



Vulnerability

non-communicable disease remoteness
disaster risk management climate change
RISING SEA LEVEL
diseconomies of scale labor migration
volatile growth natural disasters

Cluster Country Program Evaluation on Small States

Mauritius Country Case Study (FY07–15)
Enhancing Competitiveness and Private Sector Development



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**Mauritius Country Case Study (FY07–15)
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All volumes of the Cluster Country Program Evaluation on Small States are found online at <http://ieg.worldbankgroup.org/evaluations/cpe-smallstates>.

Abbreviations and Acronyms

AAA	analytic and advisory services
AFD	Agence Française de Développement
AfDB	African Development Bank
CHCL	Cargo Handling Corporation Ltd.
CLR	Country Learning Report
CPE	country program evaluation
CPEE	Certificate of Primary Education examination
CPS	country partnership strategy
CPSPR	Country Partnership Strategy Progress Report
DBM	Development Bank of Mauritius
DDO	Deferred Drawdown Option
DPL	development policy loan
DTF	distance to frontier
EPZ	export processing zone
ESW	economic and sector work
EU	European Union
FDI	foreign direct investment
GDP	gross domestic product
GNI	gross national income
IBRD	International Bank for Reconstruction and Development
ICA	Investment Climate Assessment
ICT	information and communications technology
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMF	International Monetary Fund
LAVMIS	Land Administration Valuation Information Management System
MCIB	Mauritius Credit Information Bureau
MDG	Millennium Development Goal
MFA	Multi-Fiber Agreement
MIGA	Multilateral International Guarantee Agency
MSME	micro-, small, and medium-sized enterprise
MTEF	Medium-Term Expenditure Framework
NLTA	nonlending technical assistance
OECD	Organisation for Economic Co-operation and Development
OECS	Organisation of Eastern Caribbean States
TA	technical assistance
PFM	public financial management
PKI	public key infrastructure
RAS	Reimbursable Advisory Services
ROSC	Report On the Observance of Standards and Codes
SBM	State Bank of Mauritius
SCD	Systematic Country Diagnostic
SME	small and medium-sized Enterprise
SOE	state-owned enterprise
TVET	technical and vocational education and training
UNDP	United Nations Development Programme

All dollar amounts are U.S. dollars unless otherwise indicated.

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Summary

Highlights

After nearly two decades of strong economic growth, in 2005 the economy was in difficulties. The loss of trade preferences in textiles in 2005, the anticipation of prospective reform to the European Union's sugar protocol for 2006–10, and higher international oil prices had contributed to a slow-down in growth, rising unemployment and widening fiscal and current account deficits. A new government was elected in 2005 which implemented a series of bold economic reforms (such as the elimination of the export processing zone (EPZ) regime, a progressive liberalization of the foreign trade and investment regime and simplification of labor laws) to redress the macro-economic imbalances and enhance competitiveness to facilitate efficient restructuring of the economy. This was achieved in large measure. Good policies also allowed the government to deal effectively with the global financial crisis of 2008. Following elections in 2010, a new (and fragile) coalition government was elected which emphasized fiscal stimulus and the pace of reforms slowed. Following a period of political instability, a new government was elected in 2014 with an overwhelming majority. However, as fiscal pressures mount, a sense of policy drift continues, threatening the gains achieved in recent years.

The World Bank Group supported the government's reform efforts throughout the evaluation period. Support was provided largely in the form of development policy loans (DPLs), complemented by analytic work and technical assistance (TA) for capacity building in various parts of the government. The World Bank's strategy was aligned with the government's priorities during 2005–10, but it failed to adapt when the appetite for reforms waned after a new coalition government took office following elections in 2010. The World Bank's strategy was flexible and the program underwent significant changes to respond to changing government priorities and unfavorable external conditions. The World Bank's program addressed the twin challenges of building resilience (macro-economic and social) and enhancing competitiveness that are common to other small states. Perhaps the World Bank could have been more selective in its areas of interventions.

The World Bank supported a wide range of reforms to enhance competitiveness and promote private sector development. Over the whole review period, the Bank Group response helped improve the trade policy regime and investment climate (e.g., business and land registration) and contributed to small and medium-sized enterprise (SME) development and the regulatory framework of information and communications technology (ICT). Its interventions were also useful in developing institutional capacity in the roads, energy and water-supply sub-sectors. However the lack of appetite for reforms since 2011 may jeopardize the sustainability of some of these achievements. Moreover, Mauritius is now losing ground in some sectors (e.g., ICT, regional transshipment in Port Louis port, tourism) compared to some neighborhood countries, underscoring the need for accelerating reforms.

The Mauritian economy performed remarkably well since independence. Benefiting from preferential trade arrangements in terms of guaranteed sugar exports to the European Union and preferential access to consumer markets for exports of textiles and clothing under the Multi-Fiber Agreement (MFA), growth was spearheaded by production in EPZ created to facilitate diversification from sugar production into manufacturing for the export markets. Faced with the dismantling of preferential trading arrangements starting in the early 2000s, and growing fiscal and current account imbalances, in 2005 the government initiated a largely successful reform program to strengthen fiscal consolidation and competitiveness and create a more diversified manufacturing and services sector. The external financial crisis of 2008–09 was also weathered

successfully. However, by 2010 as the economic picture improved, the impetus for reforms has slowed. The new government's ability to implement reforms was also increasingly constrained by pressures of coalition politics. Unless this trend is reversed, the huge gains made by Mauritius in recent years may be lost.

Bank Contribution

The Bank Group supported the government's reform efforts. This support was largely in the form of fast-disbursing development policy loans (DPLs), which included four Trade and Competitiveness DPLs between FY07 and FY10, and another four in support of private sector competitiveness and public sector efficiency between FY12 and FY13. Only one investment project (mainly for road transport, but also including TA for energy and water subsectors) was approved. Lending was complemented by TA and capacity in various areas (including budget management, public investment, procurement, social protection programs, trade policy, investment climate assessment, financial sector assessment, etc.) and analytic studies that formed the basis for defining some of the reform priorities that were supported by the World Bank. The World Bank also managed and implemented several Trust Fund operations, including in the areas of environment, renewable energy and energy conservation.

Assessment of Bank Strategy and its Program in Area of Enhancing Competitiveness

BANK GROUP STRATEGY

At the start of the program, the World Bank's strategy was closely aligned with the government's strategy. The four pillars of the country partnership strategy (CPS) coincided with the priorities of the government's strategy and the program was adapted to changing government priorities over time. However, the World Bank's strategy did not adequately recognize, or factor in its strategy, the waning appetite for reforms after a new government took office in 2010. The CPS Progress Report (2011) largely continued with the previous government's priorities, merely noting the new government's preference for increased social expenditure's program was harmonized with the work of other development partners. The CPS was prepared jointly with the EU and the African Development Bank (AfDB), and the Agence Française de Développement (AFD, French Agency for Development) participated in joint missions with the World Bank in the preparation of DPLs.¹ One of the major benefits of the DPLs cited by authorities was that it provided a forum for coordinating the activities of various sector ministries in pursuit of the reform agenda, as well as brought all DPs together to focus on the key reforms and their role.

The World Bank's strategy was also perhaps too ambitious in terms of its coverage given the limited resources on offer. A narrower but more in-depth and sustained focus on one or two critical areas (such as education and skills enhancement) may have been more appropriate. Flexibility was built into the design of the CPS program which changed considerably over the course of the CPS period as the government's priorities changed and/or the external environment deteriorated more than expected. The World Bank's response was timely and helped the country in the context of macroeconomic deterioration. The extension from three to four operations of the original DPL series, and the increase in the amounts under the third DPL helped to accommodate a deteriorating fiscal and external account balance. Similarly, the Deferred

Drawdown Option (DDO) offered by the World Bank helped to provide better terms of financing. All in all, this was a good response to a worse than anticipated external situation caused by sluggish European growth following the 2008 crisis. The same accommodation was also in evidence in analytic and advisory services (AAA) where the World Bank was quick to respond to urgent requests from the government for TA and just in time policy advice. By contrast, the World Bank was perhaps too flexible when it came to accommodating shortfalls in implementation of prior actions under the DPLs especially in recent years. This flexibility contributed to maintaining a robust lending program but may have diverted attention from difficult but necessary reforms. It also damaged the World Bank's credibility. Prior actions were also sometimes defined loosely and focused on preparatory first steps and processes that could be implemented without any reforms taking place on the ground.

Conceptually, the World Bank's strategy was aligned with the corporate goal of delivering inclusive growth. However, it did not sufficiently reflect the reality that poorer households (who were also more likely to be unskilled and less educated) could not get jobs in the fast growing skill intensive sectors (ICT, financial services) and were likely to fall behind those that were better educated. In the meanwhile, the burden of reducing the gap between rich and poor would fall on the social assistance programs and other programs such as the flexi-security system that provided transitional assistance to eligible workers. While there is some evidence that these programs may have contributed to reducing the gap, inequality increased during the period.

The strategy and program was also largely consistent with the World Bank's policy agenda in small states of reducing vulnerabilities and enhancing competitiveness. The program sought to strengthen macro-economic and social resilience, but did not address vulnerability to natural disasters or climate change. One aspect of small states' that the World Bank did not fully appreciate was the danger of decision-making being subverted by the fact that (as one senior interlocutor put it) 'everyone knowing everyone else'. To be sure, the World Bank's program supported reforms to introduce transparency in some limited spheres such as public financial management and procurement practices. But a more comprehensive approach to open government decisions to public scrutiny is needed.

THE BANK GROUP'S PROGRAM FOR ENHANCING COMPETITIVENESS

The Bank Group provided sustained support for enhancing competitiveness and promoting the private sector. The World Bank's engagement in Mauritius was mainly through a series of four DPLs promoting economic reforms and institution building. Investment lending—about one-fourth of the portfolio—was unusually low, along with modest IFC involvement. Two sector investment technical assistance operations were launched to support competitiveness, but were subsequently canceled early in their implementation and replaced by DPL series. Under the circumstances, the heavy use of DPLs was appropriate given the government's early ownership of wide-ranging reforms, strong institutions, and clear preference of the government to avoid long disbursement procedures. Financial assistance was complemented by analytic work to identify constraints and areas for reform and technical assistance.

Incentives and trade policies were reformed to intensify competition by moving toward a largely tariff-free regime and by scaling back non-tariff barriers. The distinction in the incentive and

regulatory regime between firms in the EPZ and outside it was largely eliminated. Customs and excise procedures were simplified.

The regulatory environment for businesses was also streamlined by fast-tracking the registration process, liberalizing hiring of foreign skilled workers, facilitating labor hiring and firing, and accelerating the process of closing down un-viable firms. Land registration was also made easier and quicker. These were positive steps and contributed to Mauritius improving its ranking in the Ease of Doing Business from 32nd out of 175 countries in 2006 to 28th out of 189 countries in 2014. Bank activities to support labor reforms were an area of weaknesses in the overall Bank program that should have received greater attention given the emphasis on support for policy reform and competitiveness in Bank support.

Limited efforts were made by the Bank Group to improve the quality and spread of education at all levels and improve vocational training to close the skills gap. Supported by the World Bank, a National Education Strategy was adopted in 2010 to increase output and improve quality at all levels of education. The World Bank also supported the development and implementation of a comprehensive reform of the pre-vocational stream aimed at increasing retention and enhancing the quality of education outcomes at that level. However, these initiatives have had no appreciable impact on education quality and the vocational training system remains small, fragmented and flawed.

The Bank Group was not a major player in the financial sector. The World Bank supported reforms to facilitate the use of movable and intangible assets as collateral and the establishment of a modern movable collateral registry. Necessary amendments to laws were drafted but these have yet to be adopted by Parliament. Also, with the World Bank's support the coverage of the Mauritius Credit Information Bureau was expanded to include not just banking institutions and insurance and leasing companies, but also non-financial institutions and utility companies. It is still too early to assess the impact of these measures on the quality of credit decisions. Despite its long involvement, the Bank Group's proposal for transforming the Development Bank of Mauritius (DBM) into a commercial bank with private sector participation is yet to see the light of day. An innovative market driven platform implemented by the government for providing financing to SMEs for business development services, can partly be credited to the World Bank's design of an initial scheme under one of its project. The IFC helped build capacity and trained staff in selected commercial banks to expand their SME segment. This assistance was welcomed.

In the area of infrastructure, the World Bank's focus was mainly on the ICT sector where it supported institutional and policy reforms to attract foreign investment in ICT infrastructure and improve broadband connectivity to enhance the competitiveness of Mauritian firms. The World Bank provided valuable assistance in drafting the National Broadband Policy aimed to facilitate large private sector investment in broad-band networks, and to signal a predictable long term business environment in the sector. The ICT Act was amended to bring licensing and regulation closer to international best standards. However, amendments to the Act to create a framework for spectrum auctions, spectrum sharing and secondary spectrum trading have yet to be ratified by Parliament. To promote e-commerce, the World Bank supported revisions to the legal framework governing e-commerce, e-legislation and online activity, especially with respect to data protection. As a result of some of these measures, the prices of fixed broadband and mobile broadband services have fallen considerably. The ICT sector has been growing strongly and the

share of exports of ICT services in total services exports has more than doubled between 2007 and 2013. However, in more recent years, Mauritius failed to amend its licensing act to improve spectrum management and as a result broadband services price remains relatively high and Mauritius is now lagging behind more liberal markets in neighboring countries such as Kenya.

In the transport sector, the World Bank funded the up-grading and routine maintenance of an important section of the road network, which may have helped reduce travel time and improve road safety. The Bank Group also provided useful TA to strengthen capacity in the Ministry and the Road Transport Authority. In the ports sector, the IFC was involved over a prolonged period, in identifying a private strategic partner for Cargo Handling Corporation Ltd. (CHCL) to improve port operations. However, due in part to lack of government commitment, no agreement was reached with the private partner and CHCL was retained as the operator, with potentially damaging consequences for competitiveness. In the energy sector, the Bank Group played a small role in promoting renewable sources of energy and energy conservation, as well as in strengthening institutional capacity in the Ministry of renewable energy and the Central Electricity Board. In the water sector, the World Bank financed the development of a Water Sector Master Plan and a study on the drainage system. It also funded capacity building in the Pollution Control Laboratory. While all these initiatives were useful to varying degrees, their impact on enhancing competitiveness was limited.

The Role of IFC

The IFC's investments were limited largely to the financial sector. One reason for their limited presence was that interlocutors believed that funding from other commercial sources were cheaper than IFC resources. There was also a sense that decision-making in IFC was too slow. However, interlocutors were highly appreciative of the quality of technical expertise of IFC staff. In some cases (DBM restructuring, port project), there was a perception that the IFC's advisory services and recommendations did not factor in political preferences.

Conclusions and Lessons

Based on its contribution to various dimensions, the World Bank Group's performance in enhancing competitiveness was moderately successful. The reforms promoted by the World Bank contributed to improving Mauritius' ranking in terms of various global indicators such as the Ease of Doing Business Index, the Trade Logistics Performance Index, and the WEF's Global Competitiveness Index. These improvements were also reflected in better outcomes in terms of increased foreign direct investment (FDI) inflows and greater diversification of exports. However, private domestic investment still remains sluggish, and competitiveness remains constrained by shortages of skilled labor and quality infrastructure services (e.g., in ports). More work is needed to identify the remaining constraints to private investment and to implement the necessary reforms. On a broader level, the World Bank's strategy was aligned with the government's reform priorities, especially during 2005–10. The strategy was flexible in design and practice. It also addressed specific vulnerabilities of small states and sought to strengthen macro-economic and social resilience. But there were short-comings. First, the World Bank's strategy and program were too ambitious. Perhaps it should have focused on a few critical areas (such as skills enhancement and education) and ensured concrete building blocks were in place for narrowing the skills gap over time. Second, the World Bank failed to recognize the

government's waning commitment to reforms after 2010 and did not adapt its strategy adequately to the new reality even when the quality of policy dialogue was deteriorating and there were clear signs of a slow-down in reforms. A better understanding of political economy issues, including specific features of small states (such as a more fraternal environment where everyone knows everyone else) may have helped in designing the program better. Finally, the World Bank was perhaps too accommodating when agreed upon policy reforms were either postponed or shelved. Some red lines would have helped force the pace of reforms.

LESSONS

Lesson 1: The World Bank could make a greater effort to understand political economy issues, including identifying reform champions or opponents of politically contentious reforms, in order to better incorporate political risks into reforms, especially in coalition governments. The decision to extend the CPS in 2010, was a missed opportunity to reflect the slowdown in reforms after a new coalition was formed. This would have made more sense to prepare a new CPS rather than trying to adjust the program through ad hoc bilateral dialogue and actions that are insufficient to meet targeted objectives. The World Bank also failed to properly grasp the political risk of a program depending on the leadership of very few policy makers. A political analysis piece at the time of the election could have generated insight into government ownership of the reform agenda.

A detailed political economy analysis could have served as a base for monitoring of political developments and risks to reform. This analysis would help (i) identify for key reforms policy makers willing to fight for it, recognize the risks to the reform agenda of failed ownership, and based on these findings prioritize and sequence the supported policy agenda accordingly; (ii) gauge the degree of ownership and progress on targeted outcomes at the progress report stage to thereby inform more accurately and honestly revisions to the on-going program.

If there is a change of government over the CPS period, the Bank Group would prepare a new full or interim strategy to reflect the priorities of a new government if the lack of political support make the former strategy obsolete. The World Bank could still continue advocacy work through policy dialogue on 'dropped outcomes' related to key reforms for which government support has waned (see lesson 4).

Lesson 2: The Bank Group needs to ensure the objectives and scope of the Bank Group's strategy and program are commensurate with the size of its program and be highly selective in the areas it decides to support. The analysis conducted in this case study points toward two major areas where the Bank Group could focus its work together with other DPs to increase competitiveness: (i) improving the legal and regulatory framework to promote public-private partnerships and improve transport and ICT infrastructure; (ii) overhauling the education system to widen its base and improve quality to help meet the shortages of skilled labor constraining the growth of the high skill, high technology economy of the future. The Bank Group should continue to take a pro-active stance in promoting trade, investment and exchange of ideas at the regional level. These suggestions would need to be further confirmed by the findings of the Country Learning Report (CLR) and Country Partnership Framework (CPF) (under preparation) which aim at informing this selectivity choice

Lesson 3: The World Bank needs to remain flexible in the design of its program and be prepared to modify it in size and substance if the external environment changes or priorities of the government change. However, slippages in implementation of policy conditionality (as in prior actions) are to be accommodated only in exceptional circumstances. Prior actions in DPLs need to be precisely worded. They need to be crafted to ensure that there is a clear logical chain between the prior action and the ultimate objective of reform and also that this chain is aligned with the programmatic cycle of the DPL.

Lesson 4: The World Bank could take advantage of the new Systematic Country Diagnostic (SCD) to reposition itself as a more visible and credible partner of the Mauritian government and foster demand for good policies. The World Bank needs to make more effort in informing public debates, sharing other countries' experience, organizing forums to discuss policy trade-offs on national development policies including on supporting state-owned enterprise (SOE) reform, improving environmental resilience and supporting capacity building of key stakeholders—government, parliament and civil society organizations. Brainstorming sessions on key critical challenges could be a very effective mechanism for policy reform.

Lesson 5: Demand for innovative advisory services typically exceeds what can be financed through RAS. The introduction of a programmatic joint economic analytic program could provide room for a more sustained and adapted sector policy dialogue,² help maintain strategic focus and identify interconnected activities. In Mauritius, peer reviewing by Bank staff and experts of important work undertaken by line ministries was found useful and could be formalized. Embedding expertise in line ministries for a reasonable length of time was seen to be useful for building in-house capacity.

¹ The Results Matrix in the CPS outlined the objectives and outcomes expected from the programs of the EU and the World Bank. Differences in how to respond to the 2008–09 financial crisis led to the abandonment of the joint Results Matrix.

1. Country Context and Purpose of the Evaluation

1.1 The Mauritian development experience since the country's independence is a rare story of a successful transformation of a poor, one crop economy into an upper-middle-income, diversified, manufacturing and service-oriented open economy. This transformation happened in a relatively short period of time, and it happened in the face of (or maybe because of?) serious adverse external shocks to the economy. It also happened without recourse to exceptional financing from the International Monetary Fund (IMF). This Country Case Study evaluates the World Bank Group's activities that seek to improve competitiveness over FY07–15, an important component of the reform program in this period. This evaluation is part of a cluster of country evaluations of small states, also including the Organisation of Eastern Caribbean States (OECS) countries, selected Pacific islands, Capo-Verde, Djibouti and Seychelles.

Mauritius Development Challenges

COUNTRY BACKGROUND

1.2 Mauritius, an island nation covering 2000 square kilometers with a population of about 1.2 million, acquired independence from the British in 1968. It is located in the Indian Ocean about 2000 km off the south east coast of Africa and comprises the island of Mauritius and several outlying islands including Rodrigues and Agalega.¹ The country is rated among the top 10 percent of countries most exposed to natural disasters such as floods, cyclones and climate change. In recent years, threats from piracy in the Western Indian Ocean are an added vulnerability.

1.3 Mauritius has a multi-party democracy in which the President is the Head of State and the Prime Minister is head of government. For most of its recent history, there has been a large degree of political stability, with power shifting between two parties, the Labor Party (currently headed by Navin Ramgoolam) and the MSM (led by Anerood Jugnauth). This situation changed in 2010 when elections ushered a new era of fragile coalition politics and uncertainties, which slowed down decision making and economic reforms.² A new coalition government was elected with an overwhelming majority in end 2014. However, the momentum for reforms has not yet recovered.

ECONOMIC DEVELOPMENTS

1.4 Mauritius has done remarkably well economically. At independence, the country was poor (with a nominal per capita income of \$260) and largely dependent on sugar production making it highly vulnerable to cyclones. Between 1970 and 2000, the annual income of the average Mauritian increased tenfold in nominal terms as the economy successfully diversified away from sugar and into manufacturing (mainly textiles) and services. This growth was spearheaded by production in the export processing zones EPZs, a competitive exchange rate and by savings and investment rates exceeding 20 percent of GDP. During this period, Mauritius benefited from preferential trade arrangements in terms of guaranteed sugar exports to the European Union and preferential access to consumer markets for exports of textiles and clothing under the MFA.

1.5 Mauritius continued to perform well even as preferential trade agreements were progressively eliminated from the early 2000s. Exports of textiles and sugar were badly affected when the MFA was terminated in end 2004 and sugar prices were cut by the EU starting in 2007.³ The government responded by further liberalizing the economy, reduced import tariffs, simplified the tax system and labor regulations, and created a more conducive business environment. These reforms, prudent macro-economic policies and international financial support enabled the country to weather the severe terms of trade shocks that hit the economy between 2002 and 2006 (due to the threefold increase in price of imported oil), and the sluggish growth in Europe (its main export market) following the financial crisis in 2008. Despite these shocks, the economy grew at an average annual rate of 3.8 percent during 2005–13 (and 5.3 percent per year since independence). The transformation of a low income agriculture based economy into a diversified upper middle income country based largely on tourism, textiles, seafood, sugar and ICT and financial services is no mean achievement.⁴

POVERTY, UNEMPLOYMENT, INEQUALITY, AND MILLENNIUM DEVELOPMENT GOALS

1.6 Poverty has declined dramatically since independence. In 1968, most of the population lived on less than \$1 a day. Today, extreme poverty based on \$ 1.25 per day is negligible. According to national statistics, absolute poverty, defined as percentage of population in households living with less than R 3821 per adult equivalent in 2007 prices, was down to 6.9 percent in 2012.⁵

1.7 This progressive decline in absolute poverty since independence has, however, been accompanied by an increase in inequality in recent years. The Gini coefficient based on household disposable income increased from 0.388 to 0.414 between 2007 and 2012. Other indices, such as the increasing gap between consumption expenditures of the richest decile and the poorest decile of the population, confirm this trend. However, Mauritius still remains among the top 25 percent of middle income countries in terms of Gini equality.

1.8 Rising unemployment also poses an emerging threat. The unemployment rate has risen from 3 percent in 1991 to 8 percent in 2013. The unemployment rate among the youth (16–24 years) is as high as 25 percent and youth unemployment is 40 percent of total unemployment.⁶ Twenty one percent of the unemployed come from poorer households.⁷

1.9 Mauritius has made good progress in social indicators and has achieved most of the Millennium Development Goals (MDGs). There is universal primary education, and health conditions of the population have improved significantly. Most of the population has access to safe drinking water. Life expectancy has increased from 62 years at the time of independence in 1968 to 73 years (2005), and infectious diseases such as malaria, polio, diphtheria, typhoid and cholera have been virtually eradicated. The only MDG which is unlikely to be met is the reduction by two-thirds of the infant mortality rate.

EMERGING ECONOMIC CHALLENGES⁸

1.10 While the economy has performed well over the past few decades, the recent slowdown in growth, rising unemployment especially among the youth, and increasing inequality pose serious challenges for the future. To sustain economic growth and remain competitive, Mauritius

will need to do a number of things. In the short term, it will be important to continue to maintain an open economy; further improve the regulatory environment for business; improve efficiency in trade logistics and enhance the quality and operational efficiency of infrastructure services, especially ports and air-transport. There still remains a considerable gap between Mauritius and the best performers in all these areas suggesting much scope for economic growth through efficiency gains. However, for sustainable and equitable growth in the medium term, the key lies promoting the use of new technologies and in improving the quality of education, starting from the primary to the tertiary levels, and ensuring its accessibility to poor families. This will be the only way the country can continue to compete internationally and ensure that the benefits of growth are shared equitably.

1.11 Given the country's openness and its vulnerability to natural calamities, measures to strengthen resilience will have to remain a priority. Fiscal consolidation through better management of public resources and public debt, and improved revenue generation must remain top of the agenda to not only provide the fiscal space for a buffer against catastrophic events, but also to meet increased demands on public resources from an ageing population. Reforms to improve governance of the public sector at all levels will remain essential not only to provide better quality social programs and social assistance, particularly to those most vulnerable, and reduce wasteful expenditures, but also to strengthen the state's capacity to implement disaster management and relief programs.

Evaluation Objective and Report Structure

1.12 The World Bank has been supporting Mauritius since its independence. In the 1980s, The World Bank provided quick-disbursing loans to accelerate implementation of macro-economic and sectoral reforms. Thereafter the World Bank has focused on project lending (including for transport and financial sector). Policy based budget support operations became the focus of Bank's assistance after 2007–08 as the country struggled to cope with adverse terms of trade shocks following the oil price increases during this period and the economic downturn following the international financial crisis in 2008. Throughout, the World Bank has also complemented its financial assistance with AAA and capacity building support in a wide range of areas including trade, investment climate assessments, public financial management, investment planning, reforms of social assistance program, education reforms and SME development. The World Bank also managed and implemented several Trust Fund operations, including in the areas of environment, renewable energy and energy conservation. The IFC and MIGA have played a limited role thus far. Signaling a deeper level of engagement with the country, the World Bank established a liaison office in Port Louis in 2007.

Evaluation Objective

1.13 This Country Case Study evaluates the World Bank Group's operations in Mauritius from FY05–13. It covers one completed Country Partnership Strategy (CPS) for FY05–13, which was been further extended until FY15 in the 2011 CPS Progress Report (CPSPR) to align with the elections of end 2014.

1.14 As noted earlier, this report is part of the cluster country program evaluation (CPE) for small states. Each CPE assesses whether the World Bank Group assistance supported relevant

objectives; if it achieved them effectively and efficiently; and whether institutional development impact was achieved in a sustainable way. The approach paper has defined two main broad pillars that will guide the evaluation to assess how Bank Group activities contributed to (1) improve macro/environmental/social resilience and (2) foster sustainable and inclusive growth.

1.15 In addition to a group of islands that were selected in the Caribbean (the OECS countries) and in the Pacific, four African countries have been selected for this evaluation, namely Cabo Verde, Djibouti, Mauritius, and Seychelles. These country case studies provide an assessment of selected part of the World Bank program over the evaluation period. The case studies on Cabo Verde, Mauritius, and Seychelles seek to assess how Bank Group activities foster sustainable and inclusive growth (Pillar 2) while the Djibouti case study reviews measures that were implemented to improve social and environmental resilience (under Pillar 1).

1.16 The main objective of this report is therefore to assess the contribution of the World Bank's assistance program in Mauritius during FY07–15 in enhancing competitiveness and promoting private sector development. This is only one part, though a very important part, of the World Bank's assistance program in Mauritius during this period. The World Bank's role in strengthening the economy's resilience to external economic shocks and natural calamities is not evaluated in this report, except for its support for diversification of its external trade, an important aspect of risk management. A short summary of the Bank Group contribution under Pillar 1 is provided in appendix D.

Report Structure

1.17 Chapter 1 provides a brief introduction to the economy and recent economic developments, including progress in reducing poverty and meeting MDGs. Key challenges are highlighted. It also includes a brief description of the Bank Group's role in the country thus far, and presents the evaluation objective and structure of the report.

1.18 Chapter 2 describes the World Bank's Country Assistance Strategy during 2007–15, locating it within the ambit of the country's economic development objective and strategy in this period. (Details on the operational programs are provided in appendix B.) The rest of the chapter gives a broad assessment of Bank activities at a "macro level". For example, what was the scope of the World Bank's assistance program? What were the major areas of focus? Was the World Bank's overall country strategy aligned to the government's strategic objectives? Was it harmonized with the plans and programs of other DPs? Were these priorities appropriate in the light of the World Bank's analysis of the economy and its past experience in the country and elsewhere? Was the strategy tailored to the specific features of small states? Was the strategy flexible to allow for unforeseen events? Was there an appropriate monitoring framework? These are some of the questions addressed in this chapter.

1.19 Chapter 3 describes and evaluates the Bank Group's contribution to enhancing competition and promoting the private sector. It includes the World Bank's role in promoting competition through liberalization of international trade; improving trade logistics, creating a level playing field between different sectors; improving the business environment to encourage domestic and foreign investment; strengthening the financial sector to improve access to credit; addressing the scarcity of skilled labor; improving the supply of critical infrastructure such as

telecommunications, electricity and transport; and promoting SMEs. For each of these areas, various sections of the chapter describe what was done through Bank Group interventions, and assess to what extent these interventions were successful in terms of delivering what they set out to achieve. Based on this analysis, the chapter reviews the overall macro impact on competitiveness of all these interventions and to what extent they have contributed to improved export performance and increased private investment in the economy.

1.20 Chapter 4 summarizes the conclusions and provides some broad lessons from the Mauritian experience and a set of lessons.

¹ Mauritius is multi-religious (Hinduism is the major religion, almost 50 percent of the population) and multi-ethnic, but a secular state. English and French are the official languages and Creole is the native language.

² Snap elections were called in December 2014 by the ruling coalition government (headed by Navin Ramgoolam of the Labor Party) seeking to amend the Constitution to strengthen the role of the President at the expense of the Prime Minister. However, this was opposed by a new political alliance (called Alliance of the People) headed by Anerood Jugnauth of the MSM which won the elections by an overwhelming majority.

³ The sugar protocol ended in 2009 and the coming abolishment of EU sugar-import quotas from African, Caribbean and Pacific (ACP) is expected to reduce as of 2017 prices for Mauritius sugar 45 percent below the 2013 price (source SCD, box 5).

⁴ At the time of independence, agriculture, mainly sugar cane production, accounted for more than 22 percent of Mauritius' GDP; by 2013 economic transformation has brought it to merely 3 percent, compensated by a boom in manufacturing in the 1980s and the subsequent development of the services sector.

⁵ Mauritius does not have a national poverty line. However, on the basis of Household Budget Survey (HBS) data, the poverty situation in the country is assessed using the relative poverty measurement based on monetary approach. The Relative Poverty Line (RPL) is set at half of the median monthly household income per adult equivalent. At the last HBS in 2012, the RPL was estimated at MUR 5,652 for a one adult member household compared to MUR 3,821 in 2006/07.

⁶ Based on the 2012 Continuous Multi-Purpose Household Survey data, the unemployment rate among youth (16–24 years) is estimated at 25 percent.

⁷ Figures shown are based on the 2012 Household Budget Survey which defines poor households as those living in relative poverty (relative poverty line defined as half median monthly household income per adult equivalent—Rs 5,652 in 2012).

⁸ This section draws on the recently completed Systemic Country Diagnostic (SCD).

2. The World Bank’s Country Assistance Strategy (FY07–15)

2.1 The World Bank’s assistance strategy during this period was articulated in the country partnership strategy (CPS) document of October 2006. It covered the period 2007 to 2013. A CPS Progress Report (CPSPR) in April 2011 adjusted the World Bank’s strategy and program in line with the priorities of a new government that took office in 2010. It also extended the program until FY15 to align with fresh elections that took place in end 2014.

Context

2.2 Despite satisfactory growth performance since independence, serious challenges were emerging by early to mid-2000s. The preferential trade agreements were expected to wind down starting in 2005–06, which were likely to have an adverse impact on exports of sugar and textiles, the country’s main exports.¹ Already in anticipation of these changes, private investment in these sectors was being cut back and production reduced, resulting in slowdown in growth and rising unemployment. Growth in knowledge intensive sectors (ICT, financial services) had not picked up sufficiently. The slowdown in overall growth in turn exacerbated the fiscal deficit and public debt increased to almost 70 percent of GDP. The widening fiscal deficit and high public debt were narrowing the fiscal space to address external (weather, terms of trade, world economic slowdown) and internal (slow growth) vulnerabilities.

The Government’s Response

2.3 To address these challenges, the government laid out a reform program in its 2006 budget. The reform program had four pillars/objectives: (i) Fiscal Consolidation and Improved Public Sector Efficiency; (ii) Enhanced Trade Competitiveness; (iii) Improved Investment Climate; and (iv) Greater Democratization of the Economy through participation, social inclusion and sustainability. The government’s program emphasized the need for diversification toward new sectors and markets, improved efficiency and productivity at the firm level, speeding up infrastructure projects and diversifying skills to conform to a knowledge-based economy. To achieve these goals, it presented a road map to liberalize the economy, improve the performance of the public sector, reform the tax base, promote private investment and improve social programs.

FISCAL CONSOLIDATION AND IMPROVED PUBLIC SECTOR EFFICIENCY

2.4 The objective was to reduce the government’s fiscal deficit and public debt and re-orient expenditures toward the government’s priorities. To achieve this, tax exemptions were to be narrowed and the structure of direct taxes was to be reformed to improve incentives for investment and employment. The government’s Medium Term Expenditure Framework was to be used to anchor annual budgets within an aggregate multi-year framework and enable the government to set priorities and resolve budgetary trade-offs. Capital spending and recurrent expenditures were to be closely scrutinized to reduce waste and improve their efficiency.

IMPROVING TRADE COMPETITIVENESS

2.5 The government's program included changes in the incentive regime as well as measures to reduce cost of essential services to improve competitiveness. A three-year program to liberalize tariffs and turn Mauritius into a duty-free island was aimed at levelling the playing field between producing for the domestic and export markets. In addition, the incentive regime for EPZ and non-EPZ firms was to be unified. The program to reduce cost of essential infrastructure services included steps to improve efficiency of telecom services, liberalizing air access, improving ports infrastructure and strengthening financial institutions.

IMPROVING INVESTMENT CLIMATE

2.6 To make Mauritius one of the top 10 business friendly countries in the world, the government proposed to streamline the regulatory framework to make it more transparent and reduce the time and effort it took to start a new business. More flexibility was to be introduced in the labor market by incentivizing workers to move to viable activities and businesses and by modifying the minimum wage setting mechanism to link wage revisions to changes in labor productivity. The system of work permits for foreign workers was to be modified to make it easier to hire skilled workers.

DEMOCRATIZING THE ECONOMY

2.7 The government initiated an Empowerment Program to assist the unemployed by providing wage subsidies for on-the-job training or retraining for 20,000 unemployed and redeployed workers over the next five years. It also included special programs for women who were particularly affected by the downsizing of the textile sector. Other components were planned to make land available for small entrepreneurs, provide social housing and increase financial and technical support for SMEs. The program also supported education and training to broaden workers' access to jobs and increase the skills base available to employers. The tourism and ICT sectors were identified as priority areas for skills development and upgrading. The program also included measures (such as training of teachers, revision of curricula) for improving the quality of education at all levels. To ensure sustainability of social spending, social subsidy programs were to be re-configured to target income support to the needy, and the pension age increased progressively from 60 currently to 65 years. Another objective was to ensure access to high quality health care for all.

2.8 In August 2010, a new coalition government modified the reform program to take account of the continuing slow growth in the EU. The revised program placed greater emphasis on social programs and included a new fiscal stimulus package to stimulate growth.

The World Bank's Strategy and Program

OBJECTIVES AND STRATEGY

2.9 The main objective of the CPS was to help the government deal with short-term trade shocks and facilitate the transition to a more competitive and sophisticated economy while minimizing negative social impacts. The World Bank's strategy was closely aligned with the

government's and the starting points of the CPS were the four pillars of the government's strategy.

2.10 To promote fiscal consolidation, the World Bank's assistance was to be aimed at improving the quality and effectiveness of public expenditures by making the Medium Term Expenditure Framework (MTEF) operational and enhancing debt management policies and capacity. Other possible areas of intervention were improvements of the tax system and reform of the state-owned enterprise sector to increase its efficiency and reduce the fiscal risks.

2.11 Trade competitiveness was to be promoted by reducing protection through tariffs and non-tariff barriers; supporting policy reforms aimed at reducing the anti-export bias and for creating a level playing field; promoting regional trade; and by policies and programs to reduce the cost of critical infrastructure such as transport and telecommunication and credit. The IFC was expected to contribute to investments in infrastructure.

2.12 Improving the investment climate was a third component of the Bank Group's program, where the Bank Group supported policy changes to eliminate labor market rigidities and establish a more business friendly legal and regulatory environment. The IFC was expected to continue to provide advice on the investment climate, as well as invest selectively in the financial sector and tourism. The MIGA was expected to strengthen investor confidence by providing political risk guarantees.

2.13 In support of the fourth pillar of democratizing the economy, the Bank Group expected to help with improving the efficiency of the social assistance programs for the needy; promoting the inclusion of vulnerable groups; developing an education system that supplies the necessary skills for a modernizing economy; and protecting the environment.

THE WORLD BANK'S PROGRAM

2.14 The World Bank's support was provided through a combination of loans and AAA. While the CPS provided the broad contours of the assistance program, specific operations were to be firmed up in the context of annual business plans prepared jointly with the government to synchronize with its budget preparation process. While this process did not work as envisaged, there was sufficient flexibility in the program as reflected in the significant divergences between the planned program and the actual program of assistance (see below). Originally, the CPS envisaged six budget support and four sector investment lending operations. Instead, the World Bank delivered eight DPLs and only one investment operation. The description of the operational program of the Bank Group including the list of projects and AAA that were implemented during the period is provided in appendix B.

THE IFC PROGRAM

2.15 The IFC focused its interventions on three key sectors: infrastructure, tourism and financial services. Its activities were targeted at supporting the mobilization of FDI in these sectors; introducing climate change mitigation and cleaner production standards and best practices; promoting South-South transactions; and improving access to finance for SMEs.

2.16 The IFC supported funding and capacity building activities for SMEs. Since 2009, IFC provided a global trade-line guarantee to two local commercial banks to act as confirming banks to second tier banks in Africa and the Indian Ocean region. In 2010, IFC committed and disbursed a \$75 million senior loan to State Bank of Mauritius (SBM) to support the bank's regional focus and strengthening its balance sheet. To support its investment, IFC also provided a year-long program in capacity building and training of SME loan officers and owner/managers, which was recently completed. In February 2012, IFC committed 10 million Euros in a private equity fund that invests in private sector businesses in the Indian Ocean region, with a view to increase regional cooperation and cross-border investments.

2.17 Following the government's decision in August 2011 to transform the DBM into a full-fledged micro-, small, and medium-sized enterprise (MSME) bank, the services of the IFC were retained to carry out a due diligence assessment of the DBM, provide advisory services to support the transformation and identify a strategic partner engaged in such type of specialized banking activities. However, the IFC's recommendation to privatize DBM was not acceptable to the government and no further work was done by the IFC on this project.

2.18 The IFC was also retained as advisor to the government to identify a strategic partner for the Cargo Handling Corporation Ltd so as to improve its functioning and mobilize foreign investment. However, after the 2010 elections, there was reluctance from partners of the ruling alliance to have profound changes in the sector given the political capital and vote bank at stake. There was also opposition from trade unions that feared loss of jobs. As a result, the government decided not to engage a private strategic partner and retained CHCL as the sole operator. IFC has no further involvement in the sector.

Broad Assessment of Strategy and Program

2.19 This paragraph provides an overall assessment of the Bank engagement in Mauritius, attempting in particular to respond to the following questions: Were the World Bank's strategic objectives in the country aligned with government's development objectives and approach as well as the overall Bank Group corporate objectives? Did the strategy include a good understanding of the political economy and potential risks? Is the strategy focusing on the more critical issues and customized to meet small states needs? Was the result framework adequate to monitor results? Was World Bank strategy flexible in design and in practice to respond to shocks? Is the Bank Group using adequate instruments to help the countries meet targeted objectives, including strengthening institutional development and building capacity? Was the Bank Group able to lever its impact through good partnership with other donors?

ALIGNING BANK GROUP OBJECTIVES WITH GOVERNMENT'S STRATEGY

2.20 **The World Bank's goals and strategy were broadly in line with the objectives and strategy of the government.** The World Bank did have reservations about the government's idea of promoting some sectors (such as IT, financial services, seafood) by giving special incentives which the World Bank believed were distortionary and not likely to be effective. However, the World Bank was pragmatic its approach, recognizing that some special incentives for a limited duration may be unavoidable in the circumstances. However, its focus was on other reforms creating a modern regulatory and incentive environment for business.

2.21 The strategic alignment between the government's and the World Bank's strategy was reflected in the World Bank's choice of its four pillars which were identical to the priorities of the government's program. This broad alignment and wide coverage had the advantage of comprehensiveness. However, in view of the limited resources available to implement the program, the agenda was perhaps too ambitious.² Moreover, because resources were spread too thinly, some critical areas (such as the quality and accessibility of education and skills development) may not have got the attention they deserved.³

2.22 Conceptually, the CPS strategy was aligned with the Bank Group's corporate goals of reducing poverty and increasing shared prosperity in a sustainable manner. Improving the business climate and strengthening competitiveness would generate faster growth and jobs. Fiscal consolidation would allow more resources to be allocated to social programs by cutting waste, and improve their delivery. Strengthening the social protection programs would better protect the poor. And better education and skills training would allow the poor to get better jobs with better pay. However, there were sufficient grounds to suggest that these results would not follow automatically. Some of the high growth sectors (ICT, financial services) were skill and knowledge intensive and their growth disproportionately benefited the better off population who had access to better education. Conversely, contracting sectors (agriculture, textiles) had a large proportion of unskilled workers who came largely from poorer families. Thus, by itself, growth was not likely to be inclusive. Even if the World Bank had aggressively addressed the problems of quality and accessibility of education, it was only to be expected that gains from better quality education and skills would emerge only in the medium term. In the meanwhile, the burden of reducing the gap between rich and poor would fall on the social assistance programs and other programs such as the flexi-security system that provided transitional assistance to eligible workers. While there is some evidence that these programs may have contributed to reducing the gap, inequality increased during the period.⁴

MEETING SPECIFIC SMALL STATES CHALLENGES

2.23 The Mauritian economy is one of the most open economies in the world and highly dependent on international trade and capital flows. This makes it vulnerable to external economic shocks such as increase in oil prices (Mauritius is entirely dependent on oil imports for its energy needs) and sluggish growth in its main export markets, especially Europe. The economy is also highly vulnerable to weather and natural disasters such as floods and cyclones. The small size of the country also complicates the politics and governance in unique ways. The 'everyone knows everyone else' characteristic makes it more difficult for the government to implement tough decisions, and makes the political system (and governance in general) more prone to nepotism, ethnic considerations and non-transparent functioning. Did the World Bank's strategy and program reflect these vulnerabilities, and how did it assist the country cope with the shocks?

2.24 The World Bank's strategy incorporated several elements that sought to improve the country's resilience to external economic shocks. The Bank Group supported the government's efforts to diversify its exports, both in terms of products and services (away from textiles and sugar toward ICT, financial services, fisheries) as well as markets (away from Europe toward Asia and Africa). Considerable success was achieved in this effort (see chapter 3 for details). Also, the World Bank supported the government's fiscal consolidation agenda to create fiscal space and build up international reserves to better cope with emergencies. Finally, to strengthen

social resilience, the World Bank supported reforms in the social protection programs and active labor market policies to help those most vulnerable to economic downturns. Some of these measures are summarized in appendix D.

2.25 The World Bank responded flexibly and quickly to the government's request for additional financial resources to cope with the adverse external economic environment in 2007–09. The support was provided mainly in the form of DPLs, including one with a Deferred Drawdown Option (which was immediately utilized to cover the financing gap). The World Bank's flexible and quick response was also instrumental in getting other development partners to also extend additional financial support.

2.26 While the strategy and program did address the economy's vulnerabilities, there was nothing very unique in the World Bank's response in Mauritius. Most of the elements of the World Bank's reform program, and the form of financing, could be found in any developing country with which the World Bank was actively engaged.⁵

2.27 The World Bank's engagement could also have benefited from a better understanding of the political economy issues that influenced the design of the government's economic program and its implementation. This would have helped the World Bank avoid some of the flip-flops in implementing its program and better tailor its expectations, especially when a new coalition government was elected in 2010.⁶ To be sure, the World Bank's program supported reforms to introduce transparency in some limited spheres such as public financial management and procurement practices. But a more comprehensive approach to open government decisions to public scrutiny is needed (including for example in recruitment in SOEs) in small economies such as Mauritius.

MONITORING PROGRAM IMPLEMENTATION

2.28 The original results matrix identified a wide range of “possible strategy outcomes” that were to be pursued jointly with the EU. However as the two institutions programs diverged in response to the 2009 crisis, it became clear that a joint program was no longer feasible. The results matrix was revised in the CPSPR to reflect this change. Nevertheless, the revised results matrix still listed 21 strategic outcomes for the World Bank's program with 22 intermediate outcome indicators. As admitted in the CPS CLR (draft), only a few had quantitative outcome indicators to monitor progress and fewer still included baselines and targets. In some cases, the links between the expected outcomes and the World Bank program was weak. In some other areas, the outcomes did not address the core issue. For example in education, the quality issue is not even mentioned.

2.29 Moreover, several prior actions under the DPLs were sometimes in the form of intermediate processing steps (such as preparing a draft report, or preparing some terms of reference, or getting cabinet approval for a process etc.) that had a tenuous link with the ultimate objective of the reforms. While this may be acceptable at the start of the process of reforms, more concrete action on the ground should have followed in subsequent interventions. Very often, these actions were certainly not sufficient to deliver the final outcome targeted in the strategy.⁷

BUILDING FLEXIBILITY IN THE STRATEGY

2.30 One of the lessons from experience with the 2002 CAS was that the Bank Group should be flexible in its strategy and program to adjust to the extreme vulnerability to external shocks. This flexibility was built into the program design. The World Bank responded flexibly to the government's changing priorities in response to the international crisis. The World Bank's response was timely and helped the country in the face of the degradation of the macro situation. Thus for example, the original DPL series was extended from 3 to 4 operations, and the amounts increased under the third DPL to accommodate a deteriorating fiscal and external account balance. For example, the DDO offered by the World Bank helped to provide better terms of financing. This was a good response to a worse than anticipated external situation caused by sluggish European growth following the 2008 crisis. The same accommodation was also in evidence in AAA where the World Bank was quick to respond to urgent requests from government for technical assistance (TA) and just in time policy advice.

2.31 By contrast, some of the other changes to the World Bank's program have less justification. Two sector investment loans were cancelled at an early stage of implementation, ostensibly because the new government found Bank procedures and modalities too burdensome. This may well have been true though it is not clear why the procedures became a problem simply because there was a change of government at the top. While it is the prerogative of the government to cancel any loan, the World Bank was perhaps too 'flexible' in approving two new DPL series in 2012 and 2013 when funding from other sources was available to the government⁸ and all evidence pointed to a slowing down of reforms. Deviations from the program during implementation were also often explained away too readily.⁹ While such flexibility was useful in maintaining a robust lending program, it may have diverted attention from difficult but necessary reforms. It also damaged the World Bank's credibility.¹⁰

ADDRESSING CAPACITY LIMITATIONS

2.32 Lack of institutional capacity was not highlighted in the CPS, nor was it seen as a risk factor for the implementation of the government's reforms or the Bank Group's program.¹¹ While this is striking when compared to the situation in most developing countries, and in particular in small states, it is perhaps less surprising given the good record of policy implementation till that time.¹²

2.33 Capacity constraints are mentioned in the DPLs. For example, the second DPL (2008) refers to capacity constraints in investment planning and implementation, and more broadly in sector ministries, and these are explicitly treated as risks to the program. Other DPLs, including the ones approved in FY13, also give prominent space to implementation capacity constraints in sector ministries, holding them partly responsible for the slow pace of reforms. The CPS Progress Report (2011) highlighted the same risks in the context of the government's plans to implement a large fiscal stimulus package including public investments.

2.34 The World Bank provided TA through the DPL series as well as through its investment lending for infrastructure development. For example, in the area of fiscal consolidation, the WB Treasury provided assistance to the Bank of Mauritius (BOM) and the Ministry of Finance and Economic Development (MOFED) to jointly develop an action plan for improving Public Debt

Management and also provided training workshops. The registrar of companies noted that training to insolvency practitioners helped raise in house capacity. TA was provided in the social sectors. A Social Protection Review and Strategy was carried out in 2009 with Bank support and the government continues to receive technical assistance in the sector to design and implement reforms. TA was also provided for assessing various options for pension reforms. The infrastructure project provided TA and institutional development in transport, water and wastewater and energy subsectors to strengthen their capacity to plan and implement investment programs. These initiatives met with varying degrees of success.

2.35 Overall, feedback from the client indicated that the country benefited from the Bank Group's analytic work and technical assistance, though it was not clear how much the government was willing to pay for these services. Going forward, more capacity building initiatives from the Bank Group would be welcome, including TA on nitty-gritty 'how-to' issues as well as more peer reviewing by World Bank of work done in sector ministries. For capacity building assistance to be really useful, it was suggested that foreign expertise be imbedded inside government agencies for a sufficiently long duration of time, rather than flit in and out as has been the case on some occasions.

ADDRESSING GENDER ISSUES

2.36 Gender discrimination is not a prominent or widespread issue in Mauritius as in other small states included in this evaluation such as the Pacific states or Djibouti. Nevertheless, gender discrimination appears to be present in the labor market. The down-sizing of the textile sector following the elimination of preferential export quota was particularly severe on low skilled women who constituted a large share of the employees in the sector. The government did put in place programs for skill development and re-training especially for women though it is not clear how successful these were in putting women back to work. Women continue to figure disproportionately among Mauritius' unemployed. The World Bank's program did not address this issue explicitly.

HARMONIZING DONOR SUPPORT

2.37 The formulation of the CPS and its implementation involved a fair degree of harmonization with other development partners. The CPS was prepared jointly by the World Bank and EU and included a shared diagnostic and results matrix.¹³ The World Bank and other DPs such as AfDB and AFD participated jointly in preparing each others' programmatic operations. During implementation, the DPLs were used as a vehicle to harmonize policy dialogue of development partners with the government.¹⁴ They also served as a mechanism to ensure coordination among development partners in the country, thus lowering the burden on the government. There were several instances of good cooperation among DPs in important areas of reform, including the development of the Social Registry (between the UN Development Programme (UNDP) and the World Bank) and in improving public financial management and public debt management (with EU, IMF and Bank).

2.38 The opening of a Bank liaison office in 2007 was expected to improve the quality of dialogue between the World Bank and the government of Mauritius and strengthen donor coordination. But despite the high regard for World Bank resident staff, this does not seem to

have happened to the degree expected in the perception of government interlocutors and other DPs. The reasons given for this were a combination of several factors including: lesser number and range of expertise involved in World Bank operations¹⁵ after 2010–11; loss of influence of a key interlocutor and World Bank well-wishers within government who could also facilitate wider Bank engagement with other stakeholders; and less vigorous dissemination of AAA. There was also a perception that the World Bank was taking too long in moving from design to implementation of programs. Also, coordination among DPs could be improved, with more frequent meetings to assess what each of them was doing and what problems they faced.¹⁶ This would allow the DPs to form a coherent unified view on how their interaction with the government could be made more effective and useful to all. The government should think more comprehensively and holistically of how DPs can best serve their national interests, and not merely focus on coordinating their activities.

TRANSACTION COSTS OF DELIVERING WORLD BANK SUPPORT

2.39 Unlike in other small states, the transaction costs of delivering World Bank support to Mauritius were not higher than the Bank average. Contrary to intuition, given the small size and location of Mauritius, transaction costs per dollar lent or supervised did not diverge significantly from the World Bank average. This can be explained in part by the higher proportion of development policy operations in the Mauritius portfolio which do not require regular supervision missions and therefore incur less supervision costs. In addition, the commitment amounts of the loans to Mauritius were larger than for most other small states. Over the period FY07–15, a proxy for average lending cost per dollar of new commitments in Mauritius was on par with the Africa Region’s average and 1.4 times the World Bank-wide average.¹⁷ Similarly, over the same period a proxy for average supervision cost per dollar of active commitments in Mauritius was about the same as the Africa Region’s average and only 0.3 times the World Bank-wide average.¹⁸

¹ Already in January 2005, MFA quotas on textiles ended. A 36 percent decrease in sugar prices under the EU sugar protocol beginning in 2007 was expected to cost Mauritius around €100 million per year.

² The CPS Progress Report Results matrix listed 21 strategy outcomes of the World Bank’s program. These were to be achieved by a program with commitments totaling \$482 million (including IBRD loans, IFC, and trust funds) over FY07–15 (about \$54 million per year, less than .5 percent of GDP).

³ This issue was flagged as critical way back in the 2002 CAS which noted that it would take 10–20 years to close the education gap between East Asian countries and Mauritius. Yet, education reforms comprised just 2 of the 21 strategy outcomes defined in the CAS Progress Report. In the 8 DPLs that were implemented during this period, only 4 prior actions related to reforms in the education sector. In the competitiveness area alone there were more than 40 prior actions.

⁴ As noted in the Mauritius SCD, “there has been a remarkable increase in inequality in Mauritius and the Gini coefficient increased from 0.34 to 0.37, slowing down the pace of poverty eradication. As a result, relative poverty has increased from 8.5 percent in 2007 to 9.8 percent in 2012.”

⁵ Except for the one-time use of the Deferred Drawdown Option.

⁶ Some of the areas in which World Bank had to re-think its strategy included: assessing the pace of tariff and non-tariff reforms; the restructuring of the DBM; and the efforts to find a strategic investor for the Cargo Handling Corporation. In all these areas, political considerations played an important role in influencing government decisions which the World Bank appears to have ignored. The World Bank also did not seem to have factored in the compulsions arising from the coalition-based political scenario post 2010.

⁷ To take one example, a prior action under the second Private Sector Competitiveness Loan (FY13) was the adoption of draft amendments to the ICT Act of 2001 by the ICTA Board that would create a framework for spectrum auctions, spectrum sharing and secondary spectrum trading. This condition was formally met. However, to become effective, the amendments have to be ratified by Parliament. Two years have passed since the draft amendments were made, but they have yet to be enacted by Parliament. The same problem arose with World Bank's support for DBM restructuring (see below).

⁸ In fact, as of 2013, only \$200 million out of the \$700 million budget support loan approved by the AfDB in 2009 had been disbursed. Source: PD for 2nd Private sector DPL (Feb 2013), pp. 15.

⁹ For example: under the DPL series (FY07–10), trade tariff lines with zero tariff rates were to be increased 95 percent by June 2010. However, this program was put on hold for a year soon after it was initiated because of 'unanticipated' impact on manufacturing of speedy liberalization (Implementation Completion Report). The indicative action for DPL2 was suitably modified. As a result, only 88 percent of tariff lines had zero tariff rates by end 2011 (as against the target of 95 percent by June 2010) and yet the DPL series was fully disbursed on schedule. A second example is the restructuring of the DBM. Under the first Private Sector Development and Competitiveness DPL (FY12), a prior action was Cabinet approval for transforming DBM into a commercially viable micro-, small, and medium-sized enterprise (MSME) bank with private sector participation. The corresponding indicative action under the second loan in the series (FY13) was the adoption of a detailed transformation plan and the *implementation of selected actions*. The *actual* prior action, which was assessed by the World Bank to have been implemented, was "to initiate restructuring by the appointment of a transaction adviser, endorsement by a steering committee of an inception report, and the issuance of letters of invitation to potential investors for the sale of DBM's non-banking assets". Yet, on the ground, as of today there has been no restructuring of the DBM along the desired lines even as the World Bank has disbursed two DPLs. This is a good example where the World Bank's acceptance of token procedural actions does nothing to change the status quo.

¹⁰ Some government interlocutors suggested that in recent years the World Bank was too willing to merely re-package government proposals for reform for a DPL instead of developing appropriate reforms based on sound analysis and an international perspective.

¹¹ The main country risks to the program were political, that is inability or unwillingness of the government to carry through difficult reforms and maintain fiscal discipline, and external shocks (mainly oil price increase). Capacity limits were not seen as impediments to implementation of the government's reform program, nor for the World Bank's assistance program.

¹² The IEG was also quite struck by the consistently good quality of counterparts it met during the evaluation mission.

¹³ However, this exercise was only a partial success. Due to divergent responses to the 2008–9 economic crisis, the joint results matrix was abandoned and a revised results matrix focused on the World Bank's program alone was presented in the CPS Progress Report.

¹⁴ For example, the DPL series was jointly prepared and appraised by a team from the World Bank, the Agence Française de Développement, the European Commission, and the African Development Bank. Some of these partners adopted DPL triggers/prior actions for their own budget support operations.

¹⁵ The initial set of DPLs had a wide range of Bank experts (e.g., ICT, education, private sector) whereas the last 4 DPLs comprised just one TTL and one/two staff. Mr. Ali Mansoor was a key official in the MoF who played a major role in facilitating dialogue between the government and the World Bank in the early period.

¹⁶ Currently, this kind of interaction happened in some specific areas such as public financial management (PFM). But this needed to occur in other sectors as well, as well as on a broader level.

¹⁷ We used Bank administrative budget data (which distinguishes new lending—that is, project preparation—and supervision costs) as well as data on the flow of new Bank lending commitments and the stock of active Bank net lending commitments (that is, the size of operations under supervision) over the period FY05–15. To proxy preparation costs per dollar lent, we calculated the ratio of new lending costs in a given FY to new lending commitments in the following year, and took the average for the entire period.

¹⁸ To proxy supervision costs relative to project size, we calculated the ratio of supervision costs in a given FY to the stock of active net lending commitments at the end of the year, and again took the average for the entire period.

3. Evaluation of Bank Group Assistance in Enhancing Competitiveness and Private Sector Development

3.1 The World Bank's strategy and program was developed around the four pillars of the government's strategy. However, for this evaluation the World Bank's program was mapped into two areas: first, what did the World Bank do to improve the country's resilience and second, what did the World Bank do to enhance competitiveness and private sector development for generating sustainable economic growth and jobs creation (see appendix C). A brief description of the World Bank's contribution to strengthen resilience is given in appendix D, but this report will not evaluate the World Bank's contribution in that area. The rest of the chapter is devoted to a description and evaluation of the World Bank's support to enhance competitiveness and promote private sector development. It also provides an overall assessment of the macro impact (on exports, foreign and private investment) of the reforms undertaken during the period to enhance competitiveness and promote private sector development. Throughout the evaluation period, the government of Mauritius faced a difficult external environment, with adverse terms of trade shocks, the global financial crisis, and a weak global economy which particularly impacted Mauritius' main export market—Europe. This adversity had a negative impact on macro indicators, such as export growth and investment in new businesses.

3.2 Given the need for access to global markets, small economies generally need a higher degree of openness and responsiveness to international markets than do larger states, where businesses can achieve economies of scale through domestic markets. This requires a high degree of resource mobility and competitiveness, which relies not only on a liberal trade regime, but also an improved business environment, access to credit, and quality and affordable infrastructure especially transport and communication.

3.3 Most of these areas were part of the reform program that the World Bank supported. The World Bank supported reforms (i) facilitating efficient trade policies; (ii) promoting a business-friendly environment through deregulation and more efficient land titling, labor market flexibility and enhancing supply of skilled and better educated work-force; (iii) supporting financial sector regulation; (iv) improving the delivery of infrastructure services; and (v) supporting small enterprise through specific schemes.

Facilitating Efficient Trade Policies

3.4 Over the years, an accretion of interventions and regulations to protect domestic producers had hurt trade competitiveness and impeded the flow of resources to new, potential growth sectors. Trade protection (high tariff levels and non-tariff barriers) skewed returns in favor of producing for the domestic market, reducing competition and overall efficiency to the detriment of exporters. To balance the anti-export bias, an EPZ with favorable tax and other incentives was created for exporters.¹ However, the distinction between EPZ and non-EPZ status distorted the playing field and effectively barred many SMEs from competing in export markets because they lacked the resources and sophistication to take advantage of EPZ status.

3.5 Starting with DPL1 (FY07), the World Bank supported reforms to reduce trade protection and unify the regulatory and incentive framework for EPZ and non-EPZ firms. Though progress

has been slower than originally envisaged in the program, tariff protection was substantially reduced. The number of tariff lines with zero-rated tariffs increased from 74 percent in 2006 to 88 percent in 2012 (as against a target of 95 percent that was to be achieved by 2010). The highest tariff band was also reduced from 60 percent to 30 percent. The average tariff rate was reduced from 6.6 percent in 2007 to 2.3 percent in 2014 and the dispersion in the tariff structure was almost halved, from a standard deviation of 15.5 to 8.4.

3.6 The tax and regulatory regime for EPZ and non-EPZ firms was also substantially unified though EPZ firms still continue to benefit from more favorable labor market regulations.² The application process for business licenses and permits were streamlined and customs and excise procedures simplified by removing the need to administer a complex system of duty exemptions on inputs for EPZ firms.

3.7 With the World Bank's support, the government also moved to reduce non-tariff barriers to trade.³ The World Bank's Report on Trade and Labor (2010) catalogued a number of inappropriate non-tariff trade-related regulations and implementation bottlenecks which compromised competitiveness.⁴ Following from the recommendations of this study, a joint public-private sector Standing Committee was established to define general principles of regulatory reforms, review the design and implementation of all existing and proposed new regulations, and oversee regulatory reform impact assessments. As a result of this work, which is ongoing, un-necessary import permits for a number of commodities were abolished.⁵

3.8 To promote administrative efficiency in trade processes, a comprehensive and up-to-date Trade Portal was established, increasing the transparency and accessibility of all regulations for both importers and exporters. A 'single window' integrating the work of twelve agencies involved in the processing and issuing of trade-related permits was developed and clearances were streamlined.

3.9 With regards to customs, an internal appeals mechanism that complies with the requirement of the Kyoto Convention was established to ensure the independence and fairness of the appeal process.

ASSESSMENT

3.10 As a result of measures reducing tariff protection and NTBs, and unifying the incentive regime for EPZ and non-EPZ firms, there is little doubt that the foreign trade regime is more competitive. Though the pace of reforms was slower than anticipated and a number of NTBs still remain to be addressed, progress has clearly been made in enhancing trade competitiveness.

3.11 The World Bank played a part by supporting these reforms consistently through its DPLs. However, prior analytic work on the impact of tariff removal on key manufacturing industries could have provided a useful guide to the sustainable pace of reforms and prevented the stop-go nature of tariff reforms and continuing pressures for roll-back.⁶ The World Bank's report documenting the various NTBs that existed was instrumental in the subsequent dismantling of some of them. However, support for continuing protection remains strong and NTBs in the form of administrative procedures and/or discriminatory regulations (between imported and locally

produced products) remain important even if they are formally eliminated. Overall, the World Bank's contribution in this area strengthened competition and enhanced competitiveness.

Promoting a Business Friendly Environment

3.12 The Investment Climate Assessments (FY06 and FY10) carried out by the World Bank identified some important constraints faced by prospective businesses. Among the major business climate constraints were the delays and cost of business registration and procedures associated with securing trade licenses, operating permits, development and building permits; delays in land registration and land-titling as well as hiring workers with needed skills. The Bank Group supported reforms to improve the regulatory environment, accelerate land-titling for business, facilitate labor market flexibility to encourage labor mobility, and reduce the skill mismatch.

IMPROVING THE REGULATORY ENVIRONMENT FOR BUSINESS

3.13 Though Mauritius started the period with a relatively high ranking in terms of the ease of doing business (32nd out of 175 countries in 2006), it did not do so well with respect to some factors. These included: dealing with licenses (ranked 49); employing workers (ranked 64); registering property (ranked 156); getting credit (ranked 83); enforcing contracts (ranked 109); and closing a business (ranked 67). Starting with DPL1 (FY07), efforts were made under the World Bank's program to address some of these problems.

3.14 To facilitate entry, business registration procedures were streamlined. Effective October 2006, prior health, fire and police clearances were abolished and replaced by ex-post verification of adherence to published guidelines. Building and land use permits were merged into a single permit to be issued by the Town and Country Planning Board and trade licenses were converted into a single municipal fee payable after beginning operations. The Registrar of Companies was designated as a one-stop center for business registration⁷ and the Board of Investment converted from an administrator of programs to a facilitator and promoter.

3.15 Entry of new firms was also constrained by the rules governing exit of bankrupt firms. To improve the legal framework for insolvency, under the World Bank's program, a new Insolvency Act was adopted in 2009. It allows for procedures that permit quick and easy access to the process of rehabilitation, providing sufficient protection for all those involved.⁸ To implement insolvency procedures under the new legislation, guidelines for registering insolvency practitioners were adopted. To promote domestic competition and prevent non-competitive market practices, the World Bank supported the establishment of an independent Competition Commission in 2009. However, there was no evidence to assess how effectively the Commission was working.

3.16 The World Bank's AAA contributed significantly to the reform agenda in this area. The investment climate assessments and the Doing Business Reports were instrumental in highlighting areas of weakness and strength in the regulatory environment, and despite some dissatisfaction with the recent changes in Doing Business methodology that are not well understood,⁹ these reports define the priorities for reform in the regulatory environment. The

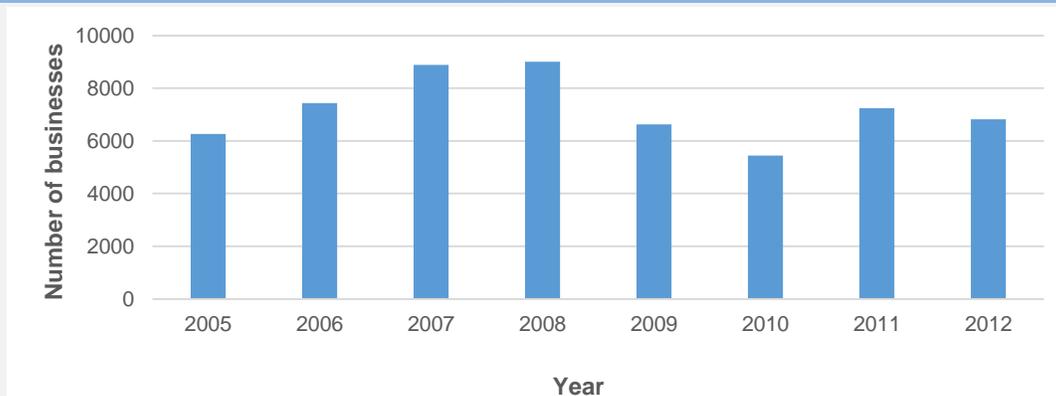
Registrar of Companies also noted an invaluable help from the World Bank to build capacity to deal with insolvency issues using a modern approach.

ASSESSMENT

3.17 The streamlining of the regulatory environment that the World Bank supported through the DPL series contributed to improvement in conditions for doing business. According to the Doing Business Reports, the time needed to start a business declined from 46 days in 2006 to about 6 days by 2014. The time it took to enforce contracts also declined from 630 days to 519 days in the same period. There was an improvement in the number of days it took to secure construction permits. However, there was no change in the time it took to resolve insolvency which stayed at 1.7 years.¹⁰ Overall, during this period, Mauritius improved on its performance on the ease of doing business indicator, its ranking rising to 28th out of 189 countries in 2014 (compared to 32nd out of 175 countries in 2006).¹¹ The World Bank played a useful role in supporting these reforms.

3.18 Despite this progress, there remain areas of weakness in the regulatory environment.¹² These may be one reason why the improvements in the regulatory environment have not resulted in a surge in business registrations.¹³ According to World Development Indicators data, the average number of new businesses registered per year between 2005 and 2007 was 7528. In the three years ending 2012 (the latest year for which data exists), the corresponding number was 6535 (see figure 3.1.).

Figure 3.1. Number of New Businesses Registered in Mauritius; 2005–14



Source: World Development Indicators database as of September 2015.

IMPROVING LAND-TITLING AND REGISTRATION

3.19 The World Bank's Doing Business Survey 2007 showed that it took 210 days to register land title in Mauritius (compared to 34 days in Ghana, for example). Cumbersome and time-consuming land-titling and registration procedures were cited in Investment Climate Assessment and Doing Business Surveys as barriers to private sector investment and one of the main reasons preventing SMEs from accessing credit from commercial banks. The World Bank supported legislation amending the Transcription and Mortgage Act in order to prescribe a time limit

consistent with business standards to register property. The Registrar General now takes 2 days to register immovable property.

3.20 To facilitate faster and transparent registration and securitization of land based assets, the government initiated the Land Administration Valuation Information Management System (LAVIMS) project to establish a modern, cost efficient land administration, valuation and management system. The World Bank expected to support these reforms through its Economic Transition TA project (METAP, 2009), but this project was cancelled at the request of the government at an early stage.¹⁴ The government completed the reform program without further assistance from the World Bank. LAVIMS is now operational and it has reduced the time taken to complete a property transfer to only 14 days.

ASSESSMENT

3.21 The World Bank played a small but positive role in improving land-registration and titling.

IMPROVING EFFICIENCY OF THE LABOR MARKET

3.22 Labor relations are governed by well-established laws and institutions. The government plays a large role, setting minimum wages and working conditions, and sanctioning layoffs.¹⁵ According to the Doing Business Survey 2006, relative to other countries, Mauritius suffered from significant rigidities in setting hours of work, and in firing workers. Detailed and inflexible labor market regulations and institutions impeded efficient labor allocation and adjustment of wages to reflect productivity. The Remuneration Orders governing private sector wages and difficulties in firing labor discouraged risk-taking and innovation.

3.23 The objective of the initial labor market reforms initiated with DPL2 (FY08) was to replace the existing wage setting mechanism with one that was less intrusive, promoted collective bargaining, and linked wages more closely to productivity. A National Pay Council was established in 2007 with the mandate to establish a national minimum wage and to link yearly increases to not only inflation (as was the established practice) but also to national productivity and competitiveness. In 2009, the World Bank supported the introduction of a flexi-security system which provided for up to twelve months of transitional assistance to eligible workers who must seek assistance either for job placement, re-training, or starting a small business. By providing workers who lose their jobs with transitional support toward improving the prospects of re-employment, the scheme was expected to improve labor market efficiency, lowering resistance to structural change and stabilizing incomes for households at risk of falling into poverty.

3.24 The DPL series supported policy changes aimed at easing entry of foreign skilled workers by facilitating permit issuances. The reforms eased entry of foreign workers in the labor market by creating a single occupational permit combining residency and work permits and legalizing conversion of tourist to business visas.

ASSESSMENT

3.25 Labor market reforms were identified early on as one of the important areas that had to be addressed. Yet, there is no evidence that the reforms supported by the World Bank have made an appreciable difference to the efficiency of the labor market, or in closing the gap between wages and labor productivity which was one of the objectives of the reforms.¹⁶ Despite the reforms, workers are compensated yearly for the increased cost of living without due consideration to other factors such as productivity gains. Also, around 80 percent of workers in the private sector get their conditions of employment set by Remuneration Orders adopted by the National Remuneration Board, which leaves limited scope for collective bargaining. As the recent (draft) SCD for Mauritius has argued, “existing labor regulations undermine efforts to maintain wage increases in line with productivity gains resulting in challenges to employment creation”. The unemployment rate remains high and while it dipped in the early part of the period, it has been creeping up since then. Notwithstanding some simplification in processes, hiring of foreign workers remains an expensive and lengthy process. Though there are no legal barriers to women’s participation in the labor force, gender differences in the labor market remain high which hampers the inclusiveness of economic growth.¹⁷ The team found that that Bank activities to support labor reforms were an area of weaknesses in the overall Bank program.

ENHANCING SUPPLY OF SKILLED WORKFORCE

3.26 For many years now, it was recognized by the government and the World Bank that the shortage of skilled workers was a major handicap to the growth of the private sector and a drag on the on-going efforts to diversify production toward a modern, knowledge-based manufacturing and services sectors. The quality of education at all levels was not up to the mark required, and a large portion of children of school- going ages (especially from poor families) were excluded from the education system at an early stage. Learning opportunities for those who failed the Certificate of Primary Education examination (CPEE) were limited to a pre- vocational stream, which was not able to meet the learning needs of most attendees. The poor performance of pre-vocational education was evidenced by high dropout rates 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).

3.27 While in the short run the ‘skills gap’ could be partly alleviated by employing skilled workers from abroad, the medium term solution was a thorough-going reform of the education system for improving the quality of education at all levels and ensuring that this education was more widely accessible.¹⁸ Reforms were also required in the systems for vocational training to make the training better aligned to the needs of the transforming economy.

3.28 To alleviate the shortage of skilled labor in the short term, in DPL1 the World Bank supported the government’s action in easing entry of foreign professional and skilled workers by issuing single residency and occupation permits within three working days for workers earning above pre-set thresholds. Provisions for spouses to work as professionals and for conversion of tourist to business visas were also liberalized.

3.29 For the medium term, the World Bank supported the government’s efforts to reform the education system. Through the DPL series starting with DPL2, the World Bank supported the

preparation of a National Education Strategy (NES) to increase output and quality of education at primary, secondary and tertiary levels, including by increasing enrolment rates; reducing the failure and marginal pass rates especially among children from poor families; offering a vocational stream to those that fail the CPEE; implementing a revised curriculum emphasizing languages, science, math, and ICT; and up-grading teacher training. Through the Public Sector Performance DPL1 (FY12) and DPL2 (FY13), the World Bank also supported the development and implementation of a comprehensive reform of the pre-vocational stream aimed at increasing retention and enhancing the quality of education outcomes at that level.

3.30 In terms of AAA, the World Bank completed a PER focused on equity and efficiency in public spending in education and health. This report and other background papers served to focus the policy dialogue in the sector. In 2011, the report titled Skills and Technology Absorption in Mauritius prepared by the World Bank pointed out constraints in both the education system and on-the-job training to increasing the skills of the workforce to enable them to use new and emerging technologies. The report's recommendations focused on the important role that should be played by the primary and secondary education system, particularly in the pre-vocational system, the need to enhance the capacity of tertiary education to teach innovative and technological skills, and the need to foster technical and vocational education and training and active labor market programs.

ASSESSMENT

3.31 The National Education Strategy was adopted by the government in 2010 but it is not clear what impact this has had on the quality of education or inclusiveness.¹⁹ There was an increase in primary and secondary school completion rate from 64.9 and 78.4 percent in 2006 to 68.8 and 75.7 percent respectively in 2012. Also, gross enrollment in tertiary education increased from 34 percent in 2006 to 46 percent in 2012. However, the completion rate at the primary level has not improved for the last several years, which remains a key impediment to improving the outcomes in the education sector. There is also little evidence suggesting that progress has been made improving the quality of education and in closing the education and skills gap between Mauritius and some of its comparator countries.²⁰

3.32 With respect to vocational training, the system remains small, fragmented and flawed. Overall, TVET supply remains marginal with enrolment rates far below those registered in other knowledge-oriented economies. When excluding part-time students (mostly in apprenticeships), enrolment in TVET represents less than 3 percent of the total secondary enrolment, well below the average for East Asia or even Sub-Saharan Africa. There is a proliferation of small, private providers, which makes it difficult to compare the quality and qualifications of the training offered. TVET supply is not well aligned with market needs.

3.33 The World Bank's failure to influence outcomes in this critical area is among the most important weaknesses of the World Bank's involvement in promoting competitiveness and the private sector in Mauritius. This failure was not due to lack of trying. Though the World Bank made persistent efforts to engage in the sector, and there was good rapport at the technical levels, policy dialogue with the government on reforms was difficult.²¹ The reluctance of the government to borrow for the education sector also hampered the World Bank's ability to influence outcomes.

Table 3.1. Summary Rating for “Promoting a business friendly environment”

	Evaluation Assessment, FY05–15
Promoting a business friendly environment	Positive but small
Improving the regulatory environment	Area of strength
Improving Land Titling and Registration	Positive but small
Supporting labor reforms	Area of weakness
Reducing Skill Mismatch	Area of weakness

Strengthening the Financial Sector²²

3.34 The financial sector is characterized by high levels of financial intermediation. Nevertheless, access to credit ranks high on the list of factors emphasized by individual entrepreneurs as critical to the survival and growth of their businesses. Limited access to credit was especially problematic for SMEs.²³ One reason for commercial banks’ reluctance to lend to SMEs was that their assets are mostly in the form of movable property such as machinery, inventory, or accounts receivable which they are unable to leverage to access capital.²⁴ Credit is more readily available to businesses that have immovable property (land and buildings). However, even in the case of immovable property, lack of proper collateral laws and efficient courts prevented banks from enforcing collateral in case of default.

3.35 The World Bank was not a major player in the sector during the CPS period. Its interventions began only in FY12–13 in the context of the Private Sector Competitiveness DPL1 (FY12) and DPL2 (FY13) which supported the government’s efforts to facilitate the use of movable and intangible assets as collateral and the establishment of a modern movable collateral registry. Necessary amendments to laws were drafted and were expected to be adopted by Parliament by end 2013, but this has not happened thus far.

3.36 The Mauritius Credit Information Bureau (MCIB), established in December 2005 by the Bank of Mauritius (BoM) as a public registry of borrower information, collected information from, and shared information with banks to enable them to make more informed lending decisions. To get a more complete picture of consumer indebtedness, the World Bank supported the government in extending the coverage of the MCIB to include not just banking institutions and insurance and leasing companies, but also non-financial institutions and utility companies.²⁵

3.37 The restructuring of the Development Bank of Mauritius (DBM) was an important component of the World Bank’s program in the financial sector. Directed and subsidized credit programs offered by the DBM had achieved little to achieve the fundamental objective of increasing the access of small enterprises to financial services. DBM performed poorly, and over time fostered a “non-payment culture,” as indicated by the high volume of non-performing loans. Based on a detailed diagnostic of DBM, the World Bank supported the government’s plans to restructure DBM and transform it into a commercial bank with private sector participation and with a focus on the MSME segment.²⁶ Initiation of the restructuring was a prior action under the second private sector competitiveness DPL (2013). However, no meaningful restructuring has occurred thus far, and the government is considering alternative proposals to create a new bank to serve SMEs. No final decision has yet been taken.²⁷

ASSESSMENT

3.38 The World Bank was not a big player in the sector during this period. The World Bank contributed to some positive changes such as the development of the movable collateral registry (which is still to be made operational, pending Parliamentary ratification) and the expansion of the coverage of the Credit Bureau. However, despite its long involvement in efforts to restructure DBM, there has been very little progress in this regard. Overall, the World Bank made a small positive contribution to the sector, but it was not effective in strengthening the sector's role in the economy in any significant way.

Improving Infrastructure Services

3.39 Lack of access to high quality infrastructure, especially telecommunication, road transport, air access and cargo handling services in ports was an important constraint to improving competitiveness. Significant investments including private investment were needed to relax these constraints. But policy and regulatory reforms were also required.

3.40 The World Bank's interventions in the infrastructure sector have been limited largely to the ICT sector. Only one project for development of roads infrastructure was approved during the period. The Bank Group was not a player in the two critical areas of air transport and the development of ports. In the energy sector, the World Bank's role was limited to a couple of TA projects funded through Trust Funds, mainly in the field of renewable energy. The IFC provided some funding for development of renewable energy and energy conservation. It was also involved, unsuccessfully, in finding a strategic private investor for the Cargo Handling Corporation Ltd.

INFORMATION AND COMMUNICATION TECHNOLOGY (ICT)

3.41 At the start of the review period, telecom costs in Mauritius were significantly above competing locations, disadvantaging domestic firms.²⁸ Moreover, broadband access was limited across the island and internet penetration was low. The World Bank supported the government's effort to bring down prices through expansion of capacity in the sector and by strengthening the role of the regulatory authority consistent with international best practices and new technological advances.

3.42 To expand capacity, the World Bank supported the enhancement of Mauritius Telecom's capacity on the SAFE fiber-optic cable by nearly two-thirds in 2007. Since then, new technologies have approximately doubled the capacity of the line and contributed to reduction in telecom charges. To encourage private sector investment, the World Bank supported the adoption of a National Broadband Policy by the government (published online in January 2012) to facilitate large private sector investment in broad-band networks, and to signal a predictable long term business environment in the sector.

3.43 Supported by the World Bank's DPL series, a comprehensive regulatory and competency review of ICT Authority was also undertaken with the objective of amending the ICT Act to bring the overall licensing and regulation into line with international standards.²⁹ Amendments to the Act were also proposed to strengthen the authority of the ICT Authority to correct market

failures and act where there was evidence of ‘significant market power’. To reinforce the independence of the ICT Authority, the World Bank supported amendments to the ICT Act to create a framework for spectrum auctions, spectrum sharing and secondary spectrum trading. However, these amendments are yet to be approved by Parliament.³⁰

3.44 To keep pace with the growth of the ICT sector and the spread of e-commerce, the World Bank supported revisions to the legal framework governing e-commerce, e-legislation and online activity, especially with respect to data protection. The 2004 Data Protection Act was amended to bring it in line with the EU data protection framework. The government also adopted an action plan for promoting the widespread adoption of public key infrastructure (PKI) to execute electronic transactions, as a means to increase government’s data and information security. To increase the number of public services that can be executed via secured online transactions based on PKI, the World Bank supported the government in selecting a partner for developing a government services platform.

ASSESSMENT

3.45 Assisted by the World Bank, significant improvements to the policy and regulatory environment were made in the ICT sector during this period. The World Bank provided valuable assistance in drafting the National Broadband Policy aimed to facilitate private sector investment in broad-band networks, and to signal a predictable long term business environment in the sector. The regulatory framework in the sector was amended to bring it closer to international best practice. However, on the major issue of spectrum management, they are still at square one because the licensing ICT Act has not yet been amended.

3.46 As a result of reforms, the ICT has grown strongly and there are currently over 600 ICT companies employing 4 percent of the total workforce. Exports of ICT services are growing strongly and their share in services exports increased from 18 percent in 2007 to 38 percent in 2013. There has been a significant increase in the number of broadband subscriptions and prices of fixed broadband and mobile broadband services have fallen considerably in recent years.³¹ However, when compared with a representative range of other low and middle income countries, market determined broadband prices remain relatively high in Mauritius for both fixed-line and mobile services. Using a measure of performance—the typical speed for broadband services (as measured by NetIndex in January 2013)—Mauritius ranks a lowly 171st in the world (out of 180 countries), with an average download speed of around 1.57 Mbit/s. As noted in Mauritius SCD, the ICT sector grew more strongly in some of the other more liberal markets such as Kenya over 2009–13 giving them a competitive advantage over Mauritius in terms of lower wholesale bandwidth prices and therefore capacity to attract BPO traffic.

3.47 The establishment of the legal framework for safer and expanded e-commerce contributed to an increase in the number of public services that can be executed via secured online transactions.³² ICT sector interlocutors were generally appreciative of the World Bank’s assistance in the sector, especially in providing lessons from international experience, and viewed the World Bank as a reliable partner in the sector’s development.

3.48 Overall, the World Bank played a positive role in ICT sector development, though some of the critical reforms it supported have yet to get off the ground.

TRANSPORT

3.49 Compared to the ambitious agenda set forth in the CPS, the Bank Group played a limited role in the transport sector. Potential investment projects for port and airport expansion envisaged in the CPS did not materialize and the World Bank approved only one investment project (Infrastructure Project, \$50 million (FY10) during this period. This project financed the up-grading and maintenance of an important segment of the national road network. It also financed TA and institutional development line ministries and agencies in the Transport, Water and Wastewater, and Energy. It was expected that on completion this project would help improve implementation of public investments in these sectors and pave the way for a much larger Bank investment in these sub-sectors. A pilot performance based Roads Asset Management and Safety Infrastructure Project (\$75 million) was cancelled after 18 months of preparation using substantial grant assistance.

Road Sector

3.50 Under the Infrastructure project, the World Bank financed the upgrading of the Belle Rive - Quartier Militaire road, the main link between the East and the West of Mauritius. The objective was to alleviate congestion and to improve road safety on this axis. The project also financed routine maintenance and performance based routine maintenance contracts on three highway sections that were in bad shape. The project also included funding for institution building in the road transport sector including the establishment (and subsequent strengthening) of a Land Transport Authority and for preparation of an assortment of road transport related studies and feasibility assessments for future investments.

ASSESSMENT

3.51 The strategy outcome listed in the results matrix of the CPS Progress Report was an improved traffic flow along the main corridor in compliance with road safety measures. This was clearly not achieved since the World Bank intervention focused on only one stretch of the road network. However, on this stretch of the road which was up-graded, the results conformed to the thrust of the strategy objective.³³ According to data reported in the ISR, travel time on the designated road was cut from 15 minutes before the project to 6 minutes. The number of accidents reported per year on the road was also halved.³⁴ The Independent Evaluation Group (IEG) did not verify these claims.

3.52 With respect to TA provided by the World Bank in the sector, interlocutors were generally pleased with the World Bank's contribution through the project and otherwise.³⁵ The Land Transport Authority was established and is being strengthened. The World Bank provided valuable advice on developing a Mass Rapid Transit System, bringing in their knowledge of international best practice. An Urban Transport Action Plan was developed which is currently being implemented. The Ministry also utilized the World Bank for peer-reviewing their work. This was also found to be very useful.

3.53 The government interlocutor was also appreciative of the World Bank team's early engagement with the local population potentially affected by the road project. This was very useful in getting them on board during the land acquisition process that followed. The Ministry

hopes to follow this approach in domestically funded projects as well. Overall, the World Bank made a small but positive contribution in the sector.

Air Transport

3.54 Given the open-ness of the Mauritian economy and its heavy dependence on tourism, improving air transport services will have a significant positive economic impact. While some progress has been made in up-grading air transport services, including investment in airport expansion, further air liberalization can be expected to enhance competition, reduce air fares and stimulate tourism.

3.55 The World Bank has not been a player in this important sector, either in terms of the policy dialogue or investment. While the CPS and the CPS Progress Report included increasing competition in air transport as one of the World Bank's strategy objectives to reduce air fares and serve more destinations, and the CPS envisaged potential investment from the World Bank in airport expansion, this area was not covered in any of the DPLs over the period. The IFC was also not involved in the airport expansion plan nor was its expertise solicited for developing PPP in the sector. Despite the importance assigned to the sector in the World Bank's strategy, the World Bank's program did not contribute much to the sector's development.

Port Operations

3.56 The high volume of foreign trade on which Mauritius depends makes port infrastructure and operational efficiency in cargo handling an important factor in promoting competitiveness. While the throughput of Port Louis has been increasing steadily in recent years in line with the economic growth, this growth is well below the growth in other ports in the region (such as Mombasa or Dar es Salaam) over the same period. Port performance (reflected in relatively longer waiting time at berths) lags behind other leading private operators in the region.

3.57 The CPS included improvement in port performance as one of the Bank Group's strategy outcomes and the implementation of a port master plan as a milestone/progress indicator. To improve the operational efficiency of the port, the IFC was asked by the government to identify a suitable private strategic partner for Cargo Handling Corporation Ltd to spearhead the turnaround of the company and also mobilize the much needed investment for port operations. However, after the 2010 elections, there was reluctance from partners of the ruling alliance to have profound changes in the sector given the political capital and vote bank at stake. There was also opposition from trade unions that feared loss of jobs. As a result, CHCL was retained as the operator, damaging the port's competitiveness and sending a wrong signal to private investors. This objective was dropped in the results matrix of the CPS Progress Report.

ENERGY AND WATER/WASTE-WATER

3.58 The CPSPR targeted an improvement in the environment by increasing the use of cleaner technologies in the industrial sector and the implementation of adequate wastewater management system to improve health and sanitation.

3.59 In the energy sector, the World Bank supported the use of Bagasse (a by-product of the sugar industry) for electricity generation, serving multiple objectives of promoting clean energy

by reducing dependence on fossil fuels and reducing the oil import bill. It also provided TA for the preparation of a Grid Code, Feed-in-Tariffs and Model Energy Supply Purchase Agreements for Renewable Energy Systems greater than 5 kilowatts through a SIDS DOCK Grant to promote investment in renewable energy infrastructure, contribute to energy security, reduce greenhouse gas emissions, and encourage household-private sector investment in renewable energy technologies. Under the Infrastructure projects TA component, funds were allocated for developing a renewable energy development strategy and implementation plan. TA was also provided to strengthen the capacity of the Ministry of Renewable Energy and Public Utilities and the Central Electricity Board.

3.60 Feedback from interlocutors suggested that the World Bank’s TA in the energy sector was of variable quality. A study on the medium and long term strategy for electricity was undertaken with the support of the World Bank. The first part of the study, which addressed short term measures to avoid shortages, did not add value since the government was already implementing the measures suggested. For the second part of the study, the government intended to work with the International Energy Agency since the World Bank services were found too expensive. Similarly a draft report outlining a strategy for renewable energy, funded by the World Bank and AFD, was not of much use and the contract was terminated. In the area of electricity pricing, with assistance from the World Bank a Law was adopted in 2008 establishing an independent regulatory authority for setting electricity prices in line with costs. However, the regulatory body is still not operational. Overall, the World Bank’s contribution to the sector was negligible.

3.61 In the water and waste-water subsector, the World Bank’s engagement was confined to the funding of TA and institution building under the Infrastructure project. Under that project, the World Bank financed the development of a Water Sector Master Plan and a study on the drainage system. It also funded capacity building in the Pollution Control Laboratory. The project also financed detailed feasibility study for the expansion of the sewerage network in selected areas and upgrade/enlargement of the existing wastewater treatment plants. Interlocutors believed that the water Master Plan was good and was being used by the government in developing the sector. The World Bank’s support for capacity building in the sub-sector was also appreciated. Overall, the World Bank made a useful contribution in water and wastewater sector.

3.62 Based on these assessments, for infrastructure services as a whole, the Bank Group’s performance was useful, but it could have done much better.

Table 3.2. Evaluation Assessment for “Improving Infrastructure Services”

	Evaluation Assessment, FY05–15
Improving Infrastructure Services	Positive but small
Improving ICT	Positive but small
Improving transport (road and air)	Positive but small
Improving energy	Negligible Area of strength
Improving water/waste-water	

Fostering SME Development

3.63 Most of the measures discussed above were focused on improving the investment climate and enhancing competitiveness for all businesses, irrespective of size or sector. However, SMEs faced special challenges. Most small businesses lacked adequate knowledge and expertise to run businesses. They were also especially hard hit by lack of access to credit from the banking system.

3.64 Through the years, the government put in place special schemes to support SMEs, either by creating special incentives to encourage banks to lend to them or by creating business development centers to assist SMEs in planning and carrying out their activities.³⁶ A special four year tax holiday was put in place to encourage small enterprises to register formally. In addition, financing was increased under the Empowerment Fund which provides equity capital to start-ups. DBM opened a special window for SMEs to provide working capital and other short term finance in the form of micro-loans. The World Bank supported some of these measures. For example, a prior action under the first DPL (2007) was the implementation of specific measures to facilitate the growth of formal SME sector through access to finance, TA and capacity building and consultancy services.

3.65 However, most of the business development services were of mixed quality and not very useful for meeting contemporary requirements of SMEs. Moreover, effectiveness of these programs was hampered by coordination challenges among the multiple agencies that were implementing the programs. To improve inter-agency coordination the World Bank supported the establishment of an inter-agency strategic committee to serve as a platform to share information of existing initiatives among the members as well as gauge the existing gaps that need to be addressed to service entrepreneurs and SMEs. Also, an M&E framework to compare the effectiveness of the various programs was developed in May 2014.³⁷ To improve access to financing for SMEs, the Bank Group supported efforts to restructure the DBM into a financially viable MSME bank with private sector participation. The IFC supported selected banks in capacity building and training of SME loan officers so that they could expand their lending to SMEs.

3.66 To improve the quality of business development services, the Ministry of Business, Enterprise, and Cooperatives (MoBEC) initiated a new Business Growth Scheme (MBGS) in 2011 that provided such services on a market driven platform. The Scheme, funded by the government offered reimbursable financing, on a 90–10 cost-sharing basis, to buy specialized expertise in the areas of: skills and training; technology upgrading and standards; and marketing. Repayment was based on a royalty based system linked to incremental growth of the enterprises benefiting from the scheme.

ASSESSMENT

3.67 The Bank Group's support for SMEs have had a modest impact. SMEs continue to rate lack of access to credit as an important impediment to their growth though there is some evidence that commercial banks are willing to lend to SMEs with some form of support from the government. The IFCs support for capacity building for SME lending in selected banks may have been helpful in this regard.

3.68 The World Bank may also take some credit for the design of the market driven platform for providing financing to SMEs for business development services. An earlier version of this scheme, which involved an outright 50 percent grant to beneficiary enterprises was supported by funding from the World Bank under the Manufacturing and Services Development and Competitiveness loan (2010). However, this project was cancelled at an early stage of implementation at the request of the government. The MBGS scheme has performed well and modified versions are being replicated in other countries. However, beneficiary enterprises remain a very small proportion of the total number of SMEs and there are still question marks about the long term financial viability of the scheme.

3.69 Other elements of the Bank Group's support were less successful. The effort to bring coherence to various SME schemes operated by multiple agencies has only meant that information on all schemes can now be obtained from one address. It has not yet resulted in a holistic vision of the various schemes or improved co-ordination and efficiency in their implementation. The plans to restructure DBM are on hold.

3.70 Overall, the Bank Group's contribution was small but positive.

Encouraging Tourism

3.71 Tourism remains one of the dominant pillars of the economy accounting for about 13 percent of GDP and a significant source of foreign exchange earnings. However, the future growth of the sector is constrained by a number of factors including overcapacity, over-indebtedness, and a declining competitiveness as indicated by the WEF's Tourism and Travel Competitiveness Index.

3.72 The Bank Group has not been a player in this sector. The CPS (2007–13) envisaged IFC involvement in the sector, initially in the form of a loan for refurbishing and renovation of one of the hotels of a prominent hotel chain in 2008–09. However, this initiative was dropped because IFC's financing was not competitive. There has been no further involvement of the Bank Group in the sector.

Overall Assessment

3.73 What was the overall impact of the reforms to enhance competitiveness and promote private sector development? Is the economy any more competitive than it was before the reforms, and how is it reflected in the performance of macro indicators such as exports and private investment, domestic and foreign?

EASE OF DOING BUSINESS

3.74 Reforms in the regulatory environment improved conditions for business, as is reflected in the improved ranking according to the 'ease of doing business' indicators produced by the World Bank. The country's rank improved to 28th out of 189 countries in 2014 (compared to 32nd out of 175 countries in 2006).

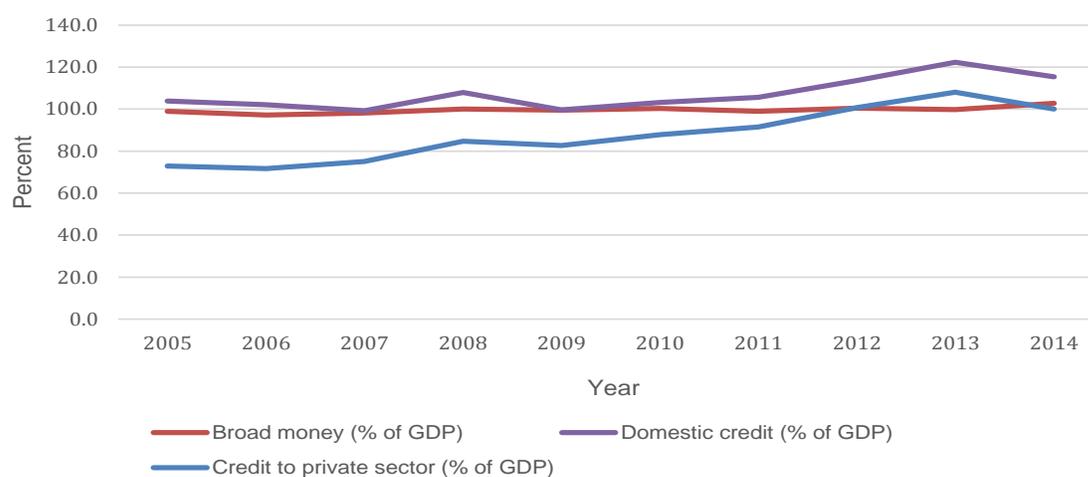
TRADE LOGISTICS

3.75 According to the World Bank’s Logistics Performance Index, Mauritius improved its overall ranking from 132 (out of 150 countries) in 2007 (with an overall score of 2.13) to 115 (out of 160 countries) in 2014 (with an overall score of 2.51).³⁸ The best improvement was in the index for logistics quality and competence which improved from 147 (out of 150 countries) in 2007 to 110 (out of 160 countries) in 2014. In terms of the quality of logistics infrastructure, Mauritius was ranked 91 out of 160 countries in 2014, not significantly different from its rank of 84 out of 150 countries in 2007. Clearly, there is a huge scope for improvement in the quality of logistics infrastructure and its management, and hence for improving competitiveness.³⁹

ACCESS TO CREDIT AND FINANCIAL DEEPENING

3.76 There was a further deepening of the financial system during the period and private sector’s access to credit improved. Broad money (M2) increased from an average of 98 percent of GDP between 2005 and 2007 to 101 percent between 2012 and 2014. The share of domestic credit in GDP also increased from an average of 102 percent to 117 percent over the same period. Credit to the private sector rose from an average of 73 percent of GDP in 2005–07 to 103 percent between 2012 and 2014 (see figure 3.2).

Figure 3.2. Mauritius Financial Deepening, 2005–14



Source: IMF International Financial Statistics 2015

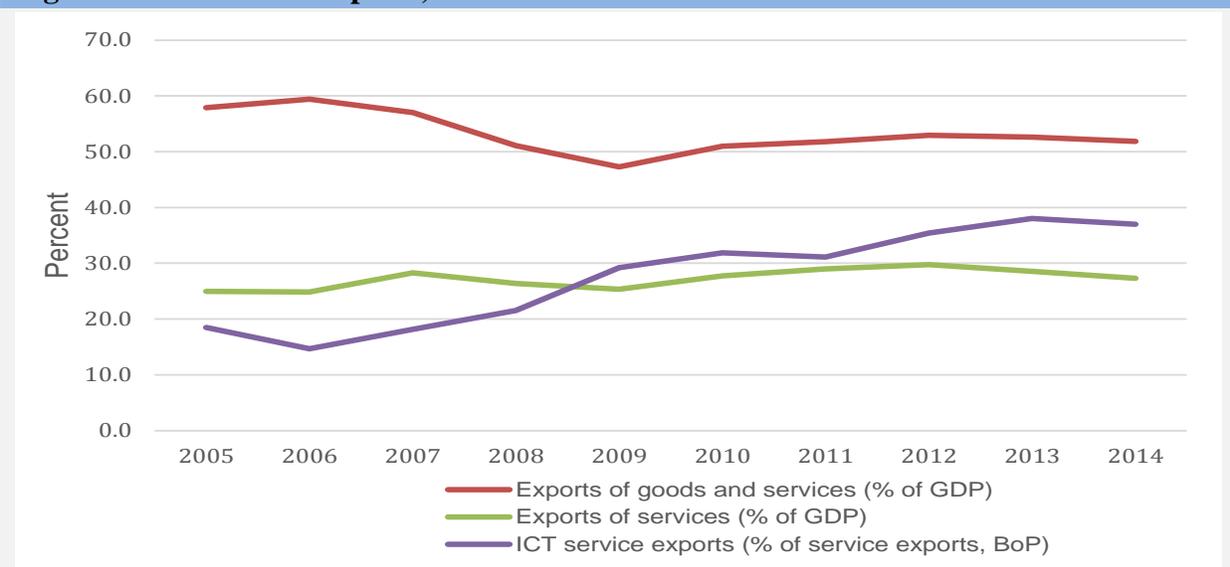
COMPETITIVENESS

3.77 According to the WEF’s Global Competitiveness Index, Mauritius improved its competitiveness score slightly from 4.2 in 2006–07 to 4.5 in 2014–15. Its ranking improved from 55 out of 125 countries in 2006–07 to 39 out of 144 countries in 2014–15.⁴⁰ However, in the IMF’s assessment there was a loss of competitiveness in recent years because of (i) loss of export volume and market share; (ii) higher costs of production factors; and (iii) appreciation of the currency. Wages have risen faster than labor productivity, resulting in higher unit labor costs, and an erosion of competitiveness.⁴¹

EXPORT PERFORMANCE

3.78 Export performance weakened during 2007–14, but there has been successful diversification both in terms of goods and services as well as markets.⁴² The share of exports of goods and services fell from 57 percent of GDP in 2007 to 52 percent in 2014. This drop in exports was primarily because of the drop in exports of goods (mainly textiles and sugar which lost preferential access in Europe). The share of merchandise exports fell from 28.7 percent of GDP in 2007 to 24.6 percent in 2014. There was a shift in exports toward services, and within services toward ICT services. The share of ICT services in total export of services increased significantly from about 18 percent in 2007 to 37 percent in 2014 (see figure 3.3.).

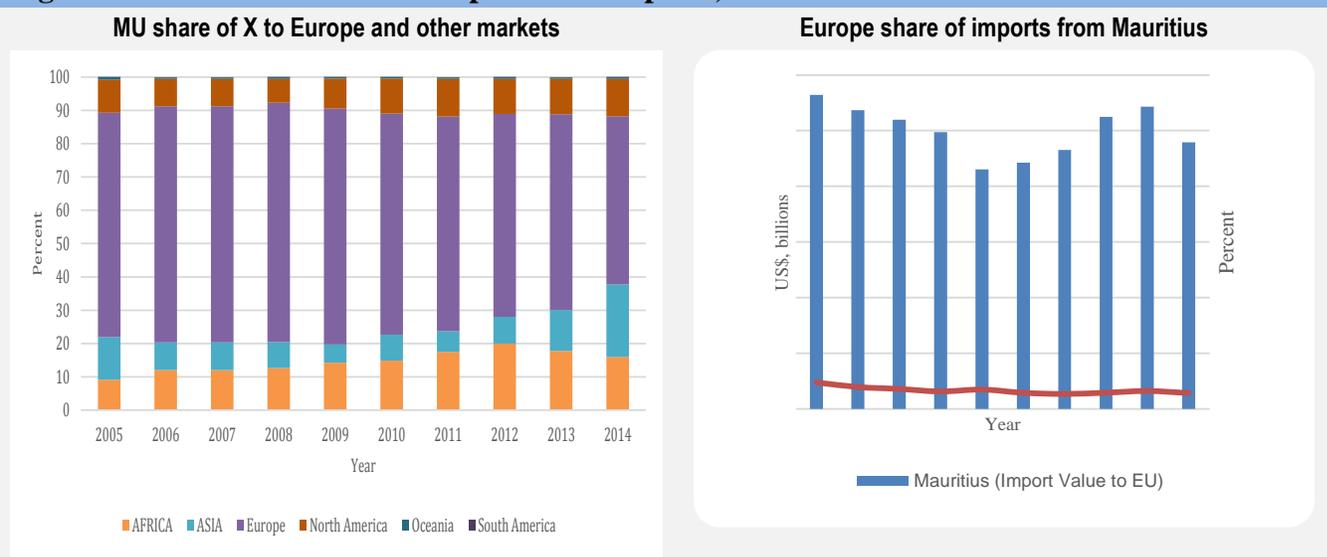
Figure 3.3. Mauritius Exports, 2005–14



Source: World Development Indicators database as of September 2015.

3.79 There was significant regional diversification of exports. The share of Europe in total exports from Mauritius fell from 66 percent to 58 percent between 2007 and 2013 (see figure 3.3). This was compensated by increased exports to more dynamic regions such as Asia and Africa, particularly South Africa.

Figure 3.4. Mauritius Share of Imports and Exports, 2005–14

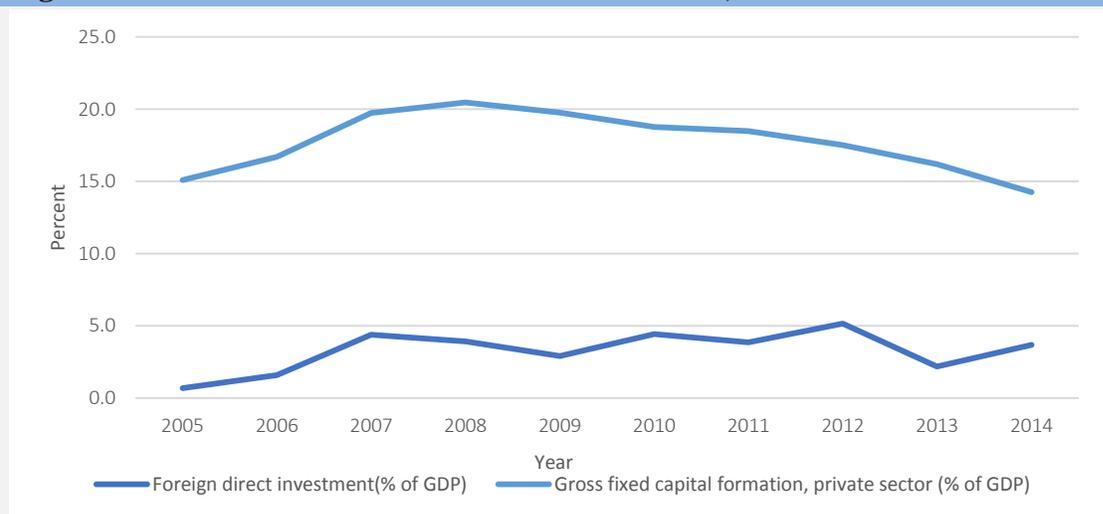


Source: Eurostat IMF.

INVESTMENT PERFORMANCE

3.80 Increased openness and improved business climate have contributed to increased inflow of private foreign direct investment. The share of FDI in GDP increased from an average 2.2 percent per year during 2005–07 to over 3.7 percent per year during 2011–13. The important sectors for FDI are real estate, finance and insurance. However, the improvement in the investment climate has not yet translated into increased investment by domestic investors. Indeed the share of domestic private investment in GDP declined from 27.3 percent in 2008 to 23.2 percent in 2013. This suggests that much more has to change in the overall investment climate and global economic prospects to make private investment more profitable.

Figure 3.5. FDI and Private Investment in Mauritius; 2005–2014



Source: World Development Indicators database as of September 2015.

Conclusion: Overall Assessment of Bank’s Performance

3.81 The Bank Group’s performance in different dimensions for enhancing competitiveness is noted in the table below. The macro-impact of the reforms also presents a mixed picture. The positives included increased export diversification and higher FDI inflows, while stagnant private domestic investment suggests more progress needs to be achieved.

Table 3.3. Evaluation Assessment for Pillar 2 “Improving Competitiveness”

World Bank Group Objectives	Evaluation Assessment, FY05–15
Promoting efficient trade policies	Area of Strength
Promoting a business friendly environment	Positive but small
Strengthening the financial sector	Negligible
Improving Infrastructure Services	Positive but small
Fostering SME development	Positive but small

3.82 Based on these assessments, the overall Bank Group contribution in enhancing competitiveness is positive but small.

¹ These included a 10 year tax holiday on retained earnings, a partial tax holiday for periods beyond that; free repatriation of capital and profits; and preferential interest rates for firms in EPZ. Firms in the EPZ also benefitted from favorable labor market regulations including favorable retrenchment conditions (no severance payments or advance notification about retrenchment) and more flexible conditions for over-time work.

² For example all corporate tax was set at 15 percent. In addition the anti-labor bias in the tax system was eliminated by removing a 25 percent investment tax credit.

³ The situation is particularly burdensome for 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 took around 12 days to deal with import and export permits in Mauritius, while Hong Kong (South Asia Region, China), Singapore, and Estonia require only half as many days. Hidden import barriers, among other constraints, were keeping the economic globalization index in Mauritius below that of its competitors.

⁴ These included: (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 for businesses to appeal against regulatory rulings.

⁵ Import permits for 26 products were abolished under the 2nd Public Sector Performance DPL (2013).

⁶ The phased tariff reduction program initiated under DPL1 was suspended in its second year because of its potential adverse impact on some manufacturing industries. Even now there are calls for raising tariff levels to provide additional protection for domestic industry.

⁷ Both for companies (corporate entities) and business (individuals). The Registrar of Companies also has a department dealing with insolvency issues.

⁸ A major weakness of the legal framework for insolvency (identified in the World Bank’s Report on the Observance of Standards and Codes (ROSC) of Insolvency and Creditor Rights Systems for Mauritius (2004)) was a bias toward liquidation even in circumstances where alternative resolutions could be possible or even less costly.

This bias was corrected in the new legislation. The two new alternatives to liquidation are out-of-court debt restructurings (workouts) or temporary relinquishment of power by the firm's directors (voluntary administration). Liquidation will then take place as a last resort only.

⁹ One of the recent changes that was not well understood is ranking based on the concept of 'distance to frontier'. Interlocutors also noted that certain factors such as coverage of private credit registry were not very relevant for small states, and yet their inclusion with a score of zero penalizes them in the overall country ratings.

¹⁰ Mauritius ranked 43 out of 189 countries in the 'resolving insolvency' indicator in 2014. It ranked 67 out of 175 countries in the equivalent 'closing a business' indicator in 2006.

¹¹ While the rankings are not strictly comparable across Doing Business Surveys between 2006 and 2014 because of methodological changes that are made from time to time (every two years), the direction of change is likely to be an accurate reflection of reality. The latest methodological change was made in 2015 Report (which reports on data as of June 2014) in which the ranking of countries was computed using the 'distance to frontier' score for the first time. The distance to frontier score benchmarks economies with respect to regulatory practice, showing the absolute distance to the best performance in each *Doing Business* indicator. An economy's distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. The DTF score improved slightly from 74 in 2013 to 75 in 2014 (reported in DB2015).

¹² Despite the progress made in the regulatory environment in recent years, Mauritius performs relatively less well in some areas. These include dealing with permits (DTF 67), registering property (DTF 66), getting credit (DTF 65), enforcing contracts (DTF 66), resolving insolvency (DTF 63), and protecting minority investors (DTF 65). It did relatively well in starting a business (DTF 92), paying taxes (DFT 92), trading across boundaries (DTF 88) and getting electricity (DTF 84). Source: Mauritius Doing Business Report 2015.

¹³ As suggested earlier, another reason could be that overall external conditions were not supporting increased private investment and growth of new businesses.

¹⁴ METAP included a small component to finance TA and training to the Registrar General's Office to reengineer and computerize the registration process for movable property and to set up an online registry for collaterals.

¹⁵ Minimum wages and working conditions in the private sector may be subject to Remuneration Orders issued by the Minister of Labor on recommendation from the National Remuneration Board. In 2006, these Remuneration Orders covered 80–90 percent of private sector workers. A similar mechanism exists for the public sector.

¹⁶ According to the IMF's Article IV Report (2014), "over the past few years, wages have risen faster than labor productivity, resulting in higher unit labor costs."pp45.

¹⁷ According to the SCD, half of Mauritian women of working age are still outside the labor market and once they do participate, women in 2012 are still 22 percent less likely to be employed, 6 percent more likely to be unemployed, and 25 percent more likely to be out of the labor market than men. The primary factors for the low female labor force are marriage and family size. (para. 131).

¹⁸ Improving the quality of human resources was an important element of the 1997 CAS. These concerns were later highlighted in the 2002 CAS, which recognized that Mauritius' current labor force was ill-equipped to match the labor force of knowledge-based societies. It was believed at the time that it would take about 10–20 years to bridge the knowledge gap between Mauritius and the high skill economies of East Asia. Not much has changed since then.

¹⁹ An action plan based on the Strategy was supposed to be implemented as an indicative trigger for DPL3 (2009). This did not happen. An indicative trigger for DPL4 (2010) was to get Cabinet approval for an action plan. However, this did not happen either and DPL4 did not include the education sector.

²⁰ There is no data to make an assessment about the relative improvement in the quality of learning. Nevertheless, according to the draft SCD, "Mauritius still lags behind other middle-income countries in terms of learning achievements. Although most Mauritian children attend and complete primary education they lag behind their peers in comparator countries in regard to basic literacy, math and science skills. Results from Mauritius participation in 2009 PISA point out to challenges in quality of learning outcomes in spite of efforts to improve quality of education. Fifteen-year-old Mauritians have lower reading literacy rates than the average for their OECD peers. These low learning achievements suggest that a large segment of the population lacks adequate literacy and math skills to meet today's labor market demands".

²¹ There are some indications of an improvement in the quality of dialogue in recent months. A major policy reform, supported by the World Bank, extending basic education up to 9 years for all was introduced early this year.

²² The Mauritian financial system comprises 20 banks and 729 non-bank financial Institutions. The banks include seven local banks, eight foreign-owned subsidiaries, one joint venture bank and four banks that are branches of foreign banks. All the banks are licensed by the Bank of Mauritius to carry-out banking business locally and internationally. The non-bank financial institutions include institutions that operate under the Insurance Act, the Securities Act and the Financial Services Act. According to the IMF's assessment, the banking system is healthy at the aggregate level, with sufficient capital to withstand a wide range of shocks. Source: IMF Article IV Report (2014).

²³ While almost 50 percent of all the firms surveyed consider access to finance as one of the top three constraints to doing business in Mauritius, 59 percent of total SMEs cite access to finance as a major constraint. Source: Quoted from Project Document for PS DPL1 (2012).

²⁴ Lending to SMEs is constrained by other reasons as well. Most SMEs suffer from lack of expertise in preparing and presenting bankable projects. SMEs find commercial bank lending procedures to be lengthy, and the overall borrowing costs including interest, time to get the loan approved, and cost to prepare the documents is considered too high. Equally importantly, there is a dearth of specialized menu of financial products/services that cater to their needs.

²⁵ Participants of the MCIB currently comprise 17 banks including the Bank of Mauritius, nine leasing companies, eight insurance companies, the Mauritius Housing Company Ltd, the Development Bank of Mauritius, the National Housing Development Co Ltd, the Mauritius Civil Service Mutual Aid Association, the Employees Welfare Fund and the utility companies Central Electricity Board, the Central Water Authority, the Waste Water Management Authority, and other companies offering information, communication and telecommunication services.

²⁶ Cabinet approval of decision to transform DBM into a financially viable MSME Bank was a prior action for the Private sector Competitiveness DPL 1. The prior action for DPL1 was fulfilled with the 2012 Budget Speech confirming the government intention to seek a specialized private financial institution to transform the DBM into a financially viable MSME Bank. IFC was given the mandate to attract a strategic partner that specializes in MSME Banking. Prior to signing the mandate to act as a strategic advisor, IFC undertook a diagnostic analysis on DBM which identified its chronic operational and governance weaknesses recommending against its transformation into an MSME Bank and instead recommending its orderly closure and inviting a credible international SME Bank with a verifiable record to set up such an institution in Mauritius. This was not accepted by the government and the IFC pulled out of the project. Subsequently, the World Bank undertook another diagnostic of DBM which concluded that restructuring of DMB into a MSME bank was a viable option Deloitte (India) was appointed the Transaction Adviser to assist the restructuring of the DBM by the State Investment Corporation led steering committee. The IFC disagreed with the World Bank's assessment and did not believe any effective restructuring could be done without a private strategic partner.

²⁷ This is a classic illustration of what is wrong with some of the prior actions. In this case, the prior action was not initiation of restructuring but the appointment of transaction adviser and other procedural actions that 'signaled' initiation. Yet the impression given out is that restructuring was initiated when it was clearly not so.

²⁸ With regard to cost, while Mauritius does not appear expensive compared to sub-Saharan African countries, it is expensive compared to other competing countries. In 2003, a representative bundle of internet services cost \$15 in Mauritius, \$33.30 in South Africa and \$45.70 in Kenya. But, costs in Africa are among the highest in the world and the same bundle cost \$11 in Singapore, \$8.40 in Malaysia and \$8.70 in India. Source: Project Document, DPL 2, para. 92.

²⁹ The key proposed changes were the following: (i) Introduce competition regulation principles into the sector regulatory framework; (ii) Revise the structure of licenses to increase flexibility for operators and bring the framework into line with international norms; and (iii) Revise the system of tariff regulation to allow more flexibility in competitive markets.

³⁰ They were expected to be approved in March 2013. These are some other examples where the prior actions were implemented, yet nothing has changed on the ground.

³¹ Mauritius's supply of international bandwidth has increased through its links to three submarine cables. As a result, the country's outgoing international internet bandwidth has increased six-fold over 2009-13. The price for

broad-band fixed service per month declined by 15 percent during 2011–2014. The price for broad-band mobile service per month fell by 48 percent in the same period. Source: CPS CLR (draft).

³² These include: online application and payments of services for incorporation of a company; annual registration fees of a company; and e-payment for the lease of state land.

³³ Under the project, 10.5 kilometers of road were up-graded and standard annual maintenance carried out on an additional 17 kilometers. Overall though, road maintenance remains underfunded resulting in increased network deterioration.

³⁴ However, the project target for implementation of performance based routine maintenance contracts was not met.

³⁶ Assistance was offered for training and skills development; hand-holding services like business planning and coaching; product development and marketing support, quality control and standards, support in technology upgrading, and assisting in preparing a business plan, filing statutory returns and complying with various health, fire and environmental regulations.

³⁷ The establishment of an inter-agency committee and issuance of a Request for Proposal to develop an overall M&E Framework for Business Development Services schemes were prior actions for the second Private Sector Competitiveness DPL (2013).

³⁸ The Logistics Performance Index overall score reflects perceptions of a country's logistics based on efficiency of customs clearance process, quality of trade- and transport-related infrastructure, ease of arranging competitively priced shipments, quality of logistics services, ability to track and trace consignments, and frequency with which shipments reach the consignee within the scheduled time. The index ranges from 1 to 5, with a higher score representing better performance.

³⁹ In 2014, Mauritius' overall logistics performance score was just 48.5 percent of the top performer's score.

⁴⁰ Switzerland, the top rated country in 2014–15 had a score of 5.7 (out of a maximum score of 7). The index is a composite of 12 aspects that influence competitiveness in an economy including quality of institutions, macro-economic management, infrastructure, health and primary education of population, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation.

⁴¹ IMF Article IV Report (2014).

⁴² Overall, exports in 2013 from Mauritius, including re-exports have only nearly recovered to 2006 levels and stood at USD 2.3 billion as compared to USD 2.4 billion in 2008. Source: SCD para 40.

4. Conclusions and Lessons

Conclusions

4.1 After nearly two decades of strong economic growth, in 2005 the economy was in difficulties. The loss of trade preferences in textiles in 2005, the anticipation of prospective reform to the European Union's sugar protocol for 2006–10, and higher international oil prices had contributed to a slow-down in growth, rising unemployment and widening fiscal and current account deficits. A new government was elected in 2005 which implemented a series of bold economic reforms to redress the macro-economic imbalances and enhance competitiveness to facilitate efficient restructuring of the economy.¹ Good policies also allowed the government to deal effectively with the global financial crisis of 2008. Following the elections in 2010, a new (and fragile) coalition government was elected which emphasized increased public spending on welfare programs and the pace of reforms slowed. Following a period of political instability, fresh elections were held in end December. However, a sense of policy drift continues under the new government elected in end 2014 with an overwhelming majority.

4.2 Over 2005–10, the CPS aligned the World Bank's program with the reforming efforts of the government of the time. The World Bank Group's engagement in Mauritius involved mostly the DPL programmatic series (DPL 1–4) with limited investment lending and IFC involvement. This was appropriate given the need for wide-ranging reforms and the clearly expressed preference of the government to avoid long disbursement procedures. The four pillars of the World Bank's strategy were identical to the government's program. Consistent with the World Bank Group's small states agenda, the World Bank's strategy and program in Mauritius addressed the two critical issues of vulnerability (macro-economic, social) and competitiveness. Overall, the World Bank's strategy was flexible in design and practice and there were substantial changes to the World Bank's program in the course of implementation, notably to respond to the prolonged recession in Europe and the country's need for additional financing. The World Bank's program was well harmonized with the work of other development partners. One of the major benefits of the joint mission and results matrix for the DPLs cited by authorities was that it provided a forum for co-ordinating the activities of various sector ministries in pursuit of the reform agenda, as well as brought all DPs together to focus on the key reforms and their role.

4.3 However, the World Bank was slow to recognize the changing political dynamics after 2010. Even as the policy dialogue became more difficult with the new government, and co-ordination with the MoF and engagement with other stakeholders less clear, the World Bank assumed it was business as usual. This was reflected in the CPS Progress Report of 2011, which did not recognize any significant change in policy orientation except for an increased emphasis on social programs. In the face of increasing evidence of lack of appetite for serious reforms, the World Bank went ahead and approved a new series of DPLs to support a more efficient public sector and competitiveness of the private sector. Prior actions were loosely defined and were judged to have been completed even when no real reforms were implemented. Not surprisingly, unlike the previous period, results on the ground have not been satisfactory.²

4.4 Over the whole review period we found the Bank Group response helped improve the trade policy regime and investment climate (e.g., business and land registration) and contributed

to SME development and the ICT regulatory framework. Its interventions were also useful in developing institutional capacity in the roads, energy and water-supply sub-sectors. However the lack of appetite for reforms since 2011 may jeopardize the sustainability of some of these achievements. Moreover, because of the slow pace of reforms Mauritius is now losing ground in some sectors (e.g., ICT, regional transshipment in Port Louis port, tourism) compared to some neighborhood countries. As noted in the SCD, current policies such as those disallowing fifth freedom and foreign ownership of air carriers, bringing in private sector to improve the operational efficiency in cargo handling, or further promoting the ICT sector through infrastructure sharing and unbundling the local loop network limit competition and dampen employment creation, thereby hampering the Mauritian economy in a context of growing regional competition.

4.5 As a result of the slow-down in reforms in recent years, the macro impact of the reforms on competitiveness and promotion of private investment was mixed, with some positive impacts (on export diversification and FDI) and some negative (stagnant private domestic investment).

4.6 Based on these assessments, the Bank Group made a positive contribution to enhancing competitiveness, but its performance fell short of what was expected and needed in some critical areas (see table 3.3).

Lessons

4.7 Taking all of the research carried out for the evaluation into account, we have developed a series of lessons regarding operational and strategic dimensions of Bank Group engagement in Mauritius. A number of key lessons relate, specifically, to the Bank Group's ongoing engagement in Mauritius as well as to its engagement in middle income small states countries.

4.8 Improving risk management through a better understanding of the political economy: Getting a broader understanding of the political economy of the reforms is critical. At times, a lack of political judgment was evident. For example, the World Bank did not anticipate the slowdown in reforms after a new coalition government was formed in 2010, and went on as if nothing had changed except for a greater focus on fiscal stimulus. It may be useful to prepare some kind of informed Note describing the political make-up of a new government after elections³ (what kind of coalition parties involved, their numerical strength etc.), with an assessment of the new government's attitude to key reforms. The World Bank should also maintain an on-going dialogue with the political parties as well as civil society which will help better understand political constraints and factor them into its program. This understanding should be reflected in an up-dated CPS to ensure the World Bank's revised program is consistent with changes in the new government's reform priorities. The CPS Progress Report of 2011 was a missed opportunity in this regard.

4.9 Improving selectivity: In Mauritius, the World Bank's strategy sought to address a wide range of issues and lacked focus. Instead of this wide coverage, perhaps the Bank Group should have focused on some of the most critical bottlenecks that take a long while to fix (such as poor transport infrastructure, poor quality of education and skills) and are tough to implement, and supported these consistently over the course of its long engagement.

4.10 Balancing flexibility and credibility. The Bank Group should be prepared to adjust its strategy and program in the face of adverse exogenous shocks, or errors in judgment. However, it should draw some red lines, based on what is important, and what is realistically possible politically and institutionally. To this end, the monitoring framework for DPLs and the CPS should be simplified with a few key targets with baseline measures and realistic 3–5 year outcomes that go beyond processing indicators. This was not always the case in Mauritius. Quite often, prior actions were very early steps in a long process at best, and mostly they were process-oriented. The result was predictable: in some cases, prior actions were successfully implemented (in form and not substance), money was disbursed, and yet there was no progress in achieving the strategy objectives (for example, DBM restructuring, spectrum auctions, education reforms).

4.11 Better customizing assistance to small states needs: The Mauritius experience suggests that it is possible to address specific concerns of small states with conventional programs. But there was a general sense among interlocutors that if the World Bank is to remain a key partner in Mauritius it needs to “redesign the process of working with the Mauritius Government”. For example, new financial instruments would be needed to meet the needs of UMIC small states like Mauritius. Though Bank Group assistance was often considered of better quality, proposed instruments such as Reimbursable Advisory Services (RAS) were found overly expensive. This was also the case with IFC interventions that were often too costly. There was a sense that the Bank Group would need to find new ways to engage to be a more visible and helpful partner. Our interlocutors expected the Bank Group to provide notably:

- more cross-fertilization to take advantage from other countries experience and more innovative support from the Bank Group. For example, DPLs conditions were at times considered as “repackaging” what was already being done rather than adding real value.
- more proactive engagement from the Bank Group to further promote regional cooperation and trade and exchange of ideas of good practice. Mauritius stands to benefit immensely from lowering of trade barriers in its neighborhood. And the neighborhood can also benefit from examples of best practice in many areas of economic management in Mauritius. Initiatives such as the Accelerated Program for Economic Integration though challenging to implement, are welcome. The World Bank could usefully partner with regional institutions such as The Regional Multi-disciplinary Center of Excellence set up by Mauritius, the Indian Ocean Commission and COMESA to promote regional exchange of ideas.
- Better ways to build in-house capacity especially in line ministries. Assistance in building institutional capacity, especially in sector ministries, is probably the most important contribution the Bank Group can make in small states. Several areas of weakness are obvious (including capacity for: strategic planning in sector ministries; investment planning and implementation; developing appropriate regulatory frameworks for innovation and new technologies; improved systems for delivery of social services etc.). TA involving hands-on support in the nitty-gritty aspects of reform implementation were as important as designing frameworks and policies, and expertise imbedded in line ministries over a sufficiently long period of time were seen to have been very useful. TA in the form of peer reviewing by Bank of important ministerial initiatives was also found

useful. How best to fund and implement such TA with a small budget remains a challenge.

4.12 Taking the above findings into account, we have developed five lessons regarding operational and strategic dimensions of Bank group engagement in Mauritius.

4.13 **Lesson 1: The Bank Group needs to make a greater effort to understand political economy issues, including identifying reform champions or opponents of politically contentious reforms, in order to better incorporate political risks into reforms, especially in coalition governments.** The decision to extend the CPS in 2010, was a missed opportunity to reflect the slowdown in reforms after a new coalition was formed. This would have made more sense to prepare a new CPS rather than trying to adjust the program through ad hoc bilateral dialogue and actions that are insufficient to meet targeted objectives. The World Bank also failed to properly grasp the political risk of a program depending on the leadership of very few policy makers. A political analysis piece at the time of the election could have generated insight into government ownership of the reform agenda.

4.14 A detailed political economy analysis could have served as a base for monitoring of political developments and risks to reform. This analysis would help (i) identify for key reforms policy makers willing to fight for it, recognize the risks to the reform agenda of failed ownership, and based on these findings prioritize and sequence the supported policy agenda accordingly; (ii) gauge the degree of ownership and progress on targeted outcomes at the progress report stage to thereby inform more accurately and honestly revisions to the on-going program.

4.15 If there is a change of government over the CPS period, the Bank Group would prepare a new full or interim strategy to reflect the priorities of a new government if the lack of political support make the former strategy obsolete. The Bank Group could still continue advocacy work through policy dialogue on ‘dropped outcomes’ related to key reforms for which government support has waned (see Lesson 4).

4.16 **Lesson 2: The Bank Group needs to ensure that the objectives and scope of its strategy are commensurate with the size of its program, and needs to be highly selective in the areas it decides to support.** The analysis conducted in this case study points toward two major areas where the Bank Group could focus its work together with other DPs to increase competitiveness: (i) improving the legal and regulatory framework to promote public-private partnerships (PPPs) and improve transport and ICT infrastructure; (ii) overhauling the education system to widen its base and improve quality to help meet the shortages of skilled labor constraining the growth of the high skill, high technology economy of the future. The Bank Group should continue to take a pro-active stance in promoting trade, investment and exchange of ideas at the regional level. These suggestions would need to be further confirmed by the findings of the CLR and CPF (under preparation) which aim at informing this selectivity choice.

4.17 **Lesson 3: The Bank Group needs to remain flexible in the design of its program and be prepared to modify it in size and substance if the external environment changes or priorities of the government change.** However, slippages in implementation of policy conditionality (as in prior actions) are to be accommodated only in exceptional circumstances. Prior actions in DPLs need to be precisely worded. They should be crafted to ensure that there is

a clear logical chain between the prior action and the ultimate objective of reform and also that this chain is aligned with the programmatic cycle of the DPL.⁴

4.18 Lesson 4: The Bank Group could take advantage of the new SCD to reposition itself as a more visible and credible partner of the Mauritian government and foster demand for good policies. The World Bank needs to make more effort in informing public debates, sharing other countries' experience, organizing forums to discuss policy trade-offs on national development policies including on supporting SOE reform, improving environmental resilience and supporting capacity building of key stakeholders—government, parliament and civil society organizations. Brainstorming sessions on key critical challenges could be a very effective mechanism for policy reform.⁵

- **Lesson 5:** Demand for innovative advisory services typically exceeds what can be financed through Reimbursable Advisory Services. The introduction of a programmatic joint analytic economic program could provide room for a more sustained and adapted sector policy dialogue, help maintain strategic focus and identify interconnected activities. In Mauritius, peer reviewing by Bank staff and experts of important work undertaken by line ministries was found useful and could be formalized. Embedding expertise in line ministries for a reasonable length of time was seen to be useful for building in-house capacity.

¹ These included the elimination of the EPZ regime, a progressive liberalization of the foreign trade and investment regime and simplification of labor laws.

² Examples include: stalled restructuring of DBM; stalled reforms in cargo handling facility; lack of progress in spectrum auctions; limited movement on air transport liberalization; no movement on improving quality in education etc.

³ The new government was a coalition government which was fragile (and it became a minority government when one of the partners withdrew in 2011).

⁴ See paragraph 4.10.

⁵ This appeared to be used successfully in Kazakhstan, but this may reside on the importance the PM gives to these sessions. The World Bank has optimized these sessions by bringing in a panel of high-level experts, providing clear policy messages based on international experience and customized to Kazakhstan environment. These sessions, chaired by PM and the vice presidency or chief economist of the Europe and Central Asia Region, have become a critical platform to share opinion and discuss specific policy issues in Kazakhstan. (see IEG- Knowledge Based Country Program Report).

Appendix A. Mauritius Economic and Social Indicators, 2005–13

Series Name	2005	2006	2007	2008	2009	2010	2011	2012	2013
Growth and inflation									
GDP growth (annual %)	1.2	3.9	5.9	5.5	3.0	4.1	3.9	3.2	3.2
GDP per capita growth (annual %)	0.6	3.5	5.4	5.1	2.7	3.9	3.7	2.9	3.0
GNI per capita, Atlas method (current US\$)	5,420	5,660	6,190	7,050	7,420	7,970	8,320	9,010	9,570
GNI per capita, PPP (current international \$)	11,340	12,150	13,400	14,150	14,470	15,470	16,220	17,010	17,730
Inflation, consumer prices (annual %)	4.9	8.9	8.8	9.7	2.5	2.9	6.5	3.9	3.5
Composition of GDP									
Agriculture, value added (% of GDP)	6.0	5.0	4.4	4.0	3.8	3.6	3.6	3.5	3.2
Industry, value added (% of GDP)	27.6	25.9	26.2	27.3	27.1	26.2	25.4	24.7	24.3
Services, etc., value added (% of GDP)	66.4	69.1	69.4	68.7	69.1	70.3	71.0	71.8	72.5
External Accounts									
Exports of goods and services (% of GDP)	59.9	60.4	57.9	52.9	49.0	52.5	53.4	54.6	54.3
Imports of goods and services (% of GDP)	65.9	70.9	67.2	66.1	58.3	63.8	66.4	66.7	66.5
Current account balance (% of GDP)	-5.2	-9.0	-5.6	-10.1	-7.4	-10.3	-13.9	-7.2	-9.9
Present value of external debt (% of GNI)	..	..	..	..	..	..	..	..	79
Total debt service (% of GNI)	3.6	3.8	2.0	1.8	1.8	1.6	30.6	27.4	28.4
Other macroeconomic indicators									
Gross domestic savings (% of GDP)	16.5	16.2	17.6	14.1	11.9	12.4	13.0	12.6	11.8
Gross fixed capital formation (% of GDP)	21.4	24.2	25.1	24.6	26.4	24.9	24.0	23.0	21.2
Gross fixed capital formation, private sector (% of GDP)	15.1	16.7	19.7	20.5	19.8	18.8	18.5	17.5	16.2
Gross savings (% of GDP)	17.4	17.6	21.5	17.2	14.0	15.5	14.4	14.2	12.7
Fiscal accounts									
Cash surplus/deficit (% of GDP)	..	..	..	..	0.6	-2.4	-1.1	-0.6	..
General government final consumption expenditure (% of GDP)	14.8	14.1	12.9	12.7	14.1	13.9	13.5	13.4	14.4
Gross national expenditure (% of GDP)	106.0	110.5	109.3	113.2	109.4	111.3	112.9	112.1	112.2
Revenue, excluding grants (% of GDP)	..	..	..	..	23.5	22.8	22.4	23.0	..
Social indicators									
Health expenditure, public (% of GDP)	2.2	2.0	1.9	1.8	2.2	2.5	2.5	2.3	2.4
Immunization, DPT (% of children ages 12–23 months)	97.0	97.0	97.0	99.0	99.0	99.0	98.0	98.0	98.0
Improved sanitation facilities (% of population with access)	89.8	89.9	90.1	90.2	90.4	90.5	90.6	90.8	..
Life expectancy at birth, total (years)	72.4	72.4	72.6	72.6	72.9	73.0	73.3	73.9	74.5
Mortality rate, infant (per 1,000 live births)	13.8	14.0	14.0	13.9	13.6	13.3	13.0	12.8	12.5

Series Name	2005	2006	2007	2008	2009	2010	2011	2012	2013
Out-of-pocket health expenditure (% of private expenditure on health)	84.6	86.6	88.0	90.7	91.1	91.3	91.3	91.4	91.4
Population growth (annual %)	0.6	0.5	0.5	0.4	0.3	0.2	0.2	0.3	0.2
Population, total (millions)	1.2	1.2	1.2	1.2	1.2	1.3	1.3	1.3	1.3
Population, female (% of total)	50.5	50.5	50.5	50.5	50.5	50.6	50.6	50.6	50.6
School enrollment, preprimary (% gross)	103.0	102.5	100.4	100.2	104.4	110.4	113.3	113.7	112.9
School enrollment, primary (% gross)	105.7	106.6	106.7	107.4	106.9	107.2	107.6	108.2	107.8
School enrollment, secondary (% gross)	90.7	90.1	91.4	91.4	92.5	93.2	94.4	95.9	..
School enrollment, tertiary (% gross)	21.3	23.5	24.5	27.2	32.2	34.2	36.0	39.9	41.2
Fixed telephone subscriptions (per 100 people)	29.5	29.4	29.6	29.7	30.6	31.5	30.3	28.2	29.2
Unemployment, total (% of total labor force) (national estimate)	9.6	9.1	8.5	7.2	7.3	7.7	7.9	8.7	7.6

Source: World Development Indicators data as of July, 2015.

Note: DPT = diphtheria, pertussis, and tetanus; GDP = gross domestic product; GNI = Gross National Income; ILO = International Laborur; PPP = purchasing power parity.

Appendix B. Bank Group Operational Program in Mauritius FY07–15

Summary of Bank Activities

LENDING

1. During the CPS period, the World Bank responded flexibly to changing external circumstances and the government's preference for budget support operations. Originally, the CPS envisaged six budget support and four sector investment lending operations. Instead, the World Bank delivered eight DPLs and only one investment operation.
2. A series of three programmatic budget support operations for \$30 million each was originally planned to support the government's policy reforms. However, to respond to fiscal challenges and cushion the impact of the financial crisis of 2008, the World Bank increased the third operation to \$100 million and introduced a DDO in the operation. As soon as DPL3 was disbursed, the government requested a fourth DPL for supporting the budget for the last six months of 2009. The World Bank provided a further \$50 million in funding through a DPL4.
3. In addition, two sets of programmatic DPL series (Public Sector Performance and Private Sector Competitiveness) with a total amount of \$35 million in each series were delivered in FY12 and FY13. The Public Sector Performance DPL series focused primarily on the performance of the public sector while the Private Sector Competitiveness DPL series concentrated on strengthening the policy and institutional environment of the private sector competitiveness. These operations provided both technical and financial assistance to the government in carrying out its reform program.
4. Two sector investment technical assistance operations, which were not originally envisaged in the CPS, were also approved in FY09 and FY10 to support the government in enhancing competitiveness. However, these projects were canceled at an early stage of implementation at the request of the government, and replaced by the two sets of DPLs series mentioned above.¹
5. Only one out of four planned infrastructure projects totaling \$140 million was approved (Infrastructure Project, FY10, for \$50 million).² This project sought to improve the roads infrastructure and also to strengthen the government's institutional capacity for planning and executing public investment in transport, water, waste-water and energy sectors.

AAA

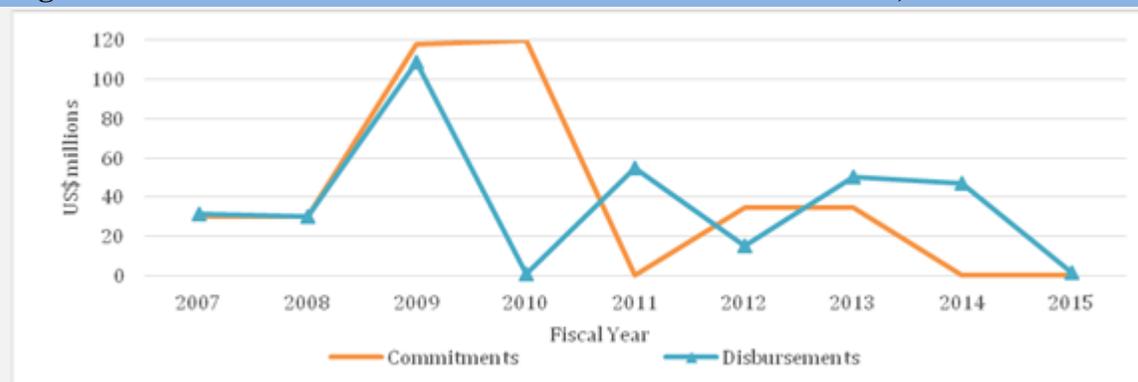
6. Financial assistance was complemented by technical assistance and analytic work, some of which has been described in the report. Technical assistance was provided through the DPLs as well as stand-alone activities.³ Some of the key analytic work informed the reform program in areas such as tariff reforms and identification of NTBs, Doing Business reforms, infrastructure, health, education sector reforms, social protection, poverty assessment, public enterprises, ICT regulations, e-Government initiatives, public sector efficiency and institutional strengthening.

Detailed Portfolio Analysis

7. **Bank Group financing commitments delivered over the evaluation period amounted to about \$ 482 million.** From FY07–15 the World Bank Group committed a total of \$368 million in IBRD loans, \$26 million in trust fund grants, and about \$88 million in net commitments by the IFC. IBRD disbursements during this period amounted to about \$339 million.

8. **World Bank lending support to Mauritius increased sharply to help the country deal with a series of shocks.** Between FY05 and FY07, there was no lending support provided to Mauritius. In order to support the government’s response to a series of short term trade shocks, including the loss of textile and sugar trade preferences and soaring oil prices, a series of three programmatic budget support operations totaling \$90 million, were originally planned. The first two Development Policy Operations of \$30 million each were approved in FY07 and FY08. For the third operation approved in FY09, the amount was increased to \$100 million and a DDO introduced in order to cushion the impact of the unexpected financial crisis of 2008. An unplanned fourth operation, of \$50 million, was approved in FY10, to continue supporting the reform agenda.

Figure B.1. IBRD Commitments and Disbursements to Mauritius, FY07–15

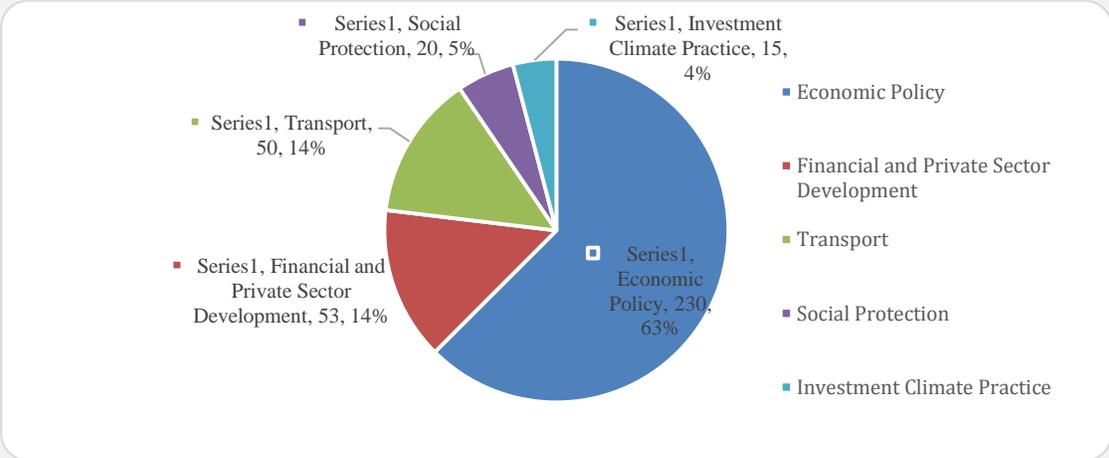


Source: World Bank Business Intelligence database.

9. **The financing commitments were largely for development operations and were concentrated primarily in economic policy.** IBRD development policy lending over the evaluation period amounted to \$280 million and constituted 76 percent of total IBRD lending to Mauritius. World Bank support through investment lending amounted to \$88 million for three IBRD investment loans to support manufacturing, services and infrastructure development. The projects included a \$50 million loan to improve the national infrastructure (FY10) and two Technical Assistance (TA) operations in FY09 and FY10, to support the government in its private sector competitiveness agenda. At the government’s request, the two TA projects were canceled and replaced by two sets of DPLs.⁴ The government of Mauritius felt that given the greater need for policy and institutional support, as opposed to public investment and capacity building, DPLs were a more appropriate instrument for their needs. Furthermore, the government of Mauritius had initially underestimated the fiduciary compliance requirements under SILs and despite the technical assistance support provided to the staff, the procedures were deemed too

cumbersome. The sector composition of operations was concentrated in the area of economic policy, with commitments classified under the economic policy sector board accounting for more than half of total commitments. Other key areas of engagement included; financial and private sector development, transport, social protection and investment climate.

Figure B.2. Sector Allocations of World Bank Commitments to Mauritius (US\$, millions)



Source: World Bank Business Intelligence database.

10. **A range of knowledge products and technical assistance informed key areas of Bank Group support and also contributed to building capacity.** Between FY07 and FY15, the World Bank delivered a total of 26 analytic and advisory activities (AAA) products to Mauritius –split equally between economic and sector work (ESW) and nonlending technical assistance (NLTA). A total of about \$3.6 million in Bank (administrative) budget and trust fund finance was allocated to AAA products, 69 percent of which was allocated to ESW tasks. Key analytic work informed the reform program in areas such as Doing Business reforms, infrastructure, health, education, social protection, poverty, public enterprises, e-government initiatives, public sector efficiency and institutional strengthening. A substantial amount of knowledge work was performed as part of implementation support for DPLs.

Figure B.3. Number of AAA products by Sector Board, FY07–15



Source: World Bank Business Intelligence database.

Investments by the International Finance Corporation

11. The net investment commitment of the International Finance Corporation during this period amounted to \$88 million. IFC focused its interventions on two key sectors- infrastructure, and financial services. IFC investments in Mauritius included a \$75 million loan to the State Bank of Mauritius to provide foreign currency needed by the bank to meet its medium term funding plans and local and regional obligations.⁵ Advisory services included support to the government of Mauritius in introducing private sector participation in the financing, operation, and management of cargo-handling operations in the port sector, specifically in two transactions at Port Louis Harbor. IFC involvement was aimed at working with the government to identify a strategic partner in Cargo Handling Corporation Limited (CHCL) who would spearhead the much needed turnaround of the company and also mobilize the much needed investment for port operations. However, various challenges including a lack of clarity about managerial autonomy and decision making and changes in interlocutors, caused the Port transaction to stall.

12. There were no MIGA guarantees provided to Mauritius during the evaluation period.

Portfolio Performance and Risk

13. IEG assessments of completed World Bank operations in Mauritius show much better development outcome ratings (100 percent, moderately satisfactory or better) than the average for the Sub-Saharan Africa (64 percent) and for the World Bank as a whole (71 percent). With the exception of the Environmental sewerage and sanitation project, which was rated as satisfactory, all the other IEG rated projects received highly satisfactory ratings. The sewerage and sanitation project was found to have had a weak M&E design. In particular, the project outcome and output indicators lacked baseline and target values and some of the outcome indicators were considered inadequate, as they could not be tracked during project implementation.

14. **IEG’s review of closed projects found a moderate risk to development outcome in four (80 percent) of the five instances where risk was assessed (see table B.3).** The total value of loans to these projects was about \$218 million or 96 percent of the value of all projects assessed for risk to development outcome. The risks assessed related mainly to the ability of the government to keep up the momentum of the reforms, maintaining macroeconomic stability and addressing capacity constraints.

15. **The riskiness of the World Bank’s Mauritius portfolio under implementation remained below average for most of the evaluation period.** During the two periods, FY07–10 and FY12–15, no Bank operations in Mauritius (and none of the commitments) were considered to be at risk. This was in contrast to an average of 26 percent of projects and 27 percent of commitments at risk in AFR, and a world average of 22 percent of projects and 19 percent of commitments at risk over the same two periods. In FY11, one out of the three projects (33 percent) under implementation in Mauritius and 23 percent of commitments, was considered to be at risk. This was higher than both the Africa Region (24 percent of projects and 21 percent of commitments), and World Bank averages (21 percent of projects and 14 percent of commitments).

Table B.1. Mauritius—List of World Bank Approved Projects, FY07–15

Proj ID	Project Name	Agreement Type	FY	Project Status	Total Project Commitment (US\$, millions)	IBRD Commitment Amount (US\$, millions)	Trust Fund Commitment Amount (US\$, millions)	Rev Closing Date	Sector Board	Latest DO	Latest IP	IEG Outcome Rating
P091828	Infrastructure Project	IBRD	2010	Closed	50.0	50.0		12/31/2014	Transport	S	S	
P101570	Development Policy DPL (FY07)	IBRD	2007	Closed	30.0	30.0		12/31/2007	Economic Policy			Highly satisfactory
P103158	Multisectoral Response to HIV/AIDS	IDF	2007	Closed	0.5	0.0	0.5	07/20/2010	Health, Nutrition and Population	S	S	
P103467	CTSaV Bagasse-Fuelled Cogeneration	CARB	2008	Active	25.7	0.0	25.7	#	Energy and Mining	N/A	N/A	
P105669	Economic Transition (TA) Project	IBRD	2009	Closed	18.0	18.0		06/25/2013	FPD			Not applicable
P106650	MU-Dev.Pol.Loan (intermediate)	IBRD	2008	Closed	30.0	30.0		12/31/2008	Economic Policy			Highly satisfactory
P112369	MU-Third Trade and Competitiveness DPL	IBRD	2009	Closed	100.0	100.0		12/31/2011	Economic Policy			Highly satisfactory
P112943	MU-Manufacturing & Servs Dev & Comp(SME)	IBRD	2010	Closed	20.0	20.0		12/13/2012	FPD			Not rated
P116608	MU:Fourth Trade and Competitiveness DPL	IBRD	2010	Closed	50.0	50.0		12/31/2011	Economic Policy			Highly satisfactory
P125694	MU-First Public Sector Performance DPL	IBRD	2012	Closed	20.0	20.0		12/31/2012	Social Protection	S	S	
P126903	Private Sector Competitiveness DPL	IBRD	2012	Closed	15.0	15.0		12/31/2012	FPD	S	MS	
P128140	MU -Second Public Sector Performance DPL	IBRD	2013	Closed	20.0	20.0		06/30/2014	Economic Policy	MS	S	

Proj ID	Project Name	Agreement Type	FY	Project Status	Total Project Commitment (US\$, millions)	IBRD Commitment Amount (US\$, millions)	Trust Fund Commitment Amount (US\$, millions)	Rev Closing Date	Sector Board	Latest DO	Latest IP	IEG Outcome Rating
P131818	MU-Prep of Grid Code, Feed in Tariffs	RETF	2013	Active	0.2	0.0	0.2	08/21/2014	Energy and Mining	N/A	N/A	
P132510	MU Second Private Sector Compet. DPL	IBRD	2013	Closed	15.0	15.0		06/30/2014	Investment Climate Practice	S	S	
Total					394.4	368.0	26.4					

Source: World Bank database as of July, 2015 (includes supplements).

Note: DO = development objective; HS = highly satisfactory; IDA = International Development Association; IEG = Independent Evaluation Group; MS = moderately satisfactory; RETF = Recipient-executed trust fund; S = satisfactory; FPD = Financial and Private Sector Development

Table B.2. Number and Total Commitment Amount of IBRD Commitments, FY07–15 (US\$, millions)

Sector Board	2007		2008		2009		2010		2011		2012		2013		2014		2015		Total	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
Economic Policy	1	30	1	30	1	100	1	50	-	-	-	-	1	20	-	-	-	-	5	230
Financial and Private Sector Development	-	-	-	-	1	18	1	20	-	-	1	15	-	-	-	-	-	-	3	53
Investment Climate Practice	-	-	-	-	-	-	-	-	-	-	-	-	1	15	-	-	-	-	1	15
Social Protection	-	-	-	-	-	-	-	-	-	-	1	20	-	-	-	-	-	-	1	20
Transport	-	-	-	-	-	-	1	50	-	-	-	-	-	-	-	-	-	-	1	50
Grand Total	1	30	1	30	2	118	3	120	-	-	2	35	2	35	-	-	-	-	11	368

Source: World Bank database as of June 27, 2014 (includes supplements).

Note: IBRD = International Bank for Reconstruction and Development.

Table B.3. IEG Project Ratings for Mauritius, Exit FY07–15

Exit FY	Proj ID	Project Name	Net Commitment Amount (\$M)	Approval FY	IEG Outcome rating	IEG Risk to development objective Rating	IEG Bank Quality at entry	IEG Bank Supervision
2007	P001921	MU-Env Sewerage & Sanitation (FY98)	10.0	1998	S	Negligible to low	Moderately unsatisfactory	Satisfactory
2007	P101570	MU-Development Policy DPL (FY07)	30.0	2007	HS	Moderate	Highly satisfactory	Highly satisfactory
2008	P106650	MU-Dev.Pol.Loan (intermediate)	30.0	2008	HS	Moderate	Highly satisfactory	Highly satisfactory
2009	P112369	MU-Third Trade and Competitiveness DPL	107.8	2009	HS	Moderate	Highly satisfactory	Highly satisfactory
2011	P116608	MU:Fourth Trade and Competitiveness DPL	50.0	2010	HS	Moderate	Highly satisfactory	Highly satisfactory
2013	P105669	MU-Economic Transition (TA) Project	1.6	2009	N/A	Not applicable	Moderately satisfactory	Not applicable
2013	P112943	MU-Manufacturing & Servs Dev & Comp(SME)	0.3	2010	NR	Non-evaluable	Satisfactory	Not applicable

Source: World Bank database as of July 15, 2015.

Risk to development objective is rated for projects from FY07 onward.

Note: FY = fiscal year; IEG = Independent Evaluation Group; MS = moderately satisfactory; MU = moderately unsatisfactory; S = satisfactory; U = unsatisfactory.

Table B.4. Bank Budget by Cost Structure Category, FY07–15 (US\$, thousands and percent)

Sector Board	Total	Project Supervision	Lending	Analytic and Advisory Support	Country Program Support
Capital Markets Practice	109			109	
Competitive Industries Practice	200		200		
Economic Policy	2,124	327	1,145	652	
Education	96			96	
Energy and Mining	177	38	139		
Environment	66			66	
Financial and Private Sector Development	1,742	422	917	403	
Financial Management	98			98	
Innovation, Tech. & Entrepreneurship Practice	116			116	
Investment Climate Practice	467	16	213	238	
Not assigned	3,766	102	193	1,377	2,094
Public Sector Governance	760			760	
Social Protection	583	1	189	393	
Transport	1,078	498	580		
Water	69	69			
Total	11,450	1,472	3,576	4,309	2,094
Cost structure (percent)					
Capital Markets Practice	100	0	0	100	0
Competitive Industries Practice	100	0	100	0	0

Sector Board	Total	Project Supervision	Lending	Analytic and Advisory Support	Country Program Support
Economic Policy	100	15	54	31	0
Education	100	0	0	100	0
Energy and Mining	100	21	79	0	0
Environment	100	0	0	100	0
Financial and Private Sector Development	100	24	53	23	0
Financial Management	100	0	0	100	0
Innovation, Tech. & Entrepreneurship Practice	100	0	0	100	0
Investment Climate Practice	100	3	46	51	0
Not assigned	100	3	5	37	56
Public Sector Governance	100	0	0	100	0
Social Protection	100	0	32	67	0
Transport	100	46	54	0	0
Water	100	100	0	0	0
Total	100	13	31	38	18

Source: World Bank database as of July 15, 2015.

Table B.5. Total Net Disbursements of Official Development Assistance and Official Aid, 2005–2013 (US\$, millions)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	Cumulative 2005–13	Percentage of total disbursed 2005–13
All Donors Total	34.6	19.2	68.9	109.7	155.0	125.3	187.2	177.9	148.3	1,026.0	100.0
Multilateral, Total	10.4	12.6	27.5	95.5	93.3	69.1	75.3	93.2	85.4	562.2	54.8
EU Institutions	6.5	14.6	27.9	95.0	93.2	67.9	70.3	87.3	77.2	539.8	52.6
DAC Countries Total	21.5	8.5	43.6	16.1	63.6	58.2	113.6	86.3	64.5	475.9	46.4
France	3.4	2.7	39.8	15.8	43.2	54.0	100.5	83.7	62.2	405.4	39.5
United Kingdom	-0.8	-0.1	0.1	0.6	20.8	5.5	13.5	0.0	0.5	40.2	3.9
Japan	16.6	4.0	2.8	0.4	-2.1	-2.9	-2.4	1.1	-0.6	16.8	1.6
GEF	0.6	0.4	..	2.0	0.5	2.1	2.7	2.6	4.2	15.0	1.5
Global Fund (GFATM)	..	..	..	..	0.8	2.1	1.3	1.7	1.7	7.6	0.7
UNDP	0.2	0.4	1.2	1.5	1.4	1.1	0.6	0.5	0.4	7.3	0.7
UNTA	1.7	0.8	1.6	0.6	..	..	..	..	..	4.7	0.5
Australia	0.0	0.1	..	0.1	0.2	0.1	1.0	0.6	1.7	3.9	0.4
Canada	1.6	0.4	0.6	0.3	0.3	0.0	..	0.1	0.1	3.2	0.3
United States	0.7	0.4	0.3	0.2	0.1	0.5	0.2	0.4	0.4	3.0	0.3
IAEA	..	0.2	0.2	0.6	0.5	0.4	0.4	0.3	0.4	2.7	0.3
Luxembourg	0.7	0.2	0.0	..	0.2	0.4	0.1	0.1	0.1	1.8	0.2

Source: Organisation for Economic Co-operation and Development (OECD). Data extracted in June 2015 from OECD.Stat.

Note: DAC = Development Assistance Committee; EU = European Union; GEF = Global Environment Facility; GFATM = Global Fund to Fight AIDS, Tuberculosis and Malaria; IAEA = International Atomic Energy Agency

¹ The cancelled projects were: Manufacturing and Services Development and Competitiveness Project (MSDCP, FY10) and the Mauritius Economic Transition Technical Assistance Project (METAP, FY09). Both were cancelled/closed in April 2011. The reason for cancellation was the government found the fiduciary compliance requirements in these projects to be too cumbersome. The new DPLs were the Public Sector Performance DPLs 1(2012) and 2 (2013) and the Private Sector Competitiveness DPLs 1 (2012) and 2 (2013).

² Dropped projects included an Urban Infrastructure project (FY09) and two follow-up Infrastructure projects in 2012 and 2013. A pilot performance based Roads Asset Management and Safety Infrastructure Project (\$75 million) was cancelled after 18 months of preparation using substantial grant assistant.

³ For example, in the area of fiscal consolidation, the WB Treasury provided assistance to the Bank of Mauritius (BOM) and the Ministry of Finance and Economic Development (MOFED) to jointly develop an action plan for improving Public Debt Management and also provided training workshops.

⁴ Public Sector Performance DPL series and Private Sector Competitiveness DPL series.

⁵ IFC also provided advisory services in the form of the Business Edge Program designed to identify and upgrade the skill set of the client bank's Small and Medium Enterprise (SME) loan officers, credit officers, and SME Clients identified by the World Bank.

Appendix C. World Bank Group Program Organized Along the Evaluation Pillars

Pillar 1—Strengthening Resilience

1.1 STRENGTHENING FISCAL AND DEBT SUSTAINABILITY AND PUBLIC SECTOR PERFORMANCE

Under Pillar 1.1, the Bank Group sought to help make progress on the objectives/outcomes detailed below.

Objectives/Outcomes Sought	Associated Indicator(s) and Outturn
Improved fiscal management	•Operationalizing the MTEF.
Improved budget allocation	•Allocation of budget according to pre-set ceilings. •Compilation and publication of tax expenditures in the budget. •Minister of Finance relinquishing discretionary power to remit duties and taxes and grant exemptions.
Enforcement of new procurement rules as measured by audits	•Adoption and Implementation of new Procurement Act
Budget transfers from central government to parastatals is reduced	•Consolidation of 4 parastatal bodies in the water sector to create a single Water Authority.
Improved system and procedures that reward performance	•A strategy for human resources is prepared

Instruments used by the Bank Group to help make progress on the above objectives/outcomes.

Lending Operations	Analytic Work	Nonlending Technical Assistance
First Trade and Competitiveness DPL (P101570; FY07; \$30M)	MU-CEM (P090055; FY06)	MU-Aid for Trade (FY06) (P100496; FY06)
Second Trade and Competitiveness DPL (P106650; FY08; 30M)	MU-Civil Service Reform (P125280; FY12)	GCMCG: Mauritius TA to OPSG on SOE (P126608; FY11)
MU-Third Trade and Competitiveness DPL (P112369; FY09; 100M)	MU-Public Expenditure Review (P128135; FY13)	MU-Comm Assessment (FY06) (P100543; FY06)
MU:Fourth Trade and Competitiveness DPL (P116608; FY10; 50M)		MU-Cabinet Meeting on Reform Prog (FY07) (P100845; FY07)
MU -Second Public Sector Performance DPL (P128140; FY13; 20M)		MU-Sectoral Strategic Planning (FY08) (P107215; FY08)
MU-Economic Transition (TA) Project (P105669; FY09; 18M)		
MU-IDF MTEF CB (FY03) (P081770; FY03; 0.494M)		
MU-First Public Sector Performance DPL (P125694; FY12; 20M)		

1.2 STRENGTHENING ENVIRONMENTAL AND DISASTER RISK MANAGEMENT AND CLIMATE CHANGE

Under Pillar 1.2, the Bank Group sought to make progress on the objectives/outcomes detailed below.

Objectives/outcomes sought	Associated Indicator(s) and Outturn
Improvement in the environment	Increased use of cleaner technologies in the industrial sector

Instruments used by the Bank Group to make progress on the above objectives/outcomes.

Lending Operation	Analytic work	Nonlending Technical Assistance
Restoration of Round Island (P070392; FY01; \$0.8M)		

1.3 ENHANCING HUMAN CAPITAL AND SOCIAL RESILIENCE

Under Pillar 1.3, the Bank Group sought to make progress on the objectives/outcomes detailed below.

Objectives/Outcomes Sought	Associated Indicator(s) and Outturn
Increased articulation between the education strategy (in particular at the post-secondary level) and the overall economic growth strategy	Development of a renewed strategy of the post-secondary education sector strongly linked with the overall economic strategy.
Protection programs reach the needy as measured by household surveys.	
Adequate waste water management system in place ensuring improved health and sanitation	
Stabilization of the prevalence of HIV/AIDS at 0.3 percent.	

Instruments used by the Bank Group to make progress on the above objectives/outcomes.

Lending Operation	Analytic Work	Nonlending Technical Assistance
First Trade and Competitiveness DPL (P101570; FY07; \$30M)	MU-Social Protection System (P113152; FY10)	MU-Human Opportunity Index (P127593; FY12)
Second Trade and Competitiveness DPL (P106650; FY08; 30M)	MU-Skills Dev & Technology (P117987; FY11)	MU-Reg.Multi-disciplinary Ctr TF (FY07) (P101755; FY07)
MU-Third Trade and Competitiveness DPL (P112369; FY09; 100M)		MU-Safeguard Country Systems (P115687; FY10)
MU: Fourth Trade and Competitiveness DPL (P116608; FY10; 50M)		MU - Social Protection (P122545; FY11)
MU -Second Public Sector Performance DPL (P128140; FY13; 20M)		
Multisectoral Response to HIV/AIDS (P103158; FY11; \$0.5M)		

MU-Env Sewerage & Sanitation (FY98)
(P001921; FY98; 12.4M)

Pillar 2—Enhancing Competitiveness

2.1 STRENGTHENING THE DOMESTIC FINANCIAL SECTOR

There were no CPS objectives articulated under Pillar 2.1.

Instruments used by the Bank Group under Pillar 2.1.

Lending Operation	Analytic Work	Nonlending Technical Assistance
Fin Sec Supervisory Authority (P073594; FY02; \$1.8M)	Mauritius - Insolvency ROSC (P087422; FY05)	FIRST #251: Financial reporting council (P105441; FY07)
	FSAP Update Mauritius (P104439; FY07)	MU-Reg. Multidiscip. Cent. of Excellence (P110022; FY09)

2.2 STRENGTHENING THE LEGAL AND REGULATORY FRAMEWORK, SECTOR LINKAGES, AND VALUE CHAINS FOR PRIVATE BUSINESS

Under Pillar 2.2, the Bank Group sought to make progress on the objectives/outcomes detailed below.

Objectives/Outcomes Sought	Associated Indicator(s) and Outturn
Streamlined tariff measures	•Tariff reduction program under implementation
Reduction in air fares and more destinations served	
Increased exports	•Identification and removal of non-tariff barriers
Transparent administrative regulations	•List administrative requirements online via trade portal at customs.
Reduction in cost of doing business as measured by surveys (land, labor regulations)	•Creation of a one stop shop business registration mechanism. •Improve recovery rate of creditors.
Increase flexibility of hiring and firing	•Amendments in the Labor Laws
A working land market with reduced government intervention	•Development and adoption of a land administration and management system (LAVIMS)
Significant expansion of postsecondary education (technical and general)	•Potential efficiency gains are identified at all levels
Elimination of bias (financing, regulatory, skills, etc) against SMEs	•Increased number of new SMEs registered

Instruments used by the Bank Group to make progress on the above objectives/outcomes.

Lending Operation	Analytic Work	Nonlending Technical Assistance
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First Trade and Competitiveness DPL (P101570; FY07; \$30M)	GCMCG: Mauritius II Country Assessment (P125340; FY11)	MU-Next Generation Business Reforms TA (P127425; FY12)
Second Trade and Competitiveness DPL (P106650; FY08; 30M)	MU-Competitiveness Update (P112768; FY10)	Mauritius - TA on Insolvency Bill (P114439; FY09)
MU-Third Trade and Competitiveness DPL (P112369; FY09; 100M)	MU-Skills Dev & Technology (P117987; FY11)	MU: Forum: Doing Business in Mauritius (P119677; FY10)
MU: Fourth Trade and Competitiveness DPL (P116608; FY10; 50M)	Mauritius - ICA (P090821; FY06)	
MU -Second Public Sector Performance DPL (P128140; FY13; 20M)	ROSC-IAIS Mauritius (P126618; FY12)	
MU-Economic Transition (TA) Project (P105669; FY09; 18M)	Mauritius ROSC A&A (P123674; FY11)	
MU-Manufacturing & Servs Dev & Comp(SME) (P112943; FY10; 20M)	MU-ICA (FY10) (P113332; FY10)	
Private Sector Competitiveness DPL (P126903; FY12; 15M)		
Second Private Sector Compet. DPL (P132510; FY13; \$15M)		
IFC Investment: SBM Ltd (29518; FY11; \$75M)		
IFC Investment: I&P Capital III (30958; FY12; \$13M)		
Helios RI II (31552; FY12; 0.011M)		
Helios Towers RI (31399; FY12; \$0.2M)		

2.3 IMPROVING INFRASTRUCTURE SERVICE DELIVERY

There were no CPS objectives articulated under Pillar 2.1.

Instruments used by the Bank Group to make progress under Pillar 2.3.

Lending Operation	Analytic Work	Nonlending Technical Assistance
Infrastructure Project (P091828; FY10; \$50M)	Defining an Asset Management Strategy (P133271; FY15)	
Prep of Grid Code, Feed in Tariffs (P131818; FY13; \$0.2M)	Road Safety Management Capacity Review (P133300; FY14)	
CTSaV Bagasse Fueled Cogeneration (P103467; FY08; \$25.7M)	IFC Advisory services: Mauritius Ports (26352; FY08; \$2.3M)	

Appendix D. Short Summary of Bank Contribution under Pillar 1—Improving Resilience

Mauritius: Bank's Contribution to Strengthening Resilience

Macroeconomic: Objective was to create adequate fiscal space to meet emergencies by improving public financial management and management of public debt, reducing wasteful public expenditures and improving tax revenues.

- abolishment of ministerial discretion over tax and duty exemptions.
- operationalization of the Mauritian Taxation Authority (MRA) to strengthen tax administration.
- starting with the 2007/08 budget, adoption of MTEF and program based budgeting (PBB) to maintain a strategic framework for fiscal management and improve budget planning and execution.
- enactment of new Public Procurement Act 2006 to bring greater transparency in public procurement.
- enactment of Public Debt Management Act 2008, to improve debt management practices and limit the Borrowers public sector debt to a maximum of 50 percent of GDP by the end of 2013 (this was subsequently shifted to 2018).
- establishment of Parastatal Reform Steering Committee, and initiation of restructuring of selected parastatals with the ultimate objective of reducing their claim on public resources.

Social: objective was to improve the safety net for the poor by better targeting of social benefits and improved efficiency in implementation of the programs.

- restructuring of social protection programs under the National Empowerment Foundation (NEF) guided by a 2010 joint World Bank/UNDP report on the reform of the institutional arrangements at the NEF and its social protection strategies.
- establishment of a Social Registry (an integrated management information system that provides comprehensive information on existing and potential clients of social assistance programs) and progressive consolidation of programs for social protection under the Social Registry to improve coordination and reduce leakages in different social protection programs.

Natural Disaster: Improve legal and regulatory framework for disaster management. However, the World Bank did not provide much support in this area.