

REPUBLIC OF MAURITIUS

**Office of the Minister of Finance and Economic Development***In reply please quote CF/50/10/50/81/1 V2***Date: 22 February 2016****Mark R. Lundell****Country Director for Mauritius, Comoros, Madagascar, Mozambique and Seychelles****The World Bank****Avenida Kenneth Kaunda****1224 Maputo****Mozambique**

Dear Mr Lundell,

**Letter of Development Policy**

The Government of Mauritius is requesting a regional Development Policy Operation (DPO) amounting to EUR 13.7 million from International Bank for Reconstruction and Development (IBRD) to support the Accelerated Program for Economic Integration (APEI). The operation will support the joint reform program agreed by Mozambique, Seychelles, Mauritius, Zambia and Malawi as countries participating in the APEI to improve the policy environment for trade within the African region. Support through the regional DPO and related technical assistance will allow all APEI countries to jointly move forward with the implementation of this regional initiative agreed among the five APEI countries in March 2013.

This operation will allow Mauritius to facilitate trade in services and the movement of people, reduce barriers to the flow of goods, and to improve the trade facilitation environment. The reforms directly contribute to the Africa Strategy as laid out by Mauritius which focuses on expanding trade and economic integration with Africa by supporting domestic companies to increase exports and outward FDI towards the rest of the continent and to position Mauritius as a gateway to Africa.

**Macroeconomic context**

The Mauritian economy grew on average by 3.4 percent annually from 2012-2014. For 2015, latest estimates indicate that growth was similar, at around 3.4 percent. The objective of government is to achieve higher growth of approximately 5.5 percent annually during the current term, propelling Mauritius into the league of high income economies. Appropriate measures are, therefore, being taken to boost investment, especially private investment, revitalise existing economic sectors, develop new sectors with high growth potential, upgrade and develop the physical infrastructure, create more jobs, and increase exports of goods and services.

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In recent years, exports, historically a major growth driver for Mauritius, have come under pressure from the erosion of trade preferences and tepid growth in major export markets. In view of these developments, efforts have been made to diversify the export market, particularly towards emerging economies and the region. The share of exports to Africa has increased to around 20 percent now compared to 12 percent a decade ago. Almost one third of total tourist arrivals are from Africa. Over the past five years, an average of one fifth of total FDI inflows originated from Africa.

Mauritius has also been investing significantly in African countries, particularly in sectors such as financial services, business services, agribusiness, logistics and distribution, and manufacturing. Around 10 percent of imports are sourced from African countries. This share is likely to increase as intra-regional trade further develops.

Going forward, while Mauritius will continue to consolidate its traditional markets, an increasing share of its trade and investment transactions will be with Africa which has yet to exploit fully its growth potential.

### **Africa Strategy**

The Africa Strategy aims at providing the right incentives to position Mauritius as the 'virtual office' of Africa, promoting the expansion of business in Africa by targeting African countries registering sustained growth and capturing a greater share of the African outbound tourists. In addition, through this strategy, economic engagement with Africa, which is considered as the new global frontier of growth, will be actively pursued in a manner that Mauritius becomes recognised as an important economic gateway to Africa.

As at date, Mauritius has established 19 bilateral Double Taxation Avoidance Agreements and 19 Investment Protection and Promotion Agreements with its African neighbours. It has also established Bilateral Air Services Agreement/Memorandum of Understanding with the various African countries. The harbour of Port-Louis is also connected via shipping lines to a few African ports.

Our relationship with Africa also extends to cooperation in the field of education and capacity building. Government operates a Mauritius Africa Scholarship Scheme whereby scholarships are granted to African students. 50 scholarships were allocated for the 2015.

Mauritius is also hosting three institutions that focus on regional capacity building, namely, the AFRITAC South, the Africa Training Institute and the Regional Multidisciplinary Centre of Excellence. These capacity building institutions work in developing the capacity of African leaders by supporting reforms and institutional development through technical assistance, peer-to-peer learning and support and through training on macro-economic and financial policy issues.

Mauritius has waived visa entry requirements for 48 African countries. In addition to granting multiple-entry business visas, the duration of business visas was extended from 90 to 120 days to facilitate the movement of business people.

In addition, with the Expanded Africa Strategy 2014, Government has put in place a new freight rebate scheme that would encourage trade with the region. Government is providing a subsidy of

25 percent of the freight cost on containers exported to Africa with the exception of South Africa and Madagascar.

In its continued effort to help bring in investment into Africa, the Government of Mauritius is intensifying its actions to provide support to local investors to tap the African market. The setting up of a Mauritius-Africa Fund, with a seed capital of MUR 500 million committed over five years, will encourage local enterprises to invest in Africa. The Mauritius Africa Fund is also working on the development of Integrated projects in Africa and currently is focusing on the development of a Technology Park in Ghana and Special Economic Zones in Senegal and Madagascar.

Furthermore, Government has put in place an Export Credit Guarantee Insurance scheme that will provide 50 per cent subsidy on the cost of Credit Guarantee Insurance for exports to Africa. These initiatives are being supported by the newly created Africa Centre of Excellence, an entity within the Board of Investment, which provides information to potential investors on business and employment opportunities in Africa.

### **Recent and planned reforms related to this operation**

As part of our commitments to our partners in the APEI, and in line with our continued efforts to streamline regulations, Mauritius has recently amended the Mauritius' Agricultural Marketing Regulations 1971 to reduce the number of products requiring import and export permits by the Agricultural Marketing Board from 19 to 7. We are aiming to continue this work and to further review existing Non-Tariff Measures and Barriers in the future. As part of the APEI, we intend to remove five NTBs that most strongly affect regional trade and which we will jointly identify with the private sector and our partners.

To facilitate the movement of people and reduce barriers to trade in services, we will continue to participate in the ongoing services negotiations at the COMESA level where we have submitted initial and revised offers, focusing on the four priority sectors under negotiation: communications, transport, financial services, and tourism. We intend to submit offers in three additional sectors at the COMESA level as well as firm up offers in the context of negotiations within SADC. We have taken administrative measures to facilitate the movement of business people into Mauritius such as lengthening the duration of business visas and granting of multiple-entry visa. APEI countries have jointly undertaken a study to analyse the regulatory and institutional rigidities that hamper the movement of business people and professionals. To advance that agenda, we are currently discussing a Memorandum of Understanding (MoU) in order to address the poor allocation and mismatch of skills demand and supply initially among the five APEI countries and subsequently across African national borders.

We are also working towards facilitating trade transactions and reducing costs and delays to economic operators in APEI. Mauritius has put in place a trade portal in August 2013 that presents all relevant regulations for importers and exporters in a transparent manner. Its coverage is currently being enlarged to include a Trade in Services component. Our customs department intends to improve its risk management systems. Our efforts will lead to a significant reduction in the share of consignments inspected from 6.5 percent in 2013 to 5.7 percent in 2017, while ensuring that only safe products enter Mauritius. We intend to also create an online platform, namely a Trade Obstacle Alert Mechanism that would enable operators to report obstacles they

might be facing to the relevant Agencies for remedial actions. Moreover, guidelines are intended to be issued for the conduct of Regulatory Impact Assessment.

With the support of this DPO, we intend to:

- Review and amend legislation and regulations if required for at least one of the services sectors under negotiation within COMESA.
- Submit additional market access offers to COMESA and SADC.
- Sign the MoU with all other APEI countries to facilitate the movement of different categories of service providers once consensus has been reached.
- Establish and launch a fully functional national single window to improve the processing of trade transactions.
- Assess remaining gaps in terms of risk management procedures at borders, agree on a policy to address them, and start to close such gaps.


As result of the reform efforts, we estimate that border clearance times are going to decrease by 10 percent to 21 hours. We also expect that professional service providers will be able to more easily move among the APEI countries and that the number of business travellers to Mauritius will increase with 5 percent over the next two years. This will allow professionals to work where they are needed and give APEI-companies access to much needed services. As we continue to improve the business environment, we are confident that these changes will allow a larger number of private companies to benefit from the opportunities that integration into regional and global markets offers.

## Conclusion

We would like to commend the continued support of World Bank to APEI. We see this initiative as a critical element in our efforts to ensure that regional integration processes advance and that the flow of goods and people is facilitated. We expect that our collaborative efforts translate into results that others in the region would replicate, thereby advancing the overall integration process. This will foster economies of scale, expand market size and make our economies more attractive to investments.

Despite all the existing and emerging challenges, the Government is determined to continue the reform efforts under the APEI and move forward this regional initiative. We are confident that we shall achieve our objectives with the support of the World Bank and other development partners. We, therefore, rely on the continuing support of our development partners.

Sincerely Yours.



**S. Lutchmeenaraidoo, G.C.S.K.**  
**Minister of Finance and Economic Development**