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COUNTRY PARTNERSHIP FRAMEWORK

FOR

MAURITIUS

FOR THE PERIOD FY17-FY21

April 20, 2017

Southern Africa Country Department 2
Africa Region
The International Finance Corporation
Sub-Saharan Africa Department
Multilateral Investment Guarantee Agency

The date of the last Country Partnership Strategy Progress Report was May 3, 2011

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FISCAL YEAR
July 1 – June 30

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ABBREVIATIONS AND ACRONYMS

AML	Anti-Money Laundering
APEI	Accelerated Program for Economic Integration
ASA	Advisory Services and Analytics
BoM	Bank of Mauritius
BPO	Business Process Outsourcing
BRP	Basic Retirement Pension
CFT	Combating the Financing of Terrorism
CHCL	Cargo Handling Corporation Ltd
CLR	Completion and Learning Review
COMESA	Common Market for Eastern and Southern Africa
CORs	Customs Offense Reports
CPE	Certificate of Primary Education
CPI	Consumer Price Index
CWA	Central Water Authority
DBM	Development Bank of Mauritius
DDO	Deferred Drawdown Option
DPL	Development Policy Loan
DPO	Development Policy Operation
DTAA	Double Taxation Avoidance Agreements
EEZ	Exclusive Economic Zone
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
FMIS	Financial Management Information System
FSAP	Financial Advisory Program
GBC	Global Business Company
GDP	Gross Domestic Product
GEF	Global Environment Facility
GTPF	Global Trade Finance Facility
HRMS	Human Resources Management Information System
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technology
ICTA	Information Communication Technology Authority
IDA	International Development Association
IEG	Independent Evaluation Group
ILO	International Labor Organization
LAVIMS	Land Administration and Management System
MFA	Multi-Fiber Agreement
MIGA	Multilateral Investment Guarantee Agency
MoFED	Ministry of Finances and Economic Development
MTEF	Medium Term Expenditure Framework
NEF	National Empowerment Foundation
OECD	Organization for Economic Cooperation $ Development
OPSG	Office of the Public Sector Governance
PBB	Performance Based Budget
PDMA	Public Debt Management
PISA	Programme for International Student Assessment
PKI	Public Key Infrastructure
PPP	Purchasing Power Parity
R&D	Research and Development
RAS	Reimbursable Advisory Services
RO	Remuneration Orders
ROSC	Report on the Observance of Standards and Codes
SBM	State Bank of Mauritius
SADC	Southern Africa Development Community
SCD	Strategic Country Diagnosis
SME	Small and medium-sized enterprise
SORT	Systematic Operations Risk-Rating Tool
SRM	Social Registry of Mauritius
SWIOFish	Southwest Indian Ocean Regional Fisheries/Blue Economy Investment Project
TA	Technical Assistance
TVET	Technical and Vocational Education Training
UNDP	United Nations Development Programme
VAT	Value-Added Tax

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I. INTRODUCTION

1. The Country Partnership Framework (CPF) for Mauritius covers FY17-21. The previous Country Partnership Strategy (CPS) was originally intended to cover FY07-13 but was extended through FY15 at the time of the CPS Progress Report. The CPF is informed by the Systematic Country Diagnostic (SCD) that was circulated to the Board in July 2015[1]. Elections in December 2014 led to the formation of a new Government and this CPF is aligned strategically with the Government Programme 2015-2019, *Achieving Meaningful Change,* that was presented to Parliament on January 27, 2015. The CPF seeks to maximize over a five-year period the comparative advantages of the World Bank Group (WBG), through packages of innovative public and private financing options based on cutting edge global knowledge and experience.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

Country Context

2. **Mauritius is one of Africa's most remarkable success stories**. At the time of independence in 1968, per capita GDP was US$260 and agriculture (mainly sugar cane production) accounted for more than 22 percent of Gross Domestic Product (GDP). Over the following years industrial policies paved the way for economic diversification and employment creation and by 2013 economic transformation had reduced agriculture's share of GDP to just 3 percent. Starting as a mono-crop, inward-looking economy, Mauritius moved toward an export-oriented and diversified economy producing textiles, tourism, financial and Information and Communication Technology (ICT) services. Meanwhile GDP expanded at an annual average of 5.3 percent or 4.4 percent in per-capita terms. Savings were high and reinvested in diversifying the economy. Per capita income of US$9,780 in 2015 is the 3rd highest in Africa and places it solidly in the upper middle income category.

3. **As importantly, growth was widely shared.** Export-led industries translated into substantial employment creation while subsequent productivity gains supported rising salaries and welfare improvements. Growing household income not only improved the quality of life but also was reinvested into human capital, reinforcing generous public investment in free education and health programs. Responsive institutions ensured that public services expanded for all and significant social protection programs supported the most vulnerable. This shared economic growth pulled the majority of the population out of poverty and created a large middle class.

4. **About a decade ago, the country was facing serious challenges to its economic model**. Reduced trade preferences and lower prices for sugar and textile exports coupled with rapidly rising oil prices were slowing growth and increasing unemployment. The Government responded decisively, liberalizing the economy to facilitate the movement of resources toward the expanding sectors of the economy. The labor market was reformed, sectors were opened to foreign investment, the business environment improved, tax compliance was simplified, and fiscal expenditure was reined in. The reforms paid off quickly in the form of accelerating GDP growth, employment creation, rising Foreign Direct Investment (FDI), growing private investment, and declining public debt ratios. Furthermore, the economy became more resilient

[1] Mauritius Systematic Country Diagnostic, SecM2015-0219

which helped it to weather the 2009 global international downturn and the subsequent European economic slowdown.

5. **Despite these impressive accomplishments, important challenges remain**. In recent years, the country's achievements in terms of growth and shared prosperity results have fallen short of expectations. GDP growth has lost steam as the positive impact of reforms wanes. Employment creation remains subpar and an increase in inequality is eroding the standard of living for the poor and those more vulnerable. In part this is due to continued sluggish recovery in the country's main export markets. But the momentum for further needed reform has also weakened. Elections in 2010 resulted in a less cohesive ruling coalition that was unable to undertake ambitious reforms to support Government's goal of making Mauritius a regional hub for exports and investments into Africa. Meanwhile infrastructure and other bottlenecks have started to emerge and the political will to overcome the weaknesses has been lacking.

6. **The combination of lackluster economic performance and a controversial constitutional reform proposal led to a decisive electoral victory for the opposition in December 2014**. The Government of the L'Alliance Lepep is targeting a turnaround in the form of a "second economic miracle" that emphasizes inclusion, employment and rapid growth of close to 6 percent per year.

Recent Economic Developments

7. **Mauritius' economy has continued to expand at a steady pace.** GDP growth was approximately 3.7 percent in 2016, maintaining its annual average since 2012. In line with the ongoing structural change of the economy, growth was led by service activities, most notably the financial services, tourism, and ICT sectors, which have all grown at well above 5 percent annually in recent years. From an expenditures perspective, growth has continued to be underpinned by solid household consumption growth. Investment, however, has been weak, falling to under 17.2 percent of GDP in 2016, well down from its recent high of 25.5 percent in 2009. This has moderated domestic demand and helped to cap import growth, alleviating the cyclical growth drag from notably weak export demand in recent years. Overall a small negative output gap is estimated to have opened up, consistent with a sustained drop in inflation and narrowing of the current account deficit.

8. **Beyond the effects of weak external demand, there is evidence that domestic factors are also eroding Mauritius' growth potential**. Skills constraints are hampering economic development and efforts to speed public investment have been largely unsuccessful due to institutional constraints. Competitiveness has weakened in the goods producing sectors, with wages having more than doubled while labor productivity increased by only 60 percent over the last decade. As a result, unemployment has been hovering in the range of 7.5-8.0 percent during the last few years, despite employment programs, targeted mainly at the youth, amongst whom unemployment is concentrated.

9. **Fiscal policy remains consistent with macroeconomic stability,** although reducing Mauritius' debt-GDP ratio to the legally required 50 percent by 2018 would be difficult. Lower-than-anticipated economic growth has slowed down tax collection, in particular income and profit taxes and Value-Added Tax (VAT). Current expenditures, notably social transfers and

wages, have risen, partly offset by capital expenditure lagging behind expectations due to implementation difficulties. The fiscal deficit is estimated to have increased from 3.2 percent in 2014 to 3.5 percent in 2015/16. As a result, public sector net debt (as defined for the purposes of the statutory debt ceiling) is estimated to have increased from 53.4 percent of GDP at end-December 2014 to 55.7 percent at end-June 2016. Under the IMF definition (shown in Table 1), public sector debt is approximately 65.1 percent of GDP(end-June 2016),, projected to fall to about 58 percent of GDP by 2019 if fiscal targets are achieved.

Table 1: Mauritius Key Macroeconomic and Fiscal Indicators

Indicator	2011	2012	2013	2014	2015	2016e	2017p	2018p	2019p	2020p
National income and prices										
Real GDP growth (%)	4.1	3.5	3.4	3.7	3.5	3.7	3.9	3.9	4.0	4.0
CPI change (avg., %)	6.5	3.9	3.5	3.2	1.3	1.0	2.5	2.5	3.0	3.0
Government budget										
	2011	**2012**	**2013**	**2014**	**2015/16 Prov. Act**	**2016/17 Est.**	**2017/18 Planned**	**2018/19 Planned**	**2019p**	**2020p**
Total revenues and grants (% GDP)	20.9	21.0	21.0	20.3	20.9	22.7	22.6	21.7	--	--
Tax revenue (% GDP)	17.9	18.5	18.3	18.4	18.6	18.6	19.1	19.2	--	--
Expenditure excluding net lending (% GDP)	24.1	22.8	24.4	23.5	24.4	26.0	25.0	23.3	--	--
Current expenditure (% GDP)	19.0	19.0	20.4	20.6	21.9	22.8	21.8	20.5-	--	--
Wages and salaries (% GDP)	5.4	5.3	6.1	6.1	6.2	6.6	6.3	5.9	--	--
Overall balance, accrual basis (GFS) (% GDP)	-3.4	-1.7	-3.5	-3.2	-3.5	-3.3	-2.4	-1.6	--	--
Primary balance, accrual basis (GFS) (% GDP) (incl. grants excl. net lending)	-0.2	1.2	-0.9	-0.6	-1.1	-0.8	0.1	1.1	--	--
Public sector debt (% of GDP)*	57.5	56.8	59.1	60.7	65.1	62.8	61.0	58.4		--
External sector										
	2011	**2012**	**2013**	**2014**	**2015**	**2016e**	**2017p**	**2018p**	**2019p**	**2020p**
Current account balance (% GDP)	-13.5	-7.1	-6.2	-5.6	-4.8	-4.3	-5.0	-5.0	-5.5	-5.5
Gross official reserves (end of year, US$ million)	2,778	3,046	3,491	3,919	4,261	4,967	--	--	--	--
FDI (US$m, excl. offshore corporate sector [GBC1])	449	681	450	604	276	381	--	--	--	--
FDI (% GDP)	3.9	5.8	3.7	4.7	2.4	3.1	--	--	--	--
External debt (% GDP)**	22.4	22.8	23.9	24.1	24.3	21.7	25.4	24.7	23.6	22.4

*Notes: *By IMF definition, which differs from the domestic statutory definition discussed in-text. **As defined for DSA (excludes banks' gross external liabilities as these are covered almost twice-over by banks' external assets).*
Source: Ministry of Finance and Economic Development, IMF, World Bank

10. **The Bank of Mauritius (BoM) has loosened monetary policy while keeping a focus on maintaining currency stability.** Following a multi-year easing cycle, the policy (repo) rate has stood at 4.0 percent since July 2016. More accommodative monetary policy has been appropriate in view of the decline of CPI inflation from 4.0 percent in December 2013 to a low of just 0.2 percent year-on-year in December 2014, helped by subsiding food and oil international prices, although it has since risen modestly again to 1.8 percent year-on-year in January 2017. Monetary policy faces a continued structural challenge from excess banking system liquidity, which dissociates the repo rate and the interbank rate.

11. **Mauritius runs a structural current account deficit**, but in recent years through 2016 it has shrunk to below 5 percent of GDP, a historically small level, driven mainly by the down-cycle in investment. The significant structural component of the current account deficit is attributable to the shortfall of domestic saving relative to investment needs, which have a high imported capital goods component, consistent with ongoing economic "catch-up" to high income economies. A large proportion of the current account deficit continues to be financed by foreign direct investment (FDI) and offshore financial flows from Global Business Companies (GBCs), which although transitory in nature have been positive on balance. FDI excluding the offshore sector remains highly concentrated in real estate- and tourism-related activities.

12. **Banks in Mauritius are profitable and well capitalized and have increased their loan loss provisions, although risks emanating from the concentration of corporate credit exist. Bank profits are high and their capital position is robust, with moderate exposure to market risk and changes in interest rates**. Following implementation of Basel III, banks also increased their provisions for loan losses. As at end-2016, bank credit to residents was mainly concentrated in the construction (26 percent) and tourism sectors (14 percent). Total domestic credit to non-financial corporations and households stood at 65 percent and 32 percent of GDP respectively, as of November 2016.

Economic Outlook

13. **Despite the recent growth moderation, the near-term economic outlook is broadly positive**. The GDP growth rate is projected to increase to about 4.0 percent in the base case, reflecting a stabilization in investment, which was nascent towards the end of 2016 and is being supported by accommodative monetary policy, and an expected pick-up in external demand from stronger regional and global economic growth.

14. **Mauritius is in a sound fiscal position but faces a challenge to contain recurrent expenditure increases, open the fiscal space for needed public investments, and meet its debt consolidation goals.** Recurrent expenditures have trended higher, due mainly to public wage bill and universal pension increase commitments worth 0.9 percent of GDP annually. No significant tax reforms are planned, however and consequently total tax revenues are expected to remain at about 19 percent of GDP. A resultant, significant widening of the fiscal deficit is expected to be avoided, thanks mainly to an announced grant from India, which should boost revenues by approximately 1.5 percent of GDP, spread over a number of years beginning in the current fiscal year. Even factoring in this grant, a significant expenditure consolidation would be needed to achieve the primary surpluses planned for next fiscal year (beginning July 2017) and

beyond. Reducing government debt to the statutory target of 50 percent of GDP by 2018 would require still more measures, and these are not factored into the baseline projections.

15. **The current account deficit, having shrunk markedly in recent years, is expected to widen modestly again**. Exports should be helped by a continuing good performance from the tourism industry, as arrivals from European markets pick up and arrivals overall continue to diversify. However, imports are also expected to rise on the back of higher global energy costs, and some recovery in domestic investment. Overall, the current account deficit is expected to continue to be substantially financed by FDI and other investment flows. Inflation will pick up to be in the 2.5-3 percent range over the projection period, reflecting the pass-through of somewhat higher global energy and food prices on the supply side, and some strengthening in domestic demand.

16. **Mauritius' large offshore sector faces uncertainty from treaty changes and developments will need to be carefully monitored**. The offshore sector contributes relatively modestly to total employment (about 5 percent of total employment is in offshore-related sectors), but is a significant source of government revenues (about 6.5 percent of government revenues, equivalent to 1.2 percent of GDP), and plays a very important role in Mauritius' balance of payments, generating large net capital inflows that help to finance the structural current account deficit (of about 5 percent of GDP). The lynchpin of the offshore financial sector has been Mauritius' double taxation avoidance treaty (DTAA) with India, dating back to 1982, and helping to make Mauritius a major base for investments in India. Under the revisions agreed in 2016, capital gains on new investments made after April 2017 from Mauritius will be taxable. Although this is a major change, it is a long-anticipated one, not an abrupt and unanticipated shock. The treaty change adds uncertainty for the sector, and the magnitude and timing of the economic impact will need to be closely monitored, especially since shifts in the global corporate taxation and financial sector regulatory environments will also continue to affect Mauritius' relative competitive position. The financial and real sector linkages between the offshore sector and domestic economy, while known to be growing, also need to be better understood. At present, data limitations make it difficult to quantify how changes in the offshore financial sector would spill over into domestic credit conditions and the exchange rate, and hence growth and employment.[2]

17. **The Indian DTAA change poses a challenge for the offshore sector, but also creates a strategic opportunity.** Mauritian banks and offshore service companies have been attempting to diversify their activities, especially towards Africa. Under the "Africa Strategy", a component of the Government's "Vision 2030" policy program, Mauritius seeks to become a base of operations, and of financial and ancillary services, for the activity of foreign investors, notably including from Asia, into Africa. The offshore financial sector would develop a broader and more value-adding range of services, which could act as a growth engine for the wider economy, and the long-term prospects of the sector would be improved by lessening its reliance on Mauritius' competitive corporate tax rates and bilateral agreements.

[2] For more on the macroprudential risks posed by the offshore financial sector, and mitigation measures, see the IMF 2015 Article IV Staff Report, March 2016.

18. **Mauritius' longer-term growth prospects are good, although achieving its aspirations of becoming a high income economy will require bold reforms to address structural challenges.** The sectoral drivers of growth are remarkably diversified, having been led over the past decade by financial services (contributing 6.8 percentage points to cumulative real output growth, 2007-2016), ICT (+4.2ppt), as well as food and accommodation services, manufacturing, and real estate activities (all adding approximately 3ppt). This continued structural transformation of the economy, especially towards higher value-added services, can help maintain solid growth over the longer-term, but with it comes a growing challenge to supply the mix of skills, and efficient public services and infrastructure, needed by an increasingly sophisticated, diverse economy. In addition, given the relatively small size of the domestic Mauritian consumer market, much of the growth in services is geared towards meeting external demand. This places a focus on the continued openness of the economy to international trade and investment flows, and the conduciveness of the business environment for firms to use Mauritius as a regional base.

19. **The need for additional structural reforms is becoming more acute, against the backdrop of continuing external vulnerabilities**. The pace of structural reforms has been slow recently, posing a growing obstacle to the productivity gains necessary to lift the economy to high income levels. Chief among the needed improvements is a more efficient public sector, essential to address critical long-term bottlenecks such as education and infrastructure. There is a risk that these bottlenecks intensify and, particularly if they were to be coupled with renewed external demand weakness, this could adversely impact tourism, trade and FDI inflows, and exert some pressure on the external position. Global currency shifts and shocks filter into the economy through tourism (which is still focused on Europe and especially France, exposing Mauritius to Euro exchange rate changes in particular), while short-term capital flows can be affected by global financial volatility and regulatory changes. Adverse climatic conditions might also hinder economic growth if the country is affected (mainly during the November – May cyclonic season).

20. **The risks appear manageable, however, and mitigating factors exist**. The economy and sources of external financing are well-diversified compared to those of many small island developing states. Reflecting sound macroeconomic management, Mauritius has built up sizable foreign exchange reserves, and the IMF gauges the exchange rate to be broadly in line with fundamentals (as of the last evaluation in 2016). Fiscal space, however, does remain somewhat limited and fiscal consolidation, through recurrent expenditure control and perhaps additional revenue measures, needs to be accelerated given the Government's debt consolidation and public investment goals. The Government has in the past shown determination to adhere to its fiscal targets and rein in public expenditure as needed. Additional efforts will be required to accelerate economic reforms to boost competitiveness and accelerate employment creation.

Poverty and Shared Prosperity[3]

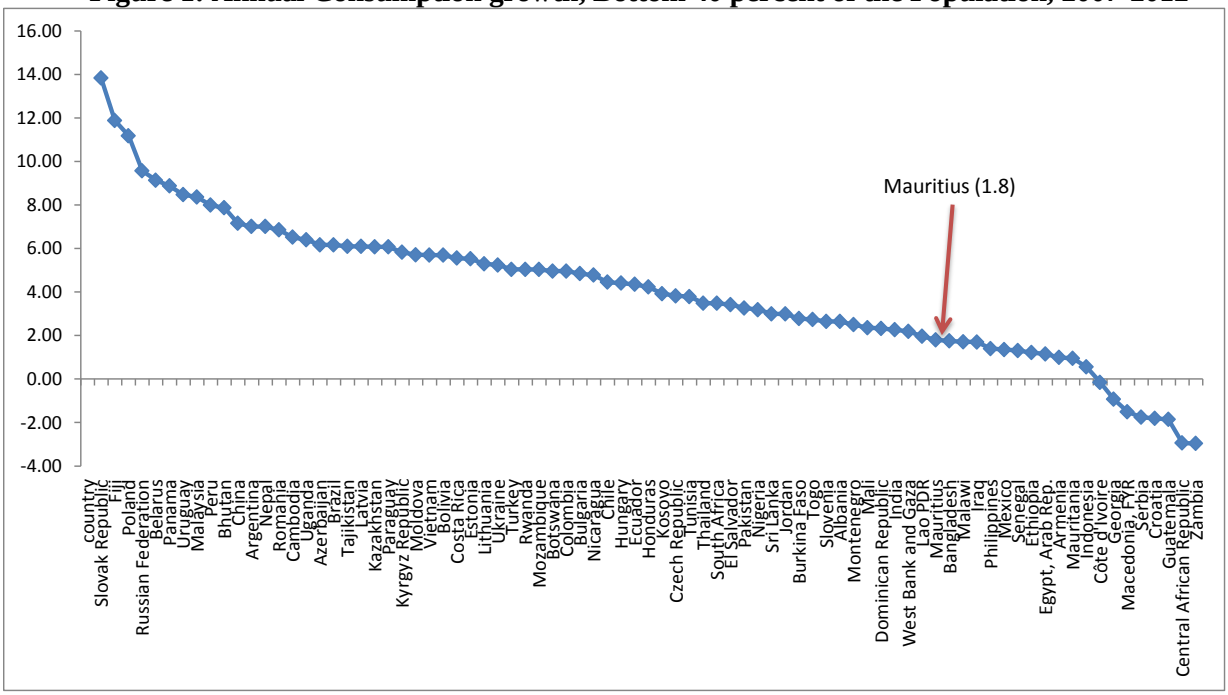
21. **Good growth over many years has eliminated extreme poverty while continuing to reduce absolute poverty as defined by national standards**. Mauritius is a relatively developed

[3] This section draws primarily on the report "Mauritius: Inclusiveness of Growth and Shared Prosperity," World Bank (2015). The work is based on the two most recent household surveys – 2012 and 2007.

economy with less than one percent of the population living on less than USD1.90 a day. According to national statistics, absolute poverty[4] has declined from 8.5 percent of the population in 2007 to 6.9 percent in 2012. This is associated mainly with stable and relatively strong economic growth experienced over the past few years. The total number of poor individuals has also declined from 108,000 people in 2007 to 89,000 people in 2012.

22. **But as highlighted in the SCD, income inequality has grown and poverty reduction slowed as the bottom 40 percent of the population have experienced below average consumption growth**. While Mauritius ranks among the top 25 percent of middle-income countries in terms of Gini equality, inequality has increased with the Gini index rising from 0.34 to 0.37 between 2007 and 2012. Other inequality indices confirm this trend: during this same period, consumption of the bottom 40 percent of the population grew at an annual average of 1.8 percent compared to 3.1 percent for the overall population and 4.1 percent across comparable countries. Indeed, 75 percent of 81 compared countries performed better than Mauritius in terms of annual consumption growth of the bottom 40 percent of the population during this same period (Figure 1).

Figure 1: Annual Consumption growth, Bottom 40 percent of the Population, 2007-2012



Source: Mauritius Poverty and Vulnerability Assessment, World Bank WDI and World Bank calculations. The chart shows every second country

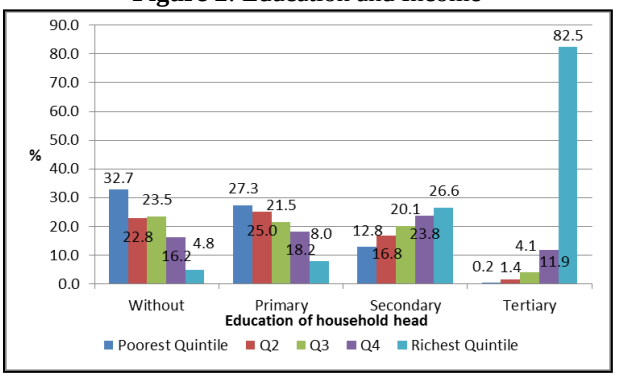
23. **Economic vulnerability has increased.** Between 2007 and 2012, there are indications that the living standards of the middle class came under pressure, with the point estimate of the overall size of the middle class declining slightly from 79.9 to 77.2 percent of the population, while the relative sizes of the rich and poor groups remained roughly the same. Income distribution among these groups worsened; while many Mauritians moved from the lower middle-income group into the upper middle-income group – which increased from 49.4 to 52.3

[4] Absolute poverty is defined as household living with less than 3,064 rupee per adult equivalent expressed in 2007 prices.

percent of the population – there was also a significant increase in the vulnerable population, (defined as those with a 20 percent risk of becoming poor), which rose from 10.2 to 12.7 percent of the population over the same short period. More and more, those at the bottom 45 percent of the population strain to retain or achieve middle class status.

24. **The SCD highlights the critical role of post-primary education in determining household welfare.** Data from 2012 shows that poverty is concentrated among households whose head had less than secondary education. Indeed, households headed by a person with only a primary-level education did no better than those with an uneducated head of household. This is particularly relevant as around half of all households in Mauritius are headed by a person with less than a secondary education. Education only mattered for poverty reduction from the secondary level onward. On the one hand, of people living with heads of household with no education, 33 percent were part of the poorest quintile while only 5 percent were part of the top quintile (Figure 2). On the other hand, of people living with heads of household who completed tertiary education, 83 percent were part of the richest quintile. Among people living with university educated heads there was no poverty.

Figure 2: Education and Income

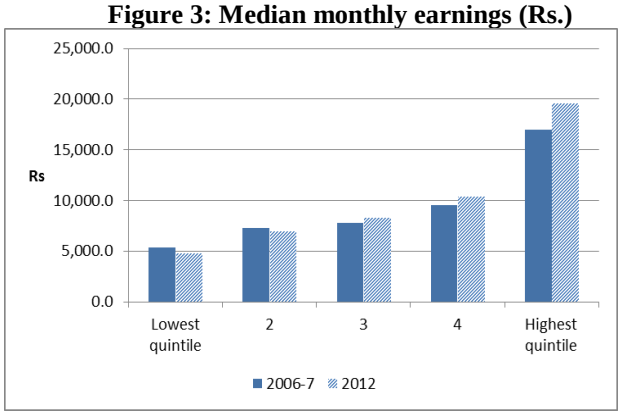


Source: HBS 2007, 2012

25. **As the SCD makes clear, employment is the main driver of poverty reduction; the recent increase in inequality is driven by a widening gap in earnings across income groups**. Employment is the main source of wealth creation for Mauritians and a key determinant for poverty reduction as 35 percent of those unemployed are poor or vulnerable compared to 17 percent of those employed. Furthermore, employment is a major determinant to join the middle class in Mauritius, as 83 percent of those employed belonged to the middle class. Between 2007 and 2012 median monthly earnings for the poorest quintile declined by 11.6 percent while those in the second income quintile also experienced a decline in earnings. In contrast, the monthly earnings of the richer population groups have increased over time. For the highest income quintile in particular, median monthly earnings increased by 15.3 percent between 2007 and 2012.

Government transfers made an important contribution to inclusive growth in 2007-2012. Without Mauritius' existing pensions and social assistance schemes, poverty would be significantly higher both in terms of the poverty headcount and the

Figure 3: Median monthly earnings (Rs.)



Source: HBS 2007, 2012

inequality index.[5] Existing social insurance and social assistance schemes have decreased the poverty headcount from 16.4 percent to 6.9 percent of the population and the poverty gap from 6.5 percent to its actual rate of 1.7. They have also helped to mitigate the Gini coefficient from 0.41 to its actual 0.37. Social protection transfers accounted for 18.4 percent of consumption for the bottom quintile and 2.1 percent for the top quintile. At the same time, the effectiveness of Mauritius' social protection system has increased over time. Social protection programs that were associated with an 8.4 percentage point reduction in poverty in 2007 were associated with a 9.5 percentage reduction in 2012. However, the Government is investing significant resources in social protection majority of which is on elderly population. The fiscal sustainability of untargeted programs, in particular the universal pension is a concern. This program already costs a lot and will increasingly cost more following the recent sizable increase and due to the aging of the population. The fact that the National Pension Fund will not provide meaningful pension benefits in the future due to design challenges will limit Government's ability to limit the fiscal cost of the universal benefit as they will have to somehow protect their elderly. At the same time despite the improvements introduced in the social assistance system including through the Social Registry of Mauritius (SRM), there is significant fragmentation in the social assistance system that leads to inefficiencies.

26. **Poverty is expected to continue its downward trend and micro simulations indicate it could fall to around 4.9 percent by 2019 should current trends contin**ue. However, inequality is projected to continue increasing as growth dynamics will be tilted toward high-skilled services sectors and against the most vulnerable and uneducated. Without ensuring broad based income growth, it will be increasingly difficult to reduce poverty and ease the pressure on the vulnerable and on the lower middle class to retain their status. Furthermore, a backlash cannot be ruled out should broadly-shared economic growth slow down. While many have escaped poverty and have progressed through the income ranks, there are still people at risk of falling back into poverty.

Drivers of Poverty Reduction and Development Challenges

27. **Mauritius is at a crossroads**. The liberalization of the industrial model in the mid-2000s brought considerable diversification to the Mauritian economy. Services boomed offsetting declines in agriculture and industrial production. But this model faces substantial headwinds in the form of lost preferential access for textiles and sugar and heightened international competition. Exports have evolved toward services but have yet to recover to pre-2008 crisis levels. Economic growth has been sustained by growing private consumption at the expense of households' savings. In a context of declining productivity gains, the current growth model will be difficult to sustain, let alone accelerate to the 5 percent per year envisioned by the authorities in the 2016-2017 Budget.

28. **In this context, achieving Mauritius goals for growth and poverty reduction will require addressing a set of key challenges**: (i) reinforcing the drivers of rapid growth by boosting competitiveness; (ii) improving equity in the delivery of key public services; and (iii) addressing vulnerabilities that could derail further progress.

[5] The poverty headcount would have increased to 16.4 percent from 6.9 percent, and the poverty gap would have likely quadrupled from the actual rate of 1.7 to 6.5. The income inequality measured by the Gini coefficient would also be higher, increasing from the actual level of 0.37 to 0.41.

29. **The SCD identifies three main areas that are holding back the potential of the economy to accelerate economic growth: inadequate skills, limitations on technology absorption, and inadequate trade facilitation**. Despite Mauritius considerable success in achieving near universal access to education, Mauritian firms are hampered by the limited pool of available skills. In a 2014 survey, 54 percent of responding enterprises across all sectors indicated that they could not recruit the right number of candidates with the required profiles.[6] An inadequately educated workforce is identified among the top five most problematic factors for doing business in Mauritius, with the ICT and the financial sectors in particular reporting large labor and skill shortages.[7] The shift towards a service-oriented knowledge economy has increased the demand for skills beyond the capacity of the education and training systems to deliver. As a result, skills mismatches have increased sharply, contributing to unemployment. Using an index recently developed by the International Labor Organization (ILO), the skills mismatch index grew from 9 to 13 reflecting growing unmet demand for skilled workers, particularly those with tertiary education.[8] Exporting sophisticated products with higher added value depends upon the capability of the labor force to adopt new technologies and embrace new processes. Moreover, this lack of adequate skills has a negative impact on the inclusiveness of growth, since the most vulnerable are the most affected.

30. **Mauritius' innovation system ranks 76th in the 2014 global competitiveness index, far behind other middle-income countries**. This undermines the country's ability to attract additional FDI and, more importantly, absorb global knowledge and technology. As a result, economic diversification toward higher value-added sectors and links to global markets are curtailed. To address this, a better institutional framework and incentives for innovation are needed. The education and skills system should be improved and aligned more towards the needs of the business sector. The linkages between academia and business should be reinforced to increase R&D. The supply and affordability of broadband connectivity should be increased through telecom sector reforms and new regulations, with the goal of spurring innovation in the IT sector as well as enabling it in others. A better enabling environment supported by adequate intellectual property laws would serve to protect and encourage knowledge transfer.

31. **Expanding trade and investment and deepening regional integration will be critical to offset the impact of reduced preferential trade access**. Mauritius has successfully liberalized its trade regime to become an open economy. However, while globalization is assisting Mauritius' efforts to diversify its economy, it is also taking a toll on traditional export sectors, which are affected by a loss of preferential access to export markets. As some of their preferential access winds down, employment and income growth will need to be driven by more value-added diversification into closed markets and investment opportunities in Africa. Mauritius ranked 29th in the 2014 global Enabling Trade index, which reflects upgrades to port and airport facilities as well as the expansion of the ICT sector that have made Mauritius a regional hub for container transshipment and Business Process Outsourcing (BPO) services. However, current policies undermine the management and operationalization of this infrastructure, limiting competitiveness and employment creation. Reforms to liberalize air

[6] 2014 employment trend survey (Ministry of Finance and Economic Development).
[7] 2013-2014 Global Competitiveness Report.
[8] The index measures mismatches between the employed and the unemployed in terms of level of education

transport, increase operational efficiency in cargo handling and make affordable international bandwidth available are required to pave the way towards regional integration.

32. **While Mauritius' business regulatory environment is the best in Africa, some underperforming areas could be reformed to further cut red tape and stimulate investment**. Most global competitiveness rankings, such as the World Bank Group's *Doing Business* index and the World Economic Forum's *Global Competitiveness Report,* recognize Mauritius as the most business-friendly and competitive economy in Sub-Saharan Africa and among the best in the world.[9] Nevertheless, additional reforms in areas such as construction, property registration, and judicial infrastructure could further improve the business environment. Also, strengthening the performance of import and export promotion institutions, as well as accelerating efforts to strengthen the investment climate, minimizing red tape and promoting administrative simplification could further support efforts to move towards more innovative sectors.

33. **Special attention should be paid to Small and Medium Enterprises (SMEs), which continue to face challenges to increase market share and employment.** Small establishments that employ less than 10 people represent 90 percent of all businesses in Mauritius but employ around 54 percent of the workforce. The top 10 percent of firms account for 40 percent of all sales, while around 60 percent of SMEs generate only a fifth of all the sales. This distribution has remained unchanged since 2001 despite efforts to liberalize the economy. Furthermore, around 70 percent of small firms are highly leveraged,[10] and less likely to be profitable. Part of their challenge may be limited access to finance; despite having a strong and large financial sector that successfully navigated the global financial crisis, Mauritian SMEs claim that they continue to face challenges in accessing credit for investment and working capital. As in many countries, the structure and incentives in Mauritius's financial sector biases away from SMEs. With large revenues generated in global business centers and with relatively larger business groups, the fragmented and relatively high-risk SME market remains unattractive to most banks. In addition, government support in some areas, such as accessing and sustaining exports, could be strengthened. Finally, there is still room to boost domestic competition and improve the policy and regulatory environment to support Mauritius as a dynamic global competitor in international markets. Addressing these issues could support employment creation of the most vulnerable, reinforcing inclusive economic growth based on a more sustainable and resilient economic model.

34. **Labor regulations also create challenges for employment creation by undermining efforts to maintain wage increases in line with productivity gains.** Several wage-setting mechanisms have had a significant impact on the increase in unit labor costs[11]. Around 80

[9] In the World Economic Forum's *2014-15 Global Competitiveness Report* Mauritius moved up by six positions to 39th place, surpassing South Africa and Rwanda. The World Bank Group's *Doing Business* index ranks Mauritius at the 49th spot, and is the only African economy in the top 50 list of the index.

[10] Highly leveraged firms are defined as firms that have a liabilities-to-assets ratio that is greater than 2/3. Secondly, a distinction is made between firms that have either a short-term liquidity problem or a short-term liquidity risk, and other firms. Firms that have a short-term liquidity problem have a current ratio below one, which means that their current liabilities exceed their current assets.

[11] Between 2008 and 2012, the annual increase of unit labor cost in manufacturing, in dollar terms, was 5.8 percent for Mauritius compared to 1.4 in advanced economies. Mauritius Commercial Bank occasional paper number 55 "Mauritius Inc. – The Challenge of Investing in Growth", October 2013.

percent of workers in the private sector get their conditions of employment set by Remuneration Orders (ROs) adopted by the National Remuneration Board, which leaves limited scope for collective bargaining. Furthermore, gains achieved in certain sectors spillover to other sectors, re-aligning salary levels across sectors without full consideration of industry specifics. Finally, public sector salaries fixed by the Pay Research Bureau put substantial inflationary pressures on the price of labor.[12]

35. **Despite its considerable potential for growth, the ICT sector is showing signs of deceleration.** The ICT sector has emerged as a major pillar of the economy, translating into substantial employment and firm creation. Thanks to a strong enabling environment, the sector has experienced remarkable growth over the past decade, and around 600 ICT companies currently operate in Mauritius with annual turnover of around US$1 billion and 18,500 employees in 2013 or 3.2 percent of the total workforce. However, a recent slowdown in sector growth points to the need for additional measures to realize its potential. Limitations in broadband connectivity are one area of concern; while international bandwidth usage in Mauritius grew by 62 percent in 2009-2013, other more liberalized markets such as Kenya grew by 173 percent over the same period.

36. **With respect to inclusion, despite falling poverty, rising inequality and vulnerability highlight the challenges facing Mauritius**. The most vulnerable struggle to fully reap the benefits of economic growth as insufficient employment is created and many workers lack adequate skills for today's labor market. While educational opportunities have improved significantly, Mauritius lags behind other middle-income countries in terms of learning achievements. Primary and secondary school enrolment levels are on par with those of other upper-middle and high-income countries, as practically all Mauritian children are attending primary education and 88 percent are moving on to secondary education. However, learning outcomes of students are low. The Programme for International Student Assessment (PISA) 2009 data for mathematics, for example, shows that about 50 percent of 15-year olds in Mauritius perform at Level 1 or below, compared with the average of 22 percent in OECD counties, and 10 percent in Singapore. The performance of Mauritius' students in reading and science was similarly weak: the share scoring no higher than Level 1 in reading was 47 percent for Mauritius, compared with 19 percent for the OECD countries, and 12 percent for Singapore. The education system is failing to equip them with the right skills, a point that is repeatedly raised by the private sector as a major constraint to creating additional employment. Moreover, inequity issues impact learning achievements in Mauritius as children from low-income families have lower primary completion rates and performance than their well-off peers.

37. **Growth cannot be truly inclusive if opportunities to contribute to and benefit from growth are not available to both women and men**. This includes issues such as access to education, employment, productive assets, health care, and political representation. These issues are not only about inclusiveness but also have implications for the level of overall growth. For example, if there are specific factors which differentially hold back women or men in terms of their productivity as workers or their ability to grow their own businesses, addressing these factors can help to improve the overall performance of the economy. With this in mind, this CPF

[12] The measure of wages is not exhaustive and does not include all forms of labor income paid by the employer such as contributions to social security, private pension plans, health benefits or free transport.

has drawn upon available sex-disaggregated data and gender analysis. This includes the 2013 UNDP gender assessment for Mauritius ("Gender Briefing Kit"), which satisfies the criteria of OP/BP 4.20 for all CPFs to draw on and discuss the findings of a gender assessment.

38. **Addressing gender differences in the labor market could help to improve the inclusiveness of growth**. Despite an absence of legal barriers[13], female labor force participation is well below that of other upper middle income countries, with half of Mauritian women of working age not participating in the labor market. Women in 2012 were 22 percent less likely to be employed than men, 6 percent more likely to be unemployed and 25 percent more likely to be out of the labor market. The primary factors for the low female labor force participation are marriage and family size and part of the reason for these lower labor force participation may be inadequate supporting institutions such as child day care or elder care assistance. It is also likely that some social assistance programs provide disincentives for women to participate in the labor force. Moreover, the gender wage gap is high and not diminishing, further undermining female labor market participation. While gender gaps in the labor force status are on a downward trend, the gender wage gap in Mauritius is severe, showing no sign of decreasing and even worsening in recent years. When controlling for the same level of education, age, potential work experience, and sector, women earn 50 percent less than men. This severe gender wage gap further undermines incentives for female labor market participation, as women cannot reap the full returns of their work. Furthermore, this persistent undervaluation of women's labor may have a negative impact on female human capital accumulation and undermines the favorable secondary and tertiary education enrollment rates attained in recent years.

39. **There is also evidence of sex segregation in the Mauritian labor market which may narrow the opportunities available to women and may represent an inefficient allocation of human resources**. UNDP's 2013 gender assessment for Mauritius, for example, notes that there are 400 men for every 10 women in the construction sector. Occupational sex segregation is reflected in and may partly be driven by the subject areas women and men choose to study. At the tertiary education level, while women and men are equally likely to study business and administration, women are much more likely than men to study humanities (16% versus 6%) and are much less likely to study engineering (3% versus 9%). Women are also underrepresented among graduates in computer sciences, which is significant given the importance to the economy of the ICT sector. Even the 15 "Women Centers", specifically established to empower women in the labor market, reinforce occupational sex segregation, with classes focusing on trades that are traditionally considered to be more suitable for women, such as beauty care, hairdressing, and dressmaking.

40. **Existing social protection systems reduce the level and depth of poverty but cannot fully compensate for the level of income inequality that the labor market generates**. Overall, results could be improved if spending is better targeted to reach poor households and the system is made more efficient. Furthermore, better integration of sector policies in health, education, and active labor market programs could better tackle chronic poverty, facilitate labor market reintegration at a time of declining population growth and promote private savings through pension reform.

[13] According to the Bank's Women, Business, and the Law database, Mauritius's legal code is fully equal and all laws are applied to women the same way to men, thus the laws do not hinder women's participation in the economy.

41. **The sustainability of growth and poverty reduction are a particular concern for Mauritius.** Recent trends exhibiting less inclusive growth and increased inequality could, if left unchecked, undermine the political consensus that has underpinned Mauritius' growth model. Mauritius is a small island state with significant economic vulnerabilities, most notably exposure to natural disasters and international market shocks. Hence, in addition to addressing the challenges of inclusion, addressing unsustainable infrastructure policies and building resilience to natural disasters is critical for sustaining progress. Finally, a regional approach in many areas could help to sustain natural resources such as fish stocks, as well as exploit emerging opportunities including the ocean economy.

42. **Aspirations to become a high-income economy will be difficult to achieve unless certain infrastructure policies are revised and resilience is built in infrastructure, both public and private, in terms of location, orientation, construction codes and land management**. While water resources abound, the country faces seasonal water shortages, exacerbated by climate change, which has to be addressed through accelerated capital investment, sufficient tariff levels, and a review of policies and sector governance. The new consensus about the development of the electricity sector to promote renewable energy, improve grid capacity for more absorption of intermittent renewable energy, supported by cleaner sources of energy for base load requirements is expected to spur essential investment, and mitigate risks for the expansion of reasonably priced electricity generation. Despite substantial expansion of the road network, current transport policies cannot cope with growing congestion, particularly in the most densely urbanized areas of the country. A lack of available land limits the development of the road network and calls for parallel interventions to manage demand so that pricing adequately reflects congestion and opportunity costs, while providing adequate public transportation.

43. **Sustainability also depends on the country's ability to mitigate the impact of climate change and manage its water and natural resources**. The vulnerability of the country and the aim to achieve high-income status in the medium term calls for a careful consideration of the public sector's role. On the one hand, the Government will need to ensure that adequate fiscal and monetary tools are available to cope with any potential external shocks, environmental or economic. A recent risk assessment suggests that, on average, Mauritius experiences over US$110 million in combined direct losses from tropical cyclones, floods and earthquakes while a specific event such as a severe tropical cyclone could produce significantly larger losses. For example, a 100-year return period tropical cyclone could result in direct losses of US$1.9 billion, equivalent to 17% of the 2015 GDP, and require approximately US$430 million in emergency costs. Hence there is a need for adequate fiscal space to cope with disasters, including disaster risk financing tools and insurance. On the other hand, public resources will need to be reallocated to emerging priorities in terms of building infrastructure and human capital. This will be particularly challenging, as the public budget will be under considerable pressure due to an aging population and its needs for health and pension spending. Overall, these challenges may require an increase in the level of public expenditure accompanied by a careful review of policies and a consideration of trade-offs to reorient public spending toward the most critical needs and priorities.

44. **A highly relevant factor affecting Mauritius in the medium to long term will be its aging population with far reaching impacts across the society and the economy**. An aging

population[14] will put pressure on the overall economy for three main reasons. First, an aging population is expected to reduce the labor supply and therefore economic growth though this could be attenuated by later retirement. Second, a segment of the population (the elderly) that is relatively larger than in the past will have to be supported by a relatively smaller group of economically active adults. Third, the increase in the elderly population implies a substantial increase in public expenditure on pensions and medical and social care. Mauritius needs to put in place policies and mechanisms to prepare for these inevitable challenges.

III. WORLD BANK GROUP PARTNERSHIP STRATEGY

Government Program and Medium-term Strategy

45. **During its first year in office the Government has developed and refined its economic program.** First articulated in the Government Program 2015-2019 that was presented in January 2015 the strategy was further elaborated in the Economic Mission Statement of August 2015. More recently, the 2016/17 budget aims to usher in a new era of development centered on 10 key strategies: 1) fostering a wave of modern entrepreneurs; 2) creating more job opportunities for all; 3) entering a new economic cycle focusing on innovation, boosting exports and private investments; 4) moving towards a fully-fledged digital society; 5) fundamentally reforming business facilitation and expanding economic horizons; 6) building the infrastructure that fits into the future; 7) lifting the quality of life for one and all; 8) addressing the root causes of poverty; 9) launching a major public sector reform program; and 10) ensuring macroeconomic stability and sound public finances.

46. **The strategy is optimistic but achievable, targeting 2016/17 GDP growth of 4.1%, rising to 5% by 2018/19, leading to substantial employment creation**. This represents a significant acceleration given the 2015 level of 3.2% and the current rate of 3.5%. The projected pick-up in growth is predicated on a sharp rise in investment, driven by a mix of public and private projects. Investment is projected to surge by 5ppt of GDP to 23.1% by 2018/19. Public sector investment is targeted to average 6.7% of GDP over the medium-term period, up from 4.8% in 2015. The increase in public investment in infrastructure is backed up by a variety of reforms to improve the business environment along with industry-specific incentive mechanisms to encourage increased investment. Reform of the education sector to address skills gaps is planned to continue.

47. **The economic program is ambitious and a number of hurdles will have to be cleared for it to succeed.** Chief among these will be to reconcile the cost of the various initiatives with Government's goals for reducing the budget and current account deficits. Government's envisioned increase in public investment comes on top of recent wage and pension increases as well as a commitment to increase public sector employment. Even with strong economic growth – which may face headwinds in the form of slowing global growth – the Government will need to explore innovative strategies for financing increased public investment, including PPPs. Going forward substantially greater volumes of private finance are required to leverage scarce public resources, expand basic service coverage for the poor, build out the infrastructure of commerce that will lead to growth, jobs and shared prosperity, and achieve climate change objectives.

[14] The cohort of people 65 and above will increase from around 9% of the population to 20% of the total population by 2040.

Where feasible, private sector solutions in service delivery should be explored in a fiscally appropriate way in order to help bring efficiency to operations.

48. **As appropriate, a significant share of the cost of infrastructure services—ranging from 10 to 90 percent depending on the sub-sector—can be assigned to individual consumers thereby generating a stream of income that can attract private financing**. Moreover, infrastructure services are often delivered more efficiently, and the investments provided more reliably, when the private sector is called on to operate and maintain the assets and when private capital markets finance at least a part of their development. In this regard, the CPF envisages a shift in paradigm toward a Cascade Decision-Making Approach. Substantially greater volumes of private finance are required to leverage scarce public resources, expand basic service coverage for the poor, build out the infrastructure of commerce that will lead to growth, jobs and shared prosperity, and achieve climate change objectives. Where feasible, private sector solutions in service delivery can also help bring efficiency to operations. This "cascade" approach to decision-making will require addressing the conditions for investment at the level of the country, the sector, as well as the project, to encourage both increased private sector financing and/or delivery of individual projects. For individual investments, there will be a presumption toward asking first whether it could be financed entirely by the private sector, then if it can be financed through a PPP, and next whether it merits public investment.

Proposed WBG Country Partnership Framework

Lessons from the Completion and Learning Review and Stakeholder Consultations

49. **The proposed strategy is informed by lessons learned during the implementation of the FY07-15 CPS and IEG reviews of operations during the period**. In particular, policy based lending, backed up by strong analytical work was successful in supporting a home-grown reform program, and proved to be the preferred instrument. However, the Completion and Learning Review (CLR) also found that at times Government valued technical assistance, analytics and policy dialogue more than accompanying financing. This CPF will rely more on standalone analytical and advisory work, increasingly financed through Reimbursable Advisory Services (RAS) arrangements to achieve program objectives. The experience also showed the importance of constant communication and flexibility to respond to shifting circumstances and demands. In an environment where the reform agenda was changing as the result of an evolving political environment, it is important to focus on areas where there is a firm consensus. The CLR also found that while close coordination with key donors in harmonizing conditionality enabled the Government to implement a single comprehensive reform program supported by Development Policy Loans (DPLs), a formal joint strategy among donor partners, as originally formulated, proved unworkable. Finally, the CPF adopts a more focused and realistic results matrix as recommended by the CLR. See annex 2 for the CLR.

50. **Consultations on the SCD and CPF were carried out during 2015-2016.** Several rounds of discussion were held with Government and private sector stakeholders during preparation of the SCD and the CPF. The SCD Consultations revealed widespread agreement on the need to address the overarching challenges of transitioning away from the old growth model based on trade preferences. The consultation feedback on CPF priorities was consistent with the results of a country opinion survey, carried out from March to May 2015, of stakeholders in

Mauritius who were invited to provide their opinions on the World Bank Group's work in the country. The findings of the survey are summarized in Annex 5.

Overview of World Bank Group Strategy

51. **The proposed CPF will assist Mauritius to address its national priorities with a focus on promoting shared prosperity in a sustainable manner**. The strategy aims to help Mauritius to accelerate inclusive growth by supporting its goals to strengthen the enabling environment for private sector growth. This will entail strengthening the business environment, particularly for the critical ICT sector while providing technical support for achieving the country's ambitions as an ocean economy and as a gateway for investment to Africa. To foster greater inclusion, the strategy will also help the Government to design and implement its ambitious education reform program. To help Mauritius to address key vulnerabilities in the water and financial sectors, the strategy will support reforms to modernize infrastructure and strengthen regulation of the financial sector.

52. **The CPF program focuses on a limited set of objectives reflecting the Government's program, development priorities identified in the SCD, and the World Bank Group's comparative advantage vis a vis other development partners**. The SCD identified a total of 18 broad issues organized around three thematic issues: (i) boosting competiveness and moving from an industrial policy to one of innovation; (ii) improving equity in public service delivery to ensure employment opportunities for all; and (iii) aligning resources and priorities to sustain development. Based on the finding of the SCD and the priorities outlined in the 2016/17 budget, the Bank Group team, in consultation with the Government, identified a set of priorities with the potential for the greatest value-added from Bank support.

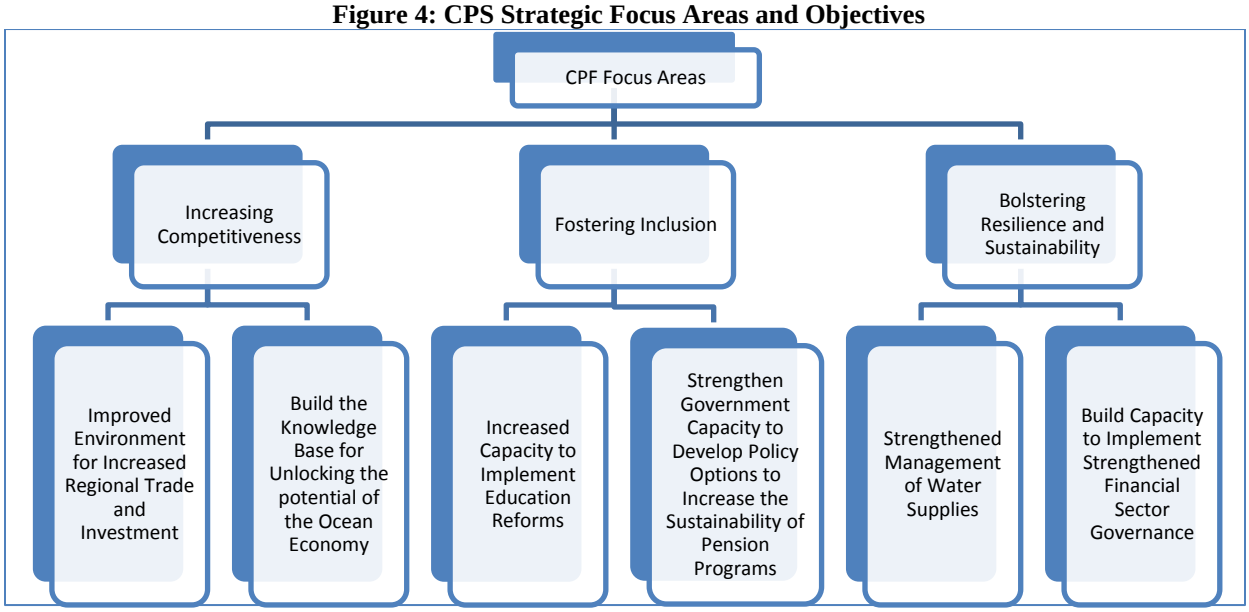
Table 2: Selected SCD Priorities and CPF Focus Areas and Objectives

Selected SCD Priorities		CPF Focus Areas and Objectives
Remove sector-specific constraints to increase domestic investment and FDI Revise policies to spur innovation, FDI and transfer of know-how Raise the quality and availability of skills Remove constraints in trade facilitation and connectivity, in particular in port management and ICT	→	Increasing Competitiveness 1. Improved Environment for Regional Trade and Investment 2. Build the Knowledge Base for Unlocking the potential of the Ocean Economy
Improve labor market institutions to align wages to productivity and eliminate gender gaps Reform the education system to reduce inequity of education outcomes and boost quality of education Raise efficiency of social protection system to reduce poverty and inequality, while promoting labor re-entry	→	Fostering Inclusion 3. Increased Capacity to Implement Education Reforms 4. Strengthen Government Capacity to Develop Policy Options to Increase the Sustainability of Pension Programs

Revisit unsustainable infrastructure policies in water, transport and electricity Revise public investment and PPP policies to improve public investment leverage and efficiency Develop regional approach to protect natural resources (i.e. fisheries stock) in line with future industry development (e.g. ocean economy and tourism)		Bolstering Resilience and Sustainability 5. Strengthened Management of Water Supplies 6. Build Capacity to Implement Strengthened Financial Sector Governance

53. **Program priorities were selected on the basis of their strategic relevance, alignment with Government priorities and World Bank Group comparative advantage**. First, areas for WBG engagement address the constraints to growth, inclusion and sustainability identified in the SCD. Second, CPF objectives correspond to high priority Government initiatives. These include the Government's Africa Strategy, the Ocean Economy Roadmap, the Nine Years Basic Schooling Reform, the High Level Committee on Pensions and Aging, and the reform of the water sector. In all of these areas the Government is looking to the WBG for advisory, and in some cases financing, to advance publically announced high-priority policy initiatives. Finally, WBG engagements are in areas where the WBG has a comparative advantage. In some cases, this is the result of knowledge built up over a sustained period of engagement in the sector, such as in social protection. In other areas the WBG's strength rests on its convening power as in the regional approach to trade and integration. In others, the WBG track record in mobilizing global expertise (education) or facilitating private participation in infrastructure (water) have driven demand for WBG support. Accordingly, The CPF will support three mutually reinforcing focus areas, with six objectives in all: 1) Increasing Competitiveness; 2) Fostering Inclusion: and 3) Bolstering Resilience and Sustainability as shown in Figure 4.

Figure 4: CPS Strategic Focus Areas and Objectives



54. **Reflecting Government's projected limited external financing requirements, International Bank for Reconstruction and Development (IBRD) financing plays less of a role in the proposed strategy than in the previous country strategy**. While IBRD lending

averaged over $60 million per year from FY07-FY13, there has been no new lending since then and the last loan exited the portfolio in early 2015. This change reflects Government's debt reduction goals as well as excess liquidity in the financial sector, low inflation, and a positive interest rate environment which translate into adequate financing with limited rollover risks. Hence IBRD financing is expected to play a limited role in the CPF program for at least the first two years of the CPF period. Recognizing that a change in these conditions could develop quickly and require rapid policy adjustments, the Bank will stand ready to respond with appropriate financing instruments.

55. **The Government of Mauritius values World Bank Group analysis and advisory support.** During CPF consultations the authorities have emphasized their wish to continue to rely on the WBG for high quality analytical work and technical assistance aimed at policy development and implementation support. A first-ever RAS was signed in FY15 in the energy sector and a second RAS in the water sector was signed in FY16. The CPF program emphasizes Advisory Services and Analytics (ASA), both Bank and RAS financed as the critical means of achieving program objectives.

56. **Not all SCD priority areas can be addressed by this WBG CPF.** A number of priorities were identified either by the SCD or the Government that, although critical, are not being addressed in the CPF. For example, while public sector reform emerges as an important priority in the SCD, Government has not signaled interest in WBG engagement in this area beyond informal advisory support on public expenditures. In other areas, such as port management, other partners are taking the lead. Finally, where an effective IBRD response would require investment lending, such as the road transport sector, the Bank is not expected to engage. In some areas, there may be engagement if opportunities emerge that can be supported through International Finance Corporation (IFC) investment and Multilateral Investment Guarantee Agency (MIGA) guarantees. Given the six-year implementation timeframe of the CPF, the WBG may engage in some of these areas should the elements that currently determine their non-inclusion in the program change.

57. **The WBG program under this CPF is well defined for the first few years of implementation, but has been left open in outer years to allow for flexibility in responding to emerging priorities of Government and incorporating lessons from the first period**. The first two years of the CPF have been largely programmed; however, the Performance and Learning Review, expected in FY19, will provide the opportunity to adjust the CPF as needed, better take stock of IFC's and MIGA's achievements, given their market-based and demand-driven business models, and further program the following two years. This has been done in response to experience under the previous CPS which demonstrates that the WBG needs to maintain flexibility in the implementation of its program to remain relevant in the dialogue with Government. This will enable the WBG to identify new areas of potential collaboration with Government and/or stimulate demand for WBG products in SCD areas not currently covered.

Objectives supported by the WBG Program

Focus Area 1: Increasing Competitiveness

CPF Objective 1.1: Improved Environment for Regional Trade and Investment

58. **Mauritius aims to foster integration with the African continent and become a bridge between Africa and Asia.** The country views regional integration as part of its overall development strategy to enhance economic growth and achieve sustainable development. Mauritius has adopted an Africa Strategy that focuses on expanding trade and economic integration with Africa in two ways. First, the Africa Strategy aims to support domestic companies in increasing their exports and FDI into the rest of the continent, taking advantage of rising incomes in Africa. Second, the strategy aims to position Mauritius as a 'gateway' to Africa, allowing investors to benefit from Mauritius' duty-free market access to Common Market for Eastern and Southern Africa (COMESA) and Southern Africa Development Community (SADC) countries as well as its numerous tax and investment treaties with African countries, while operating in the conducive business environment it offers.

59. **However, the country faces several challenges to becoming a trade hub for Africa**. Despite Mauritius' role as a regional transport hub, trade logistics deteriorated between 2010 and 2014. High trade and transport costs to regional markets paired with limited connectivity present challenges to Mauritius-based manufacturing companies to cost-effectively supply regional markets. Entry into mainland Africa is also hampered by African markets' fragmentation resulting from barriers to trade and investment. Cumbersome and often inconsistently applied regulatory requirements by Customs and regulatory agencies across African countries increase costs and delays for regional trade flows. These barriers affect investment as well as the export of consumer goods from Mauritius.

60. **The CPF program will aim to increase regional integration and FDI by supporting reforms in the area of trade**. The CPF program will support the Accelerated Program for Economic Integration (APEI), a multilateral initiative designed to: (i) remove barriers to trade in goods, (ii) promote trade in services, (iii) enhance measures to facilitate trade, and (iv) improve the business environment. Building on a regional Development Policy Operation (DPO) approved in 2015, the program will continue to support coordinated reforms in all five countries[15] that will benefit from either (a) multilateral coordination or (b) bilateral coordination; and (c) country specific reforms that are necessary to allow firms to benefit from new market opportunities that economic integration will bring. Progress under the APEI is expected to significantly improve the trading environment in all five countries. Reducing non-tariff barriers that stifle regional markets in food products will increase incentives for production and increase food security in the region. Opening up to regional trade in services such as transport, is expected to increase competition and drive down transport prices. Increased risk management at borders, and stronger coordination among border agencies will reduce dwell time, and hence costs, at borders. And improved access to trade information through trade portals will reduce the scope for trade-related rent seeking and corruption which impinge particularly heavily on small traders, many of whom are women.

[15] The five participating countries are Malawi, Mauritius, Mozambique, Seychelles and Zambia

61. **The Africa Strategy also aims to support domestic companies in increasing their exports and outward FDI towards mainland Africa and take advantage of its rising income levels**.[16] There is increasing demand by global investors interested in Africa to use Mauritius as a platform to set up their investment holding companies and establish back-office operations that would serve the African market. A number of recent government-to-government agreements with Ghana, Zambia, and Senegal envisage Mauritius leveraging its financial sector to play a more prominent role in the development agenda of these countries. Mobilizing long term financing instruments, both domestic and international, is going be a key element of this reorientation. At the same time, growing demands for sophistication of the financial markets necessitates additional regulatory development and reform. The CPF program will seek to identify opportunities through IFC investment and MIGA insurance to support Mauritian firms in investing in Africa. In this respect IFC has been working with private companies in Mauritius in the agribusiness, energy and tourism to introduce them to potential partners seeking to develop these sectors in their countries. IFC intervention aims to leverage regional economic incentives through the COMESA/SADC and the Indian Ocean Commission to bolster south-south collaboration. The WBG will also use its convening power to facilitate investment linkages in the region, including for example in Madagascar.

62. **IFC could play a role in fostering regional integration through cross border lending in South-South investment projects**. IFC-supported Collective Investment Vehicles set up in Mauritius have contributed to financial sector, tourism, infrastructure and healthcare development in other Sub-Saharan Africa economies. Moving forward, these instruments could keep fostering South-South Cooperation, in particular with Mauritius neighboring economies leveraging the SADC and COMESA memberships. Trade facilitation represents another opportunity as IFC is already engaged in this area through the Global Trade Finance Facility (GTFP) through at least two commercial banks in Mauritius providing confirmation facilities to IFC client banks under the GTFP in Africa. IFC's loan to State Bank of Mauritius (SBM) (2010) provides it with foreign currencies so as to operate regionally. These cross border initiatives can help solidify Mauritius' position as a regional financial center.

63. **While Mauritius strong business environment has been a cornerstone of its economic success, further reform is needed if Government's goals for accelerated growth are to be achieved**. Doing Business rankings have slipped in recent years and there remains a number of areas where performance can be improved. Gaps in innovation are significant barriers to diversification and higher value-added production. Mauritius has done well in tapping into global knowledge through trade, but it is underexploiting the absorption of technologies through FDI and technology licensing. In addition, there is a need to focus on improving the ICT sector, an important contributor to economic growth in Mauritius, but which has been decelerating recent years. Weaknesses have also been identified in trade and logistics efficiencies and the Government of Mauritius plans to work in close collaboration with and seek the support of the Bank on the reform agenda in this area.

[16] Around 75 local companies have invested in some 20 countries in Africa since 2011, most notably Madagascar, and 68 percent of outward FDI from Mauritius between 2011 and 2013 went to Africa. Bank of Mauritius (2014); Monthly Statistical Bulletin – September 2014; https://www.bom.mu/pdf/Research_and_Publications/Monthly_Statistical_Bulletin/sep14/contents.htm

64. **Skills mismatches in the ICT labor pool are a particular concern given the importance of the sector in the Government's growth strategy.** New areas for diversified ICT Sector growth could center on export-oriented Data Analytics services. However, the persistent and growing mismatch between workers' skills and market needs that plagues the economy generally is also apparent for the ICT labor pool. Employer surveys suggest that the ICT sector is facing a labor shortage that is expected to continue or worsen over the next five years, and for which the key factors are a lack of sufficient work experience and low qualifications in both technical and soft skills. The currently successful Business Process Offshoring segment could be left vulnerable to a disruption when the next-generation of IT skills are requested by the global innovation economy. Government is ramping up ICT training under the National Skills Development Program, but additional efforts will be needed. With the support of the World Bank Group, Mauritius has embarked on an Open Data Initiative, approving an Open Date policy in 2016 enabling Ministries, Departments and other Government agencies to release and manage designated Government datasets as open data. Mauritius should consider building the capacity of its entrepreneurs and labor pool (but also the awareness of its innovation policymakers and Education professionals) in the areas of predictive Data Science and Big Data. This would create a cohort of labor and entrepreneurs who can utilize predictive data analytics to develop export-oriented data-driven services and set the grounds for diversified IT sector growth.

65. **The CPF program will support Government's objectives to further strengthen the business environment and to make Mauritius a regional power for research and innovation and for the export of services**. Through advisory services the program will target improvements in the regulation and functions of the knowledge and ICT economy including measures that: (i) attract and stimulate private sector participation in R&D, (ii) enhance the business environment, and (iii) promote ICT services and e-Government as a means to encourage enterprise growth. IFC investment in private equity funds will also be explore as a way to expand its presence in ICT and innovation.

CPF Objective 1.2: Build the Knowledge Base for Unlocking the Potential of the Ocean Economy

66. **The potential of the Mauritian Ocean Economy for creating jobs, sustaining livelihoods and raising real incomes and standards of living is enormous**. Mauritius is among the largest marine territories in the world with a claimed Exclusive Economic Zone (EEZ) of 1.9 million square km and a co-managed extended continental shelf with Seychelles of 0.4 million square kilometers. For many years, Mauritius has been benefiting from the ocean economy with substantial ocean-related economic activities contributing around 11 percent of GDP with tourism (hotels and leisure activities) making up some 60 percent of that total. The Government has adopted ambitious goals to promote the Ocean Economy over the next decade. These include developing Mauritius into a regional hub for petroleum products, expanding container transshipment and port services and promoting seafood processing and aquaculture.

67. **However, achieving these ambitious objectives for the Ocean Economy will require addressing important constraints**. While Port Louis plays an important role in the regional transshipment market and port charges are competitive, the role of the latter as a regional transshipment port is threatened by growing competition. In the fisheries sector, which accounts for 20 percent of total annual exports, most of the raw seafood processed in Mauritius comes

from neighboring countries' waters or the regional high seas and some fish stocks are heavily exploited or over exploited. There is a need to reorient the sector toward higher value-added activities and find new fish sources. Greater regional coordination in fisheries management will also be needed to overcome counterproductive competition. Developing the sector value-chain would increase productivity. Expanding the nascent aquaculture industry would present alternative sources of raw product for the industry as well as livelihoods for coastal populations by gaining better control of the fishing pressure in order to maintain the resource's health. However, appropriate legislation is needed.

68. **The CPF program will bring global knowledge to help harness the potential of the Ocean Economy to contribute to GDP growth and job creation while ensuring longer term environmental sustainability**. Non-lending technical assistance related to the Ocean Economy was launched in FY15 with a focus on developing diagnostics and sharing international good practice in the areas of fisheries and aquaculture, port development and logistics, renewable energy and environmental protection. The World Bank Group will also support the Government's goals to build institutional capacity to articulate and implement the Oceans agenda. It will do so by supporting the creation and operation of multi-stakeholder thematic "Working Groups" to provide the technical leadership for developing implementation plans for priority ocean economy areas. The authorities are also considering IBRD investment support in fisheries sector through the Southwest Indian Ocean Regional Fisheries (SWIOFish) program. At present, Mozambique, Comoros, Madagascar, Tanzania and Seychelles are participating in the program, which could support the fisheries portion of the ocean economy agenda. The project would promote strengthened fisheries governance, support for the private sector and regional cooperation - and could leverage other sources of financing such as Global Environment Facility (GEF), IFC and other development partners.

69. **Growth in the Ocean Economy would also entail the need to cope with the environmental challenges and the effects of climate change on the coastal and ocean ecosystems**. Climate-related hazards (e.g. ocean acidification, cyclones, floods) can pose significant risk to key natural Ocean Economy assets (e.g. fish stocks, lagoon seascapes) and man-made assets (e.g. port infrastructure). These risks will need to be properly assessed and mitigated, building on Mauritius' contribution to the implementation of the UN climate Change Convention. Damages to the local biotopes are already significant from climate change and water pollution for coral reefs, lagoons habitats and biodiversity. Unplanned and unregulated development in the narrow coastal interface and near shore areas have led to significant externalities between sectors, suboptimal siting of infrastructure, overlapping uses of land and marine areas, marginalization of poor communities, and loss or degradation of critical habitats. Coastal erosion and higher vulnerability to weather extreme events has also been increasing. Thus, in addition to identifying priority policy actions and investments required to take advantage of the potential of the Ocean Economy, WBG advisory work will also assess options to ensure the longer term environmental sustainability and climate resilience of such development.

Focus Area 2: Fostering Inclusion

70. **Addressing the challenge of growing income inequality is key to consolidating recent progress and ensuring Mauritius enters a sustainable track towards becoming a high-**

income country. The CPF program will focus on two areas that are particularly relevant, social protection and education. In education, both the SCD and recent WBG ASA find that lack of adequate skills has a negative impact on the inclusiveness of growth, with the more vulnerable most affected by education deficiencies[17]. The CPF, through advisory services, will support wide-ranging reform of the basic education and skills training systems. In social protection the program will aim to increase the poverty focus and efficiency of social protection and pension programs. A cross-cutting ASA program will aim to explore more fully the drivers of growing income inequality, and the factors behind it to identify potentially effective policy levers to contain and reverse recent upwards trends in inequality. This will also include analysis of gender gaps in labor market participation. These will be supported by a statistical capacity building project financed by the Trust Fund for Statistical Capacity Building.

CPF Objective 2.1: Increased Capacity to Implement Education Reforms

71. **The education system as currently structured limits human capital growth and fosters intergenerational inequality.** While educational opportunities have improved significantly over the years, enabling primary and secondary school enrolment levels to reach those of upper-middle and high-income countries, Mauritius still lags behind other middle-income countries in terms of learning achievements.[18] Results from Mauritius participation in Program for International Student Assessment (PISA)[19] indicate challenges in learning outcomes despite efforts to improve quality of education. Fifteen-year-old Mauritians have lower reading literacy rates than the average for their OECD peers. Moreover children from low-income families have lower primary completion rates and performance than their better-off peers. At the core of this inequity is the examination system leading to award of the Certificate of Primary Education (CPE) at the end of Grade 6 and its use as a selection mechanism for secondary school. The CPE system has supported the development of a culture of 'studying for the test', which in turn has led to an expansion of private tuition, favoring children from better off families. Although passing rates of the CPE have been growing over the years, there have been difficulties in providing adequate quality of education to those who fail the CPE. As a result, the education system is failing to equip many young Mauritians with adequate skills, which is repeatedly mentioned by the private sector as one of the major constraints to creating additional employment.

72. **Government has launched an ambitious basic education reform agenda to address these issues and has requested World Bank Group assistance for its detailed design and implementation**. The core of reform is elimination of the high stakes end of primary (Grade 6) certificate exam and introduce nine years of continuous basic education. The reform will require, inter alia, a reform of the existing prevocational education stream, support to underperforming pupils, and a reform of the curriculum and linked pedagogy and assessment system, and the introduction of polytechnics to promote to high-end technical skills. These are issues that may

[17] World Bank. *Mauritius: Inclusiveness of Growth and Shared Prosperity*, September 2015

[18] In 2012, Mauritius' primary net enrolment rate (NER) and secondary gross enrolment rate (GER) were 97.8 percent and 95.9 percent, respectively; NERs and GERs for Mexico and Korea in the same year were, respectively, 96.3 percent and 85.7 percent (Mexico), and 99.1 percent and 97.2 percent (Korea).

[19] The Organization for Economic Cooperation and Development's (OECD) Program for International Student Assessment (PISA) is an international assessment exercise focusing on literary, mathematic and scientific literacy for 15 year olds. Mauritius participated in PISA in 2009.

face controversy, for instance, among teachers that currently benefit from the private tuition system and parents that have high expectations that their children attend the most sought after public secondary schools. WBG technical assistance will focus on developing a detailed implementation plan and providing technical and advisory support during implementation. The World Bank Group program complements that of other partners, including the EU which is focusing on tertiary education, and Singapore which is supporting reforms Technical and Vocational Education.

73. **IFC will consider engaging, with an opportunistic approach, in this field through PPPs for Vocational and Technical Education, Education for Employment (E4E) initiatives and innovations in education**. Innovative private-public financing solutions in this field could actually be insightful (risk sharing, guarantees). Business edge has been an IFC product used to improve business literacy of SME managers and client-facing staff at SBM. IFC is also offering a scholarship program with Milken Institute and the George Washington University in collaboration with Central Bank of sub-Saharan countries as a joint initiative to train high level staff for capital market development. IFC involvement will remain specific and needs driven to its investment activity.

CPF Objective 2.2 Strengthen Government Capacity to Develop Policy Options to Increase the Sustainability of Pension Programs

74. **Mauritius' aging population has significant implications for the pension system.** Due to low fertility rates and increasing life expectancy, Mauritius' population is quickly aging. As a result, the burden of the universal non-contributory Basic Retirement Pension (BRP) on the Government's budget will significantly increase under the existing rules for eligibility. The number of beneficiaries of the BRP will double by 2050 under the current retirement age of 60. The BRP benefit level was increased by 38% in 2015 which increased the cost of the BRP from 3.1% of GDP in 2013 to 4.3% of GDP in 2015. The cost will continue to increase and reach almost 5% of GDP in 2027 even under the assumption that the benefit is indexed to inflation. Moreover, each rupee spent on BRP translates into only a 0.28 rupee reduction in the poverty gap as the program is not targeted, and recipients in the bottom decile receive only 7 percent of all BRP resources. Given the nature of the pension schemes, benefits of reforms are typically reaped in the medium to long term, which calls for immediate actions to ensure adequate preparation for future pensioners and adequate burden sharing among present and future pensioners.

75. **The Government recognizes the importance of addressing the challenges related to pensions.** A high-level committee has been established to look into the issue and develop recommendations. A technical committee is in the process of preparing options to improve the BRP and contributory pension scheme. There is recognition among key policy makers that there is a need to control the cost of the BRP. Building on work carried out over the past several years, the CPF program will feature continued analytical support to assist the Government in formulating and implementing specific options. The emphasis will be on bringing international experience that can help inform the Government's approach and providing support for modeling and simulation of policy alternatives as well as implementation support.

Focus Area 3: Bolstering Resilience and Sustainability

CPF Objective 3.1: Strengthened Management of Water Supplies

76. **The water sector is faced with challenges related to financial sustainability and weak service provision.** Mauritius is suffering from increasing water scarcity. Currently, Mauritius is classified as a water-stressed country (below 1,700 m3 per capita per year) and is expected to fall under the water-scarce category by 2020 (projected 974 m3 per year, below the 1,000 m3 threshold). The aquifers are over-exploited and there is heavy dependency on unpredictable rainfall, making Mauritius highly vulnerable to climate change. A large portion of the population suffers from intermittent water supply. The Central Water Authority (CWA) provides universal access to the population (total of 351,000 customers), with more than 20% of the population receiving intermittent supply under normal conditions (even during the rainy season), with this figure rising to 75% during the dry season. CWA revenues cover cost of basic operations and maintenance (with minimal rehabilitation and replacement included within maintenance). Capital investment needs to be funded from other sources (GoM, specific funds). Government is re-focusing on the long term financial sustainability of the sector, taking into account a comprehensive capital investment program for pipe replacement and water treatment infrastructure that has been developed and launched. CWA is currently not credit worthy and so is unable to raise commercial finance on its own to fund the capital program. The sustainability of water services is critical for Mauritius, considering its high dependency on rainfall, competing demands, potential impacts of climate change, and the Government's economic, social and environmental development objectives.

77. **The Government of Mauritius has requested World Bank Group support to address these challenges.** Initially, a RAS engagement has resulted in a detailed diagnostic of the sector with priorities for reform and investment. As part of the engagement the WBG has developed a suggested approach which combines the introduction of a private sector partner coupled with sector reforms aimed at water usage management, tariff reform etc. The recommended approach is for a 15 year hybrid affermage-type contract (the PPP Contract) modified for the Mauritian legal context whereby CWA, as the sole supplier of potable water in Mauritius under the CWA Act, would delegate to a private operator (i) its functions from 'source to tap' of operation and (ii) maintenance of the bulk assets and the network, (iii) capital investment execution and management and (iv) service delivery to customers. The proposed arrangement also envisages a shared capital investment planning function between the CWA and the private operator, although the funding for such capital investment would primarily come from the Government. Further support is envisaged in the form of a RAS engagement and/or engagement of IFC transaction advisory services for the design and contracting of a PPP approach and for technical support to the MEPU and CWA for efficient management of the affermage contract, particularly in the initial years. This could be coupled with IBRD financing or guarantees.

CPF Objective 3.2: Build Capacity to Implement Strengthened Financial Sector Governance

78. **Given the critical importance of the financial sector to Mauritius' continued growth and development, ensuring its continued stability is essential**. Last year, the authorities contained a domestic financial crisis that revealed gaps in the effective functioning of the

Mauritius financial oversight architecture.[20] The crisis and its subsequent handling highlighted weaknesses in the effectiveness of cooperation mechanisms between regulators, the supervision of mixed conglomerates, and the means available for an efficient and transparent resolution of stressed financial entities. As the Mauritian financial sector is positioning itself to play a more active role on the African continent, it is important that effective regulatory, supervisory, and resolution arrangements are put in place so that the authorities can effectively manage instances of institutional and system-wide stress or instability, as well as the risks that arise from having a large open financial system with significant exposures related to the offshore Global Business Company sector.

79. Building on a recent FSAP update, the CPF program will aim to assist the Government in ensuring the continued resilience of the financial sector. Planned TA will support the Government, the Bank of Mauritius and the Financial Services Commission to implement the key recommendations from the FSAP, especially as they relate to supervision and oversight of financial conglomerates, managing risks related to the Global Business Sector, as well as financial inclusion. Technical assistance will be closely coordinated with the IMF. Complementary IFC advisory support will focus financial products diversification and financial institutions capacity building. Such work shall expand in Mauritius the reach, depth and sophistication of financial products while promoting their stability. IFC is also working with a number of local and international banks to provide IFC guarantee products and credit lines to be used within their respective network countries where capital market regulations limit operations. In addition, World Bank Group advisory work in the sector will aim to assist in development of a secondary market for Government securities to attract a wider range of investors to provide longer-term capital and facilitate distribution of risks. Finally, an ongoing RAS will assist the Government in carrying out an anti-money laundering/and combating the financing of terrorism (AML/CFT) assessment to assist and build capacity of the relevant AML/CFT agencies in developing a National Risk Assessment and risk based action plans to combat money laundering and terrorism financing.

Implementing the FY17-21 Country Partnership Framework

80. **The CPF proposes an indicative lending pipeline of US$25 million**. This amount represents planned financing in support of the APEI (see para. 60) and the Southwest Indian Ocean Regional Fisheries/Blue Economy Investment project. Other lending will depend on country demand and overall performance during the CPF period as well as global economic developments that affect IBRD's financial capacity and demand from other IBRD borrowers. Additional lending would also take into account lessons learned during the first half of the CPF period and presented in the Performance and Learning Review. The Government's preference for policy-based lending as discussed in the CLR (Annex 2) means that additional lending is most likely to take the form of DPLs, although DPLs will be considered as appropriate, especially where ongoing implementation support is needed.

[20] Following allegations of financial fraud running into several millions of dollars and involving Bramer Bank and the second-largest insurance company in Mauritius namely BAI, related via their holding company (British American Investments Group-BAIG), the Bank of Mauritius last year revoked the license of Bramer Bank, leading to the collapse of the insurance company as well.

Table 3: Indicative IBRD Lending Program

	FY18-19
APEI Regional Operation	15
Southwest Indian Ocean Fisheries 4	10
Total	25

81. **IFC and MIGA will continue to seek business opportunities in line with their comparative advantage**. IFC activities in Mauritius remain selective and will focus on areas where IFC has a strong additionality in terms of its investment services and where our advisory services will address market failures and/or services that IFC can uniquely deliver to its clients. IFC aims to work with the Bank supporting the RAS mandates with technical support (Investment Climate, CWA and financial sector governance reforms) and investments where IFC funding structure has strong additionality. Finally, IFC will aim to remain opportunistic in Mauritius as long as IFC can demonstrate strong additionality. MIGA has no active engagements in Mauritius at this time, but will explore opportunities to meet requests from investors in support of projects across sectors.

82. **Most CPF outcomes will be achieved through advisory service and analytics (ASA), a significant share of which will be provided through reimbursable arrangements**. WBG financed ASA will continue to play an important role in building knowledge and supporting the development of policy options by deepening the understanding of development challenges and delivering global expertise. Where Government policies are well-defined and the need is for implementation support, RAS engagements will be developed. World Bank Group financed ASAs will also continue to play an important role in advocacy related to WBG institutional priorities such as planned work related to achieving greater gender pay equity or statistical capacity building. IFC advisory services, including in support of specific transactions are also planned. Planned ASA for FY17-18 is summarized in Table 4.

Table 4: FY17-18 Knowledge Products

CPF Focus Area	Knowledge Product
Increasing Competitiveness	• Building the Ocean Economy in Mauritius (ASA) • Innovation in Data-Driven Development (TA)
Fostering Inclusion	• Technical Support for Implementation of Nine-Years Continuous Basic Education Schooling Reform (RAS) • Achieving greater pay equality between men and women, (ASA) • Reducing Skills Mismatches in the Mauritius Labor Market, (ASA) • Social Protection Policy Dialogue (TA) • Mauritius Statistical Capacity Building Project (TA)
Bolstering Resilience and Sustainability	• Water Sector Reform (RAS) • FSAP Follow-up (TA) • Money Laundering and Terrorism Financing Risks Assessment (RAS)

IV. MANAGING RISKS TO THE CPF PROGRAM

83. **Risks to the CPF have been assessed using the Standardized Operations Risk-rating Tool (SORT) as summarized in Table 5**. The main risks to strategy and program implementation, and proposed mitigating measures, are summarized below:

84. **The technical design of program, sector strategies and policies, fiduciary, and environment and social risks are rated *low***. Mauritius enjoys longstanding political stability and elections are free and fair. Government has environment and social safeguard policies that it enforces. The legal framework governing procurement and financial management aspects is robust, and despite some capacity issues, the budgeting, accounting, and reporting processes are well established and institutionalized. Policies and strategies in the sectors covered in the CPF are evidence-based, technically sound, and are aligned with overall country development objectives and government priorities.

85. **Political and governance risks are rated as *moderate*.** The Government has a clear set of development priorities, which are generally supported across the political spectrum and are consistent with the CPF program. Adequate anti-corruption and public sector ethics regulations exist and are generally enforced. The principles of transparency, accountability and participation are generally adhered to. Nevertheless, experience indicates that changes in Government priorities (for example as the result of elections) could result in significant changes in the WBG program, including project cancellation. Increased use of RASs will be used to help ensure Government ownership of WBG-supported initiatives while a more cautious approach to initiating lending preparation will be used to mitigate the risk of dropped lending costs.

86. **Macroeconomic risks are rated as *moderate***. Weak external demand from the Euro Area and emerging economies, coupled with structural bottlenecks, may adversely impact tourism, trade and FDI inflows and exert pressure on the economy's external position. Implementation of the 2016 revisions to the DTAA Treaty with India or intensification of initiatives against tax base erosion and avoidance, could worsen Mauritius' balance of payments position, lead to exchange rate pressure, a weakening of reserves, and rising inflation and external debt servicing costs. Short term capital inflows will remain sensitive and volatile to global business activity. Adverse climatic conditions might also hinder economic growth. However, Mauritius has demonstrated the ability to weather external shocks in the past and has buffers against a potential deterioration in the balance of payments. The Government has in the past shown determination to adhere to its fiscal targets and rein in public expenditure as needed. Adverse macroeconomic developments could affect implementation of Government programs supported under the CPF such as the Nine-Years Education Reform, although conversely it could encourage implementation of reforms that reduce Government spending (e.g., pensions). The CPF program's support for further structural reform should help build further resilience. In the event of a shock the Bank would consider increasing IBRD financing through development policy lending or other instruments as was done during 2009-2010 in response to the Global Financial Crisis.

87. **Risks relate to institutional capacity for implementation and sustainability are rated as *moderate.*** Achieving CPF objectives related to education, energy, and water are contingent on enhancing Government implementation capacity. The CPF approach will be to provide targeted technical assistance to overcome these constraints. The Government's growing willingness to make use of RAS arrangements will provide increased flexibility to tailor the level of support.

88. **Stakeholder risks are rated as *moderate.*** A number of the reforms and programs supported by the CPF can be expected to face opposition from important stakeholders. As outlined above, the education reform could generate resistance from teachers and parents. Water

sector reforms may eventually require unpopular tariff increases. Previous IFC advisory mandates in water and port management have been unsuccessful due to opposition from affected groups. The mitigation strategy will be to include communication and change management support within the scope of WBG assistance to help address concerns as they arise.

Table 5: Systematic Operations Risk-Rating for Mauritius

Risk Categories	Rating (H, S, M, L)
1. Political and governance	M
2. Macroeconomic	M
3. Sector strategies and policies	L
4. Technical design of project or program	L
5. Institutional capacity for implementation and sustainability	M
6. Fiduciary	L
7. Environment and social	L
8. Stakeholders	M
Overall	**L**

Annex 1. CPF Results Monitoring Matrix

Focus Area 1: Increasing Competitiveness		
Further expansion in trade and investment is crucial for achieving Mauritius' goals for growth and poverty reduction. The SCD highlights technology absorption and trade facilitation among the most important challenges to be addressed. Mauritius' innovation system compares poorly with that of other middle-income countries, undermining its ability to attract additional FDI and, more importantly, to absorb global knowledge and technology. To address this, a better institutional framework and incentives for innovation are needed. In trade, expanding trade and investment and deepening regional integration by reducing non-tariff barriers and opening up trade in services will be critical to offset the impact of reduced preferential trade access. The ICT sector has emerged as a major pillar of the economy, translating into substantial employment and firm creation. However, a recent slowdown in sector growth points to the need for additional measures to strengthen the enabling environment.		
CPF Objective 1.1: Improved Environment for Regional Trade and Investment		
Intervention Logic. Mauritius' strategy for expanding employment in higher value-added sectors emphasizes greater trade and investment, particularly with Africa. The World Bank Group program will seek to address trade barriers in Mauritius in concert with a set of like-minded African countries through the Accelerated Program of Economic Integration (APEI), a multilateral program of coordinated trade policy reforms. Supported by an IBRD/IDA regional DPO, the program will support coordinated reforms to significantly improve the trading environment in all five countries by reducing non-tariff barriers and constraints to labor and investor mobility. Complementary business environment reforms will reinforce trade reforms. IFC Collective Investment Vehicles and Trade Finance firms will reinforce these activities. In addition to addressing the overall business environment, there is a need to focus on improving the ICT sector, an important contributor to economic growth in Mauritius, but which has been decelerating recent years. The CPF program will feature technical assistance to support the Government in identifying and implementing key reforms in these areas.		
CPF Objective Indicators	**Supplementary Progress Indicators**	**WBG Program**
Number of business people entering Mauritius Baseline: 37,410 (2013) Target: 41,150 (2021) (+10%) *Elimination of non-tariff barriers* Baseline: n/a Target: 10 NTBs removed	Annual Technical Workshops among APEI partners countries convened with WBG Technical Support TA for identification of NTBs that could be removed delivered Regulatory assessment of services trade and investment in the context of COMESA commitments in the	Financing APEI DPO/P4R Series IFC SBM Ltd IFC Trade Finance IFC Adenia II & Adenia III IFC CDC Pragati Sale IFC Helios Towers

Increased capacity to develop policies in digital governance	four priority sectors (tourism, communication, finance, transport) delivered. Capacity building and policy assistance delivered in the area of Digital Governance and Data-Driven Development: a. Technical assistance for drafting of a transparent and Open Government Data policy b. Technical assistance to establish Open Data initiative and governance structure c. 75 government officials trained in sustaining a government-wide Open Data initiative	ASA PPP Reform TA IFC Advisory Services ICT Sector TA
CPF Objective 1.2: Build the Knowledge Base for Unlocking the Potential of the Ocean Economy		
Intervention Logic. The Government has adopted ambitious goals to promote the Ocean Economy over the next decade. These include developing Mauritius into a regional hub for petroleum products; expanding container transshipment and port services; and promoting seafood processing and aquaculture. Achieving these goals will require addressing a number of infrastructure and regulatory constraints. The CPF program will provide analytical activities to support policy reforms needed to enable the country to take advantage of the potential of the Ocean Economy. IFC investment could be undertaken if opportunities arise. Through the SWIOfish operation, the program will reinforce regional cooperation in fisheries management, including improving the conditions for access to tuna fisheries, strengthening regional fisheries collaboration across stakeholders, and support improved regional Monitoring, Control, and Surveillance (MCS) activities. The operation would also support investments to help promote growth of the Blue Economy.		
CPF Objective Indicators	**Supplementary Progress Indicators**	**WBG Program**
Enhanced Regional Cooperation in Management of Fisheries • Increased Compliance by Mauritius with IOTC Resolutions Baseline: 81% (FY15) Target: 86% (FY21)	Management of key fisheries under sustainable management plans Marine Spatial Plan Prepared	Financing: Southwest Indian Ocean Fisheries/Blue Economy Investment Operation ASA: Unlocking the Potential of the Blue Economy
Focus Area 2: Fostering Inclusion		

The SCD documents clearly the growing challenge of increasing inequality and vulnerability and the consequent decrease in the poverty reduction impact of growth. The most vulnerable struggle to fully reap the benefits of economic growth because not enough employment is created and many workers lack adequate skills for today's labor market. Poverty is concentrated among those households whose head had less than secondary education. While educational opportunities have improved significantly, Mauritius still lags behind other middle-income countries in terms of learning achievements.		
Statement of CPF Objective: Increased Capacity to Implement Education Reforms		
Intervention Logic. Government has launched an ambitious basic education reform agenda to address weaknesses in the education system and has requested World Bank assistance for its detailed design and implementation. Given the scope and complexity of the proposed change, critical challenges relate to implementation. Bank Group technical assistance will be used to introduce global expertise to help develop a detailed implementation plan and provide technical and advisory support during implementation.		
CPF Objective Indicators	**Supplementary Progress Indicators**	**WBG Program**
Government capacity to implement the Nine Years of Continuous Basic Education reform in line with international good practice is strengthened Baseline: Implementation began in January 2017; plans were in line with international good practice Target: Adjustments to implementation made in response to evaluation findings and international good practice	Detailed implementation plans for the Nine-Years Reform program are developed. Effective monitoring and evaluation tools are developed and delivered	ASA Education Sector RAS IFC innovations in education
Statement of CPF Objective: Strengthen Government Capacity to Develop Policy Options to Increase the Sustainability of Pension Programs		
Intervention Logic. Building on work carried out over the past several years, the CPF program will feature continued analytical support to assist the Government in formulating and implementing specific options for addressing challenges related to Government pensions programs. The emphasis will be on bringing international experience that can help inform the Government's approach and providing supporting for modeling and simulation of policy alternatives as well as implementation support.		
CPF Objective Indicators	**Supplementary Progress Indicators**	**WBG Program**

The High-Level Committee on Pensions Reform has released a reform proposal to address financial sustainability of public pensions	Updated fiscal projections for the BRP are developed. Updated actuarial projections and reform scenarios for the National Pension Fund are developed	ASA Pensions TA
Focus Area 3: Bolstering Resilience and Sustainability		
While the trajectory in terms of growth over the last decade has been broadly positive, significant policy and institutional reforms are necessary to ensure that Mauritius is able to sustain its economic status and begin to address the growing challenges related to shared prosperity. In the SCD, infrastructure and the financial sector emerge as areas where there is a need to undertake important reforms in order to avoid problems which could threaten growth and stability.		
Statement of CPF Objective: Strengthened Management of Water Supply		
Intervention Logic. Current policies and practices in the water sector are unsustainable and unable to address growing bottlenecks. In the water sector, inadequate sector and SOE governance, financing, and policies will make it difficult to deliver reliable water services. The electricity sector requires improvements in its planning capacity to accelerate growth of installed capacity. The CPF program will deliver RAS-financed technical assistance in support of water sector reform programs. This will include support related to strengthening the legal framework and implementation capacity for public-private partnerships.		
CPF Objective Indicators	**Supplementary Progress Indicators**	**WBG Program**
Successful selection of a Central Water Authority Private Operator under a PPP arrangement by end 2018.	Development and adoption of Water Sector Reform Road Map by 2018	Mauritius Water Sector TA (RAS) IFC climate grant Global Infrastructure Fund grant IFC Transaction Advisory Services
Statement of CPF Objective: Build Capacity to Implement Strengthened Financial Sector Governance		
Intervention Logic. Given the critical importance of the financial sector to Mauritius' continued growth and development, ensuring its continued stability is essential. Recent developments in the sector have prompted a reassessment of the adequacy of the financial stability framework for a country with a large and open financial sector that has critical linkages to the offshore sector and the need to put in place stronger regulatory and supervisory arrangements as well as an effective framework to manage instances of institutional and system-wide stress or instability. The CPF program will aim to assist the Government in ensuring the continued resilience of the financial sector. Planned TA will support the Government, the Bank of Mauritius (BoM) and the Financial Services Commission to implement the key recommendations from the FSAP, especially as they relate to supervision and oversight of financial conglomerates, managing risks		

related to the Global Business Sector, as well as financial inclusion. Technical assistance will be closely coordinated with the Fund.		
CPF Objective Indicators	**Supplementary Progress Indicators**	**WBG Program**
The Bank BoM migrates to a forward looking, risk sensitive supervisory approach for the banking system by 2019 Payments regulations are adopted to facilitate access to new financial products and services to households and small business retailers, including mobile money	Revised methodology for assessing bank risk is developed. ToRs, institutional set up; and governance of the Payments Council are developed	FSAP Follow up TA Strengthening Insurance Sector Regulation NLTA

Annex 2: Mauritius Country Partnership Strategy Completion and Learning Review FY07-FY15

Date of CPS: November 2, 2006 (Report No. 37703-MU)
Date of Progress Report: April 11, 2011 (Report No. 59966-MU)
Period Covered by the CPS Completion and Learning Review: FY07-FY15

1. Introduction and Overall Assessment

1. **This Country Partnership Strategy Completion and Learning Review (CPS CLR) assesses the effectiveness of the World Bank Group's (WBG) program in Mauritius during the FY07-FY15 period.** The CPS provided strategic support around the Government of Mauritius' (GoM) four pillars of reform[21]: (i) fiscal consolidation and improving public sector efficiency; (ii) improving trade competitiveness; (iii) improving the business climate; and (iv) democratizing the economy through participation, inclusion and sustainability. The report evaluates the achievements of CPS program outcomes as laid out in the results matrix; assesses the WBG's performance in designing and implementing the CPS program, and draws lessons for the preparation of the forthcoming Country Partnership Framework (CPF).

2. **The CPS was implemented over a relatively long period, spanning two governments with varying reform agendas.** The early part of the CPS period, from 2007-2010 was a period of broad, fast-paced reform in response to external pressures, such as the end of the Multi-Fiber Agreement (MFA) for textiles, the phase-out of the European Union (EU) guaranteed price of sugar, and sharp rises in oil and food prices. During this early period, mounting economic and social pressure and the limited number of financially sustainable alternatives gave a clear political mandate to a new government to implement a bold package of reforms. However, as the country emerged from the crisis and the threat of a major recession receded, the impetus for reform diminished. In addition, the 2010 general elections resulted in coalition government committed to continue basic structural reforms but with increased emphasis on social programs. The CPS program was adjusted in the 2011 CPS Progress Report to focus on fewer activities and the pace of reforms significantly slowed.

3. **The overall performance of the CPS program (FY07-FY15) is rated as moderately satisfactory[22].** Across the broad range of engagement areas, 75 percent of CPS objectives have been achieved or mostly achieved. Outcomes under three of the four pillars are rated satisfactory. The rating is an aggregate measure of progress made toward achieving CPS outcomes which were achieved to varying degrees. The outcomes under the *first pillar* is rated as ***satisfactory*** with four out of five outcomes achieved despite adverse external factors. The sound policies and reforms supported through the Development Policy Lending (DPL) series and technical assistance contributed to improved fiscal performance and increased public sector efficiency. A set of fiscal rules were introduced to promote expenditure efficiency and accountability through the introduction of MTEF and PBB. Progress has been made in

[21] Government four pillars are the same as the CPS pillars.
[22] This report follows guidelines issued jointly by the Operations Policy and Country Services unit and the IEG in December 2014 with respect to rating methodology and categories.

streamlining civil service management, preparation of performance management systems and monitoring of SOE's. ***Satisfactory*** results have also been achieved under the second *pillar* with four out of five objectives achieved. The WBG program supported government reforms and made positive impacts in simplifying trade regulations, streamlining tariff measures, increasing administrative efficiency by using IT and enhancing the effectiveness of the Mauritius Customs Services. Performance under the *third pillar* is rated as ***satisfactory*** with three out of four objectives achieved**.** Policy dialogue through the DPL series made positive impacts in streamlining business regulatory environment which helped to improve key Doing Business indicators such as starting a business, enforcement of commercial contracts, and dealing with construction permits. Efforts have been made in improving labor market efficiency and road infrastructure improved significantly in the targeted areas which resulted in reduction in travel times and number of accidents. ***Moderately satisfactory*** progress has been made under the *fourth pillar* with four out of seven outcomes either achieved or mostly achieved. In education, overall progress has been modest. A comprehensive education sector strategy was developed to increase primary, secondary and tertiary output and raise quality of education. Significant expansion has been made in the enrollment in tertiary education. A comprehensive reform of pre-vocational stream is expected to facilitate the transition of students from school to work and to increase the number of pre-vocational graduates who progress to Technical and Vocational Education Training (TVET). Social protection systems have been restructured and integrated by reducing the errors of inclusion to improve the delivery of Social Aid. The Bank's activities helped strengthen institutional capacity to evaluate and monitor spread of HIV/AIDs but the target to stabilize the HIV/AIDs prevalence was not met. The CPS program also failed to achieve results in the areas of environment management and waste water management as the planned activities in this area did not materialize due to shifting government priorities.

4. **The Completion Report rates the overall Bank's performance in designing and managing the implementation of the CPS program as fair.** On design, the CPS pillars were relevant and well aligned in addressing Government priorities and country needs. Flexibility in the design of the strategy facilitated rapid response to changing needs and the Bank was able to respond promptly and effectively to unexpected events such as the triple trade shocks, global financial crisis and political transition. The combination of programmatic budget support operations and limited investment lending were appropriate instruments to support Government's reform program. In line with Mauritius middle income status and the Bank's comparative advantage vis-à-vis other partners, the Bank program also made substantial efforts to improve policy dialogue through ASA and technical assistance. A series of just in time policy notes and analytical reports on variety of issues complemented the overall program. The Bank also increased its on-the-ground presence through the establishment of a country office in Port Louis, increasing the timeliness of economic advice and policy dialogue. IFC activities were relevant and focused mostly on infrastructure, tourism and financial services.

I. Progress Towards Achieving Country Level Goals

5. **Despite the global economic crisis and decline in preferential access to foreign markets, the Mauritian economy performed well during the CPS period with annual GDP growth rates averaging 4 percent.** Although GDP growth was subdued in 2009 due to the global financial crisis, the country avoided economic recession thanks to a fiscal stimulus package and sound monetary policy. In addition, a mechanism for transitional support was

established to rescue private firms in financial difficulties through collaboration between the Government, commercial banks and private firms. Nevertheless, growth has been trending downward from 4.4 percent in 2010 to 3.4 percent in 2013. In line with the evolving structural changes in the last several years growth was largely supported by the services sector, most notably, the financial services, trade and ICT sectors. However, limited domestic reforms are reflected in a reduction in the savings and investment rates. As a result, current account deficit has remained high albeit comfortably financed by substantial FDI and foreign savings.

6. **Reforms resulted in declining fiscal deficits and public debt.** Revamping of the tax system through the broadening of the tax base and the reduction in marginal effective tax rate, combined with the direct and indirect tax reforms introduced in 2006 and 2008 had a remarkable impact on government revenues. Tax revenue relative to GDP rose from 17.9 percent in 2005 to 19.1 percent in 2009. Fiscal space created due to the reform process improved the economy's resilience to better absorb the impact of the shock. This has brought steady reduction of the overall fiscal deficit from -5.3 percent of GDP in 2006 to -3.5 percent in 2013. The Government introduced reforms to improve budgetary management through performance based budgeting and the adoption of medium term expenditure frameworks. The 2008 Public Debt Management Act (PDMA) has been instrumental in bringing public debt down from 68.8 percent in 2006 to 59 percent by end 2014. The Government remains committed to reach its target of 50 percent debt to GDP ratio in 2018.

7. **Mauritius' enabling investment climate continued to improve.** Mauritius ranks well in various international indicators and is consistently the top performer in Africa. The Government has taken various initiatives to streamline unnecessary business procedures that hinder investment. As a result, the number of days to start a business has been reduced from 46 in 2005 to 6 in 2014 while the cost of starting a business has also been reduced. The trade regime has been further liberalized; 93 percent of tariff lines are duty free and Non-Trade Barriers (NTBs) have been streamlined or eliminated. Trade has diversified since the 2008 crisis and overall exports recovered in 2013 to 2006 levels[23]. Mauritian exports have been diversified away from Europe and toward more dynamic regions such as Asia and Africa, particularly South Africa. Overall export diversification is comparable to that of Malaysia.

8. **Poverty declined during the CPS period although inequality increased**. Overall, there is no extreme poverty based on the US$1.25 a day threshold. Absolute poverty declined from 8.5 percent in 2007 to 6.9 percent in 2012. Expenditure of the bottom 40 percent of the population has been growing at around 2 percent annually between 2007 and 2012. However, inequality has increased and the Gini coefficient increased from 0.34 to 0.37 slowing the pace of poverty reduction. As a result, relative poverty has increased from 8.5 percent in 2007 to 9.8 percent in 2012. Consumption of the bottom 40 percent grew at an annual average of 1.8 percent compared to an annual average growth rate of 3.1 percent for the whole Mauritian population. The gap between the better off and the worse off has increased over time. In addition, while the overall unemployment rate has trended down from 9.6 percent in 2005 to 8 percent in 2013, it has proven difficult to reduce unemployment among the young population and women which may increase inequalities. In addition, female labor force participation is low when compared to other Middle Income Countries (MICs).

[23] Exports in 2006 was US$2.3 billion in 2013 compared to US$2.4 billion in 2008.

9. **Outcomes on social development indicators were good.** Mauritius rating in the Human Development Index is very good and in line with its growing income status. Life expectancy at birth has increased by 14 years from 59 to 73 years, while both under -5 and infant mortality have decreased dramatically. Primary and Secondary school enrollment levels have reached closer to upper middle income countries. Gender parity has been achieved and more girls are enrolled in secondary education than boys.

10. **Social assistance programs have been strengthened to become more effective to empower the poor and vulnerable.** The Government has taken comprehensive steps to modernize its social assistance system. It has established the SRM as the database for social assistance programs to include and increasing number of existing programs and introduced more eligibility criteria in the identification of beneficiaries.

II. Evaluation of CPS Program Performance

11. This section evaluates the overview of the CPS performance under the program's four strategic pillars that contained 21 outcomes. These outcomes are assessed as to be achieved (A), mostly achieved (MA); partially achieved (PA) and not achieved (NA)[24]. Overall the program achieved or mostly achieved 76 percent of the CPS outcomes, partially achieved 10 percent and did not made progress towards 14 percent. The CLR uses the updated CPS PR Results Framework to assess the CAS program. Despite the revision, the results matrix lacks clear links between activities and CPS objectives. There were no quantifiable indicators for most of the outcomes. The CLR therefore, retrofitted proxy indicators to show progress under each outcomes.

[24] A=all quantitative targets met; MA= more than half of the quantitative targets were met; PA= less than half of the quantitative targets; NA= few if any of the targets were met.

Table 1: Overview of achievements of CPS outcomes

Achievements by CPS Pillars	Performance Ratings
Pillar 1: Fiscal Consolidation and Improving Public Sector Efficiency	**Satisfactory**
2. Improved fiscal management by making the MTEF operational	Achieved
3. Improved budget allocation	Achieved.
4. Enforcement of new procurement rules as measured by audits	Achieved
5. Budget transfers from Central Government to parastatals is reduced	Mostly Achieved
6. Improved system and procedures that reward performance	Achieved
Pillar 2: Improving Trade Competitiveness	**Satisfactory**
7. Streamlined tariff measures	Achieved
8. Reduction in air fares and more destinations served	Partially Achieved
9. Improved telecommunications infrastructure	Achieved
10. Increased exports	Achieved
11. Transparent administrative regulations	Achieved
Pillar 3: Improving the Investment Climate	**Satisfactory**
12. Reduction in cost of doing business as measured by surveys (land, labour regulations)	Achieved
13. Increase flexibility of hiring and firing	Achieved
14. A working land market with reduced Government intervention	Achieved
15. Improved traffic flow along the main corridor in compliance with road safety measures	Partially Achieved
Pillar 4: Democratizing the economy through participation, inclusion and sustainability	**Moderately Satisfactory**
16. Significant expansion of post-secondary education (technical and general)	Achieved
17. Increased articulation between the education strategy (in particular at the post-secondary level) and the overall economic growth strategy	Mostly Achieved
18. Elimination of bias (financing, regulatory, skills, etc) against SMEs as measured by increased number of new SMEs registered	Achieved
19. Protection programs reach the needy as measured by household surveys	Achieved
20. Improvement in the environment by increased use of cleaner technologies in the industrial sector	Not achieved
21. Adequate wastewater management system in place ensuring improved heath and sanitation	Not achieved
22. Stabilization of the prevalence of HIV/AIDS at 0.3%	Not Achieved

Pillar 1: Fiscal Consolidation and Improving Public Sector Efficiency - Satisfactory

12. The CPS in this area focused on improving the quality and effectiveness of public expenditures, enhancing debt management capacity, strengthening the tax system, better performance management of civil service and increasing the efficiency of SOEs. A series of Development Policy Loans (DPLs) and analytical work underpinned the Bank's engagement in this area.

13. **Fiscal management improved.** The CPS program supported a number of policy reforms to stabilize fiscal performances. On the expenditure side, the DPL series facilitated adoption of policy measures to establish a framework for debt management through the enactment of Debt Management Act 2008. A fully-fledged Program Based Budgeting (PBB) embedded in a three

year MTEF has been applied for the budgeting framework for Central Government. The budget process has improved from an input based annual exercise to a performance based multi annual exercise linking financial resources to outputs to outcomes while the rolling three year budget has allowed a greater focus on government's medium term fiscal program. This has contributed towards improving fiscal performance. Overall fiscal deficit to GDP declined from -5.3 percent in 2006 to -2.5 percent in 2011 to -3.5 percent in 2013. Increased in spending and lower than expected revenues pushed the 2013 deficit slightly higher than projected deficit of 2.2 percent.

14. **A number of policy changes in the tax system were introduced to stabilize revenue**. The CPS program supported the Government to adopt policies to reduce distortions and increase equity in the tax code, relinquishing discretionary powers to grant tax and duty exemptions, operationalizing the Mauritius Revenue Authority (MRA) and simplification of personal income tax. This has made the tax system more transparent and rule based. Operationalizing MRA has strengthened tax administration by allocating more resources and improving collection through effective tax administration. Revenue as a share of GDP stabilized at 21 percent. Globally, Mauritius stands at 13 in the ranking of 189 economies on the ease of paying taxes.

15. **Efficiency in procurement and public financial management improved**. International best practice standards have been adopted in new procurement legislation which was enacted in December 2006. This has replaced the Public Procurement Transparency and Equity Act of 2000. On the public financial management front, a new chart of accounts was introduced using the latest Government Financial Statistics (GFS) 2001 methodology. Mauritius graduated to GFS earlier than many other countries in Africa thus improving the standards of its public finance. An upgraded Financial Management Information System (FMIS) has enabled strengthened budget implementation and reporting on both financial and non-financial data. The 2011 Public Expenditure and Financial Accountability (PEFA) assessment records progress on PEFA indicators relating to budget credibility, transparency and comprehensiveness. Based on the recommendations from the report the Government designed a PEFA Action Plan (2011-2013) and made positive progress in implementing some of the reforms.

16. **Significant efforts have been made in improving financial stability and service delivery of SOEs.** This is a new area of focus added during the CPS PR. The DPL series supported several reforms in strengthening coordination and monitoring of SOEs. The Office of Public Sector Governance (OPSG)[25] launched the Parastatals Information Management System (PIMS) and is implementing a comprehensive performance monitoring framework to improve corporate governance. Fifty seven SOEs have been registered for PIMS and fourteen Performance Reports have been completed for those which have provided total input in the system. A plan for restructuring 5 underperforming SOE's has been approved by the Cabinet and published in the Government website. In addition, the recommendations from the Report on the Observance of Standards and Codes (ROSC) on accounting and auditing practices to improve financial reports have been taken on board by the SOEs.

17. **Modest progress has been made in improving efficiency in the civil service.** The Bank DPL series supported government's effort in streamlining the civil service management to

[25] OPSG was established in 2010 under the aegis of Prime Minister's Office to provide leadership, coordination and cohesion to the implementation and monitoring of the SOE reform initiative.

increase efficiency and transparency. In addition, a technical report on *Improving the Performance of Civil Services* provided a diagnosis for a civil service reform strategy and highlighted constraints to improving the performance of the civil service within the current system. A performance management system was being piloted in three departments followed by 16 ministries. Approximately 90 percent of the public officers have signed their Performance Agreement which defines their key tasks, performance standards and required competencies. Notable progresses have been made in consolidating schemes[26] and procedures of services for civil servant. Duration of the amendment of schemes and services now stands between 3 and 4 months and the total number of schemes and services for civil servants had been reduced from 2,500 to 2,300 by February 2014 and is expected to be reduced further to 2,156. Operationalization of Human Resource Management Information System (HRMS) has suffered delays due to limited human resources.

Pillar 2: Improving Trade Competitiveness - Satisfactory

18. The CPS supported government's reform on streamlining the regulatory framework and removing administrative bottlenecks to enhance competitiveness. The Bank through programmatic budget support operations and key analytical studies facilitated positive results under this pillar.

19. **Notable achievements have been made in simplifying tariff measures and trade regulations.** During the CPS period one of the key reform areas was the substantial reduction in tariffs. Duty rates were reduced on some 659 tariff lines and another 345 lines were set at zero. The average tariff rate has been reduced from 6.6 percent in 2007 to 2.3 percent in 2014. The regulatory environment was simplified and the burden of compliance was eased by eliminating distinction between export processing zone (EPZ) and non-EPZ producers and the incentive regimes for the EPZ and non-EPZ producers was unified. For example all corporate tax was set at 15 percent. In addition the anti-labor bias in the tax system was eliminated by removing a 25 percent investment tax credit. The application process for business licenses and permits were also streamlined to emphasize unifying tax and regulatory regimes for EPZ and non-EPZ firms.

20. **Trade regulations have been further streamlined and unnecessary permits have been eliminated.** A Bank report on trade and labor identified the main weaknesses in the regulatory environment which includes: lack of systemic approach to assess cost and benefits of regulations, lack of coordination among ministries, duplication of requirements, excessive reliance on ex-ante inspections, and an absence of procedures to allow businesses to appeal regulatory rulings. The Bank-supported Public Sector Performance DPL series supported the Government in addressing these challenges. The Government's commitment in this area is also being reinvigorated through the upcoming Accelerated Program of Economic Integration (APEI) DPO. The APEI program supported a cabinet decision to reduce the number of products requiring import and export permits by the Agricultural Marketing Board from 21 to 6.

[26] A scheme of service is a legal document that specifies the grade, salary, mode of appointment, qualifications, duties and responsibilities of an employee in a ministry. It is an integral part of the effective selection and/or promotion of the most suitably qualified personnel within the civil service.

21. **Positive results have been achieved in improving trade administrative efficiency using IT solutions.** A trade portal[27] has been operationalized and is expected to increase transparency and accessibility to all regulations listed by national tariff line for importers and exporters. A National Single Window-OGA portal has been developed integrating twelve agencies involved in the processing and issuing of trade-related permits and clearances have been streamlined. Further legislative amendments required for the implementation of the Single Window were included in the Economic and Financial Measures Act 2013.

22. **Efficiency of the customs administrative appeals and penalties has been enhanced**. The Government has set up an internal appeals mechanism within the MRA-Customs in line with the revised Kyoto Convention. The time allowed to operators to settle their Customs administrative penalty has been reduced. As of now, 71 percent of the Customs Offense Reports (CORs) filled were settled within two weeks. This mechanism will ensure the independence and fairness of the appeal process.

23. **The CPF objective related to a reduction in air fares and increased air service was deemed partially achieved**. Air access rules were liberalized contributing to an increase in flights serving Mauritius and supporting sustained strong performance of the tourism sector. On the other hand, restrictions remain on airline operations and ownership despite the general trend towards liberalization.

24. **The CPS program also supported reforms to promote ICT usage and e-Government in order to increase efficiency and transparency.** Some of the key achievements include: the development of National Broadband Policy[28] and the publication of ICTA (Information Communication Technology Authority) tariff guidelines. Detailed market analysis, stakeholder consultation and feedback were also incorporated in the guidelines that have been published in the ICTA website. These guidelines are expected to reduce the requirement for preapproval of tariffs by non-dominant operators, thereby promoting greater price innovation. The DPL series also supported Government's efforts to promote the widespread adoption and use of public key infrastructure (PKI[29]). The Electronic Transaction Act was amended and the Electronic Transaction Regulations 2010 came into effect that provides licensing framework as well as the regulation of Certification Authorities (CA) activities in Mauritius. The Government is in the process of operationalizing Government Services Platform, based on Public Key Infrastructure (PKI) which will support a wider range of government services, some of which may replace paper-based alternatives. In addition, a number of online public transaction services are already operational including online application and payment for incorporation of a company, annual registration fees of a company and ePayment for the lease of state land.

Pillar 3: Improving the Investment Climate - Satisfactory

25. The CPS supported the Government in improving the business regulatory framework and streamlining business processes. Policy dialogue through the DPL series and analytical work facilitated the Government in key initiatives like (i) investment facilitation; (ii) increasing labor market flexibility and (iii) attracting skilled foreign workers.

[27] The portal was launched in August 2013 and can be accessed at http://www.mauritiustrade.mu/en
[28] Outlines the policy framework that will guarantee the predictability to the business environment
[29] PKI is a secure encryption technique, to execute secure electronic transactions.

26. **The regulatory environment for business has been streamlined.** The Business Facilitation Act 2006 was enacted which included a wide range of measures to expedite business registration, amending and abrogating several laws. This Act made the Registrar of Companies a one-stop shop for business registration and changed the role of the Board of Investment (BOI) from granting discretionary approvals for investment projects to facilitation. This has resulted in an increase in the number of registered companies from 29,330 in 2007 to 33,002 in 2011, an increase of 12 percent. Progress was also made in improving land registration. The Bank's technical assistance through Mauritius Economic Transition Technical Assistance (METAP)[30] project supported computerization of the Registrar General's Office and the improvement of land registries effectiveness in order to facilitate the registration and securitization of land based assets. Land Administration and Management System (LAVIMS) has been operational and now it takes only 14 days to complete a property transfer. While the project was canceled[31] before LAVIMS was implemented the Government completed the reform program without further assistance from the Bank.

27. **The above reform efforts helped improve key doing business indicators.** Key doing business indicators such as number of days to start a business, number of days it takes to enforce commercial contracts, public credit registry and number of days spent dealing with construction permits and difficulty in firing index made significant improvements. This has enabled Mauritius with a rank of 29 in the Ease of Doing Business 2015 indicators, to remain the best ranked in Africa.

28. **Efficiency in the labor market improved.** The DPL series supported policy changes aimed at easing entry of foreign skilled workers by facilitating permit issuances and introducing a flexi security scheme. The reforms eased entry of foreign workers in the labor market by creating a single occupational permit combining residency and work permits and legalizing conversion of tourist to business visas. A flexi security scheme[32] was introduced and about 3000 workers benefitted from this scheme of which 80 percent sought job replacement. In addition, the Government has revised the Passport Regulations to facilitate the movement of business people. Currently, nationals from 75 countries are positively affected by this policy changes.

29. **The credit environment has been strengthened through strengthening of the debt resolution regime**. The Mauritius Insolvency Act of 2009 represented a significant advancement in the development of Mauritius insolvency framework. The Government introduced regulations related to Insolvency Practitioners qualifications and appointment. Specific reforms included: i) publication of rules of professional conduct for insolvency practitioners; (ii) the establishment of procedures by the Director of the Insolvency Service to deal with the suspension and removal of insolvency practitioners from the Registry and (iii) the publication of Out-of-Court Workout (OCW) guidelines to establish protocols on how to expedite reorganization of ailing business corporations which have viable future prospect by means of debt restructuring at an early stage.

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[30] METAP was approved in January 2009 (US$18 million) and was cancelled and NCO was prepared in March 30, 2012.

[31] See para 47 for detailed explanation of cancelled projects.

[32] Flexi security schemes provides for a maximum of twelve months of transitional assistance to employees who wish to take opportunity of the scheme to seek job replacements, undergo training or start a small business and these employee benefitted from financial assistance.

30. **Significant progress was made in improving road infrastructure.** The Bank supported investment lending operation supported in construction, rehabilitation and maintenance of targeted road networks. The 12.1 km of the bypass roads[33] have been constructed and the improvement of the road has led to a marked reduction in both travel time between Wooton and Quarties Militaire (15 minutes to 6 minutes) and in fatal accidents (from 11 to 5).

Pillar 4: Democratizing the Economy through Participation, Inclusion and Sustainability – Moderately Satisfactory

31. The CPS program was aligned with the Government objectives to enhance opportunities for education, skills training and restructuring the social protection system to protect the vulnerable population. The DPL series along with key knowledge products helped to inform and support the Government reform agenda particularly in skills, education and health.

32. **Mixed results were achieved in education outcomes.** The DPL series included a modest engagement in the education sector, with a view to support reforms to strengthen education system and improve the quality of education outcomes. A national education strategy was developed which covered five main subsectors (pre-primary, primary, secondary, tertiary and TVET). Implementation of the education strategy resulted in an increase in primary and secondary school completion rate from 64.9 and 78.4 percent in 2006 to 68.8 and 75.7 percent in 2012. The completion rate at the primary level remained at 68.8 percent for the last several years. The stagnation of the primary completion rates has been highlighted as a key impediment to further improvement in the education attainments with potential consequences on the overall ability of the country to innovative and grow.

33. As part of the DPL series the Bank also provided technical assistance on the tertiary education strategy (2013-2025), including by reviewing existing strengths and weaknesses of sector in the light of the country's ambition of becoming a knowledge hub. The expansion of the post-secondary education over the past few years was mostly driven by the planned internationalization of the sector which has been the flagship program of the Ministry of Tertiary Education. The strong focus of attracting foreign students into the tertiary education in Mauritius has occupied most of the policy dialogue between the Bank and the GoM. The CPS objective was not entirely aligned with the Government agenda as it did not reflect the focus on internationalization of tertiary education. Despite this, gross enrollment in tertiary education has increased from 34 percent in 2006 to 46 percent in 2012.

34. The Government also adopted reforms in the pre-vocational stream aimed at increasing retention and enhancing the quality of education outcomes at that level. The implementation of the reform began with the 2012 academic year and aimed at substantially strengthening the learning content of the pre-vocational stream with a view to provide basic skills to those entering the labor market. However, fundamental changes have been implemented in the education system since the DPL was approved in 2013. The Government adopted 9 year basic education, which may result in dropping the pre-vocational stream. This may influence the sustainability of the reform supported by the DPL.

[33] On Belle Rive- Quartier Miltaire section of the B6 road.

35. **Policy dialogue through analytical works also contributed progress in some reforms areas**. *A Public Expenditure Review (PER)* provided information for an initial assessment of equity and efficiency of public spending in health and education and how to improve the service delivery. It was a good instrument to engage in further dialogue around efficiency gains although dialogue was not systematically sustained and not all recommendations have been implemented. In addition, several background studies also helped improve the policy dialogue.

36. **Increased attention was given to strengthen the social protection system.** The Bank program supported restructuring of the Government's social protection system to make it better targeted and cost effective. The Social Registry of Mauritius (SRM)[34] an integrated management information system was launched to further strengthen and improve coordination of the monitoring system of both Social Aid and National Empowerment Foundation (NEF). The Government has been consolidating the realignment of the NEF and bringing new and existing programs into the SRM. There are currently 29,319 households participating in several new social protection programs[35] using the SRM for identifying beneficiaries. In addition, the Bank produced a policy note outlining options for reducing errors of inclusion and exclusion in Social Aid. The recommendations from the policy note benefitted the Government in developing a new proxy means test for Social Aid that will use data.

37. **Skills training program has enhanced the employability of semi-skilled and unskilled persons through the provision of training and placement services.** The Government has restructured the National Empowerment Foundation (NEF) which is working with number of training institutions to provide vocational and technical training. As of now, 2,932 unemployed have been provided technical and vocational training[36] while 348 have been placed in different sectors.

38. **Innovative scheme was promoted for the growth of SMEs.** Mauritius Business Growth Schemes (MBGS) was introduced and under this scheme eligible firms received financing to support their business growth on a cost sharing basis. Over 150 such SME's have benefitted from this scheme since the inception.

39. **The Bank had a very limited engagement in the area of HIV/AIDs.** The Bank through an IDF grant provided support to strengthen capacity of the National AIDS Secretariat (NAS) to plan, implement, monitor and evaluate the multi sector response to the rapid spread of HIV/AIDs. An HIV/AIDs strategic plan was developed for 2005-2009 and National Multi Sectoral Strategic Frameworks were developed for 2007-2011 and again for 2013-2016. However, the CPS target to stabilize prevalence rate was not achieved as it was a higher level national goal which the Bank's limited engagement did not provide any direct support.

[34] The SRM is an integrated management information system that provides comprehensive information on clients of social assistance programs with the aim of increasing coordination among the many different programs.

[35] The Housing Scheme (10,535 beneficiaries); the casting of roof program (233 beneficiaries), the housing general and crèche programs of the NEF (480 beneficiaries), NS and RI of the Ministry of Social Security (18,070 beneficiaries).

[36] Training has been provided in domestic work, ICT, mechanics, welding and hotel industry.

40. **Activities related to two CPS outcomes were cancelled as the result of changing Government priorities**. Specifically, Outcomes 19 and 20 (related to increased use of cleaner technologies in the industrial sector and improved wastewater management) were not achieved as the CPS activities related to these outcomes were dropped as part of a project restructuring in 2014. While some technical studies in these areas were carried out, Government's priorities shifted after the 2010 elections. It should be noted however that the activities in question were studies that could have contributed to the requisite investments and policy reforms but would not, by themselves, have delivered the outcomes identified in the CPS.

III. World Bank Group Performance

41. **Overall, Bank performance during the FY07-FY15 Mauritius CPS was fair.** That is: "the design and implementation of the program successfully contributed to the pursuit of the key CPS Outcomes and timely adaptation to changing circumstance and priorities. A sound program of ongoing activities is in place for the next strategy period."

Design:

42. **CPS objectives were aligned with Government development priorities with pillars corresponding to the Government's four pillars of reform as set forth in 2006[37].** The priorities of the CPS addressed the overriding importance of addressing the impact of the loss of textile and sugar trade preferences and soaring oil prices by increasing competitiveness, promoting emerging sectors and developing human capital. The program supported government activities to promote fiscally sustainable implementation of social programs, efficiency in the public enterprises, simplification of regulatory environment and improving competitiveness.

43. **Lessons learned from implementation of the FY02-FY04 CAS were incorporated in the design of the CPS.** In particular, the CPS program was designed to be flexible and demand driven with a strong emphasis on AAA in line with the Bank's comparative advantage. The CPS was developed jointly with the EU to facilitate harmonization. The original CPS design anticipated a process of aligning the Bank program with Government priorities through annual business plans prepared jointly with the Government and synchronized with the Government's budget and decision making process. However, this process never fully materialized. The strategy also recommended establishment of a liaison office in Port Louis to maintain regular dialogue with Government and partners. The office proved to be important for ensuring alignment of Bank support with Government priorities. The flexible design was tested and proved to be successful during the global financial crisis and political transition of the country.

44. **The choice of instruments was appropriate for the flexible design of the CPS.** The CPS program envisaged a combination of programmatic budget support operations (DPLs) and limited investment in infrastructure. A series of DPLs backed up by AAA supported government's structural reforms to adjust to short term trade shocks and support the transition to a more competitive economy while minimizing negative social impacts. The CPS also envisaged the possibility of investment lending to support infrastructure investment. At the same time the

[37] In 2012 after the election the newly elected Government presented its new program called "Moving the Nation Forward"(MFN) covering 2012-2015.

Government also showed concern regarding high transaction costs related to fiduciary management of investment lending.

45. **The results matrix was poorly structured and had a number of weaknesses.** The original results matrix identified a wide range of "possible strategy outcomes" that would be pursued jointly with the EU. However as the two institutions programs diverged in response to the 2009 crisis, it became clear that a joint program was no longer feasible. The results matrix was revised in the CPS progress report to reflect this change. The revised CPS results matrix identified 21 outcomes and 19 milestones but only a few had quantitative outcome indicators to monitor progress and fewer still included baselines and targets. In some cases the links between the expected outcomes and the Bank program was weak. For example modest capacity building for the National AIDS Secretariat was tied to an ambitious goal of stabilizing HIV prevalence. Hence, the links between objectives, outcomes and Bank's intervention were in some cases weak and difficult to assess. The evaluation had difficulty in tracking progress and had to retrofit proxy indicators to show progress on some of the outcomes.

46. **Two key risks were identified in the CPS design: exogenous shocks and political risks**. Political risks did materialize and affected the program after the 2010 elections when Government reform priorities changed. The CPS program effectively mitigated risks related to exogenous shocks, particularly during the global financial crisis. The Bank's flexible approach through the programmatic budget support series helped the Government to formulate a policy response and maintain macroeconomic stability.

Implementation:

47. **The CPS comprised a planned program of US$310 million which, by the end of the period, had resulted in actual commitments of US$280 million (see Table 2)**. While the volume of financing was close to the envisaged in the CPS, the mix of instruments varied considerably. The CPS envisaged six budget support (Development Lending Operation) and four sector investment lending operations. As explained more fully below, due to various changes in country circumstances the Bank delivered eight DPLs and only one investment operation. However, the strategic priorities in the CPS continued to guide the content of development policy lending.

48. **DPL lending proved to be effective in supporting the Government's reform program and was scaled up to help meet urgent financing needs to help address the impact of the financial crisis.** A series of three programmatic budget support operations was originally planned to support the Government in its policy reform. Initially, these series considered three operations for an amount of US$30 million each. However, to respond to fiscal challenges and cushion the impact of the financial crisis of 2008, the Bank increased the third operation to US$100 million and introduced in the operation a Deferred Drawdown Option (DDO). As soon as DPL 3 was disbursed the Government requested a fourth DPL for supporting the budget for the last six months of 2009. The Bank provided a further US$50 million in funding through DPL4. In addition two sets of programmatic DPL series (Public Sector Performance and Private Sector Competitiveness) with a total amount of US$70 million were delivered. These series were designed to be mutually reinforcing to address complementary aspects of Mauritius reform program. The Public Sector Performance DPL series focused primarily on the performance of the

public sector while the Private Sector Competitiveness DPL series concentrated on strengthening the policy and institutional environment of the private sector competitiveness.

49. **Most CPS planned infrastructure projects did not materialize**. During the CPS period only one (Infrastructure Project US$50) out of four planned infrastructure projects was approved. This experience reflected a significant shift in government's preferences with regard to Bank financing instruments as well as an attempt to use public-private partnerships instead of borrowing in support of public investment. In addition, Government was generally unfamiliar with Bank investment lending procedures and found them to be cumbersome in practice. Despite this, the policy dialogue in infrastructure continued throughout the CPS period through the Infrastructure Project and preparation of performance based Roads Asset Management and Safety Infrastructure Project (US$75 million). While the latter was cancelled just before appraisal, significant work was carried out, particularly in the area of improving road safety standards which was supported through a substantial trust fund grant. In the end, Government borrowing needs were scaled back as part of overall fiscal consolidation efforts. Nevertheless public investment in infrastructure did materialize in Mauritius through other investors even without Bank financial support.

50. **Two sector investment technical assistance operations[38] were also approved to support Government in its private sector competitiveness agenda which were not originally envisaged in the CPS.** However, these projects were canceled and replaced by two sets of DPLs[39] series at the request by the government. The Government considered DPL a more appropriate lending instrument to support reforms underpinned by the high quality Bank advisory services which Mauritius as a MIC country valued. In addition, the Government underestimated the fiduciary compliance requirements under a SIL. Despite technical assistance provided to support the staff the procedures were deemed too cumbersome by client.

51. **The programmatic series was used as a vehicle to harmonize policy dialogue of development partners with the Government.** It also served as a mechanism to ensure coordination among development partners in the country. First few DPL series often translated into joint prior actions, missions and single reporting for all development partners thus significantly reducing Government's transaction cost. The Bank also played a central role in assisting the Government coordinate the support of development partners for the reform effort.

52. **Technical assistance complemented programmatic operations to respond to the reform program.** Budget support operations (both on the public and private sector) provided both financial and technical assistance to the government to undertake its reform program and had built-in flexibility. For example, in the area of fiscal consolidation, the WB Treasury provided assistance to the Bank of Mauritius (BOM) and the Ministry of Finance and Economic Development (MoFED) to jointly develop an action plan for improving Public Debt Management and also provided training workshops. This training has been helpful in strengthening the relationship with key counterparts and advancing the agenda.

[38] Manufacturing and Services Development and Competitiveness Project (MSDCP) and the Mauritius Economic Transition Technical Assistance Project (METAP). Both METAP and MSDCP were approved in January 2009 and became effective in April 2009.
[39] Public Sector Performance DPL series and Private Sector Competitiveness DPL series.

53. **A range of knowledge products and technical assistance supported the reforms efforts that were critical to the success of the lending engagements**. The CPS program largely benefitted from Bank's technical assistance in parallel with analytical work. Some of the key analytical work informed the reform program in areas such as Doing Business reforms, infrastructure, health, education, social protection, poverty, public enterprises, e-Government initiatives, public sector efficiency and institutional strengthening. A substantial amount of knowledge work was performed as part of implementation support for DPLs. The Bank is currently preparing a Systemic Country Diagnostic Study (SCD) for the preparation of the next Country Partnership Framework (CPF).

IFC Activities:

54. **During the CPS period, IFC focused its interventions on two key sectors- infrastructure, and financial services.** Its activities have been targeted at: supporting the mobilization of foreign direct investment to these sectors, climate change mitigation, improving access to finance for SMEs and promoting South-South transactions.

55. IFC made a commitment to support the Port-Louis Ring Road Decongestion project with an equity investment in an international private sector consortium along with a proposal to lead a consortium of development partners with African Development Bank and Proparco to raise the long term debt component of the project. Various challenges necessitated significant amendments in the scale and scope of the project resulting in GoM re-starting the procurement process.

56. IFC also supported Cargo Handling Corporation Ltd (CHCL) project. IFC was working with the Government to identify strategic partner in CHCL who would spearhead the much needed turnaround of the company and also mobilize the much needed investment for port operations. However various challenges caused the Port transaction to stall, including lack of clarity about managerial autonomy and decision making and changes in interlocutors.

57. In response to the GoM strategy to improve access to finance to MSME, IFC advised the GoM in the re-structuring of the ailing Development Bank of Mauritius (DBM). IFC's recommendation to turn the DBM in a private sector SME specialized institution with a strategic partner with a verifiable track record was 'abandoned' because of the implications it had in terms of capital injection, staff reduction and portfolio recovery. Along with this activity, IFC carried out an MSME Strategy Review and Development for DBM and one private sector commercial bank.

58. IFC made at least five investments commitments with the private sector in the financial sector, providing medium term loan to a commercial bank to strengthen the funding for cross-border initiatives and at least four regional private equity funds to provide risk capital to medium and mid-cap companies in Mauritius and the region for expansion and modernization and at the same time reinforcing the Mauritius platform as a regional financial hub and promote south-south collaboration.

59. IFC is in negotiation with at least two private sector companies to investment in climate change related projects. Delays in finalizing these commitments can be attributed to technical complexity of and the novelty of the project.

IV. Alignment with the Corporate Goals

60. **The CPS program was aligned with the WBG's goals of reducing poverty and increasing shared prosperity in a sustainable manner.** The reforms supported through the programmatic budget support operations are expected to reduce poverty. For example: (i) social protection programs would become more effective at protecting the poor and helping them to rise out of poverty; (ii) widening access to education would help the most vulnerable to find higher-skilled better paying jobs in the labor market; (iii) streamlining trade regulations and improving business environment will increase employment generations and productivity gains. The social protection programs during the CPS period have contributed to poverty reduction increasingly over the years. Comparison of simulated poverty impact in 2007 and 2012 indicated that in 2007 social protection were associated with 8.5 percentage points of poverty reduction while in 2012 this increased to 9.5 percentage points. Expenditures of the bottom 40 percent has been growing 2 percent annually between 2007 and 2012.

V. Key Lessons and Suggestions

61. **A demand driven-flexible CPS program for a MIC client like Mauritius requires a lot of communication in order to ensure ownership.** The CPS was implemented during a time of political and financial transition which led at times to shifting priorities and weakened ownership. As a result, several projects were dropped late in the preparation process and two projects were cancelled shortly after approval. Closer coordination with appropriate Government counterparts from the beginning and throughout the project cycle is needed to ensure that there is full buy-in from the Government of the proposed WBG interventions. This includes ensuring alignment between the MoFED and the relevant line ministries and ensuring that the financing instrument meets Government's overall objectives.

62. **Policy dialogue through knowledge and advisory services are effective for Mauritius.** In some areas the government valued the Bank's technical assistance, analytics and policy dialogue more than its accompanying financing. The analytical works for the programmatic DPL series were effective in coordinating and stimulating government's agenda. The DPL series also helped to bring sector ministries and agencies on board and to align other donors around the reform effort. Going forward, the CPS program could further engage in policy dialogue through programmatic knowledge and advisory services, relying less on financing instruments. This can be the main value added of Bank support. The Bank should continue to leverage its knowledge services to improve policy dialogue in key reform areas.

63. **Leadership and strong political commitment from the Government is required to advance the reform agenda.** The implementation of the programmatic operations was effective due to strong ownership and commitment. The areas of reform were set out by the government and the reform agenda had the political backing at the highest level. Both public and private sectors were involved to discuss the relevance of policy changes. It also helped improve the capacity within the Government's officials.

64. **The program should focus on fewer outcomes while ensuring a realistic results framework.** While in principle the results matrix was aligned with the program, it was overly broad and extensive for a small program, identifying 21 outcomes and 19 milestones. However

only a few had quantitative outcome indicators to monitor progress and fewer still included baselines and targets. In some cases the links between the expected outcomes and the Bank program was weak. The new CPF should keep a stronger focus and limit the number of objectives and outcome indicators, in order for the Bank to be strategic and more effective.

65. **Taking into account the political economy of the country while designing a new program is essential.** Government ownership and political economy can pose critical risks and a better understanding of these factors can help to avoid false starts. In some cases planned CPS activities were driven the Finance Ministry with little buy-in from line Ministries (as in the case of some activities under the Infrastructure Project) while in other cases such as the Road Asset Management Project, the line ministry may be on board but Finance has not prioritized the project in the Government's borrowing plan. Ensuring strong, Government-wide commitment up-front is critical to avoiding such problems

Table 1: Summary of CPS Results Matrix Program Evaluation (FY07-FY15)

WB Strategy Outcomes	Intermediate Indicators and Milestones	Progress and Status as of Now	Lessons Learned	World Bank Program
PILLAR 1: Fiscal Consolidation and Improving Public Sector Efficiency (Satisfactory)				
(1) Improved fiscal management by making the MTEF operational ***(Achieved)***	*There was no intermediate indicators.*	✓ DPL series supported the Government with implementation of MTEF and preparation of Program Based Budgeting (PBB) in 2007/08 budget. In addition, PEFA report 2011 also helped to improve the policy dialogue. ✓ A fully-fledged Program Based Budgeting (PBB) embedded in a three year MTEF has been applied for the budgeting framework for Central Government since 2008/2009. ✓ The effectiveness of the PBB-MTEF continues to be improved. The government continues to place emphasis on the preparation of line ministry strategies that are fully consistent with the PBB template and also improve the linkages between the ministry plans with macroeconomic projections, fiscal strategy and budget process. ✓ Improved budgeting from an input based annual exercise to a performance based multi-annual exercise linking financial resources to output	✓ Some of the indicators supported through DPL series were adjusted during the crisis period have and most of them have been achieved. ✓ The Government's reform program through DPL was maintained even after the financial crisis. ✓ Programmatic series was flexible in responding to the needs of the country. Bank's response to the crisis was time bound. ✓ Government's strong commitment and leadership at the design and implementation of the policy reform have been important in implanting the reform agenda. ✓ Since the country moved to the second generation reforms, engagement with sector ministries should be deepened to ensure ownership of the reform plan at the ministries level.	**Lending:** DPL series (1,2,3,4), Public Sector Performance DPL (1,2) **AAA/TA:** CEM, Exchange rate and output fluctuations in a small open economy, PER, ROSC, Civil Service Reform Policy Note, Mauritius Growth and Shared Prosperity, Building Analytical Capacity to raise Public Sector Efficiency, SOE's fiscal risks, public sector performance-monitoring and evaluation.

WB Strategy Outcomes	Intermediate Indicators and Milestones	Progress and Status as of Now	Lessons Learned	World Bank Program
		and outcome. ✓ Three year rolling budget has allowed more visibility on government medium term fiscal programme. ✓ All line ministries programs are aligned with the PBB requirements. ✓ Mainstreaming MTEF/PBB has led to the revision of the Chart of Accounts, upgrading computer systems and providing adequate training. ✓ A debt management framework was established through PDMA which was enacted in 2008. ✓ Debt law has progressively lowered total debt to GDP from 68.8% in 2006 to 57.5% in 2011 and 59.9 % in 2013 and 59.1% in 2014.The current DSA that the debt to GDP ratio is expected to reduce to 53 percent by 2019.		
(2) Improved budget allocation ***(Achieved)***	Allocation of budget according to pre-set ceilings ***(Achieved)*** Compilation and publication of tax expenditures in the budget ***(Achieved)*** Minister of Finance relinquishing	✓ Fiscal rules were implemented during the first DPL 1 (as a prior actions) to set an aggregate spending envelope and strengthening discipline to ensure the allocations to line ministries are consistent. ✓ The budget is normally approved before commencement of a new fiscal period and adequately	✓ There has been improved budget credibility though there is room to strengthen macroeconomic projections, fiscal strategy, ministry level strategic plans and the budgetary process. ✓ *Demand driven engagement:* Need to ensure the knowledge and support being offered is required to improve service delivery and the requesting	**Lending:** DPL series (1,2,3,4), Public Sector Performance DPL (1,2) **AAA/TA:** CEM, Exchange rate and output fluctuations in a small open economy, PER, ROSC, Civil Service Reform Policy Note, Mauritius

WB Strategy Outcomes	Intermediate Indicators and Milestones	Progress and Status as of Now	Lessons Learned	World Bank Program
	discretionary power to remit duties and taxes and grant exemptions ***(Achieved)***	reflects policy priorities. ✓ The budget classification system was changed in 2008/2009 to IMF GFS 2001 standards. ✓ The budget documentation is comprehensive with 7 out of 9 required documentary benchmarks included in the annual budget documents. ✓ Mauritius Revenue Authority (MRA) was operational and personal income tax was simplified in 2006. This has strengthened tax administration by allocating more resources improving collection through effective tax administration. ✓ Revenue as a share of GDP increased from 20.1% in 2006 to 20.7% in 2011 and 21% in 2013 and estimated at 21.2% in 2014. ✓ Ministry of Finance discretionary power to remit tax liability was eliminated through a legislation to abolish ministerial discretion over tax and duty exemptions in 2007. This has made the tax system more transparent and rule based. ✓ 2010 PEFA assessment indicator: **P1-1**: Aggregate expenditure out-turn compared to original	agency is committed to utilize the deliverables under the initiative. ✓ *Solutions beneficial to the country:* in sharing knowledge from other countries, select those countries that are comparable to Mauritius or those that Mauritius aspires to.	Growth and Shared Prosperity, Building Analytical Capacity to raise Public Sector Efficiency, SOE's fiscal risks, public sector performance-monitoring and evaluation.

WB Strategy Outcomes	Intermediate Indicators and Milestones	Progress and Status as of Now	Lessons Learned	World Bank Program
		approved budget 2007 PEFA score: A 2010 PEFA score: B **P1-3: Aggregate revenue** out-turn compared to original approved budget: 2007 PEFA score: A 2010 PEFA score: A		
(3) Enforcement of new procurement rules as measured by audits ***(Achieved)***	Adoption and Implementation of new Procurement Act ***(Achieved)***	✓ Public Procurement Act of 2006 was enacted. The international best practice standards have been addressed in new procurement legislation enacted in December 2006 which replaced the Public Procurement Transparency and Equity Act of 2000 in 2007/2008. This has resulted in more efficient procurement and better value for money in public expenditure. ✓ As prescribed under the Act officials for PPO, the Central Procurement Board and the Independent Review Panel were appointed in 2007/2008.		**Lending:** DPL series (1,2,3,4), Public Sector Performance DPL (1,2) **AAA/TA:** CEM, Exchange rate and output fluctuations in a small open economy, PER, ROSC, Civil Service Reform Policy Note, Mauritius Growth and Shared Prosperity, Building Analytical Capacity to raise Public Sector Efficiency, SOE's fiscal risks, public sector performance-monitoring and evaluation.
(4) Budget transfers from Central Government to parastatals is reduced **(*Mostly Achieved*)**	Consolidation of 4 parastatal bodies in the water sector to create a single Water Authority ***(Not Achieved)***	✓ Cabinet established Parastatal Reform Steering Committee in 2008 (prior action to DPL 2). ✓ Action plan to reform selected parastatal began to improve operational		**Lending:** DPL series (1,2,3,4), Public Sector Performance DPL (1,2) **AAA/TA:** CEM, Exchange rate

WB Strategy Outcomes	Intermediate Indicators and Milestones	Progress and Status as of Now	Lessons Learned	World Bank Program
		efficiency and service delivery. These are: Central Water Authority, Wastewater management authority, central electricity board and Sugar Planters Mechanical Pool Corporation. ✓ Six out of 15 SOE's had an operational deficit in 2010 the highest number since 2006. (Source: IMF 2012 Article IV) ✓ Government transfer to SOEs are estimated at 2.7 percent of GDP in 2010. ✓ SOE's debt to GDP has declined from 12.1 % of GDP to 5.2% of GDP in 2013. ✓ In 2010 the Government established Office of Public Sector Governance (OPSG) for the implementation and monitoring of SOE reform initiative. ✓ DPL series supported OPSG in identifying areas where the corporate governance of SOE's has improved such as the implementation of audit committees and improved internal controls. It has also supported improved systems for performance monitoring. ✓ OPSG launched Parastatals Information Management System(PIMS) and is		and output fluctuations in a small open economy, PER, ROSC, Civil Service Reform Policy Note, Mauritius Growth and Shared Prosperity, Building Analytical Capacity to raise Public Sector Efficiency, SOE's fiscal risks, public sector performance-monitoring and evaluation.

WB Strategy Outcomes	Intermediate Indicators and Milestones	Progress and Status as of Now	Lessons Learned	World Bank Program
		implementing comprehensive performance monitoring framework to improve corporate governance of SOEs. ✓ The PIMS data currently contains 20 SOEs performance report and it has been published in the OPSG website.		
(5) Improved system and procedures that reward performance ***(Achieved)***	A strategy for human resources is prepared ***(Not Achieved)***	✓ Performance management system was being piloted in three departments followed by 16 ministries. The project rolled out to whole Civil Service from 2008. ✓ Approximately 90 percent of the public officers have signed their Performance Agreement which defines their key tasks, performance standards and required competencies. ✓ A Strategy for Human Resources were not prepared. Ministry of Civil Service and Administrative Reform (MCSAR) was s preparing a human resource strategy to modernize the management of the civil service. However this has been delayed. ✓ Min of Civil Service and Administrative Reform (MSCAR) started to simplify schemes of service. Schemes of services are legal		**Lending:** DPL series (1,2,3,4), Pub Sector Performance DPL (1,2) **AAA/TA:** CEM, Exchange rate and output fluctuations in a small open economy, PER, ROSC, Civil Service Reform Policy Note, Mauritius Growth and Shared Prosperity, Building Analytical Capacity to raise Public Sector Efficiency, SOE's fiscal risks, public sector performance-monitoring and evaluation.

WB Strategy Outcomes	Intermediate Indicators and Milestones	Progress and Status as of Now	Lessons Learned	World Bank Program
		document that specify grade, salary, qualifications, duties and responsibilities of Ministry. ✓ Consolidation of Schemes of Services were piloted in MCSAR in 2012 and extended to other ministries reducing the total amount of Schemes of Services by around 14 percent. The total number of Schemes and services for civil servants has been reduced from 2,500 to 2,300 by February 2014 and to further to 2,156 by end of 2014. ✓ Human Resource Management Information System (HRMIS) is still under implementation phase.		
PILLAR 2: Improving Trade Competitiveness (Satisfactory)				
(6) Streamlined tariff measures ***(Achieved)***	Tariff reduction program under implementation ***(Achieved)***	✓ Tariff barriers reduced significantly. Duty rates were reduced from 659 tariff lines and another 345 lines were set at zero. ✓ The dispersion in the tariff structure has nearly halved from a standard deviation of 15.5 percent to 8.4 percent. ✓ Average tariff rate has been reduced from 6.6% in 2007 to 2.3% in 2014. ✓ 88% of duty free tariff lines already zero rated.		**Lending:** DPL series (1,2,3,4), Public Sector Performance DPL (1,2), Manufacturing and Services Development and Competitiveness **AAA/TA:** Skills Dev and technology, Competitiveness Update, Next

WB Strategy Outcomes	Intermediate Indicators and Milestones	Progress and Status as of Now	Lessons Learned	World Bank Program
				Generation Business Reform TA, Improving Competitiveness TA, ICT-Sector, Improve Regulation and raise value added in the financial sector, Improvement Business and Trade Environment
(7) Reduction in air fares and more destinations served ***(Not Achieved)***		✓ Air transport costs has been reduced by liberalizing air access. This has partially contributed to the increased in number of tourist arrivals in the country from 0.78 million in 2005/2006 to 1 million in 2011. - ***DPL series did not directly support policy reform in this area. There was one AAA which discusses challenges in the Tourism sector.***	✓ Mauritius Airport is broadly competitive compare to the other airport in the region in terms of taxes on tickets and level of airport fees. ✓ Considerable restrictions still remain on airline operations and ownership despite the general trend towards liberalization. Liberalizing by granting fifth freedom and allowing foreign ownership and multiple designations could reduce airfares and increase passenger flow by 20-30 percent. ✓ About half of the existing 20 air service agreements do not permit fifth freedom operations and carriers are not allowed to stop over. Foreign ownership of national carriers are also restricted to 40 percent. The removal of these barriers could have a positive effect on reducing air transport cost, stimulating connectivity and supporting	**Lending:** DPL series (1,2,3,4), Public Sector Performance DPL (1,2), Manufacturing and Services Development and Competitiveness **AAA/TA:** Indian Ocean Islands Tourism Review: Mauritius Dealing with Challenges

WB Strategy Outcomes	Intermediate Indicators and Milestones	Progress and Status as of Now	Lessons Learned	World Bank Program
			tourism growth among other sectors	
(8) Improved telecommunications infrastructure ***(Achieved)***	Establishment of a fiber optic cable under EASSY project ***(Achieved)***	✓ The Government implemented International Private lease Circuit (IPLC) prices by 50% between 2003 and 2008. ✓ Amendments have been made to the Information and Communication and Technologies Act to be in line with international standards. ✓ These above changes were prior actions to DPL series has led to substantial increase in ICT enabled business. ✓ Cabinet approved National Broadband policy in February 2012. ✓ Cabinet approved amendment to ICT Act in 2012 to introduce a definition of Significant of market Power (SMP) and equip the ICT Authority with the appropriate tools to regulate markets in which there is evidence of SMP. ✓ ICTA published tariff setting guidelines on ICTA official website in May 2012. This will promote greater price innovation by reducing the requirement for preapproval of tariffs by non-dominant operators.		**Lending:** DPL series (1,2,3,4), Private Sector Performance DPL (1,2) **AAA/TA:** Competitiveness Update, Next Generation Business Reform TA, Improving Competitiveness TA, ICT-Sector, Improve Regulation and raise value added in the financial sector, Improvement in Business and Trade Environment

WB Strategy Outcomes	Intermediate Indicators and Milestones	Progress and Status as of Now	Lessons Learned	World Bank Program
		✓ Number of subscriptions increased by 5.4% as of 2014 from 300,200 (all broadband subscriptions) ✓ Price for broadband service per month for fixed service declined 15% (2014)from US$27.38 (2011) ✓ Price for broadband service per month for mobile service declined 48% (2014) from US$17.38 (2011).		
(9) Increased exports ***(Achieved)***	Identification and removal of non-tariff barriers ***(Achieved)***	✓ Number of tariff lines with zero rated tariffs increased from 74% in 2005/06 to 88 percent in 2014. ✓ 87% of tariff lines have been eliminated. ✓ The highest tariff rate was reduced from 60%to 30 percent in 2008/2009. ✓ The number of bands was reduced from 7 to 3. ✓ The average Most Favored Nation (MFN) applied tariff is now 3.8%. ✓ During 2012-13 government eliminated import permits for 26 products ✓ Cabinet has recently (2014) taken decision to reduce the number of products requiring import and export permits by the Agricultural Marketing Board from 21 to 6. ✓ During 2012 and 2013 government eliminated	✓ This is a higher level indicator which Bank did not have any direct control. However, through the Bank's program substantial progresses have been made in the liberalizing trade regime and simplifying trade regulations. Although total export did not increase during 2006 -2014 in parts due to 2008 financial crisis and stagnant textile and sugar exports in a context of losing preferential access. ✓ Based on all the progress (see the left column) the team decided to rate the outcome as achieved using several proxy indicators. ✓ In order to have achieve concrete results more realistic indicators need to be picked.	**Lending:** DPL series (1,2,3,4), Public Sector Performance DPL (1,2), Manufacturing and Services Development and Competitiveness **AAA/TA:** Skills Development and technology, Competitiveness Update, Next Generation Business Reform TA, Improving Competitiveness TA, ICT-Sector, Improve Regulation and raise value added in the financial sector, Improvement Business and Trade Environment

WB Strategy Outcomes	Intermediate Indicators and Milestones	Progress and Status as of Now	Lessons Learned	World Bank Program
		import permits for 26 products. ✓ To boost exports a common regulatory regime across all sectors of the economy were introduced. The distinction between EPZ and non-EPZ producers was eliminated and the incentive regimes for EPZ-non-EPZ firms were unified in 2010. For ex: all corporate taxes were at 15 percent.		
(10) Transparent administrative regulations ***(Achieved)***	List administrative requirements on-line via trade portal at customs ***(Achieved)***	✓ A trade portal has been operationalized and launched in 2013. The portal increases the transparency and accessibility to all regulations listed by national tariff line for importers and exporters. ✓ A National Single Window-OGA portal, integrating other Government agencies has been developed. Business processes of the 12 agencies have been examined with a view to streamline them. Additional procedures have been prepared to facilitate the implementation of the OGA portal and streamlined procedures. A comprehensive guidelines is being finalized. The enhanced single window will also be linked to the Government e-payment gateway.		**Lending:** DPL series (1,2,3,4), Public Sector Performance DPL (1,2), Manufacturing and Services Development and Competitiveness **AAA/TA:** Skills Development and technology, Competitiveness Update, Next Generation Business Reform TA, Improving Competitiveness TA, ICT-Sector, Improve Regulation and raise value added in the financial sector, Improvement Business and Trade Environment

WB Strategy Outcomes	Intermediate Indicators and Milestones	Progress and Status as of Now	Lessons Learned	World Bank Program
PILLAR 3: Improving the Investment Climate (Satisfactory)				
(11) Reduction in cost of doing business as measured by surveys (land, labour regulations) ***(Achieved)***	Creation of a one stop shop business registration mechanism ***(Mostly Achieved)*** Improve recovery rate of creditors ***(Achieved)***	✓ Mauritius ranks 29 in the Ease of Doing Business in DB 2015. ✓ Number of days to start a business reduced from 46 (2006) to 29 (2015) ✓ Number of days it takes to enforce commercial contract reduced from 750 (2006) to 44 (2015) ✓ Dealing with construction permit 162 (2006) to 117 (2015) ✓ A building and land use permit is issued within 14 days. ✓ Elimination of trade license. No waiting time to pay trade fee. ✓ Reduction in time taken to register property from 210 days(2007) to 2 (2014)days. ✓ The coverage of the credit information bureau is expanded to include all non-banking financial institutions. The % of adults covered has increased from 10% (2007) to 50% (2011) to 74.56% (2015). ✓ Ministerial approval of the registration guidelines and prescribed application form to register Insolvency Practitioners in Mauritius.	✓ The engagement of the bank in these areas were through a programmatic DPL. In Mauritius, it must be ensured that: (i) the lending or TA instrument is aligned with the government's priorities and leadership, (ii) the analytical work that preceded the operation helped provide a road map for reform, which shaped the eventual architecture of the project, (iii) there is consensus regarding the reforms that will result in clear and achievable outcomes, (iv) there is political commitment from the sector ministries participating in the reform agenda, (v) technical assistance is provided in parallel to the operations to build capacity as well as nurture collaboration and improve performance, and (vi) the loan is designed to include an appropriate degree of flexibility to allow the government to respond to emerging crises as well as for the reform program to evolve over time. ✓ In the cases of the MCIB and Insolvency Service, the	**Lending:** DPL series (1,2,3,4), Private Sector Competitiveness DPL (1,2), Infrastructure Project **AAA/TA:** FSAP Update, Doing Business (08,09), Investment Climate Assessment, Skills Development and Technology Innovation, Next Generation Business Reform TA, Financial Sector Dialogue and TA, , Improving Competitiveness NLTA, Road Safety Management Capacity Review

WB Strategy Outcomes	Intermediate Indicators and Milestones	Progress and Status as of Now	Lessons Learned	World Bank Program
		✓ Publication of the amendment to Insolvency Act 2009 to include the Rules relating to the Performance and Conduct of Insolvency Practitioners in the national gazette. ✓ Publication of Regulations related to the registration and removal of insolvency practitioners in the national gazette. ✓ Publication of the Out-Of-Court Workout Guidelines to promote safeguarding viable businesses on the insolvency website upon endorsement from BoM ✓ The one stop shop is still under design phase. ✓ The recovery rate of creditors has increased from 33.6 cents on the dollar in 2010 to 67.4 cents in 2015. (source Doing Business reports)	reforms went further than anticipated in the DPL. The counterparts benefitted from the elaboration of a realistic Results Framework with clear baseline data and tangible quantitative targets that helped the proper monitoring of progress towards performance. ✓ The supervision of the project with frequent missions and field based staff was also pivotal to timely resolution of issues encountered.	
(12) Increase flexibility of hiring and firing ***(Achieved)***	Amendments in the Labour Laws ***(Achieved)***	✓ Introduction of a flexi security scheme as reflected in the workforce program provisions contained in section IX of the Employment Rights Act 2008 were introduced. The scheme provides a maximum of 12 months of transitional assistance to employees who wish to take the opportunity of the scheme to seek job		**Lending:** DPL series (1,2,3,4), Private Sector Competitiveness DPL (1,2), Infrastructure Project **AAA/TA:** FSAP Update, Doing Business (08,09), Investment Climate Assessment, Skills

WB Strategy Outcomes	Intermediate Indicators and Milestones	Progress and Status as of Now	Lessons Learned	World Bank Program
		replacements ✓ Reduce difficulty of firing index from 50 (2006) to 36.8 (2010). ✓ The work and residence permit have been combined into only Occupational Permit (OP). With the enactment of Business Facilitation Act in 2006, it takes three days to process and obtain an occupation permit which is issued for a maximum period of three years. ✓ The government made reforms in increased mandatory paid annual leave, eliminated the requirement to seek prior approval for redundancy ✓ dismissals and reduced redundancy costs (DB 2010) ✓ The Mauritius reduced the maximum duration of fixed-term contracts. (DB 2015)		Development and Technology Innovation, Next Generation Business Reform TA, Financial Sector Dialogue and TA, , Improving Competitiveness NLTA, Road Safety Management Capacity Review
(13) A working land market with reduced Government intervention **(Achieved)**	Development and adoption of a land administration valuation information and management system (LAVIMS) ***(Achieved)***	✓ The government amended Transcription and Mortgage Act in 2012 in order to prescribe time limits consistent with business standards to register property. ✓ The Doing Business Survey 2008 showed that in 2008, it took 210 days to register land titles in Mauritius. The Investment Lending Project	✓ The program (METAP)to support these activities was closed but the Government went ahead to implement without Bank's support.	**Lending:** DPL series (1,2,3,4), Private Sector Competitiveness DPL (1,2), Infrastructure Project **AAA/TA:** FSAP Update, Doing Business (08,09), Investment Climate

WB Strategy Outcomes	Intermediate Indicators and Milestones	Progress and Status as of Now	Lessons Learned	World Bank Program
		METAP included funding technical assistance to support computerization of the Registrar General's Office and the improvement of land registries' effectiveness so as to facilitate the registration and securitization of land based assets. The objective was to reduce the number of days taken to register land titling. As to date the LAVIMS has been made operational. As per the 2015 Doing Business Report it takes 14 days and 10.6% of the property value to complete a property transfer in Mauritius. ✓ LAVIMS is really four sub-projects in one including: development of the Cadastre; implementation of a digital Deeds Management System; Valuation of properties; and Information Management. ✓ The Registrar General has also computerized the electronic Register of Deposit that would enable the platforms to become fully transactional in the medium term to allow online access, e-submission of documents and e-payments.		Assessment, Skills Development and Technology Innovation, Next Generation Business Reform TA, Financial Sector Dialogue and TA, , Improving Competitiveness NLTA, Road Safety Management Capacity Review
(14) Improved traffic flow along	Implementation of an integrated plan for	Although the Infrastructure Project did not directly influence	This indicator was carried over from the FY02 CAS when there	**Lending:** Infrastructure Project

WB Strategy Outcomes	Intermediate Indicators and Milestones	Progress and Status as of Now	Lessons Learned	World Bank Program
the main corridor in compliance with road safety measures ***(Partially achieved)***	traffic decongestion and public transport improvement ***(Not achieved)***	the outcome indicator, we have used proxy indicators based on achievements in the roads sector through the Infrastructure project. They are: ✓ Improvements were made through infrastructure project: ✓ Travel time reduced (QM road) from 15 min to 6 min ✓ Number of accidents reduced on QM road from 11 to 5 ✓ Number of km of roads have been upgraded from 0 to 10. 5 km ✓ Number of km road maintained from 0 to 17 km	were activities to justify their inclusion and a prospective urban transport operation. In addition, the proposed Road Decongestion Program (which was eventually taken forward as a PPP but dropped before financial closure) informed the selection of the indicator about traffic flow with Bus modernization study providing the base analysis. This study was dropped due to the political opposition from unions. However, when the decision was made to use private finance, this indicator became doubtful.	**AAA/TA:** Road Safety Management Capacity Review
PILLAR 4: Democratizing the Economy through participation, inclusion and sustainability (Mostly Satisfactory)				
(15) Significant expansion of post-secondary education (technical and general) ***(Achieved)***	Potential efficiency gains are identified at all levels (***Partially achieved)***	✓ Gross enrollment in tertiary education increased from 34 percent in 2006 to 46 percent in 2012. ✓ Over the past several years expansion of post-secondary education was mostly driven by the planned internationalization of the sector which has been a flagship program of the Ministry of Tertiary Education. The strong focus on attracting foreign students into tertiary education in Mauritius has occupied most of the policy dialogue between the Bank and the	✓ The CPS matrix was not entirely aligned with the agenda of the GoM as it did not reflect the focus on internationalization of tertiary education.	**Lending:** Public Sector Performance DPL (1,2), HIV/AIDs (IDF), Indian Ocean Commission Support **AAA/TA:** Social Protection Review, Social Protection TA, Health Policy note, Education Status Report, Safeguard Country Systems Pilot.

WB Strategy Outcomes	Intermediate Indicators and Milestones	Progress and Status as of Now	Lessons Learned	World Bank Program
		GoM and the Bank's support to the expansion of post basic especially in technical education has been somehow modest. ✓ Ministry of Education and Human Resources implements new curricula for pre-vocational education, including one for the training of trainers. ✓ Technical and vocational training relating to domestic workers, ICT, mechanics, welding and several ones from the hotel industry had been provided to some 2,932 unemployed below SC Level while 348 have been placed in different sectors of the economy. ✓ The Pre-vocational system was extended to 4 years. As of December 2014, there were 1744 pre-vocational students awaiting graduation by the end of 2014.		
(16) Increased articulation between the education strategy (in particular at the post-secondary level) and the overall economic growth strategy ***(Mostly Achieved)***	Development of a renewed strategy of the post-secondary education sector strongly linked with the overall economic strategy. ***(Mostly Achieved)***	✓ An education and human resource strategy plan was prepared in 2008 that diagnoses education sector needs, identifies objective and priorities and outlines options. ✓ The recently developed Tertiary Education Strategy (2013-2025) includes explicit	✓ Most of the recent focus in policy actions on tertiary education has been on attracting a growing number of international students and efforts on making the tertiary education sector more relevant to the needs of the labor market have been somehow neglected in the	**Lending:** Public Sector Performance DPL (1,2), HIV/AIDs (IDF), Indian Ocean Commission Support **AAA/TA:** Social Protection Review, Social

WB Strategy Outcomes	Intermediate Indicators and Milestones	Progress and Status as of Now	Lessons Learned	World Bank Program
		links with the needs of the labor market as well as the importance of the sector for innovation and economic growth. It is based on the consultation with the Bank and aims to develop Mauritius as an exporter of world-class tertiary education services. ✓ Ministry of Education and Human Resources implemented in 2009 a new curricula for pre-vocational education, including one for the training of trainers.	policy dialogue.	Protection TA, Health Policy note, Education Status Report,
(17) Elimination of bias (financing, regulatory, skills, etc) against SMEs as measured by increased number of new SMEs registered (***Achieved)***	An SME consultancy services schemes to assist start-ups and existing SMEs put in place ***(Achieved)***	✓ The MBGS[40] has been set up and currently provides business development support and financing to start ups and existing SMEs. Over 150 such SMEs have been provided with assistance since inception. ✓ The Private Sector Competitiveness DPL also engaged with government to streamline the numerous overlapping business development services provided by the numerous agencies set up by government. Thus was to be achieved through the	✓ Although there was adequate political buy-in of the Project at the design stage, the political commitment, support and ownership for implementing these reforms eroded at both sector ministry and Ministry of Finance level. The coordination between sector ministries and MoFED needs to be addressed at design stage. ✓ For the DBM, the reform was a difficult one, given the political economy situation, and the time frame was underestimated. As part of the reform, the DBM had to look for a strategic partner and submit an	**Lending:** Public Sector Performance DPL (1,2), HIV/AIDs (IDF), Indian Ocean Commission Support **AAA/TA:** Social Protection Review, Social Protection TA, Health Policy note, Education Status Report, Safeguard Country Systems Pilot.

[40] Mauritius Business Growth Scheme

WB Strategy Outcomes	Intermediate Indicators and Milestones	Progress and Status as of Now	Lessons Learned	World Bank Program
		(a) Establishment, in operational form, of the Inter-Agency Strategic Coordination Committee and under MoBEC and (b) the issuance of the RFP to develop an overall M&E Framework for the 6 of the 22 NRF schemes that deal with BDS. ✓ A M&E system was introduced to inform various agencies of the effectiveness of the various Business Development Schemes. ✓ With regards to finance, the Cabinet approved the transformation of DBM into a financially viable MSME Bank, licensed by the Central Bank, and with private sector involvement. DBM restructuring initiated by the appointment of a transaction advisor, endorsement by steering committee of an inception report and the issuance of letters of invitation to potential investors for the sale of DBM's non-banking assets. ✓ Moreover, Government also approved to further facilitate the use of movable and intangible assets as collateral and the establishment of a	application for a Banking license to the BOM. The search for the strategic partner was at diplomatic level and hence, the process took longer than anticipated. Again, the team might wish to ensure that such eventualities are factored in when new operations are designed. ✓ With regards to Secured Transactions Reform, all the technical work has been performed but because parliament was prorogued and eventually dissolved, there are significant delays in implementation. Political risk was not factored in.	

WB Strategy Outcomes	Intermediate Indicators and Milestones	Progress and Status as of Now	Lessons Learned	World Bank Program
		modern movable collateral registry with the completion of the necessary legislative amendments. ✓ As per the 2007 census, the number of SMEs in Mauritius was 94,000. No new survey has been yet conducted to update these figures. As from the Registry of Companies, there are around 5,000 new companies incorporated each year and around 2,000 of closures. We can safely say that the number of SMEs has increased, but the quantum is not known.		
(18) Protection programs reach the needy as measured by household surveys ***(Achieved)***	Development and introduction of a targeted social assistance scheme ***(Achieved)***	✓ Social Registry of Mauritius was launched. It is an integrated management system that provides comprehensive information on clients of social assistance programs with the aim of increasing coordination among the many different programs. The government has been consolidating the realignment of the NEF and bringing new and existing programs into the SRM. ✓ 29,318 households has been registered in the SRM. Among them include the Housing Scheme (10,535 beneficiaries), the casting of		**Lending:** Public Sector Performance DPL (1,2), HIV/AIDs (IDF), Indian Ocean Commission Support **AAA/TA:** Social Protection Review, Social Protection TA, Health Policy note, Education Status Report, Safeguard Country Systems Pilot.

WB Strategy Outcomes	Intermediate Indicators and Milestones	Progress and Status as of Now	Lessons Learned	World Bank Program
		roof program (233 beneficiaries), the housing general and crèche programs of NEF (480 beneficiaries) and NS and RI of Ministry of Social Security (18,070 beneficiaries).		
(19) Improvement in the environment by increased use of cleaner technologies in the industrial sector ***(Not achieved)***	Revision of the NEAP 2 and implementation started Development of a policy Framework and Action plan for the Management of the Coastal zone Introduction and promotion of the use of leaner technologies in the industrial sector ***(Not Achieved)***.	Activities related to this outcome were originally a part of the Infrastructure Project. However, after restructuring in 2014, the activity was dropped.		Infrastructure Project
(20) Adequate wastewater management system in place ensuring improved heath and sanitation ***(Not achieved)***		Activities related to this outcome were originally part of the Infrastructure Project. However, after restructuring in 2014, the activity was dropped.		Infrastructure Project
(21) Stabilization of the prevalence of HIV/AIDS at 0.3% ***(Not achieved)***	Development of Strategy plan for HIV/AIDS (2006-2010) ***(Achieved)***	The Bank provided capacity building support To strengthen the capacity of the National AIDS Secretariat and its key partners to plan, implement, monitor, and evaluate the multi-sectoral response to the rapid spread of HIV/AIDS in Mauritius. ✓ Current prevalence rate is estimated at 1.2%. ✓ An HIV/AIDS Strategic Plan was developed for 2005-09 and National Multi-Sectoral		IDF Grant for Building Capacity for a Multisectoral Response to HIV/AIDS

WB Strategy Outcomes	Intermediate Indicators and Milestones	Progress and Status as of Now	Lessons Learned	World Bank Program
		Strategic Frameworks were developed for 2007-2011 and again for 2013-2016.		

Table 2: Mauritius CPS Planned Lending Program and Actual Delivery (FY07-FY15)

	Project Name	**Planned (Amount US$ mil)**	**Actual (Amount US$ mil)**
FY07	DPL 1	30	30
FY08	DPL 2	30	30
	Infrastructure	20	Delivered in FY10
FY09	DPL 3	30	100
	Urban Infrastructure	20	Dropped
	Economic Transition TA		*18 (Cancelled after approval)*
FY10	Infrastructure Project		50
	Added: Manufacturing and Service TA		*20 (cancelled after approval)*
	DPL 4		50
FY12	DPL 5	20	*Dropped*
	Infrastructure 2	50	*Dropped*
	DPL 6	30	*Dropped*
	Added		
	Private Sector Competitiveness DPL -1		15
	Public Sector Performance DPL-1		20
FY13	Infrastructure 3	50	*Dropped*
	DPL 7	30	*Dropped*
	Added:		
	Private Sector Competitiveness DPL -2		15
	Public Sector Performance DPL-2		20
FY 14	**Not programmed**	**0**	**0**
FY 15	**Not programmed**	**0**	**0**
	Total (US$ mil)	**310**	**280**

Table 3: Mauritius CPS Non Lending Services and Actual Delivery (FY07-FY15)

FY	CPS Planned	Actual
FY07	Communication	Dropped
	Land/Urban Policy Note	Dropped
	New AAA/TA added:	
	CEM- Managing Change in a changing World	Completed
	New AAA/TA added in FY08 :	
	FSAP Update	
FY08	PER	Completed
	Doing Business 2008	Completed
	New AAA/TA added in FY09:	
FY09	Doing Business 2009	Completed
	Exchange rate & output fluctuations in the small open economy	Completed
	New AAA/TA added in FY10	
FY10	Investment Climate Assessment	Completed
	Competitiveness Update	Completed
	Social Protection Review	Completed
	DeEMPA Assessment	Completed
FY11	Mauritius Country Assessment II	Completed
	ROSC A&A	Completed
	Skills Dev and Technology	Completed
	Health Policy Note	Completed
	Procurement Review	Completed
	Social Protection TA	Completed
	PER Civil Service	Completed
	Safeguards country systems pilot	Completed
FY12	Civil Service Reform Policy Note	Completed
	ROSC IAIS	Completed
	Next Generation Business Reform TA	Completed
	Education Status Report	Completed
FY13	Public Expenditure Review	Completed
	Skills Dev and Technology	Delivered in FY11
	Governance and Anti-Corruption TA	Completed
FY14	Road Safety Management Capacity Review	Completed
FY15	Defining an Asset Management Strategy	Completed
	Poverty Analysis	Completed
	Financial Sector Dialogue and TA	Ongoing
	Governance and Anti-corruption TA	Ongoing
	Improving Competitiveness NLTA	Ongoing
	Mauritius Open Data	Ongoing
	Mauritius PFM Technical Support0	Ongoing

Annex 3: IFC Committed and Disbursed Outstanding Investment Portfolio

As of 12/31/2016

(In USD Millions)

		Committed					Disbursed Outstanding				
FY Approval	**Company**	**Loan**	**Equity**	****Quasi Equity**	***GT/RM**	**Participant**	**Loan**	**Equity**	****Quasi Equity**	***GT/RM**	**Participant**
FY12	ADENIA III	0.00	11.30	0.00	0.00	0.00	0.00	9.14	0.00	0.00	0.00
Total Portfolio:		**0.00**	**11.30**	**0.00**	**0.00**	**0.00**	**0.00**	**9.14**	**0.00**	**0.00**	**0.00**

Annex 4: Selected Indicators* of Bank Portfolio Performance and Management

As of Date 02/06/2017

Indicator	FY14	FY15
Portfolio Assessment		
Number of Projects Under Implementation [a]	1.0	
Average Implementation Period (years) [b]	4.8	
Percent of Problem Projects by Number [a, c]	0.0	
Percent of Problem Projects by Amount [a, c]	0.0	
Percent of Projects at Risk by Number [a, d]	0.0	
Percent of Projects at Risk by Amount [a, d]	0.0	
Disbursement Ratio (%) [e]	75.0	36.8
Portfolio Management		
CPPR during the year (yes/no)		
Supervision Resources (total US$)		
Average Supervision (US$/project)		

Memorandum Item	Since FY80	Last Five FYs
Proj Eval by OED by Number	43	7
Proj Eval by OED by Amt (US$ millions)	694.3	120.9
% of OED Projects Rated U or HU by Number	12.2	0.0
% of OED Projects Rated U or HU by Amt	4.8	0.0

a. As shown in the Annual Report on Portfolio Performance (except for current FY).
b. Average age of projects in the Bank's country portfolio.
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
d. As defined under the Portfolio Improvement Program.
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex 5: Results of the 2015 Country Opinion Survey

1. The FY 15 Mauritius Country Survey suggests some shifts in views of the World Bank's work and engagement in the country since the last survey was completed in FY 12. Relationships are positive, and the Bank Group is rated highly as a long term partner. But speed and flexibility and inclusiveness are challenging areas for the Bank Group, and while views of how the Bank collaborates with government and donors are quite positive, this is less the case for how the Bank is perceived to collaborate with private sector and civil society (private sector being the group that many respondents believe the Bank should reach out to more). Key findings from the FY 15 Country Survey include:

2. **Jobs are first and foremost on the minds of respondents**. This is a significant shift from FY12 when growth and education were of primary concern. While growth and education continue to be of great importance, jobs and poverty top the list now. Hence it is not surprising that when respondents consider how "Shared Prosperity" would best be achieved in Mauritius, a majority points to education and training for jobs, followed by entrepreneurial opportunity, better employment opportunity for the young, and then consistent growth.

3. **The Bank Group's financial resources and TA continue to stand out as its most valuable assets**. Capacity development emerges as a priority area of emphasis: when asked how the WBG can best increase its value in the country, more than a third reported that it should increase support for capacity development. Within this context, the Bank Group received rather low ratings for the capacity development work related to citizen engagement that it supports. . Those who said that they collaborated with the Bank in the country were more likely to support greater WBG emphasis on capacity development.

4. **The Bank Group is viewed very positively as a long term partner**. Respondents believe that it collaborates well with government and with donors (although to a less degree). Ratings have improved in relation to, for instance, support for institutional capacity, appropriate use of country systems, and implementation support. Challenges as noted, are related to speed, flexibility and inclusiveness.

5. **Respondents appear to support Bank Group emphasis in areas that matter most to them.** This includes poverty, jobs, growth, followed by anti-corruption, education and the blue economy. In FY 12 respondents said that the WBG should emphasis, first and foremost, education and growth. Perhaps interest in support for growth has shifted in the current economy to greater interest in specifically, jobs (in FY 12 there might have been a stronger believe that growth would lead to jobs).

Annex 6: Map of Mauritius