**PROGRAM INFORMATION DOCUMENT (PID)**

**APPRAISAL STAGE**

Feb 1, 2013

Report No.: AB7236

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| **Operation Name** | Mauritius Second Private Sector Competitiveness DPL |
| **Region** | AFRICA |
| **Country** | Mauritius |
| **Sector** | General industry and trade sector (45%); SME Finance (20%); Information technology (20%); Credit Reporting and Secured Transactions (15%) |
| **Operation ID** | P132510 |
| **Lending Instrument** | Development Policy Lending |
| **Borrower(s)** | GOVERNMENT OF MAURITIUS |
| **Implementing Agency** |  |
|  | Ministry of Finance and Economic Development  Ground Floor, Government Centre  Port Louis  Mauritius  Tel: (230) 2012-339  amansoor@mail.gov.mu |
| **Date PID Prepared** | January 18, 2013 |
| **Estimated Date of Appraisal** | February 1, 2013 |
| **Estimated Date of Board Approval** | April 25, 2013 |
| **Corporate Review Decision** | Following the corporate review, the decision was taken to proceed with appraisal and negotiation of the operation. |
| **Other Decision** |  |

1. **Key Development issues and Rationale for Bank Involvement**
   1. Having successfully become an upper middle income country, Mauritius now strives to become a high income nation[[1]](#footnote-1). Ranked only behind South Africa in the Africa Region on The World Economic Forum; Mauritius is recognized as one of the most competitive and business-friendly destinations[[2]](#footnote-2). Mauritius has moved from an import substitution strategy which was not very successful given its small local economy towards greater export diversification through industrialization. From being a predominantly agricultural economy based on sugar production it has been able to diversify into textiles exports, tourism and more recently financial services, offshore global business and ICT which have developed as the economy’s new pillars. However, achieving the high income nation status requires keeping up to and surpassing the pace of reforms set by its competitors.
   2. The manufacturing sector in Mauritius is facing increasing competitive pressure from increasing global competition in the export markets especially in light of the ongoing European slowdown which being the country’s main export market is taking a toll on Mauritius’ economy. GDP growth is estimated to be 3.3 percent in 2012, vis-à-vis the 3.7 percent projection made when the first operation of this DPL series was approved (March 2012), and below government budget projections of close to 4.1 percent. The European economic downturn has had a significant impact on Mauritian exports in 2012 with declines both in tourist arrivals and export earnings from the major European markets.
   3. The competitiveness agenda thus remains centre piece to achieving the Government’s program of reforms**.** With a view to weather the slowdown accompanied by the current global economic crisis; to boost economic growth through higher productivity and to increase high value added exports, the new Government Program adopted in April 2012, and the 2013 Budget Speech astutely remains committed on continuing to support the competitiveness agenda for development of the manufacturing and services sector. It emphasizes the need to gain greater global competitiveness through the need to promote technology investments to improve quality of Mauritian exports to enable entry into new markets abroad and also reemphasizes the need to prioritize the SME sector which is an important source of job creation and growth.
   4. There has been encouraging progress in implementing the reform program since the PSC DPL1; with reforms in some sectors going beyond what was initially envisaged. These include more substantial regulations being passed to operationalize the Mauritian Insolvency Act 2009 making debt resolution regimes more effective; the development of a National Broadband Policy (NBP) and the implementation of policy reforms to increase competition in the ICT sector. Through the Bank’s non-lending technical assistance (NLTA) technical assistance and support was provided to help develop a pipeline of financial and private sector development policy reforms for this Second PSC DPL. This proved to be a very useful tool, as it helped provide technical expertise and global best practice on policy and institutional issues informing policy dialogue.
2. **Proposed Objectives**
3. This development policy objective of this DPL series is to strengthen the policy and institutional environment in Mauritius to support competitiveness and enterprise development. The operation will achieve this by supporting reforms in three integrated and mutually reinforcing pillars (i) improving competitiveness and growth of enterprises, (ii) improving access to finance, and (iii) promoting ICT and e-Gov for enhancing competitiveness and transparency.
4. **Preliminary Description**
5. The proposed Second PSC DPL (PSC DPL2) is being designed in coordination with the Second Public Sector Performance (PSP) DPL. Both the DPLs are designed to be mutually reinforcing to address complementary aspects of the Government’s reform program. The PSP DPL focuses primarily on the performance of the public sector, while this PSC DPL focuses primarily on strengthening the policy and institutional environment for private sector competitiveness. It is the combination of the reforms supported by these two operations that will help Government improve its competitiveness, increase its resilience, and prepare it for the next phase of rapid and inclusive economic growth.

For each of the three pillars that will be supported by this operation, prior actions have been identified that create the basic institutions to unlock reforms. The specific measures that have been agreed to as prior actions for the Second PSC DPL are presented in Annex 1.

1. **Tentative financing**

|  |  |
| --- | --- |
| Source: | ($m.) |
| Borrower | 0 |
| International Bank for Reconstruction and Development | 15 |
| Borrower/Recipient |  |
| IBRD  Others (specifiy) |  |
| Total | 15 |

1. **Risks and Risk Mitigation**
   1. The implementation of the proposed reform program entails a number of risks that had been identified at the preparation of the First DPL and are still relevant: (a) the challenge of maintaining macroeconomic stability under growing uncertain global developments; (b) a slowdown in the momentum of reforms, exacerbated by the slim government majority in the parliament; and (c) limited institutional capacity within sector ministries to lead and implement the reforms. The more detailed identification of these risks and the proposed mitigation measures are provided below.
   2. The first and perhaps the most important risk is that the macroeconomic stability may be affected given the growing uncertainty in the global economic climate, particularly in the European economies to which Mauritius remains highly exposed. These global economic uncertainties represent a significant threat to a small open economy such as Mauritius. Overall, the Mauritian economy has proven its resilience in 2012 with an estimated GDP growth of 3.3 percent, despite all the headwinds to growth on the external front and lowers than expected expansionary fiscal policy. Furthermore, on the external front, the increasing levels of foreign exchange reserves (projected to be at six months of imports in the medium term) provide an additional buffer against a potential deterioration in the balance of payments. Mauritius’ floating exchange rate also facilitates correction of external imbalances in the medium term. The recent trend towards reorienting exports towards new markets (particularly Africa) will also help. On the fiscal front, the slowdown in the growth of public revenues is being more than compensated by the containment of public expenditure, with a reduction of the fiscal deficit and public debt. Should revenues dip, this would require an acceleration of efficiency gains in the public sector, and additional use of the remaining funds from the National Resilience Fund created in 2011. The government is also extending the maturity of the public debt further reducing roll-over risks, as the majority of debt is domestic and there is currently excess liquidity in the domestic capital markets.
   3. The second risk is that a narrowing political reform space affects the pace of the reform program at a time when the need for reform is most urgent. The pace of reform in Mauritius has slowed in recent years and the appetite for further aggressive reform appears modest at this time. There are several ways to mitigate this risk. To the extent that the proposed program has been designed to mitigate this risk by supporting reforms where consensus exists, helping to put in place building blocks to expedite the reform program in the medium term. First, the Government’s focus on growth of SMEs shall support its inclusion agenda. Moreover, over the medium-term the acceleration reforms for engendering competitiveness and growth will generate better conditions for job creation. Finally, better communication will be key to building consensus around the reforms, using visits to Mauritius by high level practitioners and management to raise awareness and understanding about the reforms and their benefits, both within the Cabinet and more broadly. This has been useful in the implementation of the reforms supported under this operation.
   4. The third risk is that of institutional constraints, including limited capacity in sector ministries, which might make it more difficult to effectively design, implement and monitor the reforms. Underlying institutional political economy constraints and the narrowing reforms space identified above combined with limited institutional capacity in some sector ministries can limit the effectiveness and progress of reforms. This is evident from the different pace of reforms across line ministries. The Bank is supporting the government to help mitigate this risk by bringing specialized staff to complement the DPL dialogue in selected areas, and promoting a public debate through articles and technical notes. Additionally, the DPL itself is a catalyst between the different ministries involved in the reform program, thereby enhancing coordination. Also, the Bank’s portfolio in Mauritius is designed to help strengthen capacity tailored to the needs of a Middle Income Country (MIC).
2. **Poverty and Social Impacts and Environment Aspects**

*Poverty and Social Impacts*

* 1. The DPL supported reforms are expected to have in general a positive impact on the poor and the vulnerable in the following ways: (i) strengthening the SME programs that will enable SMEs to become more productive, (ii) increasing access to finance to firms that do not have access to immovable collateral and alleviating this constraint by further facilitating movable collateral, (iii) the introduction of a specialized MSME bank and (iii) increasing competition in the telecom sector making mobile services more affordable. Combined, these measures are aimed at raising private sector competitiveness and increasing investment, including FDI, are designed to support a virtuous cycle of growth, employment generation and productivity gains. Reform measures supported by the three pillars are targeted at decreasing business costs and creating better conditions for private local and foreign investments and ultimately leading to job creation.

*Environment Aspects*

* 1. None of the reforms supported by the DPL series are likely to have a direct effect on the environment, natural resources, or forestry. Beyond the immediate focus of the DPL, other Government policies and development objectives such as increasing tourist arrivals by 2015, expanding the port and airport, relieving traffic congestion, and making the business climate more investor friendly may have an environmental impact. Historically, the record of environmental management, though not perfect, has been relatively good.[[3]](#footnote-3) The Safeguard Diagnosis Review carried out in October 2010[[4]](#footnote-4) shows that Mauritius’ environmental policies are sufficiently robust and are being implemented satisfactorily.

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Annex 1: Operations Policy Matrix

| **Medium-term Objectives** | **Policy Actions** |  |  | | **Indicators** | | | **Baseline (2011)** | **Targets** |  | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **DPL1 (prior actions)** | **DPL2 (indicative triggers)** | **DPL2**  **(proposed prior action)** | |  | | |  | **2013** | | **Responsible Entity** |
| Improve outreach and quality of Business Development services (BDS) programs targeted towards SMEs | Cabinet approval of consolidation of SME programs under Ministry of Business, Enterprise and Cooperatives (MoBEC) | Implementation of an Action Plan for consolidation of SMEs program under MoBEC that includes (a) establishing an inter-agency strategic coordination committee, and (b) developing a framework that sets up guidelines on cost-sharing, target groups and types of services, M&E systems | | Implementation of the consolidation of SMEs programs that includes (a) establishing an inter-agency coordination committee under MoBEC and (b) the issuance of the RFP to develop an overall M&E Framework for BDS Schemes. | | Number of Enterprises accessing (i) *Generic* and (ii) *Specialized* BDS increases  Development of a Monitoring and Evaluation Framework for BDS schemes | | Generic BDS = 200  Specialized BDS =80  No | (i) 25 percent increase  (ii) 50 percent increase  Yes | | MoBEC |
| Facilitating, through the implementation of existing legislation, firm exit by providing the framework for the rehabilitation of stressed enterprises to seek temporary protection from its creditors without forcing them into bankruptcy | Ministerial approval of  the registration guidelines and prescribed application form to register Insolvency Practitioners in Mauritius | Ministerial approval and publication of a code of ethics for insolvency practitioners,  Establishment of procedures by the Director of the Insolvency  Service to deal with the suspension and removal of insolvency practitioners from the registry. | | 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 | | Number of insolvency practitioners registered.  Number of banks that have used the OCW guidelines in order to achieve a restructuring plan. | | Zero  0 | 50  4 | | Registrar of Companies/ MoFED |
| Provision of suitable menu of financial products/services for SMEs through the restructuring of DBM into a sustainable MSME financial institution | Cabinet Approval of a decision to transform DBM into a financially viable MSME Bank, licensed by the Central Bank, and with private sector involvement. | Adoption of a detailed transformation plan and implementation of selected actions. | 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. | | DBM restructured by the sale of its non banking assets  A new licensed commercial Bank with a focus on the MSME segment established | | No  No | | Yes  Yes | | MoFED/DBM |
| Increase access to credit through reforming land titling procedures and secured transactions laws and registries | The Transcription and Mortgage Act is amended in order to prescribe a time limit consistent with business standards to register property | Cabinet approval of legislative amendments to Civil Code and other laws to allow the setting of a modern movable collateral registry. | Government decision to further facilitate the use of movable and intangible assets as collateral and the establishment of a modern movable collateral registry. | | Reduction in time taken to register property.  Completion of the necessary legislative amendments for the facilitation of secured lending transactions | | 15 days  No | | 2 days  Yes | | Registrar  General  MoFED |
| Facilitate enhanced access to finance by reducing the risks associated with limited information on potential borrowers | The coverage of the credit information bureau is expanded to include all non banking financial institution | The Bank of Mauritius to establish and publish eligibility criteria and licensing guidelines for the setting up of private credit information  Regulation from Ministry of Public Utilities to enforce the accuracy of the name on utility bill to match the name of the actual user | The Bank of Mauritius to amend the Bank of Mauritius Act in order to define ‘Utility Body[[5]](#footnote-5)’ to further increase coverage of the Credit Information Bureau. | | Increase in coverage of the Credit Information bureau | | 50% | | 70% | | Bank of Mauritius/ MoFED |
| Promote investments in affordable and ubiquitous broadband networks by signaling the Government’s long-term policy intentions clearly, credibly and convincingly. | Cabinet approval of National Broadband Policy. | Establish protocols to strengthen the independence of ICTA | Draft legal changes to pertinent sections of the ICT Act 2001 related to licensing adopted by the ICTA Board. | | Increase in number of broadband subscriptions with actual speeds of at least 10 Mbit/s | | | 300,200[[6]](#footnote-6) | 15% increase | | ICTA |
| To reform regulation so that is applied in only markets where necessary and allows competition where possible. | Cabinet approval to amend ICT Act to introduce a definition of Significant market Power (SMP) and equip the ICT Authority with the appropriate tools to regulate markets in which there is evidence of SMP. | Setting up of system to collect market-level data to be able to assess the existence of significant market power in 5 markets in Mauritius. | Publication of guidelines for tariff setting on ICTA website. | | Decrease in the price per 1Mbit/s per month of broadband service fixed and mobile | | | Fixed: $27.83  Mobile: $17.38 | 10 percent decrease | | ICTA |
| To promote widespread adoption and use of public key infrastructure (PKI) so that secured electronic transactions can take place. | Cabinet approval of the Action Plan to ensure the widest adoption of the PKI technology. | Cabinet approval of targets to increasing paperless G to B and G to G transactions. | Contract with a competitively selected partner to develop a Government Services Platform for eGovernment services, protected by a Public Key Infrastructure (PKI). | | Number of public services that can be executed via secured online transactions | | | 0 | 10 | | Ministry of ICT |

1. Government Program 2012-15, GoM, April 2012. [↑](#footnote-ref-1)
2. The Doing Business Ranking has moved from 24 to 19 in the 2013 Doing Business Report [↑](#footnote-ref-2)
3. See EU “Mauritius Country Strategy Paper 2008-2013,” Annex 3, Executive Summary of the Country Environmental Profile. [↑](#footnote-ref-3)
4. Safeguard Diagnostic Review for the Republic of Mauritius, October 2010, World Bank [↑](#footnote-ref-4)
5. As a body corporate which provides utility service to the public and includes the Central Electricity Board, the Central Water Authority, the Waste Water Management Authority, companies offering information, communication and telecommunication services. [↑](#footnote-ref-5)
6. Includes all broad band subscription including ADSL, 3G, Fiber optics/ LAN and WiMax [↑](#footnote-ref-6)