

CONFORMED COPY

LOAN NUMBER 7416 - MU

Loan Agreement

(First Trade and Competitiveness Development Policy Loan)

between

THE REPUBLIC OF MAURITIUS

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated December 21, 2006

LOAN NUMBER 7416 - MU

LOAN AGREEMENT

Agreement dated December 21, 2006, entered into between THE REPUBLIC OF MAURITIUS (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule I to this Agreement; and (b) the Borrower’s maintenance of an appropriate macro-economic policy framework. The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Loan Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of thirty million dollars (\$30,000,000) (“Loan”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent (3/4 of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charges as may be determined by the Bank from time to time.
- 2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.00%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time.

- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions.
- 2.06. The Payment Dates are March 15 and September 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.
- 2.08. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or *vice versa*; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- 2.09. Without limitation upon the provisions of Section 5.10 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Borrower declares its commitment to the Program and its implementation. To this end:
- (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Events of Suspension consist of the following:
- (a) A situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
- 4.02. The Additional Events of Acceleration consist of the following:
- (a) Any event specified in paragraph (a) of Section 4.01 of this Agreement occurs.

ARTICLE V — EFFECTIVENESS

- 5.01. The Effectiveness Deadline is the date 90 days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower's Representative is the Minister of Finance and Economic Development.

6.02. The Borrower's Address is:
Ministry of Finance and Economic Development
Government House
Port Louis
Mauritius

Cable:	Telex:	Facsimile:
MINFIN	4247	(230) 213 6450
Port Louis	EXTERN IW	

6.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD	248423(MCI) or	1-202-477-6391
Washington, D.C.	64145(MCI)	

AGREED at District of Columbia, United States of America, as of the day and year first above written.

THE REPUBLIC OF MAURITIUS

By /s/ Young Kim Fat
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Hartwig Schafer
Authorized Representative

SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. Actions Taken under the Program

The actions taken by the Borrower under the Program include the following:

Consolidation of Fiscal Performance and Improvement in Public Sector Efficiency

1. A projected reduction of primary spending, by 0.5 percent of GDP budgeted for FY 2006/07, relative to FY 2005/06.
2. A projected reduction of tax expenditures by 0.5 percent of GDP for FY 2006/07 by measures enacted in the Finance Act 2006, relative to FY 2005/06.
3. Usage of fiscal rules to set budget envelope and strengthen monitoring to ensure allocations to line ministries in accordance with preset ceilings.
4. Passage of Finance Act 2006 to abolish ministerial discretion over tax and duty exemptions.
5. Establishment and operationalization of the Mauritius Revenue Authority to strengthen tax administration.

Improvement of Trade Competitiveness

6. Implementation of the first year of a three-year phased tariff reduction program toward becoming a duty free island, by cutting top *ad valorem* rate from 65 to 30 percent and reducing average tariffs by 2 percent.
7. Implementation of measures in the Finance Act 2006 to abolish special incentives and exemptions for Export Processing Zones (EPZ) and to unify tax and regulatory regimes for EPZ and non-EPZ firms, with the exception of labor regulation.
8. Reduction of international telecommunication costs, as evidenced by reduction of pricing of International Private Leased Circuits (IPLC) by a percentage between 20 and 35 percent, effective as of July 2006.

Improvement of Investment Climate

9. Streamlining of registration practices by enacting Business Facilitation Bill to enable *ex post* verification rather than *ex ante* approval; designating the Registrar of Companies as a one-stop center for business registration in the Business Registration Act; amending the Planning and Development Act to merge development and building permits; and transforming the trade licensing fee into a single municipal fee to be paid after business operation through amendment of the Local Government Act 2003.

10. Liberalization of foreign skilled worker entry permit requirements, by combining work and residency permits into a single occupation permit issued within 3 working days for professionals offered employment paying more than MUR 30,000 per month, self-employed persons earning at least MUR 600,000 per year and investors generating more than MUR 3 million in annual turnover.

Democratization of the Economy through Participation, Social Inclusion and Sustainability

11. Setting up an empowerment program to spend MUR 5 billion over 5 years on social protection, retraining and small and medium-size enterprise (SME) support.

12. Design of measures to facilitate the growth of the formal SME sector, including access to finance, technical assistance and capacity building, and the SME consultancy service.

13. Replacement of consumer subsidies with targeted cash transfers and additional measures to increase support and opportunities for the poorest.

Section II. Availability of Loan Proceeds

- A. General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.

- B. Allocation of Loan Amounts.** The Loan shall (except for amounts required to pay the Front-end Fee) be withdrawn in a single tranche. The allocation of the amounts of the Loan to this end is set out in the table below:

Allocations	Amount of the Loan Allocated (expressed in US Dollars)
Single Tranche	30,000,000
TOTAL AMOUNT	30,000,000

C. Deposits of Loan Proceeds

1. The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain, a deposit account (the Deposit Account) in Dollars on terms and conditions satisfactory to the Bank.
2. All withdrawals from the Loan Account shall be deposited by the Bank into the Deposit Account.
3. The Borrower shall ensure that upon each deposit of an amount of the Loan into the Deposit Account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.

D. Audit. Upon the Bank's request, the Borrower shall:

1. have the Deposit Account audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank;
2. furnish to the Bank as soon as available, but in any case not later than four months after the date of the Bank's request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Bank shall reasonably request; and
3. furnish to the Bank such other information concerning the Deposit Account and their audit as the Bank shall reasonably request.

- E. Excluded Expenditures.** The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

- F. Closing Date.** The Closing Date is December 31, 2007.

SCHEDULE 2

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each March 15 and September 15 Beginning March 15, 2012, through September 15, 2021	5%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
 - (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such

date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.
 - (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

APPENDIX

Section I. Definitions

1. “Business Facilitation (Miscellaneous Provisions) Act 2006” means the Act No. 21 of 2006, published in the Government Gazette of Mauritius No. 77 of August 31, 2006.
2. “Business Registration Act 2002” means the Act No. 40 of 2002, published in the Government Gazette of Mauritius No. 136 of December 21, 2002.
3. “Deposit Account” means the account to be established by the Borrower pursuant to the provisions of Part C of Section II of Schedule 1 of this Agreement.
4. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, unmanufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated

		materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) under a contract with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds during the procurement or execution of such contract, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to remedy the situation.
5. "Finance Act 2006" means the Act No. 15 of 2006, published in the Government Gazette of Mauritius No. 71 of August 7, 2006.

6. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 with the modifications set forth in Section II of this Appendix.
7. “Local Government Act 2003” means the Act No. 32 of 2003, published in the Government Gazette of Mauritius No. 52 of June 14, 2003.
8. “Mauritian Rupee” and “MUR” each means the lawful currency of the Borrower.
9. “Mauritius Revenue Authority” means the authority established by the Mauritius Revenue Authority Act 2004, for the purposes of managing and operating revenue raising.
10. “Mauritius Revenue Authority Act 2004” means the Act No. 33 of 2004, published in the Government Gazette of Mauritius No. 94 of October 2, 2004.
11. “Planning and Development Act 2004” means Act No. 32 of 2004, published in the Government Gazette of Mauritius No. 84 of August 28, 2004.
12. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated November 4, 2006 from the Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.
13. “Single Tranche” means the amount of the Loan allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.
4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.06. *Plans; Documents; Records*

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

6. Section 5.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 5.07. *Program Monitoring and Evaluation*

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:
 - (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.
- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.