

# IEG

## ICR Review

Independent Evaluation Group

<b>1. Project Data:</b>		<b>Date Posted :</b>	02/07/2006	
<b>PROJ ID:</b>	P073594		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name :</b>	Financial Sector Supervisory Authority Project	<b>Project Costs (US\$M)</b>	2.27	1.11
<b>Country:</b>	Mauritius	<b>Loan/Credit (US\$M)</b>	1.81	0.89
<b>Sector(s):</b>	Central government administration	<b>Cofinancing (US\$M)</b>		
<b>L/C Number:</b>	L7085			
		<b>Board Approval (FY)</b>		2
<b>Partners involved :</b>		<b>Closing Date</b>	09/30/2004	02/28/2005
<b>Evaluator:</b>	<b>Panel Reviewer :</b>	<b>Division Manager :</b>	<b>Division :</b>	
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## 2. Project Objectives and Components

### a. Objectives

To support the development of a modern, well-regulated financial service industry by establishing an effective regulatory institution for the non-bank financial sector, with the eventual intention that it will become a single, integrated regulatory agency covering all prudential and market conduct regulation .

### b. Components (or Key Conditions in the case of Adjustment Loans ):

- 1. Project oversight and coherence** . To assist with the development of a mission and vision for the new agency, as well as ensured coherence among the various parts of the project (estimated cost USD 50,000, actual cost USD 60,000).
- 2. Standards and procedures** . To develop the key regulations and the basic set of rules for carrying out the regulatory functions of the new agency (estimated costs USD 480,000, actual costs USD 460,000).
- 3. Staff training and skill building** . To provide resources and a framework to develop required skills (estimated costs USD 770,000, actual USD 580,000).
- 4. Information Technology Platform** . To review current IT needs, as well as procure and install suitable equipment . The component was dropped because the new agency needed the equipment up -front and financed it from own funds (Estimated costs USD 400,000, actual costs zero).

### c. Comments on Project Cost, Financing, Borrower Contribution, and Dates

USD 560,000 of the loan were canceled due to (i) the dropping of the IT component, and (ii) the charging of tuition fees for some of the trainings. Additionally, USD 360,000 remained undisbursed, bringing the overall project costs down to half the expected costs. The project was extended by half a year to allow for further elaboration of the training program and additional trainings to take place .

## 3. Relevance of Objectives & Design :

The project's objective is relevant given the government's aim to transform the financial sector into an international financial center, thereby increasing Mauritius' economic competitiveness and productivity . The project was embedded in on-going World Bank dialogue and support for financial sector reforms in Mauritius, and is in line with the Bank's global effort to reduce vulnerabilities in the financial sector, as documented by the FSAP program .

## 4. Achievement of Objectives (Efficacy) :

The project has achieved its objective. (i) With project support, the legal and regulatory framework of the non-bank financial sector was modernized, thus establishing budgetary independence for the Financial Sector Commission (FSC), defining basic business lines, and specifying prudential and market conduct obligations . This reduced regulatory arbitrage and brought regulations in line with international best practice . Since the reforms were only passed recently, the impact of the new framework on the health of the NBF sector cannot yet be judged . (ii) FSC's capacity to supervise and enforce the regulatory framework increased due to raised levels of qualified staff, the provided training, and a new IT platform . It started regularly supervising the insurance sector, which led to the closing down of 2 companies. Off-site supervision has increased . The FSC is now analyzing 2,500 accounts and financial statements on a quarterly basis, and undertakes at least 35 on-site supervisions per year. Finally, the FSC is an active member of regional and international supervisory fora, and has signed Memorandums of Understanding with a variety of NBF regulators, mostly in the South African Region .

It should be noted that there are still two separate supervisory agencies for banking and non -bank financial institutions. The merger has not yet taken place, as originally hoped for, to give both institutions more time to prepare.

**5. Efficiency :**

Efficiency of the project was substantial . While deploying only limited funds, the project made a contribution to reducing vulnerabilities in the non-bank financial sector and enhancing its international credibility . It is expected that this will translate into "healthy" growth of this sector, which currently contributes about 14 percent to GDP. Merging the various regulatory entities into one was also efficient given the small size of each institution, the scarcity of qualified supervisors and the potential to realize economies of scale .

**6. M&E Design, Implementation, & Utilization:**

The key performance indicators were well designed and monitored .

**7. Other (Safeguards, Fiduciary, Unintended Impacts--Positive & Negative):**

The Adoption of the legal and regulatory framework went slower than expected due to capacity constraint within the parliament, which focused on introducing a new set of Anti -Monetary Laundering and Combating Financing of Terrorism laws in response to Sept. 11, 2001. The legal framework was finally adopted in 2005. Recruiting new staff was impacted by the lack of available applicants . This slowed the implementation of the training program .

<b>8. Ratings :</b>	<b>ICR</b>	<b>ICR Review</b>	<b>Reason for Disagreement /Comments</b>
<b>Outcome :</b>	Satisfactory	Satisfactory	
<b>Institutional Dev .:</b>	High	High	
<b>Sustainability :</b>	Highly Likely	Highly Likely	The FSC is financially independent and mechanisms are in place to shield it from political influence.
<b>Bank Performance :</b>	Satisfactory	Satisfactory	
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR :</b>		Satisfactory	

**NOTES:**

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- ICR rating values flagged with ' \* ' don't comply with OP/BP 13.55, but are listed for completeness .

**9. Lessons:**

1. Well targeted projects, that are broadly discussed with various stakeholders prior to project appraisal, can be implemented smoothly and with only limited financial resources .
2. The Bank has an important role to play in communicating international best practice and supporting the government in assessing risks and benefits of various approaches .

**10. Assessment Recommended?**  Yes  No

**11. Comments on Quality of ICR:**

The ICR is well written, although addition and more detailed evidence to evaluate the relevance and performance of the project would have strengthened the conclusions . There are minor shortcomings in the Annex, i.e. the estimated project costs in the ICR are not identical with the costs in the PAD, and the table on project financing by component and contributor is not filled out.