

**MULTI-ANNUAL INDICATIVE PROGRAMME FOR MAURITIUS**  
**Accompanying Measures for Sugar Protocol Countries 2011-13**  
**(MIP AMSP 2011-13)**

## **1. EXECUTIVE SUMMARY**

Accompanying Measures for Sugar Protocol countries (AMSP) 2006-10 financed by the EU budget combined with the 9<sup>th</sup> and 10<sup>th</sup> European Development Fund (EDF) have been supporting the overall economic reform programme of the Government of Mauritius (GoM) since 2006 (in line with the Art 17.1 DCI). For AMSP 2006-10 a total amount of €133.807 mio was committed for Mauritius. So far €72.166 mio have been disbursed through general and sector budget support.

For historical, economic and political reasons the sugar industry continues to play a very important role in Mauritius, though its contribution in terms of GDP has been decreasing passing from 4.4% in 2000 to 3.7% in 2006 and 2.2% in 2009. The implementation of the MAAS is well under way, though some delays have occurred in the following components: (i) energy, (ii) ethanol, (iii) restructuring of cess, (iv) FORIP and (v) de-rocking. In 2010 the GoM has conducted a mid-term review, assessing the achievements so far and proposing modifications to the MAAS and its action plan accordingly. The necessary modifications will serve as a basis to inform the GoM on major policy issues for the future, in order to take corrective policy measures wherever appropriate.

An indicative envelope of € xxx mio has been allocated to Mauritius for AMSP 2011-13, which will serve to support the GoM's economic reform programme. The funds will be disbursed as general budget support in complementarity with the 10<sup>th</sup> EDF and EC general budget lines. In 2011 the third year of the GBS programme Promoting Sustainable and Equitable Development will be under implementation. For 2012 and 2013 GBS programme will be elaborated in 2011. Priority areas to be supported are the sugarcane cluster including energy, sugar/environment, socio-economic empowerment and education.

## **2. CONTEXT AND REVIEW OF THE MIP AMSP 2007-10**

### **2.1 Setting the context**

In June 2006 the GoM launched a comprehensive ten-year economic reform programme, which aims at strengthening Mauritius' abilities to compete in a globalised environment. This overall economic reform programme is geared at strengthening the competitiveness of the sugarcane sector and the economy at large. It also seeks to facilitate structural changes and economic diversification. The EC, World Bank, African Development Bank, the UNDP and *Agence Francaise de Developpement* are all providing financial support for the implementation of the economic reform programme at the GoM's request (Annex 1). The EC and the World Bank have collaborated closely during the programming of their respective envelopes, and elaborated a joint results matrix for the period 2008 to 2013 based on a Government results' reform matrix; the latter having served as basis for the elaboration of the 10<sup>th</sup> EDF Country Strategy Paper (CSP) and the Multi-Annual Indicative Programmes for Accompanying Measures for Sugar Protocol countries (MIP AMSP) 2007-2010.

The Mauritius-EU Sugar Response Strategy 2006-2013 has been defined on the basis of the Mauritius Multi-Annual Adaptation Strategy (MAAS) for the sugar sector, which is in conformity with Article 4 of the Regulation No. 266/2006 as well as Articles 17.1 and 19.4 of the DCI Regulation No. 1905/2006. The MAAS, whose overall objective is to ensure the commercial viability and sustainability of the sugar sector for it to continue fulfilling its multi-functional role in the Mauritian economy, forms an integral part of the comprehensive ten-year economic reform programme.

In line with the EU's development policies<sup>1</sup>, the EU Sugar Response Strategy 2006-2013 and the 10<sup>th</sup> EDF CSP have one common global objective of contributing to the sustainable and economic development of Mauritius. The aim of the EU Response strategy is to contribute to the financing of Mauritius's own development plan preparing the country to overcome the old system of trade preferences while maintaining and improving the performance in social sectors. The strategy has been developed for all sources of financing (EDF, sugar and other budget lines), such that they will complement each other in supporting the country's economic reform programme. The latter is also being supported by the World Bank, *Agence Française de Développement* and African Development Bank, using General Budget Support as delivery instrument (see Annex 2).

Funds from Accompanying Measures for Sugar Protocol countries (AMSP) 2006<sup>2</sup>&2007-10<sup>3</sup> complemented with the 9<sup>th</sup> and 10<sup>th</sup> European Development Fund (EDF) and the European Union's general budget lines have been supporting the overall economic reform programme of the GoM since 2006 through sector and general budget support. For AMSP 2006&2007-10 an indicative envelope of €133.807 mio was allocated to Mauritius. Until end of 2009 almost 100% of the AMSP 2006&2007-10 have been committed and a total of €72.123 mio has been disbursed through sector and general budget support (Table 1).

*Table 1: Commitments and disbursements of AMSP 2006&2007-10 (as at end 2009)*

Year	Name of the SBS/GBS programme	Commitments	Disbursements
2006	Sugar Sector Support Programme	€ 6.5 mio committed	€6.5 mio disbursed
2007	Improved Competitiveness for Equitable Development I (ICED I)	€ 36 mio committed	€ 33.3 mio disbursed*
2008	Improved Competitiveness for Equitable Development II (ICED II)	€ 32.323 mio committed	€ 32.323 mio disbursed
2009	Promoting Sustainable and Equitable Development (PSED)	€ 58.984 mio committed	€58.984 mio to be disbursed in 2010 and 2011
2006-9	TOTAL	€ 133.807 ** mio committed	€ 72.123 mio disbursed

\* €2.7 mio was not disbursed due to non achievement of the KPI on absenteeism in the education sector

\*\* 98.9% of the AMSP 2006-10 has been committed until 2009.

## 2.2 Review of the MIP AMSP 2007-10

### 2.2.1 Implementation of the Multi-Annual Strategy for Sugar (MAAS): 2006 and 2009 comparison

<sup>1</sup> Defined in its Strategic Partnership for Africa and European Consensus for Development and the 10<sup>th</sup> EDF Country Strategy Paper

<sup>2</sup> For AMSP 2006 a total of €40 mio was committed for 18 Sugar Protocol countries.

<sup>3</sup> For AMSP 2007-10 a total of €670 mio was tentatively committed for 18 Sugar Protocol countries.

The reform of the sugar sector is being implemented in accordance with the GoM's MAAS since early 2006, and accompanied by the revision of the Sugar Efficiency Act (SIE) 2001 in February 2007 and the 5 December 2007 deal between the GoM and the Mauritius Sugar Producer's Association (MSPA). The GoM's Stimulus Package for the Economy of December 2008 as well as the Budget Speeches 2009 and 2010 also contain measures for the restructuring of the sugar industry with the aim to ensure the long-term sustainability of the sugar industry. The status of the main projects is outlined here below (detailed overview in Annex 3):

*Additional revenue:* Mauritius (through the Mauritius Sugar Syndicate - MSS) has secured a renewable Long Term Partnership Agreement (LTPA) with the German company Suedzucker over the period 1 July 2009 – 30 September 2015 for the yearly supply of up to 400,000t of sugar essentially, but not solely, as refined sugar. Two factories namely Omnicane and FUEL have invested some € 50 mio (out of which € 28 mio from EIB) for the construction of refineries with yearly capacities of some 180,000t each. Exports of refined white sugar have started in early 2010.

*Centralisation and factory closure:* four sugar factories have closed down so far. The target is to have 4 sub-clusters (Omnicane - south, FUEL - centre/east, Medine - west & Belle Vue - north). Deep River Beau Champ (DRBC), St Aubin (first producing plantation white sugar and second cane juice) and Mon Loisir (under judiciary review) are foreseen to be closed down. Transport economics, the refining activity and the high social costs associated with factory closure have for the time being reshaped the thinking behind factory closure.

*Rightsizing of the labour force:* the GoM prompted and financed the re-skilling and recycling of the retrenched workers to the extent possible. As at January 2009, 6,628 workers opted for the Voluntary Retirement Scheme II (VRS 2) (employees benefited from cash and in-kind compensation), out of which 1,590 completed training programmes that aimed at re-skilling them. It was found that a significant percentage of the retrenched workers had been redeployed in other economic sectors, of which a small number had become self employed. The majority of employees were employed by contractors, some have become gardeners, and landscapers. Another job favoured by the ex-sugar workers is the one of security guard as security services makes for a rapidly expanding market in Mauritius. On the one hand the cash compensation has worked very well according to all stakeholders. On the other hand retrenched workers complain from time to time about the in-kind compensation (i.e.: land assignment and preparation) because of the different steps involved, which may take number of years before infrastructure work is completed and the beneficiaries get the title deeds. The GoM is aware of this lengthily process and has taken a number of corrective measures to reduce the time needed.

*Electricity production from bagasse:* To be increased by 300 GWh (i.e. from 300 GWh in 2006 to 600 GWh in 2015). In 2009 the production was 350 GWh. In the context of the 5 December 2007 deal, GoM and the MSPA have appointed, in 2009, an independent expert to reassess the Power Purchase Agreement (PPA) of Independent Power Producers (IPP) in terms of balance of risks, returns commensurate with risks taken and other aspects of PPAs such as power generation process and competitiveness when compared to local and international power generators. While the independent study has not been made available to the development partners, it is clear from the debate that the GoM believes that the study confirms that terms of the contracts are too favourable to the IPP and the situation should be rectified. This is not the reading of the IPP. It is important that these different views are

reconciled as a matter of priority and urgency to eliminate the uncertainty and pave the way to further investments of the private sector in the energy sector.

*Regrouping/derocking/irrigation (FORIP) scheme:* The implementation of the FORIP scheme is meant to improve the competitiveness of the small and medium planter sector. Out of the 30 000 ha currently cultivated by small and medium planters, the MAAS had foreseen that some 15 000 ha would ultimately be covered by the FORIP. As at 30 December 2009, some 3 044 ha have been derocked and regrouped, however this area could be reduced with land conversion to IRS/RES<sup>4</sup>. In order to overcome shortcoming encountered during implementation of the FORIP project, a Technical Committee and a Site Management Committee have been set up in 2010 to improve on communication/coordination among all stakeholders ensuring presence of planters during decision making.

*Production of ethanol from molasses:* A production of 30 mio liters of ethanol is foreseen by 2015 to allow a 20/80 (E20) ethanol/gasoline blend. A pilot project for E10 (10% ethanol & 90% gasoline) tested on 25 vehicles during a 3 month winter period in 2006 proved conclusive. The Long Term Energy Strategy 2009-2015 refers to the introduction of E10 in 2012 and possibly E20 in 2014, but no concrete steps have been taken so far. It is therefore urgent to tackle this component decisively.

*Restructuring of cess<sup>5</sup>.* Global cess<sup>6</sup> was MUR 601.6 mio for 2005 crop year and MUR 587 mio for crop year 2006. By 2015 global cess should be reduced to between MUR 200 to 300 mio. For crop year 2008 global cess has increased to MUR 650 mio following salary increase after 2008 revision and for the crop year 2009 it amounted to MUR 542.8 mio. GoM has commissioned a report from KPMG (private consultant company) on the restructuring of the Sugar Producing Institutions (SPIs). Implementation of the recommendations of the KPMG report is yet to be agreed by all parties. SPIs had in 2009 1832 employees, a small decrease of around 3% in comparison to 2006<sup>7</sup>. It is therefore urgent to tackle this component decisively.

*Table 2: Sugar sector at a glance (2006 and 2009 comparison)*

	2006	2009
GDP per capita PPP (US\$)	10,443	12,261
Sugar sector as % of GDP	3.7	2.2
Sugar sector contribution to GDP (Rs mio)	6.723	5.353
Sugar export earnings (Rs mio)	10,495	8,490
No. of employed in the sugar sector	41,355 <sup>e</sup>	31,827
Employment in the sugar sector as % of the total employment	8.2 <sup>e</sup>	6.1
No. of small planters* (as registered with SIFB)	28,353	24,556
No. of people in the sugar sector being trained and/or receiving severance payments**	0	7,458
people in the sugar sector being trained and/or receiving severance payments as % of sugar sector employment	0	23.4
Area cultivated (ha)	70,801	64,000 <sup>p</sup>
Area harvested (ha)	66,732	60,503

<sup>4</sup> IRS/RES: Integrated Resorts Scheme/Real Estate Scheme.

<sup>5</sup> Seven Sugar Producing Institutions (SPIs) are either fully or partially funded by cess (tax on revenue from sugar proceeds, which is paid by the sugar planters directly). SPIs are: (1) Mauritius Sugar Authority, (2) Mauritius Sugar Industry Research Institute, (3) Cane Planters and Millers Arbitration and Control Board, (4) Sugar Planters Mechanical Pool Corporation, (5) Farmers Service Corporation, (6) Mauritius Sugar Terminal Corporation and (7) Sugar Industry Labour Welfare Fund.

<sup>6</sup> Mandatory tax which is deducted at source from the revenue of the sugar proceeds.

<sup>7</sup> This number includes the employees of the Sugar Industry Labour Welfare Fund, which is not part of the SPIs since 2008.

Cane production (mio t)	4.749	4.667
Cane yield (t/ha)	71.2	77.1
Sugar production ('000 t)	505	467
Sugar yield (t/ha)	7.57	7.72
Special sugar production ('000 t)	83.1	90
Sugar production cost (raw value, bulk, ex-factory, €t)	360***	395***

\* Small planters cultivate less than 10 ha

\*\* VRS II, ERS and Blue Print

\*\*\* Valid only for the sugar corporate sector (ie. excluding small and medium planters)

<sup>e</sup> estimated and based on 2004 data

<sup>p</sup> provisional

Sources: CSO, MSS, MSA, MCA, SIFB, IMF

Between 2006 and 2009 the contribution of the sugar industry to GDP fell from 3.7% to 2.2%, number of small planters decreased by 13.4%, whereas area harvested by the small planters decreased by 23,1%, the total area harvested decreased by almost 10% (2015 target of 60,000ha was achieved already in 2009). The decrease in harvested area might eventually represent a concern. The yield increased by 8% in general (7% increase by the sugar estates, 6% increase by the small planters, 9% increase by the metayers), the production of the special sugars increased by 8% and as of 2009 crop the production of the refined white sugar started (see Table 2).

The implementation of MAAS is coordinated by the Ministry of Agro Industry with the Mauritius Sugar Authority (MSA) being the main implementing agency. MSA also coordinates the work of relevant institutions, namely Mauritius Sugar Industry Research Institute, Cane Planters and Millers Arbitration and Control Board, Farmers Service Corporation, Sugar Insurance Fund Board etc. and closely coordinates with Mauritius Chamber of Agriculture, Mauritius Sugar Producer's Association and Mauritius Sugar Syndicate. Contrary to what was foreseen in the MAAS, a High Level Steering Committee, which was supposed to coordinate the implementation of the MAAS has not been operational since the adoption of the MAAS by the GoM in 2006.

### 2.2.2 EU Response Strategy to the MAAS

In view of the challenges which key sectors of the Mauritian economy are facing (including sugar), the GoM requested that resources under accompanying measures and the 10<sup>th</sup> EDF be made available as General Budget Support (GBS). The country *continues to qualify for budget* support since it fulfils the eligibility criteria as set out in the Cotonou Agreement Article 61.2<sup>8</sup>. The macroeconomic environment remains sound and there is a well-defined macroeconomic policy framework. The PFM framework is solid and a new PEFA is scheduled to be undertaken by the end of 2010. Using GBS as prime instrument under the Accompanying Measures, the 10<sup>th</sup> EDF as well as other EU budget lines has also reinforced the already well-developed dialogue with the GoM and other development partners.

Since 2006 one sector budget support programme and three GBS programmes have been elaborated for Mauritius, which were financed from two main sources, namely EDF and AMSP:

<sup>8</sup> Namely that public expenditure management is sufficiently transparent and accountable and effective, a well-defined macro-economic or sectoral policies is established by the country itself and public procurement is open and transparent.

1. The first programme was titled **Sugar Sector Support Programme** formulated in 2006 for a total funding of €11 mio (€4.5 mio from 9<sup>th</sup> EDF and €6.5 mio from AMSP 2006). The implementation of MAAS was well on its way, the agreed results were achieved (3 factory's activities have been transferred to larger sugar factories, additional two sugar factories received agreement for closure, more than 1,500 workers signed the VRS, more than 1,500 workers have enrolled in training/re-skilling programme, 340 ha of the land belonging to small and medium planters have been derocked).
2. The first GBS programme called **Improved Competitiveness for Equitable Development I** (ICED I) formulated in 2007 for a total funding of €76.022 mio, of which €6 mio from AMSP 2007 and € 40.022 mio from 9<sup>th</sup> EDF, was successfully implemented, with 92.5% of the funds disbursed. Only one key performance indicator in the education sector for the variable tranche was not met, which weighed €2.7 mio. The main results obtained under ICED I are advancement of the reforms in the sugar sector, the energy sector<sup>9</sup>, in empowerment, environment and in fiscal consolidation, while smoothening the implementation of the economic reform programme by promoting high level dialogue among all relevant stakeholders.
3. The second GBS programme was the second phase of the **Improved Competitiveness for Equitable Development II** programme (ICED II), which was funded solely from AMSP resources to the tune of €32.323 mio. The commitment was made in 2008. The general conditions as well as the indicators used for the disbursement of ICED II were very similar to those used under ICED I except that one indicator on public finance was replaced by an indicator on the wastewater sector in order to ensure continued monitoring of the sector after the end of the sector budget support. Full disbursement was done after successful achievements of all conditions and KPIs.
4. The third GBS programme **Promoting Sustainable and Equitable Development** (PSED) was committed in 2009. For this GBS programme a total amount of €93.074 mio was committed for 2009-11. The amount of €34.09 mio from 10<sup>th</sup> EDF was complemented with AMSP 2009 allocation to the tune of €58.984 mio. The PSED is the first three year general budget support programme and extends from 2009 to 2011 with the financing for 2012 yet to be committed. The programme continues to support the overall economic reform programme of the GoM, with emphasis on energy, environment, wastewater, sugar, education and empowerment sectors. Worth noting is that the operation includes two specific conditions: (i) Adoption of the national energy strategy by the GoM for the disbursement of 2009 fixed tranche; (ii) Elaboration of a draft action plan for the national energy strategy for the disbursement of 2010 fixed tranche.

The three general conditions govern the disbursements of fixed tranches as per each individual GBS programme:

- (i) **National Reform Strategy.** The policy framework for intervention under the GBS is the GoM's economic reform programme under implementation since 2006. The four pillar programme lays down the foundation for a new socio-economic model, driven by competitiveness and creation of opportunities for all. It is well elaborated and credible, in addition to being entirely home grown and fully owned. The GoM continues to demonstrate a strong commitment to and ownership of the reform programme.
- (ii) **Soundness of macroeconomic framework.** The macroeconomic framework remains stable as evidenced by IMF Assessment Letters and annual Article IV consultation reports (the latest as of February 2010). The economic reform strategy initiated in 2006 has borne

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<sup>9</sup> One of the general conditions for the ICED I pertained to the need for progress in the elaboration of a long term energy strategy by the GoM

fruits and has put the economy back on a higher and balanced growth path and this despite the turbulences in the world economy.

- (iii) **Public Finance Management (PFM)**. The GoM remains committed to further strengthening the PFM system. The PEFA assessment in 2007 was generally positive. Nevertheless the GoM has published an Action Plan to follow-up the PEFA assessment, which implementation is regularly monitored by the GoM. A new Public Procurement Act was proclaimed in January 2008. Second PEFA assessment is planned for 2010 to evaluate progress made.

All the commitments were done according to the tentative schedule and no considerable delays occurred for the payments. Slight delays occurred twice:

- In the context of the variable tranche of the SBS programme due to the political impasse, the deal between the GoM and MSPA was struck late and time was needed to implement the agreement, hence the disbursement request was sent later than scheduled (disbursement effected in July 2008);
- In the context of ICED II the disbursement request was sent with 3 months delay (disbursement foreseen for Q2 of 2009 was effected in November 2009).

### ***2.2.3 Assessment of the results as per MIP AMSP 2007-2010***

Under **Pillar 1 "Consolidate fiscal performance and improve public sector efficiency"**, the EU support is expected:

- (a) To contribute to the improvement (in terms of quality and effectiveness) of public expenditures (Including the assessment of public finance systems under PEFA, use of programme budgeting in a Medium-Term Expenditure Framework as from 2007/08).
- (b) To enhance public sector efficiency (including state-owned enterprises).
- (c) To encourage the reform of the civil service (originally thought to be carried out initially on a pilot basis, as part of the 2008 Pay Research Bureau Report).

*Assessment as at April 2010:* Public finance and fiscal consolidation were and are closely monitored in the framework of all budget support operations (SSPS, ICED I and II and PSED). The Public Expenditure and Financial Accountability (PEFA) assessment report published in June 2007 confirmed that the public finance management system in Mauritius is overall solid and the processes to ensure the credibility of the budget, accounting, recording and reporting information, internal audit and transparent procurement are generally sound. However weaknesses have been identified in the implementation of fiscal planning, comprehensiveness of coverage and external audit, among others. The GoM has drawn up a detailed Action Plan to address the weaknesses of the PFM system identified by the PEFA Assessment and a number of measures have already been taken (i.e. actions for the better management and reporting of the unreported funds; since 2008 the budget contains a list of the institutions and trust funds that received government funds; the Finance and Audit Act has been amended in May 2008 to cater for important PFM reform measures. These related namely to the alignment of the fiscal year to the calendar year, the full fledged implementation of the Programme Based Budgeting, the replacement of the Contingencies Fund by a new provision and the abolition of the Capital Fund.

The full fledged implementation of Programme-Based Budgeting (PBB) as from 2008 aimed at improving fiscal sustainability, allocative and operational efficiency in Government administration; since 2009 the PBB are being extended to parastatal bodies, and performance management systems are being introduced in most line ministries and departments; alignment

of the financial year with calendar year effected as from 2010; replacement of the Contingencies Fund by a new provision for contingencies). In 2010 a repeat PEFA assessment is scheduled.

In the ICED I and II programmes the results followed under this component were the reduction in primary spending as a percentage of GDP, and progress in the implementation of the PBB, which was aimed at improving fiscal sustainability, allocative and operational efficiency in the Government of Mauritius public sector. Civil service reform aimed at securing efficiency in the public sector in order to support fiscal consolidation and discipline.

The economic reform programme implemented since 2006 has included a number of measures destined to reduce government expenditure, namely the control of wastage through the setting up of audit committees, allocation of funds to line ministries according to preset ceilings, reform of the parastatals sector with the objective of securing their financial viability and implementing a new debt management strategy. As a result, the key performance indicator of reduction of primary spending as a percentage of GDP was overachieved in the ICED I and II programmes, with reduction in primary spending by 1.7% over the period 2006-2008, as compared to an initial target of 1.5%. In effect primary spending fell to 19.6% of GDP in 2008 as compared to a baseline of 21.3%. This showed that the reforms had been successful on this front. Reduction of primary spending was not included in the PSED GBS programme, because the GoM could not commit to its reduction due to the impact of the global economic crisis.

The introduction of PBB has instilled more fiscal discipline by setting priorities and key performance indicators for programmes implemented by line Ministries. To that end, line ministries were encouraged to prepare their respective sector strategies. Through the ICED I and II general budget support programmes, the GoM was also supported in preparing strategic plans for the education and energy sectors.

As Mauritius is still suffering from insufficient capacity of the public service, the GoM has set up a Capacity Building Programme to support the reforms and development objectives by identifying international and domestic experts to help, design and/or implement various strategies and programmes that are run by the Government. A "Service to Mauritius Programme" is also in place to attract the brightest young people, both Mauritians and international, to serve in GoM for periods between 1 month and 2 years.

Under **Pillar 2 "Improving trade competitiveness"**, the EU assistance is expected:

- (a) To contribute to the further restructuring of the sugar sector, in line with the "Mauritius-EC Sugar Response Strategy 2006-2013", which would include: increased productivity of sugar cane and diversified revenue base of the sugar industry via restructured clusters.

*Assessment as at April 2010:* a detailed analysis is under point 2.2.1 and in Annex 3.

- (b) To encourage the emergence of new and sustainable cost effective energy producers/suppliers. Government is currently finalising a coherent energy policy, fully integrating the role of the sugarcane cluster and ethanol development on the basis of economic, financial and environmental analyses. The energy policy should ensure transparent decision-making on a competitive basis where subsidies/incentives should be limited to the environment only (e.g. carbon credits).

*Assessment as at April 2010:* As part of the PSED GBS programme the GoM has in October 2009 adopted its national Long-Term Energy Strategy (LTES). The LTES shows the GoM's commitment at diversifying the country's energy supply and improving energy efficiency to cope with the increasing demand, while at the same time addressing environmental and climate changes. It also lays emphasis on three prongs: (i) the development of renewable energy, (ii) reduction of the government's dependence on imported fossil fuel and (iii) the promotion of energy efficiency in line with the government's objective to promote sustainable development in line with the concept of the "Maurice Ile Durable" (MID) vision. The LTES features an increase in the production of electricity from bagasse from a current 350 GWh to 600 GWh annually by 2015, which is also part of the MAAS 2006-2015. The GoM foresaw the use of biofuels in vehicles through the introduction of E10 (10% ethanol mix with 90% fuel) by 2012 and possibly E20 by 2014.

- (c) To support the emergence of new economic sectors that will bring value-added to the economy.

*Assessment as at April 2010:* The GoM continues its strategy to reduce its dependence on sugar, textiles and financial services and to spur greater diversification. Investment in education and infrastructure is vital in the shift towards a more service oriented economy, especially the country's development as a regional centre for ICT. The contribution of the emerging sectors such as ICT, sea-food and construction (IRS) to the GDP has been growing. Seafood and ICT sector contributed 1.4% and 5.8% to the GDP respectively in 2009 (their share to GDP was 1.1% and 5.4% respectively in 2006). The ICT is an important pillar of the economy, the ICT enterprises have been expanding by 12 to 15% annually since 2006. A second underwater fibre optic cable is scheduled to become operational by 2011. The contribution of the textile manufacturing to the GDP fell to 5.2% in 2009 (from 6.6% in 2006). In turn the shares of construction, financial intermediation and real estate to the GDP have increased by around 1% from 2006 to 2009, namely from 5.6 to 6.8%, from 10.4 to 11.7% and from 10.5 to 11.8% respectively. As part of the Additional Stimulus Package the GoM has started in the middle of 2009 a sizable investment programme to upgrade public infrastructure over the coming eighteen months with 14 projects being earmarked, amounting to a total cost of MUR 25 bn (€600 mio). Of these 14 projects, 11 relate to road infrastructure with the remaining ones targeting the airport (the constructions of the passenger's terminal) and the Port Louis seaport.

Under **Pillar 4 " Democratizing the economy"**, the EU assistance is expected:

- (a) To support the implementation of the Empowerment Programme via: job creation for the unemployed, recycling of retrenched workers (in particular from the sugar industry; this, in addition to financing the social packages) and enhanced economic opportunities for the lower-income groups and self-employment.

*Assessment as at April 2010:* The economic reform programme contained a number of measures to provide transitional support to those whose jobs were put at risk by the reforms, and in general broaden the circle of opportunities for the vulnerable groups. In 2007 an Empowerment Programme was set up to ease the burden of unemployment, enhance job prospects, reduce labor and skills mismatches and promote SME development. A major plank of the program comprises wage subsidies for on-the-job training or retraining for unemployed and recycled workers. A special programme focused on women, who had been particularly affected by the downsizing of the textile sector (see section 2.2.1 above for retrenched workers in the sugar sector).

As unemployment for women is generally twice that of men in Mauritius, ICED I and II monitored the number of unemployed women registered with the Empowerment Programme who had secured a job, those placed in an enterprise under the Placement Scheme and/or joined an enterprise network to start a small business. Training meant a formal training programme with defined modules leading to a certificate and the training must be linked with a placement. The placement was full time on the job training under supervision of an experienced staff of the employer, based on a defined placement plan. The Special Programme for Women under the Empowerment Programme had created business networks for women to form their own enterprises.

Under ICED I and II, the number of unemployed women who had secured a job and/or were placed in an enterprise under the Placement Scheme and/or joined an enterprise network to start a small business increased from 0 in 2006 to 1,686 in 2008. According to a survey 60% of those who were trained and placed obtained employment within the enterprise after the completion of their training. This shows that the EP is concretely enhancing economic opportunities for women in these difficult economic times. The business process outsourcing/call centres sector had the biggest absorptive capacity for training and placement, followed by the tourism sector. For women starting a business the biggest number was in the catering sector with the remaining in the garment making and hairdressing sector.

Under the current three year GBS programme co-funded by the AMSP 2009, the indicator for empowerment has been broadened to include both male and female employment seekers. With the current global economic and financial crisis, the aim of this indicator is to monitor the number of people who are unemployed or whose jobs are put at risk who are provided with support measures like training and placement.

(b) To assist in the reform of the education sector with an emphasis on increasing sector efficiency, taking into consideration cost-benefit parameters.

*Assessment as at April 2010:* The education sector in Mauritius suffers from a number of internal and external inefficiencies that result in high failure rates, high drop out rates and high absenteeism, among other problems. Given the critical reforms needed in the sector, education has been a priority sector followed over the past two general budget support programmes, and also features in the current three year GBS programme.

In the context of the elaboration of sector strategies to underpin the Programme Based Budgeting (PBB), the EU funded a consultancy to assist the Ministry of Education and Human Resources to elaborate its Strategic Plan for the Education and Human Resources (SPEH) sector for the period 2008-2020. As reforms in the education sector are particularly sensitive and generate lots of resistance from various parties, ICED II GBS programme contained a specific condition to ensure that the Ministry of Education engages in consultations upstream in order to review the draft strategy based on comments from a maximum number of stakeholders so as to have a finalised strategy that draws upon the consensus of all partners and which can be implemented smoothly. This was successfully undertaken, and the SPEH was finalised and approved by Cabinet in mid 2009. The SPEH is currently under implementation.

Over the first two years the general budget support programmes (ICED I and ICED II) also monitored the absenteeism rate in primary schools for children from vulnerable groups. The indicator was not achieved in the first year, which catalysed a process of reflection and

analysis on the reasons behind the high rate of absenteeism in ZEP schools, both at the level of policy makers and NGOs. Remedial measures<sup>10</sup> were devised to tackle these root causes. The outcome was that many of these remedial measures proved successful as evidenced by the rate of absenteeism in 2008 dropping by 2.8 % i.e. from 15.7% in 2007 to 12.9% in 2008. This was a significant improvement as compared to a worsening of the absenteeism by 0.5% between 2007 and 2008, which was due mainly to the low sensitisation of the problem of absenteeism, which resulted in a lack of monitoring of this indicator.

The current GBS programme (PSED) focuses on the pre-primary sector. The objective is to ensure that all children aged 3 to 4 years in Mauritius have access to education, in order to develop their individual intellectual, socio-emotional and psycho-motor skills and prepare them for the primary school. The GoM has estimated that approximately 5,000 children of pre-primary age from vulnerable groups are not enrolled in pre-primary schools. This indicator under PSED will therefore monitor the enrolment of children in pre-primary school, with prime focus on the children from vulnerable groups. The PSED programme will aim at contributing to increase enrolment in the pre-primary sector between 2009 and 2011.

### **Millennium Development Goals (MDG's)**

GoM's commitment to its social development is reflected in the progress achieved in meeting the MDGs, specially on the health related ones. Under-five mortality rate (per 1000 live births) has decreased by 28% over the past seventeen years, from 23.1 in 1990 to 16.6 in 2008. Further, infant mortality rate (per 1,000 live births) has decreased by almost 30% from 20.4 to 14.4 over that period. The coverage rate for immunization against measles has increased from 76.1% in 1990 to 90.1% in 2008. The maternal mortality ratio was 36 per 100,000 live births in 2007. This ratio stood at 66 in 1990 with a lowest ratio of 15 in 2002. It is also worth noting that the proportion of births attended by skilled health personnel, 91% in 1990, stood at 99.5% in 2008. Mauritius will probably meet all but one of the 8 core MDG's by 2015, except for the one on HIV/AIDS prevalence. The rate of prevalence of HIV/AIDS among the age group 15-24 increased from 0.01% in 2000 to 0.15% in 2008. The GoM has elaborated a strategic plan for HIV/AIDS with a number of measures to curb this trend, among the population in general. However there is little evidence that the trend will be reversed over the near future.

### **2.2.4 Dialogue and monitoring**

The EU is the only development partner that directly supports the restructuring of the sugar sector into sugar cane cluster. The EIB supports the implementation of the MAAS through a project approach. In 2009 it has financed two refineries at Omnicane (€13 mio) and FUEL (€15 mio). The agreed financing is also the first implementation of the May 2006 Port Moresby declaration. *Agence Francaise de Developpement* is supporting irrigation component of the FORIP project. However, World Bank, *Agence Francaise de Developpement* and African Development Bank support the overall economic reform program of the GoM through General Budget Support.

The GoM's economic reform programme includes a results' matrix, which allows for the monitoring of each pillar over the FYs 2007-13. This matrix has served as the reference for

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<sup>10</sup> Remedial measures included sensitisation of parents to send children to schools, incentives to students through monthly rewards for best attendance, introduction of new curriculum of activities in schools like artistic and cultural events, games and sports events, among others.

the choice of strategic outcome indicators since it constitutes the common results' framework, which has been used to monitor the overall Government Programme by all donors involved, in order to ensure aid alignment and aid effectiveness. In this respect the EU has held regular dialogues with all relevant stakeholders, namely the GoM representatives, the implementing agencies, representatives of the small planters, corporate sector, civil society and development partners not only in the context of the sugar reform but in overall economic reform programme.

### **3. MIP AMSP 2011-13**

As confirmed by the Assessment of the AMSP 2010, MTR of the 10<sup>th</sup> EDF CSP and MTR MAAS 2010, both the MAAS and the EC response strategy thereto are still valid. The GoM has undertaken the MTR of the MAAS in 2010 in order to review the implementation process and to take into account new developments and amend the strategy accordingly. The MIP 2011-2013 takes into account these new developments and amendments.

#### **3.1 Specific objectives**

The AMSP 2011-13 will continue to support the overall implementation of the economic reform programme, which includes the restructuring of the sugar sector. The programme lays down the foundation for a new socio-economic model, driven by competitiveness and creation of opportunities for all. It is well elaborated and credible, in addition to being entirely home grown and fully owned and endorsed by the country's development partners. The EU support will be complemented with other financing sources, namely 10<sup>th</sup> EDF and the EU general budget lines.

#### **3.2 Programmes to be implemented in pursuit of these objectives and the type of assistance to be provided**

The AMSP 2011-13 will continue to support the GoM's overall economic reform programme using GBS as aid delivery method. In 2011 the PSED GBS programme 2010-12 will be under implementation, financed from the AMSP 2011 allocation and the remaining funds under 10<sup>th</sup> EDF (ie. €10 mio). 2011 AMSP allocation will finance the 2011 fixed tranche and the 2011 variable tranche will be financed from the remaining 10<sup>th</sup> EDF funds<sup>11</sup>.

As under the ICED and PSED programmes, interventions under the future General Budget Support programme 2011-13 will focus on four main areas namely restructuring of the sugar industry into sugar cluster, Maurice Ile Durable initiative encompassing sustainable development and renewable energy, socio-economic empowerment and education.

#### **3.3 Financial allocation**

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<sup>11</sup> The 2011 variable tranche is constituted of 5 KPI, namely (i) 50% of the crop exported in white sugar, (ii) Increase the number of male and female employment seekers registered with the National Empowerment Foundation who have been trained and placed /obtained a job/ joined a business network/become self employed – to 8,400 cumulative, (iii) Increase in enrolment rate in pre-primary schools of children aged 3 and 4 years to 90.5%, (iv) Number of new Household connections to public sewer system – to 72,200 cumulative and (v) Percentage of planned and controlled burnt cane area by the sugar corporate sector prior to harvest to 19.75%.

An envelope of €xxx mio has been tentatively committed for Mauritius for the period 2011-13. These funds will be complemented by the A-envelope of the 10<sup>th</sup> EDF (€10 mio remains to be committed) and the EU general budget lines.

### **3.4 Expected results**

The General Budget Support programmes, funded by the AMSP and the EDF, will support the four main pillars of the ten-year economic reform programme and Maurice – Ile Durable, in coordination with other development partners; this in conformity with the Paris Declaration on Aid Effectiveness and corresponding guidelines on streamlined conditionalities.

Under pillar 1 "Consolidate fiscal performance and improve public sector efficiency" the EC is expected to:

- (i) contribute to sound public finance management, via second PEFA assessment and follow-up of post PEFA Action Plan.

Under pillar 2 "Improving trade competitiveness" the EC is expected to:

- (i) contribute to the restructuring of the sugar industry into a sugar cane cluster by supporting the implementation of the MAAS and MTR MAAS, including global cess reduction, implementation of FORIP, the production of value added products and by-products (ie. ethanol) and promotion of fair-trade label project.

Under pillar 4 "Democratizing the economy" the EC is expected to:

- (i) contribute to improve educational outcomes and quality of education;
- (ii) contribute to widening the circles of opportunities of the most vulnerable groups through economic empowerment.

Under pillar 5 "Maurice – Ile Durable" the EC is expected to:

- (i) contribute to mitigating of the negative impacts of the reform process on the environment;
- (ii) contribute, complement and reinforce the support in the field of sustainable development.

### **3.5 General and specific conditions and performance indicators**

The AMSP 2011-13 will support the below mentioned priority areas of the reform programme agreed between the GoM and the EU. The latter will form the basis for the identification and formulation of the specific conditions and performance indicators with their respective targets, so as to measure key results in the priority areas.

#### **Restructuring of the sugar industry into sugar cluster**

For the period 2011-13, performance on the other components of the MAAS would have to be closely monitored to ensure that the Adaptation strategy for the sugar industry delivers on its objectives. In this respect, the following proposals could be considered: (i) Production of value added products like special sugars; (ii) Implementation of the FORIP component coupled with the fair trade label project; (iii) Promotion of ethanol; (iv) Implementation of the action plan for the energy strategy; and (v) Restructuring of the cess.

#### **MID initiative**

"Maurice Ile Durable" initiative was launched in 2008 by the Government of Mauritius to promote a stronger focus on the environmental dimension in national development for economic growth and social progress. MID addresses the challenges facing Mauritius as a Small Island Developing State especially in the context of promoting sustainable development by reducing the country's dependence on fossil fuels and correspondingly increasing the use of renewable energy. The Long Term Energy Strategy adopted in October 2009 foresees a reduction of the country's dependence on imported fossil fuels and minimization of the pollution associated with fossil fuel combustion to help the country achieve the Renewable Energy targets (presently 20% of energy mix to 35% by 2025).

### **Socio-economic empowerment**

The National Empowerment Foundation (NEF) is a new structure set up by the GoM in 2009 to review, design, and implement programmes for the vulnerable groups. The objective is to ensure better coordination and greater synergies for increased efficiency and effectiveness of alleviation programmes across the (i) Trust Fund for the Social Integration of Vulnerable Groups (ii) Empowerment Programme (iii) Eradication of Absolute Poverty Programme (iv) Corporate Social Responsibility and (v) Community Capacity Development.

Participation of key stakeholders namely public and private agencies, NGOs and civil society as well as the Development Partners is embedded in these programmes. The programmes focus on the following: training and placement of the unemployed, provision of social housing, treatment and rehabilitation of substance abuses, remedial classes for slow learners of primary school, initiating women to small income generating activities, assistance to handicapped children, medical screening and referral for treatment, vocational training for school drop-outs and adult literacy for empowerment and capacity building.

### **Education sector**

The Ministry of Education, Culture and Human Resources has earmarked the pre-primary sector, special education needs and tertiary education as its three priority areas over the medium term till 2013.

- Pre-Primary education plays a pivotal role in building foundations upon which all future learning ultimately depends. Enrolment of pre-primary school children for children aged 3 and 4 years raised from 85% in 2005 to about 94% in 2010, however a number of constraints and challenges still persist. There is a need to ensure a proper regulatory framework is in place with suitable norms and standards to overcome disparity in pre-schools, so that all children start primary schooling on an equal footing and a degree of readiness that enable each child to make an effective transition to primary schooling.
- The main objective of the Special Education Needs (SEN) Programme is to advocate the integration/inclusion of learners with special education needs/disabilities into the regular school system at all levels in order to enable them to contribute to their own welfare and that of the country. Although measures have been taken to address the issue of access to schools for SEN children, the sector has not been sufficiently looked into, specially with regards to pro-active measures for the early detection of children with special needs and addressing these, and supporting the integration of children with special education needs in the regular school system. The success of the measures put in place recently by the GoM will be shown by the increase in school enrolment of children with disabilities.
- The main challenge is to improve the relevance of tertiary education in order to make it more responsive to the needs of the labour market and to improve the effectiveness and efficiency of tertiary education institutions. The Gross Tertiary Enrolment rate will have to be carefully monitored over the coming years.

### **3.6 Integration of cross-cutting themes**

#### *3.6.1 Good governance, human rights*

The underlying principles of Cotonou, namely democracy, rules of law and respect of human rights, are well respected in Mauritius. This was re-confirmed during the mid-term review of the 10th EDF CSP in 2009. During the AMSP 2007-2010 programming period Mauritius benefitted from several international reviews (inter alia Mo Ibrahim, Economist Intelligence Unit, and World Bank) highlighting that the country is well perceived in terms of good political, economic and social governance. Mauritius has a generally good track record for protection and respect of human rights. The Universal Periodic Review of Mauritius undertaken by the UN Human Rights Council in June 2009 was positive. Several projects were funded under the 9th EDF in the area of good governance and human rights.

#### *3.6.2 Environmental sustainability*

Environment and energy are focal areas of the 10<sup>th</sup> EDF CSP as well as the MAAS and are supported through GBS and technical assistance (TA). Strategic Environmental Assessment (SEA) conducted in 2007 was used as a starting point for the definition of the key performance indicator in the GBS PSED 2009-11, namely the reduction of the planned sugar cane burning by the corporate sector. TA was provided to GoM in 2009 to devise a Lagoonal Water Quality Index.

The formulation and the adoption of the national Long-Term Energy Strategy was governing disbursements of the fixed tranches under GBS programmes ICED II and PSED. Sustainable development and energy efficiency are also supported under GBS Global Climate Change programme for Mauritius 2010-11.

#### *3.6.3 Gender equality*

GBS programmes ICED II and PSED focused on empowerment, with emphasis on women. The recent years have witnessed a significant increase in the number of women joining the labour force, leading to the need for more economic opportunities for women in order to prevent a high level of unemployment among women. Through ICED I and II women were provided with training and placement and offered the possibility to open small businesses. A specific project component of MAAS, namely VRS II, also targeted women.

### **3.7 Consultative process**

In the context of the development cooperation there has been a continuous policy dialogue between the EU and the GoM as well as with the development partners (EIB, World Bank, AFD and ADB). In more specific context of the Mauritius sugar reform process and this programming exercise for the sugar accompanying measures, this dialogue has been enhanced and extended to include the MSA, Service Providing Institutions, the private sector, small planter's associations, trade unions and members of the National Assembly<sup>12</sup>. Despite representing only 2.2% share of the GDP, the sugar sector continues to play a very important role in the economic, social and political life.

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<sup>12</sup> Enlarged consultations on the MTR MAAS scheduled for 28.6.2010 and MIP AMSP 2011-13 during the week of 5-9 July 2010.

### 3.8 Link to relevant activities under other EC instruments in the country

#### Vulnerability FLEX 2009

In reaction to the international economic and financial crisis, the EU issued a Communication *Supporting development countries in coping with the crisis* (COM 2009-160 final) which foresaw inter alia the creation of a Vulnerability FLEX mechanism to provide additional funds to support ACP countries hit by the crisis. An envelope of €500 million was set aside for 2009 and 2010. Mauritius was found eligible for 2009 and an envelope of €10.9 mio was allocated in September 2009. The funds were disbursed in December 2009 as a fixed tranche within the 9<sup>th</sup> EDF GBS programme – *Improved competitiveness for equitable development GBS programme*.

#### Global Climate Change Alliance

In the context of mitigating the effects of global climate change the *GBS Global Climate Change programme (GCC)* not only aims at contributing to sustainable development and preservation of the environment emphasizing the focus on sustainable development of the ongoing EC PSED GBS programmes, but also complements and reinforces support provided by the *Agence Francais de Developpément* in the field of sustainable development, thus resulting in greater donors' complementarity and coordination. A total of € 3 million is committed for this two year Global Climate Change Programme, where €2.8 million will be disbursed as general budget support after the GoM achieves some strategic results in the legal framework for energy efficiency and sustainable buildings. In addition, €0.2 mio will be used for technical assistance for priority projects in the sustainable development field.

#### European Investment Bank (EIB)

The EIB is providing a €15 mio loan to Omnicane and a €13 mio loan to FUEL to construct sugar refineries as part of the EU's wider support of reform in the Mauritius sugar industry. Both loans are benefitting from an interest subsidy funded from the 10<sup>th</sup> EDF as decided by the ACP-EU Council of Ministers in 2006<sup>13</sup> (so called Port-Moresby declaration).

#### iEPA and sugar safeguard mechanism in place until 2015

In August 2009 Mauritius signed an interim EPA-ESA agreement, which mainly covers trade in goods. Mauritius is still continuing to negotiate within the ESA region a comprehensive regional EPA. Sugar and rice are the only products which do not benefit from the duty free quota free (DFQF) access to the EC market as from 1<sup>st</sup> January 2008 under the EPA regime. In both cases a transition period applies. In the case of sugar the transition is made up of two phases before full liberalisation can occur on 1<sup>st</sup> October 2015.

- **From 1<sup>st</sup> October 2009 to 30 September 2015** free access for ACP sugar under EPAs is subject to an automatic safeguard mechanism to be applied to non-LDC ACPs only. The free access will be suspended when two conditions are simultaneously met: (i) total imports from ACPs reach 3,5 million t **and** (ii) imports from ACP non-LDCs reach 1.38 million t in 2008/9, 1.45 million t in 2009/10 and 1.6 million t per marketing year in 2010/11-2014/15. ESA regional safeguard thresholds are 1.38 million t for 2009/10, 1.45 million t for 2010/11 and 1.6 million t for 2011/12+.
- **As from 1 October 2015 onwards, the access to EU market will be totally free**, and the regular EPA safeguard will apply, adjusted to take account of the sensitivity of sugar.

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<sup>13</sup> This the first initiative that implements the 2006 Port Moresby declaration, through which the ACP-EU Council of Ministers agreed to mobilise €100 mio as interest subsidy for loans on the private sector and other stakeholders in the context of their respective multi-annual adjustments strategies and plans.

#### **4. Annexes**

Annex 1: GBS roadmap (EU + development partners)

Annex 2: Up-dated Joint Government Reform Matrix (pending)

Annex 3: Review of the MAAS 2010

##### **List of relevant documents:**

- 10<sup>th</sup> EDF Country Strategy Paper 2008-13 (CSP 2008-13)
- Mid-Term Review of the 10<sup>th</sup> EDF Country Strategy Paper 2008-13 (MTR CSP 2008-13)
- Regulation (EC) No 1905/2006 establishing a financing Instrument for Development Cooperation (DCI)
- Multi-Annual Adaptation Strategy and Action Plan 2006-15: Safeguarding the future through consensus (MAAS 2006-15)
- Multi-Annual Indicative Programme for Accompanying Measures for Sugar Protocol 2007-10 for Mauritius (MIP AMSP 2006-10)
- Mid-Term Review of the MAAS 2006-15 (MTR of the MAAS)
- EC's Programming guidelines for MIP AMSP 2011-13