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MEMORANDUM AND RECOMMENDATION OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT TO THE EXECUTIVE DIRECTORS ON A COUNTRY ASSISTANCE STRATEGY OF THE WORLD BANK GROUP FOR THE REPUBLIC OF MAURITIUS

March 31, 1997

Country Department 8
Africa Region

MAURITIUS
COUNTRY ASSISTANCE STRATEGY

CURRENCY EQUIVALENTS

Currency Unit = Mauritius Rupee (Mau. Rs.)

US$1= Mau. Rs. 20.10 (March 1997)

WEIGHTS AND MEASURES

Metric System

FISCAL YEAR

July 1 - June 30

LIST OF ACRONYMS

ADB	African Development Bank
BOT	Build Operate Transfer
CEM	Country Economic Memorandum
CPE	Certificate of Primary Education
EDI	Electronic Data Interchange
EIP	Environmental Investment Program
EPZ	Export Processing Zone
FDI	Foreign Direct Invesment
FLPR	Female Labor Force Participation Rate
GEF	Global Environmental Fund
HPAE	High Performing Asian Economy
HPE	High Performing Economy
IEC	Information, Education and Communication
IP	Implementation Program
IVTB	Industrial and Vocational Training Board
MSTQ	Metrology, Standards, Testing and Quality
NCD	Non-Communicable Disease
NEAP	National Environmental Action Plan
PCI	Per Capita Income
PER	Public Expenditure Review
UNIDO	United Nations Industrial Development Organization

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MAURITIUS
COUNTRY ASSISTANCE STRATEGY
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MEMORANDUM OF THE PRESIDENT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT TO THE EXECUTIVE DIRECTORS ON A COUNTRY ASSISTANCE STRATEGY OF THE WORLD BANK GROUP FOR MAURITIUS

Executive Summary

1. Mauritius has taken big economic and social strides over the last two decades. The transformation of the small sugar-exporting economy to one that is much larger, more productive and diversified was based on a stable democracy, a coherent national strategy to compete internationally in labor-intensive industry and tourism, and active concern for equitable social progress. Now the central challenge is to modify policies to help the country join the ranks of the High Performing Economies (HPEs) and enjoy high-income country living standards by 2020, while assuring domestic social well-being. The objective of the Bank, a partner since independence, is to reflect these changing needs in its assistance strategy through the most relevant mix of lending and non-lending products.

Economic Transformation

	1970	**1996**
GDP per capita (US$)	700	3,400
Agriculture (% GDP)	23	10
(%Employment)	47	35
Sugar (% Total exports)	86	24
Industry (% Employment)	9	35
EPZ employment	0	80,000
Tourism (# of arrivals)	Negligible	487,000

2. Mauritius will not graduate to high-income status unless it begins to address certain important structural constraints which will eventually affect competitiveness in global markets. These were brought to the surface by the recent deterioration in key indicators such as the widening budget deficit and weakening in investment demand. With the virtual elimination of unemployment, low-cost labor -- key to past growth in sugar and textile exports -- is no longer available, and real wages have been rising. The recent high rate of growth of tourist arrivals is unsustainable, due to environmental and space pressures. In response to these developments, there has been some growth in the non-textile Export Processing Zone (EPZ), including jewelry, printing and watch-parts as well as expansion of offshore banking, launching of freeport activities, and modernization and upgrading of the textiles and sugar industries. But the transformation of Mauritius into an East-Asia type economy calls for far-reaching reforms that would sustain and deepen diversification into new markets by strengthening the country's educational and skills base, government services and infrastructure.

3. Recognizing that the key to continued real growth in incomes is productivity, the government's declared strategy draws on lessons from the East Asian experience showing a strong link between productivity and sound economic policies that ensure macroeconomic discipline, human resource development, and outward-orientation in an investment-friendly climate. This will require correcting emerging fiscal imbalances, reforming education and training policies, exposing protected domestic sectors to competition, and reducing transport congestion. In parallel, early action would be needed to address pragmatically the changing role of the state and improve the efficiency of the civil service. There is a clear consensus in Mauritius on the importance of these issues. However, government and civil society have found it hard to move from diagnosis to politically feasible reforms. One of the Bank's strategic objectives, to be pursued primarily through non-lending

services, is to help the people of Mauritius shift their attention to exploring and implementing solutions. The pace at which these issues are tackled will depend on how quickly the country comes together and succeeds in developing solutions acceptable to the majority of Mauritians.

4. Fiscal policy will pose a particular challenge: government will have to attain and maintain fiscal viability while reconciling the objectives of a low-tax environment, to encourage investment, with lower-level but "quality" public expenditure for social services. Monetary and fiscal policies would need to be geared to inflation no higher than that of major trading partners to maintain real interest rates comparable to international levels, and ensure a stable currency to support development of the financial services sector. Efficiency gains in private investment would require a unified low-tax and low-regulation framework, while a return of investor confidence would depend on early attention to structural issues. The policy environment for human resource development requires significant overhauling, as Mauritius' education system is not equal to its aspirations for technological sophistication. Government, in partnership with the private sector, needs to ensure provision of better-quality education: the country cannot afford one-third of its youth failing to graduate from primary school. In addition, stronger emphasis is required on science and engineering, secondary education, university programs and enrollment, and the incentive and regulatory framework to promote enterprise-based training. Health policies will need to increase access to more sophisticated services while controlling costs, as the population ages and becomes wealthier. Finally, an appropriate mix of policy interventions and infrastructure must be identified to reduce traffic congestion.

	Enrollment Ratio	
	Secondary	**Tertiary**
Korea	83	6
Singapore	80	12
Trinidad & Tobago	76	8
Chile	67	12
Mauritius	***50***	***3***

5. Important choices await Mauritius on the role of the state and the coverage and size of public sector programs, given the need to maintain a low-tax economy while ensuring high-quality human resources and infrastructure. Private sector participation and competition will be particularly important in the provision of infrastructure, utility and core services. At the same time, free access to social services and programs, originally developed to benefit the majority low-income population, is no longer appropriate given an increasingly affluent population. Reform is needed to concentrate social programs on the most needy, while allowing the majority, who have benefited most from economic success, to choose and pay for services. Civil service reform will be an additional key element to realizing productivity gains in the public sector: fundamental obstacles to be addressed are wage-setting (currently set by government and uniformly applicable, without regard to performance or relative skills), management of non-wage compensation (pensions), skill levels and service standards.

6. The Country Assistance Strategy (CAS) is selective in its support of government objectives. It has been designed on the basis of: the 1995 participatory Country Economic Memorandum -- which included a Poverty Analysis -- and a 1994 Technology Strategy for Competitiveness; experience in delivering assistance under the previous CAS; and burden-sharing with other donors. The CAS aims to help Mauritius forge a consensus on, and implement, policies that support productivity growth, to: (a) **improve the quality and productivity of human resources**; (b) **develop high-quality and well targeted public sector services in a low-tax open economy,** through improved efficiency of the civil service and of welfare expenditures; (c) **enhance private sector competitiveness,** focusing on reducing protection and providing incentives to raise productivity, attracting a new generation of

investment, diffusion of new technologies, and improvement of financial, telecommunications and transport infrastructure; and (d) **better manage the environment**, addressing in particular ecology and waste treatment.

7. A key challenge for the Bank Group in its assistance to Mauritius is to ensure the most appropriate mix of lending and non-lending instruments. The Bank's current portfolio in Mauritius of US$69 million supports CAS objectives (industrial and vocational training, higher education, technology diffusion, port development). The CAS emphasizes ESW and Information, Education and Communications (IEC) to strengthen prospects for country consensus around key areas of required reform. A strong IEC effort, focusing on lessons from successful economies and on the costs of delaying required reform, will target central issues (welfare state, civil service and labor market reforms), and the development of strategies for the education, health and transport sectors. Lending will be selective, comprising small operations for which Bank advice and leverage provide value-added. **New lending of US$ 30 million for FY98-00** aims to address needs in **environment** ($15 million, FY98), **financial infrastructure** ($5 million, FY98) and **health** ($10 million, FY99). Other Bank products will aim to facilitate Mauritius' access to international capital markets (guarantees) and provide financing at more competitive rates (single-currency lending).

A. Recent Economic and Social Performance

8. Between 1970 and 1996 Mauritius's annual growth of 5.6 percent was among the world's highest, while its population growth was reduced to 0.8 percent. With limited natural resources, the government and people of Mauritius identified a number of market niches and moved quickly to exploit them fully. Sugar and garment exports and tourism were the main engines of growth. Growth was sparked by premium sugar prices and the creation of an Export Processing Zone (EPZ), based on abundant cheap labor and preferential access to European markets. On the policy side, key elements of Mauritius' success story were a stable macroeconomic environment, a flexible exchange rate policy, an active strategy to attract foreign investors based on opportunities offered by the Lomé convention, and a clear focus on "upscale" tourism.

Box 1. Country Background

Independent since 1968, Mauritius undertook successful adjustment over 1979-82, establishing an open, business-friendly and export-oriented economy and a wide network of social programs.

	77-80	81-85	86-90	91-95
GDP growth (%)	1.0	4.7	7.4	5.0
GDP per capita (current US$)	1110	1082	1972	2917
% GDP:				
Agriculture	15	12	11	9
Manufacturing	13	15	20	20
Services	49	50	46	49
Exports	47	48	64	60
Gini Index [a/]	42	45	40	35
Headcount Index [a,b/]	15	19	13	5
Life expectancy at birth [c/]	65	67	69	70
Infant mortality (per 1000 live births) [c/]	38	28	24	18

[a/] Beginning of period
[b/] Percent below poverty line (1/3 mean household income)
[c/] Data for 1977, 1982, 1987 and 1992

9. While the Mauritian economy has continued to expand during the past three years, growth has averaged 4.1 percent compared to 6.0 percent in the three preceding years. Real output growth rates in the EPZ sector continued their decline which began at the end of the 1980s, reflecting some

erosion of international competitiveness in the textiles sector. Domestic savings over 1995/96 averaged 24.5 percent of GDP, down from an average of 28.2 percent in the preceding two years. This decline is exclusively attributable to dissaving by the Government. Meanwhile, private sector investment declined significantly (from 22 percent to 16 percent of GDP), reflecting wavering confidence within the business community tied to the timing of pending structural reforms.

10. Structural deficiencies center on a weak human capital base (relative to the needs of the next century), with a low average education attainment of the workforce and rigid labor markets that result in pockets of underutilized labor in the sugar and public sectors, and a wage setting system that fails to link remuneration to productivity. Public infrastructure and services, too, have not kept pace with the demands of a growing economy; and the tax system relies heavily (nearly 50 percent) on import duties, giving the non-EPZ sector little incentive to become internationally competitive. EPZ competitiveness has also been at risk, given rising labor costs and intense pressure to close the productivity gap with high-performing economies. In 1993, hourly labor costs in the textile industry were $1.42 in Mauritius, compared with $0.43 and $0.36, respectively, in Indonesia and China. Following numerous bankruptcies that weeded out inefficient firms, productivity in the garment industry has increased rapidly (7.8 percent between 1990 and 1995). Even with such growth, the challenge remains to close the productivity gap with successful economies like Singapore, to help sustain further increases in real wages. Not surprisingly, with labor productivity only a fourth of that in Singapore, wages in the Mauritius garment industry are one-fourth those in Singapore.

11. In response to competitive pressures, the EPZ sector has also improved the quality of products, adopted sophisticated technologies and intensified promotional efforts in existing as well as potential markets. Financial and offshore services (including a freeport) have seen strong growth in the nineties, albeit from a low base. The government has begun to encourage Mauritius' potential as a regional service center, partly by strengthening the regulatory and supervisory framework in the capital market. Pursuit of tourism is becoming more selective. With increasing concern to safeguard the island's beauty from too many tourist arrivals, the emphasis on high-end tourism is being reinforced. This strategy is reflected in the recent increase in arrivals from Europe and South Africa, which have raised spending levels per tourist.

12. The importance to Mauritius of equitable growth is reflected in the improvement in **social indicators** over the last two decades. Since the early seventies, life expectancy at birth has risen from 64 to 70, infant mortality per 1000 live births has declined from 57 to 19, and primary education is universal. The percent of the population below the poverty line (a third of mean household income) fell sharply over the last 15 years from 20 percent to 5 percent, while the distribution of household income in 1992 was much more even than in 1970, reflected in a 17 percent drop in the Gini inequality index. Mauritius' economic success is in no small measure linked to the changing status of women and their increased participation in the economy (Box 2). Housing standards have also improved markedly. These results were achieved through an extensive network of social programs put in place in the seventies, comprising free access to primary, secondary and in some cases tertiary health care, and an intricate web of income-support and income-smoothing programs. Finally, such economic well-being has minimized social frictions and helped ensure a basic social cohesion needed for developmental progress and peaceful cultural evolution. Notwithstanding progress in poverty reduction, a **Poverty Analysis** done as part of the

Box 2: Towards Full Participation of Women in the Economy

Women's role in economic activity has become more important. Between 1972 and 1995 as demand in the EPZ grew, the Female Labor Force Participation Rate (FLPR) rose from 21 percent to 40 percent. This trend has been accompanied by major strides to eliminate legal and regulatory barriers facing women. In 1981, women were classed as minors in a largely patriarchal society; today they are distinguished as independent contributors to society, filing separate income tax returns.

Entrepreneurial skills among women are also strong, illustrated by these winners of the national award for entrepreneurship:

- The winning Mauritian entrepreneur -- who went on to win the international award at the Los Angeles World Congress of Women. -- started as an unpaid family worker, then became an employee of her husband in a green grocery business. Upon assuming management of the company she turned the heavily indebted enterprise into a highly successful exporter of fruit and vegetables.
- The runner-up for the national Mauritian award worked for several years as a production manager in a large textile factory, then started producing clothes for the local market from her backyard, and went on to enter into a business partnership to buy up a bankrupt garment factory, which she turned into a successful garment exporter. Her factory is distinguished by having a computerized production run and low levels of absenteeism.
- Third in the competition was a woman who at the age of thirty with no previous experience of self-employment, was advised by a family mentor to get into business. In the early phase of tourist growth in Mauritius in the early 1980's, she spotted a business opportunity to produce better-designed and higher-quality T shirts for the growing visitor market, which she turned into a thriving industry.

Government intends to sustain this spirit of entrepreneurship through continued focus on women's issues in private sector support programs. Furthermore, while FLPR rates at 40 percent are high in developing country terms, further strides need to be made to bring them to the levels of Hong Kong (48 percent) and Singapore (46 percent). Finally, the multiple roles that women have assumed are inevitably accompanied by the stresses of an increasingly affluent and permissive society. Government, with the support of NGOs, is addressing these problems through such programs as early childhood development (Box 5).

1995 CEM pointed to regional poverty imbalances, higher incidence among women-headed households and a significant proportion of children under five who were underweight. These results were ascribed to insufficient education and vocational training and to poor post-natal care. Other emerging challenges relate to: an aging population, with implications for the labor market, health care and pensions; and serious deficiencies in education and vocational training.

B. External Environment

13. Adapting to increasingly free trade global markets is the central challenge facing Mauritius today. The two main exports -- textiles (55 percent of total) and sugar (24 percent) -- will come under tougher competition in European markets in the new millennium, when the Multi-Fiber Arrangement is phased out and the Lomé convention renegotiated. European markets account for 75 percent of textile exports and 90 percent of sugar exports. Buoyed partly by the depreciation of the Mauritian rupee, exports continue to grow, but a long-term competitiveness strategy that recognizes the opportunities and risks of the changing environment is critical. Efficiency improvements will be central to the further diversification and reorientation of export capacity, to reduce the economy's vulnerability to external shocks. Mauritius has already begun to adapt to changing external circumstances by (a) making *quality and quick response rather than labor cost* its comparative advantage; and (b) carving out new niches for itself. There is now greater flexibility in adjusting production to short-term demand conditions. In tourism, the up-market strategy is reflected in a 23 percent increase in spending per tourist between 1989 and 1995. Furthermore, the country has taken

the first steps to transform itself into a busy hub providing off-shore financial services for other countries in the region and high-tech computer services for world markets. Mauritius potential as a catalyst for **regional development** through trade, knowledge and investment could be an important complement to its continuing integration into the global economy.

14. Consolidating competitive strength will require access to capital, and a particular effort to attract a new generation of foreign direct investment (FDI). Over the last five years, exports have grown at a somewhat slower rate than imports (2.8 percent vs. 3.1 percent). The gap is likely to widen as a result of competitive pressure on exports and the related need for technology and other competitiveness-enhancing capital good imports. Mauritius is in a comfortable debt position, as the government undertook serious efforts in the late eighties and early nineties to reduce its external borrowing: external debt is at around 35 percent of GDP and debt service about 8 percent of exports. These indicators compare well with past ratios as well as international credit worthiness benchmarks: Institutional Investor ranks Mauritius 41st out of 135 countries. For the needed inflows, FDI capital would be preferable to borrowing, even on favorable terms, as it could help Mauritius upgrade and diversify in key sectors and raise the country's technological base.

C. Government Development Objectives and Policies

15. Mauritius' objective is to join the ranks of the High Performing Economies (HPEs) early on in the next century. The challenge is to rapidly improve productivity in both the public and private sectors (Box 3), and close the productivity gap with the HPEs so as to sustain further increases in real wages. To this end, the government aims to alleviate constraints to increased productivity, ensure fiscal viability, work closely with the private sector, and reform the welfare system. Sector-specific goals are to transform sugar into an internationally competitive industry, diversify manufacturing into higher value-added product markets, increase the amount each tourist spends, and expand the international services sector threefold. To attract a new generation of investment and maintain an internationally competitive private sector, Mauritius needs to consolidate the low-tax, business-friendly environment, while providing a well educated labor force, first class communications and efficient government services. Labor productivity has been growing, but tight labor markets, limited access to skills and centralized wage setting mechanisms have meant that increases in real wages have more than offset these gains. The government has embarked on a strategy to sensitize Mauritians that further productivity gains are crucial to continued prosperity and that putting off key reforms will only increase the costs of transition. This task is complicated by memories of unemployment, the need to maintain social balance between different ethnic groups, and steadily rising incomes.

Sustained Growth and Productivity

16. **Human Capital Base.** The Mauritian people and the government attach high priority to human capital development: total spending on education as a percentage of GDP (5 percent) compares favorably with middle-income countries. Yet, while the average education attainment of the work force has now reached 6.5 years and all children attend six years of primary school, only fifty percent receive five to six years of secondary education and only 2 percent benefit from tertiary education. These levels of attainment and enrollment do not compare favorably with middle-income countries (Trinidad & Tobago: 76 percent secondary school and 8 percent tertiary education enrollment; Chile: 67 percent secondary school and 12 percent tertiary education enrollment) and the

education levels of newly industrialized east Asian economies (Singapore and Korea have an average attainment of 9 years: both about 80 percent secondary school and 12 percent and 6 percent tertiary education enrollment respectively).

Box 3: Increasing Productivity

To increase productivity, the dual challenge is to improve the education of the current and future school age population while raising the skills of the existing workforce. The sectors with the greatest potential for increased productivity are (a) the civil service and publicly owned utilities; (b) the sugar sector; and (c) the domestic-oriented manufacturing sector and services.

- Productivity gains in the **public sector** will come from refocusing the role of the state to support private sector activity and social cohesion against the background of a growing economy with increasing global links, by: introducing modern management and latest technology; upgrading human capital (skills and educational attainment) in the civil service; and exposing inefficient parastatals to competition and/or privatization. Increased skills, motivation and efficiency should be rewarded through higher compensation based on performance, while the overall civil service wage bill could be reduced over the medium term.
- **In education**, the focus should be on raising standards so that future workers can be more responsive to changing global market signals by: assuring universal completion of nine years of compulsory education; enabling twice the number of students to graduate from upper secondary school; and providing world class university education to at least 10 percent of the secondary school leavers. Government will need to explore non-traditional mechanisms for financing, providing and managing higher education to realize this last objective.
- **In sugar**, the issues to be addressed are (i) the extent to which the windfall over average production costs should accrue to society at large or the sugar sector; (ii) within whatever remuneration scheme is decided, how to maximize sugar production while limiting land under sugar and contingency planning for the possible loss of the EU sugar protocol benefits. These considerations taken together could suggest a direction of policy reform based on gradually lowering the price received by the sector while developing a mechanism to pay planters a price reflecting the value of the marginal pound of sugar to the economy.
- **In domestic manufacturing and services**, competition is the key to improving productivity. In view of the small domestic market size, competitive pressure would come from moving to a regime of very low import taxes. The labor market must be made more flexible to enable firms to respond to the threat of competition. Under this scenario, wages would be determined by productivity. In the current growing economy fueled by productivity growth, even lower skilled workers, although earning comparatively less, will not earn less in absolute terms. Productivity gains based on competition with imports will also need to be supported by monetary policies for low inflation to ensure a stable currency with low exchange risk vis-à-vis the major international currencies -- essential for the development of a financial center.

17. The government and interested civil society have identified the main shortcomings of the current education system. At primary level, children move automatically through six years with a substantial number failing to acquire basic competencies along the way. Despite much and expensive private tutoring, about 35 percent fail the certificate of the tough primary education examination (CPE) and are denied access to secondary schools. Most of them join the workforce as unskilled workers and a small number attend poor quality pre-vocational schools. Furthermore, about 40 percent of those who do attend secondary schools drop out after three years, and less than half take science and mathematics. Higher education is free and is therefore constrained by what the government budget can afford, market signals have no bearing on either the demand or supply of education programs, and the quality of these programs is poor.

18. The government's strategy to improve the productivity and flexibility of the labor force comprises the following objectives: (a) universal completion of nine years education; (b) a major improvement in the quality of compulsory education; (c) creative mechanisms for providing and financing post-compulsory education; (d) greater professionalization of the teaching service; (e) a shift in the role of the Ministry of Education from provider to regulator of other providers and disseminator of innovation; and (f) upgrading the quality of university programs through the training of teaching personnel and inviting international faculty as visiting or permanent professors. As in other areas, this strategy draws on the successful educational policy experience of high performing Asian economies (HPAEs).

19. The success of the government's strategy rests on: (a) moving to a system of continuous assessment, where a child's progress is regularly monitored against rigorous standards -- allowing timely remedial action once problems are detected -- rather than a once-off make or break CPE exam; and (b) the willingness of parents to pay part of the costs of non-compulsory education. Families are already making significant sacrifices to provide private tuition, and would invest in a system that provided high quality education for their children. Benchmarks of success will be the doubling of secondary school enrollment and expanding world-class tertiary education, particularly degree-level science, engineering and business programs, to at least 10 percent of secondary school leavers. The goal is to triple enrollment in engineering by 2005, and double enrollment in the faculties of science; law and management; agriculture; and social science.

20. **Labor Market**. Government recognizes that wage signals are important incentives for investment in human capital and on-the-job performance, both powerful determinants of increased productivity. A shift away from the current system of centrally determined wages to performance-related remuneration is the central challenge. Wages are currently set through a tripartite arrangement where the primary objective is to provide for cost-of-living adjustments in the context of a delicate social compact worked out by labor, employers and government over many years. Government proposes to gradually move to performance-based remuneration, which as a first step would involve: (a) a review of the present tripartite system to assess the feasibility of setting fewer sector-specific minimum wages -- leaving the market to fix wages above these minima, across broader areas of economic activity; and (b) continued sensitization of management and labor to the importance of productivity gains. Only when labor is a full partner in striving for income growth through productivity, will the strategy be a success. Reform centers on the public sector, which sets the economy-wide benchmark at the lower end of the wage scale. As such, civil service reform will spearhead government objectives to increase productivity and free up labor markets.

21. **Civil Service Reform.** Government attaches great importance to the ability of the civil service to support the productive sectors in increasingly competitive international markets. In all sectors of public service, a better educated public and more demanding investors expect coordinated, responsive, quality services, which are seen to support enterprise and add value to family and community life. As a first step, the government has set up a Standing Committee on Civil Service Reform, reporting directly to the Prime Minister, to design a civil service that: (a) is output- rather than process-driven, focusing on its central mission of providing services efficiently to the public; and (b) has a wage structure that enhances productivity and provides incentive for the recruitment of highly skilled technicians and managers with a vocation for public service.

22. In deciding on what changes to introduce, the government is considering: (a) a redefinition of the mission and key services of the civil service (including the rationalization of ministries); (b) a change in the incentive structure to empower managers to effectively manage resources against well-defined public service objectives and performance indicators; and (c) an overhaul of training programs under the Mauritius Institute of Public Management to ensure the adequate provision and reorientation of skills to manage and deliver key services. A number of discrete efforts to modernize business practices are under way, such as the application of Electronic Data Interchange (EDI) for electronic document submission and clearance in customs, and in a land registration system; but these programs are not yet being pursued in the context of a comprehensive reform program to improve service delivery. In view of labor's frustration with an ongoing "passive" policy of natural attrition to downsize the service, government is proposing broad discussions with the trade unions

and interested civil society on the issues and objectives of the civil service reform program as a next step in the reform process.

23. **Infrastructure.** The government recognizes that the increasing strains which Mauritius's economic success has placed on infrastructure are undermining efforts to improve productivity. Government views ***external transport*** as key to sustaining the country's international trading status through: (a) new "quick response" strategies to improve lag times between the placement of orders and product delivery; and (b) developing a sea/air regional transport hub in the freeport. To accommodate increasing traffic, infrastructure in both the port and the airport is being improved while port and airport organization, management and regulation is being strengthened. Air cargo access policy is being reviewed to promote competition and reduce air freight costs as the country moves towards lower-volume, higher value-added production. Furthermore, increased private sector competition in port operations and investments, within a regulatory framework which ensures safety and protection of the environment, is being pursued.

24. Programs to resolve bottlenecks in ***internal transport*** are less well defined. Over the last ten years the road network has increased by about 6 percent, while the car population, with an increasingly affluent population, has grown some 63 percent, reflecting both business and personal vehicles. This has resulted in severe congestion around the capital, Port Louis, and on numerous secondary roads. There are clearly limits to building or improving the carrying capacities of roads. Moreover, if roads are built, in the absence of a comprehensive transport strategy, more cars will simply be attracted onto these roads, compounding the underlying problem.

25. The government is therefore developing a strategy to integrate road policy with that for public transport, buses and the rapid transit system, while implementing more effective controls on usage, through pricing and regulation. Cost effective investment choices center on: (a) either guided or unguided, and bus or rail, mass transit systems; and (b) the construction of a ring road around Port Louis. While these projects are being prepared, technical solutions within Port Louis and other large urban centers, such as: multistory parking, modern bus terminals and separate grade crossings, will be developed. Moreover, to ease secondary road congestion, by-passes of cities and villages will need to be constructed. Finally, this strategy is being developed in the context of government's overall policy for decentralization, which requires a fundamental reassessment of land use, the location of key economic activities, new urban development and street absorption capacity.

26. In the provision of infrastructure, government wants to encourage private sector financing and competition, taking into account users' capacity and willingness to pay. This could involve the greater use of Build Operate Transfer (BOT, already adopted in the freeport development), which is consistent with its strategy to, wherever possible, move from its role as a provider of services to a facilitator of internationally competitive activity and a guarantor of fair competitive practices. The government also recognizes that high quality low-cost ***telecommunications*** are basic to the process of enhancing manufacturing competitiveness and the expansion of international services. Thus, it is undertaking a major program to open up the telecommunications sector to greater competition and world-class technical know-how through: (a) reform of the legal and regulatory framework, including setting up an independent regulatory agency; and (b) corporate restructuring and a strategic partnership for the current monopoly provider of basic services.

27. **Environment.** Mauritius' small land mass, rapid industrialization and heavy reliance on tourism have meant that the environment has to be sensitively managed. Through the development and implementation of the first National Environment Action Plan (NEAP), Mauritius has established an appropriate institutional and legal framework to: (a) sensitize the public on environmental protection; and (b) ensure that key environment decisions are integrated into overall economic management. The first environmental investment program (EIP) will be completed by 1998. It includes the launching of public infrastructure rehabilitation programs, especially in the sewage and sanitation sector, and the preparation of the National Physical Development Plan to guide spatial development of the country and to form a basis for effective monitoring of physical development and environmental management. Haphazard development on the seaboard and in urban development, however, continues to damage coastal and marine ecosystems and overburdens existing infrastructure which was neither initially designed nor properly maintained or upgraded to respond to such growth patterns. To face these challenges, and building on past achievements, government intends to prepare a second NEAP (Box 4), with a supporting investment program, to: (a) ensure the effective treatment of waste from the industrial and tourism sectors; and (b) control environmental degradation arising from inappropriately planned urban growth.

Box 4. NEAP II: The Unfinished Agenda

The Second National Environmental Action Plan will target regulatory and institutional strengthening in two areas:

Coastal and Marine Ecosystem Degradation

- Develop Plan for recovery, transport and treatment of liquid waste not covered under NEAP I
- Identify Strategy for solid waste management, including sludge disposal from existing plants
- Prepare policy and strategy to ensure efficient coastal zone management (addressing problems of beach erosion,agrochemicals,oil spills, coral reefs)

Urban Environment Pressures

- Strengthen current regulatory framework governing urban and industrial growth, pollution
- Prepare integrated transport strategy to contain urban sprawl and ease overburdening of environment

Fiscal Viability

28. Mauritius has maintained fiscal stability to underpin its economic success story since the early 1980s. More recently, however, tax revenues decreased from a peak of 21.7 percent of GDP in 1990/91 to an estimated 16.0 percent in 1995/96. Poor tax performance stemmed from sharply decreasing import duties and the removal of the last remaining export tax on sugar, while complementary steps to introduce a value-added tax were eschewed. Meanwhile, total expenditure continued to increase in 1995/96, as flour and rice subsidies were reintroduced and public spending for infrastructure increased, widening the deficit to 7.6 percent of GDP and putting upward pressure on prices (inflation rate was up to 9.1 percent in January 1997, compared to 5.8 percent in 1995/1996). In spite of an increase in the sales tax rate from 5 to 8 percent, the 1996/97 budget projects a deficit of 6 percent reflecting largely the effect of a public sector salary increase and a 56 percent increase in basic pensions, which raised expenditures to an estimated 25.3 percent of GDP.

29. Government has a strategy to reduce the deficit to about two percent of GDP in 1999/2000, by gradually reducing expenditures to about 21 percent of GDP, while increasing tax revenues, with a target annual GDP growth rate of 6 percent to the beginning of the next century. Government intends to initiate a comprehensive public expenditure review to reduce waste and focus spending on priorities to support economic growth. This will lay the ground for civil service and welfare state reform, the privatization of certain activities, and the promotion of greater private sector

participation and competition in the provision of infrastructure, utilities and core services. Revenue measures will focus on broadening the base for both direct and indirect taxation (including the implementation of a value-added tax as of January 1, 1998), eliminating exemptions and special allowances for selected sectors and coordinating reductions in import tariffs with adjustment to sales tax rates.

30. Through determined fiscal reform, government aims to bring inflation rates to levels comparable to those of Mauritius's major trading partners to achieve exchange rate stability, and so produce an environment more conducive to the development of a strong financial and service sector. Government's objective is to create a uniform low-tax, low-regulation environment for investors. It is also reformulating legislation to consolidate investment authorization in the hands of a single board of investment. The current complex structure, including twelve distinct investment certificate schemes, blurs signals to the productive sectors, while incentives offered in one scheme over another are of only marginal benefit to potential investors.

Partnership with the Private Sector

31. Mauritius' growth prospects will continue to depend on the private sector's ability to follow its competitive instinct and exploit market opportunities in traditional and new sectors. The challenge in the near and medium-term is to ensure that the government/private sector partnership strengthens, under the right set of signals and incentives that will spawn new high-technology investment.

32. **Sugar**. Continual restructuring over the next few years, to improve efficiency, will be critical to ensure a future for the sugar sector, which still accounts for 33 percent of net export earnings. Current production costs are 16 cents a kilo, compared with European intervention prices of 24 cents and prices on world markets, currently at 11 cents. Efforts are in progress to reduce costs and enhance efficiency and profitability through: (a) greater mechanization as well as strategic restructuring to reduce the number of sugar mills; (b) increased average yields from different crop varieties; (c) moving up-market, focusing on premium-priced special and organic sugars; and (d) developing uses for by-products (e.g., bagasse electricity and ethanol).

33. **Manufacturing**. In the face of intense competitive pressures in the early nineties, the *EPZ* has emerged a more efficient sector. Government's strategy to sustain these gains is to: (a) promote knowledge-based micro-level support to existing industries, to improve their productivity, quality and response times; (b) provide special tax incentives for modernization and diversification; (c) encourage new foreign investment in higher technology-based industries through early actions to ease structural obstacles to their profitability identified in this section; and (d) underpin the flexibility of multinationals and local exporters to respond to international market signals through subcontracting and development of local support industries.

34. Challenges in the *non-EPZ* sector are intimately linked to tax reform and the emergence of a unified low-tax economy. With relatively high rates of protection, the sector has little incentive to become internationally competitive. Non-EPZ manufacturing accounts for only 10 percent of GDP but 47 percent of all indirect taxes on local production and services. The authorities are convinced that fundamental reform can only result from a shift in the tax burden from production to consumption, and fiscal neutrality between locally produced and imported goods, and manufactures

for the domestic market and those for exports. Government concerns on the short-term impact of such measures on fiscal revenues and domestic consumer prices have, however, delayed reform.

35. **Tourism.** Growth in tourist arrivals remains robust, but is expected to abate as Mauritius approaches its environmentally sustainable carrying capacity. Tourist arrivals increased fourfold between 1975 and 1992, and have since sustained annual average growth of 8 percent. Based on this growth rate tourist arrivals are expected to approach the carrying capacity in the first decade of the next century. In response to these realities, the joint government/private sector strategy is to maintain the up-market profile and emphasize higher expenditure per tourist. The strategy emphasizes: (a) further improving hotel standards and amenities; (b) providing tourists with a more diversified array of attractions, including eco-tourism, sport activities such as golfing and game fishing (provided they are environmentally mindful), and cultural attractions; (c) packaging Mauritius as part of a two-stop safari/beach vacation including the African mainland; and (d) expanding the country's international business conference potential. A range of auxiliary actions includes: effective application of environmental regulations; further development of the national airline (with possible assistance from a foreign strategic investor) and improved and expanded bilateral arrangements with other carriers to the exclusion of cheap charters; and more effective, technology-based marketing and reservation systems.

36. **Services.** Financial and offshore-type services' potential for foreign currency generation drives the government's strategy to position Mauritius as a regional and international service center. Potential clearly exists, given the island's business-friendly reputation and location, but competition is strong and the sector still has to prove itself as a major generator of economic activity. The government is thus pursuing efforts to provide the right legal and regulatory framework (including double taxation agreements) and infrastructure (particularly in the freeport) to enhance the sector's competitiveness, while recognizing that impact on employment and investment could well remain modest for some time to come. To lower costs of financial services and increase domestic savings, the government is also introducing a new payments clearing system, and strengthening and modernizing regulation and supervision in the financial sector.

Welfare Reform

37. In the context of rapidly changing country demographics and income levels, government aims to improve the efficiency of welfare expenditures so that: (a) the needs of the genuinely disadvantaged are more effectively met; and (b) existing human resources are optimized by developing programs that provide opportunity for those who have not benefited from recent economic success, to participate more effectively in society. An example of one such government program is support for early childhood development to poor families (Box 5). If welfare programs are to be financially sustainable *it is equally important* that those members of society who have benefited most from economic success contribute more to the costs of delivering social services and

Box 5: Innovative Child Welfare: Early Childhood Development

Government is reviewing the potential of programs targeted at either preventing or dealing with social problems early, so as to prevent costly interventions later. Zero to 3 early childhood development is one such program for children of disadvantaged families. In learning from countries like Singapore, the government's objective is to improve education performance, social adaptability and economic productivity in later life. The program (still under preparation) is driven by research findings that investing in children earlier rather than later will have significant cost-benefit advantages over social programs designed to treat a multitude of social ills arising from the high drop-out rate of the education system.

programs, and be given more choice on how they source and use social services. In rethinking the welfare state, government intends to review subsidies on *all* social programs and services. The ongoing review of the pensions system (Box 6) reflects the challenges facing the government in balancing its commitment to the needy with the financial sustainability of its programs.

Box 6: Getting More Value for Money from Social Programs while Protecting the Genuinely Needy - the Pensions Example

Government is conducting a review of the public retirement savings system, in the light of growing concern as to the financial sustainability of both the public and private pension systems.

There are currently approximately seven workers for every pensioner in the country. With an aging population, this ratio will decline to 3 to 1 by the year 2030. Every Mauritian gets a basic 'non-contributory' pension funded from the budget regardless of personal income. Government transfers to fund this pension are expected to rise sharply at the end of the century and to quadruple by the year 2030. Indeed, 83 percent of all government expenditures for income support programs processed by the Ministry of Social Security and National Solidarity are for the basic retirement pension. The marginal benefit of the pension to middle and high income groups is small, whereas NGOs and officials of the Ministry note that benefits under other pension schemes (widows, orphans, invalidity), means-tested income support schemes and programs dealing with stress-related problems of a more affluent society (child care, support for women, drug rehabilitation) are inadequate, in terms of both the breadth of coverage and the amount per person covered.

Furthermore, government employees' retirement benefits are also paid out of the annual budget and will absorb 17 percent by 2015. A sustainable and effective system will not be possible without reform to: (a) increase contributions (funding) from those who can pay, introduce means-testing for the basic pensions, reduce entitlements, or increase the age of retirement, or a combination of these approaches; and (b) target benefits to the genuinely needy.

38. **Health.** Mauritius has got good value for its health expenditures. With only 3.6 percent of its GDP spent on health (Sub-Saharan Africa: 4.2 percent; India: 6 percent), the country stands favorably between high-income countries and the former socialist economies of Europe, in terms of crude mortality and disability rates. Efficiency in health expenditures has in part been achieved through policies which have ensured equity in basic health care, concentrating resources on high-impact interventions to reduce maternal and infant mortality, and containing costs. In order to sustain this carefully managed strategy, Mauritius has had to restrict services in secondary and tertiary health care. The demographic and epidemiological profile of Mauritius now mirrors that of an upper-middle income country, given its aging population and the importance of non-communicable diseases (NCDs) as leading causes of mortality and disability. Smoking, alcoholism, drug dependence and traffic accidents are also contributing to serious public health problems.

39. Government's health care strategy involves increased financial commitment to health services, while pursuing effective cost containment measures. Safeguarding the principle of universal and equitable access to health care, the quality and effectiveness of both public and private services need to be increased, to ensure greater responsiveness to patient needs and increased patient choice. To meet these goals the Mauritians have fleshed out an Action Plan for reform which, over the next 10-15 years, would:

- *Develop strong primary, community and home-based care*, with first line practitioners offering personalized care for all. This approach is key to preventing disease and responding to it cost effectively. This will involve *increased private provision of services,* integrating private family medicine into public primary care, and contracting out services to private providers;

- *Increase the percentage of GDP devoted to health care services* by introducing an efficient and equitable change in the tax structure or social insurance systems. Public sector financing of tertiary services will, nevertheless, be focused on a highly selective list of cost effective areas, while markedly increasing the level of cost recovery (private finance) for other tertiary services;

- *Reform health sector management*, including decentralization, contracting for public and private services (fostering competition between the two sectors), and refocusing the role of the Ministry on strategic planning and quality assurance.

40. **Reintegrating the Excluded and Raising Skills Levels in the Workforce.** Demand for training to upgrade skills in both the existing labor force and new entrants is high beacause of the low average educational attainment of the work force. Inasmuch as these demands are not met, a growing proportion of the population is excluded from fully participating in an increasingly complex economy. Training, however, is largely targeted at school leavers and conducted outside the work place and prior to any work experience. Government training objectives center on raising capacities for quality vocational and technical training, with a strong emphasis on in-service training, to ensure that training supply responds to demand. To meet these objectives, government intends to implement fundamental shifts in financing and delivery of training. The state-run Industrial and Vocational Training Board (IVTB) is both a training regulator and a deliverer of training services -- a conflict of interest. The proposed government strategy is to reorient IVTB to focus only on the promotion of training and regulation, while encouraging greater private sector delivery of training services and more on-the-job training in small to medium enterprises. This will require: the consolidation and reduction of a number of IVTB training centers, based on an evaluation of their impact and cost effectiveness. It will also require greater transparency and simplification of the regulations for the registration of private training centers and for the refund of grants for training by firms.

From a Government Agenda to a Bank Strategy

41. Within a stable but vibrant political system, Mauritius' multi-ethnic society has succeeded since independence in striking a range of partnerships (between government and the private sector, labor and entrepreneurs, local and foreign business, neighbors and distant markets, and among previously opposed political parties) to adapt to changing circumstances, create consensus for politically demanding reforms and take advantage of opportunities-- all adding up to a major success story. As argued in this CAS, the present time presents such an occasion for Mauritius to come together: significant reform is required in the areas of education and the civil service, in particular, as well as infrastructure. These changes require correct diagnosis of key issues, evaluation of options, and consensus building on the implementation of an agreed plan of action. Much of the diagnostic has been done and there is consensus that business as usual will not do.

42. The leadership for action must now come from the governing coalition, which comprises a new alliance between Labor and the Mauritius Militant Movement (MMM) that won a landslide (60-0) election victory at the end of 1995. Whereas government's development goals outlined in this section are shared by both parties in the coalition and large sections of civil society, the process of creating a consensus to move swiftly from diagnosis to action is proving difficult. Such a process is likely to take time and will depend on the success of a broader dialogue with civil society at large. The Country Assistance Strategy therefore provides for support in consensus-building and, thereafter, implementation assistance in priority areas.

D. The Bank Group's Country Assistance Strategy

43. The CAS is based on: analytical work carried out jointly with the Mauritians (the 1995 Country Economic Memorandum and 1994 Technology Strategy for Competitiveness), leading to identification of issues and suggested policy reforms discussed in Section C; experience under the previous CAS as to what did and did not work well in delivering assistance to Mauritius; close partnership with the Client in establishing priorities; and burden-sharing with other donors.

44. **Experience under the Previous CAS.** Based on experience under the last CAS (May 1994), the present CAS limits lending to those areas where dialogue is at an advanced stage, and emphasizes: non-lending instruments to strengthen in-country debate in areas not yet close to consensus; continued active portfolio management; and identification of new Bank instruments best suited to Mauritius' evolving needs. Some key lessons on which this approach is based are:

- Implementation of policy reforms and projects has been most successful when preceded by significant dialogue (port, roads, environment, technology support systems);
- Dialogue was most effective where cross-country experience and broad, donor-coordinated exchanges were featured (telecommunications);
- Where there was limited debate on reforms with key stakeholders in civil society, the CAS was less successful (labor market, civil service and tax reform);
- Growing access to non-donor financing (witnessed by a $150 million bond issue in 1995) has resulted in hesitation to borrow -- sometimes after extensive project preparation -- and called for different approaches to lending (the Bank's first single-currency loan was made for the FY95 Port project);
- Mauritian authorities increasingly sought Bank advice to prepare for reform, even in areas unrelated to lending operations; and
- Problems in project execution required revision of implementation plans to meet updated needs (para.49), and greater attention to procurement issues during preparation rather than supervision (Port project).

45. **Partnership with Mauritius.** The preparation of the Country Assistance Strategy has been guided by continuous country dialogue (Box 7), in close collaboration with the IMF and other donors. Anchoring this partnership are good relations with successive governments and the private sector. Despite a relatively limited lending role due to the availability of alternative financing on better terms (para. 58), the IFC has also been active in the country dialogue, particularly in capital markets and investment fund development. With regard to client involvement in CAS preparation, the Country Director and country team members held extensive discussions, based on the CAS Concept Paper, with government, the private sector, representatives of organized labor, other donors, NGOs and consumer groups. The results of these discussions were then shared with government, and the full country team and sub-Client/Bank groups were established around each of the four CAS objectives to refine the nature of Bank assistance over the three-year CAS cycle. The work of all these groups was consolidated into a draft CAS and provided the basis for a second round of discussions with government.

46. **Selectivity and Burden-sharing.** Reflecting Mauritius' success, overseas development assistance declined from 4 percent of GDP in 1990 to 1.6 percent in 1996; donor interventions have

become increasingly selective and well-coordinated, with donors each playing their roles within a coherent overall program of assistance. For the Bank, selectivity is based on its comparative advantage in terms of a catalytic role (infrastructure and environment), institutional expertise (public expenditure review) and worldwide experience (education, civil service/welfare state reform, middle-income country experience in health). The IMF is taking the lead in helping reestablish fiscal viability with revenue reforms. In the area of poverty, the Poverty Analysis done as a part of the 1995 CEM identified the unfinished agenda. While the Bank's strategy aims to help sustain growth and refocus the welfare state on the genuinely needy, the EU is helping develop and fund a comprehensive anti-poverty program targeting the groups identified (in the Analysis and a follow-up government study) to be the most vulnerable. With respect to other burden-sharing, the Bank is working closely with: the French, Japanese, Europeans and ADB in infrastructure development and management of the environment; UNIDO on strengthening support services to the private sector; the French and ADB on human capital development; and the British in the health sector review. In addition, the Commonwealth Secretariat is helping Mauritius strengthen the justice system and rationalize its investment incentive system while simplifying investment authorization procedures.

Box 7: Partnership with Mauritius: Dialogue and Participation

Bank activities have intensified and widened country dialogue, involving policy makers, beneficiaries, the private sector, the media and trade unions. Particularly noteworthy examples of such efforts are:

- Joint Bank/Client preparation over an eighteen month period of the 1995 Country Economic Memorandum, which has since been extensively disseminated and discussed in the media and other fora by all members of civil society (policy makers, private sector, trade unions, consumer groups). The CEM was an important input to the previous government's efforts to rationalize the tax system and the reduction of direct controls in the financial sector; and to policy formulation in the social sectors for the incoming government.
- Extensive private/public sector participation in the development of a *Technology Strategy for Competitiveness* over the 1992-1994 period involving numerous seminars and workshops, which defined an action plan to enhance private sector competitiveness, and resulted in a technology development project and a services sector modernization operation.
- Local ownership of the health sector review, largely based on Mauritian contributions, with the Bank playing a supporting role, which resulted in an action plan for health sector reform end CY96. This plan includes key reforms in the financing, organization and management of health services.
- Following early Bank contacts with the incoming government in January 1996, the authorities are close to completing a draft education sector action plan based on Bank-supported workshops in December 1996, which will form the basis for improving the quality and coverage of the education system.

CAS Objectives and Instruments

47. Bank assistance will support the country's efforts to: (a) ensure that productive sectors have improved access to quality human resources and expertise, through more effective education and on-the-job/vocational training programs; (b) develop high-quality and well-targeted public sector services in a low-tax open economy, through civil service and welfare reform; (c) improve private sector competitiveness by removing infrastructure bottlenecks and strengthening support services and the business climate; and (d) safeguard the environment, through better strategic planning and waste water management. In support of these objectives, the CAS aims both to maximize use of the current portfolio and mobilize the mix of Bank services best suited to Mauritius' current needs. Given that consensus-building on key reforms is the central and toughest challenge facing the country today, the CAS relies heavily on non-lending services -- ESW and related Information,

Education and Communications (IEC) efforts -- to build support for reform, as well as just-in-time advice to help implementation thereafter.

Box 8. Key CAS Instruments

Current Portfolio $69 million	Education Technology diffusion Port development Environmental protection
New Lending $30 million	Health ($10 million) Environment ($15 million) Financial infrastructure ($5 million)
ESW, IEC, TA and Support for dialogue	PER and CEM (Mauritius to 2020) Seminars: CEM preparation/dissemination Sector Strategies: Transport/Health/Education Workshops: civil service/welfare/labor reform

Current Portfolio

48. The existing portfolio is an important instrument in the implementation of the CAS. Examples of results on the ground achieved under ongoing and recently closed projects include the following: the successful conclusion of the Highways II project has helped reduce infrastructure bottlenecks; 179 industrial consultant service projects approved under the Technology Diffusion Scheme (which the government wishes to replicate in tourism and agriculture) have helped upgrade private-sector capacities, deepening and diversifying export markets and modernizing domestic support services; the Sugar Energy Development Project supported efficiency improvements in the industry and has been accompanied by a significant increase in private sector investment in bagasse energy development; the competitiveness of tradables is being further aided by a Port Development Project, off to a good start; increased scientific and technical capacity at the University of Mauritius under the Higher Education Project and the construction of new schools under the Education Sector Project will improve the availability of qualified human resources; and an Environmental Monitoring project and two GEF grants (fully operational) and a waste water project (under preparation) are supporting NEAP implementation.

49. **Bank Portfolio Quality and Action.** The portfolio's overall quality is currently rated satisfactory. However, volatile and currently low disbursement ratios are an ongoing cause for concern. This partly reflects a small portfolio subject to significant fluctuations in disbursement factors, due to the relatively lumpy nature of lending (Box 9). Nevertheless, government, concerned by the weakening disbursement trend, set up a task force in the Ministry of Economic Planning and Development to help resolve problems of project implementation in executing ministries. Portfolio action resulted in: (a) cancellation of US$16 million in FY95 and FY96 in response to reduced financing requirements (US$1 million Industrial and Vocational Training, US$9 million Sugar Energy, and US$6 million Agricultural Management Services); and (b) revisions to implementation plans and disbursement profiles of other projects (Technical Assistance to Enhance Competitiveness, Education Sector and Higher Education).

Box 9: Portfolio Performance

The Mauritius portfolio reflects a lending allocation of approximately US$ 30 million. Active project management has led to cancellations when government priorities changed or alternative sources of financing were available to authorities.

	FY92	FY93	FY94	FY95	FY96
No. of projects	7	8	8	9	8
Approved [1]	20.4	20	7.7	46.5	0
Cancellations [1]	0	0	0	6	10
DO rating	1.3	1.5	S	S	S
IP rating	1.3	1.5	HS	S	S
Disb. factor	8.6	26	25	13	12

[1] Millions of US Dollars
DO - Development Objectives
IP - Implementation Progress

Bank Assistance by CAS Objective

50. **(a) Raising the Quality and Productivity of Human Resources, to put Mauritius on an Equal Footing with Newly Industrialized Economies.** The CAS will support government objectives to increase capacities for secondary and tertiary education, and raise the quality of the workforce through improved on the-job/vocational training. Existing operations will continue support for the redefinition of the government's education strategy planned for early FY98, based on the recommendations of two national workshops in late 1996 on education and training. The three ongoing operations, Industrial and Vocational Training, Education Sector, and Higher & Technical Education projects will then be retrofitted aiming at: at least nine years of quality basic education for all children; 10 percent enrollment in tertiary education; greater capacities for vocational training for primary and secondary school leavers; and more in-service and on-the job training to raise skills of the existing workforce. If warranted, a new operation will be prepared in continued support of these objectives. Non-lending support is expected to help improve links between remuneration and productivity.

51. **(b) Develop High-quality and Well-targeted Public Sector Services in a Low-tax, Open Economy.** Close donor collaboration will help government achieve its fiscal viability objective, while strengthening the business environment and developing more responsive quality public services. Support in achieving macroeconomic and fiscal targets will be led by the IMF, aimed at reducing dependence on import duties and developing a value-added tax. Complementary Bank assistance will support expenditure reform. A comprehensive review of public expenditure (PER) and support for country dialogue on civil service and welfare state reform will be undertaken in FY98. As follow-up and on an *as requested* basis, the Bank would provide further assistance to help implement civil service reform and restructure social programs and services. The ongoing Technical Assistance (TA) operation to enhance competitiveness will also supplement government efforts to modernize public services. In parallel, the Bank will support completion of the Action Plan for Health Sector Reform and a health lending operation in FY99 aimed at dealing with a health profile that mirrors that of an upper-middle income country in a cost effective way, while mindful of the role of the state in providing basic health services to low income groups. The operation will support implementation of the sector reform program and provide technical assistance to: (a) the Ministry of Health, to help: (i) establish a new family health service; (ii) implement management reforms, including decentralizing health administration and contracting out services to the private sector; and (iii) strengthen ministry capacities in quality assurance and strategic planning; and (b) the Ministry of Finance, to help implement tax or social insurance reform. The operation will also finance capital investments in primary health care and to selectively upgrade tertiary services.

52. **(c) Improving Private Sector Competitiveness.** Resolving infrastructure problems and strengthening support services are critical to sustained private sector-led growth into the new century. Government's infrastructure goals will be advanced by the ongoing Port and Freeport Development operation and the development of a Transport Sector Strategy with technical assistance, targeted at reducing transport congestion around the capital. A small (FY98) lending operation will help improve financial infrastructure through development of a modern two-tiered payments system. The ongoing TA operation will continue support for diversification and upgrading through the technology diffusion scheme and in strengthening metrology, standards, testing and quality (MSTQ) infrastructure. Tax reform, with IMF support, will help develop a uniform incentive environment and greater exposure of domestic industry to international competition.

Box 10. Non-Lending Services

Instruments	Areas of Intervention	Policy Focus
ESW • CEM: Mauritius to the Year 2020 • Long-term Perspective Study • PER	Lessons from successful economies Analysis of expenditure structure	-- Productivity-based economic growth -- New FDI, to spur economic diversification -- Incentives for competition -- Upgrading social services and infrastructure while maintaining fiscal viability -- More targeted welfare expenditures
Information exchange • IEC around White papers (global experience) • Workshops • Technical support for in-country diagnosis	Civil service reform Welfare state reform Labor market reform	-- Efficient delivery of public services (public sector driven by output, not process) -- Delivery of social services compatible with needs of a middle-income country, while protecting the needy -- Productivity-based remuneration
Support for sector strategies • Sector Review (Health) • Support in retrofitting (Education -- financed under lending oper.) • Technical Assistance (Transport) • IEC (Workshops/seminars)	Health Education Transport	-- Increase access to more sophisticated services while controlling health costs -- Raise education/skills base to help Mauritius compete -- Reduce traffic congestion while transforming island into a sea/air transport hub

53. **(d) Better Management of the Environment.** Country objectives to improve environmental strategic planning and management will be supported through the ongoing Environmental and Monitoring operation, which includes preparation of a Second National Environmental Action Plan and Investment Program, and GEF grants for sugar energy biotechnology, biodiversity restoration and wildlife preservation. An Environment, Sewage and Sanitation operation (FY98) aims to protect coastal and marine ecosystems through better treatment of waste and improved physical planning in urban areas and along the seaboard.

54. **Product Mix and Resource Use**. The CAS defines a scenario for Bank/Client relations involving selective small lending operations where Bank advice and leverage contribute to attracting other donor or private sector investment. Project preparation will include efforts to assess the potential for new Bank products to facilitate Mauritius's access to international capital markets (guarantees) and to provide IBRD resources at attractive rates (single currency lending). To help implement the consensus-building strategic thrust of the Bank's assistance to Mauritius, non-lending services will be focused on animating national debate through intensive IEC efforts supported by EDI and the Bank's Networks particularly for cross-country experience. The Bank will also play a supportive role to in-country preparation of the health sector review, transport action plan and national environment action plan. Joint Client/Bank preparation of the CEM will center on factors governing Mauritius' medium-term destiny, that will make the difference between a plateauing of economic prospects and a transition to a new era of growth; country-wide discussion will be an important part of the CEM exercise, as an input and by way of dissemination. Project supervision will continue to figure prominently, with emphasis on closely monitoring disbursement rates. The retrofitting of three ongoing education sector operations will ensure that existing IBRD resources meet updated sector strategy priorities.

55. **Macroeconomic Prospects.** Over the CAS period, the private sector is expected to continue to exploit market opportunities to allow economic growth of four to six percent. Maintaining growth at 6 percent beyond 2000 requires implementation of the policy agenda outlined above. The core assumption is that a 'high quality' reduction of the budget deficit from 6 percent forecast for FY96/97 to 2 percent in FY99/00 is achieved, reflecting fundamental changes in public expenditure patterns. This will entail civil service reform, more efficient welfare spending, and greater private sector participation in the funding and delivery of infrastructure and social services. Efficient factor markets are also assumed, with increased labor mobility and performance-based wage remuneration, linking growth in aggregate demand to productivity.

56. Fiscal discipline, low inflation, a stable currency and a good start in structural reform will result in a return to total savings and investment levels of around 29 percent and 30 percent of GDP respectively; and a resumption in foreign direct investment concentrated in services and high-technology industry. Sector-specific assumptions through FY2000 are as follows: in agriculture, projected annual average growth of 3.8 percent reflects more efficient production and fewer sugar mills through deregulation of labor markets and land use; in industry, continued growth of non-textile goods and shift to higher value-added clothing should result in annual growth of 6.3 percent; and in the tertiary sector, increased tourist arrivals and expenditure per tourist and a significant jump in growth of services are expected to contribute to annual growth of 5.8 percent. The net external capital requirements of the likely scenario amount to US$537 million over the 1997-2000 period. This is estimated to be covered by net foreign borrowing of US$429 million and net foreign direct investment of US$108 million.

57. **Creditworthiness and Bank Exposure.** Mauritius is expected to remain creditworthy for Bank lending during the foreseeable future. Its total external debt outstanding, including short-term and private non-guaranteed debt, was 35.2 percent of GDP (or about US$1.4 billion) at end-1996. Of this, about 48 percent was held by official creditors, with multilateral creditors accounting for about 38 percent and bilateral sources the remainder. Private creditors (including short-term) accounted for 52 percent, up from 38 percent at the end of 1993 -- the last CAS cycle -- reflecting improved public borrowing capacities in international capital markets. In 1994, the average terms for outstanding debt were 15.7 years of maturity, 3.1 years of grace, 5.6 percent interest, and a grant element of 25 percent. At end-1995, the Bank Group (IBRD and IDA) held about 9 percent of Mauritius' total debt outstanding and disbursed, down from 20 percent in 1990. During 1995, debt service to the Bank Group stood at 16 percent of the country's total debt service. The Bank's exposure in Mauritius has been declining, due to both the relatively stable balance of payments position and access to other external resources; this trend is expected to continue.

IFC and MIGA

58. IFC's investments in Mauritius amount to US$36.5 million, 80 percent in loans and the remainder in equity. IFC resources are relatively expensive for Mauritius, given the private sector's easy access to international capital markets. Portfolio performance has been mixed, and a number of projects have been restructured. Investments have been made in the tourism, textiles and financial sectors (including support for a country fund and venture capital company). The IFC will pursue its partnership with Mauritius, identifying niche opportunities as the private sector modernizes and expands into services, and in helping to mobilize private sector investment in the delivery of

infrastructure and social services. Mauritius signed the MIGA Convention in 1988, ratified it in 1990, and has paid its subscription in full.

Risks

59. The CAS does not hold any significant lending risks: proposed new lending is modest, and implementation prospects are good, in the light of extensive dialogue during preparation. Risks do exist, however, with respect to macroeconomic outcomes and the chances for realizing CAS objectives through non-lending services. While high-performing economy status is indeed within the country's medium-term grasp, failure to reach early agreement on action for sustained growth could drop Mauritius into a bleaker scenario: a country unable to attract new private capital due to binding human resource and infrastructure constraints as well as potential macroeconomic instability, with a public sector constrained by fiscal imbalances resulting from failure to realign the role of the state and rein in large welfare expenditures.

E. Agenda for Board Consideration

60. The CAS attempts to minimize risks by facilitating adoption of the required reforms in key areas. Mauritius has had to work its way out of difficult circumstances before, and has done so successfully. In some areas of the current challenge, such as health and the environment, a lot of progress has already been achieved. At the same time, the government faces a tough challenge in convincing the population -- mostly enjoying economic well-being and seeing no visible signs of crisis -- of the need for change. Our proposed lending program reflects these considerations; our non-lending services program especially focuses on helping to create the necessary consensus, and will evolve on the basis of government's willingness to seek assistance in any or all of those areas.

- Does the Board agree with the overall CAS approach which emphasizes the provision of non-lending services to help the people of Mauritius analyze options and implement solutions?

James D. Wolfensohn
President
by
Gautam S. Kaji

Washington, D.C.
March 31, 1997

Appendix 1. MAURITIUS: COUNTRY ASSISTANCE STRATEGY MATRIX

Development Objectives/Issues	Monitorable outcomes	Program Activities
I. Raise Quality amd Productivity of Human Resources to put Mauritius on equal footing w/ newly industrialized economies. - Increase capacities for secondary, tertiary education. - Improve on-the-job/vocational training programs.	Increase in polytechnic diplomas to 340 by 2000 from 40 in '95 Increase in Univ. of M. enrollments to 3200 in 2000 from 1960 in '95 Increase in public secondary school places to 27000 by '98 from17720 in '92 Industrial and vocational training for 59,000 persons	**Supervision:** - Ind. & Voc. Training - Education Sector (incl. support for IEC efforts) - H. & T. Education - Technical Assistance
II. Develop High Quality and well-targeted Public Sector Services in a Low tax, Open Economy. - Establish a low-inflation, stable currency economy - Create a uniform low-tax open economy. - Obtain more value for money on social spending. - Modernize public services, e.g., pension systems, banking regulations / supervision, revenue collection.	GDP growth: 4-6% FY98-00 Budget deficit FY99/00: 2% (from 6% estimated in FY96/97) Total savings and investment levels: 29-30% of GDP by FY2000 Net foreign direct investment: $108 million over 1997-2000 Sector growth thru' FY00, avg. per yr: 3.8% agriculture; 6.3% industry; 5.8% tertiary sector (incl. tourism/services) Pension Restructuring Plan by FY99 Performance on under-five mortality, male and female adult mortality Preparation of annual budgets, performance management plan by FY99 Disease-specific mortality targets	**Supervision:** - Technical Assistance **New Lending:** - Health (FY99) **ESW:** - CEM - PER review - Health Sector Review **Other Non-Lending**
III. Improve Private Sector Competitiveness - Remove physical and financial Infrastructure bottlenecks. - Upgrade, diversify and rationalize the sugar, manufacturing, tourism and financial sectors.	Improved industry productivity indices by '99 Match $2 of exports for $1 of grant (project) money Clearance/ settlement of all financial instruments in 1 day or less by 2000 Faster port turnaround: halving of idle times for all vessels by 2001 Implementation of research and extension strategy to provide farmer with professional advisory services in non-sugar production and to raise farm incomes by 50% by 2000 Adoption of sound resource allocation policy and realistic sequencing of operations in the road sector by FY99	**Supervision:** - Port Dev. & Env. - Agric. Services - Tech. Assistance **New Lending:** Accelerated Clearance Settlement System FY98 **ESW** - CEM - Just-in-Time (Transport) - Transport Master Plan
IV. Improve Environmental Management - Improve environmental strategic planning. - Improve waste water management.	New waste water project to serve estimated equivalent population of 180,000 not currently covered Cost recovery under new project: $2-3 million in operating costs Pre-treatment of oily waste; creation of capacity to fight oil spills by 2001 Restoration of endemic species in three islands by 2001 Under NEAP II, develop Plan for addressing liquid waste problems not covered under NEAP I; Strategy for solid waste management; Strategy for coastal zone management; Integrated transport strategy to contain urban crawl	**Supervision:** - Env. Mon. & Dev. - Biodiversity Restoration - Sugar Energy Biotech. - Port Dev./Env. **New Lending:** - Env. Sewer. & San. (FY99)

Mauritius - Selected Indicators of Bank Portfolio Performance and Management

Indicator	FY94	FY95	FY96	FY97
Portfolio Performance				
Number of projects under implementation	7.00	9.00	8.00	7.00
Average implementation period (years)[a]	2.54	2.78	3.43	4.31
Percent of problem projects rated U or HU[b] (for past years, rated 3 or 4)				
Development objectives[c]	0.00	11.11	0.00	0.00
Implementation progress (or overall status for past years)[d]	0.00	22.22	0.00	0.00
Canceled during FY in US$m	1.62	6.00	10.02	0.00
Disbursement ratio (%)[e]	19.29	9.80	10.81	15.08
Disbursement lag (%)[f]	37.70	41.29	51.23	48.53
Memorandum item: % completed projects rated unsatisfactory by OED	13.33	13.33	12.50	12.50
Portfolio Management				
Supervision resources (total US$ thousands)	253.78	491.58	446.85	237.33
Average supervision (US$ thousands/project)	36.25	54.62	55.86	33.90
Supervision resources by location (in %)				
Percent headquarters	0.00	0.00	61.62	62.34
Percent resident mission	0.00	0.00	38.38	37.66
Supervision resources by rating category (US$ thousands/project)				
Projects rated HS or S	36.25	60.90	55.86	0.00
Projects rated U or HU	0.00	32.64	0.00	0.00
Memorandum item: date of last/next CPPR				

a. Average age of projects in the Bank's country portfolio.

b. Rating scale: "HS" denotes "Highly Satisfactory", "S" denotes "Satisfactory", "U" denotes "Unsatisfactory", and "HU" denotes "Highly Unsatisfactory".

c. Extent to which the project will meet its development objectives (see OD 13.05, Annex D2, *Preparation of Implementation Summary [Form 590])*.

d. Assessment of overall performance of the project based on the ratings given to individual aspects of project implementatio (e.g., management, availability of funds, compliance with legal covenants) and to development objectives (see OD 13.05, Annex D2, *Preparation of Implementation Summary [Form 590])*. The overall status is not given a better rating than that given to project development objectives.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: investment projects only.

f. For all projects comprising the Bank's country portfolio, the percentage difference between actual cumulative disburseme and the cumulative disbursement estimates as given in the "Original SAR/PR Forecast" or, if the loan amounts have been modified, in the "Revised Forecast." The country portfolio disbursement lag is effectively the weighted average of disbursement lags for projects comprising the Bank's country portfolio, where the weights used are the respective project shares in the total cumulative disbursement estimates.

Note:

Disbursement data is updated at the end of the first week of the month.

Supervision resources include Salaries, Benefits, and Travel for all sources of funds but excludes FAO staff and PCR task costs.

Mauritius - Bank Group Fact Sheet FY 1994-2000
IBRD/IDA Lending Program, FY 1994-2000

	Past			Current		Planned[a]	
Category	FY94	FY95	FY96	FY97	FY98	FY99	FY00
Commitments (US$m)	7.7	46.5	0.0	0.0	22.0	20.0	0.0
Sector (%)[b]							
Education	0.0	34.4	0.0	0.0	0.0	0.0	0.0
Finance	0.0	0.0	0.0	0.0	31.8	0.0	0.0
Popultn, Hlth & Nutn	0.0	0.0	0.0	0.0	68.2	0.0	0.0
Public Sector Mgmt.	100.0	0.0	0.0	0.0	0.0	0.0	0.0
Transportation	0.0	65.6	0.0	0.0	0.0	25.0	0.0
Water Supply & Santn	0.0	0.0	0.0	0.0	0.0	75.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lending instrument (%)							
Adjustment loans[c]							
Specific investment loans and others	100.0	100.0	0.0	0.0	100.0	100.0	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Disbursements (US$m)							
Adjustment loans[c]							
Specific investment loans and others	15.1	6.8	11.7	12.2	23.6	9.5	3.4
Repayments (US$m)	21.4	23.5	22.4	15.0	0.0	0.0	0.0
Interest (US$m)	11.3	11.3	10.4	6.4	0.0	0.0	0.0

a. Ranges that reflect the base-case (i.e., most likely) scenario. For IDA countries, planned commitments are not presented by FY but as a three-year-total range; the figures are shown in brackets. A footnote indicates if the pattern of IDA lending has unusual characteristics (e.g., a high degree of frontloading, backloading, or lumpiness). For blend countries, planned IBRD and IDA commitments are presented for each year as a combined total.

b. For future lending, rounded to nearest 0 or 5%. To convey the thrust of country strategy more clearly, staff may aggregate sectors.

c. Structural adjustment loans, sector adjustment loans, and debt service reduction loans.

Note:
Disbursement data is updated at the end of the first week of the month.

Mauritius - IFC and MIGA Program, FY94-96

	Past			*Current*
Category	FY94	FY95	FY96	FY97
IFC approvals (US$m)	6.1	0.0	0.6	0.0
Sector (%)				
Financial Services	1.0	0.0	1.0	0
Hotels & Tourism	1.0	0.0	0.0	0
(blank)	0.0	0.0	0.0	0
TOTAL	2.0	0.0	1.0	0.0
Investment instrument (%)				
Loans	81.0	0.0	0.0	0.0
Equity	0.0	0.0	1.0	0.0
Quasi-equity[a]	18.0	0.0	99.0	0.0
Other	0.0	0.0	0.0	0.0
TOTAL	99.0	0.0	100.0	0.0
MIGA guarantees (US$m)		0.0		0.0
MIGA commitments (US$m)		0.0		0.0

[a] Includes quasi-equity types of both loan and equity instruments.

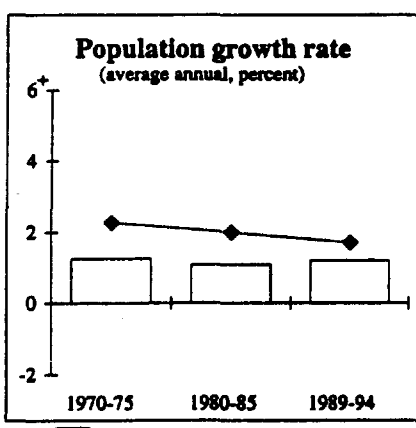
Mauritius - Summary of Economic and Sector Work

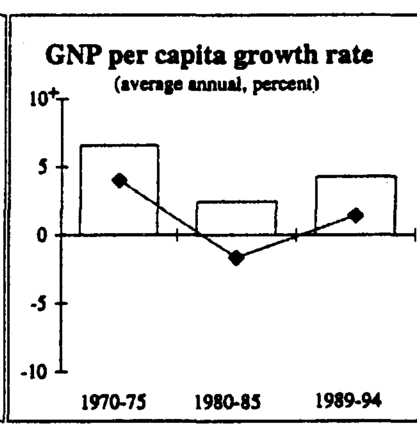
(US$ thousands)

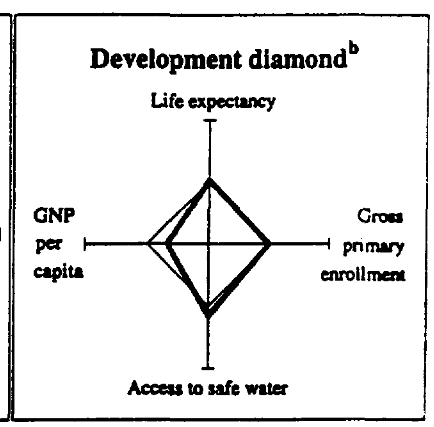
Category	FY1998	FY1999	FY2000
CEM	50.4	100.0	80.0
PER	25.0	50.0	75.0
Trasport Master Plan	110.0	50.0	50.0
Health Review	20.0		
Total	**205.4**	**200.0**	**205.0**

Mauritius

Indicator	*Unit of measure*	*Latest single year* 1970-75	*Latest single year* 1980-85	*Most recent estimate 1989-94*	*Same region/income group* Sub-Saharan Africa	*Same region/income group* Upper-middle-income	*Next higher income group*
Priority Poverty Indicators							
POVERTY							
Upper poverty line	local curr.	..	749	1,626	..	..	..
Headcount index	% of pop.	..	20	5	..	..	..
Lower poverty line	local curr.	..	..	..	..	..	..
Headcount index	% of pop.	..	..	..	..	..	..
GNP per capita	US$	770	1,070	3,180	500	4,710	24,030
SHORT TERM INCOME INDICATORS							
Unskilled urban wages	local curr.	..	..	..	..	..	..
Unskilled rural wages	"	..	..	..	..	..	..
Rural terms of trade	"	..	..	..	..	..	..
Consumer price index	1987=100	29	98	185	..	..	..
Lower income	"	..	..	..	..	..	..
Food[a]	"	..	125	117	..	..	..
Urban	"	..	..	..	..	..	..
Rural	"	..	..	..	..	..	..
SOCIAL INDICATORS							
Public expenditure on basic social services	% of GDP	..	..	..	..	..	..
Gross enrollment ratios							
Primary	% school age pop.	107	110	106	71	107	104
Male	"	108	110	107	77	..	104
Female	"	106	109	106	64	..	104
Mortality							
Infant mortality	per thou. live births	55	28	17	92	36	6
Under 5 mortality	"	..	..	23	161	43	8
Immunization							
Measles	% age group	..	61.0	..	51.4	82.9	82.7
DPT	"	..	85.0	..	53.5	74.7	90.3
Child malnutrition (under-5)	"	..	23.9	..	..	..	..
Life expectancy							
Total	years	63	67	70	52	69	77
Female advantage	"	4.6	5.5	6.4	3.5	5.8	6.4
Total fertility rate	births per woman	3.3	2.5	2.0	5.9	2.8	1.7
Maternal mortality rate	per 100,000 live births	112	103	..	..	..	..
Supplementary Poverty Indicators							
Expenditures on social security	% of total gov't exp.	37.5	18.8	20.5	..	..	..
Social security coverage	% econ. active pop.	..	..	..	..	..	..
Access to safe water: total	% of pop.	60.0	98.8	100.0	..	86.2	..
Urban	"	100.0	100.0	100.0	..	94.0	..
Rural	"	22.0	98.0	100.0	..	64.8	..
Access to health care	"	..	100.0	99.0	..	..	..







Mauritius
Upper-middle-income

Mauritius
Upper-middle-income

a. See the technical notes. b. The development diamond, based on four key indicators, shows the average level of development in the country compared with its income group. See the introduction.

Mauritius

Resources and Expenditures

Indicator	Unit of measure	Latest single year 1970-75	Latest single year 1980-85	Most recent estimate 1989-94	Same region/income group: Sub-Saharan Africa	Same region/income group: Upper-middle-income	Next higher income group
HUMAN RESOURCES							
Population (mre=1994)	thousands	883	1,020	1,115	571,902	472,807	849,935
Age dependency ratio	ratio	0.74	0.57	0.49	0.94	0.62	0.49
Urban	% of pop.	43.4	41.4	40.6	30.6	73.7	77.5
Population growth rate	annual %	1.5	0.6	1.6	2.8	1.7	0.7
Urban	"	2.1	0.1	1.7	4.9	2.5	0.8
Labor force	thousands	294	385	460	254,250	198,841	416,550
Agriculture	% of labor force	30	21	17	65	21	5
Industry	"	26	35	43	9	27	31
Female	"	23	28	31	41	34	42
Labor participation rates							
Total	% of pop.	33	38	41	44	42	49
Female	"	8	11	13	37	29	41
NATURAL RESOURCES							
Area	thou. sq. km	2.04	2.04	2.04	24,273.83	20,668.74	31,824.24
Density	pop. per sq. km	432.84	500.00	537.75	22.90	22.49	26.53
Agricultural land	% of land area	55.67	56.16	55.67	50.61	41.49	42.29
Change in agricultural land	annual %	0.00	0.00	0.00	0.01	0.02	-0.42
Agricultural land under irrigation	%	13.27	14.91	15.04	0.86	9.28	15.13
Forests and woodland	thou. sq. km	..	0.58	0.57	5,323.14	7,520.52	10,594.36
Deforestation (net)	% change, 1980-90	..	..	0.17	..	..	..
INCOME							
Household income							
Share of top 20% of households	% of income	55	..	..	..	..	..
Share of bottom 40% of households	"	14	..	..	..	..	..
Share of bottom 20% of households	"	5	..	..	..	..	..
EXPENDITURE							
Food	% of GDP	..	17.0	..	..	..	8.6
Staples	"	..	4.7	..	..	..	1.7
Meat, fish, milk, cheese, eggs	"	..	6.6	..	..	..	3.9
Cereal imports	thou. metric tonnes	149	179	240	14,051	43,633	74,460
Food aid in cereals	"	22	9	5	5,079	67	..
Food production per capita	1987 = 100	82	93	90	102	102	96
Fertilizer consumption	kg/ha	213.7	245.4	230.1	5.3	68.9	158.3
Share of agriculture in GDP	% of GDP	19.2	12.8	7.7	19.5	8.0	2.3
Housing	% of GDP	..	13.7	..	..	..	11.6
Average household size	persons per household	5.3	4.8	4.5	..	..	..
Urban	"	..	..	4.3	..	..	..
Fixed investment: housing	% of GDP	6.6	4.5	..	..	..	5.0
Fuel and power	% of GDP	..	2.2	..	..	..	2.0
Energy consumption per capita	kg of oil equiv.	348	344	387	251	1,618	5,130
Households with electricity							
Urban	% of households	..	..	..	..	..	..
Rural	"	..	..	..	..	..	..
Transport and communication	% of GDP	..	7.6	..	..	..	8.9
Fixed investment: transport equipment	"	2.6	1.7	..	..	..	2.1
Total road length	thou. km	2	2	2	..	..	..
INVESTMENT IN HUMAN CAPITAL							
Health							
Population per physician	persons	4,200	1,899	1,167	..	..	..
Population per nurse	"	608	584	..	..	..	..
Population per hospital bed	"	300	300	..	1,316	402	145
Oral rehydyration therapy (under-5)	% of cases	..	..	7	37	51	..
Education							
Gross enrollment ratios							
Secondary	% of school age pop.	39	46	59	24	59	97
Female	"	35	46	60	23	..	98
Pupil-teacher ratio: primary	pupils per teacher	26	22	21	40	25	..
Pupil-teacher ratio: secondary	"	31	20	21	..	..	..
Pupils reaching grade 4	% of cohort	96	98	99	..	..	..
Repeater rate: primary	% of total enroll	..	6	8	..	..	..
Illiteracy	% of pop. (age 15+)	..	17	15	53	13	..
Female	% of fem. (age 15+)	..	23	..	54	15	..
Newspaper circulation	per thou. pop.	93	77	74	12	135	316

World Bank International Economics Department, April 1996

Mauritius - Key Economic Indicators

Indicator	Actual				Estimate		Projected	
	1991	1992	1993	1994	1995	1996	1997	1998
National accounts (as % GDP at current market prices)								
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture[a]	9.5	9.2	8.3	7.9	8.3	8.5	8.4	8.1
Industry[a]	27.7	28.3	28.3	28.7	28.9	28.2	28.2	28.1
Services[a]	47.5	47.9	48.5	49.9	50.6	51.2	51.3	51.5
Total Consumption	75.1	73.9	75.3	76.4	77.3	78.1	77.6	75.8
Gross domestic fixed investment	28.6	27.8	28.4	30.7	24.5	24.9	26.1	27.0
Government investment	8.2	9.6	7.9	9.0	8.1	5.4	5.0	4.7
Private investment (includes increase in stocks)	20.4	18.3	20.6	21.6	16.4	20.4	21.1	22.3
Exports (GNFS)[b]	62.9	60.0	59.3	57.2	59.6	61.1	61.0	60.7
Imports (GNFS)	66.6	63.2	65.5	66.0	62.3	64.9	64.7	63.5
Gross domestic savings	24.9	26.1	24.7	23.6	22.7	21.9	22.4	24.2
Gross national savings[c]	28.1	29.3	27.6	25.9	24.8	23.4	23.8	25.7
Memorandum items								
Gross domestic product (US$ million at current prices)	2831	3189	3201	3514	3940	4076	4374	4725
Gross national product per capita (US$, Atlas method)	2656.0	2958.4	2918.0	3151.3	3486.7	3520.0	3800.0	4060.0
Real annual growth rates (%, calculated from 1992 prices)								
Gross domestic product at market prices	4.3%	6.2%	5.4%	4.4%	4.3%	6.1%	5.5%	5.7%
Gross Domestic Income	3.5%	6.2%	2.1%	3.2%	3.6%	4.8%	5.3%	6.3%
Real annual per capita growth rates (%, calculated from 1992 prices)								
Gross domestic product at market prices	3.4%	5.0%	3.6%	2.7%	2.9%	5.3%	4.7%	4.9%
Total consumption	-0.5%	3.6%	3.4%	3.4%	2.8%	5.0%	3.9%	3.4%
Private consumption	-1.0%	3.6%	3.4%	3.6%	2.9%	5.2%	4.7%	4.1%

(continued)

Mauritius - Key Economic Indicators
(Continued)

Indicator	Actual			Estimate		Projected		
	1991	1992	1993	1994	1995	1996	1997	1998
Balance of Payments (US$m)								
Exports (GNFS)[b]	1780.0	1912.2	1899.1	2009.7	2349.4	2489.5	2666.7	2866.8
Merchandise FOB	1213.4	1302.6	1302.8	1343.5	1538.9	1651.9	1763.6	1888.3
Imports (GNFS)[b]	1887.0	2016.7	2097.7	2320.3	2453.6	2645.8	2830.3	3002.3
Merchandise FOB	1418.9	1473.4	1558.6	1759.5	1797.2	1932.1	2067.5	2187.1
Resource balance	-107.0	-104.5	-198.6	-310.6	-104.2	-156.3	-163.5	-135.6
Net current transfers (including official current transfers)	88.1	92.2	98.4	101.5	105.1	110.0	121.0	134.0
Current account balance (after official capital grants)	-1.5	12.7	-100.7	-227.4	-11.6	-82.2	-87.8	-48.5
Net private foreign direct investment	14.2	-15.6	-18.5	10.3	25.7	17.0	21.0	25.0
Long-term loans (net)	75.8	-10.0	10.8	87.6	128.0	119.3	114.6	74.4
Official	46.2	-21.1	7.5	-18.0	-18.0	5.0	29.0	4.0
Private	29.6	11.1	3.3	105.6	146.0	114.3	85.6	70.4
Other capital (net, including errors and omissions)	112.0	81.2	54.1	74.3	1.7	-33.0	53.0	54.0
Change in reserves[d]	-200.5	-68.3	54.3	55.3	-143.8	-21.1	-100.8	-104.9
Memorandum items								
Resource balance (% of GDP at current market prices)	-3.8%	-3.3%	-6.2%	-8.8%	-2.6%	-3.8%	-3.7%	-2.9%
Real annual growth rates (1992 prices)								
Merchandise exports (FOB)	6.2%	2.0%	2.5%	-1.5%	5.7%	6.2%	5.6%	5.8%
Primary	1.5%	6.7%	-3.0%	-8.7%	7.0%	9.9%	7.0%	7.0%
Manufactures	6.1%	7.4%	9.5%	1.0%	5.0%	5.0%	5.0%	5.0%
Merchandise imports (CIF)	5.8%	0.1%	7.3%	4.2%	-3.5%	6.0%	5.5%	5.6%
Public finance (as % of GDP at current market prices)[e]								
Current revenues	22.7	22.1	21.6	20.5	18.6	18.9	19.2	19.2
Current expenditures	20.3	19.7	19.4	19.9	20.3	18.9	18.4	17.8

(Continued)

Mauritius - Key Economic Indicators
(Continued)

Indicator	Actual 1991	1992	1993	1994	Estimate 1995	1996	Projected 1997	1998
Current account surplus (+) or deficit (-)	2.4	2.4	2.2	0.7	-1.7	0.0	0.8	1.5
Capital expenditure	4.7	4.8	4.6	4.1	4.4	6.0	5.6	5.3
Foreign financing	-0.6	-0.5	-0.2	-0.1	1.8	0.1	0.5	0.3
Monetary indicators								
M2/GDP (at current market prices)	67.6	69.9	71.9	72.3	79.0	76.8	75.1	73.2
Growth of M2 (%)	21.9	15.9	17.0	12.3	18.7	9.3	8.3	8.2
Private sector credit growth / total credit growth (%)	48.5	79.8	78.5	62.8	75.5	60.7	72.0	98.0
Price indices(1992 =100)								
Merchandise export price index	90.1	94.8	92.5	96.8	104.9	106.1	107.2	108.5
Merchandise import price index	114.7	119.6	117.9	126.7	134.9	137.5	139.5	139.8
Merchandise terms of trade index	78.6	79.3	78.5	76.4	77.8	77.1	76.8	77.6
Real exchange rate (US$/LCU)[f]	..	..	..	..	..	..	..	..
Real interest rates								
Consumer price index (% growth rate)	7.0%	4.7%	10.5%	7.3%	6.0%	7.3%	5.2%	4.1%
GDP deflator (% growth rate)	8.2%	5.5%	7.9%	7.0%	4.0%	6.0%	5.0%	5.0%

a. If GDP components are estimated at factor cost, a footnoote indicating this fact should be added.
b. "GNFS" denotes "goods and nonfactor services."
c. Includes net unrequited transfers excluding official capital grants.
d. Includes use of IMF resources.
e. Should indicate the level of the government to which the data refer.
f. "LCU" denotes "local currency units." An increase in US$/LCU denotes appreciation.

Mauritius - Key Exposure Indicators

Indicator		Actual			Estimate		Projected	
	1991	1992	1993	1994	1995	1996	1997	1998
Total debt outstanding and disbursed (TDO) (US$m)[a]	1035.4	1036.9	989.5	1410.3	1801.0	1935.1	2008.6	2050.0
Net disbursements (US$m)[a]	57.8	46.1	13.2	87.5	128.0	134.1	71.5	41.4
Total debt service (TDS) (US$m)[a]	168.7	180.7	121.1	151.3	215.0	199.0	220.4	228.2
Debt and debt service indicators (%)								
TDO/XGS[b]	53.5	49.8	48.2	65.0	71.3	72.0	69.8	66.3
TDO/GDP	36.6	32.5	30.9	40.1	45.7	47.5	45.9	43.4
TDS/XGS	8.7	8.7	5.9	7.0	8.5	7.4	7.7	7.4
Concessional/TDO	..	..	..	..	26.0	24.6	25.2	25.3
IBRD exposure indicators (%)								
IBRD DS/public DS	25.2	21.7	32.2	29.9	25.6	20.5	17.6	16.3
Preferred creditor DS/public DS	54.6	34.6	46.0	46.4	36.8	29.5	27.7	27.5
IBRD DS/XGS	1.7	1.6	1.6	1.5	1.3	1.3	1.1	1.0
Share of IBRD portfolio	..	..	..	..	..	..	..	..
IFC (US$m)								
Loans								
Equity and quasi-equity /c								
MIGA								
MIGA guarantees (US$m)								

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

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

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

Status of Bank Group Operations in Mauritius
IBRD Loans and IDA Credits in the Operations Portfolio

Project ID	Loan or Credit No.	Fiscal Year	Borrower	Purpose	Original amount in US$ millions: IBRD	IDA	Cancellations	Undisbursed	Difference between expected and actual disbursements[a]	Last ARPP Supervision Rating[b]: Development Objectives	Implementation Progress
Number of Closed Loans/Credits: 28											
Active Loans											
MU-PE-1926	L39090	1995	GOM	PORT DEV. & ENV PROT	23.40			16.93	-6.47	S	S
MU-PE-1926	L39080	1995	GOM	PORT DEV. & ENV PROT	7.10			7.10	2.18	S	S
MU-PE-1923	L38590	1995	GOVT OF MAURITIUS	H & T EDUCATION	16.00			15.78	6.42	S	S
MU-PE-1918	L37360	1994	GOVT OF MAURITIUS	TECH ASST.	7.70			5.36	3.39	S	S
MU-PE-1920	L35780	1993	GOVERNMENT	EDUCATION SECTOR	20.00			14.26	5.92	S	S
MU-PE-1899	L34010	1992	MAURITIUS	IND AND VOCAT TRAINI	5.40		1.00	2.25	2.75	S	S
MU-PE-1906	L33330	1991	GOVT.	AGRIC SERVICES	10.00		6.00	2.88	8.04	S	S
MU-PE-1914	L32770	1991	GOVT.	ENVIRON MONIT. & DEV	12.37			4.07	4.07	S	S
TOTAL					101.97	0.00	7.00	68.63	26.29		

	Active Loans	Closed Loans	Total
Total disbursed (IBRD and IDA)	26.34	274.63	300.97
Of which repaid	1.20	175.43	176.63
Total now held by IBRD and IDA	93.77	99.20	192.97
Amount sold	0.00	4.95	4.95
Of which repaid	0.00	4.95	4.95
Total undisbursed	68.63	0.00	68.63

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.
b. Following the FY94 Annual Review of Portfolio Performance (ARPP), a letter-based system was introduced (HS=highly satisfactory, S=satisfactory, U=unstatisfactory, HU=highly unsatisfactory); see *Proposed Improvements in Project and Portfolio Performance Rating Methodology* (SecM94-901), August 23, 1994.

Note:
Disbursement data is updated at the end of the first week of the month.

Mauritius - Statement of IFC Investments
Committed and Disbursed Portfolio

As of 2/28/97
(In US Dollar Millions)

		Committed				Disbursed			
		IFC				IFC			
FY Approval	*Company*	*Loan*	*Equity*	*Quasi*	*Partic*	*Loan*	*Equity*	*Quasi*	*Partic*
1986	Socota Textile	1.45	0.99	0.00	0.00	1.45	0.99	0.00	0.00
1990	TIL	1.20	0.00	0.00	0.00	1.20	0.00	0.00	0.00
1991	AEF Big Game	0.11	0.00	0.00	0.00	0.11	0.00	0.00	0.00
1991	AEF CSL	0.13	0.19	0.00	0.00	0.13	0.19	0.00	0.00
1993	Mauritius Fund	0.00	5.00	0.00	0.00	0.00	3.99	0.00	0.00
1996	MVCF	0.00	1.55	0.00	0.00	0.00	0.55	0.00	0.00
	Total Portfolio:	2.89	7.73	0.00	0.00	2.89	5.72	0.00	0.00

Approvals Pending Commitment			
Loan	*Equity*	*Quasi*	*Partic*

There are no approvals pending commitment for this country.

IMAGING

Report No.: 16426 MAS
Type: CAS