Aid data are for 2004.

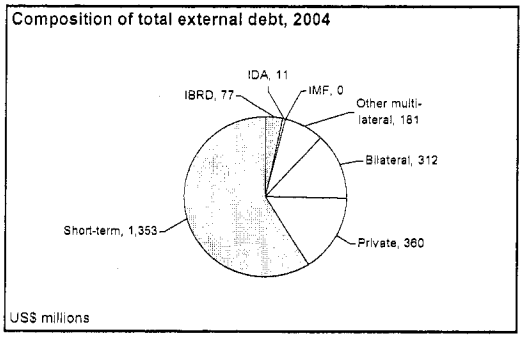
Development Economics, Development Data Group (DECDG).

Mauritius

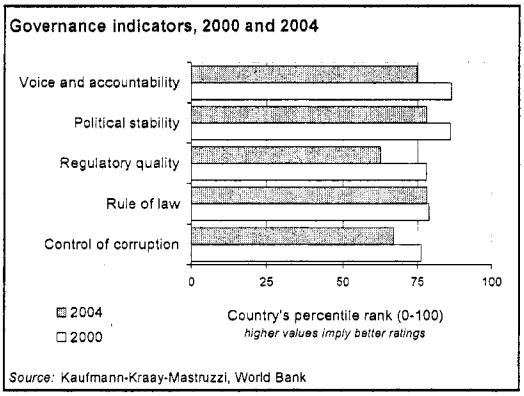
Balance of Payments and Trade	2000	2005
(US$ millions)		
Total merchandise exports (fob)	1,523	2,028
Total merchandise imports (cif)	2,158	2,919
Net trade in goods and services	-130	-269
Workers' remittances and compensation of employees (receipts)	177	*215*
Current account balance	-69	-216
as a % of GDP	-1.5	-3.4
Reserves, including gold	688	1,487

Central Government Finance 1/		
(% of GDP)		
Revenue	20.5	19.6
Tax revenue	18.1	17.9
Expense	20.5	20.9
Cash surplus/deficit	-3.8	-5.2
Highest marginal tax rate (%)		
Individual	25	*25*
Corporate	*25*	*25*

External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	1,720	*2,294*
Total debt service	485	*260*
HIPC and MDRI debt relief (expected; flow)	–	–
Total debt (% of GDP)	38.5	*38.0*
Total debt service (% of exports)	17.2	*7.2*
Foreign direct investment (net inflows)	266	*14*
Portfolio equity (net inflows)	-4	*19*



Private Sector Development	2000	2005
Time required to start a business (days)	–	46
Cost to start a business (% of GNI per capita)	–	8.8
Time required to register property (days)	–	210
Ranked as a major constraint to business (% of managers surveyed who agreed)		
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	29.8	41.5
Bank branches (per 100,000 people)	..	*11.9*



Technology and Infrastructure	2000	2004
Paved roads (% of total)	97.0	*100.0*
Fixed line and mobile phone subscribers (per 1,000 people)	388	700
High technology exports (% of manufactured exports)	1.0	4.5

Environment		
Agricultural land (% of land area)	56	*56*
Forest area (% of land area, 2000 and 2005)	18.7	18.2
Nationally protected areas (% of land area)	..	..
Freshwater resources per capita (cu. meters)	..	2,229
Freshwater withdrawal (% of internal resources)	..	*22.2*
CO2 emissions per capita (mt)	2.4	*2.6*
GDP per unit of energy use (2000 PPP $ per kg of oil equivalent)	..	..
Energy use per capita (kg of oil equivalent)	..	..

World Bank Group portfolio	2000	2005
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	86	68
Disbursements	4	2
Principal repayments	18	9
Interest payments	5	2
IDA		
Total debt outstanding and disbursed	14	10
Disbursements	0	0
Total debt service	1	1
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	6	*0*
of which IFC own account	6	*0*
Disbursements for IFC own account	0	*0*
Portfolio sales, prepayments and repayments for IFC own account	3	*0*
MIGA		
Gross exposure	–	–
New guarantees	–	–

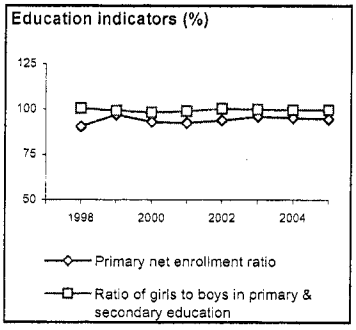
Note: Figures in italics are for years other than those specified. 2005 data are preliminary estimates. 9/14/06
.. indicates data are not available. – indicates observation is not applicable.
1/ Revenues refer to current revenues excluding current grants; expenses refer to current expenditures; and, deficit refers to deficit after total grants.
Development Economics, Development Data Group (DECDG).

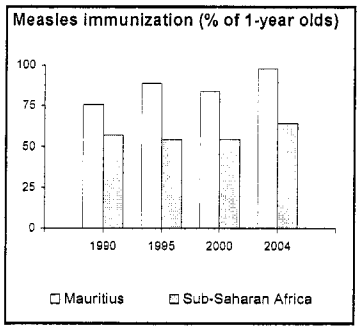
Millennium Development Goals

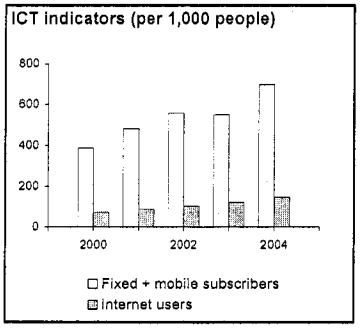
Mauritius

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Mauritius			
Goal 1: halve the rates for $1 a day poverty and malnutrition	**1990**	**1995**	**2000**	**2004**
Poverty headcount ratio at $1 a day (PPP, % of population)	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..
Share of income or consumption to the poorest quintile (%)	..	..	..	..
Prevalence of malnutrition (% of children under 5)	..	15	..	..
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	*91*	..	93	*95*
Primary completion rate (% of relevant age group)	64	98	105	*97*
Secondary school enrollment (gross, %)	*55*	..	78	*88*
Youth literacy rate (% of people ages 15-24)	91	..	..	95
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	*102*	..	98	*100*
Women employed in the nonagricultural sector (% of nonagricultural employment)	37	36	39	35
Proportion of seats held by women in national parliament (%)	7	*8*	8	*6*
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	23	21	18	15
Infant mortality rate (per 1,000 live births)	20	20	16	14
Measles immunization (proportion of one-year olds immunized, %)	76	89	84	98
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	24	..
Births attended by skilled health staff (% of total)	91	98	100	99
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	*0.6*
Contraceptive prevalence (% of women ages 15-49)	*75*	..	*26*	*76*
Incidence of tuberculosis (per 100,000 people)	68	..	..	64
Tuberculosis cases detected under DOTS (%)	..	34	33	33
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	100	..	..	100
Access to improved sanitation facilities (% of population)	..	..	..	94
Forest area (% of total land area)	19.2	..	18.7	*18.2*
Nationally protected areas (% of total land area)	..	..	..	..
CO2 emissions (metric tons per capita)	1.4	1.6	2.4	*2.6*
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	..	..	..	..
Goal 8: develop a global partnership for development				
Fixed line and mobile phone subscribers (per 1,000 people)	55	143	388	700
Internet users (per 1,000 people)	0	2	73	146
Personal computers (per 1,000 people)	4	32	101	279
Youth unemployment (% of total labor force ages 15-24)	..	..	..	..







Note: Figures in italics are for years other than those specified. .. indicates data are not available.

8/12/06

Development Economics, Development Data Group (DECDG).

Annex B2 - Mauritius
Selected Indicators* of Bank Portfolio Performance and Management
As Of Date
07/24/2006

Indicator	2004	2005	2006
Portfolio Assessment			
Number of Projects Under Implementation [a]	2	1	1
Average Implementation Period (years) [b]	4.5	7.4	8.4
Percent of Problem Projects by Number [a, c]	0.0	0.0	0.0
Percent of Problem Projects by Amount [a, c]	0.0	0.0	0.0
Percent of Projects at Risk by Number [a, d]	0.0	0.0	0.0
Percent of Projects at Risk by Amount [a, d]	0.0	0.0	0.0
Disbursement Ratio (%) [e]	6.4	19.3	24.0
Portfolio Management			
CPPR during the year (yes/no)	No	No	No
Supervision Resources (total US$)	135,000	117,000	101,000
Average Supervision (US$/project)	67,000	59,000	101,000

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	31	2
Proj Eval by OED by Amt (US$ millions)	346.2	3.5
% of OED Projects Rated U or HU by Number	16.1	0.0
% of OED Projects Rated U or HU by Amt	9.6	0.0

a. As shown in the Annual Report on Portfolio Performance (except for current FY).
b. Average age of projects in the Bank's country portfolio.
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
d. As defined under the Portfolio Improvement Program.
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Mauritius - CAS Annex B3 - IBRD/IDA Program Summary

As Of Date 08/21/2006

Proposed IBRD/IDA Base-Case Lending Program [a]

Fiscal year	*Proj ID*	*US$(M)*	*Strategic Rewards b (H/M/L)*	*Implementation b Risks (H/M/L)*
2007	Env. Urban Transp Inv Phase1 (FY07)	12.0	M	M
	Development Policy DPL1 (FY07)	30.0	H	L
	Sub-total	42.0		
2008	Development Policy DPL2 (FY08)	30.0	H	L
	Infrastructure (to be determined)	20.0	M	M
	Sub-total	50.0		
2009	Development Policy DPL3 (FY09)	30.0	H	L
	Urban Infrastructure	20.0	M	M
	Sub-total	50.0		
Total		142.0		

CAS Annex B3 (IFC & MIGA) for Mauritius

Mauritius - IFC and MIGA Program, FY 2004-2007

	2004	2005	2006	2007
IFC approvals (US$m)	0.00	0.00	0.00	
Sector (%)				
Investment instrument(%)				
MIGA guarantees (US$m)	0.00	0.00	0.00	

Annex B4 - Summary of Nonlending Services -Mauritius

As Of Date 07/24/2006

Product	*Completion FY*	*Cost (US$000)*	*Audience*[a]	*Objective*[b]
Recent completions				
Pension Reform	FY02	76	Government	Problem-solving
CPAR	FY03	76	Bank	Knowledge
CAS	FY02	85	Bank	Strategy
Transport Action Plan	FY03	31	Government	Problem-solving
PER	FY04	244	Govt/Bank	Knowledge
Investment Climate Assessment	FY06	75	Government	Problem-solving
CEM	FY06	462	Govt/Bank	Knowledge
Labor Market Study	FY06	50	Government	Problem-solving
Communication Assessment	FY06	86	Government	Problem-solving
Aid for Trade Report	FY06	165	Government	Problem-solving
Cabinet Retreat and Meetings with International Practitioners	FY07		Govt/Public	Knowledge/Problem-Solving
Planned				
Communication	FY07	100	Government	Problem-solving
Land/Urban Policy Note	FY07	90	Government	Problem-solving
Public Expenditure Review	FY07-09	200	Government	Problem solving
HIV/AIDS IDF	FY07	30	Government	Problem solving

a. Government, donor, Bank, public dissemination.
b. Knowledge generation, public debate, problem-solving.

Mauritius - Key Economic Indicators

Indicator	Actual 2001/02	Actual 2002/04	Actual 2003/04	Actual 2004/05	Estimated 2005/06	Projected 2006/07	Projected 2007/08	Projected 2008/09	Projected 2009/10	Avg 2010/11-2012/2013
National accounts (as % of GDP)										
Gross domestic product [a]	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	7.1	6.1	6.2	6.1	5.6	5.4	4.5	4.1	4.0	3.7
Industry	30.9	30.4	29.6	28.2	26.9	26.2	25.2	24.3	24.0	23.4
Services	62.0	63.5	64.3	65.7	67.6	68.4	70.3	71.6	72.0	72.9
Total Consumption	74.8	75.2	76.6	81.1	85.2	81.5	80.7	79.9	78.2	75.5
Gross domestic fixed investment [b]	22.3	22.2	22.1	21.3	22.5	26.6	24.5	24.0	24.3	26.5
Government investment	7.0	7.9	7.7	6.6	7.5	10.8	8.5	7.7	7.8	8.3
Private investment	15.3	14.3	14.5	14.8	15.0	15.8	16.1	16.4	16.5	18.2
Exports (GNFS)[c]	60.6	59.1	55.2	56.5	59.7	63.5	66.3	67.1	68.4	70.9
Imports (GNFS)	56.8	56.9	55.9	60.9	68.6	71.6	71.6	71.0	70.8	72.9
Gross domestic savings	25.2	24.8	23.4	18.9	14.8	18.5	19.3	20.1	21.8	24.5
Gross national savings[d]	26.5	26.3	23.8	19.7	16.4	19.6	19.8	20.3	21.9	24.3
Memorandum items										
Gross domestic product (US$ million at current prices)	4549	5248	6064	6290	6448	6598	6851	7103	7399	8508
GNI per capita (US$, Atlas method)	3880	4010	4520	5250	5410	5380	5460	5570	5750	6357
Real annual growth rates (%, calculated from 1992 prices)										
Gross domestic product at market prices	2.7	3.2	4.7	4.6	3.5	3.5	3.6	3.8	4.3	5.3
Gross Domestic Income	1.7	4.4	2.7	0.5	0.1	9.1	4.3	4.8	5.2	6.5
Real annual per capita growth rates (%, calculated from 1992 prices)										
Gross domestic product at market prices	1.6	2.3	-3.7	3.5	2.4	2.5	2.6	2.8	3.3	4.4
Total consumption	0.0	4.2	2.6	4.3	2.9	5.2	3.5	3.6	2.8	4.2
Private consumption	-0.7	4.4	2.5	4.3	2.8	6.2	4.1	4.1	2.9	2.4
Balance of Payments (US$ millions)										
Exports (GNFS)c	2749	3065	3401	3592	3922	4190	4545	4769	5058	6042
Merchandise FOB	1569	1871	2014	2028	2254	2270	2382	2435	2528	2852
Imports (GNFS)b	2577	3005	3357	3861	4330	4725	4903	5046	5241	6209
Merchandise FOB	1799	2162	2385	2733	3097	3411	3525	3609	3739	4385
Resource balance	172	60	45	-269	-408	-535	-358	-277	-183	-167
Net current transfers	71	81	60	58	39	47	41	46	62	67
Current account balance	248	139	68	-216	-333	-461	-326	-266	-177	-185
Net private foreign direct investment	48	57	35	-32	-10	45	55	55	55	55
Long-term loans (net)	-15	-14	-64	-81	50	290	288	258	181	272
Official	14	8	-54	-43	-43	11	28	12	-8	-11
Private	-29	-22	-11	-38	93	279	260	245	189	283
Other capital (net, incl. errors & ommissions	-38	137	79	220	195	-5	-5	-5	-5	-5
Change in reserves[e]	-243	-319	-118	109	98	131	-12	-41	-54	-137
Memorandum items										
Resource balance (% of GDP)	3.8	1.1	0.7	-4.3	-6.3	-8.1	-5.2	-3.9	-2.5	-2.0
Real annual growth rates (YR92 prices)										
Merchandise exports (FOB)	-5.0	10.7	0.6	-2.0	8.8	-1.5	3.8	1.7	3.1	4.7
Primary	9.9	-19.3	2.7	6.6	-6.1	-7.3	2.5	-12.4	-5.0	0.0
Manufactures	-4.5	0.3	-1.8	-17.1	-11.0	0.9	0.2	0.0	0.0	0.0
Merchandise imports (CIF)	-6.8	12.8	-1.9	0.0	8.7	5.0	3.3	3.4	4.3	8.9

(Continued)

Mauritius - Key Economic Indicators (Continued)

Indicator	Actual 2001/02	Actual 2002/04	Actual 2003/04	Actual 2004/05	Estimated 2005/06	Projected 2006/07	Projected 2007/08	Projected 2008/09	Projected 2009/10	Avg 2010/11-2012/2013
Public finance (as % of GDP at market prices)[f]										
Current revenues	18.4	20.2	20.2	19.6	19.9	20.1	19.3	19.1	19.3	19.4
Current expenditures	20.3	21.0	21.0	20.9	22.1	21.5	20.1	19.8	19.2	18.8
Current account surplus (+) or deficit (-)	-1.9	-0.8	-0.8	-1.3	-2.2	-1.4	-0.8	-0.7	0.0	0.6
Capital expenditure	4.1	5.3	4.6	3.9	3.2	3.4	3.4	3.5	3.5	3.6
Foreign financing	0.8	0.1	-0.3	0.3	-0.5	0.1	-0.2	-0.4	-0.4	-0.4
Monetary indicators										
M2/GDP	80.5	82.3	84.9	87.7	90.5	90.0	90.0	89.8	89.6	89.2
Growth of M2 (%)	13.0	11.7	14.4	13.1	11.2	10.2	9.8	9.8	9.8	9.8
Private sector credit growth / total credit growth (%)	78.7	54.2	37.8	67.6	75.7	75.6	72.7	72.7	85.8	88.1
Price indices(YR92 =100)										
Merchandise export price index	90.0	96.9	103.7	106.6	108.9	111.2	112.5	113.0	113.8	117.5
Merchandise import price index	95.5	101.8	115.0	131.0	137.0	145.5	145.6	144.1	143.2	142.6
Merchandise terms of trade index	94.3	95.2	90.2	81.4	79.5	76.4	77.2	78.4	79.5	82.4
Real exchange rate (US$/LCU)[g]	104.5	103.7	100.6	95.0	93.0	91.1	89.3	87.5	85.7	85.7
Consumer price index (% change)	6.3	5.1	3.9	5.6	5.1	8.5	6.0	6.0	5.5	4.5
GDP deflator (% change)	6.6	5.9	5.9	4.8	4.1	7.0	6.0	6.0	5.5	4.5

Source: Country Local Data Base, September, 2006.

a. GDP at factor cost

b. Excludes changes in stocks, which are projected at zero sstarting on 2006/07.

c. "GNFS" denotes "goods and nonfactor services."

d. Includes net unrequited transfers excluding official capital grants.

e. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US$/LCU denotes appreciation.

Mauritius - Key Exposure Indicators

Indicator	Actual 2001/02	Actual 2002/04	Actual 2003/04	Actual 2004/05	Estimated 2005/06	Projected 2006/07	Projected 2007/08	Projected 2008/09	Projected 2009/10	Avg 2010/11-2012/2013
Total debt outstanding and disbursed (TDO) (US$m)a	2179	2422	2222	2314	2605	2894	3152	3334	3555	3910
Net disbursements (US$m)a	-14.9	-14.0	-64.5	-81	50	290	288	258	181	272
Total debt service (TDS) (US$m)a	233	253	256	248	220	203	209	218	229	265
Debt and debt service indicators (%)										
TDO/XGSb	66.2	67.2	58.3	53.8	59.1	60.9	63.4	63.3	62.8	56.6
TDO/GDP	41.5	39.9	35.3	35.9	39.5	42.2	44.4	45.1	45.0	42.8
TDS/XGS	7.1	7.0	6.7	5.8	5.0	4.3	4.2	4.1	4.0	3.8
Concessional/TDO	6.7	13.6	14.1	13.9	11.9	10.4	8.8	7.4	5.9	3.9
IBRD exposure indicators (%)										
IBRD DS/public DS	11.2	7.4	5.4	5.4	5.4	5.9	5.8	5.1	4.0	2.6
Preferred creditor DS/public DS (%)c	23.1	23.5	20.3	20.4	21.8	26.9	28.2	26.5	22.2	16.4
IBRD DS/XGS	0.6	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1
IBRD TDO (US$m)d	100	89	80	72	64	83	112	145	180	239
Share of IBRD portfolio (%)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
IDA TDO (US$m)d	13.0	12.0	10.7	10.7	10.1	9.5	8.9	8.3	7.7	6.4
IFC (US$m)										
Loans	0	0	0	0	0	0	0	0	0	0
Equity and quasi-equity /c	0	0	0	0	0	0	0	0	0	0
MIGA										
MIGA guarantees (US$m)	0	0	0	0	0	0	0	0	0	0

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

Annex B8 - Mauritius

Operations Portfolio (IBRD/IDA and Grants)

As Of Date 07/24/2006

Closed Projects 12

IBRD/IDA *

Total Disbursed (Active)	8.37
of which has been repaid	3.72
Total Disbursed (Closed)	376.67
of which has been repaid	373.78
Total Disbursed (Active + Closed)	385.03
of which has been repaid	377.50
Total Undisbursed (Active)	4.03
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	4.03

Active Projects

Project ID	Project Name	Last PSR Supervision Rating: Development Objectives	Last PSR Supervision Rating: Implementation Progress	Fiscal Year	Original Amount in US$ Millions: IBRD	IDA	GRANT	Cancel.	Undisb.	Difference Between Expected and Actual Disbursements a/: Orig.	Frm Rev'd
P001921	MU-Env Sewerage & Sanitation (FY98)	S	S	1998	12.4				4.03	4.03	1.5