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The World Bank

Report No: NCO00002292

NOTE ON CANCELLED OPERATION
(IBRD-76410)

ON A

LOAN

IN THE AMOUNT OF US$18 MILLION

TO THE

REPUBLIC OF MAURITIUS

FOR A

MAURITIUS ECONOMIC TRANSITION (TECHNICAL ASSISTANCE) PROJECT

March 25, 2013

Finance and Private Sector Development
Eastern and Southern Africa - AFTFE
Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective March 2013)
Currency Unit = MUR
US$ 1.00 = MUR 30.00

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AFD	Agence Française de Développement
BFA	Business Facilitation Act
BOI	Board of Investment
BOM	Bank of Mauritius
CPS	Country Partnership Strategy
DB	Doing Business
DPL	Development Policy Lending
EU	European Union
FM	Financial Management
GDP	Gross Domestic Product
GoM	Government of Mauritius
GPN	General Procurement Notice
IBRD	International Bank for Reconstruction and Development
ICA	Investment Climate Assessment
IFC	International Finance Corporation
IFRs	Interim Financial Reports
ISR	Implementation Status Report
JEC	Joint Economic Council
LAVIMS	Land Administration Valuation Information Management System
MCCI	Mauritius Chamber of Commerce and Industry
MCIB	Mauritius Credit Information Bureau
M&E	Monitoring & Evaluation
METAP	Mauritius Economic Transition (TA) Project
MIC	Middle Income Country
MoFED	Ministry of Finance and Economic Development
MUR	Mauritian Rupees
PAD	Project Appraisal Document
PCC	Project Coordinating Committee
PERU	Public Enterprises Reform Unit
PIMS	Parastatal Information Management System
PPF	Project Preparation Facility
PPP	Public Private Partnership
PSD	Private Sector Development
PSIP	Public Sector Investment Program
SIL	Specific Investment Loan
SMEs	Small and Medium Enterprises
UNDP	United Nations Development Program
WB	World Bank

Vice President:	Makhtar Diop
Country Director:	Haleh Bridi
Sector Manager:	Irina Astrakhan
Project Team Leader:	Khoudijah Maudarbocus-Boodoo
NCO Team Leader :	Brinda Devi Dabysing

REPUBLIC OF MAURITIUS
MAURITIUS ECONOMIC TRANSITION (TECHNICAL ASSISTANCE) PROJECT

CONTENTS

DATA SHEET

A. Basic Information

Country:	Mauritius	Project Name:	RW-Economic Transition (TA) Project
Project ID:	P105669	L/C/TF Number(s):	7641-MU
ICR Date:	03/30/2012	ICR Type:	NCO
Lending Instrument:	Specific Investment Loan	Borrower:	REPUBLIC OF MAURITIUS
Original Total Commitment:	US$ 18 Million	Disbursed Amount: (nearest million)	US$ 1.56 Million
Revised Amount:			

Environmental Category: C

Implementing Agencies:
Board of Investment
Ministry of Finance and Economic Development which housed the PIU
Ministry of Business, Enterprises and Cooperatives
Ministry of Renewable Energy and Public Utilities
Competition Commission

Cofinanciers and Other External Partners:
None

B. Key Dates

Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	February 13, 2008	Effectiveness:	April 6, 2009	April 08, 2009
Appraisal:	September 15 to 19, 2008	Closing:	Sep 30, 2014	April 01, 2011
Approval:	January 29, 2009			

C. Ratings Summary

C.1 Performance Rating by NCO

Outcomes:	Not applicable
Risk to Development Outcome:	Not applicable
Bank Performance:	Moderately Satisfactory
Borrower Performance:	Moderately Satisfactory

D. Sector and Theme Codes		
	Original	Actual
Banking	16%	16%
Law and Justice	5%	5%
Public Administration – Energy and Mining	19%	19%
Public Administration – Industry and Trade	41%	41%
Public Administration – Water, sanitation and flood protection	19%	19%

Theme Code (as percent of total Bank financing)		
Legal institutions for a market economy	8%	8%
Other financial and private sector development	27%	27%
Other public sector governance	3%	3%
Regulation and competition policy	35%	35%
State-owned enterprise restructuring and privatization	27%	27%

E. Bank Staff		
Positions	At NCO	At Approval
Vice President:	Makhtar Diop	Obiageli Katryn Ezekwesili
Country Director:	Haleh Bridi	Ruth Kagia
Sector Manager:	Irina Astrakhan	Gerardo Corrochano
Project Team Leader:	Khoudijah Maudarbocus-Boodoo	Constantine Chikosi
NCO Author:	Brinda Devi Dabysing	

F. Ratings of Project Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	February 4, 2009	MS	MS	
2	March 5, 2009	MS	MS	
3	December 14, 2009	MS	MS	
4	June 28, 2010	MS	MS	
5	March 27, 2011	MS	MS	1.56
6	Dec 20, 2011	MS	MS	1.56
7	Nov 30, 2012	MU	MU	1.56

1. Context, Project Development Objectives, and Design

1. **Country Background**: The Mauritius Economic Transition (Technical Assistance) Project (METAP), financed with a US$18 million IBRD loan, was designed at a stage where Mauritius started investing in an ambitious economic reform program which aimed at moving the country away from dependence on trade preferences to global competitiveness. The sustainability of the Mauritian economy depended on improving productivity and competitiveness. The project intended to contribute to achieving the country's development strategy by addressing the challenges to private sector development. This included easing constraints related to (i) the business environment, (ii) inadequate service delivery in key public enterprises by helping restore fiscal discipline and reducing the budgetary burden of the parastatal sector, and (iii) private investment in key infrastructure sectors.

2. **Rationale for Bank Assistance.** The Investment Climate Assessment 2006 Study and various Doing Business reports had identified the key constraints to the growth of the private sector in Mauritius. The METAP supported part of the broader and longer-term economic reform program of Mauritius. The METAP Project was an integral part of the Country Partnership Strategy: 2007-2013 which was anchored in the Government's long-term development program of: (i) fiscal consolidation and improved public sector efficiency; (ii) improving trade competitiveness; (iii) improving investment climate; and (iv) democratizing the economy through participation, social inclusion and sustainability.

3. In support of these objectives the Government of Mauritius requested two SILs in the period 2009-2010, including the METAP and the US$20million IBRD-financed Manufacturing and Services Development and Competitiveness Project. Both SILs were intended to support enterprise growth, competitiveness and employment creation in manufacturing and services sectors. These two operations represented a significant re-engagement with the Bank following a seven-year gap.

4. **Development Objectives.** The Project development objective was to improve the performance of selected public enterprises and services that contribute to an improved investment climate in Mauritius.

5. The Project was structured around the following three pillars: (i) Component One: Business Facilitation; (ii) Component Two: Public Enterprise Reform; and (iii) Component Three: Utility Regulation & Public Private Partnerships.

Component One: Business Facilitation (US$5.88 million)

6. The Business Facilitation component was aimed at financing activities that would strengthen investment climate reforms in order to induce supply-side investment responses and accelerate economic growth. It was structured around the following

activities: (i) Simplifying Business Licensing Procedures; (ii) Improving Access to Commercial Justice; (iii) Improving Land Title Registration Services; (iv) Extending Coverage of the Credit Reference Bureau to Improve Access to Finance; and (v) Streamlining the Legal Framework for Business.

Subcomponent A: Simplifying Business Licensing Procedures (US$0.69 million)

7. At the time the project was in preparation, it was observed that the regulatory burden was excessive and needed improvement to allow Mauritius to benefit from a first class investment climate. This excessive regulatory burden was caused by a large number of complex regulations, as well as by uncertainties and high compliance costs created by non-transparent rules. The objective of Subcomponent A of the Project, therefore, was to reduce the number of steps, time and cost it took to obtain a business license and to position Mauritius as a transparent and rule-based destination for doing business. This was to be done through technical assistance to: (i) devise and implement a program to streamline the business licensing regime in Mauritius; (ii) develop IT infrastructure to enhance the efficiency of the business licensing system and to develop an IT-based business registration system; (iii) create a national database of business licenses; (iv) map the re-engineered business licensing processes and workflow systems to allow online submission and processing of applications for a business license; (v) develop an effective ex-post control program across line Ministries to verify compliance with established business licensing guidelines, and; (vi) provide outreach seminars to the public service officials concerned and the business community, both to disseminate information on the business licensing reforms and to help change mind sets.

Subcomponent B: Improving Access to Commercial Justice (US$0.85 million)

8. This Subcomponent of the Project was to reduce the time and cost it took to settle commercial disputes in Mauritius and relieve the backlog of commercial cases in the court, by providing technical assistance for the establishment and running of a dedicated commercial division of the Supreme Court, where delays of up to 2 years in the resolution of commercial disputes were the norm. To achieve this goal, the Project was to fund: (i) procurement and installation of information systems for efficient case and mediation services management; (ii) a short term consultant to conduct a systematic training needs assessment for the judges and other staff of the Commercial Division of the Supreme Court; (iii) training and study tours for judges, registrars and mediation administrators in other countries with similar legal systems; and (iv) procurement of commercial law reports including specialized reports on intellectual property and building contracts for the commercial division of the Supreme Court.

Subcomponent C: Improving Land Title Registration Services (US$0.54 million)

9. The Doing Business Survey 2008 showed that in 2008, it took 210 days to register land titles in Mauritius. The Project included funding technical assistance to support computerization of the Registrar General's Office and the improvement of land registries'

effectiveness so as to facilitate the registration and securitization of land based assets. The objective was to reduce the number of days taken to register land titling.

Subcomponent D: Extending Coverage of Credit Reference Bureau (US$2.80 million)

10. The 2006 Investment Climate Assessment and the 2008 Doing Business Report confirmed that both access to and cost of finance were major constraints to the growth of the private sector in Mauritius, particularly for small and medium sized enterprises. This Subcomponent was to provide technical and financial assistance to the Bank of Mauritius to transform the existing Mauritius Credit Information Bureau (MCIB) into a credit bureau offering services of best international standards. The following technical assistance was identified: (i) review of the IT application to support extension of the coverage of the MCIB to sectors other than the banking sector, including retailers, trade creditors and utility companies; provide for on-line availability of two year credit history and sale of credit information to private credit rating agencies, and (ii) consultancy services to set up the procedures and operating guidelines for private credit rating agencies.

Subcomponent E: Streamlining the Legal Framework for Business (US$1.00 million)

11. There were a significant number of economic laws that were considered to be outdated and which required revision so as to bring identified improvements in the investment climate. At that time of project preparation, legal amendments were carried out on a piece meal basis as and when specific reforms were needed. The project was designed to fund the following activities: (i) legal researchers to conduct a comprehensive census and prioritization of the business laws that need updating based on their impact on the cost of doing business in Mauritius; (ii) drafting of identified priority legislation; (iii) capacity building for legislative drafting for officers in the Attorney General's Office; and (iv) the setting up of a specialized library in relation to legislative drafting and business/trade law.

Component Two: Public Enterprise Reform (Total USUS$6.0 million)

12. To assist the Government to reduce the budgetary burden of the parastatals and improvement in the efficiency and delivery of public services, the Project was to support the Government's public enterprise reform program in the following three areas: (i) support for the setting up of a Public Enterprise Reform Unit (PERU) and for cross-cutting reforms; (ii) support for sector and enterprise level reforms and; (iii) support for the establishment of a Competition Commission.

Subcomponent A: Support for PERU and Cross-Cutting Reforms (US$2.3 million)

13. This subcomponent intended to support the following: (i) design and implementation of a public enterprise management and tracking system; (ii) technical assistance to design and implement a comprehensive five year parastatal reform strategy and action plan; (iii) training to PERU staff in public enterprise diagnostics and

implementation of reforms programs at sector and enterprise levels, and (iv) technical assistance in cross-cutting aspects of the parastatal reform program including corporate governance reforms, design of performance management systems for parastatals, treasury management, mergers, rationalizations and divestments, and design and implementation of public information and outreach strategies and of social mitigation strategies.

Subcomponent B: Support for Sector and Enterprise Level Reforms (US$2.1 million)

14. This Subcomponent was meant to provide funding to Government for the preparation of a detailed, enterprise level reform strategies. Specifically, the Project intended to fund: (i) consultancies, training and equipment to improve parastatal monitoring systems at the line ministry level; and (ii) support to sector working groups and selected public enterprises to prepare and implement enterprise level restructuring programs.

Subcomponent C: Support for Establishment of the Competition Commission (US$1.6 million)

15. In order to improve competition in the economy and prevent collusive and restrictive practices, the Government decided to implement a Competition Commission. The sub component intended to provide financial and technical support for the setting up of the Competition Commission. Specifically, it was supposed to finance consultancies and training to: (i) help design, set up and run the Commission itself; (ii) to develop the Commission's operational strategies and methodologies; (iii) develop its human resources and implementation capacity and that of other practitioners, such as judges, other legal practitioners and public officials, who would be involved in the implementation of competition law and policy; (iv) provide training and establish twinning arrangements for staff development with similar bodies in other countries; (v) implement IT support for the Commission's operations; and (vi) support the Commission in devising and executing an advocacy and public outreach program on the implications of the Competition Act (2007) and related Government policies.

Component Three: Utility Regulation & Public Private Partnerships (US$4.98 million)

16. Inadequate infrastructure was identified as one of the key challenges that were impacting on the growth potential of Mauritius. Investment was being undertaken exclusively by Government which lacked the capacity to discharge this important mandate adequately. Increased private participation in ownership and management in the infrastructure sector was therefore a key focus under the Government's investment climate reform plan. A Public Private Partnerships (PPP) Unit already existed within MoFED to promote private investment in infrastructure sectors but was not considered as being effective in promoting PPPs in key projects. The International Finance Corporation recommended the institutional arrangements for an independent utility regulator. The Project intended to provide support to the PPP reform program in the

following two areas: (i) Strengthening the Institutional Framework for PPPs; and (ii) Establishing the Utility Regulation Authority.

Subcomponent A: Strengthening the Institutional Framework for PPPs (US$4.52 million)

17. Under this subcomponent, the Project was supposed to finance the following capacity building activities for the PPP Unit: (i) a Resident Advisor to the PPP Unit as a consultant for a period of at least 24 months to support preparation of a pipeline of PPP projects, in-house training of PPP Unit staff and advise the PPP Unit on appropriate PPP development strategies; (ii) transaction advisory services to structure PPP projects and assist Contracting Authorities (e.g. line ministries, municipalities and other public legal entities) in identifying private investors; (iii) a specialized IT system in the PPP Unit; and (iv) training in preparation and promotion of PPP and workshops to enhance the awareness of the key stakeholders about the benefits of PPPs.

Subcomponent B: Establishing the Utility Regulation Authority (US$0.46 million)

18. To support the establishment of the independent utility regulator, the Project was to fund the implementation of a sound policy and institutional framework through (i) short and long term resident advisers to help establish reporting and monitoring systems; (ii) IT investments to build the regulator's capacity to discharge its mandate effectively; and (iii) capacity building measures including study tours and training for the regulator's staff in specific technical areas such as economic regulation and tariff setting.

Lending Instrument

19. This project was a standalone Specific Investment Loan (SIL), and financed through an IBRD Loan. The duration of the project was five years and the Project costs and financing are summarized in the following table:

Table 1 Project Components, Costs and Sources of Financing

Project Cost by Component and or Activity	**US$ million**
Component One: Business Facilitation	**5.88**
A. Business Licensing reforms	0.69
B. Improving Access to Commercial Justice (CJO)	0.85
C. Improving Land Title Registration Services	0.54
D. Extending Credit Reference Bureau to improve access to finance	2.80
E. Streamlining the Regulatory Environment for Business	1.00
Component Two - Public Enterprise Reform	**6.00**
A. Support for the Public Enterprise Reform Unit and for Cross-cutting Reforms	2.30
B. Support for Enterprise Level Reforms	2.10
C. Support for the Establishment of the Competition Commission	1.60

Component Three - Utility Regulation and Public Private Partnerhips	**4.98**
A. Strengthening the Institutional Framework for PPPs	4.52
B. Establishing the Utility Regulation Authority	0.46
Total Baseline Cost	**16.86**
Physical Contingencies	1.10
Total Project Costs	**18.00**

Implementation Arrangements

20. A major challenge at the design stage was to identify the most effective structure that would oversee the implementation of the project. The METAP was the first project after the reengagement of the country with the Bank. As such, the Government's capacity to deal with World Bank procedures was relatively low. The PERU was the main counterpart of the Bank team during project preparation and since it was housed at MoFED, it was identified as the Project Coordination Unit with fiduciary and M&E functions. The implementation of specific project components was to be carried out by individual ministries and agencies.

21. The project had a Project Coordinating Committee (PCC), chaired by a Director in MoFED with focal points designated by the Project's beneficiary agencies and a representative of the private sector. The PCC was expected to provide strategic guidance and oversight of the overall reform process being undertaken by the Government under the METAP Project, approve annual work programs and budgets, review progress reports prepared by PERU, clearing and forwarding periodic reports to IBRD, address any major problems affecting project implementation; and review key reports including the audit, mid-term review and implementation completion reports.

Risk Analysis

22. The overall project risk was assessed to be low. The table below summarizes the risk assessment and mitigating measures that were identified at project appraisal:

Risk	Risk mitigation measures	Risk rating with mitigation
Sustainability Risk. A change in Government would be a risk if it resulted in a departure from current reforms and the role of the private sector in driving economic growth.	This risk would be mitigated by ensuring that ownership and understanding of the program is both broad and deep throughout the civil service, and therefore able to withstand changes in political leadership.	L
Macro-economic / Fiscal Risk. Macro stability was a pre-requisite for sustainable private sector development. Hence ensuring that Mauritius achievements in this regard were maintained was essential to the success of the program.	Credibility of the current Government was closely linked to the maintenance of macro stability and an important element of the program would be mainstreaming PSD issues across Government and society.	M
Staff turn-over in Government. Availability of skilled personnel in Government was a constant challenge for building and maintaining capacity.	To address this challenge, staff at all levels, across the departments involved and other key institutions were involved from the beginning of Project design.	L
Procurement Capacity and prior experience with Bank projects.	Procurement assessment was performed and mitigation plans agreed including capacity building/ on-going training and close monitoring	M
Financial Management. Capacity and prior experience with Bank projects. Transactions might not be properly accounted for, and IFRs might not be presented in time and in conformity with Bank requirements.	FM assessment was performed and mitigation plans agreed included review of the Project Chart of Accounts, elaboration of the Project Implementation Manual, capacity building/ on-going training and close monitoring	L

2. Post-Approval Experience and Reasons for Cancellation.

(*main events leading to cancellation, steps taken to resolve problems, exogenous factors, identification of causes and responsibility if project failed, implications of failure):*

23. The METAP was approved on January 29, 2009 and became effective on April 8, 2009. In March 2011, after 23 months' effectiveness, the Government of Mauritius requested the cancellation of the METAP project as well as of the other Private Sector Development SIL, the Manufacturing and Services Development and Competitiveness (MSDC) Project. The request for cancellation followed May 2010 elections, whereby the new Minister of Finance had a different preferred modality of collaboration with the Bank. The Government requested to replace both operations with a new Development Policy Loan (DPL) which was considered a more appropriate lending instrument to deliver the high quality Bank advisory services which Mauritius as a middle income country valued. The DPLs served as a useful instrument for engendering the necessary policy and institutional reforms in the area of private sector development, as the Government preferred to strengthen the institutional and policy environment for business growth through budget support operations. Furthermore, the decision to move to DPOs would address other issues that had hampered project implementation including fiduciary challenges, lack of political will to tackle SOE reform, and problems arising from the implementation of Program Based Budgeting (PBB).

24. The Government underestimated the fiduciary and compliance requirements under a SIL. Despite the fact that a special unit was established under the MOFED to monitor same and technical assistance was provided to the staff to support them in these responsibilities, the procedures were deemed to be too cumbersome by the client. On top of this, Mauritius, like other middle income countries, assigns more importance to the Bank's high quality advisory services than its financing terms or safeguards. Here again, DPLs were considered to be a more appropriate instrument to meet the requirements of the client.

25. Although there was high-level political buy-in of the lending operation at the design stage for reforms in the parastatal sector, the political commitment, support and ownership for implementing these reforms eroded quickly during the pre-electoral period. One of the major signals of the diminished government ownership occurred during the pre-electoral period, when the Minister of Finance refused to sign off on the recruitment of a resident advisor for PERU.

26. The Bank team had not anticipated the impact of the implementation of the Program Based Budgeting. In 2010, the government implemented PBB around the same time as the project was declared effective. The new PBB tool was introduced to monitor the financial discipline and performance of the various agencies within ministries through effective budgeting outlays. In this regards, any additional funding given to these agencies through the SIL would have undermined this initiative. Budget support, possible under DPL, was a preferred alternative. The activities to be funded under the project had not been included in the PBB of relevant ministries, making it difficult for Ministry of Finance to allocate funds to the activities as per the Procurement Plan. This

caused a delay of almost one year in the disbursement schedule, having to wait for the next financial year to include the activities to be funded in the PBB.

27. Until the decision to replace the METAP financing with DPL was taken by Bank management, implementation continued unevenly and selectively, with only a few sub-components having been implemented satisfactorily and some components not implemented at all. The first Subcomponent on Business Facilitation was largely implemented, with progress achieved in improving access to commercial justice and land titling registration services, largely through funding from the Investment Climate Facility Fund (ICF) and hence cannot be fully attributed to the METAP project. In contrast, the e-regulations platform was developed but only as an information platform instead of a fully transactional one. Procurement of consultancy services for establishment of private credit rating agencies, as well as the review and modernization of the IT systems at the Mauritius Credit Information Bureau, were not implemented within the scope of METAP but independently by the Bank of Mauritius, where they are housed. Similarly, the planned activities to streamline the legal framework for business were not carried out under METAP.

28. As regards Component Two, Public Enterprise Reform, the project did finance the setting up of the Competition Commission including baseline training for staff. The project also provided financial assistance for the review of Development Bank of Mauritius (DBM) and the Agricultural Marketing Board (AMB), but did not proceed with implementation of the reforms as had been programmed. Progress with public enterprise reform stalled due to the delayed development of a less comprehensive Public Enterprise Monitoring and Information Tracking System (PEMITS) with internal resources and the policy decision not to go ahead with the recruitment of a resident Public Enterprise Reform (PER) adviser.

29. In Component Three, the Utility Regulatory Authority (URA) was not set up as it is no longer a priority for the Government. The panel of experts to be set up was not implemented and no public awareness workshops were organized. The Government benefitted from financing from PPIAF to carry out a review of the policy, legal and institutional framework for public private partnerships in Mauritius and training for staff based in the PPP Unit. The resident advisor as defined at project approval stage was not recruited and no IT systems enhancements were carried out.

30. The METAP was cancelled on April 01, 2011, having disbursed 8.67% or US$ 1.56 million, thus reaching beyond the percentage and quantum thresholds of 5% and USD 1 million as per the Implementation Completion and Results Report Guidelines (OPCS 2006, updated 10/05/2011). Nevertheless, management decided to prepare an NCO instead of an ICR as the operation failed to reach significant implementation. This is the second operation that was cancelled by the client, the first one also having failed to reach significant implementation and for which an NCO has already been submitted and approved.

3. Assessment of Bank Performance

31. Quality at Entry is rated **moderately satisfactory**. The Project design was based on the findings from the Bank's Economic and Sector Work, such as the Investment Climate Assessment and the Doing Business reports, as well as analytical work carried out in the country by various authorities. The issues addressed in the project were aligned with Government's own priorities and consistent with the Bank's CPS. While potential risks were identified during the preparatory phase of the project and mitigation factors spelled out, some risks, especially those linked with public sector reforms, were underestimated. The program for carrying out sector wide reforms across a range of public enterprises was too ambitious. For some crucial activities, Government either allocated their own funds or used funding from other agencies to keep the momentum of the reform plan.

32. Quality of Supervision was **moderately satisfactory**. The Bank team in the field was able to provide just-in-time technical and advisory support to the implementing agencies and MoFED. This was important given that the Bank was re-engaging in Mauritius after seven years, and that the implementing agencies as well as the PCU required capacity building in Bank's systems and procedures. The Bank was proactive in responding to the expectations of Government and was able to bring in sector expertise to strengthen the field team. However, a number of warning signals were slow to be noticed and acted upon, mainly in the area of political economy (elections-related) shifts in priorities, including the government's desire to fund reforms without Bank support. Moreover, PIU capacity constraints were also not adequately addressed.

33. The preparation of the Implementation Status and Results (ISR) reports has been irregular because at one point the audit report from the client was delayed and also because of the financial reconciliation matters that took a while to be resolved.

34. Given the above ratings for quality at entry and quality of supervision, the overall Bank performance is rated **moderately satisfactory**.

4. Assessment of Borrower Performance

35. The performance of the Borrower was **moderately satisfactory**. The Government had committed to the project at the design stage where timely discussions were held on how to implement the reform program at a time of transition from a preference-based economy. However, while the Government was very enthusiastic to work with the Bank on policy issues, it was less keen to collaborate on implementation of specific activities that were to be supported by the METAP financing agreement. Instead, the Government went ahead to implement reforms using funding sources that it considered as more advantageous. Although the Government is to be commended for implementing some reforms on its own, it turned away from the financing it has previously requested and negotiated with the Bank under the METAP, and moreover with little dialogue with the Bank over possible reallocation of the funds to other activities within the same PDO.

36. The performance of the Implementing Agencies was **moderately unsatisfactory**. The PERU was dedicated to manage the operation with specific responsibilities assigned to staff within the unit. Despite this, the PCU staff could not accommodate additional tasks of procurement, financial management and M & E in addition to their day to day work. Furthermore, these staff was not conversant with the Bank's fiduciary procedures, rendering their coordinating role more difficult. Although this lack of familiarity with the Bank's requirements was noted during Project preparation, it appears that the deficient capacity of the PCU was not properly addressed and made a priority consideration when determining the size and nature of the interventions to be supported by METAP. Training requirements were flagged and on the job intervention solicited. Interventions from the Fiduciary team were mostly of an auditor approach rather than support and mentoring.

37. Given above ratings for government performance and implementing agency performance, the overall borrower performance rating was **moderately satisfactory**.

5. Lessons Learned

38. **Relevance of design**: Throughout the process of Project design and preparation, the government was actively involved and supportive of the objectives and desired impact of the SIL. However, when the time came for implementation, the authorities found the Bank's fiduciary compliance requirements to be cumbersome, dragging on efficiency and the desired speed of reforms, thereby resulting in slow disbursement and limited progress toward achievement of the PDOs. Furthermore, Government dramatically changed priorities during implementation of the project, including the desire to control the implementation of reforms through one central implementing agency, the Ministry of Finance, rendering the SIL irrelevant as the Bank's choice instrument. At the same time, the Government continued to press the Bank for technical assistance, analytics and policy dialogue. This brings to the forefront the issue of Middle Income Countries which value highly and desire the Bank's knowledge services to help learn from and apply global best practices in the reform planning and implementation process, but do not need or demand the accompanying Bank financing or wish it but at customized terms and/or delivery mechanisms. These clients wish to maximize access to the Bank's technical assistance but without the associated administrative requirements imposed by the use of SIL as a lending instrument. This calls for continuous improvement and/or innovation of Bank lending instruments to suit the requirements of this 'emerging' client segment.

39. **Proactivity and agility to develop a customized solution for meeting the changing needs of a MIC client***:* The cancellation of the METAP provided an opportunity for the Bank to demonstrate its service responsiveness and agility to meet the evolving development priorities of an MIC client. In complying with the government's concerns, wishes and priorities, the Bank team moved quickly to prepare a single DPL operation supporting the same competitiveness agenda that were to have been addressed under the SILs.

40. **Risks underestimated:** With hindsight, a review of the operation suggests that the implementation challenges associated with the public sector reforms, and capacity gaps within the implementing agencies, were underestimated at the design stage. Clearly, more attention should have been afforded to an understanding of the political economy environment of Mauritius, especially during a period of elections, while the fiduciary capacity of authorities to implement Bank projects should have been assessed with greater care for quality and reliability.

41. **Timing of sensitive reforms**: Although there was high-level political buy-in of the Project at the design stage for reforms in the parastatal sector, the political commitment, support and ownership for implementing these reforms eroded quickly during the pre-electoral period. This was signaled to the Project team very early, about one year in advance of the elections, when the then Minister of Finance refused to sign off on the recruitment of a resident advisor for PERU, and should have been factored into the Project preparation accordingly. Strong ownership of any reform program must be obtained at the onset and maintained throughout the duration of the program. Furthermore, sensitive reforms should be launched in the early phases of a Government mandate, when they are most likely to be implemented, instead of during the pre-election political cycle when resistance to reforms and the potentially negative distributional impact on some stakeholders tends to weigh on Government's resolve and commitment to implement the reforms.

42. **Clear M & E framework**: Elaborating a realistic Results Framework with clear baseline data allows proper monitoring of progress towards performance. For the METAP, the Project performance indicators contained in the PAD's Results Framework were mainly derived from the Doing Business indicators, some of which were supposed to be achieved at the end of the project but ended up instead being met in the first year of operation. It is also important to have a results framework with more tailored KPIs so as to better measure the impact of the project achievements.

43. **PCU Capacity:** The successful implementation of policy and institutional reforms required adequate capacity in key areas. The PCU needs to be staffed and equipped with commensurate quality and quantity. Capacity building of the fiduciary team and focal points at the implementing agencies should be provided during project preparation in order to have a fully prepared functioning implementation unit by the time of project effectiveness. Inadequate PIU capacity is one of the risks to be flagged before the Project is approved, and often it means that the Project design should be revisited.

44. **Decentralization of Project Supervision**: In countries with limited institutional capacity, having the TTL in the field is pivotal to timely resolution of issues encountered during implementation, providing the ability to engage in problem solving dialogue with the PCU, implementing agencies and the Government with responsiveness required for achieving a constant implementation pace and orientation toward the PDO.

Annex 1. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
Lending			
Supervision/NCO			
Andrew Osei Asibey	Senior Monitoring & Evaluation	AFTDE	
Mariella Beugue	Program Assistant	AFMMU	
Irene F. Chacon	Operations Analyst	AFTFW	
Wilfrid Bernard Drum	Consultant	LCSPE	
Efrem Fitwi	Procurement Specialist	AFTPC	
Sidonie Jocktane	Executive Assistant	AFMGA	
Patrick Kabuya	Sr Financial Management Specialist	AFTFM	
Khoudijah Bibi Maudarbocus-Boodoo	Private Sector Development Specialist	AFTFE	
Francois Marie Maurice Rakotoarimanana	Sr Financial Management Specialist	AFTFM	
Lova Niaina Ravaoarimino	Procurement Specialist	AFTPC	
Ann Christine Rennie	Lead Financial Sector Specialist	SASFP	
Nko Etesin Umoren	Resource Management Analyst	AFTRM	
Chunlin Zhang	Lead Private Sector Development Specialist	AFTFE	
Brinda D Dabysing	Private Sector Development Specialist	AFTFE	

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY07		45.95
FY08		84.79
Total:		130.74
Supervision/NCO		
Total:		0.00

Annex 2. List of Supporting Documents

1. Mauritius - Economic Transition (TA) Project, Project Appraisal Document December 2008
2. Loan Agreement Economic (TA) Project, February 2009
3. Missions Aide Memoires, 2009-2010
4. Project Status Reports and Implementation Status and Results Reports, 2009-2010
5. Progress Report from PCU – Project Implementing Agency (2009-2010)
6. Doing Business 2013, Economic Profile of Mauritius, 2012

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MAURITIUS

- SELECTED CITIES AND TOWNS
- DISTRICT CAPITALS
- NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- DISTRICT BOUNDARIES
- INTERNATIONAL BOUNDARIES

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