Overview

Drawing upon International Bank for Reconstruction and Development (IBRD) funding and technical assistance since 2006, Mauritius has consolidated its fiscal performance, improved trade competitiveness, enhanced investment climate and empowered and assisted vulnerable people. Revenue stabilized above 20 percent of gross domestic product (GDP) and the number of registered companies increased by 11 percent. Mauritius is ranked 20 out of 183 economies in the ease of doing business index and is the highest ranked country in Sub-Saharan Africa (Doing Business, 2011). Primary and secondary school completion rates improved from 64.9 and 78.4 percent in 2006 to 68.1 and 78.8 percent, respectively in 2010.

Challenge

In 2005/06, debt to GDP ratio exceeded prudent levels in Mauritius and there was poor fiscal discipline and deficient tax administration. The country faced ineffective business regulation, red tape and discretionary interventions, which had a negative impact on trade competitiveness. Incentives in place at that time favored production for domestic markets rather than exports and policies to encourage product and process innovations were missing. Dealing with the constraints of small and medium enterprises (SMEs) was not considered a high priority. The investment climate was sub-optimal due to a shortage of human capital, rigidity in regulation on entry of foreign workers, an inflexible labor market, and wage setting linked to inflation rather than productivity. In addition, the country lacked policies for participation and social inclusion of vulnerable people. The country was also faced with the “triple trade shock” of trade preference erosion and high oil prices.

Approach

The programmatic Development Policy Lending (DPL) series was designed to support the government in undertaking comprehensive structural reforms to deal with the challenges mentioned above and to support the country in a transition from a low wage, low skill sugar and apparel exporter to an innovative, knowledge and skill-based services economy. The program design was based on analytical work prior to the preparation of the first operation and during the preparation of the following operations, and other operations.
in the portfolio. The design of the program followed the structure of the Country Partnership Strategy (CPS) and was conceived around and supported the government’s priorities in four pillars of reform: (i) consolidating fiscal performance and improving public sector efficiency, (ii) enhancing trade competitiveness, (iii) improving the investment climate, and (iv) democratizing the economy through participation, social inclusion and sustainability. The approach used by the Bank included undertaking economic and sector work (ESW) jointly with the government, consultation with stakeholders (private sector and academics), extensive coordination with other donors, and utilization of prior actions to achieve the objectives of the reform agenda.

Results

The programmatic series of development policy loans has helped to support improvements in several key outcomes:

- The DPL series supported policy measures to consolidate the fiscal framework, including, among others, implementation of a Medium-term Expenditure Framework and a Program-Based Budgeting, proclamation of the Public Debt Management Act 2008, which imposes a limit on public borrowing to GDP, and operationalizing the Mauritius Revenue Authority to strengthen tax administration. Fiscal consolidation led to the stabilization of revenue above 19 percent of the GDP and reduction of public sector debt to 60 percent of the GDP in 2010 compared to 68.8 percent in 2005/06.

- The DPL series supported policy measures to improve the investment climate and trade competitiveness, including, among others, unifying tax and regulatory regimes for Export processing Zones (EPZ) and non-EPZ firms, phased out tariff reductions, review trade-related regulatory measures, revision of the legal and regulatory framework of the information, communications, and technology (ICT) sectors, and appointment of commissioners to the Competition Commission of Mauritius. The intermediate results are an increase in the number of products not subject to tariffs from 74 percent to 87 percent, an increase in internet bandwidth from 123 Mbps to 657 Mbps, increase in information, communications, and technology (ICT) sector as a percentage of GDP from 5.5 percent to 6.4 percent, reduction in number of days to start business from 46 to 6. These results have contributed to the improvement in the ranking of Mauritius in the Doing Business index from 32 in 2007 to 20 in 2011, and an increase in Foreign Direct Investment FDI from 2.8 billion Mauritian rupees in 2005/06 to 13 billion rupees in 2010.

- The DPL series supported policy measures to widen the circle of opportunity through participation, social inclusion and sustainability, including setting up the Empowerment Program, replacing consumer subsidies by targeted cash transfers, poverty mapping, approval of a fully financed education strategy and implementation of targeted and temporary policy action to mitigate risk of widespread layoffs in the context of economic slowdown. The intermediate results are an increase in number of trained workers from 821 to 8,000, placement of women displaced from the textile sector from 45 to 200, and improved primary and secondary completion rates from 64.9 and 78.4 percent in 2006 to 68.1 and 78.8 percent in 2010.

Bank Contribution

Initially the programmatic series was intended to have three operations of US$30 million each. However, to help Mauritius mitigate the impact of the global crisis and to insure against plausible risks and potential disruption thereof to the reform program, the third operation in the series was prepared with Deferred Drawdown Option (DDO) and with an increased amount of US$100 million. At the end of the series in 2010, the government requested another DPL series to keep the momentum of reforms and coordination among development partners. Given that the forthcoming election was near and uncertainties of global economic activities continued to exist, it was agreed to extend the DPL series by a year with DPL4 with a value of US$50 million and then start the new series postelection.
Partners
Besides the Bank, other development partners also contributed in technical and financial terms to make the reform agenda of the government a success. The European Union (EU) provided budget support in terms of grants, the African Development Bank provided general budget support, the United Nations Development Programme (UNDP) provided technical assistance, and the Agence Française de Développement provided sectoral budget support loans. From 2007 to 2010, total budget support from development partners to the government amounted to US$1,047 million (out of which US$210 million is from the Bank).

Toward the Future
After successfully addressing competitiveness issues in the programmatic DPL series, which supported the government in its reform agenda and responded quickly yet efficiently to the international economic and financial downturn, the government has requested another DPL series (four operations of US$20 million each). This new series would support attaining substantial efficiency gains through improved public service delivery, and regulatory and administrative simplification. The authorities have requested specific support in the following areas: (i) social protection; (ii) public enterprises and parastatals reforms; (iii) civil service reform; (iv) raising competitiveness (trade); and (v) improve social sector delivery (education and health). The first operation under this new programmatic series is under preparation with disbursement scheduled for the first quarter in 2012.