

**PROGRAM INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

<Date>

Report No.: AB7428

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<b>Operation Name</b>	Mauritius – Business Environment for Diversified Growth DPL
<b>Region</b>	AFRICA
<b>Country</b>	Mauritius
<b>Sector</b>	General finance sector (50%); General industry and trade sector (30%); Information technology (20%)
<b>Operation ID</b>	P146471
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	GOVERNMENT OF MAURITIUS
<b>Implementing Agency</b>	Ministry of Finance and Economic Development
<b>Date PID Prepared</b>	October 22, 2013
<b>Estimated Date of Appraisal</b>	January 17, 2014
<b>Estimated Date of Board Approval</b>	March 18, 2014
<b>Corporate Review Decision</b>	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

**I. Key development issues and rationale for Bank involvement**

Mauritius is considered to be an upper middle-income country, with a per capita income of US\$15,821 in 2012. It has solid economic fundamentals: open to Foreign Direct Investment (FDI), export oriented (US\$6 billion in 2011 53.5 percent of GDP), high standards of governance (43<sup>rd</sup> in the 2012 Transparency International Corruption Perceptions Index) and business friendly (the top-ranked African country in business climate, ranked 19<sup>th</sup> globally in the 2013 World Bank Doing Business report). Over the years, Mauritius has successfully geared its economy to adapt to international challenges. The economy, which was based on a single crop for many years, has diversified with the development of new sectors such as manufacturing, tourism, financial services, ICT, and seafood. Economic growth is nowadays led by the services sector, mainly the financial services, trade and ICT sectors.

1. In 2012 and 2013, the Mauritian economy has experienced a deceleration in the real GDP growth to an estimated 3.1% for this year. The tourism sector was adversely affected by the external environment and posted a meagre 1.0 percent increase in tourist arrivals and a 7.2 percent decline in earnings per tourist between the first quarters of 2012 to that of 2013. Moreover, overall unemployment stands at 8.1% while youth unemployment is estimated at an alarming 23.7%. There is also evidence that domestic factors are also hampering economic development in Mauritius. Skills mismatches and infrastructure bottlenecks are affecting the rate of economic development. Competitiveness has also weakened - wages more than doubled while labor productivity increased by only 60 percent over the last decade.

In April 2012, the government presented its third policy platform since it came into power in 2005 through a program called 'Moving the Nation Forward' (MNF) for 2012-2015. The main objective of the MNF is to assist the country achieve high income status with a projected GDP per capita of US\$14,000 in 2022. To do so, the government intends to steer the economy away from its traditional export-reliance on European markets and to focus on the new centers of economic gravity, namely the emerging economies, the BRICS and geographically closer, continental Africa. The scope for realizing the country's socio-economic aspirations would be unachievable unless suitable policy responses are put into place that allow for the Mauritian private sector to compete on the global scene.

The DPL programmatic series is to improve the business environment through improvements in G2B service delivery, the strengthening financial access and stability; and reinforcing growth of knowledge and innovation. Some of the measures supported by the current lending operation are extensions of the previous DPL such as the streamlining processes and further improvements to the quality of the business facilitation framework; on further promoting the emergence and development of SMEs through value chain linkages with large enterprises and improved access to finance. Other reforms are more pioneering as they will promote the recourse by enterprises to research and development activities and utilization of new technology tools; foster the creation of research hubs in the country by providing the right institutional set-up and incentives to encourage world leading institutions to set up facilities locally for finding ways and means to increase business productivity and profitability and provide for the review of patents and related legislations to improve returns on investment in research and development matters.

## **II. Proposed Objective(s)**

The proposed development objective of the DPL is to improve the business environment for diversifying growth. This will be done by strengthening the policy and institutional environment in Mauritius to improve the business climate and financial access, and to support the growth of the knowledge economy. The objectives of the proposed operation are closely intertwined with and provide strategic support to the government's reform program to integrate economic growth, social development and environment objectives through a focus on competitiveness. This is in line with the country's Africa strategy whereby it will position itself as a major regional player in sub-Saharan Africa, especially for knowledge-related services.

## **III. Preliminary Description**

The proposed operation will achieve its development objectives by supporting reforms in three integrated and mutually reinforcing pillars (i) improving the business environment for the entrepreneurship development, (ii) enhancing financial access and stability, and (iii) supporting growth of knowledge and innovation.

Pillar 1 will support improvements in the business environment and inclusive growth through measures that: (i) streamline business licensing and tax payments, (ii) improve G2B (Government-to-Business) services and public sector efficiency and transparency, and (iii) support SME development and growth. The focus is on improving the business environment by simplifying, integrating and automating the licensing and tax payments, by improving the

delivery of public services and regulatory processes, and by providing support to SMEs to link them to larger enterprises that can provide technical capacity building, mentoring and, as needed, start-up and/or supply chain finance.

Pillar 2 will support improvements in financial access and stability through measures that: (i) make it easier for firms to access finance, especially MSMEs, by putting in place a Moveable Collateral Registry, and (ii) improve financial market integrity and consumer protection. In addition, the reforms proposed under the second DPL will aim to enhance financial sector stability (through reforms to strengthen regulation and resilience to withstand potential crisis in the future) and improve payment systems.

Pillar 3 will support improvements in the regulation and function of the knowledge economy which would help Mauritius to become a regional power for research and innovation and for the export of services. This will be carried out under the proposed operation through measures that: (i) attract and stimulate private sector participation in R&D and innovation to support growth according to the Africa Strategy, and (ii) enhance innovation as a means to promote enterprise growth. These reforms will help to attract and safeguard equity in research and development, and help commercialization of innovations by entrepreneurial private investors, in partnership with the Government and public and private institutions across academia and industry.

#### **IV. Poverty and Social Impacts and Environment Aspects**

##### *Poverty and Social Impacts*

The policies supported by the proposed DPL will contribute significantly to poverty reduction and shared prosperity through measures that emphasize equity concerns by a clear focus on the development of SMEs. In particular, reforms aimed at the improvement of the business environment under Pillar 1 should have a disproportionate effect on improving the climate for smaller firms that find it more expensive to factor in the costs of cumbersome licensing and tax procedures. In addition, the introduction of a movable collateral registry under Pillar 2 will assist poorer households and micro- and small-firms to access credit, improving their ability to make productive investments. And lastly, reforms aimed at growing the knowledge economy under Pillar 3, through better intellectual property regulation and opportunities for collaboration with international institutions will create spillovers in the form of innovation, employment and wealth far beyond the boundaries of firms and universities.

Thus, the proposed operation has the potential to deliver positive impacts on alleviating poverty and inequality over the medium term. The improvement of the investment climate, the strengthening of SME programs, and the improvement of access to finance are expected to have positive impacts on poverty and social benefits. The measures 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.

The DPL will also support policies that seek to have a positive distributional impact. Schemes for capacity building of SMEs should encourage employment and growth, creating wealth at the bottom of the pyramid. These reforms will yield direct benefits to lower-income segments of the population. Similarly, the improved access to finance will benefit SMEs and individual households and consumers alike, due to easier use of collateral. Future interoperability of payment systems will reduce the costs of payments, money transfers, retail purchasing transactions, and facilitate cash-less purchases as well as payments, to the benefit of all segments of the population, regardless of location of their bank account, their income level, or their credit history. Improved regulations in the financial sector supported by this DPL series will increase consumer protection, financial security, and confidence in the financial system stability and integrity, to the benefit of entire population. Improvements in ICT will enable job creation as well as easier, more efficient public service delivery to all citizens. An improved policy framework for research, innovation and education will draw in new investors, innovators and highly-educated work force to propel further economic growth.

#### *Environment Aspects*

This operation does not pose any direct environmental risk. Few, if any, of the reforms supported by this operation are likely to have direct effects on the environment and natural resources, including forestry. Historically, the record of environmental management in Mauritius, though not perfect, has been relatively good. Review of prior Bank project portfolio in Mauritius confirms that the country's environmental policies are sufficiently robust and are being implemented satisfactorily. The World Bank will support the Government of Mauritius in strengthening its environmental institutions through project-specific environmental management tools for the next investment lending projects to be prepared. All development partners recognize the strategic importance of employing sound environmental management practices, and AFD, UNDP, and EU are actively providing technical support in this area.

## **V. Tentative financing**

Source:

(\$m.)

Borrower		0
International Bank for Reconstruction and Development (IBRD)		20
Others (specify)		
	Total	20

**VI. Contact point**

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