AFRICAN DEVELOPMENT BANK

PROGRAM: ECONOMIC COMPETITIVENESS AND RESILIENCE SUPPORT PROGRAM (ECRSP)

COUNTRY: REPUBLIC OF MAURITIUS

APPRAISAL REPORT
14 March 2023

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AFRICAN DEVELOPMENT BANK

MAURITUS

ECONOMIC COMPETITIVENESS AND RESILIENCE SUPPORT PROGRAM (ECRSP)

RDGS/ECGF DEPARTMENTS

March 2023

Contents

List of Tables

Appendices

CURRENCY EQUIVALENTS

(As of March 6, 2023)

1 UA	=	61.81 MUR
1 UA	=	1.33 USD
1 UA	=	1.25 EUR
1 USD	=	46.51 MUR

FISCAL YEAR

July 1 – June 30

WEIGHTS AND MEASURES

1metric tonne	=	2,204 pounds (lbs)
1 kilogramme (kg)	=	2.204 lbs
1 metre (m)	=	3.28 feet (ft)
1 millimetre (mm)	=	0.03937 inch (“)
1 kilometre (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

Acronyms and Abbreviations

AFF	Agriculture, fishing, and forestry
AML/CFT	Anti-Money Laundering/Combatting Financing of Terrorism
BoM	Bank of Mauritius
bps	basis points
CFRA	Country Fiduciary Risk Assessment
COVID-19	Coronavirus disease-2019
CPIA	Country Policy and Institutional Assessment
CRFA	Country Resilience and Fragility Assessment
CSP	Country Strategy Paper
DBM	Development Bank of Mauritius
DPs	Development partners
DPG	Development Partners Group
ECRSP	Economic Competitiveness and Resilience Support Program
EU	European Union
FATF	Financial Action Task Force
FY	Fiscal year
GDP	Gross domestic product
GHG	Greenhouse gas
GRM	Government of the Republic of Mauritius
GTP	Green Transformation Package
GVA	Gross value added
HIC	High income country
ICT	Information and Communications Technology
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
KRR	Key Repo Rate
MEPU	Ministry of Energy and Public Utilities
MoFED	Ministry of Finance, Economic Planning, and Development
MUR	Mauritian rupee
NA	Not applicable
NAMA	Nationally Appropriate Mitigation Actions
NDC	Nationally Determined Contribution
ND-GAIN	Notre Dame-Global Adaptation Initiative
PBO	Program-based operations
PPPs	private-public partnerships
PV	Photovoltaic
RMCs	Regional Member Countries
SME	Small and Medium Enterprises
UA	Unit of Account
UNDP	United Nations Development Program
VAT	Value added tax

PROGRAM INFORMATION

INSTRUMENT	GENERAL BUDGET SUPPORT
PBO DESIGN TYPE	PROGRAMMATIC OPERATION

LOAN INFORMATION

CLIENT'S INFORMATION

BORROWER:	**REPUBLIC OF MAURITIUS**
EXECUTING AGENCY:	**MINISTRY OF FINANCE, ECONOMIC PLANNING AND DEVELOPMENT (MoFED)**

FINANCING PLAN FOR 2023 (Amount in millions of USD)

Source	**2022/23**	**2023/24**
ADB Loan	250.00	TBD
TOTAL FINANCING	**250.00**	**TBD**

ADB FINANCING INFORMATION

Eligibility	
Loan currency	United States Dollars (USD)
Type of Loan	Fully Flexible Loan
Tenor	20 years inclusive of Grace Period
Grace Period	5years
Average loan maturity*	Function of the maturity, grace period and amortization profile Up to 17 years
Repayments	Consecutive semi-annual and equal payments after grace period or customized
Payment date	Standard Payment Dates on February 1 and August 1 or Any combination of the 1st and 15th of any month (excluding 1st January) in accordance with the payment frequency selected by the Borrower
Interest Rate	Base Rate +Funding Cost Margin+ Lending Margin + Maturity Premium This Interest Rate will be floored to zero.
Base Rate	Floating Base Rate (Daily SOFR[1] Compounded in Arrears for USD, Daily TONA Compounded in Arrears for JPY or 6-month EURIBOR for EUR reset each 1st February and 1st August; 3-month JIBAR for ZAR resets each 1st February, 1st May, 1st august and 1st November) A free option to fix the Base Rate is available
Funding Cost Margin	The Bank funding cost margin as determined each 1st January and 1st July and applied to the Base Rate each 1st February and 1st August
Lending Margin	80 basis points (0.8%) since 1st September 2016
Maturity Premium	- 0% if Average Loan Maturity ≤ 12.75 years - 0,10% if 12.75 < Average Loan Maturity ≤ 15 - 0,20% if 15 < Average Loan Maturity ≤ 17 years

[1] Secured Overnight Financing Rate

Front-end fees	0.25% of the loan amount due at loan effectiveness and payable at the earliest of (i) up to 60 days from Loan Effective Date or (ii) at the time of first disbursement. If the loan is partially or fully cancelled after the Loan Effective Date, the Front-end fee is still due on the full loan amount and no refund is made. The borrower has the option to pay the Front-end Fee: (i) either from its own resources, or (ii) by deducting its amount from the loan proceeds at the first disbursement.
Commitment fees	0.25% of the undisbursed amount. Commitment fees start accruing 60 days from signature of the loan agreement and are payable on payment dates including during the grace period. The Commitment fee ceases to accrue upon full disbursement or full cancellation of the loan
Option to convert the Base Rate**	In addition to the free option to fix the floating Base Rate, the borrower may reconvert the fix rate to floating or refix it on part or full disbursed amount. Transaction fees are payable
Option to cap or collar the Base Rate**	The borrower may cap or set both cap and floor on the Base Rate to be applied on part or full disbursed amount Transaction fees are payable
Option to convert loan currency *(Except for AGTF)***	The borrower may convert the loan currency for both undisbursed or disbursed amounts in full or part to another approved lending currency of the Bank Transaction fees are payable.
Hedge unwinding or adjustment costs	Any costs incurred by the Bank in adjusting or terminating the conversions are passed to the borrower.

*A calculator is available to allow borrower to simulate different amortisation profiles and determine Average Loan Maturity. Please contact FIST2@afdb.org
** All conversions are subject to market availability. Conversion options and transaction fees are subject to the Bank Conversion Guidelines available online here

TIME FRAME – MAIN MILESTONES

Program Appraisal January 2023	
Program Approval March 2023	
Loan Effectiveness April 2023	
Disbursement Closing Date 30 June 2024	
Completion 31 December 2024	

PROGRAM EXECUTIVE SUMMARY

Program overview	Program name: Mauritius – Economic Competitiveness and Resilience Support Program (ECRSP). Expected outputs: (i) Agro-industrial development and fisheries harnessed; (ii) Business facilitation, SME and skills development enhanced; (iii) Transition to Clean Energy accelerated; and (iv) Environmental governance strengthened. Overall timeframe: 2022/23-2023/24, two-year programmatic operation. Program Cost: The program cost for the first year of the two-year programmatic operation is USD 250 million (UA 188 million).
Program outcomes	The key outcomes of the Program are (i) Competitiveness and private sector participation in key sectors enhanced; (ii) Green recovery and climate resilience enhanced.
Alignment with Bank priorities	The operation is aligned with the Bank's Ten Year Strategy and all of the High 5s: "Feed Africa" (by strengthening policy and institutional reforms for agriculture transformation and fisheries); 'Improve the quality of life for the people of Africa' (by creating fiscal space to strengthen social protection initiatives and create jobs); "Industrialize Africa" (by promoting enabling environment for private sector development, SMEs and strengthening the policy framework for industrialization); 'Light Up and Power Africa' (by stimulating the development of more efficient renewable energy policies); and 'Integrate Africa' (by strengthening regional trade initiatives). Furthermore, the program is closely linked to Priority Area 1 of the Mauritius Country Strategy Paper for 2022-2027 (Enhancing Economic Resilience Through Improved Business Environment and High-Value Production). The operation is also consistent with several other Bank strategies and policies: the Regional Integration Strategy Paper for Southern Africa (SA-RISP 2020-2026), Strategy for Economic Governance in Africa (SEGA, 2021-2025), Private Sector Development Strategy (2021-2025), Industrialization Strategy for Africa (2016–2025), Feed Africa: A Strategy for Agricultural Transformation in Africa 2016-2025, Green growth initiative, and Gender Strategy 2022-2026.
Needs Assessment and Justification	Firstly, Mauritius has been implementing solid macroeconomic policies for decades, resulting in sustained growth and stable macroeconomic situation. The proposed operation will help preserve the highly positive results obtained and help prevent a reversal of the social protection benefits in place. Secondly, the COVID-19 pandemic has had a significant negative impact on the Mauritian economy affecting key sources of growth, particularly in tourism, that has led to significant job losses and reduced private investment. It is important that the Bank supports the Government of the Republic of Mauritius's (GRM) post-COVID-19 recovery efforts (as articulated in the 2022/23 budget speech), particularly in key economic sectors of agro-industrial development and fisheries, given their importance for economic diversification, job creation, food security and economic transformation. Thirdly, the operation will support reforms geared towards the creation of new private-sector enterprises and jobs, with women and youths as key targets. This will complement the 2020 Program Based Operation (PBO) that responded to the COVID-19 pandemic and contributed to the Bank's overall mission to Mauritius' economic recovery and bolster resilience to withstand future pandemics. Fourthly, the operation will create an opportunity for policy dialogue on various sector reforms. Focus on clean energy and environmental governance will also help to address vulnerability to climate shocks as an island nation and hence strengthen resilience. And fifthly, the PBO offers more favorable terms that other financial alternatives such as Eurobonds and hence contributes to Mauritius' fiscal sustainability efforts.
Harmonisation	A Development Partners Group (DPG) chaired by the United Nations Resident Coordinator was revived in 2018, and consultations amongst DPG members have taken place quarterly. The DPG comprises five DPs with permanent representation in Mauritius - the Bank (AfDB), World Bank, *Agence française de développement* (AFD), European Union (EU), and United Nations Development Program (UNDP). A formal development coordination framework has been established, with cluster groups formed on environment, climate change, skills development, gender, and health. There has been good collaboration between the Bank and DPs on policy advice. Focus areas included the development of knowledge products on the Blue Economy, implications of the transition to High Income Country (HIC) status on the apparel and textiles industry, and poverty modelling analyses.
Bank's Added Value	Mauritius has a strong track record of reform implementation. These include policies that led to the economy's successful diversification away from sugarcane monoculture to a manufacturing and services-based economy driven by export-oriented manufacturing (mainly textiles), tourism, financial and business services, among others. Government has also implemented numerous pro-trade and investment reforms through policies and legislations in support of private sector development. These include reforms that expedited trade fee payments, procedures for construction permits, streamlining of business licenses, and trade facilitation, among others. Hence the country has consistently ranked among the top African countries in business environment reforms. The results of the only two budget support operations provided by the Bank to Mauritius (the latest being a COVID-19 crisis response budget support in 2020) have also been positive. Experience and lessons from implementation of similar programs in other RMCs have been taken on board in the program design. The processing of the operation has been fast-tracked to enable the Government to access the resources before the end of the 2022/23 fiscal year to avoid liquidity challenges which could impact important development programs. The country's recent macroeconomic performance has suffered from negative impacts of the COVID-19 pandemic which affected financial services, trade, investment, and tourism, among others. The necessary increase of public expenditure in the wake of the COVID-19 pandemic to enhance social safety nets and sustain the economy led to a higher fiscal deficit of 11.4% in 2019/20 and 6.7% of GDP in 2020/21, from 3.1% in 2018/19. Revenues have consistently been outpaced by the elevated expenditures and net public debt has continued to increase, reaching 75.8% of GDP at end-June 2022. Russia's invasion of Ukraine[2] has added to these challenges, most notably through its impact on inflation. To address the above challenges and build on the reform momentum, more still needs to be done to further boost economic diversification and strengthen competitiveness. Dependence on the tourism sector as a key growth driver contributes to volatility. The Government is committed to addressing these challenges by implementing a series of structural and sector-specific reforms, including in agriculture, fisheries and energy. The justification for the proposed operation is premised on the need to support such reforms geared towards maintaining macroeconomic stability, transforming key sectors such as agriculture and industry, promoting clean energy and environmental management and strengthening resilience. The PBO instrument is the ideal tool to support reforms and provide effective platform for policy dialogue.

[2] Agreed wording at the African Development Bank Annual Meetings 2022 in Ghana - Algeria, China, Egypt, Eswatini, Namibia, Nigeria and South Africa entered a reservation and proposed "Russia-Ukraine Conflict".

Contributions to Gender Equality and women's empowerment.	The reforms supported by this operation will positively influence efforts geared towards reducing gender inequality. The program supports measures to address gender inequality, including the cabinet's approval, in March 2022, of the National Gender Policy 2022-2030 which includes guidelines on Gender Equality and will be boosted through establishment of a Steering Committee on gender mainstreaming, and development of gender incubators. This project has been categorized as GEN III on the Gender Marker System. It will contribute to the growth of women's entrepreneurship and participation in aquaculture following the development of the aquaculture policy.
Policy dialogue and linked technical assistance	The proposed program is the outcome of close and sustained dialogue between the Bank, Mauritian authorities and development partners. The program policy matrix (Appendix 2) provides the basis for policy dialogue and will focus on: (a) Enhancing competitiveness and private sector participation in key sectors by harnessing agro-industrial development, and fisheries as well as enhancing business facilitation, SME and skills development; and (b) Enhancing green recovery and climate resilience by accelerating the transition to clean energy and strengthening environmental management. The overall focus will be on promoting investment climate reform, PPP, value chain studies to accelerate private investment in priority sectors, and SME development.

RESULTS FRAMEWORK

A	PROGRAM INFORMATION	
PROGRAM NAME AND SAP CODE: Economic Competitiveness and Resilience Support Program (ECRSP)): P-MU-K00-009		COUNTRY: Republic of Mauritius
PROGRAM DEVELOPMENT OBJECTIVE: Enhance economic diversification and competitiveness with a view to strengthening resilience and achieving more inclusive and sustainable growth		
ALIGNMENT INDICATORS[3]: (i) Unemployment rate; (ii) GDP growth; (iii) Poverty rate; (iv) Greenhouse gas emission		
B	RESULTS MATRIX	

RESULTS CHAIN AND INDICATOR DESCRIPTION	RMF INDICATOR	UNIT OF MEASURE-MENT	BASELINE (2021)	TARGET AT COMPLETION (2024)	MEANS OF VERIFICATION
OUTCOME STATEMENT 1: Competitiveness and Private Sector Participation in Key Sectors enhanced					
OUTCOME INDICATOR 1.1: Growth rate of: (a) Agriculture, forestry and fishing as % of GDP; (b) Manufacturing sector as % of GDP		%	(a) 0.93[4] (b) 1.03[5]	(a) 2.0 (b) 2.0	Statistics Mauritius
OUTCOME INDICATOR 1.2: World Economic Forum Global Competitiveness Index score		%	64.3 (2019)	65.5 (2024)	Global Competitiveness Report
OUTCOME STATEMENT 2: Green Recovery and Climate Resilience enhanced					
OUTCOME INDICATOR 2.1: Installed renewable energy capacity		MW	306.98	496	Ministry of Energy reports
OUTCOME INDICATOR 2.2: Additional mobilization of climate change financing (both adaptation and mitigation) per annum		% of GDP	2	3.6	Ministry of Finance reports
COMPONENT 1: Enhancing Competitiveness and Private Sector Participation in Key Sectors					
OUTPUT STATEMENT 1: Agro-industry and fisheries potential harnessed					
OUTPUT STATEMENT 1.1: Establishment of a revolving loan scheme for sugar cane industry *		Amount (MUR)	0	95.4 million	List of loan requests received and approved under the Fund
OUTPUT STATEMENT 1.2: Aquaculture Policy approved by Government		Yes/No	No	Yes	Extracts of the highlights of the Government Decision
OUTPUT STATEMENT 2: Business facilitation, SME and skills development enhanced					
OUTPUT INDICATOR 2.1: Small and Medium Enterprises (SME) Act 2018 amended through the Finance (Miscellaneous Provisions) Act 2022*		Yes/No	No	Yes	Copy of the Act
OUTPUT INDICATOR 2.2: Upgrading of the Companies and Business Registration Integrated System (CBRIS) to cater for payment of trade fees, registration of VAT and registration of Ultimate Beneficial Owner (UBO)*		Yes/No	No	Yes	Ministry of Finance reports
OUTPUT INDICATOR 2.3: Strategic implementation committees established to oversee implementation of the National Skills Development Strategy		Number	0	10	Letter confirming appointment of committee members
OUTPUT INDICATOR 2.4: National Gender Policy approved by Government		Yes/No	No	Yes	Ministry of Gender reports
Component 2: Enhancing Green Recovery and Climate Resilience					
OUTPUT STATEMENT 3: Transition to Clean Energy accelerated					

[3] These indicators will measure alignment with the country priorities identified for the operation

[4] Based on 3-year pre-COVID-19 average 2017-2019

[5] Based on 3-year pre-COVID-19 average 2017-2019

OUTPUT INDICATOR 3.1: Roll out of the carbon neutral industrial sector renewable energy loan scheme*		Yes/No	No	Yes	Public announcement of the scheme by the Central Electricity Board and details of the scheme
OUTPUT INDICATOR 3.2: National Biomass Framework approved by Government		Yes/No	No	Yes	Copy of the Government Decision
OUTPUT INDICATOR 3.3: Revised Renewable Energy Roadmap 2030 approved by Government and Implementation Committee established		Yes/No	No	Yes	Copy of the Roadmap and TOR of the Implementation Committee
OUTPUT STATEMENT 4: Environmental governance strengthene**d**					
OUTPUT INDICATOR 4.1: Government approval of the Waste Management and Resource Recovery Bill*		Yes/No	No	Yes	Extract of highlights of the Government Decision; Copy of the Bill
OUTPUT INDICATOR 4.2: Nationally Determined Contribution (NDC) Action Plan (2022-2030) approved by Government*		Yes/No	No	Yes	Copy of the approved Action Plan
OUTPUT INDICATOR 4.3: Air quality indexing system for Mauritius developed and launched		Yes/No	No	Yes	Ministry of Environment, Solid Waste Management and Climate Change reports

*Asterisk denotes Prior Action

REPORT AND RECOMMENDATION OF THE MANAGEMENT TO THE BOARD OF DIRECTORS ON A PROPOSED LOAN TO THE REPUBLIC OF MAURITIUS TO FINANCE THE ECONOMIC COMPETITIVENESS AND RESILIENCE SUPPORT PROGRAM (ECRSP)

1 INTRODUCTION: THE PROPOSAL

1.1 **Management submits the following proposal and recommendation for an ADB Loan of Two hundred and fifty million United States Dollars (USD 250,000,000) to the Republic of Mauritius to finance the Economic Competitiveness and Resilience Support Program (ECRSP)**. The ECRSP is designed as a programmatic series of two consecutive General Budget Support (GBS) operations covering the fiscal years 2022/23-2023/24. The proposed loan is the first of the two-year series of the Program Based Operation (PBO). The operation is designed in response to a request submitted to the Bank by the Government of the Republic of Mauritius (GRM) in October 2022.

1.2 The impact of the COVID-19 pandemic has weighed heavily on the Mauritian economy and the Government's response to cushion its impact led to a significant increase in public expenditure. This resulted in a higher fiscal deficit of 11.4% in 2019/20 and 6.7% of GDP in 2020/21 from 3.1% in 2018/19. Meanwhile, revenues have consistently been outpaced by the elevated expenditures and net public debt has continued to increase, reaching 75.8% of GDP at end-June 2022. Russia's invasion of Ukraine[6] has added to these challenges, most notably through its impact on inflation. The Government is committed to addressing these economic challenges by implementing measures designed to attain green recovery and strengthen economic resilience, which will lay the foundation for medium to long term sustainable development. There is particular emphasis on economic diversification and enhancing private sector participation in key sectors, including agro-industry. It is against this backdrop that the Government of Mauritius approached the Bank, as a reliable partner of choice for budget support.

1.3 The overarching development objective of the program is to support economic diversification and competitiveness with a view to strengthening resilience and achieving more inclusive and sustainable growth. It is a multi-sector program covering agro-industry, fisheries, SME development, energy, climate change and low carbon economy. It will support the Government's economic policies through wide-ranging climate-friendly business environment and real sector reforms. This will underpin the creation of new jobs and support improvement in economic activity, including by small and medium enterprises (SMEs), in the medium to long term within the framework of Mauritius's Vision 2030. The program has strong synergies and complementarities with other ongoing and planned Bank operations in agriculture, energy, manufacturing and trade finance. It will help to address diminishing productivity and competitiveness which has led to Mauritius losing a significant share of its export market and will therefore contribute to private sector development. It will help to unlock opportunities to grow the Bank's non-sovereign operations (NSO) portfolio in Mauritius. It will also help to address immediate fiscal sustainability challenges as well as contribute to the country's medium- to long-term development agenda.

1.4 The program is aligned with Mauritius's Vision 2030 that aims at addressing unemployment, eradicating poverty, further opening the country, and encouraging innovation. It is also aligned with Mauritius Country Strategy Paper (CSP 2022-2027), the Bank's Ten-Year Strategy and the High 5s and is consistent with the policy priorities and reform program set out in the Letter of Development Policy (Appendix 1). The proposed operation was formulated based on continuous dialogue with the GRM, and in close collaboration with Development Partners and other stakeholders, including the private sector and civil society.

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[6] Agreed wording at the African Development Bank Annual Meetings 2022 in Ghana - Algeria, China, Egypt, Eswatini, Namibia, Nigeria and South Africa entered a reservation and proposed "Russia-Ukraine Conflict".

1.5 The long-term tenure of the Government's borrowing for this operation will help to improve the reserve position and extend the maturity profile of Government debt. The use of the programmatic approach also brings the advantage of predictability and flexibility on the use of triggers, by allowing for the possibility of adapting to changing circumstances during program implementation.

2 COUNTRY AND PROGRAMME CONTEXT

2.1 Political Developments and Governance Context

2.1.1 **Mauritius has a long tradition of political and social stability**. Since independence in 1968, the country has forged a vibrant multi-party parliamentary democracy with competing parties alternating coalitions every five years. The favorable political environment has been one of the driving forces contributing to the country's commendable economic development success by attracting investors, particularly foreign investors. Mauritius has been described as a Full Democracy by the Economist Intelligence Unit's Democracy Index 2022, which ranked it 21st globally (out of 167) and first among African countries. The last general elections held in November 2019 resulted in the victory for the *Alliance Morisien*, formed around the Militant Socialist Movement (MSM), which won 42 seats out of 70. Prime Minister and MSM leader Mr. Pravind Jugnauth was re-elected for a new five-year term. His administration has continued strengthening policies and institutions while pursuing prudent macroeconomic policies and upholding fundamental rights and freedoms.

2.1.2 Mauritius has established solid foundations for good governance. The country boasts a low continental average on perceptions of corruption in addition to having a robust legal framework, reliable anti-corruption institutions and a free press. It ranks fifth in Africa and 57th globally out of 180 countries (score of 50/100) on Transparency International's 2022 Corruption Perception Index. The 2022 Heritage Foundation Economic Freedom Index ranked Mauritius first among 47 countries in Sub-Saharan Africa with a score of 70.9 (out of 100), well above the regional and world averages, thanks to strong property rights and judicial effectiveness. For the tenth consecutive year, the country also retained its first position out of 54 African countries in the 2022 Ibrahim Index on African Governance (IIAG), albeit with a lower score of 74.9 out of 100, compared with the IIAG 2020 (77.2). Mauritius scored 4.6 on the Country Policies and Institutional Assessment in 2021 marginally down from 4.7 in 2020.

2.2 Recent social and economic development

2.2.1 **The Mauritian economy has undergone a major transformation over the past decades. The tertiarization of the economy has been emphasized, and the country is today primarily a service-oriented economy**. The contribution of the services sector to the gross value added (GVA) should reach 75.6% in 2022 against 77.5% in 2019, a slight decrease of 1.9 percentage points. While the industrial and agriculture, fishing, and forestry (AFF) activities represented on average less than one-fifth of the economy (3.5% of GVA for the AFF sector and 12.9% for the manufacturing sector) in 2019, both sectors had increased their contribution to GVA in 2022 – to 3.9% for the AFF sector and to 13.4% for the manufacturing sector (see Technical Annex 5 for sector analysis).

2.2.2 **Mauritius' economy suffered severe financial constraints as a result of the COVID-19 pandemic and the ensuing drastic curtailment of activities in the tourism sector.** This was compounded in 2022 by Russia's invasion of Ukraine[7], which brought about a surge in inflation, especially in energy and food prices. Both global events forced the Government to significantly increase budgetary outlays, resulting in higher than usual budget deficits that need to be financed. Following a sharp contraction of 14.6% in 2020, gross domestic product (GDP) at market prices grew by 3.5% in 2021, boosted by the recovery of all economic sectors except tourism. GDP growth is expected to reach 7.8% in 2022, driven mainly on the supply side by the recovery of the accommodation and food services

[7] Agreed wording at the African Development Bank Annual Meetings 2022 in Ghana - Algeria, China, Egypt, Eswatini, Namibia, Nigeria and South Africa entered a reservation and proposed "Russia-Ukraine Conflict".

sector (contribution to growth of +5.0%) in the wake of the reopening of borders in 2021 and the termination of the anti-COVID-19 protocol measures by end-June 2022, and by the manufacturing sector (+0.8%).

2.2.3 **The fiscal and debt position deteriorated in Financial Year (FY) 2020/21 due to the impact of the COVID-19 pandemic.** A one-off transfer (amounting to 13% of GDP) from the Bank of Mauritius (BoM) to the Ministry of Finance, Economic Planning and Development (MoFED) helped finance the deficit, without increasing public debt. Although fiscal performance improved in FY 2021/22, helped by receipts from quasi-fiscal operations, it remains burdened by COVID-19 pandemic expenditures and renewed pressures on current spending. Key taxes, notably VAT and excises, have been affected by the prolonged closure of borders and consequently lower-than-expected tourist arrivals. A new pay structure was rolled out in November 2021, aiming mainly to reduce the salary gap between low- and high-grade public servants, entailing additional spending on wages, transfers, and social benefits. The International Monetary Fund (IMF) recommends that targeted transfers through social safety net programs, rather than broad-based subsidies, be used to protect the vulnerable. For FY 2022/23, the IMF recommends that the budget aim for a further improvement of the fiscal position without reliance on quasi-fiscal operations. The guiding principle should remain to further reduce the budget deficit through a reduction in current and capital expenditures. In this regard, the Government is implementing a range of fiscal measures, including the phasing-out of the COVID-19 pandemic-era support. Also, additional cash inflows could be generated from sale of government assets which can be used to repay debt.

Table 1: Key Macroeconomic Indicators

Indicator	2019/2020 Actual	2020/2021 Actual	2021/2022 Actuals	2022/2023 Estimates	2023/2024 Projection
Real GDP growth rate (%) *	2.9	-14.6	3.5	7.8	5.0
Inflation, % (average) *	0.5	2.5	6.8	12.2	10.0
Total revenues (% GDP)	30.1	28.1	26.9	25.7	25.9
Total expenditure (%GDP)	41.3	34.8	32.4	29.7	29.4
Fiscal balance (% GDP)	-11.4	-6.7	-5.6	-4.0	-3.5
Public net debt (% GDP)	72.8	83.2	75.8	72.9	72.0
Current account balance (% GDP)	-5.3	-9.2	-13.2	-14.0	-6.4
International reserves (Months of imports, end of year)	…	…	17.6	16.1	…

Sources: Ministry of Finance /Bank of Mauritius/*IMF Article IV 2022 Report*
** = calendar year; 2019 = 2019/20*

2.2.4 **Controlling inflation has been a decisive element behind Mauritius' economic performance.** Headline inflation dropped from some 7% in the second half of the 1990s to around 5% in 2005, 3.2% in 2018 and to an all-time low of 0.5% in 2019, just before the outbreak of the COVID-19 pandemic. The BoM cut the Key Repo Rate (KRR) from 3.35% in November 2019 to 1.85% by April 2020 (150 basis points) in support of SMEs. Nonetheless, year-on-year inflation remained contained, reaching 0.2% in April 2021 compared with 3.2% in October 2020. However, inflation started to accelerate as supply chain disruptions compounded the increase in shipping costs and imports related to COVID-19, resulting in a 6.8% year-on-year inflation in December 2021. By December 2022 the year-on-year inflation had risen to 12.2%, fueled by increasing economic uncertainty caused by the impact of Russia's invasion of Ukraine on prices of energy and food. Because of the inflationary pressure, the BoM has raised the KRR by 265 basis points (bps) between December 2021 and December 2022, bringing the KRR to 4.50%. However, with a year-on-year inflation rate of 12.2%, real interest rates are still highly negative. In January 2023 the BoM adopted a new policy framework under which the "Key Rate" has replaced the KRR as the policy rate used to signal the stance of monetary policy. The main instrument of monetary policy is the 7-Day BoM Bill which is issued at a fixed-rate equal to the "Key Rate". This will ensure that the amount of liquidity remaining in the system is in line with the demand for reserve money by banks, thus helping to anchor short-term money market rates at around the "Key Rate".

2.2.5 **The necessary increase of public expenditure to provide social safety nets and sustain the economy in the wake of the COVID-19 pandemic led to an increase in the fiscal deficit** to11.4% of GDP in 2019/20, from 3.1% in 2018/19. However, the economic recovery beginning in 2021 allowed a substantial budget deficit reduction, to 6.7% of GDP for 2020/21 and further down to 5.6% for 2021/22. In that year, the tax burden represented 27.3% of GDP, while public expenditure amounted to 32.9% of GDP. The most significant budget chapters are social benefits, which account for 29% of total expenditure, followed by the wage bill (22.9% of total expenditure), public sector transfers to parastatals and local authorities (16.2% of total expenditure), and interest paid on the public debt (8.2% of total expenditure). Altogether, these four spending chapters represented 76% of public spending in the budget outturn for 2021/22. The outturn of the 2022/23 budget is expected to be similar to 2021/22, with an overall deficit of 4.0% of GDP.

2.2.6 **Mauritius's external sector accounts in the years up to 2019 have been driven by strong performances in tourism and Global Business Companies (GBC) deposits.** The current account deficit averaged around 5.3% of GDP between 2017 and 2019. However, in 2020 the current account deficit widened significantly to 8.8% of GDP due to the collapse of tourism sector activities. It increased to 13.3% of GDP in 2021 as exports of goods and services increased at a slower pace than imports. The current account deficit is estimated to increase to 14.0% of GDP in 2022, mostly reflecting a higher trade deficit affected by the surge in prices of energy and food imports, only partially offset by surpluses on the services and income accounts (as a result of the resumption of tourism sector activities). Gross Official International Reserves (GOIR) as at end-December 2022 remained comfortable as a buffer against external shocks. The GOIR stood at MUR 342.2 billion (USD 7.8 billion) as at end-December 2022 compared to MUR 372.7 billion (USD 8.6 billion) as at end-December 2021. Based on the imports of goods and services for the year 2021, GOIR represented 16.1 months of imports as at end-December 2022.

2.2.7 **There are downside risks on the horizon, especially as regards debt.** As of end-September 2022, total public sector debt amounted to MUR 460.5 billion, of which MUR 364.1 billion domestic debt (79.1% of total debt) and MUR 96.4 billion external debt (20.9%). The debt to GDP ratio has been on a declining trend recently. Net public debt came down from 83.2% at end-June 2021 to 75.8% at end-June 2022[8]. The debt service ratio, representing 9.4% of current expenditure in 2021/22, remains manageable and is projected to decrease. In the 2022 Article IV Consultation Staff Report, the IMF has highlighted that "a new medium-term debt anchor could be up to 80 percent of GDP. This revised debt anchor would better reflect Mauritius' debt carrying capacity while supporting growth". Careful management is required in the context of prevailing high inflationary pressures and social needs, which underscores the need for Mauritius to sustain reforms to get the country firmly on the path to a sustainable and resilient economy, including the need to reduce the budget deficit to allow a reduction in the public sector debt.

2.2.8 **The medium-term outlook for Mauritius is favorable** in the context of a waning of COVID-19 infections and the reopening of borders, fueling a strong recovery in the tourism sector that had returned close to its 2019 level by end-2022. Average real GDP growth for 2023-2024 is expected to remain positive and hover between 4.5% and 5%. However, this performance will depend on several factors, in particular on sustained global economic growth, the dynamism of exports, the evolution of prices of energy and food, and the pass-through to domestic inflation, and the vitality of the tourism sector – the main driver of short-term growth and employment. Inflationary pressures are expected to recede during the course of 2023, reflecting the combined effects of monetary policy tightening, an expected reduction in international supply-demand mismatches, and progressive normalization of commodity prices globally. However, financial flows are expected to strengthen as global economic activities pick up from pandemic level and as investment increases amid the positive spillover effects of

[8] This figure is based on Government numbers. Based on the IMF-World Bank Debt Sustainability Assessment (DSA), as of July 2022, public debt increased sharply from 66% of GDP in FY 2018/19 to 99% in FY 2020/21. The IMF numbers are higher because they include contingent liabilities of Government.

the country's exit from the lists of jurisdictions that are subject to increased financial scrutiny by the Financial Action Task Force (FATF) and other regulatory bodies.

2.3 Competitiveness of the Economy

2.3.1 **Mauritius' economy is highly vulnerable to external shocks due to its openness to international trade and investment, insularity and climate hazards**. The country is facing diminishing productivity and competitiveness, which has led to the loss of a significant share of its export market due to failure to sufficiently scale up to more complex new exports. Insufficient skills, an ageing population and low productivity pose risks to falling into the "middle income trap," even though the country had reached high income status, but the gains were reversed due to COVID-19. This overall development challenge is compounded by underlying obstacles such as persistent fiscal deficits and the public debt. Out of 141 economies, Mauritius ranks 52nd in the World Economic Forum's 2019 Global Competitiveness Index, down from rank 49 in 2018. However, the country was ranked 45 in the 2022 WIPO Global Innovation Index. According to the report the Government is accelerating investment in tech incubators, research business collaboration, and tax incentive for R&D investment. As regards the Country Policies and Institutional Assessment (CPIA), the overall score showed a slight decline to 4.6 (out of 6) in 2021, from 4.7 in 2020. The country's policies are geared towards enhancing economic diversification and competitiveness to drive inclusive and sustainable growth.

2.3.2 **Trade and transport costs and limited connectivity continue to be major barriers for Mauritius-based manufacturing firms to supply regional markets in a cost-effective way**. These need to be addressed if the country is to reap meaningful benefits from the African Continental Free Trade Area (AfCFTA). Deficiency in technological uptake, particularly among small and medium-sized enterprises, negatively impact the country's ability to manufacture high-end products. Rising electricity prices is also a concern for SMEs. Although the high level of public debt driven by the fiscal deficit also remains a challenge, Mauritius continues to implement sound monetary and fiscal policies that have led to macroeconomic stability. Furthermore, Mauritius has a liberal economic policy characterized by a high degree of openness, progressive and robust sector policies, and continues to pursue policy reforms that are business-friendly and designed to strengthen resilience. Cognizant of Mauritius's vulnerability as an island nation, the country continues to pursue climate-smart policies, and these are expected to lead to green growth**.**

2.4 Public Financial Management

2.4.1 **Overall, public financial management (PFM) systems in Mauritius have continued to show even higher standards in recent years,** highlighting a generally satisfactory environment with a positive trajectory of change in several areas including accounting, financial reporting, performance-based budgeting and budget execution. As established in the latest Public Expenditure and Financial Accountability (PEFA, 2015) assessment, outturns of expenditures and revenues were relatively close to the original budget projections in aggregate. However, there was significant variance in actual spending compared to budget for ministries and departments, due in part to slower-than expected implementation of capital projects.

2.4.2 **A great deal of fiscal information, particularly for resources provided through the budget, is provided** in the budget documents, in the Accountant-General's annual report and in the Director of Audit's report, which are made available to the public in a timely fashion. A clear budget process exists, and budgets are approved by the National Assembly before the new fiscal year. A 3-year Medium-term Macroeconomic Framework (MTMF) is actively used in the budget process. A single and user-friendly process for registering taxpayers, combined with links to information on potential new taxpayers, facilitate tax compliance, regular reconciliations of tax information, and a risk-based approach to tax audits and fiscal investigations provide reasonable controls over tax receipts.

2.4.3 **Payroll controls have been effective and, recently, the payroll system has been computerized.** The processing of payroll is now performed online through the e-Payroll system and it involves monthly electronic input and approval of employee variation data. However, the addition of physical verification and an audit of the IT system would strengthen the assurance of these controls. The scope of audit coverage for central government is broad, and the audits are prepared in a timely fashion. However, the independence of the Director of Audit is affected by its budget being decided as part of the normal budget process and its channel for reporting through the Minister of Finance rather than directly to the National Assembly. Follow up of audit recommendations remains a challenge.

2.4.4 **Based on the analysis of Mauritius' PFM environment, the systems are generally performing well, and the fiduciary risk is deemed low**. In this regard, the use of national systems is justified, and budget support programs will continue be channeled through the use of the public spending systems, while keeping track of the implementation of the ongoing reforms. The authorities recognize the need to continuously adapt their systems to evolving situations, which encompasses the development of new policy and legal frameworks or amendments to improve existing ones. The Government's own reform agenda aims to improve, *inter alia*, budgetary and financial management practices, deepen domestic revenue mobilization, as evidenced by increases in the tax to GDP ratio, and improve the business regulatory environment. It will also address financial governance, especially with respect to sustaining the momentum of improving performance under Anti-Money Laundering/Combatting Financing of Terrorism (AML/CFT) criteria.

2.5 Inclusive Growth, Poverty and Social Context

2.5.1 **Poverty and Inequality**: The proportion of households living in relative poverty increased from 8.7% to 9.6% between 1996/1997 and 2017, according to the most recent survey on poverty analysis in Mauritius published in April 2020. However, the level of absolute poverty is relatively low (persons living below USD 1.90 a day in 2017), making up less than 1% of the total population. The survey also identified that while inequality fell during this period, it remained relatively high. The Gini index, which rose from 0.388 in 2006/07 to 0.414 in 2012, subsequently fell to 0.400 in 2017. Inclusiveness still remains a challenge although the Government continues to take steps to tackle the incidence of poverty and inequality in the country. It also introduced a minimum wage in January 2018 (which are revised upward every year), and rolled out additional social housing programs, targeting the more vulnerable.

2.5.2 **Unemployment**: Structural unemployment remains one of Mauritius's most stubborn development challenges, especially amongst youths and those with limited skills. Although the national unemployment dropped from 8.7% in the first quarter of 2022 to 8.1% in the second quarter, youths are disproportionately affected at 26%, with the female youth unemployment rate (10.2%) higher than that of their male counterparts (6.6%). Both demand and supply factors contribute to the unemployment situation in Mauritius. On the supply side, a shortage of qualified labor, brain drain and skills mismatches at various levels (despite a literacy rate of 92.15%) have been critical obstacles to business and economic development in Mauritius for many years. On the demand side, high-value and quality jobs are scarce, engendering an outflow of labor to other countries like Dubai, Australia, and Maldives. A focus on creating jobs in sectors like the Blue and Green Economies and renewable energy, as well as raising productivity in sectors such as tourism and agriculture, could open up better opportunities for youths.

2.5.3 **Labor market and skills**: The country relies heavily on migrant workers to fill up specialized job functions, and there is need for a longer-term sustainable strategy. The thinking towards a regional center of excellence for highly skilled workforce could uplift the country's human capital performance. Some reforms have been undertaken by the Government to address these issues, including the National Skills Development Strategy (NSDS) 2020-2024 and the National Training Fund whose purpose is to incentivize on-the-job training. Other reforms and activities are ongoing: the National Employment Policy is currently being updated to put more emphasis on job creation and youth development; and short-term training and placements in collaboration with Mauritius Institute of Training and Development (MITD) offer relief, if only for the short term.

2.5.4 **Social Protection**: Mauritius has a progressive and effective social protection system, providing social benefits tailored for different categories of its population including widows, persons living with disabilities, unemployed, poor, retired, and children. These schemes are funded through tax revenues; the share of social protection expenditure stood at 29% of total expenditure in 2021. The bulk of social protection spending, more than 50%, is on the basic retirement pension (BRP), which is available to every Mauritian reaching the age of 60. Other schemes include the housing scheme, the Social Insurance Fund, the National Savings Fund (contributory between employer and employee) and the Social Assistance Scheme. The sustainability of social protection, particularly the pension scheme, is an area of concern. Detailed analysis is presented in Technical Annex 6.

3 GOVERNMENT DEVELOPMENT PROGRAM

3.1 Government Overall Development Strategy and Medium-Term Reform Priorities

3.1.1. **Mauritius' long-term development strategy, "Vision 2030", was launched in 2016 as a development guide to give a new impetus to the country's transformation.** Vision 2030 aims to initiate a new phase of high growth based on shared prosperity and enhanced quality of life, ultimately transforming Mauritius into an inclusive, high-income country (HIC) by 2030. Its main pillars are addressing unemployment, eradicating poverty, further opening the country, and encouraging innovation. Vision 2030 is complemented by Government Plan 2020-2024, which provides a blueprint for a more diversified, equitable and innovative economy.

3.2 Challenges to National/Sector Development Program

3.2.1 **Mauritius' overarching development challenge is the high level of vulnerability of the economy to external shocks, insularity and climate change related hazards,** as well as diminishing productivity and competitiveness leading to a loss of significant share of its traditional export markets. These challenges are compounded by underlying obstacles, such as rising skills shortages (hence the heavy reliance on migrant workers to fill up specialized job functions), high unemployment of youth and women, and high trade and transport costs and limited connectivity which serve as major barriers for manufacturing firms to supply regional markets in a cost-effective way. Maintaining fiscal sustainability (including as it relates to social programs and debt) is also a challenge.

3.2.2 **There is a need to deploy more innovative financing mechanisms and to attract new investments.** Mauritius should also focus on how to attract ICT innovations and critical skills since the Government wishes to capitalize on the growing potential for a technology hub and bunkering port in the region. Most of Mauritius' trade is with the EU, France and the United Kingdom. Mauritius also aims to boost intra-African trade (2021 CRFA's score of 3.7 on regional integration) considering its membership in regional economic communities and as part of its Africa Strategy. Mauritius ratified the Agreement establishing the African Continental Free Trade Area in October 2019. Mauritius is a member of three regional groupings, namely Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC) and the Indian Ocean Commission (IOC). This presents an opportunity to resolve the challenges related to maritime and air connectivity with mainland Africa, which contribute to the relatively high costs associated with trade.

3.2.3 **While private sector development is in good standing, SMEs do not necessarily choose to orient their activities towards the most profitable sectors**. These include tourism and hospitality, industrial and recreational fishing, real estate, sugar production and financial services. Instead, SMEs are concentrated in transport logistics, manufacturing, and ICT. Various structural challenges such as a small and isolated market, limited access to arable land, high production costs and high vulnerability to natural and environmental disasters have adversely impacted agricultural production. There is a need to modernize and commercialize the sector with a view to fostering productivity growth, diversify exports and promote integration into regional value chains. Transformation of the sector will require prioritizing productivity-enhancing investments in infrastructure, including the deployment of high yielding and post-harvest loss technologies to enhance productivity, and improving human capital. Mauritius is also among the largest marine territories in the world, with a claimed 'Exclusive Economic Zone' of 2.2 million km^2 and a co-managed extended continental shelf with Seychelles of 0.4 million km^2. However, the country's unique fisheries and marine resources remain largely untapped. Tapping into this huge potential could help to foster economic diversification, job creation, raise real incomes, contribute to food security and improve and sustain livelihoods. In the area of energy, while Mauritius' access to electricity is relatively reliable and high at 98.8%, power supply remains heavily dependent on imported fossil fuels, contributing to the country's relatively high import bill and GHG emissions. Technical Annex 4 (Country Resilience Note) summarizes Mauritius' strengths and opportunities as well as its challenges and weaknesses.

3.3 Consultation and Participation Processes

3.3.1 **Policy and strategy development in Mauritius is characterized by extensive consultations**. In the preparation of this operation, Bank staff met with development partners (DPs) represented in Mauritius. The meeting focused on the need to strengthen coordination of the various interventions to enhance effectiveness. DPs underscored the fact that significant support is being provided to various sectors, including technical assistance and investment projects, the need to ensure complementarity between the proposed budget support and the DP interventions was agreed. The design of the proposed operation has therefore taken into consideration DP-funded projects such UNDP's technical assistance in green energy and tourism.

3.3.2. **Development partner coordination is overseen by MoFED.** A Development Partners Group (DPG) chaired by the United Nations Resident Coordinator was revived in 2018, and consultations amongst DPG members have taken place quarterly. The DPG comprises five DPs with permanent representation in Mauritius - the Bank, World Bank, *Agence française de développement* (AFD), EU, and United Nations Development Program (UNDP). A formal development coordination framework has been established, with cluster groups formed on environment, climate change, skills development, gender, and health. There has been good collaboration between the Bank and DPs on policy advice. Focus areas included the development of knowledge products on implications of the transition to HIC status on the apparel and textiles industry, and poverty modelling analyses.

4 BANK SUPPORT TO GOVERNMENT STRATEGY

4.1 Link with the Bank Strategy

4.1.1 **The proposed operation is aligned with** the Mauritius CSP (2022-27) Priority Area 1, Enhancing Economic Resilience Through Improved Business Environment and High-Value Production. The operation is also consistent with a number of Bank strategies and policies: the Ten-Year Strategy, all High 5s ('Light Up and Power Africa'; 'Feed Africa'; 'Industrialize Africa'; 'Integrate Africa'; and 'Improve the quality of life for the people of Africa'), the Regional Integration Strategy Paper for Southern Africa (SA-RISP 2020-2026), Strategy for Economic Governance in Africa (SEGA, 2021-2025), Private Sector Development Strategy, Industrialization Strategy for Africa (2016–2025), Feed Africa Strategy, Green Growth Initiative, and Gender Strategy 2022-2026. The Government's development agenda is summarized in Table 2 below.

Table 2: Link between Vision 2030, the CSP, the ECRSP and High-5s

Vision 2030	CSP 2022-2027	ECRSP 2022/23 – 2023/24	High-5s
Strategic Objective: Initiate a new phase of high growth based on shared prosperity and enhanced quality of life, ultimately transforming Mauritius into an inclusive, high-income country (HIC) by 2030. Its main pillars are addressing unemployment, eradicating poverty, further opening the country, and encouraging innovation.	*Strategic Objective:* To focus on economic recovery and increasing Mauritius' resilience through reinforcing the diversification of the economic base towards high value-addition sectors	*Development objective:* To enhance economic diversification and competitiveness with a view to strengthening resilience and achieving more inclusive and sustainable growth.	*Accelerate Africa's development* within the areas of special emphasis of the Bank's Ten-Year Strategy
Strategic Priorities (i) addressing unemployment, (ii) eradicating poverty, (iii)further opening the country, (iv)encouraging innovation.	**Priorities** (i) Enhancing Economic Resilience Through Improved Business Environment and High-Value Production. (ii) Investing in Sustainable Infrastructure – to remove infrastructure bottlenecks that increase production costs, constrain Mauritius' external competitiveness and, thereby, stifle the Mauritian economy from moving up the value chain	***Program components*** (i) Enhancing Competitiveness and Private Sector Participation in Key Sectors, (ii) Enhancing Green Recovery and Climate Resilience	***Priorities*** (i) Light up and Power Africa (ii) Feed Africa (iii)Industrialize Africa (iv) Improve the Quality of Life of the People of Africa (v) Integrate Africa

4.2 Meeting the PBO Eligibility Criteria

4.2.1 **Mauritius meets the eligibility criteria for Program Based Operations (2012).** *Government commitment to poverty reduction and inclusive growth* remains strong. Implementation of reforms has consistently been strong, and Vision 2030 provides a solid basis for reforms in the post-pandemic period. Addressing unemployment, eradicating poverty, further opening the country, and encouraging innovation are the main pillars of the Vision 2030 program. *Macroeconomic stability is sound*, despite the challenges of COVID-19. The economic recovery in Mauritius is expected to continue, albeit at a slower pace than projected before Russia's invasion of Ukraine[9], reflecting slower growth in trading partners, less optimistic prospects for tourist flows, and worsening terms of trade. The country continues to enjoy a *stable political environment* and has consistently ranked among the top countries in Africa on good governance. The updated *Country Fiduciary Risk Assessment* (CFRA) 2021 shows that overall fiduciary risk for the Government is assessed as low, which allows the Bank to maintain an approach based on the use of country systems. The *framework for donor coordination is adequate*. DP coordination is overseen by MoFED. The detailed assessment of eligibility criteria for PBOs is presented in Technical Annex 2.

4.3 Collaboration and Coordination with Other Partners

4.3.1 **The proposed operation has been designed in consultation and coordination with key stakeholders, including the Government, private sector, civil society, and development partners[10].** During the Preparation and Appraisal missions, the Bank convened consultation meetings of development partners and their comments have been reflected in program design. The United Nations Agencies are providing financial and technical support in the areas of social protection, economic diversification, and youth employment. The Bank's proposed ECRSP is emphasizing areas that are complementary to the financial programs of the EU and UN agencies. The choice of agro-industrial sector as an area of focus of the operation was welcome in view of their job creation and transformational potential. The design of the proposed operation has therefore taken into consideration the various DP-funded projects such UNDP's technical assistance in green energy and tourism. The Bank also coordinated with the World Bank which is providing technical assistance in several areas such as the blue economy, water, TVET reforms, renewable energy, tourism and financial sector development. The

[9] Agreed wording at the African Development Bank Annual Meetings 2022 in Ghana – Algeria, China, Egypt, Eswatini, Namibia, Nigeria and South Africa entered a reservation and proposed "Russia-Ukraine Conflict".
[10] Including the World Bank, IMF, EU, and UN, in addition to the AfDB.

Bank's Directorate General South will ensure continuous engagement with all key stakeholders throughout the implementation of the proposed operation, including during half yearly supervision.

4.4 Relationship with Other Bank Operations

4.4.1 **As of 31 December 2022, the portfolio consisted of 7 projects, with eight financing instruments, for a total commitment of UA 214.1 million (USD 286 million).** Of the ongoing operations, 5 are in the public sector, accounting for about 34.9% of total commitments, and 2 in the private sector, 65.1% of total commitments. The public sector portfolio comprises one ADB sovereign loan to Maubank (34.4% of total commitments), two ADB private loans to Mauritius Commercial Bank and Bank One (65.1% of total commitments), and four Middle Income Country Technical Assistance Fund grants (0.3% of total commitments). The portfolio's overall performance is satisfactory, with an Implementation Progress and Results (IPR) rating of 3.2 on a scale of 1- 4. The average age of the portfolio is 3.5 years, from 3.9 years in December 2021. Recent project approvals include the Mauritius Special Agri-Processing Zone Feasibility Study additional financing (October 2022), and the e-Procurement System Technical Assistance (July 2022). The cumulative disbursement rate as of 31 December 2022 stands at 86.7%, with three of the seven operations fully disbursed.

4.4.2 **The proposed operation has strong synergies with the current and planned portfolio:** (i) ECRSP's energy sector reforms will complement the Mauritius Gas Insulated Switchgear (GIS) Substation Project and the Renewable and Efficient Energy Support Project, both of which are currently being processed; (ii) the agro-industrial development reforms will complement the Special Agro-Processing Zone (SAPZ) Project which has already been approved; and (iii) the business enabling environment reforms will complement the Subordinated Debt to Mauritius Commercial Bank given the latter's focus on trade finance, manufacturing (food, textiles and pharmaceuticals) and SMEs (including women owned business and investments in renewable energy. The reform focus of the PBO will pave the way for other Bank interventions, including investment projects, particularly in energy, agro-industry and fisheries. It will therefore unlock opportunities to grow the Bank's NSO portfolio in Mauritius.

4.4.3 **Lessons from past and ongoing similar operations**. The design of the proposed operation incorporates lessons learned from previous operations (including a €188 million loan under the Covid-19 Crisis Response Support Program). Several broad lessons emerge which are relevant for this operation: (i) *Compliance with the provisions of the PBO policy through the use of programmatic operatio*n – the operation is designed as a two-year programmatic operation to enhance medium-term engagement and predictability of Bank resources; (ii) *Focus on a limited number of critical reform areas*: the selection of critical reforms to be supported has been guided by the GRM's own priorities in the broader context of Vision 2030; (iii) *Flexibility is necessary*: the two-year program and selection of policy measures provides flexibility to adapt to changing circumstances during implementation. It is also prepared on a timely basis in response to the Government's urgent financing needs in the context of tight fiscal constraints in the wake of the COVID-19 pandemic and a precipitous decline in revenue from tourism; (iv) *Government ownership*: reform measures to be supported by the ECRSP were informed by discussion with sector ministries and the 2022/23 budget policy statement that contains the medium-term fiscal policies; (v) *Greater attention at the design stage to engage all relevant stakeholders*: this is particularly important given the many indicators related to Cabinet approval of bills; and (vi) *Supporting policy dialogue*: the Bank will maintain a strong engagement regarding sources of economic growth. Regarding IDEV's evaluation of PBOs (2018), the proposed operation takes into account the fact that the Bank received unsatisfactory grades regarding the (i) implementation of management systems that focus on results and allow learning from experience, and (ii) development of national capacities and management systems that focus on results. In this regard, the program reflects experiences from similar PBOs and focuses on areas that are potentially impactful and likely to produce results.

4.5 Analytical Work Underpinnings

4.5.1 **The ECRSP is guided by a wide range of analytical work,** notably analytical briefs and knowledge products prepared by Bank staff as well as publications by the GRM and its various agencies, and DPs. These include: the Mauritius CSP 2022-2027 and Country Portfolio Performance Review (2022); Public Expenditure and Financial Accountability (PEFA) assessment (2015); IMF Article IV Consultation Report (July 2022); and World Bank Country Economic Memorandum (2021). Key government reports reviewed include the: Vision 2030, National Skills Development Strategy (NSDS) 2020-2024; National Gender Policy 2022-2030; Industrial Policy 2020-2025; Build Operate Transfer Act 2016; FATF reports; and the Public Sector Investment Program 2022/23 – 2024/25.

5 THE PROPOSED PROGRAM

5.1 Program Goal and Purpose

5.1.1 **The overarching development objective of the proposed operation is to enhance economic diversification and competitiveness with a view to strengthening resilience and achieving more inclusive and sustainable growth.** It will help to address diminishing productivity and competitiveness which has led to Mauritius losing a significant share of its export market due to failure to sufficiently scale up to more complex new exports. The program will therefore support post-pandemic economic recovery by jump-starting the economy through wide ranging climate-friendly business environment and real sector reforms.

5.1.2. **Economic justification:** Mauritius has a liberal economic policy, characterized by a high degree of openness. The country has sound monetary and fiscal policy and this has led to macroeconomic stability. Sector policies (including in agriculture and energy) are progressive and robust. Policy changes that the country continues to pursue are generally business-friendly and designed to strengthen resilience. Cognizant of Mauritius's vulnerability as an island nation, the country continues to pursue climate-smart policies, and these are expected to lead to green growth. The program will support reforms and policy changes designed to enhance private sector participation in key sector of the economy, which is expected to result in job creation and impact positively on poverty. Measures supported by the PBO will therefore be very beneficial in terms of economic impact (by increasing economic growth, improving debt, and job creation) and strengthening resilience. The choice of the PBO instrument is ideal in terms its policy focus, scope for policy dialogue and the flexibility it provides. Expected results of the measures supported are presented in paragraphs 5.2.7 and 5.2.12 of the Appraisal Report.

5.2 Program Components

5.2.1 **The package of reforms under the proposed ECRSP is organized around two mutually reinforcing and complementary components**. Component 1, ***Enhancing Competitiveness and Private Sector Participation in Key Sectors,*** to foster a business enabling environment and harness agro-industrial development and fisheries; and Component 2, ***Enhancing Green Recovery and Climate Resilience,*** to support accelerating transition to clean energy and strengthening environmental governance. The link and complementarity between the two components are important as the agro-industrial and fisheries value addition focus of Component 1 can support private sector development, industrialization and job creation, while reinforcing Component 2's focus on clean energy, green growth and resilience to the effects of climate change. Support to the clean energy transition and environmental governance focus of Component 2 is also expected to attract private capital and enhance private sector development (Component 1). Focus on renewable energy will not only contribute to green growth, but also enhance private sector participation in the clean energy space. The outcomes and outputs of the components are presented in the Results Framework, which underpins the Monitoring Plan (Appendix 5) of the ECRSP over the two fiscal years covering 2022/23 and 2023/24.

5.2.2 **Theory of Change**: The cause-effect relationship in the implementation of the proposed operation is illustrated in the ECRSP Theory of Change in Appendix 6. It depicts the logic of how inputs/resources and activities are expected to translate into outputs (policy measures supported under each of the two components) and outcomes (targets set out in the Results framework) through the implementation of the envisaged interventions. These will ultimately contribute to the impacts underpinned by the selected alignment indicators.

Component 1: Enhancing Competitiveness and Private Sector Participation in Key Sectors

5.2.3. **Challenges and constraints:** Structural unemployment remains one of Mauritius's most stubborn development challenges, especially amongst youths and those with limited skills, with both demand and supply factors contributing to this situation. On the supply side, a shortage of qualified labor, brain drain and skills mismatches at various levels have been critical obstacles to business and economic development in Mauritius for many years, leading to high unemployment of youths and women. On the demand side, high-value and quality jobs are scarce, engendering an outflow of labor to other countries. Regarding agriculture, various structural challenges, such as a small market, limited access to arable land, high costs (labor and input), inadequate availability of water, and high vulnerability to natural and environmental disasters (including increasing climate variability and extreme events), impact production. Development of the fisheries sector is critical to food security. Mauritius imports frozen fish for its domestic market and exports processed fish, primarily to the EU. More needs to be done to boost local production for the domestic market. Regarding the manufacturing sector, erosion of preferential access and heightened international competition are leading to a growing loss of competitiveness, compounded by high trade and transport costs and limited connectivity that constitute major barriers for Mauritius-based manufacturing firms to supply regional markets in a cost-effective way. Generally, deficiencies in technological uptake, particularly among small and medium-sized enterprises, negatively impact the country's ability to manufacture high-end products. SMEs have found it difficult to grow and make inroads into new markets and industries, foremost because of the lack of access to finance (due to collateral requirements) and the difficulty of formalization. The SME landscape is highly skewed towards enterprises with low value addition.

5.2.4. **Recent Government Actions:** The Government is addressing the challenges to Mauritius' economic structure by emphasizing modernization and innovation. Thus, as regards the Agro-industrial sector, the 2020/21 budget introduced the Modernization and Transformation Fund to modernize agriculture and fisheries, and the National Agri-Food Development Program to reduce the dependency on imported food and to modernize the sector with a view to foster productivity growth, diversify exports and promote integration into national and regional value chains. In October 2022, the Government launched a 200 million Rupee Cane Replantation Revolving Fund for the sugar cane industry, hosted by the Development Bank of Mauritius. For food security reasons, the Government has incorporated a National Fishing Company and will encourage private sector participation with a (grant) scheme for the purchase of Semi-Industrial Fishing Boats. Among key reforms for SMEs, either under implementation or about to be finalized, are: (i) Amendment of the Small and Medium Enterprises Act 2018 through the Finance (Miscellaneous Provisions) Act 2022, which broadened the definition of SMEs to capture enterprises not benefitting from Government support as they move towards value addition and export-led growth, hence ensuring continuous support to SMEs in their growth cycle and enhancing the attractiveness of SMEs to foreign ventures; and (ii) implementation of a graduate capacity building scheme for SMEs by SME Mauritius to address the skills challenge.

5.2.5 **Program Activities:** The ECRSP will contribute to the Government's objective of enhancing competitiveness and private sector participation in key sectors by supporting two subcomponents: (a) Harnessing agro-industrial development and fisheries; and (b) Enhancing business facilitation, SME and skills development. Several activities are envisaged in 2022/23 for the subcomponent of *Harnessing agro-industrial development and fisheries*: (1) Establishment of a revolving loan scheme for the sugar cane industry (Prior Action).; (2) Government approval of the Aquaculture Policy, aimed at exploiting the huge potential of the aquaculture industry, substantially increase fish production and promote export and economic growth. Regarding the subcomponent of *Enhancing business facilitation, SME and skills development* the following measures are supported: (1) Small and Medium Enterprises (SME) Act 2018 amended through the Finance (Miscellaneous Provisions) Act 2022 (Prior Action); (2) Upgrading of the Companies and Business Registration Integrated System (CBRIS) to cater for trade fees, registration of VAT and registration of Ultimate Beneficial Owner (Prior Action); (3) establishment of strategic implementation committees to oversee implementation of the National Skills Development Strategy; and (4) National Gender Policy approved by Government.

5.2.6 **ECRSP II will build on the above** by supporting the following measures: (1) Fisheries Bill approved by Government (Trigger); (2) National Action Plan on Agro-processing approved by Government (Trigger); (3) National Employment Policy approved by Government (Trigger); (4) Regulatory Impact Assessment Bill approved by Government.

5.2.7**. Expected Results:** The reforms under Component 1 will be an important stimulus for the activities of the private sector. Policy measures supported by the program will contribute to enhanced skills for employability especially among the youth, and hence job creation. They will also help to enhance competitiveness and economic diversification, including diversification of exports through the implementation of the National Agri-Food Development Program. Key expected results include: Growth rate of Agriculture, forestry and fishing as % of GDP increases to 2.0% in 2024 (from a 3-year pre-COVID-19 average 2017-2019 of 0.93%); Gross value added of the Manufacturing sector as % of GDP increases to 2.0% in 2024 (from a 3-year pre-COVID-19 average 2017-2019 of 1.03%); and Mauritius' World Economic Forum Global Competitiveness Index score increases to 65.5 in 2024 (from 64.3 in 2021).

Component 2: Enhancing Green Recovery and Climate Resilience

5.2.8 Challenges and constraints: As a Small Island Developing State (SIDS), Mauritius is highly vulnerable to the effects of climate change and their adverse impacts on socio-economic development. The key climate related risks include intense cyclones, abnormal tidal surges, prolonged droughts, flash floods, increased sea surface temperature and rising sea levels. The frequency of extreme climatic events is on the rise as well as the extent of damage to infrastructure and toll on human well-being. According to the Global ND Gain Index (scores for 2020) Mauritius is ranked 46th (based on a composite assessment of vulnerability to climate change and readiness to improve resilience); it is the 93rd most vulnerable country and the 32nd most ready country (of 182 countries). Climate shocks are frequent, with an average of four adverse events taking place every 10 years, and in recent years, torrential rains and flash floods have risen sharply.

5.2.9. Recent Government Actions: The energy sector of Mauritius is slated to undergo major transformations in light of the Government's energy policy that encourages the use of renewable and clean energy to reduce the island's dependence on fossil fuels and decrease greenhouse gas (GHG) emissions. The target of renewable energy contributing 40% of the energy mix by 2030 was increased to 60%, and steps are being taken to bolster the incentive framework for private investors to meet the new target. The Government aims to foster the expansion of renewable electricity generation capacity and use of energy efficiency technologies, thereby further advancing the country's green growth agenda of lowering GHG emissions. Furthermore, in rolling out of the green economy agenda, the Government will expand renewable energy using innovative technology and introduce fiscal measures, including as regards a carbon neutral industry. Measures under way include IPP procurement, which is in the contracting phase and represents a major step towards the green growth agenda. Commitments taken by the Government to implement its NDC within the 2030 timeframe for the energy sector include, *inter alia*: the production of 60% of energy needs from green sources by 2030; the total phasing out of use of coal before 2030; and an increase in energy efficiency by 10 %, based on 2019 figures.

5.2.10**. Program Activities***:* The ECRSP will contribute to the Government's objective of Enhancing Green Recovery and Climate Resilience by supporting two subcomponents, (a) Accelerate transition to Clean Energy and (b) Strengthening environmental governance. Several measures are envisaged in 2022/23 for the subcomponent of *Accelerating the transition to Renewable Energy*: (1) Roll out of the carbon neutral industrial sector renewable energy loan scheme (Prior Action), aimed at providing a viable option for industrial companies to invest in renewable energy power generation, especially solar and wind, for their own consumption; (2) National Biomass Framework approved by Government, which aims to examine the availability and energy potential from different sources of biomass that can be considered to help achieve production of 60 % energy from renewable sources by 2030, gradually phasing out the use of coal; and (3) revised Renewable energy roadmap 2030 approved by Government and Implementation Committee established. The Revised Roadmap, approved in May 2022, highlights the different initiatives and revised targets that will be envisaged to attain the Government's objectives in the Renewable Energy sector. Furthermore, regarding the subcomponent of *Strengthening environmental governance*, the measures envisaged for 2022/23 are: (1) Government approval of Waste Management and Resource Recovery Bill (Prior Action). The main object of this Bill is to ensure the environmentally safe and sound management of solid and hazardous wastes by adopting a circular economy approach, focusing on material recovery and recycling; (2) Nationally Determined Contribution (NDC) Action Plan (2022-2030) approved by Government (Prior Action). The Action Plan, approved in December 2022, presents clear time-bound actions in terms of mitigation measures relating to target reduction of greenhouse gas (GHG) emissions and adaptation measures to cope with negative impacts of climate change. This follows submission of the first NDC in 2015; and (3) Air quality indexing system for Mauritius developed and launched. The indexing system collects and analyses data with a view to reducing levels of key air pollutants and improving the quality of air, in line with World Health Organization (WHO) Guidelines.

5.2.11 **ECRSP II will build on the above** by supporting the following policy measures: (1) Review of power purchase agreements to attract more investors and favour competition (Trigger); (2) Energy efficiency roadmap approved by Government; (3) Circular economy roadmap approved by Government (Trigger); and (4) Environmental Protection (Amendment) Bill approved by Government (Trigger)**.**

5.2.12 **Expected Results:** The reforms under Component 2 will be crucial to help the economy build resilience. It will help accelerate the transition to clean energy and strengthen environmental management. It will support reaching the Government's upgraded target of reducing GHG by 40% by 2030 and attain the major targets of the Green Transformation Package announced in connection with the 2022/23 budget speech. The key envisaged outcomes are: (i) Installed capacity of renewable energy increased to 496 MW in 2024 (from 306.98 MW in 2021); and (ii) Additional mobilization of climate change financing (both adaptation and mitigation) per annum increased to 3.6% of GDP in 2024 (from 2% of GDP in 2021).

5.3 Policy Dialogue

5.3.1 **The proposed program is the outcome of close and sustained dialogue between the Bank, Mauritian authorities and development partners**. The Bank has supported similar reforms in Mauritius and other RMCs, and the experience gained from these operations puts the Bank in a strong position to effectively design and manage the operation, with ECGF and RDGS playing an active role in the policy dialogue, while leveraging the Bank's field presence to improve the quality of the engagement. The Bank will undertake half-yearly supervision missions comprising multi-sector teams and collaborate with the IMF to engage the Government in fiscal/debt sustainability issues. The program policy matrix (Appendix 2) provides the basis for policy dialogue. The dialogue will focus on five main areas: (i) transformation of the agro-industrial and fisheries sectors as part of post-COVID-19 economic recovery; (ii) transitioning to clean energy; (iii) climate change mitigation and adaptation; (iv) sustainability of social protection programs, particularly the pension scheme; and (v) debt sustainability (led by IMF).

5.4 Loan Conditions

5.4.1 **Prior Actions for 2022/23 and indicative triggers for Phase 2 of the operation for 2023/24:** Before the proposed operation is presented to the Board, the prior actions presented in Table 3 below would have been met and the required documentary evidence submitted to the Bank. Appendix 2 (Program Policy Matrix) presents the indicative triggers for Phase 2.

Table 3: ECRSP Prior Actions and Required Evidence for 2022/23	
Prior Actions 2022/23	**Evidence Required**
Component 1: Enhancing Competitiveness and Private Sector Participation in Key Sectors	
Prior Action 1: Establishment of a revolving loan scheme for the sugar cane industry ***Status:*** Achieved	(i) Extract of the Budget Speech 2022-23 (ii) Public notice issued in respect of the fund (iii) List of loan requests received and approved under the scheme
Prior Action 2: Small and Medium Enterprises (SME) Act 2018 amended through the Finance (Miscellaneous Provisions) Act 2022 ***Status:*** Achieved	(i) Copy of the SME Act 2018 (ii) Copy of the extract of the Finance (Miscellaneous Provisions) Act 2022 amending the SME Act 2018
Prior Action 3: Upgrading of the Companies and Business Registration Integrated System (CBRIS) to cater for payment of trade fees, registration of VAT and registration of Ultimate Beneficial Owner (UBO) ***Status***: Achieved	Screenshot of the system showing different live modules which cater for payment of trade fees, registration of VAT and registration of UBO
Prior Action 4: Roll out of the carbon neutral industrial sector renewable energy loan scheme ***Status***: Achieved	(i) Communiqué of the Central Electricity Board on the Scheme (ii) Information Leaflet of the Scheme (iii) Extract of the budget speech referred to in the leaflet
Prior Action 5: Government approval of the Waste Management and Resource Recovery Bill ***Status*** Achieved	(i) Extract of relevant highlights of Government Decisions of 9 December 2022 (ii) Copy of the Bill
Prior Action 6: Nationally Determined Contribution (NDC) Action Plan (2022-2030) approved by Government ***Status***: Achieved	(i) Extract of relevant highlights of Government Decisions of 9 December 2022 (ii) Copy of the NDC Action Plan

5.5 Application of Good Practice Principles on Conditionality

5.5.1 **The program design incorporates good practice principles on conditionality** (Technical Annex 1) through: (a) Reinforcing Ownership; (b) Agreeing up front with the Government and other partners on a coordinated accountability framework; (c) Customizing the accountability framework and modalities of Bank support to country circumstances; (d) Choosing only actions critical for achieving results as conditions for disbursement; and (e) Conducting transparent progress reviews conducive to predictable and performance-based financial support. The ECRSP seeks to implement only actions and objectives embedded in the main GRM strategic policy documents, thus ensuring country ownership as well as transparent monitoring and evaluation (M&E) based on a coordinated accountability framework. Policy actions and conditionality have been agreed upon with the Government based on domestic priorities and country context, focusing prior actions and triggers on critical measures relevant and achievable within the program's timeframe. The Bank is processing this program on an accelerated basis so as to improve alignment with Government's financing needs.

5.6 Financing Needs and Arrangements

5.6.1 The proposed operation is part of the external financing to help close the 2022/23-2023/24 financing gaps. The GRM estimates the budget deficits for the fiscal years 2022/23 and 2023/24 at MUR 23.0 billion, and MUR 22.6 billion, respectively (Table 4), equivalent to 4.0% and 3.5% of GDP, respectively. The total deficit over the two-year period (2022/23 – 2023/24) is MUR 45.6 billion. For 2022/23, the Government plans to finance the nominal deficit with the AfDB budget support of MUR 11.0 billion, with the balance financed from the domestic market.

Table 4: Financing Requirements and Sources, (in billions of MUR)

	FY2022/23 Budget	FY2023/24 Projection
Total revenue and grants (A)	149.8	164.2
Of which: grants (excl, budget support)	*1.7*	*1.2*
Total expenditure and net lending (B)	172.8	186.8
Of which: interest payments	*13.3*	*14.5*
Of which: capital expenditure	*18.4*	*21.4*
Overall balance (cash basis) (C=A + B)	-23.0	-22.6
Accumulation of arrears (D)	0.0	0.0
Overall balance (commitment basis) (E=C - D)	-23.0	-22.6
External financing (net – minus Bank) (F)	0	0
Domestic financing (net) (G)	12.0	11.6
World Bank (H)	0	0
AfDB PBO (ECRSP) (I)	11.0	11.0
Financing (J= F+G+H+I)	23.0	22.6
Financing gap (E-J)	0.0	0.0

Sources: Ministry of Finance, Economic Planning and Development, January 2023; and Bank staff calculations.

5.7 Application of Bank Group non-concessional borrowing policy

5.7.1 **Mauritius is eligible to borrow from the ADB non-concessional window.** The operation supports the GRM's plans to mobilize resources to finance its development needs as part of efforts to accelerate post-COVID-19 economic recovery. The operation provides fiscal space to increase development spending, and support structural reforms aimed at raising productivity, creating jobs, and helping diversify the economy and revenue sources. GRM's borrowing continues to be based on the principle of contracting debt at the minimum cost and lowest risk as guided by its debt management strategy of 2008. At 72.9%, the ratio of total public net debt to GDP remains significantly above the convergence ceiling of SADC.

6 OPERATION IMPLEMENTATION

6.1 Beneficiaries of the Program

6.1.1 **The program's direct beneficiaries are the Ministry of Finance, Economic Planning and Development and the ministries** responsible for the areas covered by the operation**.** The private sector will benefit from improved investment opportunities in agriculture and industry. The SMEs will benefit from an improved policy framework and access to markets and business skills, as they struggle to recover from the COVID-19 pandemic. Ultimately, the program will indirectly benefit all Mauritians as the financing will help to expand the fiscal space for critical development spending and job creation, and climate-sensitive sector reforms will help attract private investments for green growth and job creation.

6.2 Impact on Gender, Poor, and Vulnerable Groups, including opportunities to strengthen resilience.

6.2.1 **Impact on gender:** Considerable progress has been made towards gender equality. However, more effort is needed to improve women's participation in the labor force and pay. Women in Mauritius have lower levels of entrepreneurial activity compared to men, which are caused by challenges such as: (i) cultural and societal norms, that expect women to prioritize their family obligations over their career or business aspirations; (ii) limited access to finance; and (iii) limited business networks. There needs to be better support of women with limited educational attainment to succeed in the labor market. This could include more flexible placement arrangements to account for women's double role as housekeeper and job seeker. The program supports one of the Government's recent reforms focusing on women's empowerment, which is Cabinet's approval, in March 2022, of the National Gender Policy 2022-2030. The policy provides a clear framework with comprehensive insights for the empowerment of women and girls in the social, economic and political domains. The focus on fish processing value chains is also critical as women are the predominant players in this area. This Project is a GEN III on the Gender Marker System and will contribute to growth of women's entrepreneurship following the development of the National Strategy and Action Plan for Women Entrepreneurs. The amendment of the SME Act is also expected the increase the formalization of women's businesses.

6.2.2 **Impact on poor and vulnerable groups:** By helping to improve economic and fiscal performance, the proposed ECRSP will help to create fiscal space to provide adequate resources for the social sectors, hence positively impacting the poor and vulnerable groups. The program also has a huge job creation potential, through enhanced private sector participation in key sectors of the economy and support to SME development. As a result, it is likely to contribute to the Government's poverty alleviation agenda. Technical Annex 4 presents opportunities to strengthen resilience.

6.3 Impact on Environment and Climate Change

6.3.1 **Climate Change: The project is identified as climate risk category 3**, **not directly vulnerable to physical climate change impacts**. However, the project contributes to the country's ambition to transition to a low-carbon and climate resilient economy. As an island state, Mauritius is vulnerable to the impacts of climate change. According to the Global ND Gain Index (scores for 2020) Mauritius is ranked 46th (based on a composite assessment of vulnerability to climate change and readiness to improve resilience). It is the 93rd most vulnerable country and the 32nd most ready country (of 182 countries) - adaptation challenges exist, but Mauritius is well positioned to adapt. With regards to the national carbon footprint, Mauritius' net greenhouse gas (GHG) emissions in 2016 were 4,881 kilo tons carbon dioxide equivalent ($ktCO_2eq$), including removals from Land Use, Land-Use Change and Forestry (LULUCF), representing less than 0.01 percent of global GHG emissions[11]. The energy sector is the main source of emissions, accounting for approximately 80% of total national GHG emissions (3.96 million tonnes CO2eq) in 2013 followed by waste sector (19%).

6.3.2 **Mauritius's landscape transformation, rapid urbanization, real estate developments and the economy's reliance on fossil fuels have placed pressure on the country's fragile ecosystem in recent years**. The country's unique coral reefs, lagoons, and beaches have come under severe threat due to an oil leakage at the end of July 2020 and extreme climatic events. The Government has resolved to collaborate more closely with other Indian Ocean nations in supporting international legislation and maritime frameworks in the region to preserve the region's unique marine ecosystem. Therefore, addressing climate change (both mitigation and adaptation action) and environmental management are crucial to enhancing economic resilience. Rolling out of the green economy agenda will include innovation in marine resource development, modernization of the national electricity grid through expansion into renewables, and climate-smart agriculture, including bio-farming. The policy measures prioritized will encourage accelerated implementation of NDC priorities (updated 2021); conservative estimate of resource needs for NDC implementation are USD 6.5 Billion by 2030 - 35% from domestic sources (unconditional commitment). The government has experience in tracking public sector expenditure relating to environment, climate change, mitigation and adaptation[12]. The operation is aligned with the Bank's Climate Change and Green Growth Policy Framework.

6.3.3 **Environment and Social considerations:** The project was categorized and validated as Category 3 on 17th January 2023. The justification for this category is that the intervention mainly entails budget support to the country to support policy reforms. The project will particularly support green recovery and climate resilience. Thus, due to its nature no additional action will be required to avoid, minimize,

[11] Third National Communication to the UNFCCC (2016)

[12] For financial year 2018 the Ministry of Finance commissioned the report on 'Tracking Public Sector Environment Expenditure'.

reduce, mitigate or compensate for the adverse environmental and social risks. An ESCON is signed and appended to this document.

6.4 Impact on Private Sector Development

6.4.1 **The proposed ECRSP is expected to have a positive impact on Mauritius' economic competitiveness and private sector development.** The program will be an important stimulus for the activities of the private sector, as it will support the Government's post-pandemic economic recovery through an improved business environment (particularly SMEs) and real sector reforms. The policy measures supported are targeted to specific sectors, hence supporting private sector participation in those sectors, including agro-industry and fisheries. It will help improve productivity (e.g. through enhanced skills) with a view to strengthening the resilience of the Mauritian economy regarding external shocks. Furthermore, the Government's reform programs being supported by the ECRSP will help instill a new level of confidence in the private sector, further augmented by the new attractiveness of investments in Mauritius in the context of economic recovery and ultimately lead to job creation. Policy measures supported by the program will contribute to improve the business environment, competitiveness, and economic diversification. This will also help in the diversification of exports through the increased implementation of the National Agri-Food Development Program. The increased business activity with the rest of the continent will also contribute to the regional integration agenda.

6.5 Implementation, Monitoring and Evaluation

6.5.1 ***Implementation Institutional Framework:*** MoFED will serve as the executing agency for ECRSP. It will be responsible for the overall coordination and implementation of the program by working closely with other Ministries, Departments and Agencies. To facilitate implementation, MoFED will appoint a technical coordination team to monitor and track performance of the operation. The capacity of MoFED and sector ministries to implement the program have been assessed and found to be satisfactory.

6.5.2 ***Monitoring and Evaluation Arrangements:*** The Operations Policy Matrix (Appendix 2) agreed between the Mauritian authorities and the Bank, as well as the quantitative and qualitative indicators outlined in the Results Framework, will constitute the instruments for the monitoring and evaluation of the operation. MoFED, with the support of Statistics Mauritius and other relevant bodies, will be responsible for collecting data and coordinating the monitoring and evaluation. The Bank will monitor the implementation of the program through regular supervision missions and constant follow-ups, to assess progress achieved based on the agreed indicators and policy measures. The Southern Africa Regional Development and Business Delivery Office (RDGS) will play a critical role in follow-up of the implementation and monitoring of program results and, in particular, drive the policy dialogue with Government as well as maintain regular consultations with Development Partners. Following completion of the operation, a Program Completion Report (PCR) will be prepared, to evaluate progress against the Result Framework and draw lessons for future operations.

6.6 Financial Management, Disbursement and Procurement

6.6.1 **Country Fiduciary Risk Assessment (CFRA):** The CFRA conducted in January 2023 concluded that the overall fiduciary risk level is Low. This allows the Bank to maintain an approach based on the use of country systems. However, some risks were identified which comprise:

(i) Variances between budgeted and actual expenditure for ministries and departments, due in part to slower-than expected implementation of capital projects;

(ii) Inadequate follow-up of audit recommendations and limited executive action to ensure timely implementation of audit recommendations; and

(iii) Non-compliance with financial reporting regulations by certain statutory enterprises and agencies.

6.6.1.1 **The Government is, however, taking steps to address a number of the identified shortcomings, as is discussed in detail in Technical Annex 7.** The National Audit Office is generally functioning well, although recommendations were made to improving the level of auditor independence (mainly as regards funding of the Office through the budget), following up on audit recommendations, and strengthening the Executive Branch's capacity to implement the recommended improvements.

6.6.2 **<u>Financial Management, Audit and Reporting Requirements</u>**

6.6.2.1 MoFED is the executing agency responsible for the overall coordination and implementation of the program in collaboration with other sector ministries. Therefore, MoFED will also be responsible for the financial management of the program-based operation. The Bank will disburse the proceeds of the loan into a designated USD-denominated account held at the Bank of Mauritius (BoM). Thereafter, the equivalent local currency amount will be remitted to the Consolidated Fund which finances the expenditure of the GRM. MoFED will promptly confirm to the Bank the amounts received in the foreign currency account and subsequently credited to the Rupee Account in the BoM as well as credited to the Government Accounting and Budgeting System. The external audit of the proceeds of the loan will be undertaken as part of the external audit of the GRM budget by the National Audit Office (NAO). A copy of the approved audit report covering each year in which disbursement occurs shall be shared with the Bank as soon as it is available, but in any case, no later than nine months after the applicable year end.

6.6.2.2 **Procurement:** In line with the Procurement Policy for Bank Group Funded Operations, Mauritius's country procurement system will be utilized for the implementation of this proposed operation. Likewise, Mauritius's Borrower Procurement System (BPS) will be utilized for the implementation of the program. An assessment of the national public procurement system using the Methodology for Assessing Procurement Systems (MAPS) was conducted from 2021 to 2022. The objective of the MAPS Assessment was to support the Government of Mauritius in achieving its goals, to further improve the performance of the public procurement system and yield optimal results in the use of public funds and delivery of services to the citizens while maintaining high standards of integrity. Based on the findings of the Assessment, the risk level is currently assessed as Moderate. Recommendations to address substantial gaps were made and these shall form the basis of procurement reforms in the country.

7 LEGAL DOCUMENTATION AND AUTHORITY

7.1 Legal Documentation:

7.1.1 The financing instrument for this General Budget Support is a Loan Agreement between the African Development Bank (the "Bank") and the Republic of Mauritius (the "Borrower") for an amount of two hundred and fifty million United States Dollars (USD 250,000,000) (the "Loan").

7.2 Conditions Associated with the Bank's Intervention

7.2.1 ***Conditions Precedent to Entry into Force of the Loan Agreement:*** The entry into force of the Loan Agreement shall be subject to the fulfilment by the Borrower of the provisions of Section 12.01 of the General Conditions Applicable to the African Development Bank Loan Agreements and Guarantee Agreements (*Sovereign Entities*).

7.2.2 ***Prior Actions****:* Before the proposed proposal is presented to the Board, GRM shall have provided evidence, satisfactory in form and substance to the Bank, that the prior actions for the ECRSP outlined in Table 3 have been fulfilled.

7.2.3 ***Conditions precedent to disbursement of the funds of the ECRSP:*** Disbursement of the single tranche of the loan shall be conditional upon the entry into force of the Loan Agreement, and the submission of evidence of the opening of a foreign currency denominated special account in the Bank of Mauritius for the deposit of the proceeds of the loan, in form and substance satisfactory to the Bank.

7.2.4 ***A Streamlined Appraisal Report (SAR) for the second year of the programmatic series*** (ECRSP II) will be prepared at the end of Phase 1 of the operation in 2024 and presented to the Board for consideration. Satisfactory implementation of Phase 1 of the program will be a general condition to move to Phase II of the program. The SAR for the second year will indicate, *inter alia,* any applicable prior actions adopted before Board presentation and/or any conditions precedent to disbursement. A separate Loan Agreement shall be prepared for each phase of the programmatic operation.

7.3 Compliance with Bank Group Policies

7.3.1 The proposed ECRSP complies with all applicable Bank Group policies and guidelines. The key Bank Group Guidelines and policies applied to this Program are the: (i) Bank Policy on Program-Based Operations (2012), (ii) Bank Group Ten-Year Strategy; (iii) Strategy for Economic Governance in Africa (SEGA, 2021-2025), (iv) Revised Staff Guidance on Quality-at-Entry Criteria and Standards for Public Sector Operations, (v) Private Sector Development Strategy, (vi) Industrialization Strategy, and (vii) Feed Africa Strategy; and (viii) Bank Group's Credit Policy on non-concessional financing.

8 RISK MANAGEMENT

8.1 The key risks include macroeconomic risks, fiduciary, and social impact risks. The risks and mitigation measures are outlined in Appendix 4.

9 RECOMMENDATION

9.1 Management recommends that the Board of Directors approve an ADB loan of USD 250,000,000 (two hundred and fifty million United States Dollars) to the Republic of Mauritius, for the fiscal year 2022/23 for the purposes, and subject to the conditions, stipulated in this report. Management invites the Board to note that this operation is part of a 2-year programmatic series, for the period 2022/23 – 2023/24, and a Streamlined Appraisal Report (SAR) for the second year of the programmatic series (ECRSP II) will be presented to the Board for consideration in 2024.

APPENDIX 2: Mauritius – ECRSP Policy Matrix

Components and Subcomponents	Policy Measures for 2022/23	Policy Measures for 2023/24
Component 1: Enhancing Competitiveness and Private Sector Participation in Key Sectors		
1.1 Harnessing agro-industrial development and fisheries	• Establishment of a revolving loan scheme for sugar cane industry (Prior Action 1) • Aquaculture Policy approved by Government	• Fisheries Bill approved by Government (Trigger 1) • National Action Plan on Agro-processing approved by Government (Trigger 2)
1.2 Enhancing business facilitation, SME and skills development	• Small and Medium Enterprises (SME) Act 2018 amended through the Finance (Miscellaneous Provisions) Act 2022 (Prior Action 2) • Upgrading of the Companies and Business Registration Integrated System (CBRIS) to cater for trade fees, registration of VAT and registration of Ultimate Beneficial Owner (Prior Action 3) • Strategic implementation committees established to oversee implementation of the National Skills Development Strategy • National Gender Policy approved by Government	• National Employment Policy approved by Government (Trigger 3) • Government approval of the Regulatory Impact Assessment Bill •
Component 2: Enhancing Green Recovery and Climate Resilience		
2.1 Accelerating transition to clean energy	• Roll out of the Carbon neutral industrial sector renewable energy loan scheme (Prior Action 4) • Renewable energy roadmap approved by Government • National Biomass Framework approved by Government	• Review of the Power Purchase Agreement to attract more investors and favor competition (Trigger 4) • Energy efficiency roadmap approved by Government
2.2 Strengthening environmental governance	• Waste Management and Resource Recovery Bill approved by Government (Prior Action 5) • Nationally Determined Contribution (NDC) Action Plan (2022-2030) approved by Government (Prior Action 6) • Air quality indexing system for Mauritius developed and launched	• Circular economy roadmap approved by Government (Trigger 5) • Environmental Protection (Amendment) Bill approved by Government (Trigger 6)

APPENDIX 3: IMF Press Release

IMF Executive Board Concludes 2022 Article IV Consultation with Mauritius

June 17, 2022

Washington, DC: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation [1] with Mauritius on a lapse-of-time basis. [2]

Mauritius has been gradually recovering from the pandemic. The authorities have successfully managed the health impact of the pandemic and vaccinated most of the population. Real GDP expanded by 4 percent in 2021 as many sectors recovered to pre-pandemic levels of economic activity while the tourism sector remained subdued. Against this backdrop, the current account deficit widened substantially. Fiscal performance is expected to improve in FY2021/22 helped by quasi-fiscal operations although the pandemic and new pressures on current spending burden the fiscal balance. Inflation increased substantially from 2.7 percent at end-2020 to 6.8 percent at end-2021 and further to 11 percent at end-April 2022. The financial sector, including the Global Business Companies (GBCs) segment was stable in 2021. Mauritius exited from the Financial Action Task Force (FATF) list of jurisdictions under increased monitoring in October 2021 and the analogous EU and UK lists soon after.

Staff projects real GDP growth of 6.1 percent in 2022. The economic rebound is expected to be driven primarily by the tourism sector with tourist arrivals expected at 60 percent of pre-pandemic levels. Unemployment is expected to decline as the economy recovers and to return to trend in the medium-term. Annual inflation is expected to rise to 11.4 percent in 2022 due to surging commodity prices, past depreciation of the rupee, and recovering domestic demand. The economy is expected to converge to its pre-pandemic trend growth of 3-3½ per- cent in the medium term.

The outlook for Mauritius is subject to downside risks, including due to Russia's invasion of Ukraine. Rising global inflation reduces real disposable income and may weigh on global demand, including for tourism, and freight costs.

Executive Board Assessment

In concluding the Article IV consultation with Mauritius, Executive Directors endorsed the staff's appraisal as follows:

The economy is recovering from the pandemic following a substantial contraction in 2020. The health impact of the pandemic was successfully managed, including by a remarkable vaccination campaign covering over 90 percent of the eligible population by May 2022. Economic growth has started to recover, with most sectors broadly back to pre-pandemic output levels, except tourism, where activity remains subdued.

The key macroeconomic challenge for Mauritius is to continue its economic recovery, while controlling inflation in a global environment with high fuel and food prices and slower recovery. The recovery in Mauritius is expected to continue, albeit at a slower pace than projected before Russia's invasion of Ukraine, reflecting lower growth in trading partners, less optimistic prospects for tourist flows, and worsening terms of trade. Inflation has picked up substantially due to global supply bottlenecks, higher fuel and food prices, freight costs, and the past depreciation of the rupee.

The fiscal consolidation path needs to be carefully calibrated to balance recovery from the pandemic with long-term fiscal and debt sustainability. Adhering to fiscal rules remains critical to preserve fiscal sustainability and reduce debt vulnerabilities in the medium term. Public debt is elevated after increasing during the pandemic. Fiscal performance continues to be impacted by the pandemic and renewed pressures on current spending. Targeted transfers to the vulnerable may be needed in the face of sharp increases in food and fuel prices. If the economy continues to recover, revenue should increase and spending be reduced, including through pension system reform, to put debt on a declining path in the medium term.

The monetary policy normalization cycle needs to proceed to minimize potential second-round effects from supply-side shocks and to control inflation in the medium term. Supply-side pressures on inflation and inflation expectations have presented a challenge post pandemic. Russia's invasion of Ukraine adds to these pressures and will require engineering tighter policy in an increasingly complicated environment.

The monetary policy framework needs to be modernized and credibility and independence of the central bank to be safeguarded. Staff recommends that the new monetary policy framework be rolled out soon to support policy effectiveness. Consistent with the inflation targeting framework, the Bank of Mauritius' (BoM's) FX intervention strategy should aim to smooth volatility while generally allowing for exchange rate flexibility, facilitating macroeconomic adjustment. The Government needs to recapitalize the BOM per existing legislation for the BOM to accommodate the monetary policy costs. To strengthen the central bank's operational independence and financial position, the reform of the BOM law should prohibit central bank's transfers to the Government and quasi-fiscal financing. Relinquishing the BOM ownership of the MIC would also help in this regard.

The external position of Mauritius at end-2021 was substantially weaker than is suggested by fundamentals and desirable policies, although official foreign reserves remained broadly adequate. The current account gap was large and negative, pointing to substantial overvaluation of the rupee compared to its level consistent with the long-term fundamentals. The external assessment remains highly uncertain due to the transitory supply shock to tourism. The financing of the current account will continue to depend on the financial and capital flows in the GBC sector. While the successful exit from the AML/CFT listings of FATF, EU, and the UK should support the flows, the indirect impact of sanctions on Russia may pose risks.

Mauritius should embrace structural transformation to continue along the path to sustainable and resilient long-term growth. Priorities should be on enhancing diversification and competitiveness, including greater digitalization of the economy and adaptation and mitigation policies to tackle climate change vulnerabilities.

APPENDIX 4: Risks and Mitigation Measures

Risks and Mitigation Measures			
Potential Risks	**Likelihood**	**Impact**	**Mitigation Measures**
The persistence of the COVID-19 pandemic beyond 2021. The emergence of more of a new and more aggressive variant worldwide, could impact on the ECRSP implementation through strict lockdowns and diversion of public resources toward health-related expenses.	Medium	High	The Mauritius Liaison Office would follow up any issues relating to the implementation of the ECRSP in case new COVID-19 restrictions are imposed. The Bank could also engage consultants. Furthermore, the aim of this PBO is to increase the resilience of Mauritius' economy towards external shocks.
Social impact risk: In the context of the fiscal consolidation program being implemented by GRM, there are risks to social sector spending with potential negative social ramifications. This challenge is exacerbated by the revenue shortfall related to the COVID-19 pandemic and Russia's invasion of Ukraine[13]**.**	Medium	High	Continue to strengthen social safety nets through better targeting.
Capacity constraints, including in the fiduciary area, could delay program implementation and achievement of results.	Medium	Medium	Bank will reinforce capacity building as a cross- cutting issue.
Climate change, including flash floods, could impact the sustainability of planned activities.	High	Medium	The Bank will support the Government's efforts to put in place a national disaster preparedness and response framework.

[13] Agreed wording at the African Development Bank Annual Meetings 2022 in Ghana - Algeria, China, Egypt, Eswatini, Namibia, Nigeria and South Africa entered a reservation and proposed "Russia-Ukraine Conflict".

APPENDIX 5: MONITORING AND EVALUATION ARRANGEMENTS

A. Alignment indicators

Indicator name	Definition/ description	Source	Baseline and targets (where possible)
Unemployment rate	The jobless rates	Statistics Mauritius	
GDP Growth rate	The share of GDP coming from the Agro-industry, tourism, industrial and other sectors of the economy	National Accounts	
Poverty rate	Measurement of poverty in the country	Statistics Mauritius reports	
GHG emissions	The amount of GHG in a given year	Statistics Mauritius Reports	

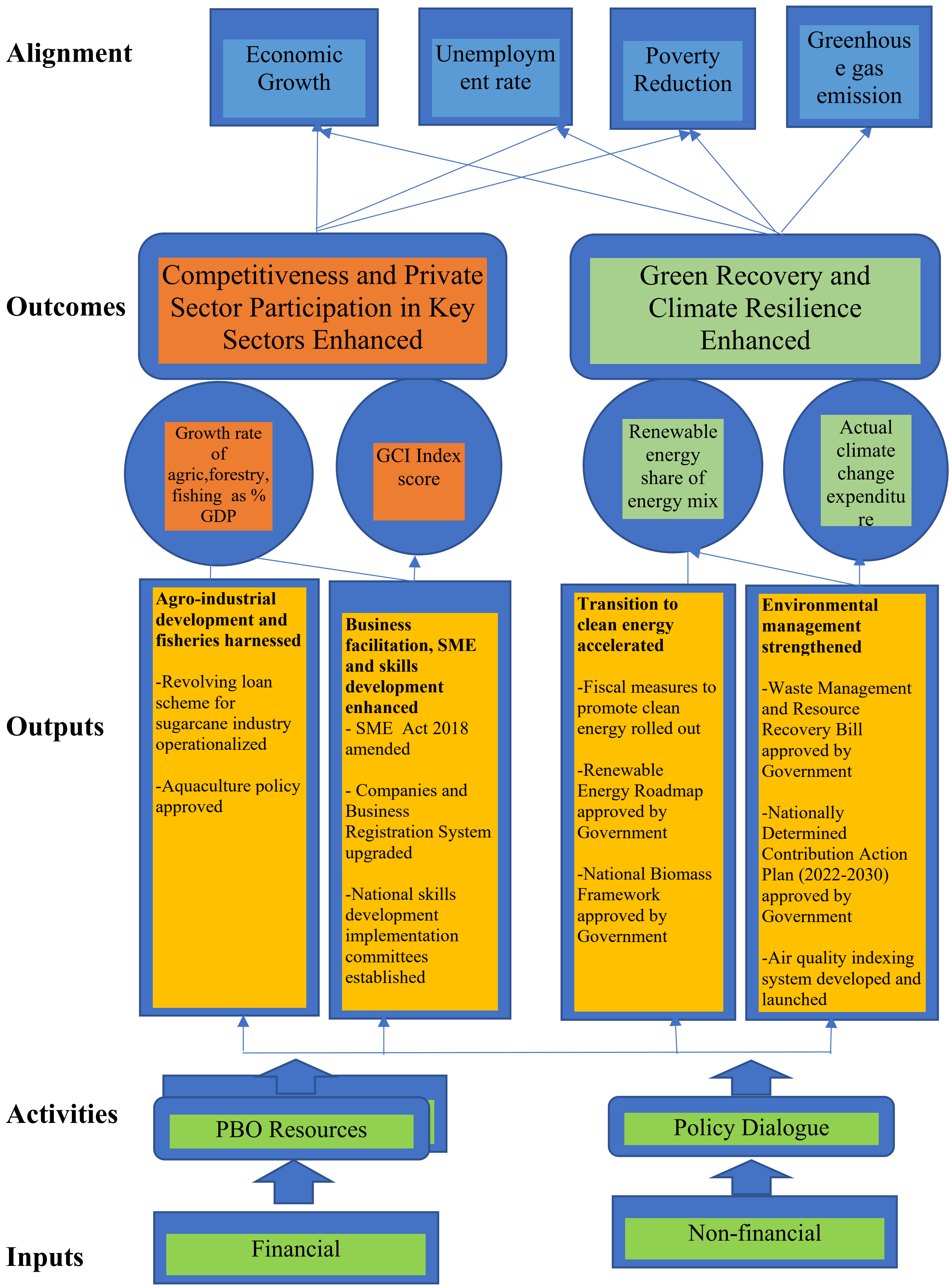
B. Outcome and output indicators *(performance indicators)*

Indicator name	Definition/ description	Methodology for collection	Responsibility for collection	Frequency of reporting	Results planning		
					December 2023	December 2024	
OUTCOME INDICATORS							
1.1: Growth rate of (a) Agriculture, forestry and fishing as % of GDP; (b) Manufacturing sector as % of GDP	(a) Production or manufacturing processes, marketing or services that increase the value of agricultural, forestry and fishing commodities, as a percentage of GDP; (b) Production or manufacturing processes, marketing or services that increase the value of manufacturing as a percentage of GDP	National Accounts	Statistics Mauritius	Annually	(a) 1.5% (b) 1.5%	(a) 2.0% (b) 2.0%	
1.2 World Economic Forum's Global Competitiveness Index score	Mauritius's score on the GCR ranking	GCR Report	AfDB	Annually	65	65.5	
2.1 Installed renewable energy capacity	MW of Renewable energy installed as part of the energy mix	Ministry of Energy reports	Ministry of Energy	Annually	353 MW	496MW	
2.2 Additional mobilization of climate change financing (both adaptation and mitigation)	Resources raised to finance climate change initiatives	Ministry of Finance	MoFED	Annually	3% of GDP	3.6% of GDP	
OUTPUT INDICATORS							
1.1: Establishment of a revolving loan scheme for the sugar cane industry*	Loan scheme to provide funding for actors in the sugar case industry	Ministry of Agriculture reports	Ministry of Agro-Industry and Food Security	One-off	Yes	-	
1.2 Aquaculture Policy approved by Government	Policy document to promote the development of aquaculture in Mauritius	MoESWMCC	MoFED	One-off	Yes	-	
2.1 Small and Medium Enterprises (SME) Act 2018 amended through the Finance (Miscellaneous Provisions) Act 2022*	Amendments of legislation to enhance operations of SMEs	Revised Bill	MoFED	One-off	Yes		
2.2 Upgrading of the Companies and Business Registration Integrated System (CBRIS) to cater for payment of trade fees, registration of VAT and	IT system enhanced to facilitate payment of trade fees, VAT, etc.	MoFED	MoFED	One-off	Yes	-	

registration of Ultimate Beneficial Owner (UBO)*							
2.3: Strategic implementation committees established to oversee implementation of the National Skills Development Strategy	Committees established to oversee the implementation of the National Skills Development Strategy	MoLHRDT	MoLHRDT	One-off	7	10	
2.4: National Gender Policy approved by Government	Policy document to promote gender mainstreaming	Policy document	Ministry f Gender	One-off	Yes	-	
3.1: Roll out of the Carbon neutral industrial sector renewable energy loan scheme*	Loan facility to promote investment in renewable energy	MoFED reports	MoFED	One-off	Yes	-	
3.2: National Biomass Framework approved by Government	Framework for the development of biomass in Mauritius	Extract of relevant highlights of Government Decision	Ministry of Agro-Industry and Food Security	One-off	Yes	-	
3.3 Revised Renewable energy roadmap 2030 approved by Government and implementation committee established	Approval of the roadmap outlining steps to develop renewable energy in Mauritius	Copy of the Roadmap and TOR of the implementation committee	Ministry of Energy	One-off	Yes	-	
4.1: Government approval of Waste Management and Resource Recovery Bill*	Approval of the Waste Management and Recovery Bill providing legal framework for sustainable management if waste	Copy of the Bill	Ministry of Environment	One-off	Yes	-	
4.2 Nationally Determined Contribution (NDC) Action Plan (2022-2030) approved by Government	Action Plan developed to provide a pathway to the achievement of Mauritius' NDC targets	Copy of the Action Plan	Ministry of Environment	One-off	Yes	-	
4.3 Air quality indexing system for Mauritius developed and launched	System put in place to monitor pollution levels	Indexing report	Ministry of Environment	One-off	Yes	-	

*Asterisk denotes Prior Action

APPENDIX 6: Theory of Change



The Results Framework underpins the Monitoring & Evaluation (M&E) framework of the ECRSP over the two fiscal years covering FY2022/23 and FY2023/24. The cause-effect relationship in the implementation of the proposed operation is illustrated in the ECRSP Theory of Change shown in the figure above. The Theory of Change depicts the logic of how inputs/resources and activities are expected to translate into outputs and outcomes through the implementation of the envisaged interventions and ultimately contribute to the impacts underpinned by the selected alignment indicators.

Specifically, the activities of the ECRSP are derived from the deep understanding of the constraints Mauritius is facing, informing the selection of the two Components, namely: Component 1, Enhancing Competitiveness and Private Sector Participation in Key Sectors, and Component 2, Enhancing Green Recovery and Climate Resilience. These encompass the development of new policy, legal, regulatory and institutional frameworks or amendments to improve existing ones. The ECRSP operation draws on the Government's own reform agenda for which the Bank and other development partners are implementing complementary operations through both financial and non-financial inputs.

To enhance competitiveness and private sector participation in key sectors of the economy, the proposed program will implement activities that lead to invigorating outcomes at several levels. It will improve the policy framework for key sectors such as agro-industry and fisheries, resulting in (i) an increase in Gross value added of Agriculture, forestry and fishing, as well as of manufacturing, as a percentage of GDP; and (ii) an improvement in the World Economic Forum's Global Competitiveness Index. To reinforce Green Recovery and Climate Resilience, this operation will implement activities that will promote the use of renewable energy, enhance waste management and cut harmful GHG emissions. At Outcome level, these will result in (i) an increase in the share of renewable energy in the energy mix; and (ii) an increase in actual climate change expenditure as % of GDP.

To achieve these outcomes, the program will provide budget support resources to bridge the financing gap, thereby enabling critical expenditure required to implement the Government's development program. It will enable the Bank to engage in dialogue with the authorities in partnership with other development partners. With these inputs, the operation is expected to deliver several important outputs, including: Revolving loan scheme for sugarcane industry operationalized; Aquaculture Policy approved by Government; Amendment of the Small and Medium Enterprises Act 2018 through the Finance (Miscellaneous Provisions) Act 2022; Companies and Business Registration Integration System upgraded; National Skills Development Strategy implementation committees established; Fiscal measures to promote renewable energy rolled out; Renewable Energy Roadmap approved; National Biomass Framework approved by Government; Waste Management and Resource Recovery Bill approved by Government; Nationally Determined Contribution Action Plan approved by Government; and Air quality indexing system developed and launched.

The Program outcomes will contribute to the Government's high-level targets of economic growth, and reduction in unemployment, poverty, and greenhouse gas emissions (Alignment indicators).

APPENDIX 7: ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE (ESCON)

AFRICAN DEVELOPPEMENT BANK GROUP

A. Basic Information[14]	
Project Title: Mauritius Economic Competitiveness and Resilience Support Program (ECRSP)	**Project ''SAP code'':** P-MU-K00-009
Country: Mauritius	**Lending Instrument**[15]: DI ☐ FI ☐ CL ☐ BS ☒ GU ☐ RPA ☐ EF ☐ RBF ☐
Project Sector: Multi-Sector	**Task Team Leader**: Baboucarr KOMA
Appraisal date: 23-31 January 2023	**Estimated Approval Date**: 29 March 2023
Environmental Safeguards Officer:	
Social Safeguards Officer: Edith KAHUBIRE	
Environmental and Social Category: 3 / **Date of categorization**: 17/01/2023	**Operation type**: SO☒ NSO☐ PBO☐
Is this project processed under rapid responses to crises and emergencies?	Yes ☐ No ☒
Is this project processed under a waiver to the Integrated Safeguards System?	Yes ☐ No ☒
B. Disclosure and Compliance Monitoring	
B.1 Mandatory disclosure	
Environmental Assessment/Audit/System/Others (specify: NA.	
Was/Were the document (s) disclosed ***prior to appraisal?***	Yes ☐ No ☐ NA ☒
Date of "in-country" disclosure by the borrower/client	N/A
Date of receipt, by the Bank, of the authorization to disclose	N/A
Date of disclosure by the Bank	N/A
Resettlement Action Plan/Framework/Others (specify: NA.	
Was/Were the document (s) disclosed ***prior to appraisal?***	Yes ☐ No ☐ NA ☒
Date of "in-country" disclosure by the borrower/client	N/A
Date of receipt, by the Bank, of the authorization to disclose	N/A
Date of disclosure by the Bank	N/A
Vulnerable Peoples Plan/Framework : NA.	
Was the document disclosed ***prior to appraisal?***	Yes ☐ No ☐ NA ☒
Date of "in-country" disclosure by the borrower/client	[Date]
Date of receipt, by the Bank, of the authorization to disclose	[Date]
Date of disclosure by the Bank	[Date]
If in-country disclosure of any of the above documents is not expected, as per the country's legislation, please explain why: NA.	
B.2. Compliance monitoring indicators	
Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes ☐ No ☐ NA ☒
Have costs related to environmental and social measures, including for the running of the grievance redress mechanism, been included in the project cost?	Yes ☐ No ☐ NA ☒
Is the total amount for the full implementation for the Resettlement of affected people, **as integrated in the project costs**, ***effectively mobilized and secured***?	Yes ☐ No ☐ NA ☒
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes ☐ No ☐ NA ☒
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes ☐ No ☐ NA ☒
A. Clearance	

Is the project compliant to the Bank's environmental and social safeguards requirements, and to be submitted to the Board?

Yes ☒ No ☐

[14] **Note**: *This ESCON shall be appended to project appraisal reports/documents before Senior Management and/or Board approvals.*

[15] **DI**=Direct Investment; **FI**=Financial Intermediary; **CL**=Corporate Loan; **BS**=Budget Support; **GU**=Guarantee; **RPA**=Risk Participation Agreement; **EF**=Equity Financing; **RBF**=Results Based Financing.

Prepared by:	***Name***	***Signature***	***Date***
Environmental Safeguards Officer:	xxxx		
Social Safeguards Officer:	Edith KAHUBIRE		10/02/2023
Task Team Leader:	Baboucarr KOMA		10/02/2023
Submitted by:			
Sector Director:	Abdoulaye COULIBALY		10/02/2023
Cleared by:			
Director SNSC:	For Maman-Sani ISSA		14/02/2023

APPENDIX 8: Map of the Republic of Mauritius

Disclaimer: The boundaries and names shown, and the designations used on this map do not imply official endorsement or acceptance by the African Development Bank.