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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT

FOR A

PROPOSED LOAN

IN THE AMOUNT OF US$20 MILLION

TO

THE REPUBLIC OF MAURITIUS

FOR A

PUBLIC SECTOR PERFORMANCE DEVELOPMENT POLICY LOAN

February 27, 2012

Social Protection Department
AFCS4 Country Management Unit
Africa Region

MAURITIUS - GOVERNMENT FISCAL YEAR
January 1 – December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of February 3, 2012)

Currency Unit = Mauritius Rupee
US$1.00 = Rs 29.30
Weights and Measures
Metric System

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
AFD	*Agence Française de Développement* (French Development Agency)
AFRITAC	Africa Regional Technical Assistance Center South
AFT	Aid for Trade
BOI	Board of Investment
BoM	Bank of Mauritius
CMS	Customs Management System
COMESA	Common Market for Eastern and Southern Africa
CPE	Certificate of Primary Education
CPS	Country Partnership Strategy
CRS	Confidential Reporting System
CSR	Corporate social responsibility
DBM	Development Bank of Mauritius
DDO	Deferred draw down option
DPL	Development Policy Loan
DSA	Debt Sustainability Analysis
EAP	Eradication of Absolute Poverty Program
EC	European Commission
EPZs	Export processing zones
ERCP	Economic Restructuring and Competitiveness Program
ESS	Education Sector Strategy
ESW	Economic and sector work
EU	European Union
FDI	Foreign direct investment
GDP	Gross domestic product
GTER	Gross tertiary enrollment rate
HBS	Household Budget Survey
HPC	Housing and Population Census
HRMIS	Human Resources Monitoring Information System
IBRD	International Bank for Reconstruction and Development
ICA	Investment Climate Assessment
ICAC	Independent Commission Against Corruption
ICT	Information and communications technology
IMF	International Monetary Fund
IOC	Indian Ocean Commission

IT	Information technology
JEC	Joint Economic Council of Mauritius
MCCI	Mauritius Chamber of Commerce and Industry
MID	*Maurice Ile Durable* (Sustainable Mauritius)
MERI	Mauritius Exchange Rate Index
METAP	Mauritius Economic Transition (Technical Assistance) Project
MNS	Mauritius Network Services Limited
MoBECC	Ministry of Business, Enterprise, and Cooperatives
MoFED	Ministry of Finance and Economic Development
MoSIEE	Ministry of Social Integration and Economic Empowerment
MoSS	Ministry of Social Security, National Solidarity and Reform Institutions
MoU	Memorandum of Understanding
MRA	Mauritius Revenue Authority
MSDCP	Manufacturing and Services Development and Competitiveness Project
MCSAR	Ministry of Civil Service and Administrative Reforms
MTEF	Medium-term expenditure framework
NEF	National Empowerment Foundation
NEP	National Empowerment Program
NGO	Non-governmental organization
NTBs	Non-tariff barriers
NTMs	Non-tariff measures
OPSG	Office of Public Sector Governance
PBB	Program-based budget
PEFA	Public Expenditure and Financial Accountability Assessment
PFM	Public financial management
PIMS	Parastatal Information Management System
PMS	Performance management system
POPs	Persistent organic pollutants
PPP	Public-private partnership
PRB	Pay Research Bureau
PRC	Permit Review Committee
PSC	Private Sector Competitiveness
PSIA	Poverty and Social Impact Analysis
R & D	Research and development
RBB	Results-based budgeting
RIA	Regulatory impact analysis
Rs.	Mauritius rupees
SADC	Southern African Development Community
SC	Secondary certificate
SM	Statistics Mauritius
SMEs	Small and medium-sized enterprises
SOEs	State-owned enterprises
SRM	Social Register of Mauritius
TFSIVG	Trust Fund for Social Integration of Vulnerable Groups
TIA	Trade impact assessment
TVET	Technical and vocational education and training
UNCTAD	United Nations Commission on Trade and Development
ZEP	*Zones d'Education Prioritaires* (Priority Education Zones)

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REPUBLIC OF MAURITIUS

PUBLIC SECTOR PERFORMANCE DEVELOPMENT POLICY LOAN

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This Loan was prepared by an IBRD team consisting of Will Wiseman (Senior Economist, Co-Task Team Leader), Rafael Muñoz Moreno (Senior Economist, Co-Task Team Leader), Sawkut Rojid (Economist), Khoudijah Maudarbocus-Boodoo (Private Sector Development Specialist), Alvaro Gonzalez (Senior Economist), Chunlin Zhang (Lead Private Sector Development Specialist), Jacques Morisset (Lead Economist), Fadila Caillaud (Economist), Mona Haddad (Manager Trade Department), Olivier Cadot (Senior Trade Economist), Mariem Malouche (Economist), Uma Subramanian (Program Manager, Trade Logistics, Investment Climate Advisory Services), Peter Ladegaard (Regional Program Manager, Investment Climate Advisory Services), Lorraine Blank (Consultant), Raj Soopramanien (Lead Counsel), Wolfgang Chadab (Senior Finance Officer, CTRLA), Emma Mistiaen (Operations Officer), Vasish Ramkhalawon (Operations Officer), Mariella Beugue (Team Assistant), Nadege Nouviale (Team Assistant), Joanna Watkins (Consultant), Phillippe Leite (Economist), Nick Manning (Advisor), Maria-Teresa Benito-Spinetto (Research Analyst), Alain D'Hoore (Lead Economist), and Patrick Kabuya (Senior Financial Management Specialist).

LOAN PROGRAM SUMMARY

REPUBLIC OF MAURITIUS

PUBLIC SECTOR PERFORMANCE DEVELOPMENT POLICY LOAN

Borrower	Republic of Mauritius
Implementing Agency	Ministry of Finance and Economic Development
Financing Data	IBRD Loan: Development Policy Loan (DPL). The proposed loan amount is US$20 million.
Operation Type	Programmatic DPL (two operations). The proposed operation is the first of the series.
Main Policy Areas	Social Protection, Education, Trade Competitiveness, Civil Service Reform, Public Enterprise Reform.
Key Outcome Indicators	• Number of people with less than a secondary school certificate in the Placement for Training program under the National Empowerment Foundation, reflecting an increased poverty focus. • Number of households in the Social Register of Mauritius (SRM), which will serve as the basis for an integrated database for poverty targeted programs. • Percentage of students entering Year 1 and completing the pre-vocational education cycle, reflecting increased access to quality secondary education. • Number of regulations on which a decision is taken after review, reflecting a reduction in unnecessary business regulations. • Number of ministries involved in issuing certificates/permits/clearances connected to the national single window, thus indicating greater administrative harmonization and a reduced administrative burden for business. • Time needed to settle the Customs administrative penalty amount, reflecting increased transparency and efficiency in the application of Customs appeals. • Gradual reduction in the time needed to process the prescription of Schemes of Service and in the number of Schemes of Service, reflecting increased flexibility in the civil service. • Number of state-owned enterprises (SOEs) included in the quarterly performance reports prepared by the Office of Public Sector Governance (OPSG) and published on the OPSG website, indicating better monitoring of SOE performance and reform.
Program Development Objective(s) and Contribution to Country Partnership Strategy (CPS)	The development objective of the DPL programmatic series is to support improvements in the performance of the public sector in Mauritius by assisting the government to implement the following three reform pillars: (i) strengthening services to support and empower the most vulnerable; (ii) streamlining trade regulation and processes; and (iii) improving human resource management in the

	civil service and the monitoring of SOE performance.
Risks	The implementation of the proposed reform program entails a number of risks: (a) The challenge of maintaining macroeconomic stability in the face of uncertain global developments. The government has the means and tools to cope with external economic uncertainties, though a firm commitment will be needed to rein in public expenditure if a substantial economic slowdown materializes. (b) Political risk that may affect the pace of the reform program at a time when the need for reform is most urgent, given global economic uncertainties. Many of these second generation reforms will have redistributive effects and the government may find it difficult to overcome some resistance from vested interests. This complexity is further compounded by the withdrawal of one party from the government coalition in July 2011, which has left the government with only a slim majority in Parliament. This DPL aims to mitigate this risk by supporting reforms that will bring returns in the short term while putting in place the building blocks necessary to expedite the broader reform program in the medium term. (c) Limited institutional capacity within the sector ministries to lead and implement the reforms. The Bank and the government have signed a Services Agreement for Reimbursable Technical Assistance (RTA) to support institutional capacity. This RTA will complement the Bank's program and enable line ministries to enhance their institutional capacity where needed. Additionally, the DPL itself will build bridges between the different ministries involved in the reform program, thereby enhancing coordination. The Bank's analytical work program will support these reform areas while also enhancing the institutional capacity of sector ministries. In addition, this analytical work program has been coordinated with other development partners to leverage limited resources and to focus on areas that are most relevant for maximizing impact. (d) Allegations of corruption that have been at the center in the national debate for the past several months. These allegations are under investigation by the Independent Commission Against Corruption (ICAC). Corruption is not only an impediment to investment but also triggered a political crisis in Mauritius when accusations reached the highest level of government. This risk is mitigated by the fact the government appears to be supportive of the ICAC and respectful of its independence.
Operation ID	P125694.

REPUBLIC OF MAURITIUS

PUBLIC SECTOR PERFORMANCE DEVELOPMENT POLICY LOAN

PROGRAM DATA SHEET

Date: February 27, 2012 Country: Republic of Mauritius Operation: Public Sector Performance Development Policy Loan Operation ID: P125694 Team Leader: William Wiseman Sector Manager/Director: Lynne Sherburne-Benz Country Director: Haleh Bridi	Lending Instrument: Development Policy Lending Board Approval Date: March 27, 2012 Effectiveness Date: June 30, 2012 Closing Date: December 31, 2012 Sectors: Central government administration (40%); Other social services (30%); General public administration sector (30%) Themes: Social safety nets (25%), Administrative and civil service reform (25%), Export development and competitiveness (25%), State owned enterprise restructuring and privatization (25%) Environmental screening category:

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

Operation Financing Data
[X] IBRD Loan [] IDA Credit [] Grant [] Other: Total Bank financing (US$m.): 20.00 Proposed terms: IBRD Fixed Spread Loan payable in 18 years, (including 5 years grace period)

Tranche Release Information
Single tranche to be released upon effectiveness.

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

Program Development Objective (PDO) of the DPL programmatic series is to support improvement in the performance of the public sector in Mauritius by assisting the government to implement reforms within the following three pillars: (i) strengthening programs that support and empower the most vulnerable; (ii) streamlining trade regulation and processes; and (iii) improving human resource management in the civil service and monitoring of SOE performance.

PROGRAM DOCUMENT

REPUBLIC OF MAURITIUS

PUBLIC SECTOR PERFORMANCE DEVELOPMENT POLICY LOAN

I. INTRODUCTION

1. **Recent economic reforms in Mauritius have built on a long tradition of economic growth and transformation.** Since independence in 1968, Mauritius has achieved substantial economic growth of around 5 percent per annum, which has underpinned its economic transition from a predominantly agricultural economy based on sugar production to a diversified economy structured around textile exports and tourism. However, by the mid-2000s, with the erosion of Mauritius' preferential trade status and rising commodity prices, it was evident that more reforms were needed to further the country's transition from a labor-intensive economy to a high-value-added knowledge and services economy. As a result, in 2006 the government implemented a bold reform program structured around four pillars: (i) strengthening fiscal consolidation and public sector efficiency; (ii) enhancing trade competitiveness; (iii) improving the investment climate; and (iv) widening opportunities. The reform was broadly successful in restoring competitiveness, achieving economic growth, and creating employment in higher-value-added sectors. Moreover, the reform helped to consolidate government expenditure and reversed the upward trend in public debt. This provided the necessary space to adopt temporary counter-cyclical fiscal and monetary policies to mitigate the negative impact of the global financial crisis in 2009-10 and of the Euro crisis in 2010.

2. **However, the reform agenda remains unfinished and critical constraints to economic development, particularly with regard to public sector performance, have become increasingly evident.** There is substantial room for improvement in the performance of the public sector, particularly with regard to parastatals and public companies. The performance of the public sector significantly lowers the quality of service delivery and undermines overall economic competitiveness. Reform will be necessary to bring the sector up to the necessary level for Mauritius to achieve its development goals.

3. **The uncertain status of the global economy and the risk that this poses for Mauritius makes the need for reform even more urgent.** Global economic uncertainties pose an increasing threat to a small open economy such as Mauritius, primarily on two fronts – the fiscal position and the current account deficit. Slower global economic growth could depress domestic growth and tax revenues, yet pressure to finance government priorities is likely to continue. The fiscal position remains stretched with public debt still high and is only projected to decline by a modest amount in the medium term. Therefore, any counter-cyclical fiscal policy will be difficult to implement if these external threats materialize. This highlights the need for measures that would substantially increase public sector efficiency. Additionally, current account deficits, although high, have so far been financed mostly by high foreign direct investment (FDI) and inflows to the financial sector, but this could quickly reverse if international financial markets deteriorate. The concentration of the country's exports on only

a few markets (Europe) and products (tourism and textiles) could lead to a further deterioration in the current account deficit. This suggests an urgent need to accelerate reforms to increase competitiveness and position the economy to access new markets and develop new products.

4. **However, this second generation of public sector reforms is likely to be more difficult and more politically sensitive to implement than the first.** In 2010, the new government adopted a five-year plan, with a commitment to continuing the basic direction of structural reforms (increasing public investment, fostering economic competitiveness, and making the public sector more efficient) but with an increased emphasis on social programs to ensure that all segments of the population benefit from economic growth. This plan is adequate as a basis for regaining competitiveness and reducing poverty in Mauritius. However, the design and implementation of these reforms is complex. While the nature of the previous reforms allowed the Ministry of Finance and Economic Development to coordinate and lead the reform process, the current reform program is being led by a number of different sector ministries whose capacity is weaker, thus making coordination more problematic. Moreover, this second generation of reforms is likely to affect a wide range of public sector stakeholders, some of whom are well organized and influential and who may effectively resist reform. This complexity has been compounded by the withdrawal of one party from the government coalition in July 2011, which has resulted in the government having only a slim majority in Parliament. As a result of all of these factors, the pace of reform implementation has slowed down in Mauritius, and the government seeks to prioritize those reforms that not only have the potential to yield broadly shared economic growth but are also politically feasible to implement.

5. **The support provided by this proposed DPL will help the government to overcome many of the challenges that it faces.** The government continues to see DPLs as a useful vehicle for supporting policy reform in Mauritius, not only the financing itself but also the technical assistance and policy dialogue that the Bank can provide through its DPLs. The Bank can offer global knowledge and best practices and can ensure that discussions of the reform agenda are evidence-based, which also provides additional support to those championing the reform program. The approach is particularly important in the current context where the reform process has slowed down. The DPL series focuses on achieving politically feasible reforms in the near term while laying the necessary building blocks to accelerate reforms in the medium term. The DPL series aims to do this by supporting the creation of systems that will enable the government to define appropriate reform options as well as the strengthening of the institutions that can coordinate and consolidate the reform initiatives**.**

6. **The development objective of the DPL programmatic series is to support improvements in the performance of the public sector in Mauritius** by assisting the government to implement the following three reform pillars: (i) strengthening services to support and empower the most vulnerable; (ii) streamlining trade regulation and processes; and (iii) improving human resource management in the civil service and the monitoring of SOE performance.

7. **The proposed DPL is being prepared in coordination with the Bank's Private Sector Competitiveness (PSC) DPL.** The two DPL series are designed to be mutually reinforcing and to address complementary aspects of the government's reform program while ensuring that the Bank's support remains sufficiently flexible. The PSC DPL series will focus primarily on strengthening the policy and institutional environment for private sector competitiveness, while this proposed DPL will focus primarily on the performance of the public sector. If the government is going to successfully weather the possible challenges ahead and prepare itself for the next phase of rapid and inclusive economic growth, the reforms supported by these two operations will be instrumental to that success.

II. COUNTRY CONTEXT

A. RECENT DEVELOPMENTS AND MACROECONOMIC POLICY FRAMEWORK IN MAURITIUS

8. **The negative impact of the 2008/2009 global economic crisis in Mauritius was partially contained by a short-term fiscal stimulus package that also aimed to build the country's long-term competitiveness and enhance its investment climate.** This package was made possible by the government's relatively comfortable fiscal position prior to the onset of the crisis. This fiscal space allowed the government to adopt an expansionary macroeconomic policy, with both fiscal and monetary components. Between 2009 and 2011, fiscal stimulus measures cumulatively accounted for about 7.5 percent of GDP, with a focus on large infrastructure projects and targeted programs to assist firms and workers.[1] One salient feature of these targeted programs was the close coordination between the public and private sectors in which the government agreed to support firms as they restructured while the private sector did its utmost to preserve employment. As a result, job numbers were maintained during the crisis, and the unemployment rate remained stable at 7.3 percent in 2009 compared to 7.2 percent in 2008.

Table 1: Selected Economic Indicators 2007-2010

	2007	2008	2009	2010
Real GDP growth (%)	5.7	5.5	3.0	4.1
Exports of Goods[1] (Rs. M)	64,265	59,015	56,162	61,997
Of which textiles	*27,584*	*23,907*	*23,360*	*23,992*
Tourism Earnings (Rs. M)	40,687	41,213	35,693	39,457
FDI	11,514	11,419	8,793	13,948
Current Account Deficit (% GDP)	5.4	10.1	7.4	8.3

1. Excluding ships' stores and bunkers
Source: Statistics Mauritius

9. **Growth picked up in 2010 but has not yet reached 2008 levels.** GDP growth accelerated to 4.1 percent in 2010 from 3.0 percent in 2009 (Table 1). In line with the

[1] A salient initiative was the Mechanism for Transitional Support to Private Sector (MTSP, which came to be known as the "Mauritius Approach"). In the MTSP, the government became an equity partner to guarantee the survival of otherwise sound firms that were experiencing severe difficulties during the crisis. The Mauritius approach started to be implemented in December 2008. The program initially targeted large companies and the main objective was to reduce the likelihood of massive lay-offs.

structural change in the economy, overall growth was led by strong growth in the services sector, particularly real estate services, hotels and restaurants, and financial intermediation, which together now account for 30 percent of GDP compared to 23 percent a decade ago. Agricultural output – a small share of the economy but with a long tradition – decreased by 1.3 percent, with a decline in sugar cane production (-6.4 percent) that reflected a longstanding structural trend. The construction sector, boosted by demand for residential and commercial construction, grew by 4.3 percent, the lowest growth rate in the last five years. Manufacturing remained stable with declining sugar processing and no growth in the textile sector, but this was offset by growth in new products such as the processing of fish and other food (4.4 percent).

10. **Economic growth for 2011 is now expected to have been around 4.1 percent amid global economic turbulence.** The original economic outlook for 2011 as set out in the 2011 government budget was quite positive and projected a return to Mauritius' historical growth trajectory of 4.5 percent annual growth, driven by a strong external demand and high tourism revenues that compensated for an expected slowdown in the construction sector. However, there is some evidence that fiscal consolidation in advanced economies and increasing debt and financial worries in Europe may be having an impact on the Mauritian economy, as there was a substantial fall in FDI in the first half of 2011. In a revised projection in September 2011, Statistics Mauritius reduced its GDP growth projection for 2011 from 4.5 to 4.1 percent, driven mainly by a larger than expected (11.8 percent) drop in sugar cane production, a related decline in sugar milling and a fall in the construction sector as a result of a 0.6 percent decline of private sector investment.

Table 2: Quarterly Gross Domestic Product - Selected Sector Growth Rates
(percentage over corresponding period of previous year)

	2008	2009	2010	2010				2011		
				Q1	Q2	Q3	Q4	Q1	Q2	Q3
Agriculture, hunting, forestry, and fishing	3	8.8	-1.3	-7.4	-6.4	4.8	0.9	-4.6	-6.1	3.0
Manufacturing	3.2	2.1	2.1	4.8	-2.8	2.1	4.1	6.8	6.7	1.6
Textile	0.1	-0.2	0	-7.8	-12.2	10.5	9.1	10.0	22.3	7.7
Construction	11.6	6.2	4.3	-5.6	5.4	11.1	5	-4.8	-9.9	1.7
Hotels and restaurants	1.3	-5.9	6	7.6	1.9	7.5	6.3	3.1	5.2	1.0
Transport, storage, and communications	6.1	4.8	5.3	5.3	6.1	6.2	4.2	6.7	5.3	4.9
Financial intermediation	10.1	3.8	4.3	0.5	3.9	6	6.4	6.4	6.5	4.3
Real estate, renting, and business activities	8.7	6.1	6.2	5.9	5.8	7.6	5.7	6.1	6.4	6.4
GDP at market prices	**5.5**	**3.0**	**4.1**	**3.2**	**2.4**	**5.7**	**5.0**	**4.7**	**4.6**	**3.9**

Source: Statistics Mauritius

B. Macroeconomic Outlook and Debt Sustainability

11. **Updated IMF projections that factor the latest impact of the European economic downturn estimate that 2012 GDP growth in Mauritius could slowdown to 3.7 percent before picking up in 2013, though this hinges on highly uncertain global developments.** This is below government projections embedded in the public budget presented in November 2011 that projected GDP growth in 2012 close to 2011 levels of about 4 percent. Growth

prospects are sensitive to the pace of the implementation of domestic reforms as well as external factors since Mauritius is a small open economy and exports (i.e. textile, tourism, and ICT-BPO sectors) are very dependent of the euro zone. The government's projections assume that the global recovery will remain timid and that the government's reforms will only gradually lead to higher productivity and diversification in the private sector, returning to a level of 4.2 percent economic growth by 2014. The Bank's projections are in line with the most recent figures from the government that incorporate updated IMF projections prepared during the article IV consultations that took place in January 2012 (Table 3).

Table 3: Macroeconomic Indicators 2010-2016 (percent)

	2010	2011	2012	2013	2014	2015	2016
Real GDP growth	4.2	4.1	3.7	4.1	4.2	4.2	4.2
Gross national savings/ GDP	15.5	16.0	16.3	17.9	19.5	17.5	19.5
Gross domestic fixed investment/ GDP	24.9	24.4	24.8	27.3	25.7	23.4	26.0
CPI inflation (avg.)	2.9	6.5	4.8	5.3	4.9	4.4	4.4
Terms of trade change	-5.5	-6.8	5.0	1.9	1.2	1.0	1.1
Current account balance/GDP	-8.3	-10.0	-8.7	-7.5	-6.4	-5.9	-3.6

Sources: MoFED and staff estimates and projections

12. **Yet the Mauritian economy faces substantial risks, particularly with regard to a slowdown in international economic growth.** The main channels of transmission of economic shocks from the global economy to Mauritius – and especially from the European economies to which Mauritius remains highly exposed – are tourism (which represents 26 percent of the country's total exports of goods and services), FDI, and commodity imports. To model the impact on Mauritius should these shocks materialize, an alternative growth scenario assumes slower growth in partner countries in 2012 (a 2.5 percent decline in real GDP growth) before a gradual but slow recovery. Inflation in advanced economies is also assumed to slow as economic activity decelerates. Under this alternative scenario, real GDP growth in Mauritius is projected to fall by 2 percentage points to 1.7 percent in 2012, and 2.7 percent in 2013 and will only rebound by 2015 (Table 4). Export growth is projected to be significantly lower. For example, growth of tourism receipts are likely to decline by almost 16 percent compared to an increase of 9 percent under the baseline scenario. However, despite some reduction in the demand for imports projected for 2012 as domestic demand falters, the external current account deficit is projected to remain at around 8.7 percent of GDP. Under this alternative scenario, FDI is assumed to decline as a share of GDP in 2011 and 2012, reaching a low of 2 percent of GDP with net outflows amounting to 2 percent of GDP by 2012, while other financial flows are expected to remain broadly stable. As a consequence, there would be a balance of payments deficit of 9.7 percent of GDP in 2012, but the substantial amount of foreign exchange will yield enough resources to finance this, while the flexible exchange rate regime will help to narrow the balance of payments deficit over time.

Table 4: Macroeconomic Indicators under Alternative Scenarios 2010-2013 (percent)

	2010	2011		2012		2013	
		Original	Revised	Baseline	Alternative	Baseline	Alternative
Real GDP Growth	4.2	4.5	4.1	3.7	1.7	4.1	2.7
CPI Inflation	2.9	6.7	6.5	4.8	4.3	5.3	4.3
Total Revenues and Grant/GDP	21.9	21.6	21.3	21.7	20.3	20.0	20.5
Total Expenditure/GDP	25.1	25.2	25.1	23.9	26.5	23.9	25.1

Fiscal Surplus – Deficit /GDP	-3.2	-3.7	-3.2	-3.8	-6.2	3.8	-4.6
Current Account Balance/GDP	-8.2	-9.8	-10.0	-8.7	-9.7	-7.5	-9.0
International Reserves (US$ mns.)	2644	2151	2466	2340	1528	2370	1426
Months of Import Goods & Services	5.2	3.7	4.2	3.8	2.8	3.7	2.5
Debt/GDP	57.4	57.2	58.2	57.7	>60	56.3	>60

Sources: MoFED, BoM, IMF, and staff estimates and projections

13. **The fiscal position will remain stretched, with limited space to respond to unexpected shocks and potential vulnerabilities.** The fiscal space created by the government's cautious fiscal policies prior to the 2008 crisis was largely used up by the stimulus measures implemented to counter the financial and Euro zone crises, resulting in a fiscal deficit of 3.2 percent of GDP in 2010 (Table 5). With total revenues (including grants) being 21.8 percent of GDP in 2010, the deficit was partly contained by the low execution rates of capital expenditures. Tax revenues are projected to increase by 9 percent in 2012 to 18.3 percent of GDP, and increasing grants[2] are expected to lift total public revenues to 21.7 percent of GDP in 2012. For the period 2012-2013, the fiscal deficit is expected to remain at around 3.8 percent of GDP. This reflects the government's additional expenditures on efforts to open up critical bottlenecks and boost long-term growth. These expenditures will include ambitious investments in energy, water and sewerage, and transport infrastructure of around 3.5 percent of GDP per year over the next five years. The deficit could further widen to more than 6 percent of GDP if there is a substantial international economic slowdown as a result of reduced revenues and with the impact of automatic stabilizers. To respond to this risk, the government has already created a National Resilience Fund using public savings from 2011 and previous years to finance a potential shortfall in revenues of 1.2 percentage points compared to the 2012 budget projections. Should revenues drop further, the government would need to accelerate efficiency increases in public expenditure and/or delay the implementation of some aspects of the public infrastructure program.

Table 5: Fiscal Framework (percentage of GDP)

	2010	2011	2012	2013	2014	2015	2016
Total revenues and grants	21.8	21.3	21.7	20.0	19.2	19.2	19.1
Tax revenues	18.4	18.2	18.3	17.7	17.3	17.2	17.0
Total expenditures	25.0	24.5	25.6	23.9	22.7	22.3	22.2
Current expenditure	22.3	21.9	21.5	20.4	19.6	19.2	19.1
Wages and salaries	5.8	5.5	5.6	5.8	5.6	5.6	5.6
Capital expenditures and net lending	2.7	2.6	4.1	3.5	3.1	3.1	3.0
Deficit(-)/Surplus(+)	-3.2	-3.2	-3.8	-3.8	-3.4	-3.1	-3.0
Debt/ GDP	57.4	57.2	57.4	55.7	55.0	54.9	54.0

Sources: MoFED and staff estimates and projections

14. **Despite lengthening debt maturity, the financing needs of the public sector continue to be high.** The gross financing requirements of the government are projected to remain at around the same level over the next three years at around Rs. 84 billion a year (US$2.9 billion or 25.3 percent of GDP in 2012, see Table 6). This is mostly explained by the high amortization of domestic securities falling due, which represent around 35 percent of total debt per year. In addition, an additional 4.4 percent of GDP (around US$540 million) is needed to cover the deficit, of which 2 percent of GDP is being financed by issuing new

[2] Mainly from the European Union (Rs 2,600 million or around 0.84 percent of GDP).

domestic debt and around 2.4 percent of GDP by new external loans. These high levels of financing needs are in line with recent trends. Most of the new gross borrowing requirements (91 percent of the total) are expected to be financed domestically. The domestic financial market is very liquid so it should be able to accommodate this financing with ease, but the government remains exposed to rapid changes in market sentiment and pricing.

15. **The last Debt Sustainability Analysis (DSA)[3] projects a sustainable public debt level over the medium term.** The DSA notes the reduction in public debt to 52 percent of GDP in 2008 from over 71 percent of GDP in 2003 due to the fiscal consolidation policies introduced since 2005, but it also recognizes that it had gone up again to 57 percent in 2010 as a result of the stimulus packages. The 2012 Public Budget projects a moderate increase in public debt over 2011 levels to 57.4 percent of GDP in 2012 (of which 77 percent is domestic debt), before a limited debt consolidation by 2014 takes place (55 percent of GDP).[4] Under a baseline scenario of average GDP growth of 4.5 percent and fiscal deficits in the 4 to 4.5 percent range, debt to GDP would gradually reach the 50 percent debt-to-GDP target by 2018. However, under alternative scenarios in which there is significant growth slowdown, public debt-to-GDP may rise to close to the 60 percent of GDP ceiling mandated under the Public Debt Management Act.[5] This would require the government to adopt a more ambitious medium-term fiscal consolidation agenda by making efficiency gains in public expenditure or slowing down the implementation of the investment program. In the same vein, the DSA projects that the external debt is sustainable[6] and that it may rise over the next few years to finance the public infrastructure program before stabilizing at about 20 percent of GDP. External debt sustainability is resilient to substantial real depreciation, but external debt dynamics would become unsustainable over a five-year period should the current account deficit increase by 3 percentage points of GDP compared to the baseline.

Table 6: Public Sector Financial Requirements (Rs millions)

	2010	**2011**	**2012**	**2013**	**2014**
Gross Borrowing Requirements	97,457	82,140	83,917	84,180	87,748
In percentage of GDP	32.6	25.3	23.8	21.7	20.9
Amortization of Domestic Securities	87,365	67,940	67,385	65,593	65,082
Amortization of External Loans	834	713	910	1,100	2,200
Additional Borrowing requirements	9,258	13,487	15,622	17,487	20,466
Change in cash balances and other items	1,490	1,289	-1,000	-1,000	0
Financing sources	98,948	83,520	82,917	81,180	87,748
Issue of Domestic Securities	92,677	76,026	76,093	71,125	77,006

[3] IMF Country Report 11/96, published in May 2011.

[4] Debt will also be slightly reduced from 54.2 percent of GDP in 2011 to 52.6 percent of GDP in 2014. (Following the 2010 amended Public Debt Amendment Act, any debt from parastatals that get revenues from the sale of market services is discounted.)

[5] The 2008 Public Debt Management Act (amended in 2010) imposes a ceiling on the total amount of outstanding public sector debt. The ceiling is set at 60 percent of GDP at current market prices, with the aim of reducing it to 50 percent of GDP by the end of 2018. Under the Act, the debt ceiling can be breached: (i) in the case of natural disasters or other emergencies requiring exceptional expenditure; (ii) when a large investment project in the public sector is deemed by the Cabinet to be timely and prudent; or (iii) in the case of a general economic slowdown requiring a fiscal stimulus. However, any rise in the percentage of debt–to-GDP ratio at the end of a fiscal year should not exceed 2 percent of the debt–to-GDP percentage of the previous fiscal year, and MoFED must prepare a plan to restore the ceiling within three fiscal years.

[6] External debt (excluding short-term private sector liabilities) stood at 12.5 percent of GDP at the end of 2010, down from 20 percent in 2002.

Loans from External Sources	6,270	7,494	6,824	10,055	10,742
of which: World Bank	94	1,627	1,737	1,252	1,198
of which : AfDB	4,659	1,912	1,024	4,505	6,141

Sources: MoFED and staff estimates and projections

16. **The balance of payments remains comfortably financed, but it is vulnerable to a slowdown in exports and potential reversals in financial inflows.** The current account deficit increased in 2008 to 10.2 percent of GDP from 5.5 percent of GDP in 2007 as a result of the sharp reduction in exports and was financed by a rise in FDI-related imports. Under the baseline scenario, the deficit is expected to increase to around 10 percent of GDP in 2011 before slowly narrowing to 7.5 percent in 2013, a reduction that would be delayed under the alternative scenario. Although this deficit is projected to be comfortably financed by significant financial inflows (Table 7), especially by FDI, the current account remains exposed to increasing prices for food and oil, which account for 24 percent of total imports, as well as developments in the European markets, which still account for 65 percent of Mauritian exports.[7]

Table 7: External Financial Requirements (US$ million)

	2010	2011	2012	2013	2014	2015	2016
Total financing requirements	1,148	1,094	1,177	1,050	1,057	1,082	1,248
Long-term debt repayment	109	94	92	85	112	167	182
Portfolio outflow	186	-37	77	75	74	81	93
Current account deficit (before grants)	853	1,037	1,007	890	872	834	974
Changes in foreign reserves	201	-179	-126	0	22	48	198
Financing sources	1,148	1,094	1,177	1,050	1,057	1,082	1,248
Capital grants	50	74	100	66	47	48	48
Foreign direct investment	301	250	368	386	404	415	517
Foreign loans and other investments	796	769	709	599	606	620	683
Memo items:							
Total official gross reserves (in US$ million)	2,644	2,466	2,340	2,370	2,362	2,410	2,608
in months of imports of goods and services	5.2	4.2	3.8	3.7	3.6	3.5	3.5

Sources: MoFED and staff estimates and projections

17. **The exchange rate appreciated moderately in 2011, and reserves remained at comfortable levels**. Capital inflows – FDI, growing government external borrowing (albeit on a sustainable trajectory), and large net capital inflows to the banking sector – accounted for the 5.5 percent nominal appreciation of the Mauritian rupee against a weighted average of the bilateral exchange rates of the country's major trade partners. After taking into account the high domestic inflation rate compared with that of Mauritius's major trading partners, the real effective exchange Rate (REER) appreciated by 7 percent between January and September 2011. Having said this, net international reserves at the BoM increased by about US$100 million, reaching US$2.7 billion by the end of August 2011, the equivalent of about 4.6 months of imports of goods and non-factor services and around 39 percent of short-term foreign debt. Under the alternative scenario in 2012, reserves would serve as a buffer, and, although they might fall by around US$900 million, they would still be at a manageable level (US$1.5 billion or around 2.8 months of imports of goods and services).

[7] Although the government has launched an effort to diversify export production and increase exports to Asia and regional markets, textile exports account for 45 percent of total goods exports, and tourism receipts account for 27 percent of total exports (67 percent of tourists come from Europe).

18. **The financial sector in Mauritius successfully weathered the international economic and financial downturn of 2008-2010, but risks remain.** The good health of the financial sector is critical because it has accounted for a significant share of GDP growth over the past few years and is expected to play an even more prominent role through increasing off-shore activities and more effective financial intermediation in the domestic market, notably to small and medium-sized enterprises (SMEs). This sector receives around one-third of all FDI inflows, thanks in part to the country's double taxation treaty with foreign countries (such as India). The financial system remains solid even after the 2008-09 international financial turmoil, with high capital adequacy ratios, few non-performing loans, and a sound liquidity position. However, two areas may constitute a risk in the medium term. First, the gradual concentration of lending in construction and tourism (almost 40 percent of total loans in 2010) makes local banks vulnerable to a deterioration of prospects in those sectors. Second, the significant increase in foreign currency deposits and loans, which now represent around 60 percent of total deposits and loans, will require continued close monitoring by the Central Bank (Bank of Mauritius, BoM). The financial system is vulnerable to a sudden withdrawal of foreign denominated deposits and to volatile exchange rates, even though the BoM has remained committed to intervening in the market to smooth exchange rate volatility.

19. **Monetary policy should remain cautious to keep the inflation rate under control.** Increasing global food and energy prices have caused consumer price inflation to edge up to 4.8 percent year-on-year by the end of 2011. To mitigate second-round effects on prices and wages and moderate the growing amount of credit available to the private sector (particularly real estate), the BoM tightened monetary policy in February, March, and June of 2011, increasing reserve requirements from 6 percent to 7 percent of their average deposit holdings and lifting the repo rate up by 0.75 percent points to 5.5 percent, before lowering its key repo rate by 10 basis points to 5.4 percent in December 2011. At the end of 2011, the BoM was maintaining its tightening stance, but it stands ready to revisit this if global developments warrant a change. For the medium term, monetary policy is expected to continue to aim to keep the inflation rate stable at a level of about 4 to 5 percent per year.

20. **The country's rising unemployment rates largely reflect an emerging structural trend, namely, a growing skills mismatch in the labor market.** Despite positive economic growth, employment creation in 2010 did not keep up with the 2.7 percent increase in the labor force, which was fueled by the constant increase in female participation. As a result, the unemployment rate rose to 7.8 percent compared to 7.3 percent in 2009. Short-term developments aside, there is evidence that structural factors are at play, with labor-intensive industries such as sugar and tourism doing less well than those with low labor intensity such as banking or health care. Although the unemployment rate had been decreasing thanks to structural reforms since 2005 (when it reached a peak of 9.6 percent) the 2008 crisis halted this trend. Since then the trend has been upward, reflecting the increasing difficulty that the economy is facing in absorbing unskilled and semi-skilled workers as it transforms into a more service- and knowledge-oriented economy. Since the growth has mainly been led by high productivity and low labor-intensity sectors, the demand for skilled workers in higher valued-added industries and/or management positions has outpaced the growth in the supply. As a result, skills shortages and mismatches are becoming fundamental bottlenecks to increasing competitiveness and to the emergence of a higher value-added economy.

21. **Overall, the macroeconomic framework is adequate for development policy lending.** While there is substantial external uncertainty that may affect the Mauritian economy in 2012, the economy has already proved itself – in 2008 – to be highly resilient and the government has the means to cope with these external shocks. Furthermore, this DPL series will support the macroeconomic framework by improving the performance of the public sector in Mauritius in three key areas: (i) strengthening services to support and empower the most vulnerable; (ii) streamlining the regulation of, and support to, business investment and trade; and (iii) improving human resource management in the civil service and the monitoring of SOE performance.

III. THE GOVERNMENT'S PROGRAM AND PARTICIPATORY PROCESSES

22. **In 2005, a new government announced a bold package of policies and institutional reforms**. Implementation was very successful and resulted in fundamental improvements to the macroeconomic policy framework and to the overall regulatory environment. In response to the global financial crisis and the Euro Zone crisis in 2010, the government passed the Economic Restructuring and Competitiveness Program (ERCP),[8] representing 4 percent of GDP, with the aim of increasing competitiveness and further diversifying the Mauritian economy. The plan focused on infrastructure spending, providing financial relief to the firms hit hardest by the crisis, and social and job protection measures. The economy reacted favorably to the reforms, and both growth and employment rates recovered, which helped to consolidate public consensus around and support for the government's program.

23. **In 2010, a new government coalition, also led by the Labor Party, came to power and vowed to continue the reform agenda with an increased focus on equity** and enhanced measures to support the economic recovery following the downturn caused by the global recession. The Presidential Address that outlined the government's program for 2010-2015 laid out policies that would sustain economic growth but also ensure that the benefits of that economic growth were enjoyed by the whole population. Further details of the government's program were contained in the budget speeches in November 2010 and November 2011. The policy measures in these budgets covered four broad areas: (i) rebalancing growth; (ii) enhancing productivity; (iii) consolidating social justice; and (iv) achieving fiscal consolidation and macroeconomic resilience.

A. REBALANCING GROWTH

24. **Mauritius is dependent on a narrow export market and relatively few export products with low value added**. This means that Mauritius remains particularly vulnerable to global economic shocks. Moreover, trends over time suggest that Mauritius is not successfully addressing these constraints, demonstrated by the fact that a number of indicators have stagnated since the early 2000s. Specifically, Mauritius is still overly reliant on the European market and is characterized by a limited number of export products and services and a low level of export sophistication. The fact that Mauritian exports are geographically concentrated remains a major source of vulnerability as has been evident during the 2010

[8] Government of Mauritius, "Facing the Euro Crisis and Restructuring for Long-term Resilience" (August 2010).

Euro crisis, which motivated the government to implement the ERCP. The Euro crisis also sparked a debate in Mauritius about how best to respond to the country's significant export concentration. In response, the government has laid out a number of policies seeking to address these issues.

25. **The first policy is to diversify markets and products towards emerging markets and position Mauritius as a strategic player between Asia and Africa.** The goal is to reduce dependence on Euro zone countries and to shift to higher-value-added economic activities. To attain this objective, the government plans to make greater use of economic diplomacy to break into new markets and to facilitate joint ventures and strategic alliances with the private sector. There is scope for Mauritius to be a conduit for business from China and India into Africa, taking advantage of its close ties to those two Asian countries and its preferential trade access to Africa as a member of the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA), and the East African Community. This potential is magnified by the fact that these regional blocks are in the process of creating an enlarged Free Trade Agreement (FTA) by harmonizing their trade principles. The enlarged FTA will constitute a larger market and reduce the costs of doing business. The government is also reviewing its air access policy with the intention of transforming the expanded airport in Mauritius into a regional hub.

26. **The second policy is to shift to higher-value-added activities.** Traditional sectors are being supported in their efforts to move up the value chain. For example, a wide array of financial and technical support is being provided to export-oriented manufacturers to help them to adopt new technologies. To raise the value added of the sugar cane industry (for example, by producing refined sugar and biofuels), the government will adopt a range of supporting measures that were detailed in the ERCP. Also, the government is making it easier for the financial services sector to extend its operations to the domestic economy so that it can conduct business both inside and outside Mauritius. This is expected to encourage financial services companies to incorporate and locate their regional headquarters in Mauritius.

27. **The third policy is to rebalance the economic space between large enterprises and SMEs.** In the most recent budget speech, the government announced a series of measures to help SMEs to access low-cost financing, industrial space, and markets. The government has set up a special financing vehicle through the commercial banks that will allow SMEs to get overdrafts and loans at a discounted rate. A new Equity Fund will provide guaranteed risk cover for 35 percent of loans. The Development Bank of Mauritius (DBM), which is in charge of providing financial support to Mauritian enterprises, will be transformed into a bank for SMEs. As a result, it will not provide loans directly but instead will offer partial risk guarantees and other instruments to induce commercial banks and other financial institutions to create a financial market for SMEs.

B. ENHANCING PRODUCTIVITY

28. **Economic growth in Mauritius has been based on high investment rates and raising the productivity of its labor force**. The government's objective is to increase the long-run growth potential of Mauritius to around 5 to 6 percent of GDP. Achieving this will require the dismantling of the constraints to increasing the productive potential of the economy. Labor markets in Mauritius have performed well, with job creation exceeding labor

force growth over the past decade. The labor market has also weathered the impact of the recent global crises. However, the ability of unskilled workers to adapt to the prospective changes in the economy (at the low end of the labor market) and the capacity of the education system and employers to generate and absorb high-skilled workers (at the high end) present important challenges for Mauritius. The scarcity of technical and professional skills, the limited relevance of existing on-site training, and the poor performance of research in priority areas continue to be major impediments to higher growth.

29. **Given the skills mismatch that undermines much of Mauritius' growth potential, the government has put an emphasis on human resource development**. The government is developing a 10-year vision that will guide a structural transformation of the tertiary education system and support the shift of the labor force towards higher-value-added sectors. The pillars of this vision are: (i) increasing access to tertiary education; (ii) expanding the supply of tertiary education programs by promoting public-private partnerships (PPPs); and (iii) attracting more international students to Mauritius to increase the revenues from tertiary education. In addition, the government plans to expand training opportunities in financial services and in the information and communications technology (ICT) sector. To support the implementation of this vision, the government intends to increase the amount of resources dedicated to tertiary education by almost 50 percent over the next three years, with most of the increase going to the construction of new universities.

30. **A substantial improvement in the business environment over the years has put Mauritius among the top 25 economies in the World Bank's Doing Business survey and first among African countries between 2008 and 2011.** This has helped to substantially increase FDI from Rs 2.8 billion in 2005/06 to Rs 10.5 billion in 2010. In parallel, the government introduced a series of measures to reduce trading costs further. Custom tariffs were considerably reduced and eliminated, and several parallel initiatives have been set up to review inappropriate regulations that hamper trade and competitiveness. The government has now created a joint public-private business facilitation task force to review existing systems and processes and simplify regulations with the objective of removing any bottlenecks faced by businesses and investors.

31. **Fast economic growth in Mauritius has caused the demand for public infrastructure to increase**, **but this demand has not been matched by adequate public investment over time**. The government has initiated a large-scale infrastructure investment program over the next decade to alleviate road congestion and increase capacity in the port, airport, and power sectors, to modernize local government infrastructure, and to enhance regulatory capacity. The fact that delays often occur in the implementation of planned public investment projects can be seen in the low levels of actual expenditure of the capital budget. This highlights not only that financial resources are inadequate but also that there is inadequate institutional and human capacity to implement these infrastructure projects in the short term. Furthermore, since a significant amount of the public infrastructure will be implemented on a public-private Partnership (PPP) basis, the government plans to adapt the legal framework governing PPP.

32. **The government aims to improve the performance of the public sector, particularly the civil service and parastatals.** Mauritius has made progress in increasing the performance of the public sector by better aligning spending with national priorities by

adopting a medium-term expenditure framework (MTEF) and program-based budgeting (PBB). The government has benefitted from a strong and disciplined senior management within the civil service, but limited capacity and rigidities within the civil service are now emerging as a binding constraint. The government's goal now is to have a more productive civil service that acts quickly, efficiently, and effectively on the issues that citizens raise to serve both internal and external clients and to improve working conditions within the public administration sector. A civil service college will begin operating in 2012 to support this process.

33. **The government has embarked on a program to increase efficiency within the country's large number of parastatals,** which together receive around 3 percent of GDP in transfers from the public budget annually. Parastatals include public utilities, infrastructure and transport companies, and agricultural, industrial, financial, and trading companies. There are concerns about the quality of services delivered by many of these public enterprises (particularly public utilities and other infrastructure providers), which is negatively affecting competitiveness. The government plans to improve service delivery and to reduce the burden that these bodies put on public finances by rationalizing and streamlining the sector and enhancing the monitoring of their performance. The Office of Public Sector Governance (OPSG) has been set up under the Prime Minister's Office to champion parastatal reform by assisting public enterprises to increase their efficiency and improve their governance and services.

C. CONSOLIDATING SOCIAL JUSTICE

34. **The government plans to pay more attention to social integration and poverty reduction.** This will involve not only increasing financing but also making existing interventions more effective and efficient. This will also extend to increasing equity in the education system, given the importance that education outcomes have on students' future earning potential, as a way to promote social mobility in Mauritius.

35. **Programs implemented by the National Empowerment Foundation (NEF) will be streamlined and strengthened.** Interventions within the NEF are currently fragmented and poorly implemented. As the NEF is one of the government's flagship poverty reduction programs with a substantial budget allocation, the government has decided to restructure it along functional lines with harmonized programming that supports: (i) child and family development; (ii) community empowerment; (iii) training and placement; and (iv) entrepreneurship. The government has launched the Social Register of Mauritius (SRM) as a new integrated database that will house information on all recipients of NEF programming as well as of Social Aid, the government's primary social assistance program. This will enhance coordination between the safety net and empowerment programs, with the long-term aim of expanding the SRM to other programs and enabling the government to improve its poverty monitoring.

36. **A major new social housing program has been launched with the objective of improving the living standards of 40,000 poor households.** Five schemes are being introduced, with the scheme for the poorest households being administered by the NEF. Under this scheme, eligible households will get access to housing on subsidized terms in return for the household signing a social contract that covers their civic responsibilities,

employability, the education of their children, and family values. The other available schemes provide support on a sliding scale to better-off households, which include concessional access to land, finance, and related services.

37. **The government continues to scale up active labor market programs to support the unemployed and low-income workers** (particularly women and young people) by training, re-skilling, and encouraging them to become entrepreneurs. The government has introduced a Sponsored Pre-job Training Initiative, whereby employer contributions to the Human Resource Development Council (HRDC) will be available not only to train existing employees but also to prepare youth more effectively for the job market. The government also announced in the recent budget that it will pay the contributions of low-income workers to the National Pension Fund and to the Transitional Unemployment Benefit to ensure that they are eligible for both pension and unemployment protection.

38. **Finally, the government continues to reform its education system to improve the education outcomes of the poorest.** With regard to early childhood care and education, where access is already high, the government has extended pre-primary education grants to cover 3 year olds as well as 4 year olds. Through the NEF, it is implementing a grant to help the poorest families to access crèches, which will cover 2,000 children. These measures will further the government's policy of empowering women to join the workforce. The government is also embarking on a major reform to its pre-vocational education system. The pre-vocational system is ineffective at providing young people who fail the Certificate of Primary Education (CPE) with core basic skills. Retention remains a challenge, with about 20 percent of pupils dropping out before the third year and another 25 percent of those who complete failing to transition to the Foundation year. The pre-vocational reform is intended to be a complete overhaul of the system, changing the current program from three to four years to increase retention and align it with the broader education system. This will allow young people either to return to the formal secondary school system or to transition effectively into further vocational training.

D. ACHIEVING FISCAL CONSOLIDATION AND MACROECONOMIC RESILIENCE

39. **Persistent deficits and rising debt were a looming threat to macroeconomic stability before the country decided to take significant moves towards fiscal consolidation in the mid-2000s.** Adherence to strict spending rules was established in 2005,[9] but the counter-cyclical fiscal policies launched since 2008/09 have undermined this effort towards fiscal consolidation. Two main institutional reforms are behind this process. The first of these was the introduction in 2008 of performance-based budgeting (PBB), which combined with a medium-term expenditure framework (MTEF) has emphasized public sector service delivery while maintaining fiscal discipline. The second was the introduction of a Public Debt Management Act in 2008 that was revised[10] in 2010 to ensure a sustainable fiscal

[9] To achieve fiscal consolidation and restore fiscal discipline, the 2006/07 budget adopted three fiscal rules, first, the golden rule that only allows the government to borrow to finance investment; second, the sustainable investment rule that requires that the net public debt to GDP ratio is on a downward track; and third, the constant expenditure rule that requires that total expenditure remains constant after adjusting for inflation.

[10] The revised Act aims to fully reflect the actual liabilities and contingencies of the government while at the same time giving parastatals more flexibility in making their investment decisions.

path. This Act set a ceiling for total outstanding public sector debt of 60 percent of GDP, with the objective of reducing it to 50 percent of GDP by 2018.

40. **Even if Mauritius was cushioned relatively well during the recent crisis, the looming global crisis shows that the economy continues to face a number of risks, particularly to public revenues**. The government is determined to sustain public expenditure projections and has created a new National Resilience Fund (NRF) that replaces the Business Growth Fund. The NRF has an initial allocation of 7.3 billion rupees (2.1 percent of GDP). An amount equivalent to 0.9 percent of GDP has been earmarked in the budget to finance specific activities to support SMEs and export promotion, while the rest of the NRF allocation will be held as a contingency fund to be used to sustain public expenditure should the economic situation deteriorate.

E. PUBLIC BUDGET CONSULTATIVE PROCESS AND TRANSPARENCY

41. **There are various ways in which stakeholders and civil society are consulted during the preparation of the annual public budget,** which is the main instrument for introducing economic reforms in Mauritius. Each year, the Joint Economic Council (JEC), the largest private sector coordinating body in Mauritius, discusses private sector business priorities with MoFED as part of the preparation of the public budget. MoFED also discusses sector issues and proposals with industry associations. In addition, the labor unions also discuss their priorities with MoFED. More recently, MoFED has solicited proposals from civil society and posts some documents on the web to solicit feedback prior to the budget being submitted to the Cabinet. The World Bank has undertaken extensive consultations with all relevant line ministries as well as other key stakeholders. For example, it discussed the reforms related to trade and business competitiveness with the private sector and the civil service reform with a panel of supervising officers from a large number of line ministries.

42. **A PEFA report concluded in 2010 confirms the high transparency standards of the Mauritian public budget.** The report found that public access to key fiscal information is adequate, with budget documents being made freely available to the public in a timely fashion.[11] Also, audited year-end financial statements are made public well within the six month period after the completion of the audit, and contract awards are also published on the websites of the relevant executing agencies. The report gives the classification and comprehensiveness of the information included in the budget documentation the highest possible ranking in the PEFA report, with the Government Finance Statistics 2001 classification system adopted in 2008. However, the reporting of extra-budgetary expenditures needs to be improved, and to this end the government is consolidating the various off-budget funds into one single consolidated fund.

[11] All budget documents are placed on the website immediately upon the submission of the budget to Parliament, and published documents are also made available.

IV. THE BANK'S SUPPORT FOR THE GOVERNMENT'S REFORM PROGRAM

A. LINK TO THE COUNTRY PARTNERSHIP STRATEGY

43. **The proposed DPL series and the Country Partnership Strategy (CPS) (2007-13) are closely linked to each other and to the government's reform program**. The CPS Progress Report was presented to the World Bank Executive Board in April 2010, which extended the CPS to FY15 to align it with the electoral cycle in Mauritius. The CPS Progress Report emphasized that the proposed DPL series will be the Bank's main vehicle for supporting the government's broad reform program. The DPL series is also well aligned with the Bank's Africa Region Strategy, with each of the pillars of the DPL corresponding to the two pillars and the foundation of that strategy.

B. COLLABORATION WITH THE IMF AND OTHER DONORS

44. **The government aims to coordinate development partner assistance around the DPL policy dialogue.** The previous DPL series benefitted from close collaboration between all of the development partners operating in Mauritius, including the harmonization of prior actions and indicators in line with the government's priorities. The government is aiming to reach a similar level of coordination with this new DPL series. The Bank has held regular meetings with development partners to identify areas of mutual collaboration and to develop a platform for unifying their policy recommendations. This collaboration will continue during the implementation of the new DPL series.

45. **International Monetary Fund:** Mauritius has no formal program with the IMF, though relations are close because of intense collaboration on series of technical issues, including sources of growth, labor markets, inflation, exchange rates, and monetary and fiscal policy. More recently, the Fiscal Affairs Department of the IMF provided key support in the area of fiscal efficiency and budget reform, with a focus on performance-based budgeting and the MTEF. The IMF's annual Article IV reports have given cautious but positive appraisals of the government's reform program and its macroeconomic management. In April 2011, Mauritius signed a Memorandum of Understanding with the IMF that established the Africa Regional Technical Assistance Center South (AFRITAC South), which will provide technical assistance to countries in Southern Africa in areas such as macroeconomic policy, macro-fiscal policy, and public financial management (PFM). The recently completed Public Expenditure and Financial Accountability Assessment (PEFA) for Mauritius was conducted jointly by the IMF, the World Bank, and the EU.

46. **European Union:** During the period 2006-2013, the EU is supporting environmental measures especially those related to wastewater, education, and poverty reduction for the most vulnerable and marginalized groups. It is also supporting the restructuring of the sugar industry into a sugar cane cluster in the context of the phasing out of sugar price guarantees awarded under the former ACP Sugar Protocol.[12] Since 2007, the EU has also been supporting the economic reform program of Mauritius through general budget support.[13] The

[12] Two sector budget supports have been completed, namely a Wastewater sector program worth €38 million and a program for the sugar sector funded to the tune of €11 million.

[13] So far, three general budget support programs have been agreed upon: (i) Improved Competitiveness for Equitable Development I and II (2007-2009) consisting of €119 million; (ii) Promoting Sustainable and

World Bank and the EU collaborated closely on a joint diagnostic and results matrix for the World Bank's CPS and the European Union's 10^{th} EDF Country Strategy Paper. Also, the Bank uses EU performance indicators of budget support operations to reinforce DPL triggers wherever possible. A new general budget support program worth €84 million is currently under preparation spanning 2012 and 2013 (with disbursements expected in 2013 and 2014), and the coordination between the EU and the Bank on their budget support operations, already initiated in this DPL (in the areas of education and SOE reform specifically), will be further enhanced as both operations move forwards.

47. **African Development Bank:** The African Development Bank (AfDB)'s lending to Mauritius has comprised: (i) budget support with disbursements on the order of US$193 million between 2007 and 2011 and (ii) investment projects in transport, finance, and water, with disbursements on the order of US$89 million between 2001 and 2010. The main AfDB program in Mauritius is the ongoing US$700 million budget support operation (of which US$163 million has already been disbursed). This was approved in 2009 with the goal of mitigating the impact of the global downturn on economic growth and employment. Its focuses on trade competiveness, health, ICT, and public financial management, and its policy content were aligned with the World Bank's previous DPL. The AfDB has also provided around US$3.5 million in a middle-income country technical assistance grant between 2005 and 2011 in a number of areas including ICT, PBB, and public debt management. The AfDB and the World Bank have also closely collaborated in the production of economic and sector work (ESW), including the Africa Competitiveness Report, the Investment Climate Assessment (ICA), and the Country Economic Memorandum update.

48. **United Nations Development Program (UNDP):** Key areas of the US$15 million UNDP Country Program (2009-2011) are: (i) the formulation of strategic plans at the ministry/department level, PBB and a performance management system (PMS), and the SRM; (ii) the development of a System of National Accounts including the Social Accounting Matrix, the Environment Economic Account, and the Tourism Satellite Account; (iii) the promotion of social inclusion through the National Empowerment Foundation with special attention given to the island of Rodrigues and an educational program targeting vulnerable children and those living with HIV/AIDS; and (iv) an emphasis on environment protection, energy and the management of natural resources, human rights, and governance.

49. ***Agence Française de Developpement* (AFD)**: The AFD's focus is on public-private partnerships (PPP) as well as on financing infrastructure (in the roads, water, and wastewater sectors) to foster foreign investment. The AFD disbursed €24 million per year between 2007 and 2009 in alignment with the DPL series calendar. The AFD's next budget support operation will be sectoral in the form of an Environment Aid Program. The evaluation of this program will be based on an environmental roadmap to be readjusted every year according to what progress has been made.

Equitable Development (2009-2011) consisting of €101million (with funds to be added by end of 2011 to the tune of an additional €65 million); and (iii) Global Climate Change for Mauritius (2010-2011) consisting of €3 million. Disbursements are expected to range from €47 to €65 million each year (2010-2012).

C. RELATIONSHIP TO OTHER WORLD BANK OPERATIONS

50. **The DPL series will complement other Bank operations that support the private sector and infrastructure development.** In January 2009, the World Bank Executive Board approved the **Mauritius Economic Transition (Technical Assistance) Project** (METAP), an US$18 million project aimed at strengthening the investment climate and supporting public enterprise reform through three components relating to business facilitation, public enterprise reform, and utility regulation and public and private partnerships. In January 2010, a US$20 million **Manufacturing and Services Development and Competitiveness Project (MSDC)** was also approved to support enterprise growth, competitiveness, and employment creation in the manufacturing and services sectors. Recent reconfiguration of the portfolio in line with the changing demands of a middle-income client has led to the cancellation of these two projects at the request of the government. However, the government requested the Bank to continue its support to these sectors with a new DPL series, the **Private Sector Competitiveness DPL**, which continues the reform agenda previously being supported through these two investment operations. The reforms supported through the proposed DPL series are complementary to the reforms being supported under this Public Sector Performance DPL series. The two operations have been prepared in coordination to ensure the coherence of the entire reform program and to keep transaction costs low for both the government and the Bank.

51. The US$50 million **Mauritius Infrastructure Project** was approved by the Bank's Executive Board in September 2009. The project's objective is to help to improve the country's national infrastructure, with a particular emphasis on the transport, energy, and water sectors. The project has two components: (i) road investments and (ii) technical assistance and institutional development in the transport, waste water, and energy subsectors. The technical assistance component is strategically important for Mauritius given the critical infrastructure bottlenecks and low disbursement ratios of public investment in the country. The government now aims to strengthen investment and infrastructure capacity-building and is seeking further assistance from the Bank in this area.

D. LESSONS LEARNED

52. **The last programmatic DPL series yielded important lessons that have informed the preparation of this DPL series.** These lessons included the need to ensure that: (i) the DPL is aligned with the government's priorities and leadership; (ii) there is strong coordination with development partners; and (iii) the loan is designed to include an appropriate degree of flexibility to allow the government to respond to emerging crises as well as for the reform program to evolve over time.

53. **The success of a DPL in Mauritius is measured primarily by its capacity to stimulate and support the policy agenda rather than its financing**. In Mauritius, the Bank's budget support is viewed by the government as a catalyst for stimulating and coordinating the government's policy agenda. The previous DPL series was effective in helping MoFED to bring sector ministries and agencies on board and to align other donors around the reform effort. During the preparation of the new series, the government has repeatedly emphasized that this is, and will remain, the main value added of World Bank support, as it remains possible for the government to close its financing gap in both the

domestic and external markets. The government's continued realignment of the Bank portfolio away from Sector Investment Loans towards DPLs further underscores this.

54. **It is crucial to ensure that Bank operations are aligned with the government's priorities and are implemented under the government's leadership**. The government has a strong sense of direction with regard to its reform program and the technical expertise to undertake upstream policy dialogue with the Bank and other development partners. The Bank has contributed to this through its parallel preparation of economic and sector work in priority areas. The dialogue gradually built consensus for the reforms and helped the participants to articulate country priorities linked to clear and achievable outcomes. Leadership and political commitment from the government complemented by strong institutional capacity in designing and implementing the policy reform agenda have been the critical factors in the success of previous operations.

55. **Strong coordination with development partners reinforces the government's program implementation.** The previous DPL series succeeded in large extent due to the harmonized policy dialogue among all development partners. This often translated into joint prior actions, missions, and single reporting for all development partners, thus significantly reducing the government's transaction costs. The operations in the programmatic series were aligned with the government's budget cycle to reinforce national institutions and to use the annual Budget Speech to sustain the reform process. Furthermore, the timing of the operations was adapted to match the revised budget calendar. This joint partner approach has weakened during the 2010 hiatus in Bank DPL support, but the proposed new DPL programmatic series presents an opportunity to once again align the policy dialogue and the financing of all development partners with the government's priorities.

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

E. ANALYTICAL UNDERPINNINGS

57. **The preparation of this DPL series has been based on extensive analytical work carried out by the Bank, the government, and other partners**. **The 2006 Aid for Trade Report** outlined the challenges that Mauritius faced in the area of trade competitiveness, based on which the government initiated the reform program supported by the previous DPL series. This work was complemented by two reports produced in 2009 by the **Permit Review Committee (PRC)** of the Government of Mauritius and **Jacobs and Associates and DCDM Mauritius** that highlighted crucial constraints to competitiveness, notably related to

redundant licensing/permits and the duplication of information requested for trade. As a result, a “single window” that connects all permit-issuing agencies was established, and a thorough review of existing procedures for the issue of licenses and permits was launched. Furthermore, the recommendations stemming from the 2010 Bank report titled **Enhancing and Sustaining Competitiveness in Mauritius: Policy Notes on Trade and Labor** nurtured a productive policy dialogue with the government around the issue of trade policy and labor markets. Finally, the 2011 UNDP **Report on Trade Mainstreaming in Mauritius** identified the successes and challenges associated with mainstreaming trade in national development strategies.

58. The second 2009 **Investment Climate Assessment** (ICA) for Mauritius has identified a series of obstacles that firms face that hinder their competitiveness. Access to finance for small firms and a lack of skilled labor are the top constraints. The regulatory environment (licensing, labor regulations, and tax policy) and infrastructure issues (transportation and electricity) also appear to limit the productivity of firms. The analysis and recommendations of the ICA have informed the preparation of this operation, especially the competitiveness component, which recommended harmonizing regulations and eliminating duplication (mainly licensing and permits) and red tape.

59. The government’s 2010 **Social Protection Review and Strategy** and a 2010 joint **World Bank/UNDP report on the reform of the National Empowerment Foundation** have both guided the preparation of the social protection component of this operation. This analytical work identified capacity gaps and bottlenecks in program implementation at the NEF and recommended steps to increase its effectiveness based on international best practice. The proposed operation has made use of these reports to engage in policy dialogue to improve, first, institutional arrangements at the NEF and, second, its social protection strategies.

60. The 2011 report **Skills and Technology Absorption in Mauritius** analyzed how best to: (i) increase the skills of the workforce to enable them to use new and emerging technologies, including how to strengthen the education system, and (ii) using human resources efficiently, including increasing their skills by providing on-the-job training. Some of the recommendations that are relevant for this operation include: (i) addressing weaknesses in the primary and secondary education system, particularly in the pre-vocational system; (ii) enhancing the capacity of tertiary education to teach innovative and technological skills; (iii) increasing the contribution of technical and vocational Education and Training (TVET) to the knowledge economy, and (iv) strengthening active labor market programs.

61. The 2011 joint IMF, World Bank, and EU **Public Expenditure and Financial Accountability Assessment** (PEFA) shows the progress achieved by the government since the 2007 PEFA assessment (conducted by EU) in moving forward the public financial management (PFM) reform agenda. The main achievement has been the strengthening of the budget formulation and management framework by implementing performance-based budgeting (PBB) in the past three years. This has resulted in improvements in the PEFA indicators relating to budget credibility, comprehensiveness, and transparency and to policy-based budgeting. The government is now focusing on increasing links between PBB and performance management and on strengthening budget execution, particularly by adopting a new legislative and institutional framework for procurement and debt management.

V. THE PUBLIC SECTOR PERFORMANCE DEVELOPMENTPOLICY LOAN

A. OPERATION DESCRIPTION

62. **The proposed DPL, in the amount of US$20 million, is the first in a series of two annual programmatic Bank operations in support of the government's reform program.** The DPL series is aligned with the budget cycle, which is the primary vehicle used by the government to introduce new policy initiatives. There will be two DPLs in this series, one in 2012 and one in 2013. The DPL series takes a pragmatic approach to supporting the government's policy agenda over a two-year period in which realistic results can be defined and achieved. The approach is to focus on those reforms that can be completed in the short term while building the necessary foundations for broader reform over the medium term. The DPL series is the principal instrument identified in the Bank's Country Partnership Strategy for the Bank to support the government's reform program.

63. **The development objective of the DPL programmatic series is to support improvements in the performance of the public sector in Mauritius** by assisting the government to implement the following three reform pillars: (i) strengthening services to support and empower the most vulnerable; (ii) streamlining trade regulation and processes; and (iii) improving human resource management in the civil service and the monitoring of SOE performance. Within each of these pillars, the DPL identifies several prior actions that will be required to create the basic institutions needed to support the reform processes. The prior actions for the first DPL and triggers for the second DPL are presented in Table 8 and, along with their associated indicators and expected results, in the policy matrix in Annex 1. All prior actions are complete.

64. **The proposed DPL is being prepared in coordination with the Private Sector Competitiveness (PSC) DPL.** The two DPL series are designed to be mutually reinforcing and to address complementary aspects of the government's reform program. The PSC DPL series will focus primarily on strengthening the policy and institutional environment for private sector competitiveness, while this proposed DPL series will focus primarily on the performance of the public sector. The combination of the reforms supported by these two DPLs will help the government to increase its competitiveness and resilience and to prepare it for the next phase of rapid and inclusive economic growth.

Table 8: Proposed Prior Actions for DPL1 and Triggers for DPL2

Medium-term Objectives	**Policy Actions**	
	DPL 1 (prior actions 2012)	DPL 2 (indicative triggers 2013)
Pillar I: Strengthening Services to Support and Empower the Most Vulnerable		
a. Social Protection		
Making the social safety net a more effective, efficient, and sustainable system that provides a coherent set of	The issuance of a new organizational and staffing chart for NEF which shall have been approved by MoSIEE, reflecting the new institutional structure of NEF, and with separate	The NEF Board will approve a strategic plan for each operational pillar as well as a monitoring

<table>
<tr><th rowspan="2">Medium-term Objectives</th><th colspan="2">Policy Actions</th></tr>
<tr><th>DPL 1
(prior actions 2012)</th><th>DPL 2
(indicative triggers 2013)</th></tr>
<tr><td rowspan="2">safety net services to empower the poor and vulnerable to rise out of poverty.</td><td>departments for a) child and family development, b) community empowerment, c) placement and training, and d) monitoring and evaluation.</td><td>and evaluation framework.</td></tr>
<tr><td>Cabinet approval of a memorandum giving details of a proposal and action plan for the establishment of SRM.</td><td>The government will approve a proposal to improve coverage of Social Aid to the poorest.</td></tr>
<tr><td colspan="3">b. Education</td></tr>
<tr><td>Improving learning outcomes and ensuring access to good quality general secondary education for all, especially the most disadvantaged.</td><td>Cabinet approval of a concept paper for prevocational education reform, giving details of proposed changes to existing learning and institutional arrangements, including extension of prevocational education to four years, revision of curricula, introduction of teaching and learning methods to promote retention, and acquisition of core basic skills and technical competencies.</td><td>The Ministry of Education will implement new curricula, including one for the training of trainers.</td></tr>
<tr><td colspan="3">Pillar II: Streamlining Trade Regulation and Processes</td></tr>
<tr><td rowspan="3">Making the regulatory framework more transparent and more business friendly, and eliminating administrative bottlenecks to enhance competitiveness.</td><td>Establishment of a joint public-private Business Facilitation Task Force, giving it a mandate to review existing systems and processes, and streamline regulations, governing trade and investments, with a view to removing bottlenecks and creating a business-friendly environment.</td><td>The government will establish a technical secretariat to undertake Regulatory Impact Assessments (RIA).</td></tr>
<tr><td>Cabinet approval of a memorandum, giving details of proposed modalities and action plan for the establishment of a comprehensive and up-to-date Trade Portal.</td><td>The government will make the trade portal public and the Cabinet will approve a Memorandum detailing the proposed functional model for the single window.</td></tr>
<tr><td>Development by MoFED of a draft policy paper on the proposed establishment within its customs department of an appropriate internal appeals mechanism that complies with the requirements of the Kyoto Convention, giving details of the proposed legal and institutional framework, and operating guidelines and procedures, governing such a mechanism.</td><td>The government will adopt a prescribed schedule of administrative penalties to apply at Customs.</td></tr>
<tr><td colspan="3">Pillar III: Improving Human Resource Management in the Civil Service and the Monitoring of SOE Performance</td></tr>
<tr><td colspan="3">a. Civil Service</td></tr>
<tr><td>Improved human resource management in the public service by streamlining procedures and processes relating to the prescription of schemes of services and the Human Resources management information</td><td>Submission to Cabinet, by MSCAR, of an information paper giving details of plans to streamline Schemes of Service and expedite the process of review, modification and consolidation of such Schemes of Service, based on adequate consultations with civil service unions and other stakeholders, and reflecting the outcome of such consultations.</td><td>Pilot implementation in MCSAR of an integrated HRMIS for the Civil Service</td></tr>
</table>

Medium-term Objectives	**Policy Actions**	
	DPL 1 (prior actions 2012)	DPL 2 (indicative triggers 2013)
system		
b. Public Enterprises		
Improving the monitoring of SOE performance and reform progress.	Cabinet approval of a memorandum, giving details of the revised mandate of OPSG to a) monitor the overall performance of SOEs; b) prepare quarterly reports; c) support line ministries in the preparation and implementation of performance improvement plans; and d) supervise the pace of SOE reforms as approved by Cabinet, reporting back to Cabinet with proposals for corrective measures as needed.	Preparation of reform plans of six non-performing SOEs initiated by the OPSG.

Box 1: Good Practice Principles on Conditionality

Principle 1: Reinforce ownership. The proposed operation is rooted in the government's reform program as laid out in the President's address of 2010 and subsequent Budget Speeches. The sectors selected for the DPL series were proposed by the government, and the Bank endorses their relevance in terms of their potential impact on growth and equity. Furthermore, the government's commitment to these reforms is demonstrated by the quick endorsement by the Cabinet of the proposed prior actions for the operation.

Principle 2: Agree up-front with the government and other financial partners on a coordinated accountability framework. In line with the government's request and the World Bank's Africa Strategy, the DPL series seeks to harmonize the policy dialogue and the financing provided by relevant development partners with the government's priorities to the extent possible. Regular meetings between all development partners have taken place during the preparation of the DPL series to pool resources and knowledge, and Bank missions are open to participation by all development partners. The government sees the DPL series as an important vehicle for achieving the objective of harmonizing policy dialogue and financing. The proposed prior actions for DPL1 already reflect this desired harmonization and have been coordinated with other partners (such as the EU).

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

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

Principle 5: Conduct transparent progress reviews conducive to predictable and performance-based financial support. The programmatic nature of the proposed DPL series will ensure regular and systemic supervision and preparation of each phase of the DPL series in line with the country's annual budget, which has traditionally been the major vehicle for announcing policy reforms in Mauritius.

B. POLICY AREAS

B.1 Strengthening Services to Support and Empower the Most Vulnerable

65. **Promoting inclusion and social cohesion has traditionally been a key pillar of the Mauritian development model.** Notwithstanding this, there has been a broad perception that recent economic reforms have not benefitted all Mauritians equally and that the poorest and the most vulnerable have not been fully reaping the benefits of the resulting economic growth. Evidence in support of this assessment came from the most recent Gini coefficient, which had increased from 0.371 in 2001/02 to 0.389 in 2006/07, indicating that income inequality had increased. The new government has renewed its efforts to ensure that economic growth is more balanced and equitable. This proposed DPL series supports this objective by focusing on: (i) restructuring the social protection system to make it better targeted and more cost-effective and (ii) improving education outcomes, especially for the poorest households.

Social Protection

66. **Poverty is low but persistent in Mauritius.** In 2007, the number of poor represented only 8.5 percent of the total population, equivalent to about 106,000 people.[14] Many of them live in pockets of poverty, which are very small slum communities consisting of 20 to 40 households. There are an estimated 7,150 households living in 229 pockets of poverty in Mauritius.

67. **The Government of Mauritius invests significant resources in an array of social assistance programs to support the poor and help to move them out of poverty.** These include multiple cash and in-kind programs, active labor market programs, community interventions, and social care services (Table 9).

Table 9: Total Social Assistance Expenditure (2008/09)

	Rs. Millions 2008/09	USD Millions 2008/09	% of Total	% of GDP
Total Social Assistance	**10,992.20**	**353.6**	**100.0**	4.4
Of which				
Cash Transfers	**8,339.10**	**268.2**	**75.9**	3.3
Of which				
Non-contributory Pensions	*7,687.00*	*247.2*	*70.0*	*3.1*
Social Aid	*371.4*	*11.9*	*3.4*	*0.2*
In-kind Assistance	**1,578.20**	**50.8**	**14.4**	0.6
Active Labor Market Programs	**297.9**	**9.6**	**2.7**	0.1
Support to NGOs	**268.6**	**8.6**	**2.4**	0.1
Community-based	**123.3**	**4**	**1.1**	0.1
Other	**385.0**	**12.4**	**3.5**	0.2

Source: Mauritius Social Protection Review and Strategy, 2010

[14] As measured by the relative poverty line, which defines the poverty line as half the median household income per adult equivalent.

68. **The most important government programs whose direct aim is to reduce poverty are Social Aid and the various programs under the National Empowerment Foundation (NEF).** Expenditures on each of these programs are about 0.2 percent of GDP annually.[15] Social Aid is a means-tested program providing cash and in-kind benefits to specific categories of eligible households (including those who are chronically sick or caring for chronically sick dependents, abandoned women and children, single mothers, and dependents of prisoners). The NEF is a not-for-profit, government-owned company under the aegis of the Ministry of Social Integration and Economic Empowerment (MoSIEE). It delivers programs that provide training, entrepreneurial support, job search assistance, and an array of services targeted to households in the 229 pockets of poverty, including support for needy students, remedial education, vocational training, community development programs, and housing programs. It also supervises the Corporate Social Responsibility (CSR) Initiative. The CSR legislation requires that all profitable firms spend 2 percent of their profits on activities that contribute to the social and environmental development of Mauritius. The CSR generates significant additional funding for reducing poverty and social inequality in Mauritius.

69. **The NEF was created when several separate programs were amalgamated**, including the National Empowerment Program (NEP), the Trust Fund for Social Integration of Vulnerable Groups (TFSIVG), and the Eradication of Absolute Poverty Program (EAP). In 2010, the NEF was transferred from MoFED to the newly established MoSIEE. In 2010, the NEF assisted approximately 3,500 participants in different labor market programs, 2,500 families with housing and other support, 18,000 students through payment of fees, tutors, education materials, and other support, and 75 communities with various integrated housing and infrastructure projects.

70. **The government's Social Protection Review and Strategy (2010) pointed out that Mauritius is not realizing the greatest possible benefits from its significant investments in social assistance**. First, Mauritius continues to spend most of its resources on untargeted subsidies and benefits. The largest of these is the universal pension, but the government also subsidizes the price of rice, flour, and cooking gas.[16] Except for the rice subsidy, the distributional incidence of these subsidies is regressive. Second, social assistance programming is very fragmented, which results in considerable administrative inefficiencies. This is particularly true in the case of programs that aim to empower the poorest as well as those that provide cash transfers. Third, in those programs that are targeted, coverage of the poorest is quite low. For example, the Social Aid program served 45,000 clients in 2008. This should be equivalent to 40 percent of the estimated number of poor households in the country, but the Household Budget Survey reported that in practice the program covered fewer than 5 percent of the poor. Only 28 percent of Social Aid payments go to the poor, while 36 percent of benefits go to those in the wealthiest two quintiles. Finally, monitoring and evaluation of

[15] This figure reflects NEF expenditures and not NEF budget allocations. In 2010, the NEF disbursed less than 50 percent of its allocation.

[16] The government's pension system overall is deemed to be sustainable in the medium term, based on previous actuarial analysis. The government initiated a process of increasing the retirement age from 60 to 65 to be phased in over a 10-year period beginning in July 2008 to further ensure this. Notwithstanding this, the government continues to make regular assessments of the viability of its pension system and is interested in undertaking further analytical work in this area in the future.

activities is weak, which means that the government is unable to assess the effectiveness of programs or take corrective measures.

71. **The government's medium-term objective is to transform its social safety net into a more effective and efficient system that provides a coherent set of services to empower the poor and vulnerable and to help them to rise out of poverty.** Given the political costs that might be involved in reforming untargeted subsidies and benefits, the government is focusing first on reforming its targeted programs. In the short term, restructuring the NEF has been given top priority. As a basis for improving the monitoring of both Social Aid and NEF programming as well as improving coordination and increasing impact, the government is introducing the Social Registry of Mauritius (SRM). The SRM is an integrated management information system that provides comprehensive information on existing and potential clients of programs while increasing coordination among the many different programs. The government intends to use the information captured in the SRM as a basis for making changes to the targeting of the Social Aid program.

(i) Restructuring of the National Empowerment Foundation

72. **After bringing uncoordinated programs under the umbrella of the NEF, they still needed to be restructured as a critical first step towards improving their performance.** Even though various programs had been brought under the umbrella of the NEF, they continued to operate autonomously and with considerable duplication and overlap, while the NEF itself lacked sufficient planning, administrative, and implementation capacity. As a result, the NEF was unable to achieve its monitoring targets and in 2011 was able to disburse less than half of its budget allocation. To respond to these challenges, the NEF Board of Directors has now reorganized the NEF into four functional pillars within one coordinated structure: (i) child and family development; (ii) community empowerment; (iii) placement and training; and (iv) entrepreneurship. The NEF staff is currently being reallocated in accordance with this new structure. This restructuring will make the NEF, a key social protection program, more effective and efficient.

73. **The restructuring has already improved the NEF programs in a number of important ways.** For example, several key programs have been refocused to support the poor more effectively. For example, the Training and Placement program now has specific targets for supporting those with less than a secondary school certificate, which is one of results indicators for this operation. Second, previously overlapping activities have been consolidated under the new pillars. For example, the provision of different types of education allowances to targeted households is now consolidated under the child and family development pillar. Third, some of the activities implemented by the NEF have been transferred to other agencies. For example, support to the pig-rearing sector that has now moved to the Ministry of Agriculture. Finally, some activities are being discontinued, for example, support to high-end jewelry production. The NEF re-organization also introduced the concept of case management, thus giving poor households a primary point of contact and helping to ensure the provision of a coordinated set of services that meets their needs. Now that the NEF is streamlined and has a more logical operational structure, the next priority for NEF management should be the development of a strategic plan for each of the new operational pillars that clearly identifies how each of the NEF's activities contributes to meeting its organizational goals.

74. **Developing rigorous monitoring of NEF interventions will be critical for determining whether its programs are cost-effective**. The NEF does not currently have the capacity or systems in place to gather the necessary evidence on the performance of programs to inform policymaking. It particularly lacks a systematic and rigorous monitoring and evaluation (M&E) system. Such systems should be based on clear performance objectives to measure programs' achievements and their impact on poverty. While an M & E unit has been included in the new NEF structure, there is still no overarching framework for M&E. The MSIEE has determined that, once the basic program components have been restructured, developing such a framework will become a priority.

Proposed Prior Action for DPL 1: The issuance of a new organizational and staffing chart for NEF which shall have been approved by MoSIEE, reflecting the new institutional structure of NEF, and with separate departments for a) child and family development, b) community empowerment, c) placement and training, and d) monitoring and evaluation.

Proposed Trigger for DPL 2: The NEF Board will approve a strategic plan for each operational pillar as well as a monitoring and evaluation framework.

(ii) Introduction of the Social Registry of Mauritius (SRM) and reforms to Social Aid to improve targeting.

75. **In order to improve the integrated monitoring of Social Aid and NEF programming, the government has introduced the SRM.** The objectives of the SRM are to collect more comprehensive information about Social Aid and NEF clients than is currently the case. This will yield a fuller profile of the clients of both the Ministry of Social Security (MoSS) and the NEF, which will be particularly important for the NEF as it rolls out its enhanced case management system. The SRM will also allow the NEF to track its clients over time and evaluate their progress towards empowerment. Additionally, the government has introduced the empowerment of Social Aid clients as one of its objectives, with the aim of gradually providing some 6,000 Social Aid recipients with active labor market services provided by the NEF. Therefore, it is important that these two programs should be highly coordinated, and having an integrated management information system will support this objective. Ultimately, the SRM will be expanded to cover other targeted programs in Mauritius, resulting in a nationwide dynamic database that will be a key policy design and planning tool as well as enabling more effective poverty monitoring. Such "single registry" approaches have helped many countries to improve monitoring and integrate service delivery within their social protection systems.

76. **The government has been evaluating options for improving the targeting of Social Aid, recognizing that much of the categorical approach used so far is out-dated and does not serve the poor effectively.** The introduction of full means testing, possibly using a proxy means test, has been extensively discussed following the government's 2010 Social Protection Review and Strategy. However, this has not yet happened because of concerns about the political implications of taking benefits away from better-off recipients and the fiscal implications of expanding the program to a large additional cohort of the poor who are currently excluded. The cost of expanding the program to reach the poor would far

outstrip any potential savings achieved from reducing errors of inclusion.[17] While the MoSS continues to explore ways to target Social Aid more effectively, it plans to use the SRM as a tool for analyzing further reform options, with proposals to be introduced in the 2013 Public Budget.

Proposed Prior Action for DPL 1: Cabinet approval of a memorandum giving details of a proposal and action plan for the establishment of SRM.

Proposed Trigger for DPL 2: The government will approve a proposal to improve coverage of Social Aid to the poorest.

Education

77. **Education opportunities have significantly expanded over the last decades, but Mauritius lags behind other middle-income countries in most education indicators and outcomes.** Although the goal of universal primary education in terms of access and gender parity in enrollment has been achieved, the major challenge in the area of primary education remains the low quality of learning achievement and the large number of students who do not move up to the secondary education level. Recent increases in public spending on basic education have had only limited results. Total spending on education as a percentage of GDP increased from 3.7 percent in 2005/06 to 4.0 percent in 2010, but pass rates and retention rates at all levels did not change significantly during this period. Mauritius now allocates a similar share of its GDP to education as Singapore, but the countries' achievements are far from comparable. For example, while in Singapore 98.2 percent of a cohort passed the Primary School Leaving Examination in 2009, only 68.1 percent of primary school pupils passed the Certificate of Primary Education (CPE) in Mauritius. Similarly, while 92 percent of a cohort made the transition to post-secondary education in Singapore, the gross tertiary enrollment rate (GTER) was just 45 percent in Mauritius.[18]

78. **The failure rate at the Certificate of Primary Education (CPE) level has been consistently high, and learning outcomes at the end of primary education are unequally distributed.** About 31 percent of children of primary school age failed the CPE in 2010, with the percentage of unsuccessful boys far exceeding that of girls (37 percent compared with 26 percent).[19] This high average rate of failure reflects the unequal distribution of education outcomes, which is most evident in the low CPE pass rates in the 28 ZEP (*Zone d'Education Prioritaire)* schools, which are often located in the poorest areas. Only 36.2 percent of ZEP school students passed the CPE in 2010 compared with a national average of 68.5 percent. Two factors are behind this disparity in results. First, students coming from poor families live in a considerably more challenging social environment than those from better-off families. Second, competitiveness within the educational system is driving parents to rely heavily on

[17] The Bank estimates that the cost of reforming the targeting of Social Aid to focus on the poorest would cost Rs 530 million in the first year of reform, falling to Rs 197 million annually as better-off households are moved off the program over time.

[18] No data are available on the cohort transition rate to post-secondary education in Mauritius so the gross tertiary enrollment rate (GTER) was used as a proxy. However, the GTER overestimates the transition rate to post-secondary education for a cohort as it includes over-aged students and those in continuing education, the numbers of both of which are likely to be substantial.

[19] According to the Ministry of Education and Human Resources.

private tuition to expand their children's education opportunities. In 2008, more than 85 percent of parents had paid for private tuition, often provided by public sector teachers. Private tuition has become a substantial cost for families, and although no systematic data are available, it is likely that the poorest families have the greatest difficulty in affording it. The government has taken some measures to alleviate the financial burden on the poorest households, including providing subsidies for transportation, textbooks, meals, and examination fees. More remarkably, in 2010 it launched an Enhancement Program that aims to replace private tutoring with supplementary classes for fourth grade students. However, these measures have had little effect so far on the CPE pass rate in ZEP schools, which has remained stable since 2006.

79. **Learning opportunities for those who fail the CPE are limited to a pre-vocational stream, which has not been able to meet the learning needs of most attendees.** Passing the CPE is a prerequisite for entering general secondary education, and pupils who fail the CPE twice must drop out of the general education stream and attend pre-vocational classes. About 7,200 pupils, about one-third of the cohort, attended pre-vocational education in 2011, down from 9,500 in 2007.[20] About 70 percent of enrollments were in private secondary schools, which are subsidized by the state. The poor performance of pre-vocational education is evidenced by high dropout rates, averaging 24 percent of total enrollments over the past five years, as well as by the failure of a large number of students in the pre-vocational stream to move on to technical and vocational education and training (TVET).[21] This poor performance can be attributed to: (i) a lack of teacher training in pedagogical skills, especially with regard to students with learning difficulties, and (ii) limited access to learning and teaching materials and the inadequacy of the curricula. These shortcomings have significantly hindered the acquisition by students of basic core skills such as literacy and numeracy and have progressively transformed pre-vocational education into a remedial-oriented set of activities.

80. **Redressing unequal education outcomes is essential to break the vicious cycle of poverty**. Based on 2006/07 data, (relative) poverty incidence is more prevalent among households headed by people with educational attainment below the CPE (two-thirds of the poorest households are headed by people who did not pass the CPE).[22] Children belonging to these households face significant challenges in accumulating human capital and are likely to inherit the vulnerability that exists in their households. This is reflected in the significant share that those without a lower secondary education represent among the unemployed (62 percent of the unemployed, with 22 percent of the unemployed not completing primary education, see Figure 1).[23] As these figures show, the completion of a lower secondary education is an important predictor of employment outcomes.

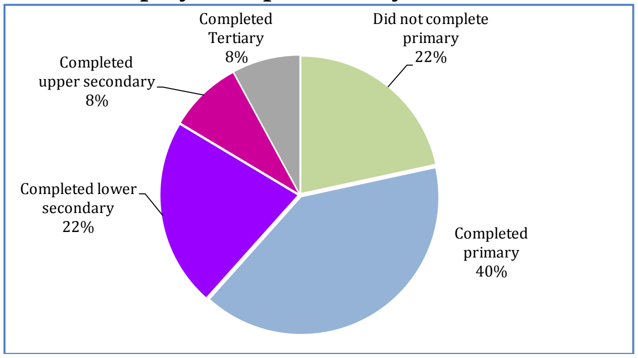
[20] This figure refers to the total number of students in pre-vocational education. Around 2,600 students currently enter pre-vocational education each year. Data from the Ministry of Education and Human Resources, 2011 Statistical Yearbook.

[21] Data from the Ministry of Education and Human Resources, 2011 Concept Paper for the Pre-vocational Reform.

[22] All data from the 2006/2007 Poverty Analysis, Central Statistics Office, MoFED (2009)

[23] Data from the Central Statistics Office.

Figure 1: Unemployed Population by Education Attainment



Source: Statistics Mauritius

81. **The government's medium-term objective is to ensure access to good quality secondary education for the most disadvantaged by improving the performance of pre-vocational education.** In response to the challenges raised by low and unequal learning achievements, the government adopted an Education Sector Strategy (ESS) in 2010 with the overall objective of developing a culture of achievement and excellence that will yield the human resources necessary to transform Mauritius into a knowledge-based economy. At the primary education level, the government recognizes that the dual purpose of the CPE – that of certifying the completion of primary education and selecting students to enter secondary school – coupled with unequal distribution of learning outcomes is a key constraint to accessing economic opportunities and thus also to reducing poverty and stimulating growth. It therefore aims to gradually reform primary education and eventually to limit the purpose of the CPE examination to providing certification to primary education graduates. In the meantime, the government has decided to revise the structure and content of the pre-vocational stream to ensure that it does a better job of meeting the learning needs of pupils who fail the CPE.

82. **A comprehensive reform of the pre-vocational stream is expected to facilitate the transition of students from school to work and to expand the access of pre-vocational graduates to TVET.** The main aspects of the reform aim to: (i) increase retention rates by extending the pre-vocational cycle to a fourth year by integrating the Foundation year[24] into the pre-vocational curricula; (ii) anchoring the pre-vocational stream in the National Qualification Framework by creating a Pre-vocational Certificate recognized by the Mauritius Qualification Authority; (iii) improving teaching methods by strengthening teacher training and promoting activity-based learning; and (iv) minimizing dropouts by setting up a tracking and monitoring mechanism that will facilitate early identification of students at risk and providing them with additional support to prevent them from dropping out. By increasing retention and enhancing the quality of pre-vocational education, the government expects future graduates of pre-vocational education to be better equipped with basic skills to enter the labor market or continue with further education in the TVET stream.

[24] Currently, after completing the three years of pre-vocational education, students follow the one-year National Trade Certificate Foundation Course delivered by the Mauritius Institute of Training and Development (MITD), which, once completed, gives them access to vocational apprenticeships and trade certificates.

Proposed Prior Action for DPL 1: Cabinet approval of a concept paper for prevocational education reform, giving details of proposed changes to existing learning and institutional arrangements, including extension of prevocational education to four years, revision of curricula, introduction of teaching and learning methods to promote retention, and acquisition of core basic skills and technical competencies.

Proposed Trigger for DPL 2: The Ministry of Education will implement new curricula, including one for the training of trainers.

B.2 Streamlining Trade Regulation and Processes

83. **Trade liberalization has been a key component in increasing the country's competitiveness**. With the support of the last DPL programmatic series, the government reduced tariffs and established a joint Public-Private Sector Standing Committee to review regulatory measures related to import and export licenses with a view to eliminating unwarranted barriers to trade. As a result, duties on 87 percent of tariff lines have been eliminated, the highest tariff rate was reduced from 60 percent to 30 percent in 2008/09, the number of bands was reduced from seven to three, and the average Most Favored Nation (MFN) applied tariff is now 3.8 percent.

84. **The government's objective is to continue Mauritius' transformation into an open, low tax, business-friendly economy by further reforming the regulatory framework and removing administrative bottlenecks.** Tariff reduction has made the remaining inappropriate regulations that are hindering trade more evident. Multiple agencies issue permits and clearances, and there is little coordination among them. While regulatory measures fulfil important social roles and policy objectives, if not properly designed, they can also increase the cost of transactions and production. The situation is particularly burdensome in the case of imports. As of January 2009, approximately 30 percent of import declarations had two requirements involving different line ministries and agencies and, in approximately 5 percent of cases, three or four import requirements. It takes around 12 days to deal with import and export permits in Mauritius, while Hong Kong (SAR, China), Singapore, and Estonia require only half as many days. Hidden import barriers, among other constraints, are keeping the economic globalization index in Mauritius below that of its competitors.[25]

85. **In Mauritius as elsewhere, regulations are spreading under the pressure of society's demands to regulate markets and to protect humans, animals, and plants from various health and environmental hazards.** These regulatory measures fulfill an important social role and policy objectives. However, if not properly designed, they can also raise the cost of transactions (in particular cross-border ones) and of production by making imported products more expensive or by generating paperwork and absorbing managerial attention. A World Bank report on trade and labor completed in 2010 identified the following main weaknesses in the regulatory environment: (i) the lack of a systematic approach to assessing the costs and benefits of regulations; (ii) the duplication of requirements and a lack of coordination across many ministries and agencies; (iii) an excessive reliance on *ex-ante* inspections rather than random and targeted *ex-post* controls; and (iv) the lack of procedures

[25] As measured by the *Konjunkturforschungsstelle* (KOF) index of globalization.

for businesses to appeal against regulatory rulings**.** The government has announced its willingness to address these weaknesses by adopting the following measures: (i) streamlining existing regulations and systematically ensuring that the design of new regulations is conducive to business; (ii) promoting administrative efficiency in trade processes by using IT; and (iii) enhancing the effectiveness of the administrative appeals and penalties of the Mauritius Customs.

(i) Streamlining existing regulations and systematically ensuring that the design of new regulations is conducive to business.

86. **There has been little progress in systematically reviewing existing regulations that are not business-friendly.** The government is aware that these existing regulations hamper economic diversification and, therefore, it aims to streamline business regulations and remove unnecessary bottlenecks that are hindering business and investment. To deal with existing regulatory barriers, it has set up a number of initiatives, including the Non-tariff Barriers (NTB) Review Committee at the Ministry of Foreign Affairs, the Committee at the Mauritius Standards Bureau, the Permit Review Committee (PRC) at the Ministry of Business, and the Doing Business Initiative led by the Board of Investment (BOI). However, all of these efforts have been uncoordinated and often duplicative and have so far not translated into any significant results. Furthermore, there is no mechanism for systematically screening new regulations for their impact on trade and competitiveness.

87. **To increase transparency and to make the regulatory environment more business-friendly, it is imperative to coordinate ongoing initiatives as well as to accelerate the review of existing business regulations**. To this end, the government has established a joint public-private business facilitation task force to strengthen the review process for business regulations and other business-related procedures. This coordinating body will coordinate the current initiatives that are reviewing business licenses and permits, non-tariff-barriers, doing business indicators, and related activities. The task force will be composed of high-level representatives from each ministry, from development partners, from the Board of Investment (which also acts as the Secretariat), and from the private sector. This task force will comprise five sub-committees with clear terms of reference to avoid duplication. These five sub-committees will cover: (i) *morcellement* permits, environmental impact assessments, and land conversion permits; (ii) import and export permits and the trade portal; (iii) tourism; (iv) building and land use permits and e-platform; and (iv) utilities. With the Bank's help, the government will build its capacity to conduct periodic analytical reviews of regulations affecting business with a view to modifying regulations where necessary to make them more business-friendly.

88. **In the short term, the government will focus on reviewing the flow of regulations and administrative barriers affecting business and investment.** However, as it works to complete the regulatory "stock reviews" to ensure that existing regulations have been streamlined, there is a need to implement a system to ensure that the same regulatory defects do not appear in new regulations, making use of systematic and formal screening processes for new regulations such as the Regulatory Impact Assessment (RIA)[26] tool.

[26] The TIA's methodology relies on a sequence of analytical steps: (i) stating the problem and how regulation is expected to address it; (ii) stating feasible policy options (approaches and instruments); and (iii) evaluating the impact of the regulation on trade and competitiveness and balancing it against the regulation's main objectives.

Proposed Prior Action for DPL 1: Establishment of a joint public-private Business Facilitation Task Force, giving it a mandate to review existing systems and processes, and streamline regulations, governing trade and investments, with a view to removing bottlenecks and creating a business-friendly environment.

Proposed Trigger for DPL 2: The government will establish a technical secretariat to undertake Regulatory Impact Assessments (RIA).

(ii) Promoting administrative efficiency in trade processes by using IT

89. **The government has made great strides in improving trade administration by making use of IT solutions**. The Mauritius Network Services Limited (MNS) developed the automated TradeNet network in 1994 to allow traders, Customs brokers, shipping agents, and freight forwarders to submit trade documents to the government in a more cost-efficient way. This has reduced the time needed to process declarations and has eliminating the duplication of information requested by different agencies. Commercial banks are also linked to this network, thus enabling businesses to pay their duties and taxes electronically. Since 2001, the Ministry of Commerce has also been linked to the TradeNet system, which allows traders to submit documentation to the Ministry of Commerce for online processing. In conjunction with TradeNET, the MNS also developed an automated Customs declaration processing system – the Customs Management System (CMS) – to electronically process and approve documents submitted by traders. MoBECC is linked through the TradeNET system to the CMS, which makes it possible to accelerate the processing and clearing of documents. However, other ministries and agencies are not yet connected to this network.

90. **Although sector ministries publish the administrative requirements for business operations that fall under their jurisdiction on their websites, this has not been done in a systematic way.** Each ministry has a website presenting its information, which is often not comprehensive, is not delivered in a user-friendly way, and is not legally binding or up to date. Moreover, the websites of sector ministries only present the trade and business requirements that are under the purview of that particular ministry and do not mention any authorizations that may be needed by other ministries. Scattered information and the lack of coordination among the multiple agencies that issue permits/clearances is a key problem for importers and increases their business costs.

91. **The government has decided to identify all measures (regulations and legislation) related to trade and manage them in a single online trade information portal, which will be fully transparent and accessible to importers and exporters with all regulations listed by national tariff line**. This system will facilitate exchanges of information on regulatory policy, thus fostering public participation and stakeholder involvement. The government has completed a full stocktaking of all relevant import procedures and requirements to import at the tariff line, with a detailed inventory of NTMs at the tariff line following the new UNCTAD classification of NTMs. The objective now is to get the NTMs database validated by all relevant ministries so that it can be published online and made legally binding, thus complementing the tariff data set that the Customs department uses to process declarations with searchable data on all trade-related laws, regulations, procedures, fees, penalties, and permits/licenses by Harmonized System Codes.

92. **The next step will be the implementation of a "single window."** This will encompass not only the provision of information but also the full integration of all trade-related processing systems. In addition to the seamless interoperability between the two systems offering both information and processing capabilities, the single window should also provide information on advance rulings on tariff classification, the ability to lodge appeals against the decisions of border management agencies, notifications of changes to rules or procedures, how traders can comment on pending regulatory changes, and the reporting of how the government is performing against service standards.

93. **The design of the information portal and the single window should logically be coordinated.** The government aims to ensure that the trade portal and the single window are implemented in a careful and coordinated way and that ministries are committed to the process at an early stage so that the move from manual to online processing is completed without delay. This implementation strategy will include: (i) an agreed governance model; (ii) an operating model and modalities; (iii) defined service-level agreements (MoUs) between the participating entities; (iv) a clear statement of core functionalities; (v) clear implementation timelines; and (vi) an agreed technology plan.

Proposed Prior Action for DPL 1: Cabinet approval of a memorandum, giving details of proposed modalities and action plan for the establishment of a comprehensive and up-to-date Trade Portal.

Proposed Trigger for DPL 2: The government will make the trade portal public and the Cabinet will approve a Memorandum detailing the proposed functional model for the single window.

(iii) Enhancing the effectiveness of the Mauritius Customs administrative appeals and penalties.

94. **The objective of enhancing the administrative appeals and penalties system is to increase its transparency, predictability, efficiency, and effectiveness.** This will reduce the time and costs involved in settling cases administratively while also increasing compliance. The current appeals mechanism on Customs matters has three stages: an internal appeal mechanism (within Customs); an independent administrative mechanism (an Assessment Review Committee); and judicial proceedings. The Customs Act makes provision for administrative penalties, and the Customs department makes use of a schedule of Customs administrative penalties.

95. **The current internal appeal mechanism, also called the "objection procedures," is not based on any legal provisions within the Customs Act**. The absence of such legal provisions can give the impression to private operators of a lack of transparency and predictability and undermines its impartiality. The government is continuing its efforts to increase transparency and reduce discretion and has decided to formalize the internal appeal mechanism in line with the revised Kyoto Convention, which promotes trade facilitation.[27] To

[27] Revised Kyoto Convention General Annex Standard 10.4 is clear that "National Legislation shall provide for the right of an initial appeal to the Customs." Its Guidelines explain that "the appeal may be made to the

this effect, the government has decided that the internal appeal mechanism will be prescribed in the Customs Act, which will contain specific provisions to ensure the independence of the officials engaged in the review process. This legislative change will increase transparency and predictability, thus ensuring the independence and fairness of the process. The government has also decided that it will improve the institutional set-up of the existing internal appeal mechanism.

96. **Customs officials appear to have a lot of discretion in how they administer administrative penalties.** The value of administrative penalties is determined by Customs on a case-by-case basis and ultimately is agreed in each individual case with the operators involved. Operators would prefer a prescribed schedule of administrative penalties.[28] The government has decided to prescribe the schedule of Customs administrative penalties in law. This will not only enhance transparency and predictability and reduce the perception of discretion in Customs but it will also pave the way for "settlement by a ruling"[29] as specified in the revised Kyoto Convention. This will expedite and decentralize the process of making administrative penalty decisions, thus reducing the cost and time to both Customs and traders. The prescribed schedule in the form of a supplementary tax will enable Customs to decide the penalty by unilateral act and allow traders to bring any claims to the Assessment Review Committee process.

Proposed Prior Action for DPL 1: Development by MoFED of a draft policy paper on the proposed establishment within its customs department of an appropriate internal appeals mechanism that complies with the requirements of the Kyoto Convention, giving details of the proposed legal and institutional framework, and operating guidelines and procedures, governing such a mechanism.

Proposed trigger for DPL2: The government will adopt a prescribed schedule of administrative penalties to apply at Customs.

B.3 Improving Human Resource Management in the Civil Service and the Monitoring of SOE Performance

97. **The public sector plays a pivotal role in the Mauritian economy as it represents around 25 percent of GDP and 25 percent of all investment**. The central government comprises 25 ministries and some 50 departments and is the biggest single employer in the country with around 53,000 public servants (representing 10 percent of all employment and 4.1 percent of the total population). In addition to central government functions, there has been a proliferation of state-owned enterprises (SOEs) in recent years including parastatal bodies and statutory corporations that are spread over almost all economic sub-sectors including the utilities, commercial, economic, educational, welfare, social, and cultural sectors. To date, there are some 150 SOEs and parastatals supervised by different line ministries and departments, employing around 20,000 people or 1.6 percent of the population.

Customs Office responsible for the decision or omission or to a higher authority within the Customs administration."

[28] In reality, Customs may only have limited capacity to exercise discretion as the penalties imposed are determined on the basis of a detailed set of Departmental Instructions and Guidelines. The Guidelines prescribe the schedule of penalties but are not made available to the general public.

[29] Revised Kyoto Convention Specific Annex H Chapter 1 Standard 19 and its associated Guidelines.

98. **However, despite Mauritius' relatively high level of development, public sector efficiency still lags behind other upper-middle-income countries.** Many services continue to be costly and of poor quality, in many instances because the public sector is not efficient in delivering services or regulating markets. Across the economy, the poor quality of public services drives down average productivity. Air fares are expensive because of restrained air access, which limits tourist arrivals and international businesses. High telecommunications charges hobble the off-shoring and ICT industries and limit essential internet access for businesses. Electricity is more expensive than in comparable countries. Water is in short supply. The government, with an overly bureaucratic civil service, is poorly structured for the requirements of a post-regulatory state, and inefficient parastatals make losses as a result of being directed by the government to pursue social objectives.

99. **The proposed DPL will focus on establishing the building blocks to increase public sector efficiency in the medium term**. The proposed DPL series will assist the government in its efforts to introduce a culture of improved service delivery in the public sector. Because public sector reforms will require consensus between diverse stakeholders and may affect the current political equilibrium, this process will have to be gradual over time. As a result, this proposed DPL series focuses on strengthening the institutions needed to improve coordination and monitoring and increase transparency in SOEs and on reallocating public resources to pursue the government's main goals, particularly in the civil service.

The Civil Service

100. **Substantial reforms have been carried out in public finance management in recent years to better align spending with national priorities and improve the focus on service delivery.** The introduction of performance-based budgeting (PBB) in 2006 as well as a number of human resource initiatives such as the Performance Management System (PMS)[30] and others[31] were the start of a significant transition within the public sector from managing based on inputs to managing for results.

101. **In parallel, incremental progress has been made in improving the quality and increasing the responsiveness of the civil service over the last two decades, in a distinctly complex legal and institutional context.** Mauritius has adopted a very successful consensus-based approach in staffing its civil service, consistent with its broader approach of ensuring

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[30] The performance management system that assesses civil servants has been reformed to increase individual accountability. The Annual Confidential Reporting System, which dated back to 1963, failed to establish adequate links with organizational objectives or provide transparent feedback on the performance of civil servants. The Ministry of Civil Service and Administrative Reforms (MCSAR) has spearheaded the introduction of a new performance management system (PMS) in the civil service to ensure that each public officer's work is in line with each public organization's vision and objectives.

[31] Other specific measures that have been implemented are: (i) the adoption of a Code of Ethics for Public Officers; (ii) the development of Customer/Citizen Charters by ministries/departments whereby they undertake to provide quality services in line with set standards; (iii) the provision of support to ministries/departments for adopting and operating according to ISO 9001:2008 standards; (iv) the introduction of the Improvement of Counter Services Scheme to provide for better reception counters and waiting areas; (v) the modernization and computerization of activities; and (vi) a focus on training and capacity building at all levels to facilitate the implementation of reform initiatives.

the representativeness of its democratic institutions. This careful attention to due process is also reflected in the machinery of public administration. The actual leadership of the civil service rests with the Head of Civil Service in the Prime Minister's Office, while the Ministry of Civil Service and Administrative Reforms (MCSAR) is in charge of developing proposals for new reforms. Authority is further shared between the Head of Civil Service and the Public Service Commission, set up under the Constitution of Mauritius in 1968, which controls appointments and promotions and significantly influences civil service regulations by maintaining a centralized system aiming to ensure fairness in public employment. The Public Service Commission continues to be regarded as critical for ensuring integrity, equity, and efficiency in the public service.[32] The trade unions are also major stakeholders in this process and are often consulted about civil service changes. To reinforce coordination among all stakeholders and accelerate reform, the government created a technical working group to oversee civil service reform. This working group comprises the Head of the Civil Service and representatives of MCSAR, and MoFED.

102. **However, it is becoming clear that capacity and performance limitations within the civil service are binding constraints to increasing the efficiency of central government.** Despite the overall high quality of the civil service, rigidities in its management and challenges in the workforce planning arrangements make it hard to change the composition or allocation of public sector employment. This translates into a number of important problems: high turnover rates and difficulty in retaining technical specialists; lengthy recruitment processes; inadequate multi-year human resource and financial strategic planning; and misalignment between the goals of agencies and individuals. These constraints are a binding obstacle to improving service delivery in the public sector, which has to happen if Mauritius is to achieve a high income country status. Furthermore, these issues come on top of other critical challenges in the civil service over the medium term, particularly the challenge of how to offer attractive and rewarding career prospects to future university graduates at a time when opportunities in the private sector are growing.

103. **The government aims to improve the management of the civil service to reinforce the gains achieved so far in central government management.** There is a need to increase managerial flexibility within the context of the new PBB initiative. The role of the Permanent Secretary needs to become more managerial and results-focused rather than administrative and process-driven as at present. This will require a redefinition of the institutional roles of Permanent Secretaries that should include a clearer separation between ministerial and civil service functions in terms of accountability for results, an increase in financial management authority at the ministry level, and an overall change of mindset from the traditional "establishment" process to a modern, proactive approach driven by the goal of improving service delivery. This will also require more predictable staffing levels and less turnover, which in turn will require a better system of medium-term HR planning led by Permanent Secretaries.

[32] This is in distinct contrast to the situation in many other Commonwealth countries where the role of the service commission has been under some pressure, primarily because the perceived trade-off between central oversight of due process and rapid processing of recruitment decisions was seen to be overly weighted towards centralization.

104. **A key immediate constraint is the large number of Scheme of Services that delay the process of hiring and promoting staff and is hindering the reorganization of the Civil Service.** A Scheme of Service (SoS) is a legal document that specifies the grade, salary, mode of appointment, qualifications, duties, and responsibilities of an employee in a Ministry or Department. It is an integral part of the effective selection and/or promotion of the most suitably qualified personnel within the Civil Service and is key for ensuring due process. Although MCSAR is responsible for any changes in SoS, the SoS must be approved by the Public Service Commission before a vacancy is advertised and filled. In contrast to other Commonwealth countries,[33] in Mauritius SoS have not been simplified or consolidated and are specific to every job and grade. There are currently more than 2,500 of them. The procedure for modifying them entails a complex series of consultations with various stakeholders,[34] and this generally turns out to be an onerous and time-consuming procedure.[35] Also, the proliferation of SoS makes it difficult to transfer staff to different positions quickly and efficiently in response to rapidly changing priorities. This was made evident after the Pay Research Bureau Report in 2008 included recommendations that implied that all SoS needed to be reviewed, triggering a lengthy and cumbersome administrative process that absorbed a large part of the administration's resources.[36]

105. **The government has chosen to focus on improving human resource management in the public sector by consolidating Schemes of Service and improving monitoring systems.** Given the complexity and sensitivity of the reform, the government is gradually increasing managerial flexibility within the context of the new PBB initiative. There are many potential obstacles in the reform of the civil service so the cautious path chosen by government appears to be a reasonable strategy. First, the government aims to improve the working conditions of the civil service by creating a Civil Service College to build the capacity of its labor force to achieve the goals of the PBB. Second, it aims to streamline and consolidate SoS. Finally, it aims to strengthen the promotion, and reward system for civil servants in order to increase flexibility in staffing, promote excellence and accountability, and reward performance to increase motivation within the civil service. MCSAR is already working on these areas and it has issued guidelines to the ministries and departments to help them to process SoS. MSCAR is also holding consultations concurrently with staff associations and federations of unions in an attempt to cut the time needed to process changes in the SoS from 51 days to 30 days, and it has put the development of some new SoS on a fast track. Government has also undertaken a review of the performance management system (PMS).

106. **Monitoring systems need to be strengthened to improve planning and management within the civil service.** The government needs to increase its technical capacity to plan for human resource needs over the medium and long term. Part of the current

[33] For instance, while some countries have substantially streamlined the number of Schemes of Services, others have kept a large number of them but have substantially simplified the procedures to amend them.
[34] Among them the Pay Research Bureau, the ministry or department concerned, staff associations, federations of unions, and the Public Service Commission.
[35] The consultation process with the unions and federations takes a minimum of 51 days.
[36] The Pay Research Bureau (PRB), which is under the aegis of the Prime Minister's Office, is responsible for reviewing the salaries of all civil servants as well as their conditions of service and all organizational structures every five years. In the PRB report of 2008, all schemes of service where to be amended, so that "Duties" should reflect the "use of ICT in the performance of duties" and the rewording of the requirement for job holders to perform "cognate duties."

constraint stems from the fact that MCSAR lacks an adequate Human Resources Monitoring Information System (HRMIS), which not only makes it difficult to monitor overall civil service staffing but also overwhelms those in charge of human resource management within sector ministries with a heavy workload of manual transactions. To improve planning, it would be highly beneficial to adopt a new integrated HRMIS linked to existing budget and treasury systems to free up responsible officers from manual transactions and improve monitoring of staff. MSCAR has indicated that it intends to implement such a system in 2012.

Proposed Prior Action for DPL 1: Submission to Cabinet, by MSCAR, of an information paper giving details of plans to streamline Schemes of Service and expedite the process of review, modification and consolidation of such Schemes of Service, based on adequate consultations with civil service unions and other stakeholders, and reflecting the outcome of such consultations.

Proposed Trigger for DPL 2: Pilot implementation in MCSAR of an integrated HRMIS for the Civil Service.

State-owned Enterprises and Parastatals

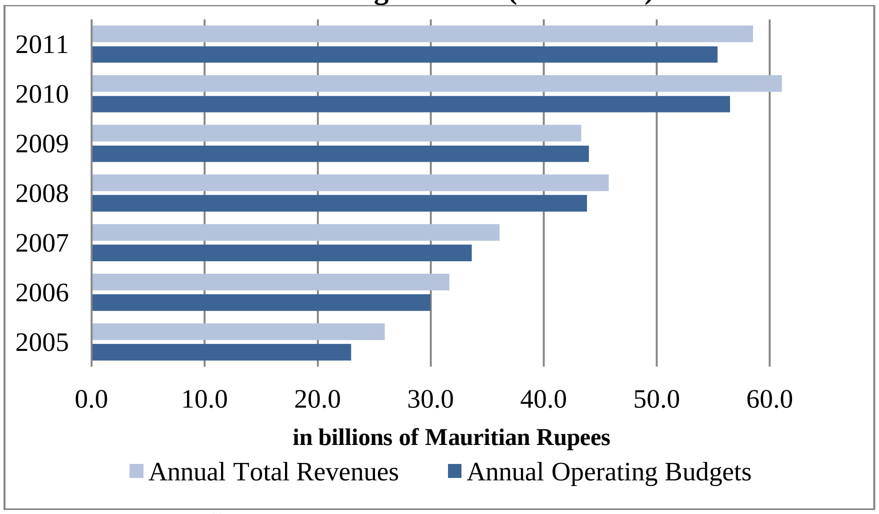
107. **Although for over two decades the Government of Mauritius has sought to outsource non-core state functions to the private sector, state-owned enterprises (SOEs) often operate in areas where they do not address any identified market failure or provide any public goods.** Key sectors dominated by government ownership include utilities, transportation, port services, and the sugar sector.[37] Several listed companies (including Air Mauritius and the State Bank of Mauritius) are also controlled by the government.[38] They were initially set up to provide basic essential services to the general population at affordable prices, but many of them are now operating in areas in which they do not have a comparative advantage over potential private sector competitors. The government has made substantial efforts to reduce the role of the public sector by introducing attrition programs in the agricultural sector, using voluntary departure and early retirement schemes, or consolidating public institutions (for example, closing the Development Works Corporation or centralizing all revenue departments under the Mauritius Revenue Authority). Although these efforts continue and the 2012 public budget will disinvest the public sector from some non-strategic commercial joint ventures, a thorough review of the participation of the sector in many sectors needs to be undertaken.

108. **The economic and financial performance of many of these SOEs is poor, which has significant implications for the quality of service delivery and infrastructure and for the degree of competition in the economy.** These inefficiencies manifest themselves in several ways. For instance, some services are more expensive in Mauritius than in its competitor countries (for example, internet access), there are technical inefficiencies (for example, 50 percent of water is lost from the system), and coverage of some public services remains low (for example, only 25 percent of the population are connected to public sewage networks). One major problem is distortionary tariffs (such as water tariffs), which are often

[37] State-owned commercial bodies in Mauritius are referred to as state-owned enterprises, parastatal bodies, or public enterprises. Here, the international standard term state-owned enterprises (SOEs) is used.
[38] No systematic inventory of state assets or detailed description of how the government currently exercises its ownership rights over the companies or summary of performance information is available.

adopted to meet social goals rather than to cover long-term costs, raising concerns about the capacity of the current system to afford the investment and maintenance that Mauritius requires to ensure the long-term sustainability of its infrastructure.

Figure 2: Aggregate Annual Revenues and Operating Budgets of the 15 largest SOEs (2005-2011)



Source: MoFED and staff estimates and projections

109. **Despite growth of 5 percent in the revenues of the 15 largest SOEs[39] between 2005 and 2011, high operating budgets undermine the financial sustainability of these organizations** (see Figure 2). There are many causes of this financial distress, but a major reason is the confusing role played by the state in the governance and management of SOEs. There is limited focus on ownership and oversight by the government, and SOEs do not provide enough information on their performance to enable the government to carry out this role effectively. While many enterprises regularly produce annual reports, some do not, and there are no penalties for non-compliance. Moreover, public enterprises generally do not have any targets or performance indicators agreed between the respective sector ministries and their boards and do not prepare their budgets following the PBB methodology. All of this means that the SOES are not held fully accountable for their performance.

110. **These inefficiencies are in large part supported directly by government finances and indirectly in the form of government-guaranteed debt.** SOEs and parastatals continue to require significant grants and transfers from the government budget amounting to Rs 8 billion in December 2010 (3 percent of GDP). Overall, total debt levels of SOEs have remained stable over the last few years at around Rs 21 billion or 7 percent of GDP in 2010, with half of this being guaranteed by the government (Table 10).

[39] The Central Electricity Board, the Central Water Authority, the National Transport Corporation, the Irrigation Authority, BPML Freeport Services Ltd, Business Parks of Mauritius Limited, the Industrial and Vocational Training Board, Rose-Belle Sugar Estate, the National Housing Development Company, the Mauritius Cooperative Central Bank, the Mauritius Meat Authority, the Agricultural Marketing Board, bus companies, small-scale Industries, and the Mauritius Shipping Corporation.

Table 10: Public Enterprise Debt (Rs. millions and as percentage of GDP)

	Jun 2003	Jun 2004	Jun 2005	Jun 2006	Jun 2007	Dec 2008	Dec 2009	Dec 2010	Dec 2011*
Domestic – Guaranteed	5,776	5,829	6,535	9,010	6,850	6,794	6,842	5,816	4,771
Domestic - Non-guaranteed	2,540	2,848	2,519	3,150	3,817	6,666	8,670	6,043	5,070
External – Guaranteed	10,017	8,838	8,032	8,304	7,419	5,620	4,605	5053	8,882
External - Non-guaranteed	7,317	6,013	5,326	4,635	3,601	2,542	5,026	3638	2,518
Public Enterprise Debt	**25,650**	**23,528**	**22,412**	**25,099**	**21,687**	**21,622**	**25,143**	**20,550**	**21,241**
as % of GDP	*17.1%*	*14.2%*	*12.4%*	*12.8%*	*9.9%*	*7.9%*	*8.9%*	*6.9%*	*6.5%*

Source: Ministry of Finance and Economic Development
Note: * Last updated December 2011

111. **The government lacks the management tools to adequately monitor SOE performance in a comprehensive manner.** A Public Enterprise Reform Unit was established in MoFED in 2008 to monitor the performance of SOEs, champion reforms in the public service, and provide leadership, coordination, and cohesion to the implementation and monitoring of reform initiatives. This unit was not able to deliver tangible results as it lacked any authority over parastatals. The key lessons learned from this experience were that: (i) such a complex and politically charged agenda needs to be closely monitored by an institution with the authority to hold all of the various sectors involved accountable, which in this case would most appropriately be the Prime Minister's Office, and (ii) such reforms must be underpinned by monitorable action plans that can be used to measure progress against milestones and thereby hold sector ministries accountable. These lessons have informed the SOE reform strategy now being pursued by the government and supported by this DPL.

112. **The government, supported by this DPL series, now aims to develop an adequate institutional and legal framework to support and oversee specific reforms of SOEs.** A gradual strategy will be followed to ensure adequate participation of all stakeholders, starting with: (i) the creation of a lead agency with an adequate mandate within the Prime Minister's Office to champion public sector reforms; (ii) the adoption of an online performance monitoring system; and (iii) the preparation and publication of performance reports. This framework will hold sector ministries and SOEs accountable, will foster a dialogue among all stakeholders, and clearly define the efficiency gains that must be achieved by each SOE.

113. **Recognizing the implications of the fiscal risk that SOEs represent, the government established the Office of the Public Sector Governance (OPSG) in August 2010 to lead, coordinate, and provide cohesion to the implementation and monitoring of SOE reform initiatives.** Placing the OPSG under the aegis of the Prime Minister's Office gives it the necessary authority and visibility to lead the reform process. The initial goals of the OPSG have been to improve the monitoring of selected SOEs and raise awareness of the importance of good corporate governance. State bodies and MoFED do not always possess all the necessary information on the financial and economic operations of SOEs and parastatals. Therefore, the OPSG has developed an online monitoring and tracking system, the Parastatal Information Management System (PIMS) to gather relevant, accurate, and up-to-date

information to benchmark their performance and monitor efficiency gains. Nonetheless, there are indications that the readiness for and the progress of these reforms vary significantly between sectors and enterprises. This is by no means surprising given the complexity and difficulty of the reforms being implemented, but it also signals the need to strengthen the mandate of the OPSG to drive the reform process and hold sector ministries fully accountable.

114. **The OPSG will need to be further empowered if it is to fulfill its mission.** Until recently the OPSG lacked the formal authority to monitor SOEs and to identify those that are underperforming. This means that it had to wait for sector ministries to approach it and makes the systematic collection of information difficult as SOEs only do this on a voluntary basis. International experience shows that a formal mandate can empower such an agency and clarify the "rules of engagement" between the OPSG and MoFED and with line ministries. Government therefore revised the mandate of OPSG to: (i) monitor the overall performance of public enterprises; (ii) supervise the implementation of the agreed public enterprise improvement program, especially when targets are not being met; (iii) support ministries and parastatals in implementing performance-enhancing reforms that have been approved by the Cabinet or by the Prime Minister; and (iv) develop the capacity to conduct in-depth supervision of SOEs, based on monitoring reports.

Proposed Prior Action for DPL 1: Cabinet approval of a memorandum, giving details of the revised mandate of OPSG to a) monitor the overall performance of SOEs; b) prepare quarterly reports; c) support line ministries in the preparation and implementation of performance improvement plans; and d) supervise the pace of SOE reforms as approved by Cabinet, reporting back to Cabinet with proposals for corrective measures as needed.

Proposed Trigger for DPL 2: Preparation of reform plans for six non-performing SOEs initiated by the OPSG.

115. **Subsequently, the OPSG will need to support the preparation of reform plans for underperforming SOEs to be endorsed by the Cabinet.** To achieve this, the OPSG will need to put in place the building blocks required to execute its new powers. This will require classifying the parastatal bodies into commercial and non-commercial categories, clarifying the objectives of these selected parastatals, and establishing key performance indicators for each parastatal body, including measures to enhance corporate and technical governance. The main outcomes of this process will be to give each SOE a clear business objective and the necessary autonomy to meet this objective. Each SOE should then be held accountable accordingly for its performance. Additionally, the institutional capacity in the OPSG, the line ministries, and the SOEs needs to be strengthened as they move into the new mode of operation and as improved monitoring and supervision requirements are established. Also, the OPSG aims to carry out additional analytical work to gather evidence to better understand key parameters and trends in the public sector such as fiscal cost, employment, investment returns, and corporate governance. The results of these analyses will inform the design of up-coming reforms in the public sector.

VI. OPERATION IMPLEMENTATION

A. POVERTY AND SOCIAL IMPACT

116. **Mauritius has a low rate of poverty, whether measured in relative or absolute terms.** Relative poverty was 8.7 percent of population in 2006/07, which was equivalent to 106,000 people. Approximately 1.0 percent of the population or 12,000 people live on less than US$1 per day. Inequality in Mauritius, as measured by the Gini coefficient, is low (0.388) compared with other countries in Africa, reflecting the fact that Mauritius is a country with a well-developed social welfare system that favors equality.

117. **The proposed DPL series is expected to reduce poverty in the following three ways:** (i) social protection programs will become more effective at protecting the poor and helping them to rise out of poverty; (ii) widening access to education will help the most vulnerable to find higher-skilled, better paying jobs in the labor market; and (iii) streamlining non-tariff barriers (NTBs) will help to create jobs as NTBs disproportionally affect SMEs (which are major creators of employment in Mauritius) because they lack the financial means to mitigate their cost.

118. **Social protection programs will be more effective in protecting and supporting the poor.** The programs under the NEF have played a role in mitigating the transitional impact of previous reforms. The Placement and Training Program was the most significant in this regard, with over 6,000 workers having found jobs through this program by 2009. However, in the sectors that benefitted from the program, 80 percent of all of the jobs created were in the ICT sector. As part of the proposed reforms to the NEF, the government is reviewing the focus and targeting of the Placement and Training Program to ensure that it is effectively serving those with relatively less education, that it is a net creator of jobs, and that it is rigorously evaluated to ensure that it provides value for money. Moreover, the reengineering of NEF programming, particularly those programs targeted to households in the 229 pockets of poverty, will ensure that much more effective services are provided to those vulnerable households. The adoption of the SRM will similarly lead to strengthened case management at the household level and more integration of the services targeted to the poor.

119. **This will include improvements resulting from reforms to Social Aid to increase its focus on the poorest and most vulnerable**. The government has modeled the impact of introducing a reform program that would target resources directly to the poor using a proxy means test to determine eligibility. The results of the model indicated that benefits currently given to at least 20,000 people who are well above the poverty line would be redirected to people who are genuinely poor. However, despite this improvement, given the existing coverage of Social Aid, 55,000 out of the approximately 106,000 poor people in Mauritius would still not receive any benefits. The government is now considering how best to reconcile improved targeting, given the political and social implications of the redistributive impact on existing Social Aid beneficiaries, with the financing required to expand the program to cover all of the poor.

120. **Reforms to pre-vocational education will largely benefit the poor.** The DPL is also supporting reforms in the education sector. The government plans to significantly upgrade the pre-vocational technical education stream so that this becomes a meaningful activity that can

either help students move forward with their formal education or acquire skills and qualifications that will help them enter the job market. These reforms also aim to reduce the dropout rate from pre-vocational education, which is currently high at 24 percent of those who enroll. The pre-vocational stream currently caters to those who have failed their CPE exams, and, given that failure rates for CPE are much higher among the poorest (see paragraph 80), this reform will be important for improving education and labor market outcomes for this group.

121. **Simplifying barriers to trade will further expand opportunities to create jobs.** Trade regulatory and administrative costs are a bigger burden for SMEs than for large enterprises. Therefore, streamlining NTMs and eliminating NTBs is expected to have a positive impact on SMEs, which will in turn translate into additional employment. This effect became evident after the reforms introduced in 2006, which created a more level playing field between large companies and SMEs, bolstered economic competitiveness, and promoted diversification that translated into strong job creation in the services sector. As a result, the unemployment rate between 2005 and 2008 declined, especially for women.

122. **The capacity of Statistics Mauritius (SM) to monitor poverty in Mauritius has been strengthened in recent years.** SM has developed a Poverty Map depicting the poverty rate in each of the 145 administrative regions of the country, which is based on data from the Household Budget Surveys (HBS) and the 2000 Housing and Population Census (HPC). Furthermore, SM fields an annual multi-purpose survey that can be used to monitor multiple dimensions of poverty including access to basic services, labor market participation, and income poverty. In addition, the SM has launched a new survey, the Survey of Living Conditions, to better measure absolute poverty. Also, with support from the UNDP, it is updating measures of absolute poverty lines. While all of these initiatives are important, they have yet to be directly taken into account in policymaking. The Bank currently has plans to increase SM's capacity to analyze poverty and the social impact of proposed policy reforms and is currently helping to develop a Human Opportunity Index for Mauritius.

123. **The SRM will further strengthen the capacity of the government to monitor poverty.** The government also plans to use the SRM to improve poverty monitoring in programs, starting with Social Aid and programs under the NEF but over time incorporating additional programs into this integrated database.

B. ENVIRONMENTAL ASPECTS

124. **None of the reforms supported by the DPL series will have a direct effect on the environment, natural resources, or forestry**. If supported, the reforms affecting SOEs and parastatals will be focused on increasing transparency and monitoring the management of public companies with no direct relationship to investment in these areas. Historically, the record of environmental management, though not perfect, has been relatively good.[40] Furthermore, all development partners recognize the strategic importance of environmental protection, and the AFD, the UNDP, and the EC are actively providing technical support in this area.

[40] See EU "Mauritius Country Strategy Paper 2008-2013," Annex 3, Executive Summary of the Country Environmental Profile.

C. IMPLEMENTATION, MONITORING, AND EVALUATION

125. **The government and the World Bank will meet twice a year to review the progress of the DPL program and will prepare a joint report.** MoFED will be responsible for coordinating the supervision and monitoring of the reform program supported by the proposed DPL series. MoFED will liaise with the appropriate staff in the ministries, departments, and agencies involved. The Bank will carry out periodic monitoring and conduct a dialogue with relevant line ministries and other stakeholders involved in the implementation of the reforms through field missions and through staff based at the Bank's country office. MoFED, as the primary counterpart agency of the operation, will be responsible for furnishing information to the Bank as required to monitor outcomes in the policy matrix (Annex 2) and for preparing an implementation report every six months to be discussed with the World Bank.

D. FIDUCIARY ASPECTS

Public Financial Management System and Fiduciary Issues

126. **Mauritius has a satisfactory financial management system.** The country's fiduciary framework is adequate to support the proceeds of the credit. This is made evident by the fact that all government loans and grants received in 2009 were managed using the government system, except for loans and grants from China and India (10 percent of the total). This is further confirmed by the conclusions of the 2010 PEFA report, which noted that the performance of the country's public finance management system had improved since the 2007 PEFA assessment as a result of reforms implemented by the government to strengthen PFM systems.

127. **The IMF has not undertaken a safeguard assessment on the Bank of Mauritius (BoM)**. The independent external auditors issued an unqualified audit report on June, 30, 2011, and the BoM's audited financial statements are published on the BoM website. No qualifications from external auditors have been reported in past BoM audited financial statements.

Funds Flow Arrangements

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

ineligible expenditures as so defined, the Bank will require the government to promptly refund the amount upon notice.

Accounting

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

E. RISKS AND RISK MITIGATION

130. **The implementation of the proposed reform program entails a number of risks:** (a) the challenge of maintaining macroeconomic stability as a result of uncertain global developments; (b) a slowdown in the momentum of reforms, exacerbated by the withdrawal of one of the parties from the government coalition in July 2011; (c) limited institutional capacity within sector ministries to lead and implement the reforms; and (d) corruption. The details of these risks and the proposed mitigation measures are provided below.

131. **The first and perhaps most important risk is that macroeconomic stability may be threatened given the current uncertain global economic climate, particularly in the European economies to which Mauritius remains highly exposed.** Global economic uncertainties continue to present a significant threat to a small open economy such as Mauritius, primarily on two fronts – the fiscal position and the current account deficit. Slower global economic growth would depress domestic growth and tax revenues, yet pressure to finance government priorities would be likely to continue. The fiscal position remains stretched with high public debt, which is projected to decline by only a modest amount in the medium-term baseline scenario. This would make it hard to implement counter-cyclical policies should some of these external threats materialize. Also, current account deficits, although high, have been adequately financed, mostly by high FDI and inflows to the financial sector. However, this could quickly be reversed if international financial markets deteriorate. Finally, the concentration of the country's exports on a few markets (Europe) and products (tourism and textiles) and its large share of imported commodities could further deteriorate the current account deficit.

132. **Having said this, the government has the means and tools to cope with external economic uncertainties, though a firm commitment will be needed to rein in public expenditure if a substantial slowdown materializes.** On the external front, the current level of foreign exchange reserves provides a buffer against a potential deterioration in the balance of payments. Mauritius' floating exchange rate also facilitates correction of external imbalances in the medium term. The recent trends of an export reorientation toward new markets (for example, in Asia and Africa) and new products will also help. On the fiscal front, if the global economy slows down and the growth in public revenues eases, the fiscal deficit could deteriorate to levels significantly above the government's baseline projection of 3.8 percent of GDP. The government is mindful of these risks. A higher deficit (of up to 1.2 percentage points of GDP) could be financed by the recently created National Resilience Fund. Should revenues dip further, additional adjustment would require either a slowdown in

implementation of the proposed infrastructure reforms and/or an acceleration of efficiency gains in the public sector, which should be manageable but will require a firm commitment from the government. Furthermore, the relatively large percentage of debt that is maturing highlights how vulnerable public debt is to the performance of the domestic financial sector, even though roll-over risks are currently low given the fact that the majority of debt is domestic and there is current excess liquidity in domestic capital markets.

133. **The second risk is a political risk that may affect the pace of the reform program at a time when the need for reform is most urgent.** The pace of reform in Mauritius has slowed in recent years and the appetite for further aggressive reform appears modest at this time. This reflects the fact that many of these second generation reforms will have redistributive effects, sometimes eliminating the rents, subsidies, and privileges of certain vested interests. The government may find it difficult to overcome these vested interests, some of which are well-organized and influential. This is particularly true since many of the reforms may only pay dividends in the medium term while their costs will certainly be evident in the short term. This complexity is further compounded by the withdrawal of one party from the government coalition in July 2011, which left the government with only a slim majority in Parliament. However, when considering the increasing global economic uncertainties and the structural constraints to economic growth and poverty reduction that are becoming binding, there is no time for complacency.

134. **The approach taken in this DPL aims to mitigate this risk by supporting reforms that will bring returns in the short term while putting in place the building blocks to expedite the reform program over the medium term.** The electoral cycle – the next parliamentary election will be in 2015 – provides a window of opportunity to accelerate reforms during the first years of this current government. This DPL series takes a pragmatic approach by supporting reforms that have a broad consensus and will bring some immediate benefits (for example, in trade and social protection), while laying the necessary foundation required to accelerate other reforms in the future. The DPL series aims to do this by supporting policy actions that will create: (i) systems (such as the SRM, the HRMIS in the civil service, and the trade portal) that can provide the government with the tools necessary to define appropriate reform options and (ii) institutions that can coordinate and consolidate reform initiatives (such as the restructuring of the National Empowerment Foundation, the revised mandate of the Office of Public Sector Governance, and the establishment of the Business Facilitation Task Force,). Furthermore, the government's emphasis on strengthening the safety net, primarily by enhancing NEF programs but also potentially Social Aid, will provide immediate support to the most vulnerable, thus reinforcing the government's objective to develop more balanced economic growth and building the momentum for additional reforms. Finally, better communication will be key to building consensus around the government's reform program, using visits to Mauritius by high-level practitioners and management to raise awareness and understanding of the reforms and their benefits, both within the Cabinet and more broadly.

135. **The third risk is that the sector ministries might not have sufficient institutional capacity to implement the reforms.** Compared to the previous DPL program in which MoFED played an active role in leading and coordinating the reform, this new set of reforms will be overseen in many cases by sector ministries. This will involve a broader set of stakeholders, which means that building and broadening consensus around the reform agenda

will be essential. However, the institutional capacity of sector ministries to design and implement these sector reforms may be limited, particularly in the newly created ministries.

136. **The Bank and the government have signed a Services Agreement for Reimbursable Technical Assistance (RTA) that will help to build institutional capacity**. This RTA will complement the Bank's program and allow line ministries to enhance their institutional capacity where needed. Additionally, the DPL itself will be a way to build bridges between the different ministries involved in the reform program, thereby enhancing coordination. The Bank's analytical work program will support these reform areas while enhancing the institutional capacity of sector ministries. In addition, this analytical work program has been coordinated with other development partners to leverage limited resources and to focus on areas that are most relevant for achieving impact.

137. **The fourth risk relates to corruption, which has been at the center of the national debate for the past several months.** Recent high-level allegations of corruption are under investigation by the Independent Commission Against Corruption (ICAC). Corruption is not only an impediment to investment but has also triggered a political crisis in Mauritius, precipitating the withdrawal of one party from the government coalition. The risk of corruption is mitigated by the fact the government appears to be supportive of the ICAC and respectful of its independence as well as the fact that the financial systems in Mauritius, as documented in the 2010 PEFA report, appear robust, suggesting that there is relatively little risk to the proceeds of the loan.

ANNEX 1: OPERATION POLICY MATRIX

Project Development Objective: To support improvements in the performance of the public sector in Mauritius by assisting the government to implement the following three reform pillars: (i) strengthening services to support and empower the most vulnerable; (ii) streamlining trade regulation and processes; and (iii) improving human resource management in the civil service and the monitoring of SOE performance.

Medium-term Objectives	**Policy Actions**		**Indicators**	**Baseline (2011)**	**Expected Results**		**Responsible Entity**
	DPL 1 (prior actions 2012)	DPL2 (indicative triggers 2013)			2012	2013	
Pillar I: Strengthening Services to Support and Empower The Most Vulnerable							
a. Social Protection							
Making the social safety net a more effective, efficient, and sustainable system that provides a coherent set of safety net services to empower the poor and vulnerable to rise out of poverty.	The issuance of a new organizational and staffing chart for NEF which shall have been approved by MoSIEE, reflecting the new institutional structure of NEF, and with separate departments for a) child and family development, b) community empowerment, c) placement and training, and d) monitoring and evaluation.	The NEF Board will approve a strategic plan for each operational pillar as well as a monitoring and evaluation framework.	Number of people with less than a secondary school certificate (SC) placed in Placement for Training	912	1,000	1,200	NEF/MSIEE
	Cabinet approval of a memorandum giving details of a proposal and action plan for the establishment of SRM.	The government will approve a proposal to improve coverage of Social Aid to the poorest.	Number of households in the SRM	0	10,000	13,000	MoSS/NEF
b. Education							
Improving learning outcomes and ensuring access to good quality general secondary education for all, especially the most disadvantaged.	Cabinet approval of a concept paper for prevocational education reform, giving details of proposed changes to existing learning and institutional arrangements, including extension of prevocational education to four	The Ministry of Education will implement new curricula, including one for the training of trainers.	Percentage of students entering Year 1 and completing the pre-vocational education cycle	72.2% [41]	73.2%	74.2%	MoEHR

[41] The baseline value for this results indicator refers to 2010.

Medium-term Objectives	Policy Actions		Indicators	Baseline (2011)	Expected Results		Responsible Entity
	DPL 1 (prior actions 2012)	DPL2 (indicative triggers 2013)			2012	2013	
	years, revision of curricula, introduction of teaching and learning methods to promote retention, and acquisition of core basic skills and technical competencies.						
Pillar II: Streamlining Trade Regulation and Processes							
Making the regulatory framework more transparent and more business friendly, and eliminating administrative bottlenecks to enhance competitiveness.	Establishment of a joint public-private Business Facilitation Task Force, giving it a mandate to review existing systems and processes, and streamline regulations, governing trade and investments, with a view to removing bottlenecks and creating a business-friendly environment.	The government will establish a technical secretariat to undertake Regulatory Impact Assessments (RIA).	Number of regulations on which a decision is taken after review	n/a	10	30	MoFED
	Cabinet approval of a memorandum, giving details of proposed modalities and action plan for the establishment of a comprehensive and up-to-date Trade Portal.	The government will make the trade portal public and the Cabinet will approve a Memorandum detailing the proposed functional model for the single window.	Number of ministries involved in issuing certificates/ permits/clearances connected with the national single window	0		All	MFA
	Development by MoFED of a draft policy paper on the proposed establishment within its customs department of an appropriate internal appeals mechanism that complies with the requirements of the Kyoto Convention, giving details of the proposed legal and institutional framework, and operating guidelines and	The government will adopt a prescribed schedule of administrative penalties to apply at Customs.	The amount of time needed to settle the Customs administrative penalty amount	6 weeks	3 weeks	3 weeks	MRA - Department of Customs

Medium-term Objectives	Policy Actions		Indicators	Baseline (2011)	Expected Results		Responsible Entity
	DPL 1 (prior actions 2012)	DPL2 (indicative triggers 2013)			2012	2013	
	procedures, governing such a mechanism.						
Pillar III: Improving Human Resource Management in the Civil Service & Monitoring of SOE Performance							
a. Civil Service							
Improved human resource management in the public service by streamlining procedures and processes relating to the prescription of schemes of services and the Human Resources management information system	Submission to Cabinet, by MSCAR, of an information paper giving details of plans to streamline Schemes of Service and expedite the process of review, modification and consolidation of such Schemes of Service, based on adequate consultations with civil service unions and other stakeholders, and reflecting the outcome of such consultations.	Pilot implementation in MCSAR of an integrated HRMIS for the Civil Service.	Gradual reduction of processing time relating to the prescription of Schemes of Service and in the number of Schemes of Service.	Processing time: 6 months Number of Schemes of Service above 2,500	Processing time reduced from 6 months to 5 months Consolidation of Schemes of Service piloted in MCSAR	Processing time reduced from 5 months to 4 months. Consolidation of Schemes of Service extended to other sectors of the civil service	MCSAR
b. State-owned Enterprises							
Improving the monitoring of SOE performance and reform progress.	Cabinet approval of a memorandum, giving details of the revised mandate of OPSG to a) monitor the overall performance of SOEs; b) prepare quarterly reports; c) support line ministries in the preparation and implementation of performance improvement plans; and d) supervise the pace of SOE reforms as approved by Cabinet, reporting back to Cabinet with proposals for corrective measures as needed.	Preparation of reform plans of six non-performing SOEs initiated by the OPSG.	Number of SOEs included in the quarterly performance reports prepared by the OPSG and published on the OPSG website	0	5	25	OPSG

Letter of Development Policy

Stimulating and Rebalancing Growth for Consolidating Social Justice

Over the last six years Mauritius has successfully implemented major broad based reform programmes which covered areas such as taxation, public financial management, debt management, ease of doing business, civil service, human resource, labour market, governance and public procurement. These were supported by institutional reforms and improved partnership and coordination between government, private sector, development partners and stakeholders in the social sector.

The success of the reform programme is visible from outcomes realised on growth, job creation, investment and improvement observed in fiscal conditions and economic resilience over the last few years in spite of the successive external global crises which led many countries in the rest of the world in distress. While the outcomes have been below the expectations prior to the 2008/09 global economic crisis, they have been laudable given the international economic conditions.

However, with signs of possible major economic downturn ahead which is likely to put all economies into prolonged periods of depressed growth and lead to job crises and falling income the challenge remains on the implementation of ongoing reforms and its pace. The importance of keeping the momentum of the ongoing reform programme is critical to ensure confidence among both local and foreign investors. There is high risk of losing potential FDIs in pipeline due to the deteriorating global economic outlook. The most critical areas where reforms should continue include competitiveness, productivity, restructuring of public enterprises, disinvestments, restructuring of domestic industries, market diversification, investment climate, social programmes, SME, and sustainable development.

The 2012 Programme Based Budget presented in November last year already includes a number of measures to support the ongoing reform programmes. These include privatisation of some state owned enterprises in the entertainment sector, creation of a National Resilience Fund to support SME development, enterprise and market development and innovation, investment facilitation through rationalisation of permits and setting up of Public/Private Sector Business Facilitation Taskforce, merging of cess funded institutions, investment in capacity building, improving social protection through provision of decent housing units to needy families and empowerment.

The year 2012 and ahead hold a number of challenges specially arising from the deteriorating global economic outlook of the major economic partners of Mauritius and possible another major crisis, most likely another energy shock. The uncertainties over the crisis in the Arab world with possible risk of another energy price shock will put our external sector under pressure. Based on the current economic outlook presented by the World Bank in its recent report and after assessment made following consultations with private local operators the outlook for 2012 under the baseline scenario has significantly changed. The years ahead appear less promising in terms of growth, job creation, expansion of exports of goods and services and FDI flows for instance.

Under the new baseline scenario, and assuming no further deterioration in the international economic outlook, economic growth is expected to be close to 3.75 percent or lower instead of 4 per cent expected a few months back. The weakening is mostly due to lower growth expected in the export markets.

Private sector investment is mostly likely to remain morose while total investment rate is likely to drop below 24%. In terms of FDI flows, there risk is significant over loss of potential flows in pipeline. Job creation will remain low and much below pre crisis levels. However, if the risks of delays in FDIs flows and project implementation are factored in and under a growth scenario same as 2009 for the tourism sector is factored in growth is most likely to drop below 3%. These possibilities could not be overlooked given the recent experience from the 2008/09 crisis.

To protect the economy from the global economic downturn there is need to have policies to accelerated project implementation, address supply side constraints in the labour market, invest in human capital and structural reforms to increase total factor productivity. The coordination of fiscal and monetary policies is needed to support growth and to limit job losses.

As in the past the successful implementation of the reform agenda will require the support of all the development partners, including the World Bank (WB), the European Union (EU), the African Development Bank (ADB) and the Agence Française de Développement (AFD). Mauritius will also require the support of the International Monetary Fund (IMF) and the United Nations Development Programme (UNDP) which had been providing the required technical assistance to drive the reforms.

The four pillars of the reform programme namely (i) improving public sector efficiency, (ii) sharpening competitiveness, (iii) improving the investment climate and (iv) widening the circle of opportunities continue to underpin the country's growth strategy. Government relies on the continued support of the Bank through Development Policy Loan (DPL) operations as an important vehicle for supporting policy reform in Mauritius. While financing is needed, it is the policy dialogue and technical support to reform from the WB that the Government values most.

In this context, two complementary programmatic DPL operations over two years are planned to support the growth agenda. The *First Public Sector Performance Development Policy Loan* (PSP-DPL) of US$20 million per year will focus primarily on the performance of the public sector while the *First Private Sector Competitiveness Development Policy Loan* (PSC-DPL) of US$15 million per year will focus on the competitiveness agenda. We expect that the combination of the reforms supported by these two DPLs will support government improve its competitiveness and resilience; and prepare the economy for rapid and inclusive economic growth.

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

A. Improving Public Sector Efficiency

Global economic uncertainties continue to present significant threats to Mauritius. The fiscal position remains stretched, and a counter-cyclical policy will be difficult to implement if the external threats materialize. Slower global economic growth will depress domestic growth and tax revenues and pressure to finance government priorities and a large investment program would increase in the context of already high public debt. It is, therefore, imperative to ensure continued fiscal discipline whilst seeking higher efficiency of the public sector.

Reforms have been implemented to improve quality of investment and growth to generate further fiscal space. These include the abolition of the solidarity tax on dividends and interest and capital gains tax on immovable property and the complete abolition of the municipal tenant's tax. Land transfer tax on sale of immovable property by financial institutions relating to debt recovery has also being removed and the tax holiday of Freeport operators which was to end in 2013 has been carried forward indefinitely.

As concerns efficiency in the public sector, Government will consolidate and reinforce gains made from the adoption of Program-Based Budgeting and the new Performance Management System. Procedures. Processes relating to the prescription of schemes of services, including consolidating the wide range thereof to, will be streamlined to improve human resource management and monitoring systems and allow for greater flexibility and mobility. The mandate of the Office of Public Sector Governance (OPSG) is being expanded to enable a continuous monitoring of the financial performance of public enterprises to ensure their long term sustainability by proposing options for restructuring. Over time this is expected to reduce the burden on central Government.

B. Sharpening Competitiveness of the Economy

Government will focus on making the regulatory environment more transparent, predictable, and business friendly. A Joint Public-Private Business Facilitation Task Force has been set up with a broad mandate to streamline business regulations and facilitate investment and trade for goods and services, moving beyond reviewing and streamline systems and processes.

A Trade Portal will be developed to allow operators to access all trade related processing systems for tariff and non tariff measures, on all trade related laws, regulations, procedures, fees, penalties and permits/licenses by HS Code. Concurrently, work is ongoing to set up a single window for on line processing all trade related clearances.

The Mauritius Revenue Authority will set up an appeal mechanism that will help reduce time and cost to settle cases administratively while securing compliance efforts and which is consistent with the requirements of the Revised Kyoto Convention. Customs declarations and the appeals system will thus be further simplified and made more transparent, predictable and efficient.

In a world of rising competition SMEs are generally more vulnerable. To ensure their competitiveness a number of measures have been taken: attractive rates are being offered through the banking sector whereby an affordable interest rate of 3% above the repo rate has been agreed. Participating banks will obtain tax relief and some guarantee from equity fund in respect of write-off SMEs bad debts without having recourse to the courts. Support for marketing is also being provided. The National Resilience fund (NRF) of RS 7.3 billion will be used to support enterprises at a micro level.

A predictable and competitive regulatory environment will be secured for the development of ICT. Thus a National Broadband Policy will be put in place to promote widespread adoption and use of public key infrastructure to allow private sector to execute secure electronic on-line transactions. International connectivity is being further opened to competition by giving long distance telecom operators the right of access to connect to international gateways via the two landing stations. Rodrigues will also be connected with Mauritius via an undersea fibre optic cable.

A market-driven framework has been put in place to enable production of ethanol for blending with gasoline. This will add value to our cane industry while at the same time bringing environmental benefits and increasing self-sufficiency in energy. Resources have also been committed to improve market intelligence to farmers.

C. Enhancing the Investment Climate

Past reforms have helped raise Mauritius in many international rankings, including from the ranking on the Mo Ibrahim Index of African Governance to the World Bank's Doing Business Report. The rankings should not be ground for complacency. The Joint Public-Private Sector Business Facilitation Task Force referred to above will advise on further policies and actions to simplify business regulations, including on new regulations.

We are further reducing barriers to the closure of businesses by establishing a cost effective and efficient regime to allow businesses to exit the market or give the possibility of rehabilitating the businesses without forcing them into bankruptcy. This alternative means to liquidation will provide for the latter to come as a very last resort to protect employment and the employees.

In a bid to promote Mauritius abroad as a quality destination for foreign direct investment and in support of developing stronger linkages to the region, Government will appoint two roving ambassadors for Africa and the Indian Ocean. They will assist in opening markets and widening the network of Double Taxation Avoidance Agreements and Investment Promotion and Protection Agreements with African states in our endeavour to transform Mauritius into services hub linking the East to Africa and the West.

The vision for an Open Mauritius is all about creating space for investment and opportunities for turning ideas and innovation into value added activities. To boost investment, products must be taken to where demand is, in our traditional markets in Europe and the USA and more focused and more carefully thought-out promotion campaigns in Emerging markets like India, China and Latin America, where the potential is unfolding at a rapid pace. The synergies among public as well as private promotion agencies will be maximized. In addition, the Board of Investment (BOI) will actively promote Mauritius to further develop the financial sector, ICT/BPO and the education and medical hubs.

To ease the movement of persons in the country Government will enable Permanent Residence holders to purchase an apartment. This should attract more foreign direct investment (FDI) and boost the construction industry while making more economic use of residential land.

D. *Sharing Prosperity with All*

Government is very much aware that success and sustainability of the reform programme is conditional upon ownership by the people. The best way to protect the population in uncertain economic times is to preserve its purchasing power and to empower it through self employment. Higher skills also hold the key to productivity, competitiveness, and the earning capacity of the workforce. Government is making special efforts on training to enhance skills that is directly related to demand.

Government is also giving a major boost to the construction of more housing units and has committed Rs 1.5 billion to Social Housing Development. In addition, a new scheme will be set up to mobilise additional private financing for housing development by encouraging the setting up of not-for-profit Housing Development Trusts. Furthermore, the National Empowerment Fund (NEF) will expand its scheme for concrete-cum-CIS houses, constructed on beneficiaries' own land, to 600 units including 400 in Rodrigues. To assist middle-income earners, and give a further spur to construction, land transfer tax has been removed for the next two years on the construction of housing estates comprising at least 5 units, at a maximum price of Rs 2.5 million each.

Education and training are prime movers of our economic development objectives and crucial to ensuring the sharing of prosperity with all. The pre-primary education grant, so far applicable to children aged 4 and above, will be extended to cover 3 year olds. This measure will also contribute to enabling women to join the workforce. In the same vein, the prevocational education programme is extended from 3 yrs to 4 yrs with greater emphasis on soft skills and work-based experience, a new curriculum, and an appropriate certification system.

To widen the circle of opportunities in a more efficient way, the staffing structure of the NEF will be enhanced and made more functional to allow better implementation of the training and placement programs.

OUTCOMES – PROJECTED

The successive economic and financial crises which are hitting the world and the main markets of Mauritius may make it difficult to continue with the ambitious reforms that would allow Mauritius to become a High Income Country within the next 10 years. We are thus requesting the World Bank to support us in mobilising further resources; financial and technical, to help us stay on course for the reforms and long-term goals whilst addressing the short term priority of preventing a reversal of important gains. We would also appreciate if the World Bank can offer assistance to ministries where institutional capacity to design and implement reforms may be limited.

Government is in the process of formulating a long term development strategy and articulating its medium term strategic plan as a basis for the preparation of annual budgets. This ten-year

National Development strategy constitutes an overall framework to help consolidate strategic planning, Programme–Based Budgeting (PBB) and Performance Management System (PMS) thus strengthening public performance accountability mechanisms. Long-term sector plans will thus link clear outputs to resources consistent with the macro-fiscal framework while ensuring that PBB allocations are linked to long-term strategic goals and that PMS is in alignment with strategic priorities.

CONCLUSION

Notwithstanding all the challenges existing and emerging, Government is determined to stay on the path of reform and thus create the conditions for creating jobs, protecting people and stimulating growth. We are confident that the support of the World Bank for this programme we shall achieve our objectives. In the attainment of these objectives, Mauritius will rely on the continuing support of its development partners and other agencies. The collective challenge is, therefore, to plan smartly and ensure effective implementation with the full support and engagement of all our Development Partners.

The implementation of the reform programme will enable Mauritius to lay the foundation of a new socio-economic model driven by global competitiveness and sharing of prosperity with all. Government wishes to have recourse to Development Policy Loans as one of the sources to finance its budget and pro-growth reforms that will put the economy on growth trajectory to become a High Income Country with full employment and improved quality of life of its population.

For Government of Mauritius

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

ANNEX 3: IMF ASSESSMENT LETTER

MAURITIUS: ASSESSMENT LETTER FOR THE WORLD BANK
February 3, 2012

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

Background

2. An IMF mission visited Port Louis during January 11–25, 2012 to conduct the 2012 Article IV consultation. The mission's work focused on the appropriate stance of fiscal and monetary policy and the prospects of the Mauritian economy against a backdrop of a deteriorating external environment and on the medium-term reform strategy.

Recent Economic Developments and Outlook

3. **The Mauritian economy performed reasonably well in 2011.** Real GDP grew at 4.1 percent, similar to the performance in 2010, driven by strong growth in textiles, ICT, financial services, and real estate. Unemployment is estimated at 7.9 percent at end-2011, virtually unchanged from the end-2010 level.

4. **The fiscal policy stance in 2011 was broadly similar to that in 2010, and less expansionary than initially planned due to delays stemming from the limited capacity to execute large infrastructure projects.** The overall deficit including extra-budgetary funds is estimated to have narrowed moderately to 2.4 percent of GDP; similarly the structural primary deficit excluding grants declined slightly in 2011. A small shortfall in total revenues and grants was more than offset by reductions in current spending. Total public debt declined by one percentage point of GDP to 56 percent of GDP.

5. **Monetary policy was tightened with the key repo rate increasing cumulatively by 65 basis points in response to inflationary developments.** To address excess liquidity that built up in the system during 2010 and the first half of 2011, Bank of Mauritius increased cash reserve requirement from 6 to 7 percent in February. It also increased the repo rate by 50 basis points in March and 25 basis points in June to address inflationary developments. As a result, inflation moderated with year-on-year inflation falling to 4.9 percent by December. Reflecting concerns about external development led to a lowering of the rate by 10 basis points in December. Private sector credit growth remained adequate at 10 percent, similar to 2010. The authorities continued intervening in the foreign exchange market to smooth excessive exchange rate volatility.

6. **Despite strong export growth, a rebound in world commodity prices led to the widening of the current account deficit.** A 17 percent increase in imports and a reduction in net transfers widened the current account deficit to 10 percent of GDP, despite a 16 percent increase in export proceeds. The deficit was more than covered with portfolio inflows and loan

disbursements to the government and parastatal bodies, although FDI slowed down somewhat from an exceptional 4.4 percent of GDP in 2010.

7. **The banking sector remains robust, and the system has proved resilient.** Banks have remained liquid and well-capitalized, with 14.1 percent of Regulatory Tier I capital to risk-weighted assets in June, well above Basel II and the proposed Basel III requirements. Non-performing loans (NPL) decreased from 2.8 percent of gross loans at end-2010 to 2.6 percent by June 2011.

8. **Looking forward, growth should moderate in 2012 given the adverse external environment.** Staff projects that real GDP growth in 2012 will decline somewhat to 3¾ percent, reflecting subdued demand from Mauritius' main markets. In subsequent years, real GDP growth is expected to accelerate moderately in line with growth potential.

9. **The monetary policy stance appears broadly appropriate, but developments in inflation and excess liquidity need to be followed closely.** Staff believes that most of the November spike in the inflation rate is due to increases in administered prices and excises or one-time exogenous factors that should not result in sustained inflationary pressures. No major administered price increases are expected for 2012 and wage increases are likely to be moderate given the uncertain economic outlook. Over the medium-term, inflation would stabilize at 4½ percent due to sound implementation of monetary policy by the Bank of Mauritius.

10. **Fiscal policy in 2012 provides a moderate fiscal stimulus.** On the revenue side, the abolition of the tax on capital gains and certain property taxes, together with an increase in excise duties should maintain the overall tax revenue broadly stable as a percentage of GDP. Current expense in 2012 is projected to decrease as a percent of GDP due to lower transfers and subsidies, while capital expense is projected to increase slightly as a percent of GDP. The cyclical component in Mauritius' fiscal balance is projected to be small, reflecting small estimates of the output gap. The cyclically-adjusted primary deficit excluding grants is projected to increase by 1.3 percentage points of GDP, which will provide a modest fiscal stimulus, though perhaps larger than needed for purely cyclical considerations. However, in the event of a significant deterioration in the external environment automatic stabilizers should be allowed to work. In addition, limited fiscal stimulus measures to protect employment, support social programs, and accelerate capital spending could also be considered.

11. **The 2012 current account deficit is projected to decline.** Exports and imports are projected to remain virtually flat, as the real sector feels the slow-down in Europe. Tourism arrivals from the European market are projected to contract, but ongoing diversification into new markets should help tourism receipts edge upward moderately. Uncertainty in world markets is projected to lead to a further contraction in FDI and a partial reversal in portfolio inflows, putting potential pressure on international reserves. Beyond 2012, export prospects should improve, as the economy starts reaping benefits from the export diversification policies and from improvements in infrastructure.

12. **The medium-term fiscal and external sustainability depend on maintaining good macroeconomic policies entailing some fiscal adjustment and improvements in external competitiveness.** The updated debt sustainability analysis (DSA) continues to show a broadly positive debt outlook for Mauritius. Medium-term fiscal adjustment will help reduce debt vulnerabilities and lower external imbalances. Most of fiscal adjustment will likely have to come from reducing current spending through better targeting of social assistance and reduction in subsidies, and from improving efficiency in the parastatals sector. Improving external competiveness will depend on the implementation of productivity-enhancing structural reforms, which should be supported by a stable monetary and exchange rate policy regime.

Fund Relations

13. Mauritius is on the standard 12-month cycle for bilateral consultations under Article IV of the IMF's Articles of Agreement. The last Article IV consultation staff report (Country Report No. 11/96, May 2011) was completed by the Executive Board on April 14, 2011. A Financial System Stability Assessment update was completed by a joint IMF–World Bank team on April 20, 2007.

Table 1. Mauritius: Selected Economic and Financial Indicators, 2009–2017

	2009	2010	2011		2012		2013	2014	2015	2016	2017
		Prel.	Last SR	Est.	Last SR	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percent change, unless otherwise indicated)										
National income, prices and employment											
Real GDP	3.0	4.1	4.1	4.1	4.2	3.7	4.1	4.2	4.2	4.2	4.2
Real GDP per capita	2.5	3.7	3.5	3.5	3.6	3.1	3.5	3.6	3.6	3.7	3.7
GDP per capita (in U.S. dollars)	6,919	7,582	7,990	8,384	8,471	8,401	8,795	9,168	9,659	10,197	10,809
GDP deflator	-0.2	1.8	5.0	4.3	4.4	3.9	5.9	4.4	4.4	4.4	4.4
Consumer prices (period average)	2.5	2.9	7.4	6.5	4.6	4.8	5.3	4.9	4.4	4.4	4.4
Consumer prices (end of period)	1.5	6.1	5.8	4.9	4.4	5.0	5.5	4.4	4.4	4.4	4.4
Unemployment rate (percent)	7.3	7.8	...	7.8	...	...	...	...	...	...	...
External sector											
Exports of goods and services, f.o.b.	-15.6	18.9	12.5	15.6	6.6	3.0	6.3	6.0	6.2	6.6	6.7
Of which : tourism receipts	-23.5	15.9	10.4	13.5	11.2	4.3	10.6	9.0	8.6	9.0	8.9
Imports of goods and services, f.o.b.	-19.3	20.5	18.8	17.2	4.2	0.6	4.3	4.0	4.7	4.8	5.1
Nominal effective exchange rate (annual averages)	-5.8	3.2	...	3.1	...	...	...	...	...	...	...
Real effective exchange rate (annual averages)	-4.6	3.2	...	5.7	...	...	...	...	...	...	...
Terms of trade	7.8	-5.4	...	-5.0	...	...	...	...	...	...	...
	(Annual change in percent of beginning of period M2)										
Money and credit											
Net foreign assets	17.4	20.2	10.3	4.2	...	18.5	...	...	...	...	...
Domestic credit	1.8	10.3	16.1	9.7	...	8.6	...	...	...	...	...
Net claims on government	1.1	1.0	2.5	-0.5	...	1.5	...	...	...	...	...
Credit to private sector[1]	0.4	9.9	13.6	12.3	...	6.5	...	...	...	...	...
Broad money (end of period, annual percentage change)	8.1	7.6	9.3	6.1	...	12.0	...	...	...	...	...
Income velocity of broad money	1.0	0.9	0.9	1.0	...	0.9	...	...	...	...	...
Interest rate (weighted average TBs, primary auctions)	4.4	3.9	...	...	...	...	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)										
Central government finances											
Overall consolidated balance (including grants)[2]	-2.0	-3.0	-4.8	-2.4	-4.5	-3.7	-3.2	-2.7	-2.7	-2.2	-1.8
Primary balance (including grants)[2]	1.8	0.4	-1.3	0.6	-1.0	-0.5	-0.6	-0.1	-0.2	0.3	0.6
Revenues and grants	22.8	21.9	21.5	21.2	21.0	21.8	20.9	21.1	21.2	21.2	21.3
Expenditure, excl. net lending	24.8	24.9	26.2	23.7	25.5	25.5	24.1	23.8	23.9	23.3	23.1
Domestic debt of central government	44.7	43.1	42.5	41.2	41.6	40.5	38.1	36.8	37.0	37.0	34.0
External debt of central government	6.0	7.4	8.9	8.5	10.5	10.0	11.6	12.9	12.7	12.2	11.2
Investment and saving											
Gross domestic investment	26.4	24.9	26.2	24.4	26.6	24.8	25.3	25.7	26.1	26.6	27.0
Public	6.6	6.1	7.6	6.4	7.7	7.4	7.7	7.8	8.3	8.2	7.6
Private	19.8	18.8	18.6	18.0	18.9	17.5	17.5	17.9	17.9	18.3	19.4
Gross national savings	14.9	16.5	14.2	16.0	15.7	16.3	17.9	19.5	20.7	22.2	23.6
Public	-0.8	-0.5	-0.7	-0.7	-0.5	0.2	0.5	1.1	1.3	1.4	1.5
Private	15.7	17.0	14.9	16.8	16.2	16.1	17.4	18.4	19.4	20.8	22.1
External sector											
Balance of goods and services	-10.5	-12.1	-15.7	-13.5	-13.5	-12.3	-11.2	-10.0	-9.2	-8.2	-7.2
Exports of goods and services, f.o.b.	47.1	50.9	52.9	52.8	53.6	54.0	54.4	55.0	55.1	55.3	55.4
Imports of goods and services, f.o.b.	-57.6	-63.0	-68.6	-66.4	-67.1	-66.3	-65.6	-65.1	-64.3	-63.5	-62.6
Current account balance	-7.4	-8.2	-11.8	-10.0	-9.9	-8.7	-7.5	-6.4	-5.6	-4.6	-3.6
Overall balance	4.3	2.1	-0.9	1.2	0.1	-2.4	0.0	0.4	0.5	0.3	0.8
Total external debt[3]	12.7	14.4	13.5	15.0	15.2	16.1	17.7	18.4	16.5	14.8	14.6
Net international reserves (millions of U.S. dollars)	2,150	2,448	2,253	2,630	2,265	2,412	2,488	2,627	2,781	2,926	3,142
Months of imports of goods and services, f.o.b.	5.1	4.8	3.8	4.4	3.7	4.0	4.0	4.0	4.1	4.1	4.2
Memorandum items:											
GDP at current market prices (billions of Mauritian rupees)	282.0	299.1	327.4	324.8	356.6	350.0	385.9	419.6	456.3	496.5	540.2
GDP at current market prices (millions of U.S. dollars)	8,824	9,714	10,299	10,807	...	...	...	...	...	...	...
Public sector debt (percent of GDP)	59.6	57.3	58.8	56.1	59.7	57.0	55.7	54.8	55.5	54.2	49.8
Foreign currency long-term debt rating (Moody's)	Baa2	Baa2	...	Baa2	...	...	...	...	...	...	...

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

[1] Includes credit to parastatals.

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

[3] Reported debt only, excluding private sector short-term debt.

ANNEX 4: STATEMENT OF LOANS AND CREDITS

MAURITIUS: Public Sector Performance Development Policy Loan

			Original Amount in US$ Millions						Difference between expected and actual disbursements	
Project ID	FY	Purpose	IBRD	IDA	SF	GEF	Cancel.	Undisb.	Orig.	Frm. Rev'd
P091828	2010	MU-Infrastructure Project	50.00	0.00	0.00	0.00	0.00	45.79	37.59	33.92
P112943	2010	MU-Manufacturing & Servs Dev & Comp(SME)	20.00	0.00	0.00	0.00	0.00	19.71	7.51	0.00
P105669	2009	MU-Economic Transition (TA) Project	18.00	0.00	0.00	0.00	0.00	16.44	8.89	0.00
		Total:	88.00	0.00	0.00	0.00	0.00	81.94	53.99	33.92

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

		Committed				Disbursed			
		IFC				IFC			
FY Approval	Company	Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
	Total portfolio:	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic.
	Total pending commitment:	0.00	0.00	0.00	0.00

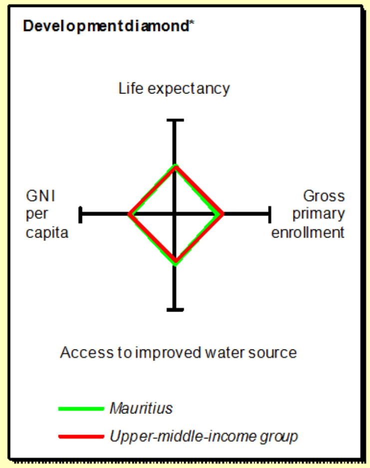
ANNEX 5: COUNTRY AT A GLANCE

MAURITIUS: Public Sector Performance Development Policy Loan

Mauritius at a glance

2/25/11

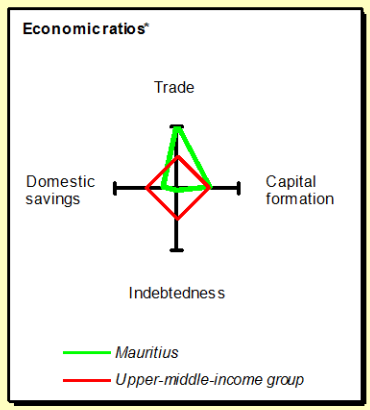
POVERTY and SOCIAL	Mauritius	Sub-Saharan Africa	Upper-middle-income
2009			
Population, mid-year *(millions)*	1.3	840	1,002
GNI per capita *(Atlas method, US$)*	7,250	1,126	7,495
GNI *(Atlas method, US$ billions)*	9.2	946	7,508
Average annual growth, 2003-09			
Population *(%)*	0.7	2.5	0.9
Labor force *(%)*	1.2	2.9	1.7
Most recent estimate (latest year available, 2003-09)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	43	37	75
Life expectancy at birth *(years)*	73	52	71
Infant mortality *(per 1,000 live births)*	15	81	19
Child malnutrition *(% of children under 5)*	..	25	..
Access to an improved water source *(% of population)*	99	60	95
Literacy *(% of population age 15+)*	88	62	93
Gross primary enrollment *(% of school-age population)*	99	100	111
Male	100	105	111
Female	99	95	110



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

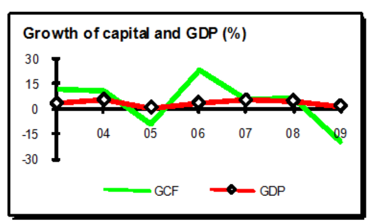
	1989	1999	2008	2009
GDP *(US$ billions)*	2.2	4.3	9.3	8.6
Gross capital formation/GDP	31.0	26.8	27.2	21.4
Exports of goods and services/GDP	63.9	63.9	52.9	48.4
Gross domestic savings/GDP	23.7	23.3	12.5	10.8
Gross national savings/GDP	26.6	24.9	16.8	16.8
Current account balance/GDP	-2.9	-1.6	-10.5	-7.8
Interest payments/GDP	2.3	1.3	0.3	0.2
Total debt/GDP	37.2	29.6	6.7	8.6
Total debt service/exports	9.2	5.7	2.8	1.9
Present value of debt/GDP	..	..	..	6.9
Present value of debt/exports	..	..	..	9.0

	1989-99	1999-09	2008	2009	2009-13
(average annual growth)					
GDP	5.1	3.9	5.1	2.1	3.8
GDP per capita	3.9	3.0	4.4	1.6	..
Exports of goods and services	5.7	2.1	2.3	-4.8	-0.4

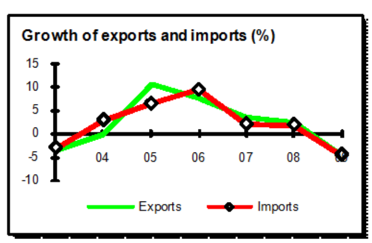


STRUCTURE of the ECONOMY

	1989	1999	2008	2009
(% of GDP)				
Agriculture	13.1	6.1	4.4	4.3
Industry	32.9	31.2	29.2	29.1
Manufacturing	24.5	23.9	20.1	19.4
Services	54.0	62.7	66.4	66.6
Household final consumption expenditure	64.1	62.4	74.3	74.6
General gov't final consumption expenditure	12.2	14.3	13.2	14.6
Imports of goods and services	71.2	67.4	67.6	59.1



	1989-99	1999-09	2008	2009
(average annual growth)				
Agriculture	0.0	0.5	1.5	10.6
Industry	5.4	2.0	5.0	2.4
Manufacturing	5.3	0.8	3.2	1.1
Services	6.2	5.8	5.4	2.8
Household final consumption expenditure	5.2	3.1	4.2	9.2
General gov't final consumption expenditure	3.8	4.0	0.7	5.4
Gross capital formation	4.5	4.8	7.2	-19.2
Imports of goods and services	5.2	1.9	1.8	-4.6



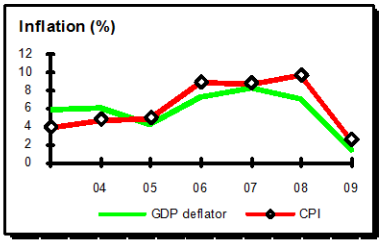
Note: 2009 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

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

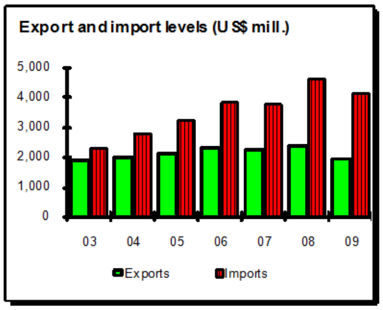
PRICES and GOVERNMENT FINANCE

	1989	1999	2008	2009
Domestic prices				
(% change)				
Consumer prices	12.7	6.9	9.7	2.5
Implicit GDP deflator	11.0	5.3	7.0	1.5
Government finance				
(% of GDP, includes current grants)				
Current revenue	23.6	20.3	22.9	22.0
Current budget balance	2.5	-0.6	0.2	-3.5
Overall surplus/deficit	-2.6	-3.6	-2.4	-7.1



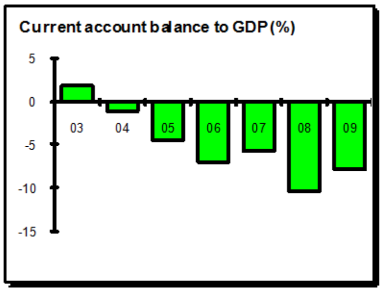
TRADE

	1989	1999	2008	2009
(US$ millions)				
Total exports (fob)	1,051	1,601	2,389	1,933
Sugar	317	293	291	207
n.a.	..	..	279	283
Manufactures	635	1,153	1,173	1,035
Total imports (cif)	1,231	2,179	4,600	4,086
Food	139	339	829	763
Fuel and energy	70	135	987	634
Capital goods	377	498	903	956
Export price index *(2000=100)*	100	105	128	128
Import price index *(2000=100)*	96	100	180	171
Terms of trade *(2000=100)*	105	105	71	75



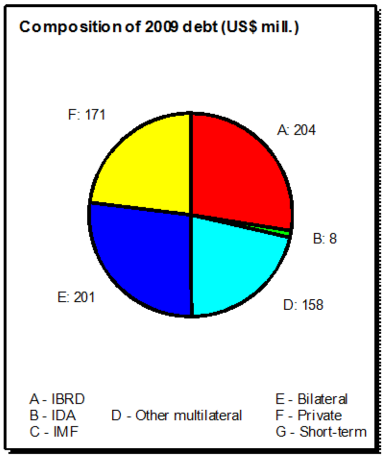
BALANCE of PAYMENTS

	1989	1999	2008	2009
(US$ millions)				
Exports of goods and services	1,439	2,627	4,942	4,161
Imports of goods and services	1,560	2,758	6,308	5,074
Resource balance	-121	-131	-1,366	-913
Net income	-27	-29	172	26
Net current transfers	85	94	220	216
Current account balance	-63	-67	-975	-671
Financing items (net)	194	123	1,137	1,050
Changes in net reserves	-131	-56	-163	-379
Memo:				
Reserves including gold *(US$ millions)*	444	562	2,570	2,824
Conversion rate *(DEC, local/US$)*	15.2	25.2	28.5	32.0



EXTERNAL DEBT and RESOURCE FLOWS

	1989	1999	2008	2009
(US$ millions)				
Total debt outstanding and disbursed	814	1,271	626	742
IBRD	175	107	103	204
IDA	19	14	9	8
Total debt service	140	163	161	125
IBRD	29	24	13	11
IDA	0	1	1	1
Composition of net resource flows				
Official grants	20	12	93	95
Official creditors	15	-7	6	79
Private creditors	35	43	-29	29
Foreign direct investment (net inflows)	36	49	378	257
Portfolio equity (net inflows)	0	-15	34	-33
World Bank program				
Commitments	0	0	30	218
Disbursements	8	5	30	109
Principal repayments	15	18	10	9
Net flows	-8	-13	20	100
Interest payments	14	6	4	3
Net transfers	-22	-19	16	97



Note: This table was produced from the Development Economics LDB database. 2/25/11

IBRD 33446

DECEMBER 2004