MAURITIUS
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Ndoli KALUMIYA / n.kalumiya@afdb.org
Luka Jovita OKUMU / luka.okumu@undp.org

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MAURITIUS

- **The pace of economic growth was moderate in 2016, with the economy growing by 3.6% compared with 3.4% in 2015 reflecting a slight increase in domestic investment that was offset by weak external demand.**
- **Political stability and sound macroeconomic management continue to promote investor confidence. Higher skills and productivity levels would make the country more competitive and innovative.**
- **The government has demonstrated firm commitment to promoting, industrialisation and entrepreneurship, in an effort to boost sustainable economic growth and enhance the competitiveness of the economy.**

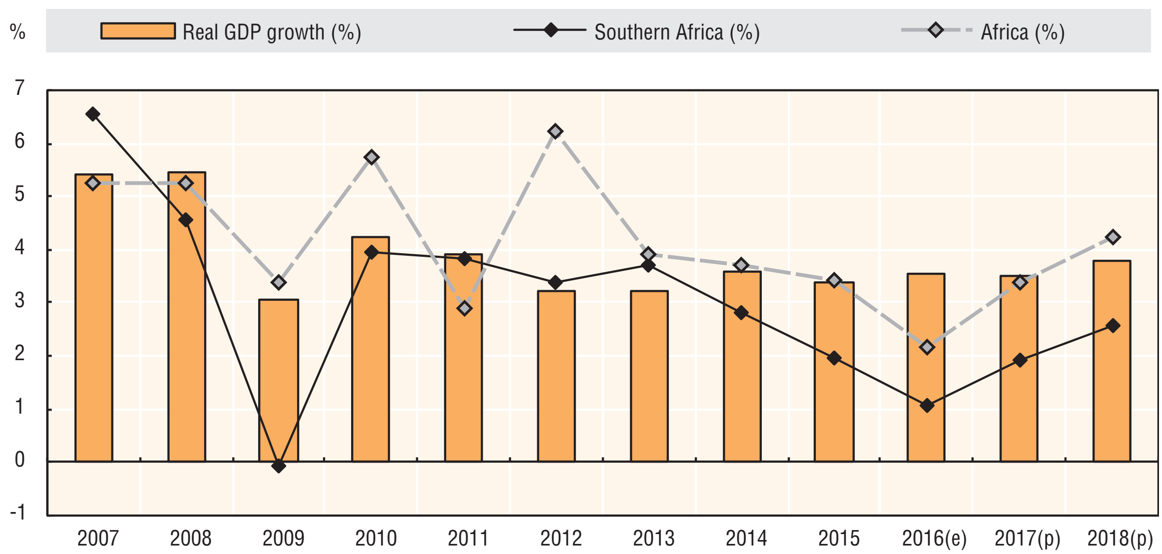
Overview

Mauritius' economy grew by 3.6% in 2016, following a slight pick-up in private investment but was offset by weak external demand. Economic growth was driven by the information and communications technology and financial and insurance sectors, which grew by 6.3% and 5.6%, respectively. These gains were offset by the poor performance of the construction and agricultural sectors, which contracted by 5.4% and 2.4%, respectively. Mauritius' fiscal deficit was recorded at 3.4% of gross domestic product (GDP), by close of the fiscal year 2015/16, as the government rolled out a number of new social programmes but reduced capital spending. In July 2016, the Monetary Policy Committee (MPC) of the Bank of Mauritius (BoM) cut the key policy rate by 40 basis points to 4.0%, in the light of a benign inflation environment and subdued domestic and external demand. Headline inflation dropped throughout 2016, reaching 1.3% in December 2016. The primary factors underpinning the drop in inflation in 2016 were the decline in food prices (food items account for 27.3% of the Consumer Price Index [CPI] basket) combined with a drop in international oil prices (transport accounts for 15% of the CPI basket in Mauritius). The overall current account deficit narrowed to 3.9% of GDP in 2016 and should shrink further helped by tourism and persistently low oil prices. The country recorded gross international reserves of 4.9 billion US dollars (USD) at 30 November 2016, equivalent to 8.4 months import cover.

Mauritius benefits from political stability and sound macroeconomic management, with increased foreign direct investment (FDI) sustaining growth. Mauritius also benefits from its strategic positioning as a gateway for investments from Europe and Asia into Africa. The government's long-term strategic vision has been set out in the country's long-term policy document, *Achieving the Second Economic Miracle and Vision 2030*, and the short-to-medium term 2015-19 Government Programme which calls for a more diversified and inclusive economy. *The Ocean economy* is also a priority area.

The authorities are exploring innovative approaches to promote direct foreign investments and accelerate diversification and modernisation. The government aims to promote exports by developing closer links with importers and the exploitation of niche and regional markets, particularly in sub-Saharan Africa. Agreements with Ghana, Senegal and Madagascar, establishing Special Economic Zones (SEZ) in these countries to open up niche markets for Mauritius' export industries have been approved. The vision of the current government to make Mauritius a nation of entrepreneurs is clearly set out in the 2016/17 budget speech, in which a series of measures were announced promoting the development and financing of micro, small and medium enterprises.

Figure 1. **Real GDP growth**



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. **Macroeconomic indicators**

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	3.4	3.6	3.5	3.8
Real GDP per capital growth	3.1	3.3	3.2	3.5
CPI inflation	1.3	1.3	2.5	2.7
Budget balance % GDP	-3.5	-3.4	-3.6	-3.5
Current account % GDP	-4.8	-3.9	-4.8	-5.1

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

During the reported period, Mauritius demonstrated reasonable growth, prudent monetary policy and fairly resilient consumer and business confidence. These were slightly tempered by the sluggish demand for exports from the country's principal markets, such as the euro area and the United Kingdom (UK), as a result of Brexit and relatively slow growth in these areas. The pace of growth increased from 3.4% in 2015 to 3.6% in 2016, driven to a large extent by the tertiary sector. However, growth is expected to be sluggish in 2017, owing to numerous global developments that will weigh on economic activity on the island state. For instance, weak economic growth is anticipated in the UK and France, both of which are major trading partners of Mauritius and account for a quarter of its goods exports. Furthermore, the weaker pound in the UK will be a source of concern to Mauritius, with Mauritius' textiles exporters having already experienced a 10% decline in 2016. Tourists from France and the UK accounted for 44% of arrivals in 2016, already down on the 45.6% the previous year, and tourism arrivals from Europe are expected to decline further in 2017. The anticipated decline in tourism arrivals will not only weigh on exports but also on investment, given its importance to the construction sector.

The tertiary sector continues to be a key driver of the island state's economy, particularly financial intermediation and ICT. In terms of financial intermediation, the country continues to develop itself into a financial hub for the Indian Ocean, developing a well-regulated and wellcapitalised sector with a favourable tax regime, attracting capital from around the world. Over the first three quarters of 2016, growth in the financial intermediation sector averaged 5.5%, compared to an average quarterly growth rate of 5.2% over the same period in 2015. In the short-to-medium term however, activity in the Mauritian banking sector is expected to be weighed down by the revised Double Taxation Avoidance Agreement (DTAA), signed between Mauritius and India in May 2016. Investors targeting India will not be able to benefit to the same degree from routing their funds through Mauritius, which will result in a slowdown in demand for bank services in Mauritius and in overall growth – financial intermediation accounts for around 20% of GDP. The government and private operators within the financial services sector are already making greater efforts to diversify their customer base and East Africa is receiving particular attention. Mauritian firms injected more than USD 50 million into the Kenyan economy in 2016, through acquisitions and investments in Kenyan companies, indicating tightening economic links between Kenya and Mauritius. In the ICT sector, there was growth of 6.6% recorded in 2016, driven by persistently high levels of FDI into this sector. The industry is poised to grow further in 2017 if a set of policy reforms are implemented, including reduced costs for entry-level broadband packages, improved connectivity, quality guarantees and workforce-development initiatives.

The manufacturing sector grew at a higher pace of 4.5% in 2016, compared to the moderate average growth of 2.1% over the previous five years. This increase was due to a reinvigorated textile sector, which grew by 3.5% in 2016 compared with 3.2% growth in 2015. South Africa accounted for 25% of all textile exports, with Mauritius firmly establishing itself as South Africa's second-largest textiles trading partner after the European Union (EU). The performance of the construction sector, on the other hand, was modest, (contributing 0.1% to overall growth), as a result of a slowdown in commercial and residential buildings spending. Construction is expected to pick up in 2017 and 2018 with the implementation of major infrastructure projects, including the "Smart Cities".

Overall growth in the primary sector increased in 2016 despite the continued contraction of sugar production. Growth was driven by fishing and forestry, which expanded by 3.1% in 2014. After dropping by 6.8% in the second half of 2013, sugar production fell by another 4.2% in the first half of 2014 despite more favourable weather conditions. The sugar industry is currently at a critical juncture, as the industry is now facing the abolishment of EU sugar-import quotas from African, Caribbean and Pacific (ACP) states in 2017, which is expected to cut prices for Mauritian sugar. Mauritius will find it increasingly difficult to produce at the current EU import price of EUR 400 per ton – 45% below the 2013 price. To this effect, the government has recently announced that it will be supporting private operators looking to establish sugar processing plants in Mauritius in order to boost value addition and job creation in this industry, as well as allowing Mauritius to earn higher prices on the international markets through the export of processed sugar.

On the demand side overall consumption rose by 2.3%, driven by an increase of 0.9% in general government expenditures, while gross domestic capital formation picked up slightly in 2016. Private consumption increased by 2.1% and is forecast to rise to 3.1% in 2017 as the downward trend in oil prices and thus lower levels of inflation encourage household spending. Export growth contributed 4.7% to GDP, up from 3.5% in 2015. With the expected deterioration of the external environment and only partial recovery in tourism, the current-account deficit is expected to expand in 2017 to about 4.8% of GDP from the 3.9% recorded in 2016. The ICT and financial services sectors are projected to drive near-term growth, more than offsetting a low or even negative growth rate in the agricultural and construction sectors. Unemployment which averaged 7.8% in 2016, compared with 8% in 2015, should drop further as labour-intensive sectors such as manufacturing and accommodation and food services, improve their performance in 2017. However, as the economy continues to shift towards more sophisticated industries in the longer-term, the workforce-skills mismatch will remain a challenge and government and the private sector will have to strengthen their collaboration in driving forward the country's skills enhancement and entrepreneurship agenda.

Table 2. **GDP by sector (percentage of GDP at current prices)**

	2011	2015
Agriculture, forestry, fishing and hunting	3.6	3.5
of which fishing	...	...
Mining and quarrying	0.4	0.2
of which oil	...	...
Manufacturing	16.9	14.7
Electricity, gas and water	1.9	2.3
Construction	6.6	4.4
Wholesale and retail trade; Repair of vehicles; Household goods; Restaurants and hotels	18.8	18.5
of which hotels and restaurants	7.1	6.5
Transport, storage and communication	10.8	10.4
Finance, real estate and business services	22.4	25.6
Public administration and defence	6.0	6.1
Other services	12.6	14.1
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

Mauritius' fiscal policy in 2016 maintained the expansionary stance of the last three years, featuring a number of new social programmes aimed at supporting the more vulnerable segments of society. These include implementation of the "Marshall Plan Against Poverty" and reforming the pension system. The government's second budget of July 2016 showed a clear intention to continue promoting inclusive and sustainable growth of the economy, with fiscal consolidation a secondary concern, at least in the short term. Among the new measures in the 2016/17 budget were a series of incentives for small and medium enterprises (SMEs) growth and job generation. Expenditure is set to rise, as the government proceeds with implementation of major infrastructure projects such as "Heritage City", which will house the new parliament building and see improved transport facilities. Capital expenditure, which constitutes 12.0% of the overall budget, also focuses on the agribusiness, ICT and manufacturing sectors. ICT is viewed as key to Mauritius' future development as it seeks to become a knowledge economy and take advantage of its geographical and temporal location. Agribusiness, meanwhile, still constitutes the backbone of the economy which will benefit from further investment. In terms of recurrent expenditure, compensation of government employees remains the largest expense category at over 25% of total expenditures. This can be attributed to the high level of public sector employment, which currently stands at 57% of total employment. Growing public sector debt is also affecting expenditure levels. Currently, just over 10% of the government's budget is required to repay interest on both domestic and external public debt.

According to the government, this raft of new measures will be substantially offset by increased revenues leading to a deficit of 3.6% of GDP by end June 2017, up from an estimated 3.4% in June 2016 (government estimates). The government's desire to boost growth through a series of new tax incentives will weigh on collection, with revenues expected to grow only slightly within the current financial year. Corporate tax income in particular will see slow growth, with certain companies having been granted a five- or eight-year tax holiday. The budget also made provisions for an increase in the income exemption threshold, an income tax holiday for returning Mauritian professionals and increases in reliefs and deductions for individuals. The authorities have deemed economic growth generation to be a priority, and the 2016/17 budget reaffirmed its commitment to attracting new business in the wake of the revised tax deal with India. The deficit will funded by increasing borrowing from the local debt markets.

Table 3. **Public finances (percentage of GDP at current prices) (a)**

	2008	2013	2014	2015	2015/16(e)	2016/17(p)	2017/18(p)
Total revenue and grants	**20.3**	**21.8**	**20.3**	**21.5**	**21.2**	**21.3**	**21.2**
Tax revenue	17.6	18.5	18.4	19.1	18.9	18.9	18.9
Grants	0.6	0.4	0.1	0.5	0.5	0.4	0.4
Total expenditure and net lending (b)	**23.0**	**25.9**	**25.5**	**25.0**	**24.6**	**24.9**	**24.7**
Current expenditure	16.3	17.1	17.3	15.9	16.5	16.8	16.6
Excluding interest	12.6	14.6	14.7	13.4	13.2	13.6	13.7
Wages and salaries	5.1	8.3	8.3	6.4	6.2	6.3	6.3
Interest	3.7	2.6	2.6	2.5	3.3	3.1	2.9
Capital expenditure	4.8	5.0	5.2	6.1	6.0	6.1	6.2
Primary balance	**1.1**	**-1.5**	**-2.6**	**-1**	**-0.1**	**-0.5**	**-0.6**
Overall balance	**-2.7**	**-4.1**	**-5.2**	**-3.5**	**-3.4**	**-3.6**	**-3.5**

Note: a. In 2015, Mauritius adopted a July-June fiscal year. b. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

At its meeting in July 2016, the Bank of Mauritius' Monetary Policy Committee (MPC) decided to cut the Key Repo Rate (KRR) – the bank's primary policy rate and monetary policy tool – by 40 basis points from 4.40% to 4.0%. This was the central bank's largest rate cut in Mauritius for the past four years. The MPC said in a statement that downside risks to the global economy, especially after Great Britain voted to leave the EU, added to the downside risks to domestic economic performance. It considered that the downside risks to the domestic growth outlook outweighed the risks to the inflation outlook. The latest cut in the policy rate is part of the central bank's efforts to provide much-needed stimulus to the economy which continues to grow sub-par. Nevertheless, the central bank considers its stance as already accommodative, so further cuts during the second half of the year are unlikely.

Inflation in Mauritius is still very low, and is expected to remain so through the remainder of the year, despite some mild increase in global oil prices. Inflation averaged 0.3% over the first six months of 2016, compared to an average 1.3% for the corresponding period in 2015 and 3.2% in 2014, with the low price growth largely a result of low global oil prices. Given Mauritius' remote location and its reliance on imported goods, oil prices have a major impact on the country's inflation environment. Transport accounts directly for 15.1% of the basket, but feeds through to other components of inflation. At the same time, real GDP growth is expected to remain sub-par and global downside risks to Mauritian economic growth have remained the key concern in the BoM's communiqués.

Looking ahead, excess liquidity in the economy will remain a major concern of the BoM. Despite various measures to reduce excess liquidity in the domestic money market in 2015, liquidity generally trended upwards as a result seasonal considerations and net redemption of government securities. Since the introduction of liquidity management measures the central bank has sterilised close to MUR 120 billion of liquidity, mostly in the form of BoM Notes. These efforts are expected to continue in the short-to-medium term. During this same period, the Mauritian rupee depreciated by 7% on average against the US dollar. BoM attributed the contained rupee exchange rate effects on inflation to effective foreign exchange sterilisation and low global commodity prices. As global oil prices rebalance in the long term, the BoM recognises that this buffer will be less effective.

Economic co-operation, regional integration and trade

The trade policy of Mauritius is to transform the island into an open and globally competitive economy and to fully integrate it into the world trading system. Mauritius remains an active member of the World Trade Organization, as well as many other regional economic groups – the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC) and the Indian Ocean Commission (IOC). Mauritius is also part of the Eastern and Southern Africa Economic Partnership Agreement. Over the past year the island-state has been actively participating in the Tri-partite Free Trade Area negotiations and policy formulation under the SADC, COMESA and the East African Community (EAC). Mauritius considers its participation in regional agreements as a step towards further integration with mainland Africa. It played a key role in the extension of the Africa Growth and Opportunity Act (AGOA) for an additional decade, thereby continuing to provide sub-Saharan African exporting nations favourable terms in the United States market. However, implementation of AGOA and differing priorities of countries in the region remain a challenge.

Mauritius concluded Double Taxation Avoidance Agreements (DTAAs) and Investment Protection and Promotion Agreements with the Congo, Egypt and Tanzania over the past year adding to the 16 DTAAs the island-state already has in place with 16 other African countries. Furthermore, the country has restructured the "Mauritius-Africa Fund" established in 2014, under which the government encourages and promotes Mauritian businesses venturing into mainland Africa. Thus far, 49 Mauritian companies have invested in 14 countries in mainland Africa, in a variety of sectors including agribusiness, banking, ICT and renewable energy. The latest Organisation for Economic Co-operation and Development (OECD) Trade Facilitation Indicators rank Mauritius in 1st place amongst sub-Saharan African countries and upper Middle Income Countries. Mauritius has no debt arrears on multinational projects.

In terms of macroeconomic convergence criteria, Mauritius remained well within the SADC targets for inflation (at 1.8% against 5%), but above the government debt ceiling (at 64.5% of GDP against 60% ceiling) and it exceeded the agreed budget deficit target of 3%, with an average budget deficit of 3.5% of GDP in 2015. Mauritius was below the borderline of 9% of GDP on the current account balance at 3.9% of GDP and gross foreign reserves was 8.7 months against 6 months of import coverage. Growth rate at 3.4% of GDP is below the SADC target of 7% owing largely to the fact that the Mauritian economy is already well developed and any future economic expansion comes from a much higher base than its peers in the region.

Table 4. **Current account (percentage of GDP at current prices)**

	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
Trade balance	-19.9	-18.7	-17.7	-15.8	-13.9	-14.6	-14.6
Exports of goods (f.o.b.)	23.9	23.6	24.2	23.0	24.1	23.8	23.8
Imports of goods (f.o.b.)	43.8	42.3	41.9	38.8	38.0	38.4	38.4
Services	6.2	4.7	5.4	5.2	5.0	5.2	5.2
Factor income	8.1	8.6	8.4	7.8	6.8	6.4	6.0
Current transfers	2.3	-0.8	-1.6	-1.9	-1.8	-1.8	-1.7
Current account balance	**-3.3**	**-6.2**	**-5.6**	**-4.8**	**-3.9**	**-4.8**	**-5.1**

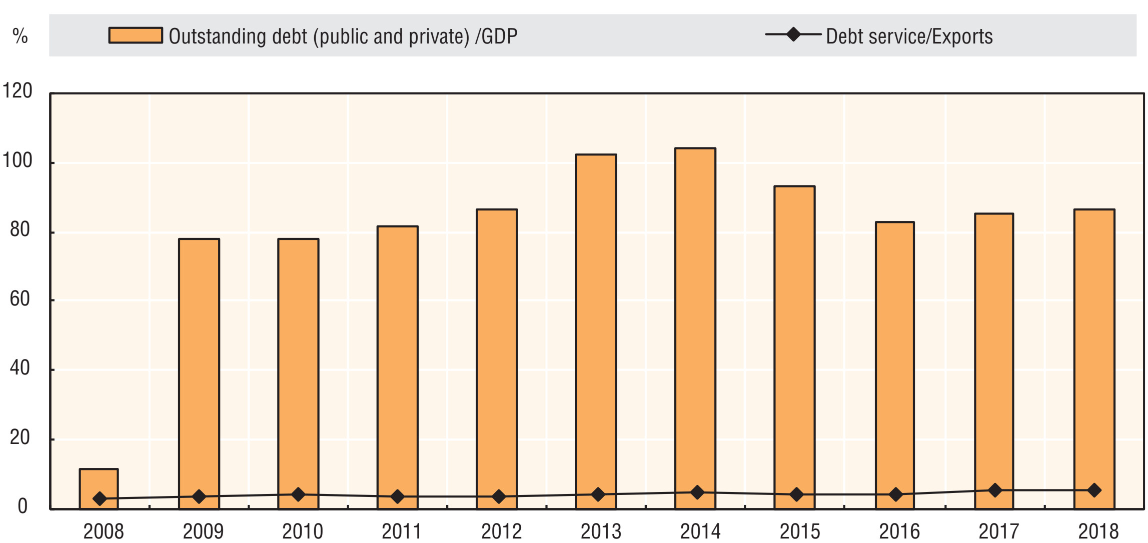
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt policy

The government will increase its liabilities in order to fund its expansionary fiscal strategy and therefore Mauritius will probably fall short of its public debt target over the medium term with policy makers having pledged to reduce public debt to below 50% of GDP by 2018. Total public and public-guaranteed debt climbed to nearly 65% of GDP in 2015, up from 61% in 2014. The share of domestic debt of central government stood at 52.5% of GDP, whilst the share of external sector debt, including corporate debt, was recorded at 12.5% of GDP. According to the March 2016 IMF Article IV Consultation Report and the latest assessment by Moody's Investors' Service, public debt will be largely manageable given that the bulk of it is expected to be domestically sourced, and thus should not raise investor concerns regarding the country's ability to pay its debts. The BoM has repeatedly cited concerns over the high levels of liquidity in the economy in recent years, the threat it poses to inflation rates and how it nullifies the effectiveness of the key policy rate. As a result, the government is likely to turn to domestic markets in order to fund its expansionary budget plans and at the same time mop up excess rupee liquidity in the process, rather than issuing any substantial dollar-denominated debt. The continued build-up in the country's foreign reserves combined with subdued international commodity prices will lead to stable external debt levels.

In its 2016/17 budget, the government set out an ambitious spending plan to boost infrastructure, and attract private sector investment in order to grow the economy by 5.5% per year from 2017. Expenditure is expected to remain elevated in the 2016/17 budget, which will be mainly financed by increased borrowing from local debt markets. This will push yields on local debt upwards and there is a risk of crowding out potential private sector investment, particularly in the area of infrastructure development. The government is drawing up a plan for divestiture of certain government assets, particularly in the utility sub-sectors, and is encouraging the private sector to participate in infrastructure upgrading as a means of containing public borrowing and thereby bringing down debt levels.

Figure 2. **Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)**



Source: IMF (WEO & Article IV).

Economic and political governance

Private sector

Mauritius continues to outstrip other sub-Saharan economies in terms of indicators for ease of starting business. According to the World Bank report, *Doing Business 2017* an average of 5 procedures and 6 days are required to start a business in Mauritius, compared with 8 and 29.7 respectively for sub-Saharan Africa. The Board of Investment in Mauritius continues to be instrumental in attracting a high level of investment in emerging sectors. However, more work needs to be done to build on these efforts. According to the World Economic Forum, *Global Competitiveness Report* (GCR) *2016-2017* more efforts are required in terms of improving efficiencies in government bureaucracy, addressing the inadequate supply of "first-class" infrastructure and improving human capital. Moreover, the quarterly business confidence surveys for 2015-16, conducted by the Mauritius Chamber of Commerce and Industry and business entities in Mauritius point to the urgent need for firming up of required regulatory and legal frameworks in order to facilitate more business and employment in the country.

The private sector remains vibrant and continues to be active in sectors such as textiles exports, tourism and financial services, ICT and offshore global business. Global Business Companies (GBCs) continue to be a key pillar of the economy and currently account for an estimated USD 630 billion worth of assets, some 50 times the level of GDP. Going forward, the authorities are looking to position the island-economy as a prime route for foreign investment into Africa. Private operators are emerging in relatively new sectors such as the ocean economy, particularly aqua-culture and renewable energy, and high-end manufacturing. The government is actively engaged with these prospective private operators particularly in developing the ocean economy. However, the manufacturing sector is facing pressure from increasing global competition in the export markets, exacerbated by the ongoing slowdown in Europe, the main export market for the island economy. European woes are also depressing tourist arrivals and revenues. Thus, the national competitiveness agenda remains crucial. Both government and the private sector need to collaborate further to ensure Mauritius improves the quality of exported goods and services to serve new markets and to strengthen support to the SME sector.

Financial sector

In 2015, profitability of the banking sector declined, with decreases in the average return on assets (ROA) and return on equity (ROE). This decline was most prominent amongst domestic-owned banks with a decrease in ROA from 2.1% to 1.4%. The banks' average ROE followed a similar pattern to ROA, with a decrease across the banking sector. Among the three categories of banks, the average ROE of domestic-owned banks suffered the biggest decline from 21.2% at end-December 2014 to 14.4% at end-December 2015. By the end of December 2015, the ratio of liquid assets to total assets in the banking sector stood at 27.8%, while the ratio of liquid assets to short-term liabilities was 35.5%. Overall, the capital adequacy ratio of the banking sector was at a comfortable level of 17.9% at 31 December 2015 against the regulatory requirement of 10.0%. In terms of banks' asset quality, the ratio of non-performing loans (NPLs) to total credit facilities in the banking sector continued its upward trend from 4.3% at end-December 2014 to 6.4% at end-December 2015. This deterioration is attributed to credit extended outside Mauritius where the ratio of impaired credit to total credit rose from 2.2% to 5.0%. In an attempt to avert potential distress or crises in the financial services sector, the Bank of Mauritius and the Financial Services Commission (FSC) have already taken steps to improve supervisory co-operation.

The two securities exchanges licenced by the Financial Services Commission, namely the Stock Exchange of Mauritius Ltd (SEM) and the Bourse Africa Ltd (BAL), continue to position Mauritius as one of the most powerful value-creation platforms of the region. The SEM consists of the *Official Market* – which represented a market capitalisation of nearly USD 9.2 billion or 86% of GDP as at 29 August 2016 – and the *Development and Enterprise Market*, which presently has 47 companies listed, with a market capitalisation of nearly USD 2.1 billion as at 29 August 2016. Local investors account for about 60% of the daily trading activities, and foreign investors account for the 40% remaining. At least 75% of the local volume is generated by institutions like mutual funds, pension funds and insurance companies. The GCR 2016-2017 gives Mauritius a global rank of 44 out of 138 economies respectively on the "financial market development" pillar.

Mauritius has the highest level of financial inclusion in the SADC region, with 93% of adults using a formal or informal financial service. In total, 85% of the adult population is banked, 49%

use non-bank products and services and 26% use informal mechanisms to manage their finances. In order to further improve access to finance, the government announced in its 2016/17 budget that it was continuing with the SME Financing Scheme for another three years (set up in 2015). The scheme has now been extended to individual entrepreneurs and interest rates have been decreased from 7.4% to 6% per annum.

Public sector management, institutions and reforms

As part of its wider efforts to improve efficiency within public administration, the government announced a major public sector reform programme in its 2016/17 budget. The various supporting institutions in the SME sector, namely the Small and Medium size Enterprises Development Agency, Enterprise Mauritius and the National Woman Entrepreneur Council have been merged into one institution for greater cohesion and efficiency. Similarly, the Registrar General Department will be incorporated into the Mauritius Revenue Authority (MRA) to create a single revenue collection agency for improved enforcement. The MRA will also act as the collecting agent for contributions to the National Pension Fund, the National Savings Fund and the Workfare Programme Fund. Public institutions such as the Development Bank of Mauritius have been restructured to focus on creating and running SME parks and managing government financing schemes for micro-enterprises and small establishments. These reforms are expected to improve policy co-ordination, efficiency and responsiveness.

Important challenges remain for performance of public administration. These include: i) The inherent rigidity of civil service structures and a bureaucracy not conducive to innovation; ii) the lack of an attractive reward scheme to motivate individuals to perform beyond the minimal scope of duties; and iii) limited collaborative policy making and sharing of information in support of achieving common goals. Mauritius was ranked 46th out of 148 in the “wastefulness of government spending” sub-category in the GCR 2016-2017. Government is determined to rein in public spending and at the same time significantly improve service delivery.

The findings and results of the GCR 2011-2016 suggests the need for public-sector reforms to improve accountability at all levels and improve planning, procurement and management processes. Efficient country-level monitoring and evaluation systems could be developed to further support evidence-based policymaking. Reforms in public enterprises also have the potential to create fiscal space for productive spending.

National resource management and environment

Fully aware of the possible impacts of climate change on its economy, citizens and their livelihoods, the authorities in Mauritius have made climate change adaptation and mitigation a national priority. This is reflected in the strategic policy document, *Achieving the Second Economic Miracle and Vision 2030,* as well as the 2015-19 Government Programme and 2016/17 budget speech. A climate change mitigation and adaptation framework has been developed and was updated in 2015. Several priority sectors such as disaster risk reduction and management, renewable energy, water, coastal zones, fisheries, tourism, public infrastructure, health and agriculture have been targeted and actions are being taken at different levels ranging from policy and legislative review, application of long-term dynamic tools, institutional strengthening, infrastructural works, promotion of research and development, awareness raising, education and training.

At the global level, Mauritius was a signatory of the Paris Agreement on Climate Change in New York in April 2016. The island-state was among 175 countries that signed the Paris Agreement. Mauritius was also among 15 countries that submitted their instruments of ratification at the same time, 13 of which are Small Island Developing States (SIDS). The implementation of the Intended Nationally Determined Contribution (INDC) for Mauritius will require over USD 1.5 billion for mitigation measures and about USD 4 billion for adaptation measures across all the sectors up to year 2030 in the form of finance, investment, technology development and transfer, and capacity-building.

Political context

Mauritius continues to serve as a role model in terms of accountability, maturity and stability of political and other governing institutions. The government, led by Alliance Lepep (AL), has been in office for two years and has already made headway in implementing its long-term strategic vision, *Achieving the Second Economic Miracle and Vision 2030*. Large-scale infrastructure projects and social welfare programmes are being implemented as part of the government's efforts to steer Mauritius onto higher and more inclusive growth paths. The short-to-medium term 2015-19 Government Programme provides an effective blue print, offering a strategic vision for a more diversified and resilient economy and an action plan to achieve High Income Country status by 2025. The "Blue Economy" is increasingly a priority area for the authorities as they aim to strengthen Mauritius' competitiveness through innovation in areas such as deep-sea water exploitation, bio-pharmacy and renewable energy.

Social context and human development

Building human resources

Mauritius falls within the high human development category, with a Human Development Index (HDI) score of 0.78 for 2014 which is above the average of 0.735 for countries in this group and well above the sub-Saharan African average of 0.502, giving the country a global rank of 63 out of 187 countries. Life expectancy stands at 73.6 years and Gross National Income (GNI) per capita (2005 PPP) at USD 16 777 in 2013. Health indicators show good progress. Under-five child mortality has decreased substantially from 23 per 1 000 live births in 1990 to 15.7 per 1 000 live births in 2012, though the target of reducing by two-thirds from the baseline still has to be achieved. Several measures have been taken to reduce child mortality, such as implementation of the National Sexual and Reproductive Health Action Plan, enhancing the Expanded Programme on Immunisation against vaccine preventable diseases and the scheme for specialists to be present on a 24-hour basis in five regional hospitals. Households spend significantly on healthcare in the private sector through health insurance and out-of-pocket payments for care and treatment. As a result, private sector spending represents around half of total health sector expenditure. To this end, the government has made a provision of 9.7 billion Mauritian rupees (MUR) or 8.4% of the 2016/17 budget for healthcare as it aims to reduce the healthcare expenditure burden on households and improve the efficiency and quality of healthcare provision in the country.

Current education indicators for Mauritius show that the country is doing relatively well, with youth literacy rate of 96.8% and adult literacy rate of 88.8%. Universal access to primary education (MDG2) was achieved and the expected years of schooling at 15.6 years in 2014 are within the high human development category average. The primary completion rate stood at 74.6% in 2012. Currently, around 15% of children fail to obtain a Certificate of Primary Education (CPE). In 2015, the number of school candidates who took part in the CPE examination was 22 419. Excluding re-sits, the overall pass rate was 74.6%, compared to 70.8% in 2014. The performance of girls exceeded that of boys with respective pass rates of 76.9% and 64.1%. It is worth noting that with the introduction of re-sit exams in 2013, the pass rate among school candidates was 74.8% (68.9% boys and 81% girls). According to analysis carried out by the Mauritius Examinations Syndicate on performance, the pass rate among the 2015 cohort was 83.5%. The pass rate relates to school candidates who either passed at their first sitting in 2014 or their second sitting in 2015.

Poverty reduction, social protection and labour

There is no extreme poverty in Mauritius and the proportion of population living below USD 1.25 per day (PPP) is less than 1%. Mauritius has, however, experienced growth in relative poverty, with some 6 400 families recorded as living in poverty according to the authorities.

The gender dimension of poverty is all too evident with the proportion of female-headed poor households being more than twice (18.6%) that of male-headed households (8.5%) in 2015. However, there is growing concern that the government is prioritising foreign private investment at the expense of social inclusion and equity. Some point to the generous tax holidays announced in the 2016/17 national budget being extended to high net worth individuals and businesses. In some cases companies have been granted between 5-8 year tax breaks, at a time when the fiscal space is constrained and therefore government is unable to spend sufficiently on social programmes. With the unemployment standing at 7.1% and a growing trend in income inequality, the government risks losing substantial support if living standards amongst the most vulnerable do not improve significantly.

A Ministry of Social Security, National Solidarity and Reforms oversees government social security initiatives while the Ministry of Social Integration oversees the government empowerment programmes. The two ministries work in collaboration with the National Empowerment Foundation. The 2016/17 budget outlined measures to enhance social protection. For instance, the government introduced a scheme under which every adult on the Social Register will be entitled to a monthly subsistence allowance based on a minimum threshold of MUR 2 720 with a maximum threshold of MUR 9 520 for a family of two adults and three children. This is higher than the country's current threshold of MUR 6 200 and 40% higher than that of the World Bank. In addition to housing programmes for the more vulnerable segments of the population, the government also announced a rise in old-age pension and wage compensation for public sector workers. These social programmes are critical if Mauritius is to embark on a more inclusive growth path, although they will contribute to the increased burden on the country's fiscal position in the short-to-medium term. Furthermore, the government's social protection programme has recently come under some criticism for its perceived lack of efficiency and inadequate targeting. The IMF, for example, raised concerns in its 2016 Article IV Report, about the non-transparent nature of subsidies administered by the State Trading Corporation. Accordingly, a social protection strategy is being finalised and government is planning to develop a poverty monitoring and targeting mechanism which should help address some of these concerns.

Basic labour standards continue to be relatively well protected in Mauritius. The country has ratified over 26 ILO conventions including the Convention on the Worst Forms of Child Labour 1999, No. 182 in June 2000. The Ministry of Labour and Industrial Relations and Employment is operating within the framework of the Employment Relations Act 2008. The government has ratified most international conventions that conform to core labour standards and has policies in place to implement these. Taxation is not an impediment on worker incentives in Mauritius. In terms of labour market efficiency, the country ranked 57th out of 138 in the Global Competitiveness Index (GCI) 2016-2017, with restrictive labour practices and poor work ethics in national labour force quoted as among the top ten most problematic factors for doing business. Furthermore, female participation in the labour market remained relatively low during the reported period and the country ranked a lowly 108th out of 138 in the GCI 2016-2017.

Gender equality

Although women in Mauritius fare well in terms of educational attainment, this has not translated into equality in terms of income levels or representation in political life. According to the 2016 IMF Article IV Report, the low level of female participation in the labour market has led to an estimated income loss in the range of 22-27%. The government announced a series of measures in its 2016/17 budget to address these challenges and has allocated MUR 200 000 to five ministries to conduct gender analyses of services provided. It has also announced the introduction of a Gender Development Index for Mauritius to measure progress towards gender equality.

More women are occupying high positions in government services compared with their peers in the private sector. The proportion of women in the most senior positions was 39%; and women constituted 42% of the judiciary in 2015. Women's representation at board level in private companies, on the other hand, is dramatically low. To that effect the government made it a requirement that all companies listed on the Stock Exchange of Mauritius should have at least one woman on their Board of Directors. The Back to Work Programme has gained momentum over the past financial year, seeing an increasing number of women resuming employment. However, the government has yet to fulfil its commitment to extend maternity leave from 12 to 14 weeks. Similarly, there has been slow progress in addressing issues on land tenure rights and business ownership opportunities for women, with rigid traditional cultures and practices appearing hard to overcome.

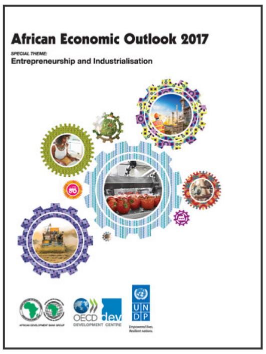
Thematic analysis: Entrepreneurship and industrialisation in Mauritius

The economy is based on sugar, tourism, textiles and apparel, and financial services, and is rapidly expanding into fish processing, ICT, hospitality and property development. In terms of GDP composition by industry, the major industries are: finance, real estate and business services (25.6%), wholesale and retail trade, restaurants and hotels (18.5%); manufacturing (14.7%) and transport, storage and communication (10.4%). The government's development strategy centres on creating vertical and horizontal clusters of development in these sectors. Mauritius has attracted more than 35 000 offshore entities in the last ten years alone, many aiming for investment opportunities in India, South Africa and China. Investment in the banking sector alone has exceeded USD 1 billion. The Mauritian textile and clothing industry has established a solid reputation over the years as a manufacturer of high-tech, high-end clothing. The island nation is keener than ever to build on its strengths through investment in innovation and geographic expansion, with duty-free market access to both the EU and the US under the EU-ESA (Eastern and Southern Africa) Economic Partnership Agreement and the recently-extended AGOA. The sector already comprises around 300 clothing companies employing over 50 000 staff, and accounts for around 55% of total exports. Europe, the US and South Africa remain the country's principal markets – and Mauritius is currently on a mission to showcase its credentials to other markets, particularly in Africa. The introduction of Mauritius's export processing zones has been helpful in boosting the island's economic development. These zones allow for state-subsidised processing of imported materials that will be exported. Incentives for investors to invest in such zones include the exemption of duties on imported raw material, low energy costs and free repatriation of capital, profits and dividends. The businesses in these zones both serve international markets and also have linkages with local markets in terms of value addition and enhancing local content, particularly in the higher value segments of the manufacturing sector.

Over the past two years the government has announced a series of measures to boost entrepreneurship. By fostering the conditions in which the rapid-growth companies of the future can thrive, the measures aim to help spark innovation, create jobs and improve the long-term national growth prospects. The 2016/17 budget makes provisions for several strategies for a new era for development and one of them is to foster a wave of modern entrepreneurs. To that end, the budget makes provision for suspending the payment of trade fees for licences of MUR 5 000 and below for a period of three years for all SMEs, except those engaged in activities such as gambling, and sales of liquor and cigarettes. This measure will benefit new businesses and some 75 000 existing businesses. The new budget also outlines other measures for SME development, including the creation of industrial parks, leasing schemes and other fiscal incentives. The budget also caters for the creation of a National SME Incubator Scheme under which a matching grant of MUR 50 million will be offered with the aim of supporting and mentoring young entrepreneurs.

As part of its wider efforts to lay the groundwork for a vibrant startup ecosystem on the island, the government has committed substantial funding to the ICT sector. Coincidentally, the recently established Turbine Incubator is looking to take advantage of governmental focus on the ICT sector and close ties to African and European markets. Launched in October 2015, on the outskirts of the capital Port Louis, the Turbine is an incubator and startup accelerator aimed at helping young ambitious people to turn good ideas into flourishing businesses. There have been a number of previous incubators in Mauritius, all government-funded, but they have all closed as changes in government result in a shift in priorities. The Turbine, however, is adopting a private sector-led approach to developing the entrepreneurship ecosystem on the island, and aims to establish Mauritius as a vibrant and internationally recognised innovation and startup hub. The incubator will take equity in the selected startups, and offer them ongoing support over a period of two years. Though an independent organisation, it receives financial and operational support from a Mauritian conglomerate, with all profits reinvested in the organisation.

The authorities recognise the importance of local entrepreneurship and its capacity to generate sustainable and equitable wealth. For this reason, entrepreneurship, along with industrialisation, has been placed at the forefront of the country's current strategic policy documents. These include the country's long-term policy document, *Achieving the Second Economic Miracle and Vision 2030,* and the short-to-medium term 2015-19 Government Programme. SME development and entrepreneurship also took centre stage in the last national budget of July 2016. The government is calling upon the private sector to drive the innovation process – the core of any industrial upgrading effort – as this will be crucial for developing the technologies and business practices for sustainable and inclusive growth and for sound resource management. To this effect, development of the ICT sector is viewed as critical by the authorities and is intended to transform Mauritius into "a cyber island" by creating high-tech multi-storeyed towers with strong technological capabilities that can provide a home to companies from all over the world to set up operations, manage data, facilitate e-commerce, and establish call centres. The government has also encouraged the use of Mauritius as a trans-shipment centre and a re-export base and, more recently, as an international medical hub and a regional knowledge centre. Furthermore, to promote modern production techniques, the government together with the private sector is in the process of setting up integrated SME industrial parks across the island-state. The authorities are also pursuing the establishment of additional export processing zones on mainland Africa, in which Mauritian industries can grow and serve larger markets.



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