Report Number: ICRR14101

IEG ICR Review
Independent Evaluation Group

1. Project Data:		Date Posted:	06/26/2013	
Country:	Mauritius			
Project ID:	P112943		Appraisal	Actual
Project Name:	Mu-manufacturing And Servs Dev And Compet	Project Costs (US$M):	28	0.29
L/C Number:		Loan/Credit (US$M):	20	0.29
Sector Board:		Cofinancing (US$M):		
Cofinanciers:	Private Sector contributions to Matching Grant scheme	Board Approval Date:		01/21/2010
		Closing Date:	11/30/2015	04/01/2011
Sector(s):	General industry and trade sector (45%); Micro- and SME finance (41%); Public administration- Industry and trade (14%)			
Theme(s):	Micro; Small and Medium Enterprise support (85% - P); Export development and competitiveness (15%)			

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2. Project Objectives and Components:

a. Objectives:

The objectives of the project as stated in the PAD (page 15) and Loan Agreement (page 5) were identical: to assist the Borrower in supporting enterprise growth, competitiveness and employment creation in manufacturing and services sectors through (i) improved access to quality business development services; (ii) strengthened institutional and policy support; and (iii) increased access to finance to credit constrained businesses.

b.Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components:

Improving access to quality Business Development Services (US$12 million at appraisal)

This component was to support enterprise productivity and competitiveness, specifically in areas of skills and training, technology upgrading, standards and marketing constraints facing Small and Medium Enterprises (SMEs). This was because Business Development Services provided by public agencies were often not well-aligned with the needs of private firms. Facilitating the provision of services by private providers and stimulating the demand for them by private firms raises service coverage, quality and sustainability.

The Business Development Scheme would deliver two products:

(a) Cost- sharing or matching grants to buy specialized outside expertise.

(b) Hand-holding or mentoring services. These are free of charge and would include support in the preparation of business plans and loan applications in order to secure bank borrowings.

- **Strengthening Institutional and Policy Support for existing public sector SME related institutions** (US$3.9 million at appraisal)

  This component was to: (a) rationalize and consolidate existing public sector SME institutions and programs; and (b) establish a Monitoring & Evaluation unit to evaluate SME programs to strengthen performance and accountability.

  (a) Rationalize and consolidate existing public sector SME institutions and programs: This would support the Government's initiative to restructure and convert the Development Bank of Mauritius into a Development Agency and to consolidate the Small Enterprise & Handicrafts Development Authority and the National Woman Enterprise Council. This activity would address market failures and address them and would not engage in direct lending in market segments where commercial lenders are willing and able to provide credit.

  (b) The Monitoring & Evaluation unit would help Mauritius to better design future SMEs support programs by providing a meaningful evaluation of the impact of earlier programs.

- **Increasing access to finance to credit constrained businesses** (US$1.5 million at appraisal)

  This component was to address impediments to access to finance for SMEs through technical assistance in developing and presenting bankable proposals backed by collateral.

- **Project coordination and management** (US$0.6 million at appraisal)

In addition, US$2 million were set aside for contingencies and the front-end fee.

A Program Coordination Unit was established under the Ministry of Business Enterprises and Cooperatives to support overall project coordination, management and facilitation among the Mauritius Business Growth Scheme unit, the Ministry of Finance and Economic Empowerment and the Ministry of Business Enterprise Cooperatives.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

Project Cost: The total estimated cost of the project at appraisal was US$28 million. The Note on Cancellation Operation does not provide actual costs at project cancellation.

Financing: Only about US$0.29 million was disbursed from the IBRD loan, primarily for consultancy services for the matching grant scheme.

Dates: The original closing date of the project was November 30, 2015. However, the project was cancelled on April 01, 2011 (within one year of effectiveness) after the government had requested the cancelation of two on-going investment projects (the project under review and the Mauritius Economic Transition Technical Assistance Project) in order to replace them with a series of Development Policy Operations.

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

Country Conditions :

Despite major financial sector reforms, Mauritian Small and Medium Enterprises experienced difficulty in accessing adequate financing. Two in five firms surveyed in the Investment Climate Report considered access to finance as a major or severe obstacle to their operations. Firms interviewed for the case studies in the Investment Climate Report complained of a skill shortage, especially for higher level skills related to technological enhancement. Some of these firms also felt labor shortages at the semi-skilled level and, consequently, were importing semi-skilled labor.

Borrower Strategy :

The project's objectives were relevant to the Government's strategy of targeting support to SMEs through training and matching grants and reorienting growth towards higher value-added activities.

World Bank Strategy :

The project's objectives were relevant to the goals of the World Bank Group's 2010-2015 Country Partnership Strategy, which inter alia aimed at setting up SME consultancy services schemes to assist start-ups and consolidating institutions providing services to SMEs to improve efficiency . Enhancing SME access to finance was also a focus for IFC which was involved in infrastructure, tourism, and financial services. The objectives were also relevant to the recommendations made in the Investment Climate Report of December, 2009 which included upgrading human resource skills and expanding access to finance.

Relevance of objectives is **substantial .**

b. Relevance of Design:

Although, the project was principally targeting SMEs, this was not specified in the statement of objectives. The results framework in the PAD provides a clear causal chain between the funding of activities and outputs through intermediate outcomes to final outcomes and the intended achievement of objectives. For example, outputs such as the matching grant scheme, provision of specialized expertise and mentoring services would address the principal demand side issues constraining access to finance. Similarly, the restructuring of the Development Bank of Mauritius into a Development Agency was designed to facilitate lending for start-ups. Partial credit guarantees could be expected to catalyze market finance in the face of market failures. Taken together, these outputs could be expected to lead to intermediate outcomes such as improved access to quality business development services, strengthened capacity of relevant public sector agencies, and easier access to finance for credit-constrained businesses. These intermediate outcomes could, in turn, contribute to the achievement of the project's development objectives of enterprise growth, competitiveness and employment creation.

Relevance of design is **substantial .**

4. Achievement of Objectives (Efficacy):

5. Efficiency:

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :

	Rate Available?	Point Value	Coverage/Scope*
Appraisal	Yes	42%	73%
ICR estimate		%	%

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

a. Outcome Rating : Not Rated

7. Rationale for Risk to Development Outcome Rating:

a. Risk to Development Outcome Rating : Non-evaluable

8. Assessment of Bank Performance:

a. Quality at entry:

The project was well designed. It drew upon the Bank Group's experience with similar projects in other countries and benefited from a wealth of analytical work, including an Aid for Trade Report, Investment Climate Assessments, Doing Business Surveys and a Country Economic Memorandum. There were some shortcomings; resistance from within the government to the restructuring of the Development Bank of Mauritius into a Development Agency was underestimated, as was the implementation capacity of the Ministry in charge.

Quality-at-Entry Rating : Satisfactory

b. Quality of supervision:

Quality of Supervision Rating : Not Applicable

Overall Bank Performance Rating : Satisfactory

9. Assessment of Borrower Performance:

a. Government Performance:

Government performance was mixed. Mauritius has proven to be strong reformer in the past and the government participated actively in project preparation. But a changing political environment was limiting its ability to carry forward the intended reforms and little progress was made. Among others, the project coordinating unit was not being staffed adequately, and there were delays in establishing the required Project Steering Committee to oversee implementation. The earlier mentioned resistance to more deep-seated reforms, specifically restructuring the Development Bank of Mauritius, and the lack of implementation capacity in the Ministry in charge of the project, contributed to the government requesting that the project be cancelled (within a year after effectiveness) and be substituted by Development Policy Operations (DPOs) better suited to the larger challenges and more difficult political environment. Two DPOs were approved by the Bank in FY13, a US$15 million Mauritius Second Private Sector Competitiveness DPL, and a US$ 20 million Second Public Sector Performance DPL.

Government Performance Rating	Moderately Satisfactory
b. Implementing Agency Performance:	
Implementing Agency Performance Rating :	Not Applicable
Overall Borrower Performance Rating :	Moderately Satisfactory

10. M&E Design, Implementation, & Utilization:

a. M&E Design:

The M&E framework was barely adequate: it did not include indicators to measure the achievements of the important objective of job creation. Those indicators that were available had, for the most part, baseline data as well as target values. The M&E indicators were developed jointly with the implementing agencies.

b. M&E Implementation:

c. M&E Utilization:

M&E Quality Rating : Modest

11. Other Issues

a. Safeguards:

b. Fiduciary Compliance:

c. Unintended Impacts (positive or negative):

d. Other:

12. Ratings:	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Not Rated	Not Rated	
Risk to Development Outcome:	Non-evaluable	Non-evaluable	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Performance :	Moderately	Moderately	

	Satisfactory	Satisfactory	
Quality of ICR :		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.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

The following are key lessons emerging from both the NCO and NCO Review:

- Proactivity and agility are needed to meet the changing needs of Middle Income Country clients and in developing new lines of business. The Project serves as an example of the Bank's responsiveness and agility in meeting the Borrower's development priorities. Sector Investment Lending was no longer considered an appropriate instrument for Mauritius' evolving needs for policy and institutional support. The Bank team used this as an opportunity to adopt an innovative approach to successfully transform low-disbursing investment lending into development policy lending, with broadly the same competitiveness agenda.
- Coordination with other development partners can enhance coherence in policy dialogue. In this context, the Bank team worked with other development partners such as the African Development Bank, Agence Francaise de Development and European Union to increase leverage and synchronize messages.
- Ensuring that appropriate institutional arrangements and key personnel are in place prior to Board approval or effectiveness aids implementation.
- Adequate monitoring of project development outcomes requires appropriate indicators developed at the design stage. In the case of this project, there was no indicator to measure the job creation objective.
- Underestimation of risks, including those related to the weak capacity of the implementing agency and of fiduciary and procurement staff can be expected to hamper project implementation.

14. Assessment Recommended?

○ Yes ● No

15. Comments on Quality of ICR:

- The reasons for cancellation -- the Government's wish to substitute Sector Investment Lending with Development Policy Lending, which it felt to be better suited to addressing the key competitiveness-related challenges faced by Mauritius -- are clearly explained in the NCO.
- The lessons in the NCO were evidence based.

a.Quality of ICR Rating : Satisfactory