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INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT

FOR

A PROPOSED CREDIT
IN THE AMOUNT OF SDR 7.3 MILLION (US$10 MILLION EQUIVALENT) TO
THE REPUBLIC OF MOZAMBIQUE

AND

PROPOSED LOANS
IN THE AMOUNT OF EURO 13.7 MILLION (US$14.9 MILLION EQUIVALENT) TO
THE REPUBLIC OF MAURITIUS

AND

IN THE AMOUNT OF US$5 MILLION TO
THE REPUBLIC OF SEYCHELLES

FOR THE

FIRST REGIONAL DEVELOPMENT POLICY OPERATION
FOR THE ACCELERATED PROGRAM FOR ECONOMIC INTEGRATION

March 11, 2016

Trade and Competitiveness Global Practice
Regional Integration East and Southern Africa
Africa Region

MAURITIUS - GOVERNMENT FISCAL YEAR
July, 1 – June, 30

MOZAMBIQUE - GOVERNMENT FISCAL YEAR
January, 1 – December, 31

SEYCHELLES- GOVERNMENT FISCAL YEAR
January, 1 – December, 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective January 31, 2016)

Currency Unit	=	USD
US$1	=	SDR 0.724
US$1	=	EUR 0.916

WEIGHTS AND MEASURES
Metric System for all Countries

ABBREVIATIONS AND ACRONYMS

AFD	Agence Française de Developpement (*French Development Agency*)
AfDB	African Development Bank
AFRITAC	Africa Regional Technical Assistance Center
APEI	Accelerated Program for Economic Integration
ASEAN	Association of Southeast Asian Nations
BdM	Banco de Moçambique (*Bank of Mozambique*)
BoM	Bank of Mauritius
CBS	Central Bank of Seychelles
COMESA	Common Market for Eastern and Southern Africa
CPS	Country Partnership Strategy
CWG	Coordinating Working Group
DPL	Development Policy Loan
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
DfID	Department for International Development
DRC	Democratic Republic of Congo
EAC	East African Community
ECDPM	European Centre for Development Policy Management
ECF	Extended Credit Facility
EFF	Extended Fund Facility arrangement
EMATUM	Empresa Mocambicana de Atum (*Mozambican Tuna Company*)
EU	European Union
FDI	Foreign Direct Investment

FY	Fiscal Year
GATS	General Agreement on Trade in Services
GBC	Global Business Companies
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GoM	Government of Mozambique
GRS	Grievance Redress Service
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technology
IDA	International Development Association
ICMPD	International Centre for Migration Policy Development
IMF	International Monetary Fund
INNOQ	Instituto Nacional de Normalização e Qualidade *(National Standards and Quality Control Institute)*
JICA	Japan International Cooperation Agency
LIBOR	London Interbank Offered Rate
LNG	Liquefied Natural Gas
MIC	Middle Income Countries
MIEUX	Migration EU Expertise
MOU	Memorandum of Understanding
MTEF	Mid-Term Expenditure Framework
NBFI	Non-Banking Financial Institutions
NMC	National Monitoring Committee
NTB	Non-Tariff Barrier
NLTA	Non-Lending Technical Assistance
NTM	Non-Tariff Measures
NQC	National Quality Council
NWG	National Working Groups
PAYE	Pay As You Earn
PBB	Performance Based Budgeting
PBMC	Permits and Business Monitoring Committee
PEFA	Public Expenditure and Financial Accountability
PFEMRP	Public Finance and Economic Management Reform Program
PFM	Public Financial Management
PSIA	Poverty and Social Impact Assessment
PRSC	Poverty Reduction Support Credit
RENAMO	Resistencia National Moçambicana (*Mozambican National Resistance*)
RAT	Risk Assessment Team
RIA	Regulatory Impact Assessment
RMC	Risk Management Committee
SADC	Southern African Development Community
SDR	Special Drawing Rights
SMEs	Small and Medium Enterprises
SOE	State-Owned Enterprise
SSI	Société Seychelloise d'Investissement (*Seychellois Investment Company*)
STR	Simplified Trade Regime
STC	Seychelles Trading Company
TA	Technical Assistance
USAID	United States Agency for International Development

UNCTAD	United Nations Conference on Trade and Development
US$	United States Dollar
VAT	Value-Added Tax
WB	Word Bank
WBG	World Bank Group
WCO	World Customs Organization
WTO	World Trade Organization
ZIMS	Zambia Immigration Management System
ZRA	Zambia Revenue Authority

Regional Vice President:	Makhtar Diop
Director, Regional Integration:	Ahmadou Moustapha Ndiaye
Country Director:	Mark Lundell
Senior Global Practice Director:	Anabel Gonzalez
Practice Manager:	David Bridgman
Task Team Leader:	Mombert Hoppe

ACCELERATED PROGRAM FOR ECONOMIC INTEGRATION (APEI)

REGIONAL DEVELOPMENT POLICY OPERATION

CONTENTS

TABLES

FIGURES

This Regional DPO has been prepared by a joint IDA and IBRD team led by Mombert Hoppe (Trade Economist) and consisting of Paul Brenton (Lead Economist), Praveen Kumar (Lead Economist), Nora Dihel (Senior Trade Economist), Enrique Blanco Armas (Senior Economist), Rafael Muñoz Moreno (Senior Economist), Alex Sienaert (Senior Economist), Shireen Mahdi (Senior Economist), Mazen Bouri (Senior PSD Specialist), Brian Mtonya (Senior PSD Specialist), Sawkut Rojid (Economist), Asumani Guloba (Economist), Temwa Roosevelt (Economist), Brinda Devi Dabysing (PSD Specialist), Efrem Zephnath Chilima (PSD Specialist), Dobromir Christow (Operations Officer), Patrick Kabuya (Senior FM Specialist), Maria Teresa Benito-Spinetto (Research Analyst), Khurshid Noorwalla (Team Assistant), Rita Obioma Itoro-Godfrey (Program Assistant), Najibulla Motahedy (Team Assistant), Deliwe Ziyendammanja (Team Assistant), Zulfa Mulla (Team Assistant), Mariella Beugue (Program Assistant), Madeleine Chungkong (Senior Program Assistant), Luz Meza-Bartrina (Senior Counsel), Liaqat Ali Butt (Senior Program Assistant), Aissatou Diallo (Sr. Finance Officer), and Kutemba Kambole (Team Assistant). John Panzer, Mona Haddad, Ganesh Rasagam, and David Bridgman (Practice Managers) provided guidance and supervision to the team. The team also benefitted from useful discussions with and comments from Manuela Francisco (Economic Adviser), Sudharshan Canagarajah (Lead Operations Adviser), Boutheina Guermazi, Andrew James Roberts and Souleymane Coulibaly (Senior Economist). Sebastien Saez (Senior Trade Economist), Enrique Fanta (Senior Public Sector Specialist), and Bernard Hoekman are the peer reviewers.

SUMMARY OF PROPOSED LOANS AND CREDITS AND PROGRAM

The Republic of Mauritius; The Republic of Mozambique; The Republic of Seychelles

FIRST REGIONAL DEVELOPMENT POLICY OPERATION

FOR THE ACCELERATED PROGRAM FOR ECONOMIC INTEGRATION

Borrowers	The Republic of Mauritius, The Republic of Mozambique, The Republic of Seychelles
Implementing agency	Mauritius: Ministry of Finance and Economic Development; Mozambique: Ministry of Planning and Development; Seychelles: Ministry of Finance, Trade & The Blue Economy
Financing data	**Mauritius**: IBRD Loan Terms: a Fixed Spread loan with commitment-linked level repayments and a total maturity of 18 years including a grace period of 5 years, denominated in Euro. Amount: Euro 13.7 million (US$14.9 million equivalent). **Mozambique**: IDA Credit: Standard IDA terms with a 38-year maturity and a 6-year grace period. Amount: SDR 7.3 million (US$10 million equivalent). **Seychelles**: IBRD Loan Terms: a Fixed Spread Loan with commitment-linked level repayments and total maturity of 25.5 years, including a grace period of 10 years denominated in US$. Amount: US$5 million.
Operation type	First in a series of two programmatic Regional Development Policy Operations. Single tranche to be disbursed upon effectiveness.
Pillars of the Operation and Program Development Objective(s)	The development objective of the Regional Development Policy Operation (DPO) programmatic series is to improve the policy environment for trade in APEI countries by (i) removing barriers to trade in goods, (ii) promoting trade in services, and (iii) enhancing measures to facilitate trade.
Programmatic Series Result Indicators	✓ Reduction in number of non-tariff barriers - Baseline: N/A; Target Reduction: 5 ✓ (To be defined prior to DPO-2) For at least one services subsector, quality adjusted prices decreased, or access increased - Baseline/Target: TBD ✓ Number of business people entering - Baseline: Malawi 474,601 (2013), Mauritius 37,410 (2013), Mozambique 311,767 (2013), Seychelles 8027 (2013), Zambia 479,892 (2013); Target: five percent increase (2016) ✓ Number of people from APEI countries entering – Baseline: Malawi 293,000, Mauritius 7,371 (2013), Mozambique 244,000, Seychelles 3,783 (2013), Zambia 93,392 (2013); Target: five percent increase (2016) ✓ Traders report improved access to information on all procedures and documents for importing and exporting - Baseline: 0; Target: 1 ✓ Average clearance time for imports at borders key for intra-APEI trade reduced (without physical inspection) – Malawi Baseline at Mwanza: 64 hours; Target: 61 hours; Mauritius Baseline at Port Louis: 24 hours, Target 21 hours; Mozambique Baseline at Nacala: more than 48 hours; Target: 43 hours; Seychelles Baseline at Victoria: 99 hours; Target: 90 hours; Zambia Baseline at Chirundu: 19.6 hours Target: 18.6 hours ✓ Reduction in share of consignments physically inspected by customs – Malawi Baseline: 43%; Target: 40.5%; Mauritius Baseline: 6.3%; Target 5.7%; Mozambique Baseline: 40%; Target: 36%; Seychelles 29.4%; Target: 26.5%; Zambia Baseline: 8.9%; Target: 8.5% ✓ Transit time to Beira/Nacala reduced – Baselines: Blantyre to Nacala 3 days, Blantyre to Beira 3 days; Chipata to Nacala by rail: 4 days; Chipata to Beira by road: 4 days; Target a minimum 10 percent reduction.
Overall risk rating	Moderate
Climate and disaster risks	Are there short and long term climate and disaster risks relevant to the operation (as identified as part of the SORT environmental and social risk rating)? Yes ☐ No ☒ X
Operation ID	P146512

1. Introduction and the Context for the Accelerated Program for Economic Integration (APEI)

1.1. Introduction

1. **The proposed regional Development Policy Operation (DPO) programmatic series supports a regional reform program of five countries (Malawi, Mauritius, Mozambique, Seychelles, and Zambia), the Accelerated Program for Economic Integration (APEI).** Participation in the two proposed budget support operations for the APEI is linked to readiness criteria (outlined below), which only three countries (Mauritius, Mozambique, and Seychelles) currently meet. **The first operation in the proposed programmatic series will therefore be for a proposed credit equivalent to US$10 million for Mozambique, and proposed loans (equivalent to US$14.9 million and US$5 million for Mauritius and Seychelles, respectively).** The same readiness criteria will be used for all five countries when preparing the second DPO to assess if they are eligible to participate in the second operation. It is expected that all five countries that are members of APEI will participate at that point. Hence, the programmatic series is aligned with the membership in the APEI, its strategic orientation, and the initiative's initial time frame, with the second operation planned for Board presentation in FY17.

2. **The APEI is an initiative of five "like-minded" countries (Malawi, Mauritius, Mozambique, Seychelles, and Zambia) that agreed to jointly accelerate the implementation of reforms aimed at reducing barriers to trade.** The initiative was created as a response to the call for more rapid reforms and economic integration enshrined by the council of Ministers of Finance and Central Bank Governors of COMESA (Common Market for Eastern and Southern Africa, July 2011) and SADC (Southern African Development Community, November 2011). The five countries recognized the persistence of barriers to trade despite commitments to remove them through COMESA and SADC and agreed to collaborate and jointly accelerate implementation of such reforms. This program follows a flexible approach based on the principles of variable speed and geometry endorsed by Ministers of Finance of both COMESA and SADC.

3. **The APEI initiative was launched during a Ministerial meeting in Seychelles in September 2012.** The countries aim to strengthen their already close economic (and cultural) ties through the initiative. A three-year reform program was adopted at a Ministerial meeting in March 2013 as the result of a sustained process involving multiple technical and high-level political meetings. During this process, the countries also developed systems to help sustain and implement the program. The Bank has been closely involved in the initiative from the start and has played a facilitating role.

4. **The APEI is designed to address trade barriers fragmenting African markets.** The countries aim to use the initiative as a mechanism to reduce trade costs for goods and services, increase trade and investment flows, diversify exports of goods and services and ultimately raise incomes. The initiative is built on an increasing body of knowledge on the barriers that continue

to restrict trade in goods and services in Africa and the economic benefits of deeper economic integration between African countries.[1]

5. **The APEI is built on an approach of coordination, collective action, and, very importantly, peer-to-peer accountability to catalyze reforms**. Under this approach, countries aim to address common challenges collectively while also supporting country specific reforms through peer-to-peer exchanges and mutual accountability to a jointly agreed reform program. South-South knowledge sharing, particularly among the low- and middle-income countries participating in the initiative, provides also a major input to reforms and reinforces coordination. Similar approaches have been used very successfully for example in the OECD or by APEC, where they have contributed to accelerating progress towards APEC's common goals. Countries have agreed that the chairmanship of the initiative would rotate annually and have developed coordination mechanisms which are further described in Section 3.

6. **The APEI reform program consists of commitments that the five countries have made among themselves and is structured in four pillars**: (i) remove barriers to trade in goods, (ii) promote trade in services, (iii) enhance measures to facilitate trade, and (iv) improve the business environment. The reform program consists of a set of specific reforms in need of either (a) multilateral coordination or (b) bilateral coordination; and (c) country specific reforms that are necessary to allow firms to benefit from new market opportunities that economic integration will bring. Section 3 describes the APEI in greater detail.

7. **The proposed programmatic series of regional DPOs directly supports the first three pillars of the overall APEI program, with the first operation only directly supporting Mauritius, Mozambique, and Seychelles.** The proposed operation focuses on these pillars because the reforms in these three pillars are more likely to have positive spillovers to neighboring countries. Therefore, coordinated implementation of reforms is expected to increase the overall returns to the reforms that each country undertakes. As a result, these reforms are more likely to be implemented, and will have larger economic impacts, if addressed in parallel, because countries benefit from their own reforms and also from the reforms in neighboring countries. The programmatic approach permits continued support over time to allow sequencing and deepening of complex reforms, and to support all five countries through the second operation if readiness criteria permit. In short, consistency of reforms and credible regional coordination can help change the political economy of domestic debate and also increase pressure for complementary domestic reforms.

8. **The set of proposed reforms supported under this operation is expected to significantly improve the trading environment in these countries.** Reducing non-tariff barriers that stifle regional markets in food products will increase incentives for production and increase food security in the region. Opening up to regional trade in services such as transport services, is expected to increase competition and drive down transport prices. Increased risk management at borders, and stronger coordination among border agencies will reduce dwell time, and hence costs, at borders. And improved access to trade information through trade portals will reduce the scope for rent seeking and corruption related to trade which impinge particularly heavily on small traders,

[1] The analytical underpinnings are discussed in more detail later in the document.

many of whom are women.[2] Reducing the costs to import inputs and export final goods will make companies more productive and competitive. It will increase market size for operators, allowing companies to benefit from economies of scale, and generate new opportunities for investment. Trade barriers and a lack of transparency particularly affect smaller companies and traders and those living in rural areas where poverty rates are generally higher. The proposed reforms are therefore expected to particularly benefit the bottom 40 per cent of the population. The program will therefore contribute to the twin goals and the objective of all participating countries to generate jobs and reduce poverty.

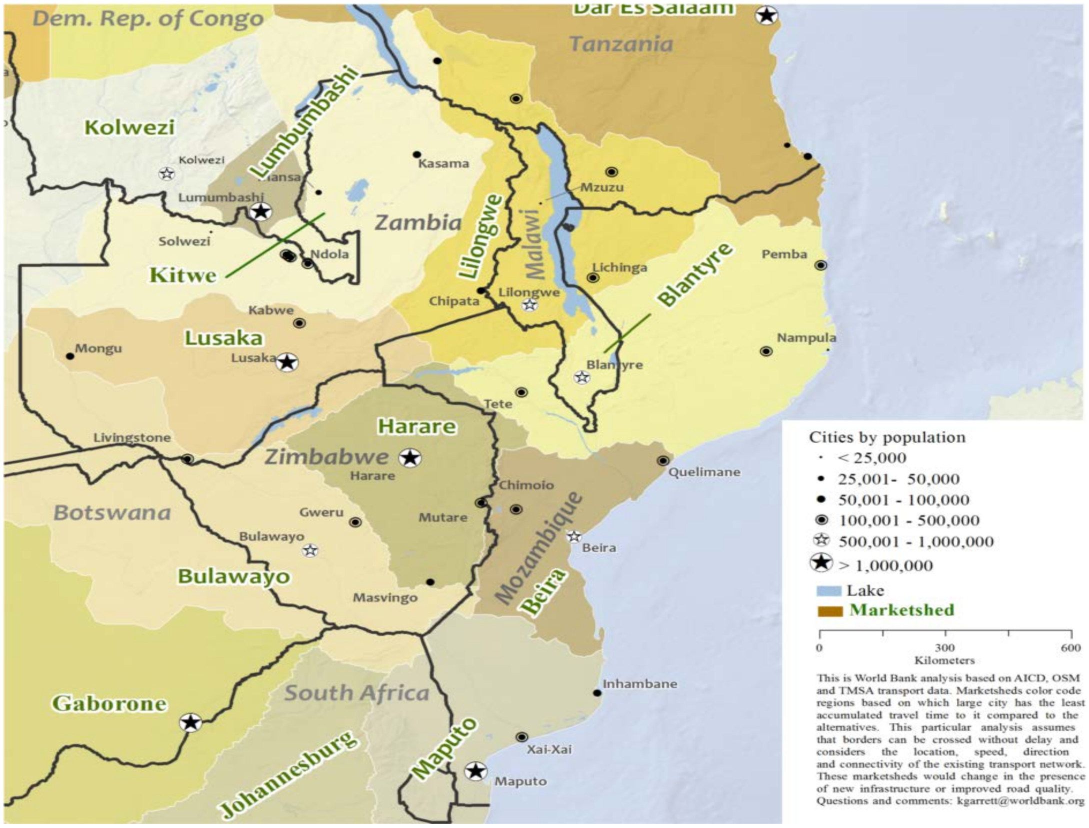
9. **The reforms implemented by the APEI countries are likely to generate significant additional trade.** Currently, traders are predominantly going to markets in their own country even though geographically closer economic centers are located in neighboring countries. This is because long border crossing times and onerous trade requirements make it costly to cross borders. Figure 1 shows that in the absence of border delays, the 'closest' market center for a significant share of the population lies abroad. [3] The informal trade flows currently observed are partially the result of current trade barriers traders which, if lifted, would facilitate the formalization of these activities. Deep integration would increase the size of the market that individual companies or farmers could serve easily and contribute to economic and export diversification. Policy reforms would also be an important contributor for the success of other initiatives, such as the establishment of a regional growth triangle between Malawi, Mozambique, and Zambia to fully exploit the regional benefits arising from large scale mineral extraction. Anecdotal evidences confirms that companies in Southern Malawi have already identified export potential to the strong growth areas in neighboring Mozambique but failed to export due to high trade barriers.

10. **The positive effects of bringing down the costs of moving goods and services across borders will go beyond intra-APEI trade and generate new investment incentives.** The reforms under the APEI will be non-discriminatory and reduce trade costs for all trade, not just intra-APEI trade**.** Lowering trade costs is expected to facilitate trade with the broader region and will facilitate the emergence of regional supply chains. Non-transparent and unpredictable border procedures together with a range of other non-tariff barriers, such as export licensing requirements and their application, continue to segment markets. These barriers contribute to, and compound, high regional transport costs which particularly affect regional trade and trade in agricultural products. Their removal would positively impact such trade, including for example Zambia's agricultural trade with the Democratic Republic of Congo (DRC) and Zimbabwe, where large potential remains. While existing barriers allow companies to serve protected domestic markets, they prevent the more efficient firms in the region from growing and benefitting from economies of scale. Currently, export relationships are often unstable due to the challenging trade environment. Reducing barriers would particularly benefit small companies and farmers – including for exports to South Africa, Tanzania, or other countries in the region.

[2] Regarding how women are negatively affected by current trade environments see for example, *Women and Trade in Africa: Realizing the Potential*, World Bank, 2013

[3] Assuming no delay when crossing borders, the map shows that for 15 million people, cross-border trade represents the 'natural' form of doing business in the border regions between Malawi, Mozambique, and Zambia. Each geographic location is color-coded to indicate which large town with more than 500,000 inhabitants can be reached fastest. The extension of color fields across borders shows the potential for increased regional trade if traders would incur no delays at borders.

Figure 1: The closest economic centers are often situated across a border



11. **The willingness of the APEI countries to jointly address barriers to trade and to learn from each other offers a strong rationale for Bank support which extends beyond economic factors.** The countries are determined to use peer accountability to break with the status quo of slow implementation of regional integration commitments, where regional integration advances at the pace of the slowest member. The countries have engaged in this program because they recognized the benefit from working together to address the common challenges they face. Their willingness to advance South-South peer-to-peer exchanges among the IDA and IBRD countries offers scope for mutual learning from their varying experiences. For example, while Mauritius is the top performer according to a number of indicators from competitiveness to corruption perception, Malawi performs much better in Logistics Competence than Mozambique and Zambia according to World Bank data. The mix of peer accountability and peer learning to overcome the challenges they face in regional fora represents a promising approach that if successful could bring new dynamism to regional integration efforts. The self-selection into this initiative and continued high-level support at Ministerial level represent conditions for success, but additional support will be needed to help overcome obstacles. The APEI countries have made clear that the initiative is not closed and other countries will be welcome to join based on the agreed reform program and as the initiative starts to deliver results. The APEI could also provide a model for deeper integration that could be replicated by other countries across the continent.

12. **The Bank is particularly well placed to support such a regional initiative.** Because of its leading analytical role and convening power, the World Bank Group (WGB) has a comparative advantage in supporting this group of reform-minded countries to design and implement regionally oriented reform policies, and to draw in support from other development partners. The Bank's regional and country-specific analytical work has helped to initiate and inform the regional reform process while the Bank's convening power has stimulated and guided high-level political discussions and attracted assistance from other development partners.

13. **Readiness criteria for each DPO in this programmatic series are linked to readiness triggers for development policy lending.** These cover an adequate medium-term macroeconomic framework, transparency of the budget process, and a budget system that follows sound fiduciary processes. The proposed approach is the result of a long preparation period that has been characterized by repeated adjustment to a changing environment of country conditions and has allowed for significant learning in the process. The use of readiness criteria mitigates macroeconomic risks in an evolving economic context that are greater than had initially been estimated. At the same time, it supports momentum in the APEI by providing budget support to those countries the Bank is currently in a position to do so. While peer accountability has helped to ensure that all five APEI countries implemented a set of reforms they have agreed to among themselves, the same mechanism is not relevant to aligning other criteria that need to be in place to allow the Bank provide budget support as these are factors outside the scope of this collaborative initiative.

1.2. The APEI Country Context

14. **The APEI countries represent a heterogeneous group with close cultural and economic ties.** Malawi, Mozambique, and Zambia are relatively large (in population and land area) developing countries, while Mauritius and Seychelles are small middle-income and high income islands, respectively. Per capita income differs widely, ranging from US$270 in Malawi to US$12,530 in Seychelles in 2013. Historical ties often extend across Malawi, Mozambique and Zambia and various local languages are spoken across borders. For example, Chichewa is the official language in Malawi but is also widely spoken in the East of Zambia and neighboring provinces in Mozambique.

15. **The countries remain vulnerable to external shocks because their export baskets (except for Mauritius) are highly concentrated.** The most important export product accounts for more than 60 percent of exports in Malawi (tobacco), 14 percent in Mauritius (sugar), more than 40 percent in Mozambique (aluminum), more than 70 percent in Seychelles (fish), and nearly 80 percent in Zambia (copper).[4] All countries are aiming to diversify their economies which remain dependent upon a few key sectors, and increased export diversification would contribute to this objective. While the services sector constitutes a particularly important share of Gross Domestic Product (GDP) in Mauritius and Seychelles (over 70 percent in both), agriculture plays a prominent role in the mainland countries. The sector accounts for 20-30 percent of value added in Malawi,

[4] The low diversification of exports is also reflected in the limited number of products each country is exporting. Malawi only exported 20 products with significant overall value between 2005 and 2011. Mauritius exported 56 products with significant value, Mozambique 47, Seychelles only 9, and Zambia 40. Products with significant value are those whose export value exceeded US$10 million in any of the years between 2005 and 2011.

Mozambique, and Zambia, and employs between two thirds (Zambia) and 85 percent (Malawi) of the work force. For all countries, creating new jobs is a key objective to which deeper regional integration can contribute.

16. **Regional markets are already important destinations for APEI exports (Table 1) and they can play an important role in diversifying exports, especially for smaller firms.** While the most important traditional export products largely ship to global markets, regional markets are important for non-traditional exports, and they play an important role in diversifying the economy. Between 17 and 42 percent of non-traditional exports from APEI countries ship to Southern Africa, while between 2 and 12 percent go to other APEI countries. It is also with such products that smaller companies start to enter export markets. Non-traditional regional exports have increased faster than the rest of exports over the last decade (with the exception of Seychelles). Still, regional trade flows are likely to be underreported because large informal trade flows exist. Some estimates put informal cross-border trade within SADC at 30-40 percent of total trade within SADC.[5] For heavily traded products such as beans, rice, and maize among Zambia, Malawi, and Mozambique, informal flows often exceed formal trade flows, driven by large numbers of informal traders. For example, the number of informal traders crossing between Malawi and Zambia is estimated at more than 20,000 per month.

17. **Significant trade from landlocked Malawi and Zambia passes through Mozambique to reach global markets, increasing mutual economic dependencies and linkages.** For Malawi and large parts of Zambia, the geographically closest ports are located in Beira and Nacala, Mozambique. Already, about 60 percent of Malawi's trade volume is routed through these ports, while Zambia exports about 10 percent of its copper through Beira. However, infrastructure and policy constraints along these corridors reduce export competitiveness in Malawi and Zambia and prevent higher and more efficient usage of these corridors. Increased transit volumes would also benefit Mozambique as shipping prices would fall and more and larger ships would call. Improved logistics services and lower shipping costs would generate new investment and job opportunities for export-oriented companies in the vicinity of these ports.

Table 1: Regional markets are important for APEI countries

	Share of Non-traditional exports to APEI	Share of Non-traditional exports to Southern Africa (SADC)	Memorandum item: Share of all exports to Southern Africa (SADC)
Malawi	8.2	38.5	17.7
Mauritius	2.1	19.3	16.7
Mozambique	3.6	29.2	16.3
Seychelles	3.5	16.7	9.9
Zambia	12.4	42.4	14.3

Source: COMTRADE, using mirror data. Data based on 2010-2012 averages and own calculations. Non-traditional exports exclude:
For Malawi: tobacco; For Mauritius: sugar; For Mozambique: aluminum; For Seychelles: frozen, prepared, or preserved fish; For Zambia: copper

18. **Malawi is a landlocked country, and its central driver for poverty reduction is agriculture.** Regional trade plays an important role and the agricultural sector has strong potential

[5] See Afrika J., and G. Ajumbo, 2012, Informal Cross Border Trade in Africa: Implications and Policy Recommendations, Africa Economic Brief Vol 3(10), African Development Bank.

to benefit from increased regional exports as barriers are removed. Malawi has also developed a light manufacturing sector in the south around Blantyre, with export potential to northern and central Mozambique which companies are aiming to exploit. Most of Malawi's trade transits through Mozambique and domestic policies there directly affect Malawi. Addressing such policies through regionally coordinated policy reforms would help improve competitiveness of Malawian companies regionally, and globally.

19. **Mauritius is a rapidly modernizing economy with a goal of achieving high-income status in the medium term.** The Mauritian economy, once based predominantly on agriculture (sugar production), has transformed into a more diversified economy based on manufacturing (textiles) and lately tourism and financial services. The economy is dominated by its services sector, which accounts for more than 70 percent of GDP. Integration and connectivity with other African countries remain top priorities for Mauritius. Owing to a relatively efficient port, Mauritius has the potential to become a logistics hub for the region. With its strong emerging financial sector, Mauritius also has the potential to become a key provider of financial and investment services in an increasingly economically integrated region, and Mauritian companies have started to invest on the mainland, for example in the Mozambican sugar sector. Outbound Foreign Direct Investment (FDI) is increasing with nearly three quarters of the US$4 billion in 2013 going to Africa. With its well-developed manufacturing industry and the significantly better business environment compared to other APEI countries on the mainland, it could benefit from additional investment to serve regional markets.

20. **Mozambique is one of Africa's fastest growing economies endowed with abundant natural resources.** The recent discovery of coal and gas, as well as significant investment in agriculture in northern Mozambique, mean that the full extent of the resource boom is yet to come. At the same time, Mozambique faces significant challenges to reduce poverty and develop economic activity beyond the extractive natural resource megaprojects that currently drive its economy. Internal infrastructure constraints persist, and logistics services are often poor. Large parts of the country are economically closer to neighboring countries than to Maputo. Improving efficiencies in regional ports would generate new investment opportunities, and sourcing inputs from Malawi and Zambia could represent a more efficient way to provision operations in the Central and Northern parts of the country.

21. **Seychelles is a small, service-based, middle-income, island-state economy.** Tourism, fishing, and fish processing are the major pillars of the economy, contributing more than 30 percent of GDP. While services will continue to remain the key driver for growth in the medium term, improved connectivity via underwater cable offers potential for Seychelles to expand its role in providing financial services. Seychelles' steadily developing offshore sector will require more supporting professional services (lawyers, accountants, auditors, and so on), very likely sourced from abroad, given the small pool of professionals in the country. As Seychelles aims to increase trade as a means of improving food security and fostering diversification, part of such increased food imports could well originate in the geographically close agricultural economies on the African mainland.

22. **Zambia's landlocked economy remains dominated by agriculture and mining.** Following a long period of low growth and declining per capita income, Zambia has recently enjoyed a decade of rapid economic expansion, concentrated on the extraction of its rich

endowments of natural resources. Two thirds of the active population is employed in agriculture, making it a central sector for poverty reduction and inclusive growth. Zambia's central location in Southern Africa and agricultural potential would allow it to be a key food producer for the region. Its eight neighbors, however, do not consider Zambia a stable supplier due to Zambia's erratic domestic trade restrictions, negatively affecting growth in the sector and demanding reforms. Companies in Zambia face logistics challenges for imports and exports at their own borders and when transiting neighboring countries. Transit through Mozambique and Malawi represents the shortest corridor to/from ports for Zambia, but policy and infrastructure deficiencies limit efficiencies and demand regionally coordinated policy reforms.

2. Macroeconomic Policy Framework

23. **All three countries have posted positive growth in recent years.** The low income country Mozambique experienced strong annual growth of 7 percent or more during 2011-2014. The two middle income countries (MICs), Mauritius and Seychelles, showed strong resilience to the difficult external economic environment, mainly to the sluggish Euro Area economy on which both countries are heavily dependent. GDP growth averaged 3.5 percent in Mauritius and 5.1 percent in Seychelles in 2011-2014.

24. **All three countries have a positive outlook for the medium term and are poised to grow at a higher rate than the last few years**. In 2016 Mozambique is expected to grow at 6.5 percent, while Mauritius and Seychelles are expected to grow by 4.2 and 3.3 percent, respectively. Over the medium term, inflation in all the countries is expected to slow down or to remain stable at relatively low levels. Inflation in Mauritius and Seychelles is projected to be around 3 and 4 percent on average for 2016, respectively, and 5.6 percent on average for Mozambique. The debt outlook for Mauritius and Seychelles is benign, while Mozambique faces a moderate risk of debt distress. Potential downside risks from the global and domestic environments coexist with factors that could potentially mitigate such risks in all these countries.

25. **Overall, the macroeconomic framework for all three countries is deemed adequate for this operation**. The macroeconomic frameworks for these countries are also sustainable in the medium term. Besides, the Bank has national DPOs and/or PRSCs that have recently gone or will soon go to the Board[6]. A review of recent economic developments and the macroeconomic outlook for each country follows. At the end of the discussion, Table 2 presents summary indicators for each country. Annex 2 provides medium-term outlook selected indicators for each country.

2.1 Recent Economic Developments and Economic Outlook

Mauritius

Recent Economic Developments

26. **Mauritius continues to register positive growth amid international economic uncertainties.** Mauritius is estimated to have registered a GDP growth rate of approximately 3.4 percent in 2015, similar to the pace in 2014. The ongoing contraction of the construction sector (-4.3 percent in 2015) weighed on overall growth, as well as sluggish manufacturing sector growth (1.5 percent), especially the weak sugar sub-sector (-7.6 percent year on year). However, in line with the evolving structural change of the economy, growth continued to be supported by the services sector, most notably, the financial services, tourism, and Information and Communication Technology (ICT) sectors, which grew by 5.2 percent, 8.6 percent and 6.9 percent in 2015.

27. **Mauritius has continued to run a sizable current account deficit, totaling 6.3 percent of GDP in 2013 and estimated to have narrowed somewhat to 5.6 percent in 2014 and around the same level in 2015**. Exports were stable around 50-53 percent of GDP in recent years. The current account deficit is in large part structural, i.e. explained by a decline in private saving, high

[6] The Board approved the Public Sector Performance DPO for Mauritius in March 2013, the Third Sustainability and Competitiveness DPO for Seychelles in October 2014, and the first Financial Sector DPO for Mozambique in June 2014.

import of capital goods consistent with ongoing economic “catch-up” to high income economies, and the weak growth in recent years of major trading partners, especially the Euro Area. A large proportion of the current account deficit continues to be financed by foreign direct investment (FDI) and financial flows from Global Business companies (GBC).

28. **Fiscal policy remains broadly consistent with macroeconomic stability.** Lower economic growth than anticipated has slowed down tax collection, in particular income and profit taxes and VAT. However, the fiscal deficit declined from 3.5 percent in 2013 to 3.2 percent in 2014, partly explained by capital expenditure lagging behind expectations due to implementation difficulties. As a result, public sector net debt (as defined for the purposes of the statutory debt ceiling) increased only marginally from 53.9 percent of GDP in 2013 to 54.1 percent of GDP in 2014.

29. **The monetary policy stance adopted by the Bank of Mauritius (BoM) continues to be accommodative.** Monetary Policy easing continues in the light of the slowdown of the domestic economy and lingering global uncertainties. The repo rate was maintained at 4.65 percent from June 2013 to November 2015, when it was cut by a further 25bp. This more accommodative monetary policy stance was facilitated by the decline of the year on year CPI inflation rate from 4.0 percent in December 2013 to a low of just 0.2 percent year on year in December 2014, in part related to subsiding food and oil international prices, before rising modestly again to 1.3 percent year on year in December 2015. Excess liquidity in the financial system stood at Rs9 billion in December 2015, after reaching a high of Rs16 billion in April 2015 thanks to government and central bank efforts to mop it up through bond issuance. Nonetheless, the large liquidity in the system dissociates the repo rate and the interbank rate which renders the monetary policy transmission mechanism less effective.

30. **The BoM continues its interventions in the foreign exchange market to build additional international reserves, with parallel sterilization of the additional money supply.** Gross international reserves stood at US$4.3 billion in December 2015 (representing 7.6 months of import cover), having gradually but consistently accumulated over 2014-2015.

Macroeconomic Outlook and Risks

31. **Despite the recent slowdown and fiscal weakening, the medium term economic outlook is positive**. GDP growth rate is projected to reach approximately 4 percent in 2016 and beyond on the back of continued strong performance in financial intermediation, ICT, a continuous recovery in tourism and a resurgence in the construction sector. After five years of contraction, the construction sector is projected to resume growth, benefiting from the implementation of new public projects such as the port extension.

32. **Mauritius will face a challenge to continue restraining public expenditures in order to meet the 2018 debt target.** Higher budgeted tax revenue is contingent on the economy achieving very high economic growth, given no major new tax proposals. Yet, public expenditure in the form of wage increases and increased pensions have already been committed, the latter to the tune of 0.9 percent of GDP annually. This suggests that it will be a challenge to continue to limit primary deficits to the small levels of recent years (0.6 percent of GDP in 2014). If this can be achieved, public sector debt should trend downwards and move close to the 50 percent to GDP

debt target by 2018, helped by the authorities' plan to reduce public debts by employing their excess cash balance and fiscal consolidation measures. The Mauritian authorities have also opted for prepayment of some external debts to reduce excess liquidity in the financial system.

33. **Furthermore, there are a number of contingent liabilities and risks**. For instance, the recent BAI/Bramer Bank crisis could have significant fiscal impact. Financing of the overall deficit will be mainly done through domestic financing and use of cash in treasury accounts. As a result, debt as a share of GDP for the purpose of the debt ceiling is expected to decrease slightly in 2015/16 from 54.1 percent in 2014.

34. **The current account deficit is gradually narrowing, having reached 5.6 percent of GDP in 2014 and expected to have further declined to around 5 percent in 2015.** Exports are expected to have been stable around 55 percent of GDP in 2015, as tourist arrivals pick up again from the European markets and arrivals continue to diversify. The deficit is expected to continue to be comfortably financed by substantial FDI and other investment flows and minimum recourse to additional external debt.

35. **Gross external financing needs will remain significant, associated with the current account deficit and increasing debt repayments.** In mitigation, the flexible exchange rate, which is in line with fundamentals, will provide a buffer against external shocks to the economy, and BoM will continue to build up progressively international reserves, mainly through purchases on the domestic interbank market, albeit at a more moderate pace. International reserves are projected to be adequate, at well over 6 months of imports, in the medium term.

36. **Potential downside risks stem from the global and domestic environments.** Weak external demand from the Eurozone and emerging economies, and structural bottlenecks may adversely impact on the Mauritian tourism, trade and also on FDI inflows, which may exert some pressure on the economy's external position. Mauritius remains heavily dependent on Europe, notably France for its tourism sector, although diversification to non-traditional markets will continue to help. Short term capital inflows will remain very sensitive and volatile to global business industry. Falling fuel prices may help contain the current account deficit albeit a depreciating euro might harm exporters thereby negatively impacting on the current account. Adverse climatic conditions might also hinder economic growth if the country is affected, mainly during the cyclonic season. On the domestic front, the main risk is the slow pace of structural reforms to support growth, chief among which is the need to improve the efficiency of the public sector, essential to address long term critical bottlenecks such as education and infrastructure.

37. **The risks appear manageable, however, and mitigating factors exist**. Mauritius has buffers against a potential deterioration in the balance of payments. As noted above the level of foreign exchange reserves is projected to remain ample in the medium term. The floating exchange rate, which is in line with fundamentals, should also serve to contain external imbalances. On the fiscal front, the space remains somewhat limited and fiscal consolidation will need to be accelerated. The government has in the past shown determination to adhere to its fiscal targets and rein in public expenditure as needed. Additional efforts will be required to accelerate economic reforms to boost competitiveness and accelerate employment creation.

38. **Overall, the macroeconomic framework is deemed adequate for Development Policy Lending.** The government has the means to cope with potential external shocks in the short and medium term. Mauritius has proven itself to be resilient to external shocks and capable of reinventing itself in the aftermath. Tighter fiscal policy, however, will be needed to meet statutory debt reductions to 50 percent of GDP by 2018.

Mozambique

Recent Economic Developments

39. **Mozambique's growth reached 7.2 percent in 2014, in line with expectations.** The main contributors to GDP growth in 2014 were financial services, agriculture and extractive industries. Extractive industries has been the most dynamic sector in the economy for the past few years but its contribution to growth remains limited given its relatively small share in the economy. [7] Growth in extractive industries has decelerated compared to previous years, given low commodity prices and infrastructure constraints. Mozambique adopted in 2014 a new base year (2009) for the compilation of national accounts, taking into account new available data sources and new sectors of economic activity. The revised GDP figures are slightly higher than previous GDP figures (4 percent higher in 2012). Growth in the third quarter of 2015 has slightly accelerated to 5.9 percent, supported by trade and related services, extractives and manufacturing.

40. **The Government started efforts to tighten fiscal policy in 2015.** Fiscal policy has been expansionary over the past few years, expanding from 32 percent of GDP in 2011 to an estimated 42 percent of GDP in 2014. This has been partly facilitated by rapid growth in tax revenues, which have grown from 17 percent of GDP in 2011 to 23 percent in 2014, reflecting efforts to improve tax administration and capital gains taxes from the extractive industries. Without capital gains taxes, tax revenues have increased by 1 percentage point per year over the past few years. This increase in revenue compensated for a decline in aid flows, which in 2014 financed 12 percent of expenditures (down from 30 percent in 2009). The new government is committed to a prudent fiscal stance as suggested by the recently approved budget for 2016. In the 2016 budget, expenditure is forecast to decline by 1.4 percentage points of GDP with a deficit declining from 6 to 4 percent of GDP. Both current expenditures (particularly goods and services) as well as capital expenditures are budgeted to decline. The wage bill will decline slightly, from 10.8 percent of GDP to 10.6 percent of GDP. Personnel costs are expected to slowly decline below 10 percent of GDP by 2018. This more prudent fiscal stance demonstrates the new government's reform orientation, which will be crucial as Mozambique continues to prepare for managing a much larger resource envelope when resource revenues start to flow.

41. **Inflation rates have been relatively low and stable during the past two years.** The yearly average in 2015 was estimated at 2.4 percent, well below BdM's target of 5-6 percent. However, inflationary pressures accelerated in late 2015, reaching 11.1 percent (year on year) at end-December. Although low food and administered goods prices helped keep average annual inflation down, prices faced an upward pressure in late 2015 due to foreign exchange market pressures during this period. Inflation was somewhat higher in some parts of the country,

[7] Agriculture, which employs about 78 percent of the active population, accounts for about 26 percent of GDP, followed by trade and hotels at 10 percent. Manufacturing continues to decline in relative terms and accounted for just 12 percent of GDP in 2014, compared to 17 percent 10 years ago.

especially the North, which were affected by the floods earlier this year. Mounting inflation and a weaker external environment prompted the BdM to tighten monetary policy, with standing lending rate having been increased to 9.75 in late 2015.

42. **Lower exports and FDI inflows have put pressure on the metical in the past 6 months.** Low commodity prices and somewhat weaker FDI inflows have put pressure on the metical, which has gradually depreciated against the US$ from around 30 Mts/US$ in mid-2014 to 45 Mts/US$ by end of December 2015. Over the same period of time, international reserves have declined from US$3.2 billion in August 2014 to US$2.5 billion by end October 2015. It will be important that authorities maintain a flexible exchange rate regime to allow adjustment to take place and avoid further loss of reserves.

43. **The current account deficit has narrowed slightly to 34.1 percent of GDP in 2014.** Savings remain relatively low and insufficient to finance the large investments being made by the public and private sectors. The current account deficit increased over the past few years to over 40 percent of GDP before narrowing to 34 percent of GDP) (US$5.8 billion) the result of a lower trade deficit in 2014. The current account deficit does not indicate a fundamental imbalance in the economy, as it reflects the impact of rapid import growth associated to large FDI inflows. While consumption or intermediate goods imports increased by 20 percent over the past two years, capital goods imports increased by 85 percent over the same period. FDI reached between US$5-6 billion in 2012 and 2013 and reached US$4.9 billion in 2014, or around one-third of GDP, and financed over 70 percent of the current account deficit. This trend compares favorably to most of the last decade, when FDI financed 35 percent of the deficit. Reserves have declined from US$3.2 billion in August 2014 to US$2.5 billion at the end of October 2015 or slightly below 4 months of non-mega project imports which seems adequate.

Macroeconomic Outlook and Risks

44. **Mozambique's medium-term macroeconomic outlook remains positive.** Annual growth is projected at 6.3 percent in 2015. The initial growth projection (of 7.5 percent) was revised downward as a result of the floods that affected the center and north of the country in early 2015. Growth will recover in 2016 and 2017 to around 8 percent as agriculture recovers from the 2015 floods and growth continues strong in the resource sector, construction, transportation and communications. In the short run, megaproject production and exports, megaproject-related FDI, and investments in infrastructure, both public and private, are expected to remain among the most important contributors to growth. Inflation is anticipated to remain between 5 and 6 percent through 2017. The current-account deficit is projected to narrow to around 33 percent of GDP in 2016 as imports related to the large investments in the minerals and gas sectors slow down with the end of the gas exploration phase before widening again with the next phase. A large increase in exports from mega projects that can narrow the current account deficit is only expected toward the end of the decade.

45. **The authorities need to continue with the fiscal consolidation efforts.** The 2016 budget approved by parliament already continues the process of fiscal consolidation. The Mozambique parliament approved a MT 246 billion budget (equivalent to US$5.47 billion) for 2016 that represents a 5 percent of GDP consolidation in spending. The authorities plan to continue reducing public spending and the deficit (after grants) through: the return of expenditure to a normal path

after the implementation of one-off outlays on elections, maritime security, and the tuna fishing fleet in 2014;[8] a plan to reduce the wage bill gradually from its elevated level of over 11 percent of GDP in 2014; and slower growth in expenditure on goods and services and investments. The authorities expect the domestic primary balance (before grants) to decline from a deficit of 4 percent of GDP in 2014 to 3 percent of GDP surplus by 2019.

46. **The total public debt stock will stabilize at current levels (estimated at 73.6 percent of GDP in 2015) in the near term**. The fiscal tightening discussed above as well as slower growth in public investments will reduce the fiscal deficit. It would be important to improve debt management and investment planning capacity by prioritizing the different investments projects and at the same time reducing the pace of borrowing. The government is aware of the risks posed by inadequate controls on borrowing, and has expressed its intention to both slow the growth of new public external debt and reduce the share of non-concessional loans. The new Medium Term Debt Strategy, currently being prepared, will also establish borrowing limits for the government in the short and medium term. Debt remains sustainable, but it will be important to closely monitor debt dynamics and support the government's efforts to improve its debt management capacity. These efforts will be complemented by reforms to improve fiscal transparency and enhance public investment efficiency.

47. **Despite its positive overall economic outlook, the Mozambican economy faces significant downside risks, such as a sharp drop in commodity prices.** The increasing importance of FDI and natural resource exports leaves Mozambique's economy vulnerable to declining export demand, volatile commodity prices, and tighter global financial conditions. A further decline in commodity prices, possibly caused by current weaknesses in many emerging economies, may affect growth in Mozambique's nascent natural resources sector if investments are delayed. Sluggish growth in major trading partners also affects growth in Mozambique as well as its external position. In an environment of falling donor assistance, Mozambique may be faced with fewer financing options. In light of these risks, both the public and private sectors in Mozambique should avoid excessive leveraging backed by future rents from natural resources. Over the past two years, the Government security forces and the armed wing of the opposition party, Resistencia National Moçambicana/Renamo, have repeatedly clashed. Tensions continue after the elections, with Renamo demanding ability to govern the provinces where it gained a majority of the vote. Events in the last few years are a reminder of the potential for such tensions to have devastating economic and social consequences.

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[8] In September 2013, the Government-owned fishing company Empresa Moçambicana de Atum (EMATUM) issued publicly guaranteed bonds with a total value of US$850 million. The bonds were issued to finance investments in a tuna fishing fleet and coast guard and maritime security services. The Government assumed the part of the debt related to defense spending and the 2014 budget incorporated the costs of the coast guard and maritime security services, which are not commercial in nature (US$350 million). The operation may have contributed to delays in the implementation of other major infrastructure projects so that Mozambique would remain within the non-concessional borrowing (NCB) limit agreed in the IMF's policy support instrument (PSI). Following discussions with development partners, the Government committed to subject EMATUM to strict financial controls and audits and to implement an action plan focused on improving public investment and fiscal risks management. External audits of EMATUM for 2013 and 2014 have been made publicly available (on the company's website) with an unqualified opinion. The Government has argued that a larger share of the proceedings of the bond were used for defense equipment (US$500 million) and is therefore likely to take on a larger share of the debt. The disclosure of the company's audits raised concerns about the company's ability to service its debt, starting with a bond redemption in September 2015. This led to the Government providing the necessary funds for servicing EMATUM's debt in September 2015. EMATUM developments have also led Standard and Poor to downgrade Mozambique's credit rating from B to B-. EMATUM is preparing a revised viability study that can be used to assess the company's viability and the amount of debt it can carry on its books going forward.

48. **Overall, Mozambique's macroeconomic framework provides an adequate basis for the proposed operation**. This assessment is based on the country's strong macroeconomic performance over the past decade and the expectation that robust growth will continue in a stable and supportive policy context. The Government remains committed to prudent monetary and fiscal policies as evidenced by the fiscal consolidation effort reflected in the 2016 budget approved by parliament. This fiscal consolidation will need to continue in the near term. Further macroeconomic management reforms have been supported through the recent Poverty Reduction Support Credit (PRSC) series and are currently being supported through TA and the ongoing IMF program.

Seychelles

Recent Economic Developments

49. **Economic growth in 2015 is estimated to have remained at close to 3.5 percent**. Tourist arrivals rose by a strong 18.5 percent in the first 11 eleven months of 2015 compared with the same period in 2014, helped by ongoing diversification to Asian markets. Domestic demand also appears to have benefited from lower international oil and commodity prices. Credit to the private sector expanded by 14 percent year-on-year in 2015 through September.

50. **Fiscal performance remains anchored in reducing public debt and further reducing external vulnerabilities.** Debt reduction to support the successful debt restructuring and build resilience continues to be the fiscal anchor. Successful tax reforms have increased substantially tax collection and Seychelles compares very favorably with other middle income small states. Public expenditure has been reined in; mainly in the years after the debt restructuring was being implemented. Government commitment to debt reduction continues as reflected in the 3.8 percent of GDP primary fiscal surplus expected officially in 2015. This reflected continued expenditure restraint as well as slightly better than expected revenue collection, associated with growing domestic demand. Government debt to GDP fell from 65.3 in 2014 to 63 percent at end-2015, moving towards the target of 50 percent by 2018.

51. **The current account deficit narrowed in 2015, stabilizing after the widening, and consequent pressure on the Rupee, seen in 2014.** The current account deficit is expected to have narrowed in 2015, from 22 percent of GDP in 2014, benefiting from lower energy import costs; the current account deficit stood at 20.8 percent of GDP for 2015 through the third quarter. FDI softened in 2015 compared with 2014 but remained sufficient to finance a large share of the current account deficit, thereby minimizing the impact on external debt.

52. **The Central Bank of Seychelles (CBS) has maintained a generally tight monetary policy stance, guarding against a renewal of the currency depreciation pressures seen in 2014.** Some loosening of policy occurred in Q4 2015 by means of an increase in the average reserve money target, predicated on benign inflation conditions and in view of ongoing external risks to growth. The CBS continued to build up international reserves from 3.7 months of imports in 2013 to 4.7 months in December 2015, sterilizing them, and helping to resolve the excess liquidity in the financial system that undermined the monetary transmission mechanism. Inflation picked up in 2015 from a very low base, and reflecting the impact of methodological changes, to a still contained 4.0 percent average for the first eleven months of 2015.

53. **Despite rapid credit expansion, the financial sector remains strong, albeit with challenges related to high cost and financial inclusion.** Overall, the financial system is small and underdeveloped; the ratio of domestic credit to GDP in 2014 was 27.2 percent.[9] Limited access to credit and relatively high lending spreads continue to be serious limitations. Access is constrained, among other things, by weak capacity in the commercial banking sector to serve SMEs, an area that the Financial Sector Development Implementation Plan, prepared with World Bank support, aims to tackle. Robust credit growth in 2014 and 2015 has weakened some financial sector indicators such as the capital to risk-weighted assets ratio, but at 17.5 percent as of December 2015, it remains well above the minimum adequacy ratio of 12 percent. Overall, the financial sector remains sound and the share of non-performing loans was 7.9 percent as of November 2015, still high but declining.

Macroeconomic Outlook and Risks

54. **The economic outlook is broadly positive, although with some downside risks.** Economic growth is forecast to reach 3.3 percent in 2016. Tourism should continue to contribute significantly to growth, as diversification effects and prior investment bear fruit. Food (fish) manufacturing is expected to drive up total economic output, following investment for more canned tuna production. Inflation is expected to hold broadly steady, though the projection is sensitive to uncertain international commodity price, and exchange rate, developments.

55. **With limited additional gains expected in tax collection, fiscal policy will need to focus in raising efficiency of public expenditure and create fiscal space for much needed investment.** The government remains committed to maintaining a sizable primary budget surplus, projected to be around 3.8 percent of GDP in 2016 and in the medium term, in line with the debt reduction target. However, the 2016 Budget also announced potentially important new expenditures such as a thirteenth check for public employees and wage subsidy for new entrants to the labor market. Sustaining fiscal consolidation will therefore require a particularly strong focus on capping the growth of other current expenditures.

56. **The ratio of total public debt to GDP is projected to drop to 50 percent of GDP by 2018.** Public debt is estimated to have dropped from 66.0 percent in 2014 to 65.3 percent at end-2015. However, significant risks exist given Seychelles' still high total and external public debt, short term debt profile, and large gross external financing needs. Based on the latest Debt Sustainability Analysis, several individual shocks[10] could increase the debt to GDP above the 50 percent goal in 2018 but with a declining trajectory. Major shocks to the external debt are a broadening current account and depreciation of the Seychelles rupee. Ongoing government efforts to provide more medium term monetary instruments will strengthen the debt profile going forward, while also mopping up excess liquidity in the financial market. US Dollar exchange rate risk is partially mitigated as around one third of existing debt is Euro- and SDR-denominated.

57. **Gross external financing needs will remain high, associated with the large current account deficit and increasing debt repayments.** The current account deficit is projected to be capped by cautious monetary policy and an improvement in the terms of trade, including as lower

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[9] Compared for instance to 87.8 percent of GDP in Mauritius.
[10] These shocks include (i) 30 percent real exchange depreciation; and (ii) permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

international energy prices filter through. As a result of increasing debt repayments and income repatriation, gross external financing requirements will be around US$225 million a year. This is expected to be comfortably financed by substantial FDI (around 63 percent of total requirements) and minimum recourse to additional external debt (around 15 percent of total requirements). The flexible exchange rate, which is in line with fundamentals, will provide buffer against external shocks to the economy, and CBS will continue to build up progressively international reserves, mainly through purchases on the domestic interbank market, albeit at a more moderate pace. International reserves are projected to be around 4.3 months of imports in the medium term.

58. **A number of downside risks to the economic outlook remain, however, which could lead to some departure from these macro forecasts.** The tourism sector may be adversely affected should the fragile Euro Area economy recovery encounter reversals, and in the event of further instability in the Russian market following a difficult 2015; Russian tourists accounted for around 6 percent of the total in 2014. In addition, profit margins in the tourism sector may come under renewed pressure as a result of further appreciation of the US dollar against the Euro, since hotels in Seychelles derive their revenues from Euro whilst most of their expenses are denominated in US dollars and Seychelles Rupees. On the domestic front, the key downside risk to the economic outlook remains the ability of the government to implement its reform agenda, particularly in areas which most support economic growth in the near-term.

59. **Overall, Seychelles' macroeconomic framework for 2016–18 is adequate for development policy lending**. This assessment is based on the broadly favorable macroeconomic performance during the past three years and on policymakers' continued commitment to sound macroeconomic management and progress on structural reforms. While external dynamics may affect the economy negatively in 2016 and beyond, Seychelles has recently established a track record of quickly turning around when confronted with economic adversity. Government's growing external reserves, the flexible exchange rate, high government deposits and the fiscal surplus that continues to anchor fiscal policy provide buffers to cope with external shocks. Reforms supported by this operation, ongoing AfDB budget support, and the IMF's Extended Fund Facility (EFF) are supporting Seychelles to further reduce its vulnerabilities.

2.2 IMF Relations

60. **Mauritius** has no formal program with the IMF, though the IMF's annual Article IV reports have provided technical insights into sources of growth, labor markets, inflation, exchange rates, and monetary and fiscal policy in Mauritius. Also, the IMF has provided key support in the area of fiscal efficiency and budget reform, with a focus on performance-based budgeting and the Medium-term Expenditure Framework (MTEF). In 2011, the IMF established the Africa Regional Technical Assistance Center South (AFRITAC South) in Mauritius to provide technical assistance to countries in Southern Africa in areas such as macroeconomic policy, macro-fiscal policy, and public financial management. In addition, an IMF Regional Training Center for Sub-Saharan Africa was opened in Mauritius in 2013. **Mozambique** started a new Policy Support Instrument (PSI) with the IMF in mid-2013. The fourth review acknowledged Mozambique's strong growth record. Program performance was assessed as mixed because of macroeconomic policy slippages, particularly on the management of international reserves, while progress in implementing structural reforms was adequate. Key structural reforms suggested by the review include

improving VAT and overall tax management, continuing public financial management reforms, strengthening public investment management capacity and improving the business environment. The Board also approved Mozambique's request for an SDR 204.5 million, (about US$282.9 million) Standby Credit Facility to supplement the PSI to augment reserves and maintain macroeconomic stability, with a first SDR 85.2 million disbursement (about US$117.9 million) available immediately. The SCF aims to alleviate the external balance of payments shocks, and through strengthening macroeconomic stability, to achieve the government's goals on poverty reduction and inclusive growth. The Bank and the IMF cooperate closely in supporting the GoM to promote financial development, including through the provision of complementary TA. In **Seychelles**, building on the success of its Stand-By Arrangement and the three-year EFF in Seychelles, the IMF approved on June 4, 2014 a new three-year Extended Fund Facility for US$17.8 million. The aim of the EFF is to reduce public debt to below 50 percent of GDP by 2018, gradually increase external reserves, implement an ambitious structural reform program to foster economic growth, and improve public financial management (PFM) and oversight of SOEs.

Table 2: Selected indicators for APEI countries, 2015

Indicator	Mauritius (estimate)	Mozambique (estimate)	Seychelles (estimate)
National income and prices			
Real GDP growth (%)	3.4	6.3	3.5
Consumer Price Index inflation (end-of-period) (%)	1.3	11.1	4.9
Savings and investment			
Gross national savings (% GDP)	11.9	-1.1	18.6
Gross investment (% GDP)	17.8	32.1	33.7
Government budget			
Total revenues and grants (% GDP)	20.7	25.2	35.4
Tax revenue (% GDP)	18.6	21.5	32.4
Expenditure and net lending (% GDP)	23.5	35.5	33.0
Current expenditure (% GDP)	21.5	21.3	26.5
Wages and salaries (% GDP)	6.1	10.8	6.8
Overall balance, accrual basis (GFS) (% GDP)	-2.8	-6	2.4
Primary balance, accrual basis (GFS) (% GDP)	-0.4	-0.6	4.6
Total public debt (% GDP)	56.0	73.6	65.3
Total domestic debt (% GDP)	42.7	10	29.9
Total external debt (% GDP)	13.3	63.6	35.4
External sector			
Current account balance, including official transfers (% GDP)	-5.0	-30.2	-15.2
Gross official reserves (end of year, US$ million)	4,261	2,467	463.0
Reserves in terms of months of imports	7.6	3.0	4.6
FDI (US$ million)	340	2,880	201.0
FDI (% GDP)	2.9	18.9	14.1

1/ Refers to gross domestic savings.

Source: World Bank and IMF documents.

Note: GFS = government finance statistics.

3. The Accelerated Program for Economic Integration (APEI)

61. **The APEI reform program is complex and ambitious.** It is built around reforms in four pillars that the five countries have mutually agreed among themselves and is designed to be implemented over a three-year horizon. Many elements of this program remain aspirational and their implementation would be conditional on the provision of technical and financial assistance. Building on their commitments at the regional level and the principles of variable speed and geometry adopted by SADC and COMESA, the countries see the APEI program as the most promising path to accelerate integration among their economies.

62. **The APEI program overall focuses on four "building blocks", namely, (i) remove barriers to trade in goods, (ii) promote trade in services, (iii) enhance measures to facilitate trade and (iv) improve the business environment**. It encourages joint and accelerated implementation through accountability to peers, peer-to-peer knowledge sharing and strong engagement with the private sector. The accountability to peers will encourage countries to maintain the reform momentum and to implement the reform plan, and the peer-to-peer knowledge sharing will improve the design of the reforms as well as facilitate execution. Stronger private sector participation in the identification of reforms will increase ownership, help monitoring progress, and ensure that meaningful reforms are being tackled.

63. **To increase trade in goods, the focus is on eliminating non-tariff barriers (NTBs).** Complex regulations and procedures are now widely recognized as a critical barrier to trade in goods. Removing such NTBs therefore remains an important outstanding reform agenda. By the end of the three years, the five countries expect to have codified all NTBs, eliminated or simplified at least 5 NTBs in each country, and improved transparency by publishing remaining regulations and measures online. The countries aim to eliminate those NTBs that affect products with the highest potential for trade. They have therefore agreed to focus on removal of NTBs that will be identified through discussions with the domestic private sector and the private sector from other APEI countries.

64. **To promote trade in services, the reform program focuses on facilitating the movement of persons.** Countries aim to make it easier for their citizens to obtain business visas and work permits. They will also simplify regulations for the acquisition of immovable property. Building on their commitments under COMESA and SADC, countries agreed to gradual market opening in the transport, telecommunication, financial services, and tourism sectors with a view to reducing communication and transaction costs among them. By the end of the program, the countries expect to have signed a MoU that would outline legal changes to facilitate the movement of professionals to integrate services markets.

65. **With regard to improving trade facilitation, the program focuses on improving efficiency of customs and border management.** Long border crossing times remain a key challenge to trade due to complex and inefficient procedures, limited transparency, and requests for informal payments that such an environment permits, thereby increasing the perception of corruption. The program focuses on reforms that would improve customs risk management systems, improve processes and coordination among border agencies, and increase transparency. To reward compliant traders, the countries also plan to develop/improve schemes for authorized economic operators. The mainland countries will also seek to make it easier for trucks to move

along the major transport corridors. They aim to implement existing SADC/COMESA initiatives on harmonizing axle load limits and transit procedures.

66. **The program also foresees reforms to improve the domestic business environment.** Countries decided to complement trade-related reforms that will provide new market opportunities with domestic reforms in their countries to help firms take advantage of these emerging opportunities. The countries are focused on following the “Doing Business”-type reforms, and the program seeks to ease business registration and licensing (including through online systems). The program also aims at increasing access to—and lowering the costs of—finance, and simplify procedures for paying taxes.

67. **Peer-to-peer learning and South-South knowledge sharing complement the APEI program as fifth component.** This program also provides a platform for low-and middle-income countries that are part of APEI to learn from their varying experiences. The APEI countries are in the process of gathering information on each country's experience in implementing reforms and are developing a framework to ensure efficiency in knowledge sharing activities, including by making use of knowledge from outside the group. This approach would allow the five countries to benefit from economies of scale in accessing knowledge on international best practice.

68. **To coordinate the initiative and increase accountability to peers, the countries have set up an implementation mechanism and agreed to chair the APEI on a rotating basis.** The countries have agreed that the country who is the Chair for the APEI (this changes annually) would also act as the Secretariat for the APEI and the Bank has been supporting this process by informally playing a co-Secretariat role. This rotating Secretariat is in charge of following up on agreements reached by the countries, to prepare for frequent technical meetings by video conference, and to organize face to face meetings between these countries. Each country has set up joint public-private national working groups responsible for the APEI. The chairs of these in each country have formed a Coordinating Working Group, and this group meets on a quarterly basis to review progress made and to discuss areas for collaboration. Ministers appraise of the progress on implementation of the program and advise on the way forward during Ministerial meetings.

4. The Proposed First APEI Regional Development Policy Operation

4.1 Link to APEI Program and Operation Description

69. **All countries participating in the APEI have requested the World Bank to provide technical and financial assistance.** Over the past two years, the World Bank has supported the APEI process through technical assistance that has contributed to shaping the reform program and its adoption by the relevant Ministers. To meet the reform commitments that the five countries have made to themselves as a group, all five countries have implemented important reforms to reduce barriers to trade. To support their reform program, the World Bank has worked with the five countries to prepare a programmatic series of regional budget support operations.

70. **Factors outside the direct control of Ministries implementing the APEI prevent the first regional budget support operation covering all of the APEI countries.** The preparation of this project has required adjustment to a changing environment of country conditions. As part of this preparation process, the countries and team have realized that the challenges related to achieving macroeconomic criteria for budget support in five low- and middle-income countries in a rapidly changing environment have become larger than initially thought. The use of readiness criteria (see paragraph 13) mitigates these macroeconomic risks that are now greater than had initially been estimated. Three countries currently meet the readiness criteria, and as a result the first regional DPO in the programmatic series covers Mauritius, Mozambique, and Seychelles.

71. **The proposed operation in the equivalent amount of (US$10 million) International Development Association (IDA) and (US$19.9 million) International Bank for Reconstruction and Development (IBRD) is the first in a programmatic series of two planned Bank budget support operations to support implementation of the APEI.** Although the five countries have requested support from the World Bank conjointly and the operations in this series are regional, only Mauritius, Mozambique, and Seychelles among them currently meet the readiness criteria for budget support under this programmatic series. To reflect the regional dimension and coordination of policy reforms, the operation is covered in one program document, but financial support will be country-specific. The first operation proposes a credit in the amount equivalent to (US$10 million) to the Republic of Mozambique. It also proposes loans in the amount equivalent to (US$14.9 million) and (US$5 million) to the Republic of Mauritius and the Republic of Seychelles, respectively. This first operation in the series will help maintain the reform momentum and peer accountability of the APEI process, while encapsulating the overall reform program in the programmatic operation. The Bank continues its policy dialogue in Malawi and Zambia to help them address fiduciary and macroeconomic risks.

72. **The development objective of the proposed Regional DPO programmatic series is to improve the policy environment for trade in APEI countries by (i) removing barriers to trade in goods, (ii) promoting trade in services, and (iii) enhancing measures to facilitate trade.** The proposed program will support implementation of a key subset of reforms of the broader APEI reform program described in Section 3, above. The pillars and timing of the proposed program are aligned with three (out of four) pillars of the overall APEI program and its initial time horizon, notably to: (i) remove barriers to trade in goods, (ii) promote trade in services, and (iii) enhance

measures to facilitate trade. Within these areas, the DPO series will support the implementation of actions that will foster economic integration by reducing trade and transaction costs. The program directly supports improvement in transparency, helping to address the perception of corruption issues and formalize trade. The programmatic approach provides incentives and a framework for initiating and sustaining reform efforts over the medium term. At the same time, the approach is flexible enough to adapt to changes in the priorities of the APEI countries within the framework of the development objective of this program, and the use of readiness criteria for each of the regional DPOs in this programmatic series presents a flexible approach to budget support in a challenging macroeconomic environment. Table 3 presents the proposed prior actions for the first operation, while Annex 1 presents the overall results framework including prior actions and possible triggers for the three countries participating in this operation for the next operation. Annex 1 also contains the indicative triggers that would be used as the basis for developing prior actions for Malawi and Zambia for the second operation should both countries become eligible for budget support.

73. **The reform agenda is anchored on a coordinated action approach catalyzed by joint policy discussions.** Acknowledging the complexity of regional trade policy reforms, the program consists of a mix of country-specific reforms and others that demand bilateral and multi-county policy coordination. The countries have engaged in this program because they recognized the benefit from working together to address the challenges they face. Peer accountability and peer learning are at the core of this initiative which is built around reforms the countries have mutually agreed upon.

74. **The proposed first operation largely supports coordinated domestic reforms in Mauritius, Mozambique and Seychelles, but also includes joint initiatives**. The envisaged domestic reforms are expected to have strong positive spillovers to neighboring countries, and they are likely to have a larger economic impact if addressed in parallel. Participation in the second operation for all five countries will depend on meeting the identified readiness criteria for IDA/IBRD budget support. That operation will focus to a large degree on coordinated policy reforms. The outcomes of these reforms will largely be felt over the medium term when all the policy changes will have been effectively implemented on the ground. Impacts on intra-regional trade and contribution towards elimination of poverty will gradually materialize following the end of this series as economic actors adjust to the improved trading environment and new investments take place.

75. **Within the complex environment of trade policy reform, the delivery of regionally coordinated technical assistance has complemented the APEI process by helping to address serious capacity constraints**. The strong ownership and clear commitment to reforms among APEI countries are critical, but complementary technical assistance (TA) support will be essential to support the governments in the implementation of what can be complex and cross-cutting reforms. Such TA would help provide support to the authorities in designing and implementing policy and institutional reforms effectively and help build the capacity needed to sustain the initiative. Some TA has been and is being undertaken to support reforms agreed under the APEI, including support to Malawi in establishing a Trade Portal, to Zambia in taking stock of all regulations affecting trade flows, and to the three mainland countries in identifying regulatory

barriers to the flow of goods along the Nacala corridor.[11] Additionally, the APEI countries are currently undertaking internal assessments at the country level to identify their priority needs to ensure timely implementation of the program. Once completed, a proposal for a TA/peer-to-peer exchange project will be submitted to different partners for financial support.[12] Additional TA would also leverage experience from international best practice to complement internal peer-to-peer learning where it is required. Lack of implementation capacity is a potential risk that may impact the sustainability of this initiative, the risk section in this document (Section 6: Summary of Risks and Risk Mitigation) elaborates further on critical capacity constraints and the need for adequately funded technical assistance being available.

[11] The Development Grant Facility at the Bank and the Agence Française de Development have already committed resources to provide technical assistance to support the component on movement of professionals. The PSIA Trust Fund funded some work to assess the impact of proposed reforms in some countries. Other Bank projects in the respective portfolios of these 5 countries, especially T&C GP led projects are also likely to support APEI-linked reforms.
[12] For example, these countries could tap into resources from the WTO in the area of Trade Facilitation. However, such Non-Lending Technical Assistance (NLTA) might not be sufficient to support the inherent complexity of the reform program and its implementation.

Table 3: Proposed Prior Actions for APEI Regional DPO1

Objectives	**Mauritius**	**Mozambique**	**Seychelles**
Remove Barriers to Trade in Goods			
Increasing transparency in NTMs and streamlining NTBs	1. The Borrower's minister responsible for agro industry and food security has issued the Mauritius Agricultural Marketing (Controlled Products) Regulations 2013 which reduced the number of products requiring import and export permits by the Agricultural Marketing Board from (19) to (7). *Status: completed*	2. The Council of Ministers has approved the bill to establish a national quality system. *Status: completed*	3. The Ministry of Finance, Trade & The Blue Economy has promulgated the Customs Management (Export Permit) Regulations, 2014, removing, in line with WTO commitments, the existing requirement that all products destined for export be accompanied by an export permit. *Status: completed*
Promote Trade in Services			
	Mauritius	**Mozambique**	**Seychelles**
Liberalizing sub-sectors	4. The Borrower has submitted an offer to COMESA members with regard to liberalizing areas in the sectors of communications, transport, financial services, and tourism. *Status: completed*	5. The Recipient has entered into the SADC Protocol on Trade in Services. *Status: completed*	6. The Borrower has submitted an offer to COMESA members with regard to liberalizing areas in the sectors of communications, transport, financial services, and tourism. *Status: completed*
Simplifying procedures for getting work permits and business visas	7. The Borrower's Prime Minister's Office has taken administrative measures to facilitate the movement of business people by: (i) lengthening the duration of business visas and (ii) granting multiple-entry business visas. *Status: completed*		
Enhance Measures to facilitate trade			
	Mauritius	**Mozambique**	**Seychelles**
Improve transparency of trade procedures and processes and Improve transparency of responsibilities at borders to reduce dwell time at borders and customs clearing depots	8. The Borrower has put in place a foreign trade portal, increasing transparency by presenting all relevant trade information. *Status: completed*	9. The Recipient has expanded its single electronic window to improve transit operations by introducing the transit element into the system. *Status: completed*	12. The Borrower has put in place an online system to apply for import/export permits to improve transparency and accelerate the processing of applications. *Status: completed*
		10. The Ministry of Finance has revised its customs transit regulation with a view to increase the number of goods that are exempted from transit guarantees. *Status: completed*	
		11. The Custom Authority ("Autoridade Tributaria") has developed and launched a foreign trade portal with a view to increase transparency by presenting all relevant trade information. *Status: completed*	
Reduce clearance time by improving risk-management	13. The Customs Directorate has improved risk management by adjusting the functionalities of the Customs Management System to: (i) enable targeting of consignments for customs control before they physically arrive; and (ii) allow for automatic monitoring of post clearance reviews. *Status: completed*		14. The Borrower has: (a) migrated to ASYCUDA World to improve customs processes, including risk management at borders; and (b) established a risk management committee and a risk assessment team to improve risk management at customs. *Status: completed*

4.2 Prior Actions, Results and Analytical Underpinnings

Remove Barriers to Trade in Goods

76. **The focus of activities under this first pillar of the APEI program is on increasing transparency regarding non-tariff measures (NTMs) and streamlining or eliminating those NTBs that are affecting regional trade flows the most.** APEI countries are developing strategies to eliminate NTBs by developing inventories of NTBs and strengthening NTM monitoring committees, all with a view to review and revise existing regulations as needed.

77. **Non-tariff barriers have become relatively more important and now play a central role in increasing trade costs in the region and beyond** given that import duties have been reduced over the years, including through preferential market access under COMESA and SADC. Such non-tariff measures include outright import and export licenses and restrictions. They often change at short or with no notice, generating significant uncertainty particularly in agricultural markets and affecting production decisions by farmers. Mandatory technical standards that differ across countries function as additional barriers, and they are often outdated and function as protective measures. Such mandatory standards are also often applied in a manner that generates unnecessary high costs to importers, without making it easier for regulatory agencies to meet their legitimate public policy objectives. Reforming existing standards and their application would therefore reduce trade costs while permitting regulatory agencies to fulfil their mandates more effectively. Other regulatory requirements such as permits and certificates are frequent. The multitude of documentary requirements and how these are applied significantly increase trade costs and reduce intra-regional trade flows. A number of studies, including World Bank studies such as "De-Fragmenting Africa", "Africa Can Help Feed Africa" and others stress the central role of NTBs in reducing intra-African trade.[13]

Mauritius

78. **The government continues efforts to streamline regulations.** It improved the coordination of initiatives aimed at reviewing procedures and regulations to ease trade. An Inter-Ministerial Committee comprising six ministers was set up in July 2012 to review recommendations and proposals made by technical working groups. During 2012 and 2013, the government eliminated import permits for 26 products. The authorities have also reviewed the list of products controlled by the Mauritius Agricultural Marketing Board and decided in November 2013 that imports and exports of 12 (out of 19) products would no longer be controlled (prior action #1). The next operations will support reforms to remove additional NTBs, aim to improve transparency and set time limits with regard to the application, and processing of applications.

[13] The continued application of export bans; extensive licensing requirements; non-transparent, lengthy, and often dangerous border procedures; differences in technical regulations for food products and challenges with their enforcement; lengthy procedures for seed registration; and barriers to cross-border supply of services, including logistics services, are just a few of the many NTBs that affect trade flows in Africa.

Mozambique

79. **Mozambique has no comprehensive, publicly available list of technical regulations, and the country did not notify SADC or WTO of any standards or technical regulations in 2012.**[14] The National Institute for Standardization and Quality (Instituto Nacional de Normalização e Qualidade, INNOQ) is tasked with fulfilling these notification requirements, which will allow all stakeholders to be involved in drafting the related legislation. However, INNOQ is not fully empowered to request information on new or proposed technical regulations from line ministries. To address this issue, the authorities have decided to establish a new National Quality System with a view to improve the design of technical regulations (prior action #2). Part of this National Quality System is a National Quality Council (NQC) which will be fully empowered to actively collect information on existing and new technical regulations from line ministries and thus be able to notify the WTO and SADC.[15] The Ministry of Industry and Trade, to whom INNOQ reports, will serve as the chair of the NQC. The increased transparency resulting from collecting information on all existing technical regulations will be a critical first step toward removing or streamlining those technical regulations that function as NTBs. The next operations in this series will support Mozambique to undertake an inventory of NTBs in the country, and elimination of at least five (5) NTBs.

Seychelles

80. **In Seychelles, the authorities have been identifying and eliminating NTBs since 2008.** That year, the government eliminated all import quotas for poultry products and removed all monopoly power that the Seychelles Trading Company (STC) formerly had. In December 2011 the authorities also removed price control on all imports that existed under the Trades Tax Act (1992) and Regulations. With the support of this operation and in line with its WTO accession requirements, the Government has decided to abolish the system requiring general export permits for all products, replacing it with a system of product specific regulations and permits, reducing the overall burden on traders (prior action #3).

►**NEXT STEPS AND EXPECTED RESULTS:**

81. **The next operation in this programmatic series will support participating countries in codifying NTMs and streamlining and eliminating further NTBs.** As a clear example of coordinated policy reforms, the APEI group of countries has a target of identifying and eliminating at least 5 NTBs in each country by the end of this program. Focus would be on those NTBs identified by private sector representatives in the five countries as those NTBs perceived as most strongly affecting (regional) trade – thereby widening the discussion regarding NTBs beyond national boundaries. Other mechanisms like identification by traders within the countries themselves, as well as NTB elimination strategies, will also be used. As there is currently no inventory of NTBs available, the measures to be addressed will be identified over the course of the program.

[14] The country did, however, send four notifications on proposed legal changes to WTO, and one regulation on metrological control of prepackaged products, but they were not readily available (G/TBT/N/MOZ/1 to 5).
[15] The government has submitted the bill to establish a National Quality System to the Assembly.

Promote Trade in Services

82. **Support to regulatory and institutional reforms for the liberalization of trade in services between APEI countries is in the focus of the second pillar of the proposed DPO series.**[16] In the past, all APEI countries have made services commitments (or are in the process of finalizing them) at the multilateral level as part of the General Agreement on Trade in Services (GATS).

83. **This program supports APEI countries' efforts to deepen commitments and to engage in liberalization of trade in services at the regional level as part of the COMESA and SADC initiatives.**[17] Mauritius and Seychelles have submitted offers of specific commitments to other COMESA members (prior actions #4 and #6). These offers focus on explicit barriers to trade in services in four priority sectors - communication, financial, transport, and tourism services - and these commitments are often deeper than those made at the multilateral level.[18] Following negotiations of the initial schedules, verification of the final schedules by the COMESA Committee on Trade in Services and then their adoption by the Council of Ministers, , these commitments will be attached to the Regulations on Trade in Services, making them binding on Member States which will implement the schedules as soon as possible in accordance with the Treaty.[19] A similar process is taking place within SADC. Not being a member of COMESA, Mozambique has signed the SADC protocol on trade in services (prior action #5) and is preparing its own offers. So far, the APEI initiative has already contributed to strengthening concrete ties between the countries to promote trade in services, specifically in the tourism sector.[20]

84. **Further, the APEI countries seek to facilitate the movement of professionals across their borders by revising regulations related to business visas and work permits.** As such, the APEI countries seek to improve access to such services and aim to facilitate the movement of professionals across their borders by revising regulations related to business visas and work permits. The APEI countries' goal is to address the poor allocation and mismatch of skills demand and supply in individual countries in light of research results demonstrating that companies in Southern and Eastern Africa, making use of professional service providers have on average higher labor productivity than other companies which do not use them.

[16] APEI countries more than doubled their exports of services in the last decade. Exports of services rose from approximately US$2 million in 2002 to over US$5 million in 2011, making trade in services a dynamic component of overall trade in APEI countries. These figures imply an average annual growth rate of 11 percent, but important variations exist between countries. Service exports have grown faster from Mauritius and Zambia than those from the other countries, by an annual average of 14 percent and 12 percent, respectively. Imports and exports of services have grown less rapidly in Malawi than in any of the other APEI countries.

[17] COMESA instituted a liberalization framework in 2009. Using a GATS-type approach, countries agreed to submit offers and requests for priority sectors, focusing on explicit barriers to trade in services, but until recently few submissions had been made. This framework focuses on business, communication, construction, energy, financial, transport, and tourism services.

[18] For example, none of the APEI countries included transport commitments into their GATS schedules, but Mauritius, and Zambia have partially opened up several transport subsectors in the context of the COMESA negotiations. Seychelles submitted services offers to COMESA at the same time they submitted offers to the WTO.

[19] A regulation is binding on all the Member States in its entirety (COMESA Treaty, 1993, Article 10).

[20] For example, in an effort of reforms linked to APEI but not directly supported by this operation, Seychelles and Zambia have signed a memorandum of understanding (MoU) at the 20th General Assembly of the United Nations World Tourism Organization in Zambia in August 2013. The MoU will allow Seychelles and Zambia to cooperate and to exchange and share ideas and best practices as well as challenges and opportunities faced within the tourism industry. The areas of cooperation will cover various points, such as the promotion of events, joint research and planning, joint marketing and promotion programs, training and skills development program, and tourism investment promotion.

85. **The APEI countries are aware of the sensitive nature of the cross-border movement of service providers and are addressing this cautiously to ensure that the reforms are properly sequenced, with a view to strengthen commitments to long-term integration within a formal and binding framework**. The countries plan to develop and sign a Memorandum of Understanding (MoU) to facilitate the movement of different categories of service providers. Each of the following categories of service providers will be treated exclusively: business visitors, intra-corporate transferees, contractual services suppliers, independent professionals, graduate trainees, and non-APEI foreign nationals working in a company/firm located in one of the five APEI member countries. As part of their overall reform program, the countries have launched a study on the facilitation of movement of business people and professionals in the APEI countries to gather knowledge on the regulatory and institutional rigidities that will need to be addressed in each country. As part of this work, necessary legal changes will be proposed to make the movement of professionals simpler. The findings will help build consensus and develop the MoU which will guide the countries in implementing policy reforms. The first operation of this program supports Mauritius, which is more advanced than the other countries, in easing the entry of professionals by supporting administrative reforms that will facilitate the movement of professionals across borders.

Mauritius

86. **The government continues to ease access to the country for both business persons and tourists.** Mauritius has implemented several reforms related to work permits between 2008 and 2011. The application and approval processes for work permits have been made rules based and time bound and permits are issued in less than one week after the effective date of the submission of the application. Bank guarantees required for expatriate work permits for export oriented enterprises has been abolished. As from December 2012, Mauritius has revised the Passport Regulations to facilitate the movement of business people. The revisions extended the list of countries whose residents do not require visas or for whom visas for 2 weeks or 60 days can be issued on arrival. As a result, nationals from 29 additional countries from Africa will either be exempted entirely or will benefit from visas on arrival. Mauritius has also increased the number of countries whose residents can obtain a business visa on arrival rather than prior to arrival, through an administrative measure which has increased the number of days that a business visa is valid in a year, and started to grant multiple-entry business visas (prior action #7). Nationals of 75 countries will be positively affected by this policy change.

►**NEXT STEPS AND EXPECTED RESULTS:**

87. **The next operation will support participating APEI countries to implement domestic regulations consistent with liberalization commitments and to deepen and broaden the commitments.** The second operation will aim to assist participating countries in identifying other important changes in areas where no or no significant offers have been made.[21] Additional commitments on business services, construction, and energy services are expected to emerge as a result of ongoing negotiations at regional levels in these subsectors. The series will also enable Mozambique to undertake an analysis similar to ones that permitted COMESA members and

[21] For example, there seems to be substantial scope to deepen the COMESA commitments in several modes of supply (notably in mode 4) or to support the APEI countries in developing consistent offers under the negotiation process under SADC.

allowed them to submit their offers. By the end of this programmatic series, the target is for each country supported by this programmatic series to ensure that legislation and regulations for at least one subsector are fully compliant with the offers made under COMESA or SADC (for Mozambique). The subsectors will be defined prior to DPO-2 for those countries meeting the readiness criteria, and indicators will relate to decreases in quality adjusted prices or increased access to services.

88. **This program will also support participating APEI countries to develop an appropriate legal framework governing the movement of professionals and business people over the next operations according to market needs.** As part of this work, the team will propose necessary legal changes to make the movement of professionals simpler. By the end of the program the target for the APEI countries is to sign an MOU on business visas to facilitate the movement of different categories of service providers between the APEI countries. This reform is groundbreaking in that it starts to generate change in an area where reforms have been discussed for a very long time. Given the complexities of the political economy on this issue, the countries have decided to move at a realistic pace and ensure that all relevant stakeholders are sufficiently consulted. A realistic target in two years' time is the signing of the MoU to facilitate movement of professionals and this MoU will then serve as basis for legal changes as the APEI initiative further advances. The expected targets to be achieved are 5 per cent increases in the number of business people entering the countries as well as a 5 per cent increase in the number of travelers from other APEI countries entering.

Enhance Measures to Facilitate Trade

89. **In this third pillar, the proposed programmatic series supports regulatory and institutional reforms that will reduce clearance and dwell time at borders and clearing depots.** Research shows that only a limited share of delays originates at customs agencies at borders and ports. Thus the focus of this program is on increasing the transparency, simplicity, and predictability of trade regimes and their application for all border agencies. This will be achieved through reforms with a view to enhancing transparency of procedures, improving coordination and responsibilities between agencies at the borders, and improving risk management procedures. Improvements in these areas will facilitate the movement of goods across borders and reduce harassment and demands for informal payments, including for small traders, reduce delays resulting from physical inspection and inefficient control processes, increase compliance, and augment the effectiveness of state agencies.[22]

Mauritius

90. **The Government has operationalized its trade portal to ensure all trade related information is available in one central location** (prior action #8). Prior, ministries published administrative requirements for the trade related operations under their jurisdiction on their websites, but these were not comprehensive, current, or user-friendly. The portal has the benefit of increasing the transparency and accessibility of all regulations listed by national tariff line for

[22] Recent experiences at the Malaba border crossing between Kenya and Uganda demonstrate that regulatory and process-oriented reforms by themselves go a long way to improve the trading environment. Such reforms reduced border crossing times from 24 hours to less than 4 hours, without any investments in hard infrastructure.

both importers and exporters.[23] As a next step, the government will fully integrate all trade-related processing systems within a national single-window system, providing for interoperability, advance rulings on tariff classification, procedures for lodging appeals against the decisions of border management agencies, and allow for consultations and notifications of regulatory changes. The national single-window system is expected to be fully functional during 2016, and it will be supported by the next operations.

91. **To further improve risk management, the Government has undertaken reforms to improve the Customs Management System which it implemented in 1997.** Mauritius installed containerized cargo scanning facilities both the port and airport in 2006, and the customs management system was enhanced in 2009, when a Customs Risk Management Section was set up. With the support of this first operation of this program, the authorities enhanced customs control and improved risk management (prior action #13). It re-configured and adjusted the functionalities of the FAST module of the Customs Management System to enable targeting of consignments for customs control before they physically arrive, established a module to improve monitoring of post clearance reviews by the responsible unit, and implemented a system control to ensure the payer’s National Identity Card number is registered for cash payments exceeding a threshold of approximately US$3,300, as mandated by law.

Mozambique

92. **To improve the flow of transit goods through its territory, the Government introduced the transit element into its Single Electronic Window (Janela Única) (prior action #9).** The Single Electronic Window was established in 2011 to improve the efficiency and transparency of border operations, by permitting customs brokers to electronically submit declarations to customs and other government ministries and agencies and to make electronic payments through commercial banks. In April 2013, the government introduced the transit element into the Single Electronic Window to start closing tax loopholes.[24]

93. **To reduce delays in transit flows, the authorities revised the transit regulations in August 2013 (prior action #10).** Stricter application of already existing processes had led to significant delays at borders during the first half of 2013 for goods (both exports and intermediate imports) being transported between Malawi and Zambia through Mozambique. The problem has been raised repeatedly as constituting an NTB. Following the revision, a larger number of low-risk products that are transshipped particularly frequently are now exempt from having to pay customs bond guarantees, facilitating their processing in transit. These products include tea, maize, sugars, and other key exports from Malawi.

94. **The authorities are undertaking necessary steps to address concerns related to limited information on border operations, procedures, and responsibilities.** The authorities have transformed the customs website into a trade portal that centralizes the information required by traders and provides electronic links to documentation and forms needed for imports and exports

[23] The portal was launched in August 2013 and can be accessed at http://www.mauritiustrade.mu/en .

[24] The government revised the Customs Transit Regulations in Ministerial Diploma no. 307/2012 in November 2012 and added the transit element to the Single Electronic Window on April 1, 2013. Since that date, the use of the single electronic window is obligatory for customs clearance of transit operations (Autoridad Tributaria’s Ordem de Servicio 8/DGA/2013).

by product (prior action #11).[25] The new customs website also functions as a "front door" to the websites of other government agencies involved in trade and border operations. As part of this work, the government is planning to review the roles and activities of government agencies present at borders which could improve coordination, possibly reduce the number of agencies involved in border operation, and thereby reducing dwell time. The further development of the trade portal will be supported by the next operations.

Seychelles

95. **To improve transparency, governance, and speed up trade transactions, the Government has introduced an online import and export permit application system** (prior action #12). The government made the online import and export permit application system available to businesses in September 2012 to speed up the process of obtaining needed trade licenses. As part of this initiative, the authorities also reviewed the list of restricted and prohibited imports and rationalized the import permit regime. Some goods were moved from the prohibited to the restricted list, allowing their importation under certain conditions.[26] Currently, information on regulations by products and the necessary formalities for application of permits are not always available online, or information is scattered. To address this issue, the government has decided to establish a single online trade information portal to help increase transparency and accessibility to all regulations at a much disaggregated level, its implementation will be supported by the next operations.

96. **The authorities are also developing an effective risk management system.** They have established a Risk Management Committee (RMC) and a Risk Assessment Team (RAT) to provide advice, to propose risk treatment methods and to encourage the professionalization of risk management (prior action #14). The Customs Management Act was made effective in July 2012, and the corresponding regulations were adopted in May 2014. As next steps Seychelles will invest in analytical software to increase capacity to manage information as well as invest in scanners and weighbridges. Seychelles is also in the process of acceding to the Revised Kyoto Convention.[27] The government has also migrated to ASYCUDA World on June 1, 2013 to improve customs processes including risk management with a view to shorten clearance times (prior action #14). Submission of electronic manifests will also be permitted once an e-signature facility will be established.

►**NEXT STEPS AND EXPECTED RESULTS:**

97. **The next operation will support participating APEI countries setting up and operationalizing trade information portals and single-window systems.** This effort will require reviewing the roles and responsibilities of border agencies and streamlining processes as required. The target for participating APEI countries is to have fully operational trade portals, containing information on all procedures and documents for imports and exports, by the end of this program. Given the particular challenges that small-scale traders encounter at border crossings, where they

[25] The website on trade procedures became operational in August 2014 and can be accessed at http://www.at.gov.mz/por/Comercio-Internacional .
[26] Prohibited goods are forbidden to enter a country under any circumstances, whereas restricted goods are allowed to enter a country following production of a permit, certificate, or letter of authority from the relevant authorities.
[27] Cabinet approval was on July 10, 2013.

are often victims of particularly severe harassment and rent extraction, the second operation will also support participating countries to more aggressively publicize schemes for small-scale traders. To facilitate the flow of goods, countries collaborate to improve customs clearance procedures and aim at increase the number of one-stop border post agreements among them. The second operation could support improving transit links between Malawi/Zambia and ports in Mozambique as a priority if all countries are eligible for budget support when preparing the second operation. Consultations on the issue of transit guarantees that have taken place in the past demonstrate that collaboration among Malawi and Mozambique is effective. The next operations will also support eligible and participating countries in harmonizing vehicle dimensions and weight limits, and will support them with establishing a consistent transit bond system to reduce transport costs and make ports in Mozambique more accessible to the landlocked countries.

Analytical Underpinnings

98. **Considerable data and analysis support the selection of areas to be support under the proposed Regional DPO series.** Table 4 summarizes the analytical resources used in designing the series and the corresponding issues and reforms to be addressed.

Table 4: Analytical underpinnings for areas supported by this Regional DPO Series

Analytical underpinnings	Areas of reform supported by this series
– World Bank (2012), "De-Fragmenting Africa" – World Bank (2012), "Africa Can Help Feed Africa" – World Bank (2008), "Harnessing Regional Integration for Trade and Growth in Southern Africa" – World Bank (2012), "Streamlining Non-Tariff Measures: A Toolkit for Policy Makers" – International Trade Center (2012), "Malawi: Company Perspectives An ITC Series on Non-Tariff Measures" These studies show the prevalence of NTBs in the region, measure their negative impacts on regional and international trade, and develop approaches to address them.	Codifying NTMs; streamlining NTBs; eliminating unnecessary trade permits; improving the transparency of regulations.
– Diagnostic Trade Integration Study for Malawi and Zambia (both 2014) These studies demonstrate the need for using modern procedures at the Bureau of Standards, and the costs of trade faced by small-scale traders at borders.	Accepting certificates of conformity from internationally accredited laboratories; providing for mutual recognition; simplifying trade regimes and transparency at borders.
– USAID (2012), "Logistics Review of the Beira and Nacala Corridors" This study outlines key barriers to trade logistics along the corridors.	Operationalizing transit bonds along Zambia-Malawi-Mozambique corridors.
– World Bank (2012), "De-Fragmenting Africa" – World Bank (2012), "Africa Can Help Feed Africa" – World Bank (2012), "Developing a Trade Information Portal" These studies demonstrate the impact of roadblocks and lack of competition in transport services, as well as the detrimental impact of non-transparent procedures and regulations on trade flows all over Africa.	Removing roadblocks; harmonizing vehicle dimensions; improving transparency at borders; reducing transit times.

Analytical underpinnings	Areas of reform supported by this series
– World Bank (2012), "De-Fragmenting Africa" This study highlights the challenges for increasing trade in services among African countries.	Easing the issuance of work permits and business visas to facilitate cross-border movement of labor; making cross-border investment simpler.
– World Bank (2010), "Harnessing Regional Integration for Trade and Growth in Southern Africa" – World Bank (2010), "Reform and Regional Integration of Professional Services in East Africa: Time for Action" – World Bank (forthcoming, 2013), Professional Services Knowledge Platform for COMESA (website and database)	Removing barriers to trade in services subsectors; facilitating movement of professionals across countries.
– World Bank (2011), "Border Management Modernization" – World Bank (2012), "De-Fragmenting Africa" – Raballand et al. (2012), "Why Does Cargo Spend Weeks in Sub-Saharan African Ports?"	Reducing clearance times through improved coordination among agencies and risk management.
– World Bank (2009), "Administrative Barriers to Private Sector Development and Business Environment in the Seychelles" – World Bank (2004), "Review of the Policy, Regulatory, and Administrative Environment for Investment" – World Bank (2009), "Investment Climate Assessment for Mauritius" – World Bank (2009), "Mozambique: Investment Climate Assessment" – World Bank (2008), "What are the Constraints to Inclusive Growth in Zambia?" Report No. 44286-ZM – World Bank (2006), "Business Licensing Reforms: A Toolkit for Development Practitioners" These studies assess obstacles to investment and private-sector development, identify challenges that hinder firms' competitiveness (particularly access to finance for small firms and the lack of skilled labor), and provide options for addressing these challenges.	Easing business registration and licensing; Improve access to finance for SMEs; Increase transparency and simplify procedures for paying taxes

4.3 Link to CPF and Other Bank Operations

99. **The proposed program is aligned with the 2011 World Bank Africa Regional Strategy (Africa's Future and the World Bank's Support to it).** The Strategy emphasizes collaborative actions and regional approaches as critical game changers to stimulating trade by connecting markets and developing cost-effective economic infrastructure that can spur not only faster growth but also the competitiveness required to participate in the global economy. Its first pillar, competitiveness and employment, points towards private sector growth for sustainable poverty reduction and ultimately wealth creation through competitiveness and trade of goods and services, while the cross-cutting pillar identifies governance and public sector capacity as challenge. The proposed program responds to both challenges. It also responds to the need for lending to focus on a smaller number of high-impact operations and draw on a more diversified mix of instruments, including Regional Development Policy Operations that was identified in the Regional Integration Assistance Strategy Progress Report (March 2011).

100. **The proposed regional DPO forms an integral part of the Bank's assistance strategies in these countries**. In Mauritius, this DPO series is also closely linked to the Country Partnership Strategy FY07-15 (Report No. 37703) with a particular focus on supporting the government's efforts to improving trade competitiveness, and to improving the investment climate. In Mozambique, this operation is a key element of the Bank's Country Partnership Strategy (CPS) for FY12-15 (Report No. 66813). In particular, this program directly supports objectives under the first strategic pillar of competitiveness and employment, as well as the foundation pillar on governance and public sector capacity by supporting greater transparency and accountability. The program is also linked to the Seychelles CPS for FY12-16 (Report No. 66919). The program supports the competitiveness and employment pillar by addressing skills and human resource constraints and supporting improvements in business registration and licensing. By increasing transparency, it also addresses governance issues.

101. **The regional DPO series complements other World Bank Group operations supporting private sector development and trade related reforms.** A World Bank transport project is supporting improvements along the North-South corridor running from Tanzania through Malawi to Mozambique, while another project aims at supporting the establishment of a growth-triangle between Malawi, Mozambique, and Zambia. Reforms supported under this program would directly contribute to facilitating the flow of goods along key corridors and support the establishment of a growth triangle around the Tete province. A project on labor mobility would also benefit from this operation as the operation would help accelerate reforms in movement of people in professional services, allowing the APEI countries to take a pilot role. This operation complements the Financial Sector DPO in Mozambique and also complements the previous DPL series in Mauritius which had a trade and competiveness component.

4.4 Consultations, Collaboration with Development Partners

Consultations

102. **The APEI program reflects strong commitment from the participating countries and the countries have explicitly requested support from the World Bank.** It has been developed through a series of consultations both within the countries and among the countries. Two Ministerial meetings and three technical meetings took place between the countries within a period of 6 months which led to the adoption of the APEI reform matrix during the second Ministerial Meeting. In between the multi-country meetings, each country was undertaking consultations within their countries. Besides the development and constant refining of the substance of this program, the ministers and technicians have also developed a process aimed at making this initiative sustainable over the three year period, and beyond, if necessary. National joint public-private national working groups overview implementation and national dialogues, while a regional Coordinating Working Group is responsible for compiling the technical inputs from national stakeholders, dialogue with the other countries, preparing technical and bi-annual Ministerial meetings, and monitoring progress on implementation of the reforms. Besides the national working groups, in each country, sectoral working groups were involved in the design of the program and continue to participate to ensure implementation.

103. **The authorities have engaged the private sector since the inception of this program.** While delegations from the two MIC countries comprised of private sector representatives from

the start, private sector representatives from the IDA countries also participated as the APEI program was being developed. Coordination meetings at national level in each country, as well as the technical sub-committees also comprise of private sector participants to ensure that reforms critical to the private sector operators are addressed under this initiative. Exchanges among the private sector have also taken place without direct involvement of governments. For example, a private sector representative from Mauritius has also travelled to Malawi to share the Mauritius experience of public-private partnerships with private sector operators in Malawi.

Collaboration with Development Partners

104. **A wide range of development partners are active in the five countries, supporting APEI and complementary reforms.** The EU has been supporting this initiative since its early stages. It has funded the participation of Ministers and high level official to participate in the technical and ministerial meetings to help develop this program. The Agence Française de Development (AFD) and the Migration EU Expertise (MIEUX) are supporting one key area in the APEI program – movement of professional people[28]. Financial assistance from MIEUX and AFD would support the development of a framework for the APEI countries on the movement of professionals and business people, and to create a platform for dialogue and sharing of experiences and practices on the regional dimension of mobility of professionals. In Mozambique, USAID through their Support Program for Economic and Enterprise Development is supporting reforms, including in the area of customs. USAID, through the Southern Africa Trade Hub, is also supporting the introduction of coordinated border management at some border crossings in Malawi and Zambia, including on those along the corridor connecting the three continental countries part of this initiative. The Hub is also supporting Malawi and Zambia to connect to Mozambique's single electronic window. The EU is supporting the government in the area of standards and conformity assessment. Investments in road infrastructure along parts of the Nacala corridor are funded by the Japan International Cooperation Agency (JICA) as part of preparation of the Nacala Corridor Economic Development Strategies. The UK’s Department for International Development (DfID) is supporting trade facilitation reforms in the three continental countries, including potentially on coordinated border management in Malawi.[29] Significant research work focusing on trade has been produced by various development partners, including Diagnostic Trade Integration Studies funded by the Enhanced Integrated Framework in Geneva for Mozambique (done by UNCTAD), and Malawi and Zambia (done by the World Bank). The AFRITAC South is engaged in Mauritius and Seychelles supporting reforms at customs, including risk management.

[28] MIEUX (Migration EU Expertise) is a joint EU ICMPD initiative that aims to enhance capacities of partner countries and regional organizations to address migration and mobility issues

[29] The support from DFID has until now been implemented through Trade Mark Southern Africa. Following the recent development taking place in relation to TMSA with respect to its closure, it seems that DFID aims to continue support to the mainland countries with a focus on the areas APEI focuses on.

5. Other Design and Appraisal Issues

5.1 Poverty and Social Impact

105. **Poverty rates in this set of countries differ widely**. While the poverty rate is high in Mozambique, it is low in Mauritius and Seychelles, even in relative terms. In Mozambique, the national poverty headcount fell by 14 percentage points between 1997 and 2003 to 56 percent, while income per capita grew by 36 percent during the same period, a growth elasticity of poverty reduction of 0.4. Poverty fell between 2003 and 2009 to 52 percent, a much slower rate of decline, implying a growth elasticity of poverty reduction of only 0.1. The GINI index, although declining between 2003 and 2009, remains relatively high at 45.7, which puts Mozambique at the upper end of the distribution when compared to its peers in Sub-Saharan Africa. In Mauritius, relative poverty is 8.7 percent (2006/07 data), and approximately 1.0 percent of the population live on less than US$1 per day. The Gini coefficient is low at 39. In Seychelles, less than 2 percent of the population lives on less than US$2 per day, and around 13 percent of Seychellois live below a poverty line of US$3.5 per day. Inequality has improved between 1999 and 2007; the Gini coefficient went from 42 to 39 (2007).

106. **Overall, the proposed policy actions supported by this operation are unlikely to harm the poor, but might generate significant resistance from stakeholders currently benefitting from the status quo.** Several prior actions have the potential to deliver positive impacts on poverty in the medium term. The actions supported by this program will improve competitiveness and create jobs by reducing burdensome or unnecessary regulatory constraints to investment, trade, and business activities in general. While a more competitive economy will increase income and wealth, many of the reforms identified under the APEI are likely to reduce rents that well placed actors currently extract. These actors are likely to oppose proposed reforms, an issue that is further addressed in the risk section. As noted, the objectives of the operation are to increase trade and investment among the APEI countries, with regional partners, and the rest of the world.

107. **Reducing barriers to trade, including streamlining of NTBs, will expand opportunities to cross-border trade and create jobs**. Regulatory and administrative costs place an additional burden on businesses and render them less competitive, affecting particularly SMEs, small-scale producers, rural populations, and smaller traders (especially women) as compared to larger productive enterprises. Streamlining NTMs and eliminating NTBs is therefore expected to particularly help create jobs in SMEs which do not have the financial means to mitigate the costs of such measures. Likewise, because small-scale producers in the agricultural sectors and small-scale traders (especially in rural areas) suffer particularly from high trading costs and costs for obtaining various licenses, streamlining procedures and removing trade restrictions is expected to particularly benefit these small rural producers, which often belong to the poorest segments of society. Many of them are women and the proposed reforms are expected to reduce some of the existing gender imbalances. Simplifying their access to larger markets is expected to permit a strong supply response which would contribute to higher incomes, and higher food security in rural areas.

108. **The APEI also supports increasing the coordination and transparency of - and access to information on - regulations and procedures affecting trade**. Examples include coordination among agencies at borders, the establishment of single-window systems, and steps to facilitate electronic transactions. Simplification and transparency at the border helps small cross border traders, most of whom happen to be women and whom are particularly affected by harassment. The reforms supported under this programmatic series will reduce the scope for officials to harass operators and extract rents behind the border, provide more export opportunities for companies (through more transparent and accessible processes), decrease costs, and in particular facilitate small-scale trade in border regions. The prior actions supported in this operation contribute to these objectives.

109. **The countries, with the support of the Bank, plan to undertake a Poverty and Social Impact analysis to better understand the political economy implications of reforms**. It would provide better information for identifying specific reforms to implement in subsequent operations, and allow them to better plan, design, and implement mitigation and compensatory measures. This exercise will also help to foster dialogue, facilitate discussion between and among stakeholders (including with the government), and strengthen local ownership of the reform process. The PSIA trust fund at the Bank already funded initial work to assess the likely impact of eliminating non-tariff barriers on households in the border regions between Malawi and Mozambique, indicating that lower prices resulting from the removal of such barriers could have moderate positive welfare effects and be pro-poor. However, additional data and work will be required. The exercise would also identify potential mitigating or compensatory measures.

5.2 Environmental Aspects

110. **Policy actions supported by this regional DPO series are unlikely to have negative effects on the country's environment and natural resources.** The policies supported under this programmatic series primarily address institutional reforms aimed at facilitating trade between these countries. The reforms supported will increase productivity, reduce the costs of transactions, and probably generate an increase in the number of formal businesses likely to comply with environmental regulations. Reductions in dwell time across borders, less road blocks, and the emergence of more efficient transport service providers as competition increases may also help to reduce carbon emissions from trucks. In addition, to the degree that agglomeration effects and the emergence of regional supply chains shift sourcing decisions towards regional rather than global suppliers, overall transport costs and environmental impact could decrease.

5.3 PFM, Disbursement and Auditing Aspects

PFM

111. **The fiduciary framework in the three APEI countries covered by this operation is adequate to receive the proceeds of the credit/loan.** The sections below summarize the fiduciary aspects of the three countries.

112. **Mauritius has a satisfactory financial management system and the fiduciary framework is adequate to support the proceeds of the loan.** This was concluded by the 2010

PEFA report, reforms have continued since, and the active World Bank funded projects continue to successfully use the country systems. The report showed that 90 percent of all loans and grants received by Government in 2009 were managed using government systems with a few exceptions for loans and grants from China and India. Recent Government PFM reform efforts have been on strengthening the budget formulation and management framework mainly by implementing performance based budgeting (PBB) since 2008. The reform has resulted in improvement on PEFA 2010 assessment indicators relating to budget credibility, comprehensiveness and transparency, and policy based budgeting. External auditors have not reported any concerns with the audited financial statements of the BoM in the past few years, including the latest one of June 30, 2015. They are published on the BoM website. The Government budget is also annually published in Government website. Except for 2015 budget, all other budgets have been approved before the beginning of the financial year that starts on January 1. The delay of the 2015 budget, approved in March 2015, was due to general elections held in December 2014. An IMF safeguards assessment has not been reviewed because it was not available as Mauritius has no formal program with the IMF.

113. **Mozambique: Public financial management has been improving steadily as a reflection of the government's commitment to the reform program and the continued support of its development partners, and Mozambique's PFM system is determined to be adequate to support the PRSC series.** While weaknesses in internal controls and the limited use of external audits remain a concern, the government continues to strengthen these systems with support from development partners. Mozambique's State Budget is published by the government and accessible to the general public in printed form and through the website of MoF's Budget Directorate, both the proposed budget as well as that approved by the national assembly. Quarterly budget execution reports are also published, up to 45 days after the end of the quarter. According to the most recent Open Budget Survey the Open Budget Index for Mozambique has risen significantly, from 28 in 2010 to 47 in 2012. Recent PFM assessments conducted in Mozambique (by IMF and EU) confirm significant progress in improving PFM and identify areas in need of strengthening.[30] Similarly, anti-fraud and corruption measures in Mozambique are comprehensively established through various laws and regulations (including an outdated penal code; more recent anti-corruption laws; and a Defense of the Economy Law from 1982). The IMF concluded a Safeguards Assessment of the Mozambique Central Bank in mid-2011, which confirmed that its control, accounting, reporting, and auditing systems are adequate and aligned with international standards. The authorities are in the process of implementing the action plan that was drawn-up as a result of the safeguards assessment.

114. **Seychelles' fiduciary framework is adequate to support the proposed operation.** The 2011 PEFA confirmed that Seychelles' budget information is transparent and access to key fiscal information, such as budget documents, is freely available to the public on a timely basis. To address the weaknesses identified in the report, the government designed and is implementing a 2012–14 action plan for PFM. The Public Finance Management Act was revised in 2012 to further strengthen budget processes—design, execution, and reporting. The IMF 2013 safeguard assessment report of CBS concluded that the central banks internal controls, financial reporting,

[30] PEFA was also undertaken in 2006, 2008, and 2010.

external audit and internal audit systems are adequate and aligned to international standards.[31] CBS operations are reflected transparently in its audited financial statements.[32] The Government budgets are available on the website of the Ministry of Finance, Trade & The Blue Economy.

Disbursement

115. **The proposed credit/loan allocated to each country respectively will follow the Bank's standard disbursement procedures for development policy operations.** The financing will be disbursed separately to each country in a single tranche upon effectiveness of the related legal agreement and following the Government's request for withdrawal of proceeds of the financing. The financing will be disbursed against satisfactory implementation of the development policy program by the country and a satisfactory macroeconomic framework.

116. **In each country, the proceeds will be deposited into an account that is part of the country foreign exchange reserve at the Central/ Reserve Bank.** The local currency equivalent will be credited to the consolidated account maintained on behalf of Government for budget execution. The conversion from the foreign currency to the local currency will be based on the prevailing exchange rate on the date that the funds are credited to the budget management system. The central banks will not impose any charges or commissions on the government for these transactions. The governments will provide a letter to the World Bank within 30 days of receiving the loan proceeds written by the Accountant-General confirming that: (i) the accounts used to deposit the loan proceeds are part of the country's official foreign exchange reserves and (ii) the local currency equivalent of the loan proceeds has been recorded in the budget and in the government's accounts (including the CoA name/account number, the date, and the exchange rate used).

117. **It is expected that the funds provided to the countries will not be used for Excluded Expenditures in accordance with the Financing/Loan Agreement.** However, for any of the three countries if any portion of the proceeds of the credit/loan is used for ineligible purposes, IBRD/ IDA will require the respective government to promptly refund an amount equal to the total of the ineligible expenditures. The refunded amount will be cancelled, thereby reducing the amount of the credit/loan.

Auditing

118. **In all countries, the credit and loans' proceeds shall be audited as part of Governments' consolidated funds or foreign exchange reserve by the stipulated Government auditor**. The Bank will have access to these audit reports. Government procedures will be followed to administer, record and audit transactions relating to the credit and loans' proceeds and related payment. Since the control environment is considered to be adequate in all the countries, no additional fiduciary requirements shall apply. However, for Mozambique, IDA will reserve the right to request an audit should it feel there is a need for such. Should an audit be requested, a

[31] The assessment found that the Bank has implemented the recommendations of the 2010 assessment, namely, the Bank has strengthened its (i) external audit mechanism (by approving a new auditor independence policy and proactively implementing external auditor's management letter issues); (ii) financial reporting which are prepared in line with International Financial Reporting Standards and audited by independent audit firm using international standards of auditing; and (iii) legal framework.
[32] Since the 2009 financial year, CBS financial statements have been prepared in accordance with international financial reporting standards, and they are available on the CBS website up to that of December 31, 2013.

legally registered, private and independent audit company meeting international standards on auditing and qualifications of the auditors assigned will perform the annual audit in accordance with terms of reference to be agreed upon with the Government of Mozambique. Audit costs will be met by the Government of Mozambique.

5.4 Monitoring, Evaluation, and Acountability

119. **The policy and results matrix presented in Annex 1 of this document will be used as a primary monitoring tool by Mauritius, Mozambique, Seychelles, and the World Bank.** Using existing coordination mechanisms under APEI, the three governments and the World Bank will review the progress of the program twice a year during the bi-annual Ministerial Meetings, and a joint report will be prepared after each meeting indicating progress and measures to overcome any implementation weaknesses/ challenges that will be identified. At each of these meetings the Bank and the authorities of those countries participating in the second operation (depending on eligibility) will monitor implementation status for the forthcoming operation and discuss the monitoring indicators. In case required, the targets will be revised and the indicators updated.

120. **The National Working Groups (NWG) and the Coordinating Working Group (CWG) will be responsible for overall coordination and monitoring.** The NWGs will be responsible at country level and the CWG will be responsible the APEI level. While the CWG is responsible for monitoring progress with the implementation of reforms that all five countries have agreed among themselves and that might not be directly supported by the programmatic series, it will also monitor those reforms that are directly supported by the programmatic series, for those countries that participate. The NWGs will liaise with focal points in the other ministries, departments, and agencies involved. As the primary counterpart of the program, the Ministries of Finance and Planning will be responsible for furnishing information to the Bank, as required, to monitor outcomes in the results matrix. Periodic monitoring and dialogue by the Bank with relevant line ministries and other stakeholders involved in implementing the reforms will take place through field missions to ensure that the reform program stays high on the agenda of the countries. Such mission will take place every quarter. The Bank will brief the CWG subsequently during its monthly meetings on relevant findings and discuss mechanisms to address any slow down or deviation in reform efforts.

121. **All APEI countries have the necessary institutional capacity to generate and provide data to monitor progress for almost all the areas, including those that might become eligible to participate in the second operation.** However, in some areas, primarily the area of trade facilitation this capacity is somewhat limited. As such the Bank will field experts to both generate the required data as well as build capacity in the countries to collect and analyze such data.

122. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could

occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit www.worldbank.org/grs. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. Summary of Risks and Risk Mitigation

123. **The main risks affecting the implementation of this program are grouped into two broad categories: (i) political and governance, technical design, and institutional capacity (grouped together as implementation risks); and (ii) macroeconomic and fiduciary risks.** Details on these risks and corresponding mitigation measures are elaborated below. The overall risk rating level of this program is **moderate**. The SORT table can be found in paragraph 132.

Implementation Risk

124. **Overall modest implementation risks are expected due to the (i) complex political economy of trade-related reforms; (ii) technical design, specifically the inherent complexity of the program; and (iii) limited implementation capacity in these countries,** and these factors could be mutually reinforcing one another.

125. **Political and Governance Risks: While this regional DPO supports changes in the regulatory environment and supports formalization of informal trade which will help increase cross-border investments, improve provision of services and enhance related job prospects, the complex political economy of trade-related reforms may generate an additional layer of political and governance risks.** Many of the reforms identified under the APEI are likely to reduce rents that current complex procedures, regulations, and processes generate. The reforms are therefore particularly likely to be faced with resistance from current beneficiaries, who may have higher influencing power than the (ex-ante difficult to identify) winners, thereby adversely influencing the implementation of reforms in one or more countries. Pressing alternative political demands or changes of key policy makers could also undermine the ownership of the program, potentially creating a negative impact on the overall momentum for reforms. To mitigate these risks and maintain peer accountability, continued political engagement with governments at a sufficiently high level, as well as support for tailored peer-to-peer exchanges will be important.

126. **Technical Design Risks: The proposed regional DPO programmatic series is complex as it seeks to support the implementation of reforms which are substantial in scope and which require a multiplicity of coordination**. Such required strong coordination between different stakeholders within each country, as well as between the participating countries at different levels of development, is very challenging. It is evenly important to ensure simultaneous or joint implementation of reforms. Should relationships get strained, this could prevent constructive collaboration and pose risks to successful implementation. In addition, countries are implementing reforms within a framework of variable speed and variable geometry that needs to be coordinated with the broader regional integration efforts under COMESA and SADC, ensuring the initiative remains open for other countries to join on the basis of the reform program.[33] That only three of the five countries eligible to participate in the first budget support operation to assist them with their reform efforts under APEI increases the complexity of coordinating reforms across the countries over time.

[33] The five countries through the Chair of APEI have formally informed the SADC and COMESA Secretariats of the initiative. They are also keeping the Secretariats updated regarding progress made.

127. **Institutional capacity for implementation and sustainability: Limited institutional capacity (of varying degrees) in the countries could delay or otherwise negatively impact the design and implementation of reforms.** Lack of understanding of the objectives and long-term positive impacts of the proposed reforms by various Ministries and Agencies could slowdown implementation. Should one or more countries slow the implementation process because parts of its institutional apparatus do not remain on track, there is a possibility that this could lead to parallel slowing down of implementation in neighboring countries. In **Mauritius**, limited capacity in sector ministries makes it difficult to design, implement, and monitor reforms effectively limiting the progress with the APEI reform program given the intellectual role that Mauritius plays in this initiative. In **Mozambique**, the weak and uneven administrative and technical capacity of public agencies may cause reforms to be implemented slowly or inconsistently or limit the scope of reforms in any of the policy areas supported by this program. In **Seychelles**, capacity for implementation at sector ministries and departments is limited because the pool of professionals is small.

128. **To mitigate the institutional capacity risks, the countries have built mechanisms into the APEI that will strengthen accountability to peers and stakeholder dialogue.** Due to the element of peer accountability, this program is expected to change the political economy considerations in each country and to address perceptions that often undermine the implementation of reforms aimed at strengthening regional integration. A rotating Secretariat oversees a strong coordination mechanism involving public and private stakeholders (see Section 3), but to further strengthen this mechanism, countries are considering to allocate dedicated staff to the Secretariat. To assist with developing a more effective dialogue between the various stakeholders within each country as well as among them, APEI countries as a group have also approached the European Centre for Development Policy Management (ECDPM) for support in developing effective public-private partnerships by strengthening the policy management capacity of institutions. Together with efforts to maintain the stability of the technical staff in the relevant implementing agencies, this will mitigate institutional capacity risks, particularly in Mozambique.

129. **In addition, a continuing strong program of technical assistance will help raise capacities and technical knowledge in APEI countries for the design and implementation of reforms.** Such a program is needed to ensure (i) that institutions like the Coordinating Working Group and the Secretariat are strengthened and (ii) that governments receive sufficient technical support in terms of building knowledge through high-level analytical work that will help inform the design of reforms and how to implement them. It will also help sustain the APEI program and the proposed operation in particular. The Bank has increased its engagement at the technical level in all five countries as part of its support to the APEI (see also section 4.1). In each of the mainland countries, a Diagnostic Trade Integration Study has been prepared helping to orient the APEI priorities. In addition to the general support to APEI, the Bank's analytical program (completed and ongoing) will support reforms in some of the areas covered and enhance institutional capacity in key line ministries of participating countries, particularly in Mozambique.

Macroeconomic Risk

130. **Given their strong linkages to the global economy, risks for macroeconomic deterioration in Mauritius, Mozambique, and Seychelles exist.** In the unlikely event that these countries suffer from a major slowdown in growth, there could be pressure to slow down

implementation of reforms supported by this program as protectionist pressures increase. For **Mauritius and Seychelles,** a more protracted and extended slowdown in Europe to which these countries remain highly exposed could erode economic prospects, but both countries have the means to cope with external economic uncertainties as foreign exchange reserves stand at 7.6 and 4.7 months of imports for Mauritius and Seychelles, respectively. On the fiscal front, Mauritius has built some space following the recent containment of public expenditure, with a reduction of the fiscal deficit and public debt, while Seychelles faces limited fiscal space remains, given the target to bring public debt down to 50 percent of GDP by 2018. For **Mozambique,** global slowdown could lead to deteriorating terms of trade, reductions in FDI, and new limitations on donor assistance, especially direct budget support. Over the medium term, higher growth in the extractive industries could result in an appreciating domestic currency and "Dutch disease" effects on labor-intensive sectors such as agriculture and services. To mitigate these risks, the government attempts to maintain a high level of reserves and adhere to a flexible exchange-rate regime. Over the medium term to long term, the authorities are working on policies to counter real exchange rate appreciation to continuing to build its domestic revenue base to gradually reduce its dependence on foreign aid.

131. **Fiduciary and fiscal concerns might affect the eligibility of all countries to participate in the second operation of the series, particularly for Malawi and Zambia.** Due to fiduciary issues in Malawi and fiscal concerns in Zambia, both countries have not met the readiness criteria for the first DPO. While fiduciary issues are starting to subside in Malawi and the fiscal environment is also likely to improve in Zambia, risks remain that the macroeconomic environment will not be suitable to providing budget support to one or both of these countries when the second operation is prepared. Continued policy dialogue in both countries will contribute to mitigating these risks. In Malawi, dialogue (together with other development partners) around the master plan to improve the PFM systems continues, and dialogue around a possible national DPO that could help strengthen the fiduciary environment is supporting the government in addressing fiduciary concerns. In Zambia, the Bank is working closely with the IMF to assist the government in managing the macro risk.

132. **SORT**

Risk Categories	**Rating (H, S, M or L)**		
	Mozambique	**Mauritius**	**Seychelles**
1. Political and governance	M	M	M
2. Macroeconomic	M	M	M
3. Sector strategies and policies	M	M	M
4. Technical design of project or program	M	M	M
5. Institutional capacity for implementation and sustainability	S	M	M
6. Fiduciary	M	L	L
7. Environment and Social	L	L	L
8. Stakeholders	M	L	L
9. Other			
Overall	M	M	M

7. Annexes

Annex 1: Policy and Results Matrix[34]

PDO: To improve the policy environment for trade in APEI countries by (i) removing barriers to trade in goods, (ii) promoting trade in services, and (iii) enhancing measures to facilitate trade

Remove Barriers to Trade in Goods					
Increasing transparency in NTMs and streamlining NTBs					
	Malawi	**Mauritius**	**Mozambique**	**Seychelles**	**Zambia**
Prior Actions for first regional DPO		1. The Borrower's minister responsible for agro industry and food security has issued the Mauritius Agricultural Marketing (Controlled Products) Regulations 2013 which reduced the number of products requiring import and export permits by the Agricultural Marketing Board from (19) to (7). *Status: completed*	2. The Council of Ministers has approved the bill to establish a national quality system. *Status: completed*	3. The Ministry of Finance, Trade & The Blue Economy has promulgated the Customs Management (Export Permit) Regulations, 2014, removing, in line with WTO commitments, the existing requirement that all products destined for export be accompanied by an export permit. *Status: completed*	
Indicative Triggers for second regional DPO	The Recipient's Ministry of Trade and Industry has reduced the list of products requiring export permits from 25 to 10.		The Recipient's Government has undertaken an inventory of all NTBs.	The Borrower's Government has undertaken an inventory of all NTBs.	The Recipient's Cabinet of Ministers has approved the establishment of a common technical regulations framework compliant with regional and international obligations.
	The Recipient's Government has eliminated 5 NTBs identified through a codification exercise or consultations with the private sector				
Result Indicator: Reduction in Number of Non-Tariff Barriers	Baseline: not applicable Target: 5 NTBs removed	Baseline: not applicable Target: 5 NTBs removed	Baseline: not applicable Target: 5 NTBs removed	Baseline: not applicable Target: 5 NTBs removed	Baseline: not applicable Target: 5 NTBs removed

[34] Annex 1 includes prior actions and possible triggers for the second operation for those three countries that participate in the first operation (Mauritius, Mozambique, and Seychelles). It also contains indicative triggers that would be used as the basis for developing prior actions for Malawi and Zambia for the second operation should these countries become eligible for budget support.

Promote Trade in Services					
Liberalizing sub-sectors					
	Malawi	**Mauritius**	**Mozambique**	**Seychelles**	**Zambia**
Prior Actions for first regional DPO		4. The Borrower has submitted an offer to COMESA members with regard to liberalizing areas in the sectors of communications, transport, financial services, and tourism. *Status: completed*	5. The Recipient has entered into the SADC Protocol on Trade in Services. *Status: completed*	6. The Borrower has submitted an offer to COMESA members with regard to liberalizing areas in the sectors of communications, transport, financial services, and tourism. *Status: completed*	
Indicative Triggers for second regional DPO	The Recipient has submitted an offer to COMESA members with regard to liberalizing areas in the following sectors: communications, transport, financial services, and tourism.		The Recipient's Government has submitted an offer to SADC with regard to liberalizing sub-sectors under communications, transport, financial services and tourism.		The Recipient has submitted an offer to COMESA members with regard to liberalizing areas in the following sectors: communications, transport, financial services, and tourism.
	The Recipient's Government has amended legislation and regulations to reflect regional commitments on at least one services subsector				
Result Indicator: Will be defined prior to DPO-2 as they are specific to the sectors where legislation will be revised. Relating to decreases in quality adjusted prices or increased access	Baseline: Target: To be defined	Baseline: Target: To be defined	Baseline: Target: To be defined	Baseline: Target: To be defined	Baseline: Target: To be defined

Promote Trade in Services					
Simplifying procedures for getting work permits and business visas					
	Malawi	**Mauritius**	**Mozambique**	**Seychelles**	**Zambia**
Prior Actions for first regional DPO		7. The Borrower's Prime Minister's Office has taken administrative measures to facilitate the movement of business people by: (i) lengthening the duration of business visas and (ii) granting multiple-entry business visas. *Status: completed*			
Indicative Triggers for second regional DPO	Using the powers entrusted to him under the Immigration Act, the Recipient's Minister of Home Affairs has delegated the issuance of work permits to the Chief Immigration Officer with a view to accelerate issuance of work permits.				The Recipient has decentralized the Zambia Immigration Management System (ZIMS) at all of its border posts with a view to improve efficiency at these posts for the issuance of temporary employment permits and visas.
	The Recipient's Government has signed an MoU with all other APEI countries to facilitate the movement of different categories of service providers				
Result Indicator: Number of business people moving among countries increased	Baseline: Number of business people entering: 474,601 (2013) Target: 5 percent increase (2016) Baseline: Number of people from APEI countries entering: 293,000 (2012) Target: 5 percent increase (2016)	Baseline: Number of business people entering: 37,410 (2013) Target: 5 percent increase (2016) Baseline: Number of people from APEI countries entering: 7371 (2013) Target: 5 percent increase (2016)	Baseline: Number of business people entering: 311,767 (2013) Target: 5 percent increase (2016) Baseline: Number of people from APEI countries entering: 244,000 (2013) Target: 5 percent increase (2016)	Baseline: Number of business people entering: 8,027 (2013) Target: 5 percent increase (2016) Baseline: Number of people from APEI countries entering: 3,783 (2013) Target: 3972 (2016)	Baseline: Number of business people entering: 479,892 (2013) Target: 5 percent increase (2016) Baseline: Number of people from APEI countries entering: 93,392 (2013) Target: 5 percent increase (2016)

Enhance Measures to Facilitate Trade					
Improve transparency of trade procedures and processes and Improve transparency of responsibilities at borders to reduce dwell time at borders and customs clearing depots					
	Malawi	**Mauritius**	**Mozambique**	**Seychelles**	**Zambia**
Prior Actions for first regional DPO		8. The Borrower has put in place a foreign trade portal, increasing transparency by presenting all relevant trade information. *Status: completed*	9. The Recipient has expanded its single electronic window to improve transit operations by introducing the transit element into the system. *Status: completed*	12. The Borrower has put in place an online system to apply for import/export permits to improve transparency and accelerate the processing of applications. *Status: completed*	
			10. The Ministry of Finance has revised its customs transit regulation with a view to increase the number of goods that are exempted from transit guarantees. *Status: completed*		
			11. The Custom Authority ("Autoridade Tributaria") has developed and launched a foreign trade portal with a view to increase transparency by presenting all relevant trade information. *Status: completed*		
Indicative Triggers for second regional DPO	The Recipient has reduced the processing fee under the simplified trade regime to a nominal value of US$1 in line with COMESA's recommendation.	The Borrower's Government has established a national single window.	The Recipient's Government has approved a policy to improve collaboration between border agencies based on a review of roles and responsibilities of these agencies.	The Borrower's Cabinet (i) has approved a policy to improve collaboration between border agencies based on a review of roles and responsibilities of these agencies and (ii) has put in place a foreign trade portal.	The Cabinet of Ministers has submitted to parliament a border management bill which will provide for coordinated border management among agencies at borders and establish a lead agency at each of its borders.

	The Recipient's Government (i) has revised legislation and regulations to reduce the number of agencies present at land borders from 14 to 5 and (ii) has put in place a foreign trade portal.				The Recipient's Government has improved the existing foreign trade portal by adding all other relevant information needed for trade transactions.
Result Indicator: Traders report improved access to information on all procedures and documents for importing and exporting	Baseline: Access to trade related information is not comprehensively available Target: Access to trade related information is comprehensively available.	Baseline: Access to trade related information is not comprehensively available Target: Access to trade related information is comprehensively available.	Baseline: Access to trade related information is not comprehensively available Target: Access to trade related information is comprehensively available.	Baseline: Access to trade related information is not comprehensively available Target: Access to trade related information is comprehensively available.	Baseline: Access to trade related information is not comprehensively available Target: Access to trade related information is comprehensively available.
Result Indicator: Average clearance time for imports at borders key for intra-APEI trade reduced (without physical inspection)	Baseline: Mwanza: 64 hours (2015 - DB) Target: 61 hours	Baseline: Port Louis: 24 hours (domestic LPI – 2014) Target: 21 hours	Baseline: Nacala: more than 48 hours (median clearance time) Target: 43 hours	Baseline: Victoria 99 hours (2015 – DB) Target: 90 hours	Baseline: Chirundu: 19.6 hours (2012 – GPS data Global Track) Target: 18.6 hours

Enhance Measures to Facilitate Trade (continued)					
Reduce clearance time by improving risk-management					
	Malawi	**Mauritius**	**Mozambique**	**Seychelles**	**Zambia**
Prior Actions for first regional DPO		13. The Customs Directorate has improved risk management by adjusting the functionalities of the Customs Management System to: (i) enable targeting of consignments for customs control before they physically arrive; and (ii) allow for automatic monitoring of post clearance reviews. *Status: completed*		14. The Borrower has: (a) migrated to ASYCUDA World to improve customs processes, including risk management at borders; and (b) established a risk management committee and a risk assessment team to improve risk management at customs. *Status: completed*	
Indicative Triggers for second regional DPO	The Recipient has assented to the Revised Kyoto Convention to lock in its ongoing reform agenda of simplifying customs procedures and improving risk management tools.	The Borrower's government (i) has undertaken a gap analysis for risk management procedures at borders compared to internal best practice and (ii) has approved a policy to address identified gaps.	The Recipient's government (i) has undertaken a gap analysis for risk management procedures at borders compared to international best practice and (ii) has approved a policy to address identified gaps.	The Borrower's government (i) has undertaken a gap analysis for risk management procedures at borders compared to internal best practice and (ii) has approved a policy to address identified gaps.	The Zambia Revenue Authority (ZRA) has: (i) migrated to ASYCUDA World to improve customs processes including risk management at borders, and (ii) has established a risk management unit within the ZRA to develop effective risk management procedures and introduce them into practice.
	The recipient's revenue authority (i) has migrated to ASYCUDA World to improve customs processes including risk management at borders, and (ii) has updated and started using the selectivity module in ASYCUDA (World) to improve risk based targeting of consignment.	The Borrower's Government has developed a risk-based approach for the use of scanners.	The Recipient's Government is in compliance with the RKC on risk management.	The Borrower's Government has approved a risk-based usage policy for the use of the "palette" scanner.	The recipient's revenue authority has updated the selectivity module to improve risk based targeting of consignment to ensure that scanners are used to speed up clearances.
Result Indicator: Reduction in share of consignments physically inspected by customs	Baseline: 43% (Sept 2014) Target: 40.5%	Baseline: 6.3% (2013) Target: 5.7%	Baseline: 40% (estimate, 2014) Target: 36%	Baseline: 29.4 % (all shipments, Jan-Sept 2014) Target: 26.5%	Baseline: 8.9% (LPI 2014) Target: 8.5%

Enhance Measures to Facilitate Trade (continued)					
Harmonize Transport standards and ensure effective functioning of transit arrangements					
	Malawi	**Mauritius**	**Mozambique**	**Seychelles**	**Zambia**
Indicative Triggers for second regional DPO	The Governments of Malawi, Mozambique and Zambia have signed an agreement to facilitate regional transit trade along the Beira/Nacala-Malawi-Lusaka corridor by reducing key regulatory barriers and bring domestic regulations into conformity with regional commitments.		The Governments of Malawi, Mozambique and Zambia have signed an agreement to facilitate regional transit trade along the Beira/Nacala-Malawi-Lusaka corridor by reducing key regulatory barriers and bring domestic regulations into conformity with regional commitments.		The Governments of Malawi, Mozambique and Zambia have signed an agreement to facilitate regional transit trade along the Beira/Nacala-Malawi-Lusaka corridor by reducing key regulatory barriers and bring domestic regulations into conformity with regional commitments.
	The Recipient's Government (i) has approved a strategy to address the issue of multiple road blocks and (ii) has approved a policy to harmonize Axel load limits and vehicles dimensions in line with SADC & COMESA standards.		The Recipient's Government (i) has approved a strategy to address the issue of multiple road blocks and (ii) has approved a policy to harmonize Axel load limits and vehicles dimensions in line with SADC standards, except for roads with physical constraints.		The Recipient's Government (i) has approved a strategy to address the issue of multiple road blocks and (ii) has approved a policy to harmonize Axel load limits and vehicles dimensions in line with SADC & COMESA standards.
Result Indicator: Transit time to Beira/Nacala reduced	Baseline: Blantyre to Beira 3 days (2013); Blantyre to Nacala 3 days (2013) Target: 10% reduction		Baseline: see Malawi and Zambia Target: see Malawi and Zambia		Baseline: Chipata to Nacala by rail: 4 days (2014); Chipata to Beira by road: 4 days (2013) Target: 10% reduction

Annex 2: Medium-term Outlook Indicators for Each Participating Country

Mauritius selected economic indicators, 2011–17 (calendar years)

Indicator	2011	2012	2013	2014	2015 (estimated)	2016 (projected)	2017 (projected)
National income and prices							
Real GDP growth (%)	3.9	3.2	3.2	3.6	3.4	4.2	4.1
Consumer Price Index inflation (end-of-period) (%)	6.5	3.9	3.5	3.2	1.3	3.0	3.0
Savings and investment							
Gross national savings (% GDP)	13.0	12.7	11.8	11.6	11.9	15.1	16.2
Gross investment (% GDP)	24.0	23.0	21.2	19.1	17.8	23.6	23.7
Government budget							
Total revenues and grants (% GDP)	21.4	21.5	21.4	20.6	20.7	20.6	20.5
Tax revenue (% GDP)	18.3	18.9	18.6	18.6	18.6	20.3	20.3
Expenditure excluding net lending (% GDP)	24.6	23.2	24.9	23.8	23.5	23.6	23.2
Current expenditure (% GDP)	19.5	19.4	20.7	20.9	21.5	21.9	19.5
Wages and salaries (% GDP)	5.6	5.4	6.2	6.2	6.1	6.3	5.6
Overall balance, accrual basis (GFS) (% GDP)	-3.2	-1.8	-3.5	-3.2	-2.8	-2.9	-2.7
Primary balance, accrual basis (GFS) (% GDP) (incl. grants excl. net lending)	-0.2	1.2	-0.9	-0.6	-0.4	-0.2	0.0
Total public debt (% GDP)	53.0	52.1	53.9	54.1	56.0	54.2	53.2
Total domestic debt (% GDP)	42.9	41.6	41.2	41.0	42.7	43.4	42.5
Total external debt (% GDP)	10.2	10.5	12.6	13.1	13.3	10.8	10.7
External sector							
Current account balance (% GDP)	-13.8	-7.3	-6.3	-5.6	-5.0	-5.0	-5.0
Gross official reserves (end of year, US$ million)	2,778	3,046	3,491	3,919	4,261	4,359	4,883
Reserves in terms of months of imports	4.6	4.9	5.2	6.2	7.6	7.7	7.8
FDI (US$ million)	448	681	449	462	340	415	520
FDI (% GDP)	4.0	5.9	3.8	3.7	2.9	3.4	3.9

Source: World Bank and IMF documents

Mozambique selected economic indicators, 2011–17

Indicator	2011	2012	2013	2014	2015 (estimated)	2016 (projected)	2017 (projected)
National income and prices							
Real GDP growth (%)	7.1	7.2	7.1	7.2	6.3	6.5	7.2
Consumer Price Index inflation (end-of-period) (%)	5.5	2.2	3	1.1	11.1	5.6	5.6
Savings and investment							
Gross domestic savings, exc. grants (% of GDP)	2.1	-0.9	12.5	9.5	-1.1	4.6	8.2
Gross domestic investment (% GDP)	31.7	47.4	54.5	46.9	32.1	40.6	65.8
Government budget							
Total revenues (% GDP)	19.7	21.9	26.3	27.3	25.2	26.2	26.7
Tax revenue (% GDP)	17.2	18.7	22.3	23.4	21.5	22.5	22.9
Expenditure and net lending (% GDP)	31.9	30.7	34.0	42.2	35.5	33.9	33.7
Current expenditure (% GDP)	17.8	18.1	19.2	23.8	21.3	20.2	19.8
Wages and salaries (% GDP)	9.3	9.6	10.3	11.2	10.8	10.6	10.4
Overall balance after grants, accrual basis (GFS) (% GDP)	-5	-3.9	-2.7	-10.6	-6	-4	-4.3
Domestic Primary balance before grants, accrual basis (GFS) (% GDP)	-2.8	-1	0.9	-4.1	-0.6	1.6	2.7
Total public debt (% GDP)	37.5	39.9	50.9	56.6	73.6	69.5	65.9
Total domestic debt (% GDP)	6.3	5.5	8.6	8.5	10	8.6	6.8
Total external debt (% GDP)	31.2	34.5	42.4	48.1	63.6	60.8	59.1
External sector							
Current account balance (in % of GDP)	-23.1	-44.7	-39.1	-34.1	-30.2	-33.1	-55.4
Gross international reserves (US$ million)	2,428	2,798	3,191	3,071	2,467	2,768	3,277
Reserves in terms of months of imports	2.5	2.7	3.3	3.9	3.0	2.3	2.0
Net FDI (US$ million)	2,599	5,626	6,175	4,902	2,880	3,188	7376
FDI (% GDP)	19.7	37.1	38.6	28.9	18.9	21.5	44.9

Source: World Bank and IMF documents

.

Seychelles: Selected economic indicators, 2011–17

Indicator	2011	2012	2013	2014	2015 (estimated)	2016 (projected)	2017 (projected)
National income and prices							
Real GDP growth (%)	5	2.8	5.3	3.7	3.5	3.3	3.6
Consumer Price Index inflation (end-of-period) (%)	5.5	5.8	4.3	2.3	4.9	3.8	2.5
Savings and investment							
Gross national savings (% GDP)	6	11	23.2	17.5	18.6	19.4	18.6
Gross investment (% GDP)	35	37.4	38.1	36	33.7	34.1	33.5
Government budget							
Total revenues and grants (% GDP)	38.2	38.9	35.1	36	35.4	33.4	33.1
Tax revenue (% GDP)	31.8	34.4	31.1	31	32.4	31.4	31.3
Expenditure and net lending (% GDP)	35.7	36.7	35.1	33.2	33.0	32.2	31.8
Current expenditure (% GDP)	27.6	25.8	26.1	26	26.5	25.3	24.9
Wages and salaries (% GDP)	6.8	7.1	7.3	7.6	6.8	5.8	5.6
Overall balance, accrual basis (GFS) (% GDP)	2.5	2.4	1	0.9	2.4	1.2	1.4
Primary balance, accrual basis (GFS) (% GDP)	5.4	6.2	5.2	4.4	4.6	3.8	3.8
Total external public sector debt (US$ million)	490	512	520	549	575	537	533
Total public debt (% GDP)	73.2	77.5	62.6	66	65.3	59.5	54.7
Total domestic debt (% GDP)[1]	27.7	32.2	26.6	27.3	29.9	23	20.5
Total external debt (% GDP)	45.6	45.3	36	37.2	35.4	36.5	34.2
External sector							
Current account balance, including official transfers (% GDP)	-29	-26	-17	-22	-15.2	-14.6	-15
Gross official reserves (end of year, US$ million)	277	307	425	456	463	544	567
Reserves in terms of months of imports	3	3	4	4	4.6	4.5	4.6
Tourism earnings (US$ million)	291	310	344	366	375	399	423
FDI (US$ million)	180	145	138	111	201	142	198
FDI (% GDP)	21.8	17.5	15.1	16.5	14.1	9.6	12.8

Source: National Bureau of Statistics, Central Bank of Seychelles, IMF, and staff estimates.

1. Includes debt issued by the Ministry of Finance for Monetary purposes

Annex 3: Letters of Development Policy

Mauritius

REPUBLIC OF MAURITIUS

Office of the Minister of Finance and Economic Development

In reply please quote **CF/50/10/50/81/1 V2** **Date: 22 February 2016**

Mark R. Lundell
Country Director for Mauritius, Comoros, Madagascar, Mozambique and Seychelles
The World Bank
Avenida Kenneth Kaunda
1224 Maputo
Mozambique

Dear Mr Lundell,

Letter of Development Policy

The Government of Mauritius is requesting a regional Development Policy Operation (DPO) amounting to EUR 13.7 million from International Bank for Reconstruction and Development (IBRD) to support the Accelerated Program for Economic Integration (APEI). The operation will support the joint reform program agreed by Mozambique, Seychelles, Mauritius, Zambia and Malawi as countries participating in the APEI to improve the policy environment for trade within the African region. Support through the regional DPO and related technical assistance will allow all APEI countries to jointly move forward with the implementation of this regional initiative agreed among the five APEI countries in March 2013.

This operation will allow Mauritius to facilitate trade in services and the movement of people, reduce barriers to the flow of goods, and to improve the trade facilitation environment. The reforms directly contribute to the Africa Strategy as laid out by Mauritius which focuses on expanding trade and economic integration with Africa by supporting domestic companies to increase exports and outward FDI towards the rest of the continent and to position Mauritius as a gateway to Africa.

Macroeconomic context

The Mauritian economy grew on average by 3.4 percent annually from 2012-2014. For 2015, latest estimates indicate that growth was similar, at around 3.4 percent. The objective of government is to achieve higher growth of approximately 5.5 percent annually during the current term, propelling Mauritius into the league of high income economies. Appropriate measures are, therefore, being taken to boost investment, especially private investment, revitalise existing economic sectors, develop new sectors with high growth potential, upgrade and develop the physical infrastructure, create more jobs, and increase exports of goods and services.

Government House, Port-Louis, Republic of Mauritius
Office : (230) 201 2416, 201 2431 – Fax : (230) 213 6450 – Email : slutchmeenaraidoo@govmu.org

In recent years, exports, historically a major growth driver for Mauritius, have come under pressure from the erosion of trade preferences and tepid growth in major export markets. In view of these developments, efforts have been made to diversify the export market, particularly towards emerging economies and the region. The share of exports to Africa has increased to around 20 percent now compared to 12 percent a decade ago. Almost one third of total tourist arrivals are from Africa. Over the past five years, an average of one fifth of total FDI inflows originated from Africa.

Mauritius has also been investing significantly in African countries, particularly in sectors such as financial services, business services, agribusiness, logistics and distribution, and manufacturing. Around 10 percent of imports are sourced from African countries. This share is likely to increase as intra-regional trade further develops.

Going forward, while Mauritius will continue to consolidate its traditional markets, an increasing share of its trade and investment transactions will be with Africa which has yet to exploit fully its growth potential.

Africa Strategy

The Africa Strategy aims at providing the right incentives to position Mauritius as the 'virtual office' of Africa, promoting the expansion of business in Africa by targeting African countries registering sustained growth and capturing a greater share of the African outbound tourists. In addition, through this strategy, economic engagement with Africa, which is considered as the new global frontier of growth, will be actively pursued in a manner that Mauritius becomes recognised as an important economic gateway to Africa.

As at date, Mauritius has established 19 bilateral Double Taxation Avoidance Agreements and 19 Investment Protection and Promotion Agreements with its African neighbours. It has also established Bilateral Air Services Agreement/Memorandum of Understanding with the various African countries. The harbour of Port-Louis is also connected via shipping lines to a few African ports.

Our relationship with Africa also extends to cooperation in the field of education and capacity building. Government operates a Mauritius Africa Scholarship Scheme whereby scholarships are granted to African students. 50 scholarships were allocated for the 2015.

Mauritius is also hosting three institutions that focus on regional capacity building, namely, the AFRITAC South, the Africa Training Institute and the Regional Multidisciplinary Centre of Excellence. These capacity building institutions work in developing the capacity of African leaders by supporting reforms and institutional development through technical assistance, peer-to-peer learning and support and through training on macro-economic and financial policy issues.

Mauritius has waived visa entry requirements for 48 African countries. In addition to granting multiple-entry business visas, the duration of business visas was extended from 90 to 120 days to facilitate the movement of business people.

In addition, with the Expanded Africa Strategy 2014, Government has put in place a new freight rebate scheme that would encourage trade with the region. Government is providing a subsidy of

25 percent of the freight cost on containers exported to Africa with the exception of South Africa and Madagascar.

In its continued effort to help bring in investment into Africa, the Government of Mauritius is intensifying its actions to provide support to local investors to tap the African market. The setting up of a Mauritius-Africa Fund, with a seed capital of MUR 500 million committed over five years, will encourage local enterprises to invest in Africa. The Mauritius Africa Fund is also working on the development of Integrated projects in Africa and currently is focusing on the development of a Technology Park in Ghana and Special Economic Zones in Senegal and Madagascar.

Furthermore, Government has put in place an Export Credit Guarantee Insurance scheme that will provide 50 per cent subsidy on the cost of Credit Guarantee Insurance for exports to Africa. These initiatives are being supported by the newly created Africa Centre of Excellence, an entity within the Board of Investment, which provides information to potential investors on business and employment opportunities in Africa.

Recent and planned reforms related to this operation

As part of our commitments to our partners in the APEI, and in line with our continued efforts to streamline regulations, Mauritius has recently amended the Mauritius' Agricultural Marketing Regulations 1971 to reduce the number of products requiring import and export permits by the Agricultural Marketing Board from 19 to 7. We are aiming to continue this work and to further review existing Non-Tariff Measures and Barriers in the future. As part of the APEI, we intend to remove five NTBs that most strongly affect regional trade and which we will jointly identify with the private sector and our partners.

To facilitate the movement of people and reduce barriers to trade in services, we will continue to participate in the ongoing services negotiations at the COMESA level where we have submitted initial and revised offers, focusing on the four priority sectors under negotiation: communications, transport, financial services, and tourism. We intend to submit offers in three additional sectors at the COMESA level as well as firm up offers in the context of negotiations within SADC. We have taken administrative measures to facilitate the movement of business people into Mauritius such as lengthening the duration of business visas and granting of multiple-entry visa. APEI countries have jointly undertaken a study to analyse the regulatory and institutional rigidities that hamper the movement of business people and professionals. To advance that agenda, we are currently discussing a Memorandum of Understanding (MoU) in order to address the poor allocation and mismatch of skills demand and supply initially among the five APEI countries and subsequently across African national borders.

We are also working towards facilitating trade transactions and reducing costs and delays to economic operators in APEI. Mauritius has put in place a trade portal in August 2013 that presents all relevant regulations for importers and exporters in a transparent manner. Its coverage is currently being enlarged to include a Trade in Services component. Our customs department intends to improve its risk management systems. Our efforts will lead to a significant reduction in the share of consignments inspected from 6.5 percent in 2013 to 5.7 percent in 2017, while ensuring that only safe products enter Mauritius. We intend to also create an online platform, namely a Trade Obstacle Alert Mechanism that would enable operators to report obstacles they might be facing to the relevant Agencies for remedial actions. Moreover, guidelines are intended to be issued for the conduct of Regulatory Impact Assessment.

With the support of this DPO, we intend to:

- Review and amend legislation and regulations if required for at least one of the services sectors under negotiation within COMESA.
- Submit additional market access offers to COMESA and SADC.
- Sign the MoU with all other APEI countries to facilitate the movement of different categories of service providers once concensus has been reached.
- Establish and launch a fully functional national single window to improve the processing of trade transactions.
- Assess remaining gaps in terms of risk management procedures at borders, agree on a policy to address them, and start to close such gaps.

As result of the reform efforts, we estimate that border clearance times are going to decrease by 10 percent to 21 hours. We also expect that professional service providers will be able to more easily move among the APEI countries and that the number of business travellers to Mauritius will increase with 5 percent over the next two years. This will allow professionals to work where they are needed and give APEI-companies access to much needed services. As we continue to improve the business environment, we are confident that these changes will allow a larger number of private companies to benefit from the opportunities that integration into regional and global markets offers.

Conclusion

We would like to commend the continued support of World Bank to APEI. We see this initiative as a critical element in our efforts to ensure that regional integration processes advance and that the flow of goods and people is facilitated. We expect that our collaborative efforts translate into results that others in the region would replicate, thereby advancing the overall integration process. This will foster economies of scale, expand market size and make our economies more attractive to investments.

Despite all the existing and emerging challenges, the Government is determined to continue the reform efforts under the APEI and move forward this regional initiative. We are confident that we shall achieve our objectives with the support of the World Bank and other development partners. We, therefore, rely on the continuing support of our development partners.

Sincerely Yours.

S. Lutchmeenaraidoo, G.C.S.K.
Minister of Finance and Economic Development

Mozambique

REPÚBLICA DE MOÇAMBIQUE
MINISTÉRIO DA ECONOMIA E FINANÇAS
GABINETE DO MINISTRO

Oficio14/MEF/2016 *Maputo, January 27th, 2016*

Subject: ***First Regional Development Policy Operation (DPO) to support the Accelerated Program for Economic Integration (APEI) in the amount of US$ 10 million from the International Development Association (IDA)***

Dear Mr. Lundell,

1. I am writing on behalf of the Government of Mozambique to request the first regional DPO to support the Accelerated Program for Economic Integration (APEI) in the amount of US$ 10 million from the International Development Association (IDA). The operation is supporting the joint reform program agreed with partner countries participating in the APEI to improve the policy environment for trade within the region. Support through the regional DPO will help meet the financing requirements to continue the reform agenda agreed among the five APEI countries in March 2013.

2. We would like to commend your continued support to the Accelerated Program for Economic Integration that we are implementing together with Malawi, Mauritius, Seychelles and Zambia, and which aims at fostering regional integration and improving the policy environment for trade in the region.

3. The objective of the regional operation is to support our participation in this regional initiative that addresses non-tariff barriers, facilitates the flow of goods across our borders, and reduces barriers to trade in services.

To:
Mr. Mark Lundell
World Bank Office
Maputo – Mozambique

4. The new Plano Quinquenal do Governo (PQG) for 2015-2019 aims to generate inclusive and sustainable growth and we expect that the reforms agreed under the APEI will help us to achieve the objectives of the PQG, especially in the areas of improving productivity, regional integration, and good governance.

5. The reforms directly contribute to our objective of regional integration and we expect they will also contribute to lower trade costs to increase competitiveness of Mozambican enterprises. This will allow new companies to grow and to reach new markets. We expect this to contribute to the creation of new employment opportunities that will help to further reduce poverty. At the same time, increasing transparency in trade transactions will reduce the opportunities for informal processes.

6. Mozambique's economy remains robust, with growth estimated at 7 percent in 2015, supported by growth in the financial sector, agriculture and trade. Extractive industries continue to be a very dynamic sector, but growth has slowed down as a result of low commodity prices and infrastructure constraints. We expect developments in the mining and petroleum sectors to transform Mozambique's economy in the medium term, resulting in strong growth in coal production and exports, the implementation of large infrastructure investments, including in LNG plants and greater dynamism in the construction and transport sectors.

Development Strategy and Poverty Reduction

7. We are committed to sustain our pursuit of more inclusive growth during and beyond the Action Plan for Poverty Reduction (PARP) through the 2015-2019 Development Strategy (Programa Quinquenal do Governo - PQG).

8. The PARP aimed to induce patterns of inclusive growth by increasing the allocation of funds for investment under the following pillars: (i) enhancing production and productivity in agriculture and fishing; (ii) creating employment; and (iii) enhancing social and human development. It focused on enhancing production and productivity in agriculture through an agricultural sector development strategy (PEDSA) and an agricultural investment plan (PNISA) for 2013-17. We also adopted a new strategy for the Improvement of the Business Environment 2013-17 (EMAN II) to strengthen the ability of the private sector to create productive employment. Some of these reforms are also part of our dialogue with the APEI. The PARP also focused on increasing primary school enrolment and the creation of an increasingly gender-equitable system, particularly in secondary schools.

9. Our Development Strategy for the next five years (the PQG) continues to aim at inducing patterns of inclusive and sustainable growth. It is built around five pillars that aim to i) consolidate national unity, peace, and independence; ii) develop the human and social capital, iii) promote employment and improve productivity and *competitiveness, iv) develop economic and social infrastructure, and v) to ensure sustainable and transparent management of natural resources and of the environment. Three supporting pillars focus on consolidating democracy, good governance and decentralization, a stable macroeconomic environment, and reinforced regional cooperation and they will help us achieve our overall objectives.*

10. The PQG aims to promote an inclusive, efficient, and effective education system, improve the access to more and better health and other key services, and to promote gender equality with the objective of further developing the human and social capital in Mozambique. It also aims to promote employment and improve productivity and competitiveness in all sectors, but particularly in agriculture where 78 percent of the economically active population are employed.

11. The PQG does also aim to encourage value addition to primary products and to diversify the export base by supporting SMEs, strengthening systems for standards and certification, and fully implement the SADC Free Trade Area to promote industrialization to modernize the economy. The PQG in addition aims to develop economic and social infrastructure through expanding and renewing trade infrastructure, such as rail, ports, and logistics, but also through investing in social infrastructures such as public administration, the legal system, and vocational training.

12. The regional operation we are requesting directly contributes to a number of elements of the PQG, especially the improvement of productivity and competitiveness, the implementation of the SADC FTA and stronger regional integration, and efforts aimed at increasing good governance. For example, increased transparency will contribute to our efforts to fight on corruption as predictable procedures increase transparency and accountability. The reduction of non-tariff barriers and the establishment of a national Quality System directly contributes to the objectives of improving competitiveness and promoting the modernization of the economy, while efforts to facilitate the movement of people and to facilitate the movement of goods along the corridors towards Malawi and Zambia will support our regional integration efforts.

Recent and planned reforms related to this operation

13. We have set up the Accelerated Program for Economic Integration as a mechanism to reduce trade costs, increase trade and investment flows, and diversify exports of goods and services and to ultimately raise incomes. The reform agenda has been formulated with technical assistance from the World Bank and other development partners, and also builds on recent analytical work stressing the benefits from strengthening regional integration in Africa.

14. The initiative has been set up with the objective of jointly implementing commitments made at the SADC level and provide additional impetus to the implementation of reforms that at times has been slow. As five 'like-minded' countries, we see the benefits of stronger integration and aim to lead by example. Through the APEI, we collaborate and jointly accelerate implementation of such reforms. Our reform follows the concept of variable geometry that both COMESA and SADC have endorsed. They directly support and complement, rather than rival, our existing regional integration initiatives in the region, including the tripartite agenda.

15. As part of our commitments to our partners in the APEI, we have recently approved the Bill to establish a new National Quality Council with a view to improve the design of technical regulations. The National Quality Council (NQC) will be fully empowered to actively collect information on existing and new technical regulations from line ministries and thus be able to notify the WTO and SADC. The Ministry of Industry and Trade, to whom the National Institute for Standardization and Quality reports, will serve as the chair of the NQC.

16. The increased transparency resulting from collecting information on all existing technical regulations will be a critical first step toward removing or streamlining those technical regulations that function as NTBs. We are aiming to take stock of existing Non-Tariff Measures and Barriers, and to remove some of those that most strongly affect regional trade and which we will jointly identify with our partners.

17. Regarding the removal of barriers to trade in services, we have recently signed the SADC Protocol on Trade in Services and are currently preparing offers in the areas of communication, financial, transport, and tourism services that will be submitted to SADC. These offers will then be negotiated among SADC members before being agreed.

18. We are also working in parallel with partner APEI countries to improve access to professional services in our countries and aim to facilitate the movement of professionals across our borders by revising regulations related to business visas and work permits. To this end, we are working with our partner countries to facilitate the movement of service providers and have undertaken a study to better understand the regulatory and institutional rigidities that would have to be addressed.

19. To improve the flow of transit goods through Mozambique, the Government has also introduced the transit element into the Janela Única (single window). The Single Electronic Window was established in 2011 to improve the efficiency and transparency of border operations, by permitting customs brokers to electronically submit declarations to customs and other government ministries and agencies and to make electronic payments through commercial banks. In April 2013, the government introduced the transit element into the Single Electronic Window to start closing tax *loopholes. To that end, we revised the Customs Transit Regulations in Ministerial Diploma no. 307/2012 in November 2012 and added the transit element to the Single Electronic Window on April 1, 2013. Since that date, the use of the single electronic window is obligatory for customs clearance of transit operations.*

20. We expect that facilitating the movement of goods along the corridors towards our neighbors will also benefit Mozambican operators as an overall increase in the number of operations at our ports can reduce costs and increase the number of ships calling. This should allow companies located in the areas close to the ports of Beira and Nacala to reach overseas markets more easily and at lower costs. As part of that work, we revised the transit regulations, and a larger number of low-risk products that are particularly frequently transshipped are now exempt from having to pay customs bond guarantees. This facilitates their processing in transit.

21. The government is also working on increasing the transparency of trade transactions and the customs website has been transformed into a foreign trade portal that centralizes the information required by traders and provides electronic links to documentation and forms needed for imports and exports by product. You can access the website at http://www.at.gov.mz/por/Comercio-Internacional. It contains information that is needed by importers and exporters on a product basis and also contains links to other government agencies involved in trade and border operations. We aim to keep adding information to the trade portal and to ensure it remains up-to-date and a reliable source of information for the private sector.

22. With the support of this and the second operation, we intend to:

- *submit an offer to SADC with regard to liberalizing sub-sectors under communications, transport, financial services and tourism, and amend legislation and regulations to reflect regional commitments on at least one of these subsectors*
- *sign the MoU with all other APEI countries to facilitate the movement of different categories of service providers*
- *work to improve the collaboration among border agencies based on a review of roles and responsibilities of these agencies*
- *undertake a gap analysis for risk management procedures at borders compared to international best practice and start to address identified gaps as they particularly relate to the Revised Kyoto Convention*
- *continue to work with Malawi and Zambia to facilitate regional transit trade along the Beira/Nacala-Malawi-Lusaka corridor by reducing key regulatory barriers and bring domestic regulations into conformity with regional commitments, and address issues related to road blocks*

23. We expect that as result of the reform efforts, border clearance times are going to decrease significantly as non-tariff barriers are removed and risk management permits faster clearance time. We also expect that professional service providers will be able to more easily move among the APEI countries, allowing professionals to work where they are needed and giving APEI-companies access to much needed services, allowing them to compete regionally and globally. As we continue to improve the business environment, we are confident that these changes will allow a larger number of private companies to benefit from the opportunities that integration into regional and global markets offers.

24. It is important to continue these efforts and to consolidate the reform efforts undertaken so far conjointly with our partners in the APEI. We hope that our collaborative efforts through the APEI can quickly lead to results that others in the region will want to replicate, thereby advancing the overall integration process that is so important in the globalizing economy. Without the reduction of barriers among our countries, our companies will find it challenging to reach economies of scale, and inward investments will remain limited as market size remains small if goods cannot easily be shipped within the region.

25. The government is therefore determined to continue the reform efforts under the APEI, and requests the World Bank to continue their support to the initiative going forward.

With highest consideration

Yours Sincerely

Adriano Afonso Maleiane
Minister of Economy and Finance
Governor for Mozambique

cc.
H.E. Ernesto Max Elias Tonela
Minister of Industry and Commerce

H.E. Ernesto Gouveia Gove
Governor of Bank of Mozambique

Seychelles

Republic of Seychelles
Ministry of Finance, Trade & the Blue Economy

The Minister

22nd January, 2016

Mr. Mark R Lundell,
Country Director, Seychelles, Comoros,
Madagascar, Mauritius and Mozambique Africa Region

Dear Mr. Lundell,

In reference to the First Regional Development Policy Operation for the Accelerated Program for Economic Integration (APEI) with the view to harnessing foreign investment, creating enhanced employment opportunities and fostering higher economic growth and investment flows Malawi, Mauritius, Mozambique, Seychelles and Zambia, have agreed to accelerate their economic integration process and competitive edge.

In this respect, the Government of Seychelles would like to request a regional development policy operation to support the afore mentioned in the amount of US$ 5 million. The development objective of the operation is aimed at improving the policy environment for trade in APEI countries.

Through the provisions of invaluable technical assistances and support through the regional DPO will contribute significantly to the participating countries collaborative effort in spearing forward the implementation of this five likeminded APEI countries as agreed in March 2013.This will also further facilitate Seychelles financial undertakings in meeting the criteria's that some of these reforms require.

The development policy operation will assist the process of trade liberalization of trade in services and enhance the trade environment. The reform directly supports Seychelles strategic effort in fostering economic prosperity through regional integration through diversification of products and markets.

/2...

Liberty House, P O Box 313, Mahé, Republic of Seychelles
Telephone 4382000 Fax 4325161 E-mail: minister@finance.gov.sc

With the support of the IMF and other development partners the Seychelles authorities have been able to maintain strong fiscal performances, as witnessed by an annual average fiscal primary surplus. This has allowed us to continue to bring down public debt to more sustainable levels, following debt restructuring agreed by our creditors in 2009 with a goal of reducing over the medium term our debt to 50% of GDP. During that period we have also maintained a prudent monetary policy that has helped bring inflation down to low single digits. The Central Bank has also continued to accumulate gross official reserves to above 4 and a half months of imports.

Despite uneven global growth, the Seychelles economy has remained buoyant. Economic activity for 2015 has picked up compared to 2014. It is estimated that in 2015 the economy has grown by 4.3 per cent compared to the initial 3.0 per cent forecast at budget. The upward revision is attributed to more favorable outcome from tourism activity as well as continued growth in the 'Information and Communication' sector. Tourism activities have picked up this year with visitor arrivals growing by double digits since the start of the year. By the end of July, visitor arrivals increased by 17 per cent compared to the same period last year. The growth is being strongly supported by the traditional European market as well as the new emerging Asian market showing growth of 11 per cent and 39 per cent respectively. Following the strong performance in 2015, activities are expected to be less buoyant in 2016. it is estimated that the economy will grow by 3.3%. Hence Seychelles strongly believes that its macroeconomic framework for 2014–16 is adequate for development policy lending.

Besides the initiative being created as a response to the call for more rapid reforms and economic integration it is also aimed at building on the APEI countries regional commitments and the principles of variable speed and geometry adopted by SADC and COMESA which other countries are equally welcome to join in the future. The APEI is founded on the approach of collective action and most importantly peer to peer accountability to drive the reforms. Seychelles expects economic linkages to be strengthened by the improvement of the business regulatory environment, eliminated trade barriers and better collaboration through peer to peer learning and knowledge sharing.

The countries have engaged in this program because they recognized the benefit from working together to address the common challenges they face. We are grateful for the technical assistance provided by the World Bank and other development partners in supporting the APEI.

In line with promoting trade in services, the reform program focuses on facilitating the movement of persons. Seychelles facilitates so via the introduction of temporary entry permit that allows non citizens to undertake gainful economic activities for relatively short periods of time with few restrictions. Visitors are generally granted a 30 day stay in the first instance, following which three-month extensions can be sought for up to 12 months .Mobility of skills and professionals is vital for economies in Africa and other emerging markets from the development perspective.

/3...

Liberty House, P O Box 313, Mahé, Republic of Seychelles
Telephone 4382000 Fax 4325161 E-mail: minister@finance.gov.sc

It is also important to note that Seychelles recently amended its export permit list to only products that are considered sensitive. Moreover Seychelles licensing authority announced the launch of its licensing E-service accessible via the government of Seychelles main e service portal, aimed at improving the performance of services and facilitating trade transactions. The portal offers taxation, import and export permit, business registration. To complement this initiative for more transparency, our customs department also continues to improve its operation and to accelerate clearance time by the introduction of ASYCUDA world.

Finally we would like to express our deepest gratitude and acknowledge your continued support to the accelerated program for economic integration that we are executing along with other reform oriented countries namely, Mozambique, Malawi, Mauritius and Zambia. Recognizing the need for higher cooperation in the region is essential to the achievement of development goals. We hope that our joint efforts translates into fruitful outcomes thereby pressing on the overall integration process.

With Highest Consideration,

Yours sincerely,

Jean Paul Adam
Minister of Finance, Trade and the Blue Economy

Liberty House, P O Box 313, Mahé, Republic of Seychelles
Telephone 4382000 Fax 4325161 E-mail: minister@finance.gov.sc

Annex 4: IMF Relations Annex

IMF Executive Board Concludes 2015 Article IV Consultation with Mauritius
Press Release No. 16/116
March 17, 2016

On March, 11, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Mauritius.

Mauritius has continued to grow at a moderate rate of 3.4 percent in 2015, as weak external demand, protracted decline in construction, and the collapse of a large financial conglomerate group more than offset the positive impact of favorable terms of trade. Inflation remains low (0.4 percent in January 2016), reflecting in part declining oil prices and shipping costs. Unemployment hovers around 8 percent, although it is higher among women and the youth. The external current account deficit narrowed to about 5 percent of GDP and international reserves increased to 6.5 months of imports, supported by continued capital inflows.

The monetary policy stance remains broadly appropriate against the backdrop of subdued inflation. The Bank of Mauritius reduced its key policy rate by 25 bps in November 2015, to 4.40 percent, in order to support the domestic economy, while making progress in mopping up excess domestic currency liquidity.

In the financial sector, credit growth is gradually recovering and overall, the banking system remains well capitalized. Nonetheless, domestic non-performing loans have been rising and provisioning has not kept pace with the decline in asset quality. In addition, the authorities face macro-financial challenges stemming from risk exposures and potential spillovers from the very large offshore sector and its sizeable inter-linkages with domestic banking activities.

The budgetary performance turned more prudent in 2015, reversing the deterioration of recent years. In 2015, both the overall consolidated deficit and the primary deficit remained below earlier budget projections, and improved relative to 2014. Nonetheless, public debt continued to increase (by more than 2 percentage points of GDP) due to the government's interventions in the financial sector and the impact of the depreciating rupee on external debt.

The country's statistical capacity continues to be strengthened as the authorities actively pursue efforts to improve the coverage of the offshore sector in official data, and to introduce a real estate price index.

Executive Board Assessment[2]

Directors commended the authorities' efforts to maintain a stable macroeconomic environment and foster a more diversified economy. While the country's economic outlook is favorable, they noted the macro-financial risks from a potential slowdown in offshore activities and vulnerabilities in the banking sector. They encouraged the authorities to continue to strengthen macroeconomic and financial sector resilience and to pursue structural reforms to raise productivity and growth.

Directors urged the authorities to address potential spillover risks from the complex inter-linkages between large offshore activities, the banking system, and the domestic economy. They underscored the importance of upgrading the macro-prudential policy framework, and recommended creating a macro-prudential authority with a central role for the bank regulator to improve the assessment and mitigation of systemic risks. They also emphasized the urgency of addressing information gaps regarding offshore business companies and their role in conglomerate groups.

Directors stressed the need to improve consolidated supervision and oversight of mixed conglomerates, in line with the FSAP recommendations. They recommended reconsidering tax incentives that distort bank risk-taking toward cross-border and offshore activities; promoting better foreign currency liquidity management at domestic banks; strengthening the ability of the Bank of Mauritius to supervise bank holding companies and monitor cross-border risks; developing a comprehensive framework for crisis prevention and management; and upgrading the bank resolution framework prior to introducing deposit insurance. Directors also noted that the financial inter-linkages and potential spillover risks warrant a further bolstering of foreign currency buffers, and encouraged the authorities to seek appropriate financial insurance mechanisms. Directors supported the cautiously accommodative monetary stance in view of the subdued inflation environment.

Directors welcomed the authorities' efforts to halt the fiscal deterioration in recent years and stressed the importance of putting in place a credible medium-term strategy to safeguard debt sustainability. With a view to creating space for growth-enhancing infrastructure investment, they recommended containing current spending while better targeting priority social expenditure, broadening the tax base, improving the efficiency of public entities, and targeting divestiture proceeds for debt reduction. They also underscored the need to introduce an operational framework for monitoring fiscal risks and contingent liabilities arising from public-private partnerships.

Directors welcomed the authorities' commitment to raise growth and competitiveness by addressing infrastructure bottlenecks and skills mismatches, reducing the cost of doing business, and facilitating further diversification of the economy. In this context, they underscored that increased female labor force participation and immigration of skilled workers would help mitigate the impact on growth of the projected labor force decline.

Mozambique: IMF Executive Board Completes Fifth PSI Review, Approves US$282.9 Million Credit Facility and Concludes 2015 Article IV Consultation with Mozambique

Press Release No. 15/580
December 18, 2015

On December 18, 2015, the Executive Board of the International Monetary Fund (IMF) completed the fifth review of Mozambique's economic performance under the program supported by the Policy Support Instrument (PSI).

In completing the review, the Executive Board approved the authorities request for waiver and modification of three assessment criteria for December 2015 to account for the changed environment and revised microeconomic projections.

The Board also approved Mozambique's request for an SDR 204.5 million, (about US$282.9 million) Standby Credit Facility to supplement the PSI to augment reserves and maintain macroeconomic stability, with a first SDR 85.2 million disbursement (about US$117.9 million) available immediately. The SCF aims to alleviate the external balance of payments shocks, and through strengthening macroeconomic stability, to achieve the government's goals on poverty reduction and inclusive growth.

The Executive Board approved the PSI for Mozambique on June 24, 2013 (see Press Release No. 13/231).

Following the Executive Board's discussion, Mr. Min Zhu, Deputy Managing Director and Acting Chair, issued the following statement:

"Despite challenges, Mozambique's economic growth continues to be robust and inflation remains low. However, lower commodity prices and a decline in foreign exchange inflows have generated a temporary balance of payments gap. The authorities have taken strong policy measures to preserve macroeconomic stability. Continued implementation of prudent policies under the standby credit facility will be essential to ensure debt sustainability, safeguard against external shocks, as well as promote strong and inclusive growth.

"The authorities' front-loaded corrective measures, including a tightening of the 2016 budget deficit and of the monetary policy stance in 2015, as well as a reform of the foreign exchange market should help to stabilize the economy. Rigorous implementation of the budget, enhanced VAT management, close monitoring of fiscal risks, and allowing for continued exchange rate flexibility will be key to restoring macroeconomic stability. The central bank should stand ready to further tighten liquidity conditions as needed. Work on an action plan to improve the profitability of the EMATUM fishing company should be fast tracked to reduce its risk to the government budget.

"Significant progress has been made on structural reforms. To make Mozambique's strong growth performance more inclusive and broad based, the reform agenda needs to focus on enhancing public financial management, including budget controls and fiscal transparency, and developing the institutional framework and building capacity to prepare for the management of natural resource wealth. Priority should also be given to reforming the energy sector, improving access to financial services, and strengthening the business environment. A vigorous debt management strategy will be crucial to address the challenges of significant infrastructure gaps at a time when debt vulnerabilities have been rising."

The Executive Board also completed the 2015 Article IV Consultation with Mozambique.

Despite lower commodity prices and a weaker global environment, Mozambique's economic prospects remain positive given planned massive investment in natural resources. While GDP growth averaged 7 percent over the last five years, Mozambique's per-capita income ($624 in 2014) and human development index (178 out of 187 countries) remain low. There is a need to continue implementing policies that support fiscal sustainability, infrastructure investment, and inclusive growth.

Mozambique's economic outlook remains robust. Growth of 6.3 percent is expected in 2015, and remains below potential at 6.5 percent in 2016, mainly due to a stagnant mining sector and substantially tighter fiscal and monetary policies. Over the medium term, growth is projected to recover to 7.5–8 percent, supported by massive investment in natural gas projects and higher coal production if key agreements can be reached for coal and gas sector development. Inflation is expected to increase towards the BM's medium target of 5–6 percent, due to the recent depreciation of the metical and adjustments in administered prices.

Balance of payments pressures are increasing and the exchange rate has depreciated substantially. While the overall current account is improving due to a decline in import-intensive megaproject investments (given the end of the gas exploration phase), the non-megaproject current account has continued to worsen, intensifying pressures in the foreign exchange market. Foreign exchange market pressures, first experienced in late 2014 and early 2015, subsided during April–July but have since re-emerged. The non-megaproject current account deficit largely drives these pressures in the domestic foreign exchange market. During July 2014–June 2015, this deficit worsened by $1.7 billion compared to the previous 12 months. This deterioration was caused by lower commodity prices and declining FDI and external aid, while imports remained dynamic owing to strong domestic demand fueled by expansionary fiscal and monetary policies. The depreciation of the metical has so far not had a noticeable impact on import demand.

The fiscal consolidation agreed under the PSI program has been implemented by the new administration. Following election-related fiscal slippages in 2014, the 2015 budget started to place public finances on a more sustainable path through a reduction of about 1.5 percent of GDP (excluding one-off factors in 2014) in public spending. The main objective of fiscal policy in 2016 is to ensure debt sustainability and contribute to the required external adjustment.

Executive Board Assessment

Executive Directors noted that while Mozambique's economic growth remains robust, lower commodity prices and a decline in foreign direct investment and donor support have adversely affected the economy and generated a temporary balance of payments gap. Directors commended the actions taken by the authorities to maintain macroeconomic stability and agreed that continued strong commitment to prudent policies and deeper structural reforms under the Fund-supported program is essential to reduce vulnerabilities and foster sustainable and inclusive growth.

Directors supported the tighter monetary policy stance and encouraged the authorities to take further action, as needed, to curb inflationary pressures and improve the foreign exchange market. Continued exchange rate flexibility would help safeguard foreign reserves and absorb the impact of external shocks. Directors supported the efforts to strengthen the financial sector and encouraged the authorities to fully implement their Financial Sector Development Strategy so as to improve access to small and medium-sized enterprises.

Directors commended the authorities for substantially scaling back external borrowing in light of rising risks of debt distress. Going forward, they called for rigorous budget implementation by strengthening the management of VAT, reducing wage bill growth, and closely monitoring fiscal risks, especially those arising from government guarantees and public enterprises. Directors highlighted the urgent need to develop an action plan to improve the profitability of the EMATUM fishing company.

Directors commended the progress on structural reforms, including on the mining and hydrocarbon legislation which should facilitate further investments in the large natural gas projects. They encouraged a renewed focus on enhancing budget controls and fiscal transparency and developing the institutional framework and building capacity to prepare for the management of natural resource wealth. Directors welcomed the recent adjustments in electricity tariffs and advised the authorities to accelerate fuel subsidy reforms, while protecting the most vulnerable segments of the population.

Directors emphasized that fostering financial inclusion and improving the business environment would help make Mozambique’s strong growth more inclusive and broad-based. They called for greater emphasis on the effective use of public resources, transparent investment project analysis and prioritization, and vigorous debt management strategy, given the significant infrastructure gaps and rising debt vulnerabilities.

Seychelles: IMF Executive Board Completes Third Review Under the Extended Fund Facility Arrangement for Seychelles, and Approves US$2.3 Million Disbursement

Press Release No. 15/582
December 21, 2015

The Executive Board of the International Monetary Fund (IMF) today completed the third review under the Extended Fund Facility arrangement (EFF) with Seychelles. The completion of the review enables a disbursement of SDR 1.635 million (about US$2.3 million), bringing total disbursements under the arrangement to SDR 6.540 million (about US$9.1 million). The Executive Board's decision was taken without a meeting.

The EFF was approved on June 4, 2014 (see Press Release No. 14/262) for SDR 11.445 million (about US$15.7 million, at the time of approval of the arrangement or 105 percent of Seychelles' quota), and follows the expiration of the previous EFF in December 2013.

Macroeconomic outcomes in 2015 have been positive and the external current account deficit is estimated to have narrowed substantially, supported by low commodity prices and higher than expected tourism receipts. Program implementation remains on track, and all end-June performance criteria were met. Economic growth for 2015 has been revised up from 3.5 to 4.3 percent, reflecting strong tourist arrivals and expanding credit to the private sector. The exchange rate appreciated 6.7 percent against the US dollar during the first three quarters of the year. Together with low oil and food prices internationally, this supports a subdued outlook for inflation. The Central Bank of Seychelles (CBS) continued accumulating foreign exchange, bringing the reserve coverage to just under five months of imports. With the primary fiscal surplus expected to be close to 4 percent of GDP in 2015, the authorities are continuing to make progress in reducing the country's debt burden. The outlook for 2016 remains benign, with growth projected at around 3.3 percent.

With inflation and private sector credit growth slowing, the authorities can now move to normalize monetary conditions. Given the commendable progress in building external buffers, further foreign exchange purchases can now be limited to those necessary to preserve coverage at adequate levels. Continued fiscal discipline will be a critical anchor for macroeconomic stability. At the same time, improved attention to the quality of fiscal expenditures should ensure sufficient space for critical investment in human and physical capital, and thereby support inclusive and sustainable growth. Looking ahead, the structural agenda should focus on improving the business climate, particularly with regard to small and medium-sized enterprises. Further progress in reducing vulnerabilities will also be critical, including addressing potential fiscal risks stemming from public enterprises, and ensuring that the offshore sector operates in line with international best practice.