AFRICAN FORUM AND NETWORK
ON DEBT AND DEVELOPMENT

AN ANALYSIS OF LOAN CONTRACTION AND DEBT MANAGEMENT

THE CASE OF THE REPUBLIC OF MAURITIUS

ABOUT AFRODAD

VISION
A prosperous Africa based on an equitable and sustainable development.

MISSION
To contribute to Africa's inclusive economic growth and sustainable development through influencing policy change on debt management and development finance anchored on a right based approach.

AFRODAD OVERALL STRATEGIC GOAL
The overall goal of AFRODAD is 'to influence African Governments to institute and implement policies and practices for sustainable development and eradication of poverty'.

THEMATIC FOCUS AREA 1: DOMESTIC RESOURCE MOBILISATION
Thematic Goal: To contribute to the development and implementation of transparent, accountable and efficient mechanisms for mobilization and utilization of domestic resources in Africa.

THEMATIC FOCUS AREA 2: DEBT MANAGEMENT
Thematic Goal: To contribute to the development and implementation of sustainable debt policies and practices in Africa.

THEMATIC FOCUS AREA 3: INTERNATIONAL PUBLIC FINANCE
Thematic Goal: To influence the quality, impact and effectiveness of international public finance, in line with the agreed development cooperation effectiveness principles.

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ACRONYMS

AFRODAD: African Forum and Network on Debt and Development
ATM: Average Time to Maturity
CMU: Central MTEF Unit
COA: Chart of Accounts
CSO: Civil Society Organizations
DMO: Debt Management Office
DSA: Debt Sustainability Analysis
EURODAD: European Network on Debt and Development
GDP: Gross Domestic Product
GoM: Government of Mauritius
HDI: Human Development Index
HIPC: Heavily Indebted Poor Country Initiative
IBRD: International Bank for Reconstruction and Development
ICT: Information Communication Technology
IDA: International Development Association
IDEA: Institute for Democracy and Electoral Assistance
IMF: International Monetary Fund
MACs: Market Access Countries
MDGs: Millennium Development Goals
MDRI: Multilateral Debt Relief Initiative
MEFMI: Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MOFED: Ministry of Finance and Economic Development
MTEF: Medium Term Expenditure Framework
NAO: National Audit Office
NGO: Non Governmental Organization
PAC: Public Accounts Committee
PBB: Programme-Based Budget
PDM: Public Debt Management
SDR: Special Drawing Rights
Rs: Rupees
SADC: Southern African Development Community
SIDS: Small Islands Development States
UN-OHRLLS: United Nations – Office of the High Representative for the Least Developed Countries and Small Island Developing States
UNCTAD: United Nations Conference on Trade and Development
UNITAR: United Nations Institute for Training and Research
TAS: Treasury Accounting System

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PREFACE

Developing countries, especially in Africa must establish appropriate and dynamic legal frameworks and structures that are responsible for coordinating and managing public debt. All public loan contraction and debt management rules and regulations must be anchored on constitutional provisions and other precise pieces of legislation defining how public loans should be obtained, used and serviced. Contracted debt should be used to promote economic growth, development and poverty reduction. Government borrowing from either domestic or external sources requires that there is a well-established legal basis for contracting debt. A clear legal framework governing the mobilization, management and monitoring of resources that have been raised through borrowing should be in place.

The report analyzes the loan contraction process and debt management of the Republic of Mauritius. It reviews the legal framework, the procurement, utilization and management of public loans and debts to assess if they are done in a transparent, accountable, participatory and inclusive manner. Based on the findings, proposals for more rational, coherent, and inclusive policies to be adopted on public loan contraction and management were made.

This report notes that Mauritius total public debt stock has been on a rising trend in recent years and is relatively high for an emerging economy. Nonetheless, according to the most recent debt sustainability analysis conducted by the IMF, the public debt outlook remains broadly positive.

The main risk relate to the insufficient fiscal adjustment leading to the inability to achieve the statutory debt ceiling of 50% by the targeted timeframe of 2018. Putting in place credible medium-term fiscal consolidation and a planned debt reduction strategy is desirable to maintain debt sustainability.

Mauritius has established a solid creditworthiness. Moody's credit rating for Mauritius is at Baa1 with a stable outlook. Although the public debt stock to GDP ratio is somewhat high for an emerging economy, public debt remains resilient to shocks and exposure to risks is limited. In this regard, a sound debt management strategy is adhered to.

External debt is low, generally contracted from multilateral and bilateral sources, financed at long maturities and favorable interest rates. Similarly, the country's

domestic debt portfolio comprises mainly long and medium-term debt obligations. There is no likelihood of any debt crisis in the near term given political and social stability in the country, a well-managed economy and well-developed domestic financial market.

Mauritius has a robust legal and institutional framework that allows a clear definition of responsibilities and role of all actors in the process of loan contraction and debt management. Parliament has the official oversight over public finances, but the parliament role is not assertive and is not translated to the approval of all loans prior to signing by the executive. Parliament scrutiny of the budget process and the utilization of funds is limited by inherent weaknesses.

There is no legal and institutional recognition of the civil society in the Loan Contraction and debt management process. Moreover, only a few CSOs are interested on the matter of debt related issues.

It is however noteworthy that the Government of Mauritius is committed to strengthening the institutional framework and the national capacities to improve strategic planning and budgeting, leading to the transformation of Mauritius to a high income economy that is sustainable and equitable, for future generations.

Dr. Fanwell Bokosi
Executive Director

1
INTRODUCTION

Mauritius is a Small Island Developing State (SIDS)[1] which like the other 52 islands is a low-lying coastal country. It shares similar sustainable development challenges such as limited resources, remoteness, susceptibility to natural disasters, vulnerability to external shocks, dependence on international trade and a fragile environment. SIDS are prone to extremely damaging natural disasters because development options are limited, therefore they present special challenges to planning and implementing sustainable development[2]. Notwithstanding the unique and particular vulnerabilities of SIDS and their special case for sustainable development, Mauritius is a development success story.

In 1968, the country was poor with a nominal per capita income of about US$260. In 2015, the nominal income per capita rose to about US 9,610[3], despite being a small island which is economically vulnerable to exogenous shocks. Natural disaster and terms of trade have never prevented the economy from having a strong and stable growth. The story of Mauritius is one of adaptability, innovation and anticipating global changes. Its combination of good leadership, consensus building and sound macroeconomic management propel the country from a low-income to an upper-middle-income country.

While most African countries borrow from the World Bank's International Development Assistance (IDA) window, Mauritius is one of the few African countries eligible for the International Bank for Reconstruction and Development (IBRD) loans[4]. After success of the structural adjustment effort, the country turned to more traditional project lending. Mauritius has neither been a Heavily Indebted Poor Country (HIPC) nor benefited from the Multilateral Debt Relief Initiative (MDRI).

Research undertaken by AFRODAD in 2014[5] across the Southern African Development Community (SADC)[6] countries, show that the total public debt of some countries is on the rise. These include those who have benefited from debt

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1 Small Island Developing States (SIDS) are a distinct group of developing countries facing specific social, economic and environmental vulnerabilities. SIDS were recognized as a special case both for their environment and development at the United Nations Conference on Environment and Development (UNCED), also known as the Earth Summit, held in Rio de Janeiro, Brazil (3–14 June 1992). This recognition was made specifically in the context of Agenda 21 (Chapter 17 G)
2 UN-OHRLLS. *Small Island Developing States, Small Islands Big(ger) Stakes*. United Nations. New York. 2011
3 World Bank data, 2015
4 Mauritius, 2008 Article IV Consultation – Staff Report – Staff Statement by the IMF.
5 AFRODAD. An overview of Domestic Debt in SADC: A synthesis of trends, structure and development impacts. 2014.
6 SADC member states are: Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe.

cancellation through the Heavily Indebted Poor Country (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). Debt sustainability analysis indicates that some countries may soon be in debt distress. Even though the debt sustainability analysis of Mauritius shows that it is below the set target of 60% (57.7% in 2015) hence sustainable; its total public debt is on the ascent with the dominance of domestic debt over external debt. Mauritius Debt to GDP ratio is third highest in the SADC region after Zimbabwe and Seychelles. It therefore presents an interesting case study for sustainable debt management. Mauritius has legally mandated in the Public Debt Management Act 2008[7] a public debt ceiling of 60% to GDP[8] until 2017 and 50% of GDP after 2018 in order to ensure overall debt sustainability.

If total external debt is still raised in some countries, it is an indication that there still exist bottlenecks that continue to perpetuate the debt crisis. Past AFRODAD studies have noted a weak loan contraction process which lacks transparency, accountability and participation. In addition to that, the structural framework relating to the public debt management systems are not fully in place in some countries or not implemented in others.

The overall objective of this research is to analyze the loan contraction process and debt management of the Republic of Mauritius. The research will investigate the legal framework and find out if loan contractions are done according to the legal and institutional provisions as well as serving the purpose for which they have been contracted. The study will also analyze the procurement, utilization and management of public loans and debts to assess if it is transparent, accountable, participatory and inclusive. Based on the findings, proposals for more rational, coherent, and inclusive policies to be adopted on public loan contraction and management will be made to different stakeholders in the conclusion and recommendations section.

1.1 Study Methodology

The research was mainly done through desk research which includes perusing of available documents, the Constitution of the Republic of Mauritius, the Finance and Audit Acts, the Debt Management Strategy and the Public debt Management Act. Online consultation of publications and articles on Debt and Loan Contraction and other relevant documentation and data from the website of the Ministry of Finance and Economic Development, the Central Bank of Mauritius and the National Assembly were also done.

7 Refer to Public Debt Management Act 2008. -

8 SADC member states agreed to achieve and maintain macroeconomic stability, committing to follow stability-oriented economic policies and to be monitored and measured against specific convergence criteria indicators amongst them, a public debt threshold of 60% of GDP.

2
SOCIO-ECONOMIC ANALYSIS

Mauritius attained independence in 1968 and since then democratic elected Governments are working towards sustaining good governance and a remarkable economic transformation which has propelled Mauritius from a low-income, agriculture-based economy to an upper middle-income diversified economy. From a single crop economy depending on sugar, Mauritius economy is today diversified and based on tourism, textiles, sugar, exports and financial services. In recent years, Information and Communication Technology (ICT), seafood, hospitality and property development, healthcare, renewable energy (biomass, hydro, solar and wind energy), have emerged as important sectors, attracting substantial investment from both local and foreign investors. Mauritius however, depends on imported petroleum products to meet most of its energy requirements.

The economy is one of the strongest in sub Saharan Africa. The country has undergone a remarkable economic transformation since independence. High economic growth rates averaging 4.5% between 1990 and 2015, more than tripled Mauritius GDP per capita during the period which has resulted in a more equitable income distribution (poverty rate is low compared to the average in sub-Saharan Africa), increased life expectancy, lower infant mortality and improved infrastructure[9].

Macro-economic policies are supportive of sustainable growth which was 3.2% in 2013, 3.6% in 2014 and 3.5% in 2015. Mauritius overtook South Africa to become the most competitive economy in sub-Saharan Africa.

Good governance supported by strong institutions with leaders committed to reforms positioned the country as leader in a number of areas. Mauritius is ranked high in terms of competitiveness, climate investment, governance and economic freedom. The World Economic Forum's global competitiveness index ranked Mauritius at 45 out of 148 countries in 2016, topped the 2015 Mo Ibrahim Index of African Governance. The country was ranked 49th globally and first in Africa in the 2015 World Bank doing business report.

Mauritius has built its success on a free market economy. In the recent years it has attracted offshore entities including commerce, banking and textile industry. Mauritius' sound economic policies and prudent banking practices helped to mitigate negative effects of the global financial crisis in 2008-2009.

9 Index Mundi.

The economy is nevertheless facing some challenges. The external shocks demonstrate the heavy reliance of the economy on few sectors and markets. Other studies revealed the very slow reform in the traditional education system, the brain drain that has both resulted in the scarcity of skilled human resources. It is also shown that the country has not yet taken advantage of the Diaspora in any way. That's the reason why the country is set to accelerate reforms which include reorienting exports towards emerging markets[10].

Mauritius is ranked 63 out of 188 countries with a Human Development Index (HDI) value of 0.777 in 2014, which is above the average of 0.744 for countries in the high human development group and above the average of 0.518 for countries in sub-Saharan Africa. Successive Human Development Reports have acclaimed the impressive record of the human development in Mauritius especially in the field of education. The Government of Mauritius provides free primary and secondary education. The country achieved Goal 2 of the Millennium Development Goals (MDGs) of achieving Universal Primary Education. The net enrolment rate in primary education is 99%. However, female labor participation rate is lower compared to male and unemployment among youth remains high.

The government has implemented the "Back to work"[11] programme for women and the Youth Employment Programme to tackle unemployment among women and youth. According to the international poverty line set by the World Bank of US$1.25/day for extreme poverty, Mauritius has no extreme poverty; however, it has been observed that as a result of income gaps due to the structural changes in some economy sectors, relative poverty is growing slowly. Inequality is another concern and is on the rise. Between the two last rounds of HBS in 2006/7 and 2012, inequality, as measured by the Gini coefficient, has risen from 0.388 to 0.414[12].

10 World Bank, October 2014.

11 The objectives of the Back to Work which is financed by the Ministry of Labour, Industrial Relations, Employment and Training (MLIRET) are: to ensure that the Mauritian women above 30 years of age find employment in private enterprises or with individual employers; to help women gain back their self-confidence and learn to integrate or re-integrate the labour market by undergoing a training programme designed to build or re-build self-awareness, self-esteem, social responsibility and entrepreneurial skills and to strengthen interpersonal and communication skills; and to arrange for the employment of unemployed Mauritian women in private enterprises or with individual employers in the economic sectors for women who wish to rejoin the labor force. This will consist of special training schemes to prepare them for at least 15 occupations.

12 Ibid

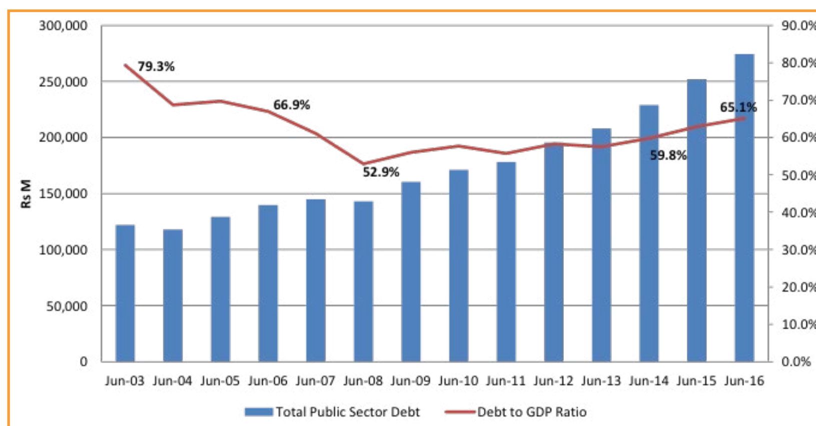
3
AN OVERVIEW OF MAURITIUS TOTAL PUBLIC DEBT

3.1 The Trend in Total Public Debt

Mauritius total public sector debt[13] has witnessed a continuous increase in absolute terms, rising by 251% from Rs 121,880 million as of end June 2003 to Rs 274,397 million as of end June 2016. When expressed as a percentage of GDP, the trend in total public debt actually displays two distinct phases over the period 2003-2016. As can be seen from Figure 1, the public debt to GDP ratio initially decreased from 79.3% in June 2003 to 52.9% in June 2008 with a relatively steeper decline registered over the period 2006 to 2008 thanks to the implementation of wide ranging structural reforms. Stimulated by lower tax rates and a more business-friendly environment, investment rose and GDP grew rapidly. It enabled Government to bring down the budget deficit and to considerably reduce public debt. The exchange rate appreciation of the domestic currency from 2005 to 2008 also contributed to the decline of the public debt to GDP ratio as the country's foreign currency liabilities declined.

The 2008/09 global financial crisis, however, resulted in a reversal of the downtrend in the total public debt to GDP ratio. Government provided a sizeable fiscal stimulus to buffer the local economy against the crisis and with private investment declining and economic growth stagnating well below the pre-crisis levels, fiscal policy has remained broadly expansionary. Inexorably, an increase in borrowing requirements and public debt has ensued from 2009 onwards with the public debt to GDP ratio soaring to 65.1% by end of June 2016.

Figure 1: Evolution of Total Public Debt, June 2003 – June 2016



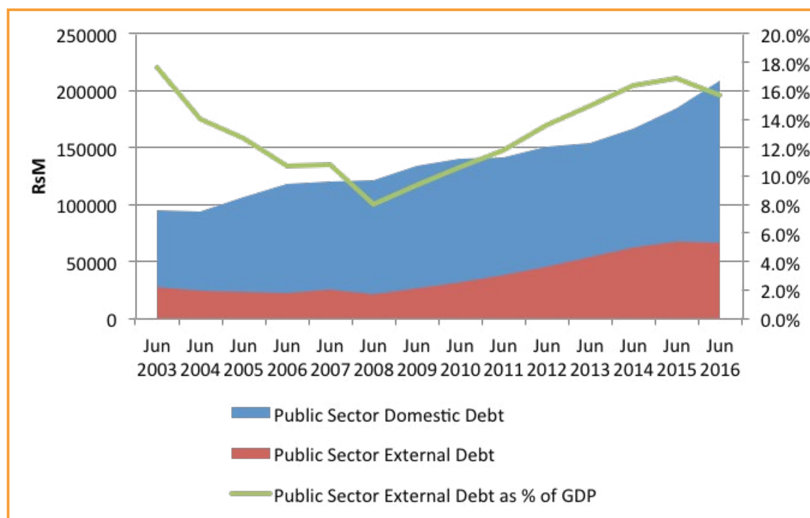
Source: Ministry of Finance and Economic Development

13 Includes the debt of the central government, public enterprises, agencies, local and regional governments.

3.2 Domestic and External Public Debt

Figure 2 below shows a decomposition of total public debt into domestic and external debt. As can be seen, domestic debt is generally more dominant than external debt. External debt represented less than a quarter of total public debt and 15.6% of GDP as at June 2016. The dominance of domestic debt over external debt is in line with the country's 2008 debt management strategy which emphasizes the foreign currency risk associated with external debt. The strategy thus recommends limiting the size of the public sector external debt stock to a level that will result in an annual debt service of the external debt portfolio not exceeding 10% of export earnings. In this respect, the debt service ratio as at end of June 2016 stood at 3.6%. It has, in fact, remained within the range 3% to 8% over the period 2003 and 2016.

Figure 2: Domestic and External Public Debt, June 2003 to June 2016



Source: Ministry of Finance and Economic Development

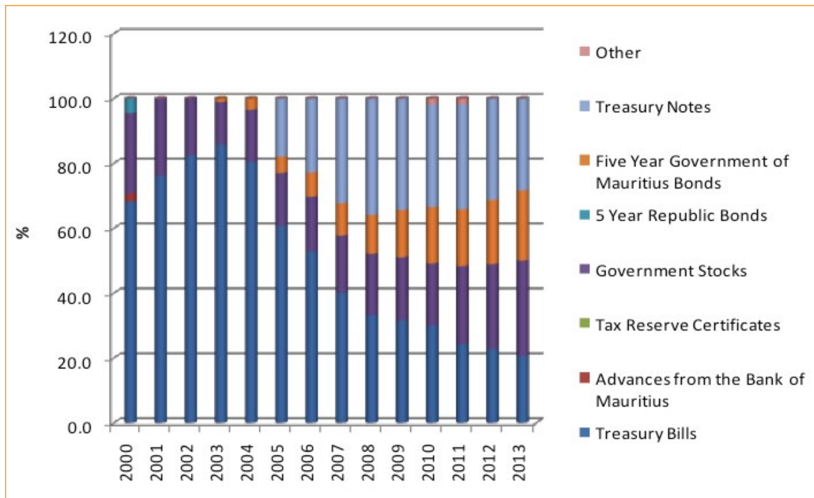
3.3 Composition of Central Government Domestic Debt

The domestic debt of the central government comprises a mixture of short term, medium term and long term domestic obligations[14] as shown in Figure 3 below. It is noteworthy that short term treasury bills represented by far the main debt instrument prior to the year 2007. They accounted for as high as 86% of the central government

14 Short-term obligations: up to 12months; Medium-term: Over 1 year but less than 5years; Long-term: 5 years and above

total outstanding domestic debt as of end June 2003. This figure had dropped to merely 21% by end of June 2013. The reduction in short term debt obligations over time is in keeping with Government's objective to increase the maturity profile of the domestic debt portfolio so as to minimize rollover and refinancing risk. Consequently, the proportion of medium term obligations (treasury notes) and long-term obligations (five year Government of Mauritius bonds and Government stocks) have increased from 29% as of end June 2000 to 79% as of end June 2013.

Figure 3: Domestic Debt Instrument Composition, June 2000 – June 2013



Source: Compiled from the Bank of Mauritius Annual Reports

Table 1 below further shows the shift in the country's domestic debt portfolio towards instruments with longer maturities as reflected by the predominance of long term debt instruments such as Government bonds being issued.

Table 1: Maturity structure of GoM Securities on issue as at end January 2015

(Rs million)

	Treasury Bills	Treasury Notes	5-Year GoM Bonds	MDLS/GOM Bonds	TOTAL
2014-15	13,310	6,565	6,257	1,560	27,692
2015-16	12,554	17,044	-	3,611	33,209
2016-17	-	15,470	9,544	1,363	26,377
2017-18	-	10,490	7,190	369	18,049
2018-19	-	-	10,120	1,610	11,730
2019-20	-	-	3,737	1,826	5,563
2020-21	-	-	-	4,349	4,349
2021-22	-	-	-	4,931	4,931
2022-23	-	-	-	2,631	2,631
2023-24	-	-	-	6,513	6,513
2024-25	-	-	-	2,183	2,183
2025-26	-	-	-	5,061	5,061
2026-27	-	-	-	3,493	3,493
2027-28	-	-	-	6,123	6,123
2028-29	-	-	-	3,596	3,596
2029-30	-	-	-	3,582	3,582
TOTAL	25,864	49,569	36,848	52,801	165,082

Including Government of Mauritius Savings Certificates, Notes and Bonds
Note: Figures may not add up to totals due to rounding.
Source: Accounting and Budgeting Division.

3.4 Debt Sustainability and Sovereign Risk

The IMF framework for fiscal policy and public debt sustainability analysis (DSA) for market-access countries (MACs) assesses public debt as sustainable when the primary balance needed to at least stabilize debt under both the baseline and realistic shock scenarios is economically and politically feasible, such that the level of debt is consistent with an acceptably low rollover risk and with preserving potential growth at a satisfactory level. Conversely, if there is no realistic adjustment in the primary balance i.e. one that is both economically and politically feasible, that can bring debt down to such a level, public debt would be considered unsustainable. The higher the level of public debt, the more likely it is that fiscal policy and public debt are unsustainable. This is because ceteris paribus a higher debt requires a higher primary surplus to sustain it. Moreover, higher debt is usually associated with lower growth and higher interest rates, thus requiring an even higher primary balance to service it.

In practice, assessing debt sustainability for MACs involves probabilistic judgments about the trajectory of debt and the availability of financing on favorable terms. In making such an assessment there are several important considerations: (i) are debt burden indicators projected, at a minimum, to stabilize at levels consistent with an acceptably low rollover risk and with preserving growth at a satisfactory level, taking into account cyclical considerations, not only in the baseline scenario but also under

plausible stressed scenarios? (ii) Are the level and trajectory of the debt burden indicators underpinned by realistic projections for primary balance adjustment? (iii) Are assumptions for other key macroeconomic variables (e.g. growth and interest rates) realistic? and (iv) is the debt profile well balanced in terms of maturity, currency composition, and investor base so as to facilitate continued market access?

In this respect, results of the DSA for Mauritius suggest "a moderately deteriorating, but manageable, debt outlook. Under the baseline scenario, public debt indicators remain below their relevant indicative thresholds over the medium term. The public debt dynamics are most vulnerable to contingent liability, real GDP growth, and real interest rate shocks. External debt is projected to remain at low levels and to be financed by multi- and bilateral sources at long maturities and favorable interest rates. The main risk to the debt outlook remains insufficient medium-term fiscal consolidation to create space for growth-friendly spending"[15].

Mauritius has no history of failing to meet its debt service obligations at any point in time. The current assessment of the country's public debt and sovereign risk outlook remains generally positive. Moody's credit rating for Mauritius is at Baa1 with a stable outlook. The Economist Intelligence Unit rates Mauritius at the stronger end of the B rating band with an underlying score of 50. The credit worthiness of Mauritius is well established and Government faces no difficulty in accessing both the local and foreign capital markets for raising funds. There is no likelihood of any debt crisis in the near term in light of political and social stability as well as the relatively well-managed economy. The predominance of domestic debt in total public debt stock limits exposure to exchange-rate risk and volatile global investor sentiment. Rollover risks are limited given that most of the public debt consists of medium and long term loans while sizeable foreign reserves cover well over 100% of the short-term debt stock. Debt affordability has improved significantly with decline in the ratio of interest payments to Government revenue and also in the ratio of interest payments to GDP.

Mauritius total public debt remains on a sustainable trajectory and is resilient to shocks. However, taking into consideration the marked increase in the public debt to GDP ratio in recent years and current underlying negative factors such as weak external demand, slow economic growth, higher public spending and further build-up of public debt which may weigh on the debt outlook in the foreseeable future, the implementation of appropriate and timely fiscal consolidation measures are required.

15 IMF, 2015 Article IV Consultation, staff report; press release; and statement by the executive Director for Mauritius, Country report No 16/89, March 2016.

4
FISCAL STRATEGY AND DEBT MANAGEMENT STRATEGY

The formulation of fiscal policy in Mauritius is set within a Medium Term Expenditure Framework (MTEF). This takes into account Government's main macroeconomic goals, developments, prospects and challenges both on the domestic and global fronts for the period 2016-2019.

Table 2: Medium Term Macroeconomic Framework 2016-2019

	2015/16	2016/17	2017/18	2018/19
WORLD ECONOMY[1]				
World Output Growth Rate (%)	3.1	3.1	3.4	3.6
Euro Area Output Growth Rate (%)	1.7	1.6	1.4	1.6
MAURITIAN ECONOMY				
Output and Prices				
Gross Domestic Product - current market prices (Rs bn)	422.3	451.4	486.8	528.0
Real GDP Growth Rate - current basic prices (%)	3.4	4.1	4.6	5.0
Investment Rate (%)	18.0	18.9	21.0	23.1
Inflation Rate (%)	0.9	2.0	2.5	2.5
Public Finance (as % of GDP)				
Recurrent Revenue	20.4	20.8	20.9	20.9
o/w Taxes	*18.5*	*18.8*	*19.1*	*19.2*
Non-Tax Revenue	*1.9*	*2.0*	*1.8*	*1.7*
Recurrent Expenditure	21.9	22.8	21.8	20.5
o/w Interest	*2.4*	*2.5*	*2.6*	*2.6*
Recurrent Balance	**-1.5**	**-2.0**	**-0.9**	**0.4**
Capital Revenue	0.5	1.9	1.7	0.8
o/w External Grants	*0.1*	*1.4*	*1.7*	*0.8*
Capital Expenditure	2.5	3.2	3.3	2.8
o/w Acquisition of Non-Financial Assets	*1.4*	*2.2*	*2.4*	*2.2*
Capital Balance	**-2.0**	**-1.3**	**-1.5**	**-2.0**
Total Expenditure	**24.4**	**26.0**	**25.0**	**23.3**
Budget Balance (Before Net Acquisition of Financial Assets) - Surplus (+)/Deficit (-)	**-3.5**	**-3.3**	**-2.4**	**-1.6**
Primary Balance - Surplus (+)/Deficit (-)	**-1.1**	**-0.8**	**0.1**	**1.1**
Government Borrowing Requirements	**3.4**	**4.1**	**3.2**	**2.2**
Public Debt (as % of GDP)				
Budgetary Central Government Net Debt	**53.7**	**54.2**	**53.6**	**51.8**
Public Sector Net Debt (Statutory Debt Ceiling)	**55.6**	**55.6**	**54.9**	**53.0**
Public Sector Debt (International Definition)	**65.0**	**62.8**	**61.0**	**58.4**
External Sector (as % of GDP)				
Current Account - Surplus (+)/Deficit (-)	-4.6	-4.5	-4.8	-5.0
Exports of Goods and Services[2]	48.4	48.2	48.7	49.1
Imports of Goods and Services[2]	-57.5	-56.8	-57.4	-57.6
Gross Official International Reserves (Rs bn)	168.6	178.3	193.3	205.6
Gross Official International Reserves (USD mn)[3]	4,742	4,982	5,399	5,743

[1] World Economic Outlook, IMF - April 2016 & July 2016 Update. Figures for 2015/16 refer to calendar year 2015.

[2] Exports and imports of services are as per National Accounts, i.e. Bank of Mauritius figures adjusted for Financial Intermediation Services Indirectly Measured (FISIM).

[3] Projections are based on exchange rate of Rs 35.8/US$ as at 28 July 2016

Source:http://budget.mof.govmu.org/budget2017/2017_MacroEconomic.pdf

Mauritius fiscal policy stance in the financial year 2015/16 remained expansionary. Recurrent expenditure rose from 20.7 percent of GDP in 2014 to 21.9 percent due to a significant increase in social expenditure and public sector wage bill. The budget deficit stood at 3.5 percent of GDP. Public sector debt increased to 65.1% by end of June 2016 compared to 62.9% as at end June 2015. The main factors explaining the rise in public debt are the issuance of additional Government securities to the tune of Rs 7.4 billion to mop up excess liquidity in the banking system, higher borrowing requirements of Government, revaluation of the foreign debt stock, and lower nominal GDP growth than expected.

The Public Debt Management Act 2008 which sets the statutory debt ceiling for every fiscal year provides for the calculation of a discounted public sector debt for the purpose of the debt ceiling whereby Government cash balances and IMF SDR allocations are netted out of the debt figure and debt of public enterprises is adjusted on the basis of risk assessment. As per the provisions of the Public Debt Management Act, the statutory debt ceiling which is currently 60% percent of GDP shall be reduced to 50% as from 2018. The discounted public debt to GDP ratio has displayed a rising trend in recent years, increasing sharply from 50.8% at end June 2013 to 55.8% of GDP at end-June 2016. Based on its recent trajectory and the current fiscal policy stance, it will not fall below the legal threshold of 50% by 2018.

The fiscal strategy of Government aims at enforcing greater fiscal discipline and financial prudence, particularly in view of the recent rising trend in public debt. The key focus is to enhance buoyancy of the tax system and improve revenue collection; contain rising trend in recurrent spending and rationalize subsidies and social transfer programmes, modernize the Public Investment Management Framework for higher value for money, and raise public sector efficiency including in parastatal bodies and public enterprises.

Government estimates that with the implementation of the fiscal strategy, public sector debt, as per international definition, will gradually decline to reach 58.4% of GDP by financial year 2018/19. Discounted public sector debt, for the purpose of the debt ceiling, will reach 53% of GDP. For the statutory debt target of 50% of GDP to be achieved, sale of equity and disposal of other government assets, additional revenue-raising measures, cost-cutting measures in the recurrent and/or capital budget, and reforms in the pension and social transfer systems will have to be considered.

The debt management strategy of Government is to contain debt servicing costs while maintaining risks at a prudent level. In order to reduce exposure to exchange rate, interest rate and rollover risks, Government intends to limit the share of external

debt to 25% and maintaining the debt service ratio to within 6%, relate the mix of public sector external debt to the currency composition of export earnings, have a balanced debt portfolio of fixed and variable interest rates, maintain the average time to maturity (ATM) of overall Government debt at 5 years over the medium term. Accordingly, the targets and benchmarks for the medium term are as follows.

Table 3: Debt Management Strategy Benchmarks

	Dec-2014	Jun-2015	Dec-2015	Jun-2016	New Benchmarks/ Limits end June 2019	Tolerance Levels, %
External Debt						
Debt Service Ratio (%)	4.7	4.7	3.9	4.4	< or =6.0	+/-10
Government Debt Composition						
Foreign (%)	24.3	24.5	23.7	22.4	< or=25.0	+/-5
Domestic (%)	75.7	75.5	76.3	77.6	>or=75.0	+/-5
Public Sector Debt Composition						
Foreign (%)	27.0	27.2	26.5	25.1	<or =30.0	+/-5
Domestic (%)	73.0	72.8	73.5	74.9	> or=70.0	+/-5
Currency Composition of Government External Debt						
USD	39.5	41.2	41.8	41.9	38.0	+/-5
EURO	34.7	32.5	31.9	32.1	35.0	+/-5
Others	22.8	26.2	26.2	26.0	27.0	+/-5
Currency Composition of Public Sector External Debt (%)						
USD	47.4	49.7	50.4	50.4	45.0	+/-5
EURO	31.5	29.0	28.4	28.5	33.0	+/-5
Others	21.1	21.3	21.2	21.1	22.0	+/-5
Interest Rate Mix of Government External Debt (%)						
Fixed Interest Loans	24.5	25.1	29.5	31.8	37.0	+/-10
Variable Interest Rate Loans	72.8	72.2	67.6	65.5	60.0	+/-10
Interest Free Loans	2.7	2.8	3.0	2.8	4.0	+/-10
Interest Rate Mix of Public Sector External Debt (%)						
Fixed Interest Loans	34.3	35.0	38.2	39.4	42.0	+/-10
Variable Interest Rate Loans	63.5	62.8	59.4	58.3	55.0	+/-10
Interest Free Loans	2.2	2.2	2.4	2.3	3.0	+/-10
Roll over Risks: Government Debt						
ATM: Total Debt (Years)	4.7	5.0	5.0	5.1	5.0	+/-10
External Debt (Years)	6.8	7.2	7.3	7.0	6.0	+/-10
Domestic Debt (Years)	4.0	4.4	4.3	4.7	5.0	+/-10
Due Within 1 year:						
Total Debt (%)	23.9	22.2	22.6	22.4	22.0	+/-10
External Debt (%)	7.2	8.0	5.4	5.7	12.0	+/-10
Domestic Debt (%)	28.8	26.4	27.5	26.7	24.0	+/-10
Interest Rate Risk: Government Debt						
ATR: Total Debt (Years)	3.2	3.6	3.6	3.8	4.0	+/-10
External Debt (Years)	1.7	2.3	2.4	2.3	1.5	+/-10
Domestic Debt (Years)	3.7	4.0	4.0	4.2	4.5	+/-10
Share with Re-fixing in 1 Year:						
Total Public Debt (%)	41.8	38.6	38.7	38.1	28.0	+/-10
Structure of Government Domestic Debt						
Short Term (%)	14.1	14.2	12.7	12.5	10.0	+/-10
Medium Term (%)	30.0	29.5	29.1	26.5	25.0	+/-5
Long Term (%)	55.9	56.3	58.2	61.0	65.0	+/-5

Source: http://budget.mof.govmu.org/budget2017/2017_MacroEconomic.pdf

5

LEGAL AND INSTITUTIONAL FRAMEWORKS GOVERNING PUBLIC FINANCE IN MAURITIUS

According to the AFRODAD Borrowing Charter (2013), Governments must establish appropriate and dynamic legal frameworks and structures that will be responsible for coordinating and managing public debt. All public loan contraction and debt management rules and regulations must be anchored on constitutional provisions and other precise pieces of legislation defining how public loans should be obtained, used and serviced. Hence the role of the constitution in sound economic governance is indisputable. According to the Institute for Democracy and Electoral Assistance (IDEA 2016), contemporary constitutions serve multiple objectives, including functioning as framework for the institutions and mechanisms that can promote economic growth, development and poverty reduction.

Government borrowing from either domestic or external sources requires that there is a well-established legal basis for contracting debt. A clear legal framework governing the mobilization, management and monitoring of resources that have been raised through borrowing should be put in place.

5.1 THE LEGAL FRAMEWORK

The Republic of Mauritius has a detailed legal framework governing public finance with the Constitution providing the basis. In addition to the Constitution of Mauritius, there are other laws which govern public finance, notably the Public debt Management Act 2008 and the Bank of Mauritius Act 2004.

5.1.1 The Constitution of the Republic of Mauritius

Specific provisions on public finance are made in Chapter 10 of the Republic of Mauritius Constitution. Article 103 provides for the establishment of a Consolidated Fund: "All revenues or other money raised or received for the purposes of the Government (not being revenues or other money that are payable by or under any law into some other purpose or that may by or under any law be retained by the authority that received them for the purposes or defraying the expense of that authority) shall be paid into and form one Consolidated Fund".

Provision is also made in article 107 for a Contingencies Fund:

(1) "There shall be such provision as may be prescribed by Parliament for the establishment of a Contingencies Fund and for authorizing the Minister responsible for finance, if he is satisfied that there has arisen an urgent and unforeseen need for expenditure for which no other provision exists, to make advances from that Fund to meet that need".

(2) "Where any advance is made from the Contingencies Fund, a supplementary estimate shall be laid before the Assembly, and a Bill or motion shall be introduced, as soon as possible for the purpose of replacing the amount so advanced".

From the two articles above, it is clear that all moneys raised or received for government purposes shall be deposited in the Consolidated and Contingencies Funds.

Article 104 concerns the process for withdrawals from the Consolidated Fund or other public funds.

(1) No money shall be withdrawn from the Consolidated Fund except –
   (a) To meet expenditure that is charged upon the Fund by this Constitution or by any other law in force in Mauritius; or
   (b) Where the issue of that money has been authorized by an appropriation law or by a supplementary estimate approved by resolution of the Assembly or in such manner, and subject to such conditions, as may be prescribed in pursuance of section 106.
(2) No money shall be withdrawn from any public fund of Mauritius, other than the Consolidated Fund, unless the issue of that money has been authorized by or under a law.
(3) No money shall be withdrawn from the Consolidated Fund except in the manner prescribed.

Article 105 [Amended 48/91] provides for the authorization of expenditure. For any withdrawal to be made, the Minister in charge of Finance should seek approval of the Parliament by presenting estimates of revenue and an Appropriation Bill.

(1) The Minister responsible for finance shall cause to be prepared and laid before the Assembly, before or not later than 30 days after the commencement of each financial year, estimates of the revenues and expenditure of Mauritius for that year.
(2) The heads of expenditure contained in the estimates for a financial year (other than expenditure charged upon the Consolidated Fund by this Constitution or any other law) shall be included in a Bill, to be known as an Appropriation Bill, introduced into the Assembly to provide for the issue from the Consolidated Fund of the sums necessary to meet that expenditure and the appropriation of those sums for the purposes specified in the Bill.
(3) Where in any financial year it is found that the amount appropriated by the appropriation law for the purposes included in any head of expenditure is insufficient or that a need has arisen for expenditure for a purpose for which no amount has been appropriated by the appropriation law; or that any money has been expended on any head of expenditure in excess of the amount appropriated for the purposes included in that head by the appropriation law, or for a

purpose for which no amount has been appropriated by the appropriation law, a supplementary estimate showing the sums required or spent shall be laid before the Assembly and the heads of expenditure shall be included in a supplementary Appropriation Bill introduced in the Assembly to provide for the appropriation of those sums, or in a motion or motions introduced into the Assembly for the approval of such expenditure.

(4) Where any supplementary expenditure has been approved in a financial year by a resolution of the Assembly in accordance with subsection (3), a supplementary Appropriation Bill shall be introduced in the Assembly, not later than the end of the financial year next following, providing for the appropriation of the sums so approved.

There is also provision for authorisation of expenditure in advance of appropriation in Article 106: "where the Appropriation law in respect of any financial year has not come into operation by the beginning of that financial year, the Minister responsible for finance may, to such extent and subject to such conditions as may be prescribed, authorize the withdrawal of money from the Consolidated Fund for the purpose of meeting expenditure necessary to carry on the services of the Government until the expiration of 6 months from the beginning of that financial year or the coming into operation of the appropriation law, whichever is the earlier".

Article 109 [Amended 48/91; 5/97; 31/00, 33/01] covers public debt. According to this section, debt is a constitutional charge on the Consolidated Fund.

(1) All debt charges for which Mauritius is liable shall be a charge on the Consolidated Fund.

(2) For the purposes of this section, 'debt charges' includes interest, sinking fund charges, the repayment or amortization of debt, and all expenditure in connection with the raising of loans on the security of the revenues of Mauritius or the Consolidated Fund and the service and redemption of debt thereby created.

5.1.2 The Public Debt Management Act 2008

Most important and for the purpose of this research, is the Public Debt Management (PDM) Act 2008, which gives power to the Minister of Finance to raise funds on behalf of the Government under section 3; then define what shall constitute the public sector debt in section 6; then set the ceiling of the public debt sector under section 7. This is in line with the AFRODAD Borrowing Charter 2013 under the section of Existence of Predictable Rules and Regulations which cites that "The Legal Framework must stipulate clearly who has powers to borrow on behalf of the government" and that "There should be laws, regulations and policies which stipulate the limits of external public debt borrowing. This should be linked to the country's debt sustainability analysis".

Under Section 3 of the (PDM) Act, the Minister of Finance is empowered to: Raise funds in the name and on behalf of the Government; From time to time, raise funds in or outside Mauritius to finance investment projects or other commitments of Government, enter into an agreement with a financial or banking institution, an international financial organization or a foreign government in such manner and on such terms as he thinks fit; Enter into such agreement, sell, purchase or otherwise acquire any immovable property or any right therein, lease movable or immovable property and generally engage in such transactions and perform such activities as may be reasonably necessary for the purpose of issuing Sovereign Sukuks in Mauritius. Enter into any other agreement for the purposes of varying the terms of an agreement entered into under subsection (3).

A copy of every agreement under subsection (3), (3A) or (4) shall be laid before the National Assembly – where the Assembly is in session, within 15 working days of the conclusion of the agreement; or where the Assembly is not in session, within 7 working days of the next session of the Assembly.

Under section 6 of the Act public sector debt is defined as any debt incurred:

(a) through the raising of loans, the issuing of securities, overdrafts or by any other means by– (i) the central Government; (ii) the Rodrigues Regional Assembly under section 51(c) of the Rodrigues Regional Assembly Act 2001; (iii) the local Government; (iv) a public enterprise, whether or not the loans are wholly or partly guaranteed by the Government;

(b) By way of advances from the Bank of Mauritius to any entity in the public sector.

Section 6 also provides for "any debt incurred by the general Government or a public enterprise and which is wholly or partly guaranteed by the Government shall constitute a debt due by the State and carry an absolute and unconditional commitment by the Government to the timely payment of the principal of the debt, and the interest on it, in accordance with the terms and conditions under which the indebtedness was contracted."

Section 7 specifies the public sector debt ceiling. The total outstanding amount of public sector debt shall, at the end of each fiscal year, not exceed 60 per cent of the Gross Domestic Product (GDP) at current market prices for that fiscal year. The percentage shall, at the end of each fiscal year, be reduced so that at the end of the fiscal year ending 31 December 2018, it shall not exceed 50 per cent and that percentage shall remain the ceiling for every subsequent fiscal year.

5.1.3 Bank of Mauritius Act 2004

The Bank of Mauritius Act 2004 establishes the Central Bank of Mauritius and authorizes it to act as Government banker and financial adviser (section 56). The Act

also gives authority to the Bank to act as a banker and adviser to and as fiscal agent of the government; to issue public loans (Section 57) and to grant advances to the Government (Section 58).

As per Section 56 of the Act, "the Bank shall be the banker to the Government, its adviser on monetary and financial matters and the depository of the official foreign exchange reserves of Mauritius and of Government funds. The Bank may also act in such capacities to any Ministry, Government Department, local authority or statutory corporation."

The Bank may undertake the issue and management of loans publicly issued in Mauritius by the Government (Section 57).

Advances to and deposits from the Government are governed by Section 58:

(1) Notwithstanding section 6(1)(a), the Bank may grant advances to the Government to cover negative net cash flows of the Government at such rate as may be agreed with the Government.

(2) The total amount of such advances outstanding, together with the amount of Government securities in the ownership of the Bank, other than under repurchase agreements and those held under section 6(1)(j), shall not at any time exceed 10 per cent of the Government's revenue excluding grants and receipts of a capital nature for the current financial year.

(3) Any advances under subsection (1) shall be repaid as soon as possible and shall, in any event, be repayable not later than 4 months from time to time the advances are granted.

(4) Where any advances have not been repaid within the time specified under subsection (3), any advances outstanding shall be converted into Government securities at market rates.

(5) Any Government deposits with the Bank shall be compensated at such market rates as may be determined by the Bank in accordance with section 56(3).

Unless inconsistent with this Act or with its duties and functions as a central bank, the Bank may act generally as agent for the Government on such terms and conditions as may be mutually agreed (Section 59).

5.2 THE INSTITUTIONAL FRAMEWORK

5.2.1 Debt Management Strategy 2008

In July 2008, the Ministry of Finance and Economic Development (MOFED) prepared the debt management strategy as required by the Public Debt Management Act 2008. Section 9(3) of the Act stipulates that the *"Ministry shall prepare the debt management strategy and from time to time review it"*. The Act also requires that the debt management strategy be made public.

This debt management strategy is intended to serve as the primary policy tool for guiding the day-to-day operations for managing the public sector debt. The strategy sets objectives for the management of government and public sector debt portfolios. The strategy also establishes risk control benchmarks and medium term targets for the composition, currency mix, interest rate mix, maturity profile and relative size of the public sector debt as required under Section (9)(2) of the Public Debt Management Act 2008.

The Act defines public sector debt so as to include the debt of government, public enterprises, agencies, local and regional Governments, and establishes a ceiling for public sector debt relative to GDP. The starting point for this ceiling in 2008 was 60 per cent of GDP and was targeted to be 50 per cent of GDP by the end of December 2013.

Section (9) (1) of the Act establishes the strategic objectives of debt management in Mauritius, which are as follows:

(a) To meet the borrowing needs of Government in a manner that avoids market disruption;
(b) To minimize the cost of the debt portfolio within an acceptable level of risk; and
(c) To support the development of a well-functioning market for Government securities.

The debt management strategy set the objectives for domestic debt management and for external debt management. For the external debt, the strategy recommends limiting the size of the public sector external debt stock to a level that will result in an annual debt service of the external debt portfolio not exceeding 10 per cent of export earnings, which is considered reasonable. This ratio suggests that there is some space for Mauritius to prudently increase the size of its external debt portfolio.

5.2.2 The Debt Management Unit (DMU)

A Debt Management Unit was established in the Ministry of Finance and Economic Development (MOFED) in 2002 as part of a decision to reform public debt management. The Debt Management Office (DMO) ensures coordination and smooth communication among the various stakeholders in the loan contraction and

debt management processes. In parallel, an Advisory Committee with sector-wide participation was also established to support reforms and debt market development.

5.2.3 The Accountant-General

The Accountant General shall:

(a) Prepare and submit withdrawal applications to Funding Agencies and follow up on disbursements;
(b) Maintain Special Bank Accounts (where applicable) in respect of Project Loans/Grants and, where applicable, make timely transfers to the General Account;
(c) Apply for reimbursements of funds after examination of expenses incurred by implementing agencies (in respect of expenditure pre-financed from budget) and credits the appropriate government revenue item;
(d) Ensure that relevant Chart of Accounts (COA) codes are created in the Treasury Accounting System (TAS) to capture transaction data on Project Loans/Grants;
(e) Determine the most appropriate method of payment to suppliers /contractors/ service providers to reduce transaction costs;
(f) Ensure that implementing agencies submit monthly returns of expenditure incurred on Project Loans/Grants duly reconciled with related TAS reports; and
(g) Follow up with implementing agencies on discrepancies between returns and TAS records relating to Project Loan/Grant expenditure.

The Accountant General shall also

(a) Prepare and submit to the Director of Audit annual financial statements or such other statements as may be required by Funding Agencies for audit purposes;
(b) Seek explanation from implementing agencies in respect of queries raised by auditors for onward submission to the Director of Audit; and
(c) Submit to Funding Agencies the audited financial statements within the prescribed time frame;
(d) Comply with terms and conditions of the loan/grant agreement and conditionality agreed with the funding agency and any instructions by MOFED for the implementation of the project/activity (e.g. procurement procedures for goods and services);
(e) Ensure the day-to-day management of projects/activities funded by development partners and keep appropriate records;
(f) Submit all necessary returns, documents and other information to the Accountant General within the timeframe specified by the latter;
(g) Ensure that the correct COA codes are used when entering financial data in TAS;
(h) Ensure that budget provided and allocated to any project/category of expenditure is not exceeded;
(i) Reconcile expenditure incurred with TAS records and submit monthly returns to the Accountant General in such formats as may be required by the latter;
(j) Ensure that proper accounting/recording systems and internal controls are in place to support operations; and

(k) Attend and reply to any audit queries;
(l) Maintain proper records and accounts of all loans and advances made to PEs;
(m) Submit claims and collect repayments; and
(n) Report cases of arrears to MOFED on a regular basis.

5.2.4 The National Audit Office
The National Audit Office (NAO) constitutes the Supreme Audit Institution of Mauritius and is headed by the Director of Audit. The Constitution of Mauritius establishes the Office of the Director of Audit.

Its function is to develop an independent and objective assessment of the process of governance and to enhance legislative oversight on Government operations. The Constitution of Mauritius provides for the appointment, authority and specific conditions of service of the Director of Audit as well as his independence and security of tenure.

Section 110 of the Constitution provides that, in the exercise of his functions, the Director of Audit shall not be subjected to the direction and control of any person or authority. Section 93 of the Constitution provides that the Director of Audit cannot be removed from office before the legal retirement age in the case of an established officer or, in the case of an officer on contract, before the completion of a contract period, except for misconduct or inability to discharge the function of the office and even that only by the President acting on the recommendation of a Tribunal of at least three persons who are holding or have held office as a judge of the Supreme Court.

It further establishes the powers and independence of the Director of Audit as follows:

(a) The public accounts of Mauritius and of all courts of law and all authorities and officers of the Government shall be audited and reported on by the Director of Audit and for that purpose the Director of Audit or any person authorized by him in that behalf shall have access to all books, records and other documents relating to those accounts.
(b) In the exercise of his functions under the Constitution, the Director of Audit shall not be subject to the direction or control of any other person or authority.

The Finance and Audit Act 2008 further amplifies the constitutional powers and duties of the Director of Audit as well as the method of control and management of public funds. It also prescribes the function and responsibilities of the Minister responsible for Finance and those of Accounting Officers and the various accounts to be kept.

With increased public consciousness, the demand for public accountability of persons or entities managing public resources has become increasingly evident so that there is a greater need for the accountability process to be in place and operating effectively.

As per the Constitution of Mauritius, the only authority for the expenditure of public funds is that which is given by Parliament (National Assembly). The National Assembly decides on policy matters and allocates funds for the implementation of these policies. It is the responsibility of the Accounting Officers of Ministries/Departments, namely, Senior Chief Executives, Permanent Secretaries and Administrative Heads, to efficiently and effectively manage these funds and the delivery of services. They are therefore accountable to Parliament. The accountability mechanisms put in place include periodic financial and performance reporting.

The role of the Director of Audit, in the accountability process, is to examine in detail Government expenditure and provide a report on the information presented by Government executives. The NAO's report gives an independent assurance to the National Assembly that agencies are operating and accounting for their performance in accordance with Parliament's purpose and is the first step in the process of oversight.

5.2.5 The Public Accounts Committee

The mechanisms after the audit report is tabled are equally important to ensure proper accountability. The Public Accounts Committee (PAC) is a parliamentary committee mandated to hold Government officials accountable for the spending of public funds and stewardship over public resources. Representing parliament, PAC is the main stakeholder of the NAO's report.

The PAC was established in 1968 under the Standing Orders and Rules of the Mauritius National Assembly then known as the Legislative Assembly. It is a sessional Select Committee set up to examine audited accounts as reported by the Director of Audit and such other accounts laid before the Assembly as the latter may refer to it together with the Director of Audit's report thereon. Nine members constitute the Committee, with the Chairperson being a member of the Opposition. The PAC is also empowered to send for persons and records, to take evidence and to report to Parliament from time to time. It has to satisfy itself that disbursements of public funds are as required, as legally provided, and in compliance with regulations. It has also to ensure that cases of negative expenditure and financial irregularities are subject to scrutiny. The setting up of the PAC is an additional means to bring public expenditure under parliamentary control. In this process the report of the Director of Audit remains an invaluable tool for the PAC's work.

6
ASSESSING INCLUSIVITY: ROLES OF PARLIAMENT AND CIVIL SOCIETY

6.1 Role of Parliament

Best practice requires that existing primary Law (Constitution or at least an Act of Parliament) explicitly accord the Legislature the ultimate power to borrow or issue guarantees on Government's behalf, or to delegate this power to the Executive branch or its agents or officials. Primary legislation should define not only to whom borrowing powers are delegated, but also the limits and purposes for borrowing or issuance of guarantees (e.g. for purposes of implementing a Parliament-approved budget). Legal provisions should also outline the due diligence process to be followed when borrowing, spending debt proceeds, processing transactions, accounting, reporting, and complying with internal & external auditing. In this regards, it can be concluded that there exists a comprehensive legal and institutional framework governing public finance in Mauritius.

However, as compared to other SADC countries whose Constitutions are clear on the need for parliament approval of loans before their acquisition, the 1968 Constitution of Mauritius is silent on such issues. This is also contrary to the AFRODAD's Borrowing Charter 2013, which cites that "The legislative arm of government – Parliament shall approve loans before contracts are signed. This will enable and ensure that the loan contraction process was done within the established guidelines and laws, and can be serviced within the national budget". Mention of public debt in the constitution is only made under Article 109. Loan agreements are only presented before the National Assembly after the agreements have been signed and there is no mention of seeking parliament approval before loan contraction and/or before agreements are signed.

The role of the Mauritian Parliament in decisions on borrowing is essentially characterized by the delegation of borrowing authority to the Executive and the establishment of the basis within which such authority is to be exercised through sound primary legislation as well as strong institutional and governance frameworks.

Parliament discusses the debt strategy and provides oversight over debt management as part of the annual budget discussions. Discussions in the legislature, however, tend to focus primarily on the annual budget speech with little detailed discussion of the medium-term fiscal framework. Although allowed 30 days, the actual time spent deliberating the budget is usually around one to two weeks of very intensive sitting.

This raises concern over the effectiveness of current levels of scrutiny[16]. The limited involvement of Parliament weakens the accountability of the budgetary process and prevents an assessment of fiscal strategies to contain public indebtedness[17].

Effective legislative scrutiny of public expenditure is essential to promote transparency, accountability and efficient use of appropriated public funds, including borrowed funds. Under the current Standing Orders and Rules of the National Assembly 1995 (Section 69.2), a Public Accounts Committee (PAC) of the parliament is required to be established with the primary duty to examine the audited accounts of government as laid before the committee by the director of audit. The PAC has inherent weaknesses which significantly limit its monitoring and evaluation function. For instance, it has inadequate administrative and technical means with no dedicated secretariat; its mandate is narrowly focused and out of tune with the ever changing public finance landscape; it has no powers of sanctions; its reports are not even debated in Parliament and there are no appropriate and effective follow up mechanisms of its recommendations.

6.2 Role of Civil Society Organizations (CSOs)

National ownership is crucial for the success of all loan and grant funded development projects. The people, who should be the ultimate beneficiaries of loans taken in their name, should have the right to participate in the decision making process pertaining to public borrowing. This should be done through parliamentary representation; direct citizen participation or citizen participation through their civic organizations or representations. Civic groups, especially watchdogs and interest groups, should be recognized as vehicles to enhance public finance ownership and accountability.

In the Constitution of the Republic of Mauritius, there is no legal basis or provision for the participation of the citizens or CSOs into the loan contraction and debt management. CSO participation then remains very much limited. Currently, only one NGO works on issues of debt in the country. Information on debt is however regularly disseminated through MOFED and the Central Bank website though the process of acquiring loans is not always made public.

The AFRODAD Borrowing Charter 2013, however recommends that the loan contraction process be transparent and participatory, involving citizens and affected communities through giving them adequate time and information to debate the taking-on of the loan, including purpose, terms and conditions of the loan in accordance with the national constitution.

16 https://www.imf.org/external/pubs/ft/scr/2011/cr11259.pdf
17 IMF, 2015 Article IV Consultation, staff report; press release; and statement by the executive Director for Mauritius, Country report No 16/89, March 2016.

7

POLICY RECOMMENDATIONS

The AFRODAD Borrowing Charter 2013 proffers "principles" to guide responsible lending and borrowing. Implementation of these principles by debtors and creditors will enable countries to borrow and manage their debt effectively and sustainably.

It is in line with those principles that the main recommendations below are formulated to improve the loan contraction and debt management in the Republic of Mauritius.

i) The Constitution and some laws governing debt management need to be reviewed to make parliament more assertive and empowered to approve all government debt transactions even though the Legal and Institutional arrangements are strong in the Republic of Mauritius;

ii) In addition, Parliamentarians and mainly the Public Account Committee (PAC) Members should be made conversant with macroeconomic policies and issues related to public finance and debt in order to play an effective role in the annual budget process, loan contraction and debt management strategy;

iii) The PAC should be given the necessary means and its mandate reviewed for it to provide a more effective legislative scrutiny of public finance and debt management;

iv) Devising effective follow-up mechanisms is important for parliament to ensure that audit findings and any recommendations are actually implemented to reduce wastage and indebtedness and improve public expenditure and administration in general;

v) Even though information on debt is available online in the MOFED and Central Bank of Mauritius website, Government should move towards full disclosure of information and data related to loan contraction;

vi) Regardless of the above, as an extra measure to ensure effective and efficient utilization of borrowed funds, it is recommended that, in addition to the Minister of Finance presenting to the National Assembly copies of every loan agreement entered into, reports should also be made to the National Assembly on the performance of the loans where evaluation is made whether loans are meeting their set objectives or not;

vii) The level of inclusivity of citizens must be enhanced through sensitization of the public and raising awareness on issues of loans, grants and development finance issues. Adequate information and time must be given to debate the taking-on of new loans, including purpose, terms and conditions of the loan in accordance with the national constitution. The communities of which loan is contracted should be part of the monitoring and evaluation of the projects. CSOs who should be involved in the entire process – from debt acquisition – utilization – and monitoring.

viii) The Public Debt Management Act (2008) in Mauritius stipulates a public debt (including non-guaranteed debt of the public enterprises) ceiling of 60 percent of GDP and further prescribes reduction of the debt stock so that the total debt stock does not exceed 50 percent by the end of 2018 and thereafter. However, debt ratios have not been supported with legally binding fiscal balance ratios that would seek to achieve such debt limits. In recent years, the annual budget process has departed from medium- and long-term objectives. Successive budgets have delayed steering public debt towards the statutory debt target, to avoid policy adjustments postponed to the future . Including the public sector, especially its non-guaranteed debt, within the ambit of the debt ceiling, has exacerbated the problem . The government of Mauritius should take appropriate measures - either review the composition of the total public debt or support the debt ratios with legally binding fiscal balance ratios;

ix) Civil Society Organizations (CSO) should be included in the loan contraction process in the Republic of Mauritius. We were informed that only one NGO is working on the debt related issues in the Island. More CSOs should be capacitated, empowered for more advocacy work with the government and the citizen. They are the key actors to training citizens so that they can improve their understanding and participation on debt issues in the country. CSOs should raise awareness on issues of loans, grants and development finance issues.

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