Mauritius’ economy has continued to expand steadily in recent years, with GDP growth estimated at 3.9% in 2017, edging upwards from 3.8% in 2016, based on strong performances in the services sector, including increased tourism receipts. The short-term economic outlook is positive, with growth projected to increase to 4.2% and 4.3% in 2018 and 2019, respectively, on the back of stronger investment, a further increase in tourism receipts and an expected upturn in external demand from stronger regional and global growth.

• Political stability and a highly conducive business environment continue to promote investor confidence. Increased skills and productivity levels are transforming the country into a more competitive, inclusive and innovative economy.

• The Government has prioritized infrastructure development as part of its vision to support sustainable economic growth and enhance the competitiveness of the island’s economy.

OVERVIEW

Mauritius’ economy has continued to expand steadily in recent years, with GDP growth estimated at 3.9% in 2017, edging upwards from 3.8% in 2016. Services contributed the most to growth, notably financial services and the tourism and ICT sectors, which respectively recorded growth of 5.9%, 5.7% and 5.5% in 2017. Growth has also been underpinned by strong household consumption. The short-term economic outlook is broadly positive. GDP growth rates are expected to increase to 4.2% and 4.3% in 2018 and 2019, respectively, on the back of stronger investment, a further rise in tourism receipts and an expected upturn in external demand from stronger regional and global growth. The fiscal deficit narrowed slightly to an estimated 2.9% of GDP in 2017, from 3.4% in 2016, but is expected to increase to 3.2% of GDP 2018, as the Government implements its ambitious investment and social programs. The Bank of Mauritius (BoM) continues to loosen monetary policy; the policy (repo) rate dropped to 3.75% in September 2017, from 4% in July 2016. Inflation is expected to rise slightly in 2018, associated with an anticipated increase in energy and food prices. The current account deficit is predicted to grow to 5.8% of GDP in 2018, from 5.2% in 2017, following an expected increase in private investment and strong imports associated with the Government’s public infrastructure programme.

Mauritius’ medium to long term growth prospects are positive. It is expected that key sectoral drivers of growth will continue to perform well. Financial services, ICT, retail and wholesale and food processing are all expected to grow by over 5%. The economy is expected to diversify further into other higher value-added sectors such as medical tourism and higher education services. The Government is expected to increase its efforts to turn Mauritius into a gateway for investment between Asia and Africa by implementing its Mauritius-Africa strategy. Further diversification of Mauritius’ export markets will boost the wider economy and consolidate the island’s position as a regional services hub for Africa.

Infrastructure development is critical to support economic growth, enhance productivity, and propel Mauritius to high income (HIC) status. The construction, upgrading and maintenance of infrastructure is a key Government priority, as outlined in Vision 2030, the Government’s Programme for 2015-2019, and the 2017-2018 national budget. Mega infrastructure projects have been identified by the country’s Public Investment Programme for 2013-2021, which requires an estimated...
USD 10 billion in funding. The Government has emphasized and requested that development finance institutions (DFIs) should play a more prominent role in directing private financing towards these projects, using innovative instruments including special purpose vehicles, public-private partnerships (PPPs), and credit guarantees.

**RECENT DEVELOPMENTS AND PROSPECTS**

Mauritius has recorded moderate but steady real GDP growth in recent years. GDP growth rose from 3.8% in 2016 to 3.9% in 2017, mainly supported by an expansion in financial services, ICT and manufacturing output. Mauritius’ GDP per capita also trended upwards in the same period, at an average annual rate of 3.6%, reaching an estimated USD 9 672 in 2017 (in current dollars). This is the third highest per capita income in Africa (after Equatorial Guinea and the Seychelles), placing Mauritius firmly in the category of an upper middle-income country (MIC). Mauritius’ economy remains predominantly based on services (74% of GDP in 2017). The next largest sectors are industry (22%) and agriculture (4%). Over the years, Mauritius has successfully managed to transform and diversify its once sugar-centred monoculture economy into manufacturing activities and services.

Mauritius has one of the best-developed financial services sectors in Sub-Saharan Africa (SSA). The sub-sector grew by between 4.3% and 5.2% between 2014 and 2017, assisted by Mauritius’ favourable tax status, and attracted substantial financial resources that pass through the country before being reinvested in markets including countries in Sub-Saharan Africa and India. The ICT sector grew by an average of 5.6% between 2014 and 2017, mainly driven by increased foreign direct investment. Tourism and tourism-related industries also contributed strongly to the country’s GDP growth in 2017. Tourist arrivals reached 1.3 million in 2017, compared to 1.2 million in 2016. The Government and tour operators are actively opening Mauritius up to tourists from markets outside Europe, particularly from Asia and mainland Africa; additional air routes have been established to these regions. Earnings from tourism exceeded USD 1 billion in 2017, for the third consecutive year, and the industry, which accounts for 7% of GDP, is expected to grow by 6% in the short to medium term. The medical tourism sub-sector continues to grow as well. An increasing number of visitors seek to benefit from the country’s highly developed and cost-friendly healthcare sector. The manufacturing sector grew by an average of 2.7% between 2014 and 2017, mainly due to growth in textile manufacturing. On the other hand, the construction and agriculture sectors both experienced negative growth in 2017 relative to 2016 (minus 2.4% and minus 2.5%, respectively). The construction sector has slowed steadily in recent years; its contraction in 2017 was largely due to slow implementation of public investment and real estate projects. In the agriculture sector, negative growth reflected the substantial drop in global sugar prices in recent years as well as a slowdown in the fisheries sub-sector. In the short to medium term, GDP is projected to grow by 4.2% in 2018 and 4.3% in 2019, driven by strong growth in financial services and the ICT and retail sectors, as well as increased activity in construction due to higher public and private investment in mega infrastructure projects. In addition, both the Government and private sector are likely to increase investment in other key sectors, including tourism, medical tourism, education, and shipping services.

On the demand side, overall expenditure rose by 3.8%, driven by a rise of 2.4% in private consumption and 1.4% in general Government expenditures, while gross domestic capital formation picked up slightly in 2016. Export growth contributed 5.2% to GDP in 2017, up from 4.5% in 2016. Private consumption is forecast to grow slightly more slowly in 2018 because rising commodity and food prices and resulting higher levels of inflation will weaken household spending. The expected

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**TABLE 1. Macroeconomic indicators**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017(e)</th>
<th>2018(p)</th>
<th>2019(p)</th>
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<tbody>
<tr>
<td>Real GDP growth</td>
<td>3.8</td>
<td>3.9</td>
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<tr>
<td>Real GDP per capita growth</td>
<td>3.5</td>
<td>3.6</td>
<td>3.9</td>
<td>4.0</td>
</tr>
<tr>
<td>CPI inflation</td>
<td>1.0</td>
<td>3.7</td>
<td>4.5</td>
<td>4.4</td>
</tr>
<tr>
<td>Budget balance (% of GDP)</td>
<td>-3.4</td>
<td>-2.9</td>
<td>-3.2</td>
<td>-4.2</td>
</tr>
<tr>
<td>Current account (% of GDP)</td>
<td>-4.3</td>
<td>-5.2</td>
<td>-5.8</td>
<td>-6.2</td>
</tr>
</tbody>
</table>

Source. Data from domestic authorities; estimates (e) and predictions (p) are based on the authors’ calculations.
growth in private investment and the high import component of public infrastructure programmes are likely to raise the current-account deficit in 2018 to about 5.8 and 6.2% of GDP in 2018 and 2019 respectively. The ICT and financial services sectors are projected to drive near-term growth, complemented by improvements in the unemployment rate, which averaged 7.3% in 2017 (7.8% in 2016). Unemployment should drop further as labour intensive sectors such as construction, manufacturing, accommodation and food services improve their performance in 2018. However, the country’s private sector suffers from a substantial gap between its demand for more highly qualified labour in high-growth sectors and the supply of available labour; this is due mainly to insufficient skills and training. To boost transformative growth, diversify the economy and create jobs that add high value, and so propel the country towards HIC status, Mauritius needs to increase its efforts to tackle its skills mismatch.

MACROECONOMIC POLICY

Fiscal policy
The budget deficit narrowed slightly from 3.4% of GDP in 2015/16 to 2.9% in 2016/17, as Government revenues increased slightly more than Government expenditure. Government expenditure continued to be dominated by recurrent expenditure, including a rising public wage bill and the universal pension scheme. Total expenditure increased as a proportion of GDP from 25.1% in FY 2015/16 to 25.4% in FY 2016/17. On the other hand, total revenues expanded by even more over the same period, from 21.7% to 22.5% of GDP. Higher revenue was recorded from income tax, taxes on profits, value-added tax (VAT), and proceeds from the first tranche of a USD 500 million grant provided by India in 2016. The fiscal deficit is expected to narrow to 3.2% in FY 2017/18, on the back of fiscal consolidation and disbursement of the balance of India’s grant.

Elevated Government spending on major capital projects and hiring of new staff will be the main drivers of expenditure in FY 2018/19. The Government’s own pre-budget estimates foresee a substantial increase in capital spending in FY 2018/19, as hospitals, schools, a coast guard headquarters, buildings for the legislature, and new Government offices are constructed. These projects will expand expenditure considerably while revenue growth will be steady in line with economic growth. From 2018/19 onwards the fiscal deficit is expected to narrow slightly, as several capital spending projects (notably Government buildings) are completed and economic growth strengthens.

Monetary policy
The Bank of Mauritius (BoM) maintained its loose stance for most of the period under review, while growth remained moderate and inflation levels subdued. In November 2017, it
further reduced its key policy rate by 25 basis points from 4% to 3.75% in order to support domestic economic activity and encourage private sector investment. The domestic economy experienced generally low inflationary pressures throughout 2015-2017 on account of subdued demand and declining international commodity prices. The main factor that has underpinned a persistent drop in inflation since 2015 is a fall in food prices (accounting for 27.3% of the CPI basket) as a result of improved weather conditions and a recovery in production. In nominal effective terms, the Rupee (as measured by the BoM’s Mauritius Exchange Rate Index) depreciated by 10.2% against the US Dollar between 2014 and 2016 but made some gains in the course of 2016-2017. The Rupee (MUR) also weakened against the Euro throughout the period under review. However, measures currently being implemented by the BoM to reduce high excess liquidity in the banking system, combined with the central bank’s sterilization measures in the foreign exchange market, are expected to help support the currency in the short to medium term.

Inflationary pressures in Mauritius are projected to increase in 2018, given the country’s vulnerability to natural hazards and subsequent food price shocks. However, the risk of runaway inflation will be controlled by central bank intervention, relatively mild global commodity price increases, and stable global food prices. Inflation is expected to be at 4.5% in 2018 and 4.4% by 2019, as domestic food supplies moderate and reliance on imported food increases. Rising oil prices will exert additional inflationary pressures. After several years of falling oil prices, Brent crude prices are forecast to grow in 2018 and to average USD 65.0 per barrel, compared to an (expected) average of USD 57.75 per barrel in 2017.

**Economic co-operation, regional integration and trade**

Mauritius remains an active member of regional economic communities (RECs), including the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC), as well as inter-Governmental organizations such as the Indian Ocean Commission (IOC). Mauritius was involved in negotiation of the Continental Free Trade Agreement (CFTA) which was signed on 21 March 2018 in Kigali. In terms of facilitating movement of persons, Mauritius has been a pioneer in Africa, together with Rwanda. It recently removed visa requirements for African nationals visiting the island. In their 2016 African Regional Integration Index, the African Union Commission (AUC), the AfDB, and the UN Economic Commission for Africa (UNECA) ranked Mauritius 9 among SADC’s 15 member States, and 6 among COMESA’s 19 member States.

In terms of international trade, Mauritius’ principal export market is Europe, led by France and the United Kingdom, which respectively absorbed 14.8% and 12.0% of the island’s total exports in 2016; other key export destinations include the United States (11.4%), South Africa (8.2%), and Madagascar (7.3%). South Africa and Madagascar account for the highest share of Mauritius’ exports to fellow SADC member States, representing about 85% of total regional exports. The bulk of Mauritius’ imports originate from markets in Asia, which account for 57.4% of the country’s total imports. Other principal sources

<table>
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<th>TABLE 3. Public finances (percentage of GDP)</th>
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<tr>
<td>Total revenue and grants</td>
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<tr>
<td>Tax revenue</td>
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<tr>
<td>Grants</td>
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<tr>
<td>Total expenditure and net lending (a)</td>
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<tr>
<td>Current expenditure</td>
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<tr>
<td>Excluding interest</td>
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<tr>
<td>Wages and salaries</td>
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<tr>
<td>Interest</td>
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<tr>
<td>Capital expenditure</td>
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<tr>
<td>Primary balance</td>
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<tr>
<td>Overall balance</td>
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</table>

(a) Only major items are reported.

Source: Data from domestic authorities; estimates (e) and predictions (p) are based on the authors’ calculations.
of imports are South Africa (7.5%) and Germany (3.1%). Mauritius’ main export products include sugar cane (15% of total exports), processed fish (12%), clothing (7.1%) and cut flowers (5.5%). The export of services also continues to rise, driven by tourism and financial services. With regard to imports, Mauritius’ import basket is characteristic of a small island developing country. It is heavily reliant on raw materials and food products. The main imports are refined fuel (10.9% of total imports), food and beverages (8.5%), and machinery and construction materials (6.8%). The current account deficit is expected to widen to 5.8% of GDP in 2018 and 6.2% of GDP in 2019, mainly driven by the strong import component of mega infrastructure projects and improved private investment.

Debt policy
Public sector debt has trended upwards in recent years, reflecting primarily the persistence of domestically-funded fiscal deficits. Public sector debt as a share of GDP rose from 64.3% in 2016 to 65.6% in 2017. Public sector external debt represented 13.2% of GDP at the end of March 2017, compared to 16.0% a year earlier.

Although the Government is unlikely to meet its target of reducing debt to 50% of GDP by December 2018, due to the expanding fiscal deficit, Mauritius’ debt trajectory remains sustainable according to the latest IMF debt sustainability analysis of the country. This is due to efforts to address risks in the composition of its sovereign debt profile, including by lengthening the maturity profile of debt and increasing the share of debt which is owed domestically. Indeed, at the end of 2017, 80.5% of total debt was domestic debt, up from 75.1% in the first semester of 2016. Meanwhile, the proportion of debt that will fall due in the next 12 months fell from 12.5% to 11.9%, as new borrowing is being undertaken using longer-term instruments (defined by the BoM as securities that have a maturity of more than five years). Over the long term, the fiscal deficit is expected to begin to narrow as economic growth accelerates; this will allow the debt burden to gradually decline relative to GDP.

ECONOMIC AND POLITICAL GOVERNANCE

Private sector
Mauritius’ private sector remains among the most vibrant in Africa and features large companies as well as a robust small and medium-sized enterprises (SME) sector. Large private sector entities operate mainly in financial intermediation services, retail and wholesale, tourism and hospitality, real estate, and sugar production. The SME sector contributes 40% to GDP and employs 55% of the workforce. The majority of SMEs are engaged in the wholesale and retail trade, transport logistics, manufacturing, and ICT. In recognition of the importance of SME development to overall socio-economic development and job creation, the Government announced a 10-year master plan for SME development in March 2017, which aims by 2017 to raise the contribution that SMEs make to GDP to 52% (from 40%), and their contribution to national employment to 64% (from 55%). The strategy focuses on supporting SMEs that operate in activities that add high value, such as healthcare, bio-farming, green energy, ICT and knowledge and technology-intensive businesses. Mauritius’ private sector has the potential to grow further and become even more vibrant, thereby advancing structural transformation, creating high value wage employment, and supporting the country’s ambition to achieve HIC status by 2025.

To unlock the private sector’s full potential, however, a number of bottlenecks will need to be addressed. In particular, it will be necessary to improve Government efficiency, increase the
capacity to innovate, address the economy’s skills mismatch, and provide SMEs with adequate access to finance. In addition, the country’s infrastructure needs significant upgrading to meet the requirements of a highly sophisticated economy. Mauritius continues to be among the freest and most business-friendly countries in Africa, according to several global surveys. The 2018 edition of the World Bank’s Doing Business Index ranked Mauritius 25 out of 189 economies. The sharp improvement on its position in 2017 (47) was attributed to significant reforms under 4 indicators: ‘starting a business’, ‘dealing with construction permits’, ‘registering property’ and ‘trading across borders’. Mauritius retained its first place in Africa for the 12th consecutive year. The latest Doing Business Survey nevertheless identified a few areas of weak performance, notably ‘labour market flexibility’ and ‘insolvency’. In addition, innovation remains limited due to a shortage of scientists and engineers, as well as weak research and development capacity.

Financial sector
Mauritius’s banking and financial services industry remains among the most well developed in Sub-Saharan Africa. The macro-financial landscape in the country remains stable, mainly as a result of prudent sound macro-financial policies and strong performances by the banks, which have the highest proportion of assets to GDP in the financial sector. (Bank assets amounted to 299% of GDP in 2017.) In terms of their overall profitability, bank returns on assets and on equity improved from 1.4% and 13.8% at end-December 2016 to 1.8% and 14.7% at end-December 2017. The capital adequacy ratio of banks stood at 18.3% at end-December 2017, well above the regulatory requirement of 10%; more banks had also phased in Basel III requirements. However, asset quality deteriorated during the period under review. The ratio of non-performing loans (NPL) increased from 6.8% to 7.2% due to credit that was extended to the construction sector and pressure on the global businesses sector following adoption of the revised Mauritius-India Double Tax Avoidance Agreement in April 2017.

Non-banking financial intermediaries also performed well during the period under review, specifically insurance companies and the Stock Exchange of Mauritius (SEM). The island’s insurance industry is among the most sophisticated in the region, particularly in terms of life insurance. The SEM also provides a wide array of trading products and services, drawing in both local and global investors. At the end of December 2017, 51 companies were listed on the Official Market, representing a market capitalization of nearly USD 7.7 billion. The Development and Enterprise Market listed 43 companies with a market capitalization of nearly USD 1.5 billion. The local stock exchange is expected soon to finalize implementation of a protocol establishing an electronic link with the Johannesburg Stock Exchange, which is expected to help increase cross-listing and investments on both trading platforms.

Mauritius continues to leverage its strategic geographic location and special tax relationships with dozens of countries to develop as an international financial centre. However, a new tax relationship with India came into effect in April 2017. India has long been a key driver of demand for Mauritius’ financial services, but the new agreement will make Mauritius a less attractive destination for investors looking to route funds into and out of India. In consequence, the financial services industry continues to reorient itself toward Sub-Saharan Africa, where it expects to benefit from robust growth, particularly in East Africa. In recent months, Mauritian banks have sought to bolster their foreign asset holdings and footprints by acquiring assets and equity in local banks on the continent.

Public sector management, institutions and reforms
The latest Public Expenditure and Financial Accountability (PEFA) assessment in 2016 found systems to be sound and efficient with low fiduciary risk, a continued improvement on the 2011 PEFA. Budget resource allocation and execution have improved with the adoption in 2015 of performance-based budgeting (PBB). PBB has been expanded across central Government and during the global economic downturn helped to consolidate public finances and reduce the budget deficit and public debt. The PEFA nevertheless recommended improvement in some specific areas. It observed that (i) the budget expenditure outturn was affected by consistent under-spending on the capital budget because public sector investments were not executed promptly, and (ii) external scrutiny was inadequate largely due to the weakness of the Parliamentary Accounts Committee (PAC).

In global terms, Mauritius continues to be among the most competitive economies. It was ranked 45 out of 137 countries in the 2017-2018 edition of the World Economic Forum’s Global Competitiveness Report (GCR). More nevertheless needs to be done to improve Government efficiency and thereby enhance economic competitiveness. The latest GCR found that the most problematic obstacle to doing business in Mauritius remains the extent of Government bureaucracy. The Government is now focusing on building public sector capacity and addressing efficiency bottlenecks in order to increase competition, transparency and value for money, reflecting its excellent track record in economic and financial governance.
Natural resource management and the environment

Being a small island State, Mauritius is highly vulnerable to environmental degradation and climate change. Furthermore, since 2007, about 7% of agricultural land and 9% of forest land have been lost to other uses, including housing, hotels and industrial parks. The island’s 322 km of coastline, as well as its huge ocean water and marine resources, offer real potential to develop a ‘blue economy’ and need protection. Indications show that climate change is already affecting Mauritius. Between 1998 and 2016, the local mean sea level rose by 2.1 mm per year. The average temperature has risen by 0.78°C compared to the mean for 1961-1990. Torrential rains and flash floods are more frequent. Carbon dioxide (CO2) emissions have also risen, from 0.9 tons per capita in 1990 to 3.5 tons per capita in 2016, causing concern about the climate footprint of the country’s growth model.

Mauritius did not meet all the MDG 7 (environmental sustainability) criteria in 2015 but aims to ensure that it meets the environment benchmarks set out in the Sustainable Development Goals (SDGs) of Agenda 2030. As a small island State with a fragile ecosystem and limited resources, Mauritius is fully conscious of the serious consequences that degradation of the global environment will have for the quality of life, for health and for the economy. Aware that the SDGs include stand-alone goals on the oceans and climate change and offer means to transfer technology and monitor data, the authorities have started to integrate them into the country’s strategic development plans.

Political context

 Politically, Mauritius has generally been stable in the last couple of years but has recently witnessed significant developments. In January 2017, just over two years into the Government’s mandate, Prime Minister Armerood Jugnauth opted to step aside in favour of his son, Pravind Jugnauth, the then Finance Minister. The transfer of the premiership to Pravind Jugnauth was criticized by both the ruling coalition and the opposition; but it was constitutional, and political stability prevailed. The next general elections are due in 2019.

In terms of global political governance indicators, Mauritius continues to be among the best performing countries in Africa. It retained its first position out of 53 African countries in the 2017 Mo Ibrahim Index on African Governance (IIAG) for the eleventh consecutive year, scoring 81.4 points (out of 100). The Seychelles (73.4 points) and Botswana (72.7%) were ranked second and third by the IIAG. Mauritius performed particularly well in the ‘safety and rule of law’ and ‘sustainable economic opportunity’ categories of the IIAG. By contrast, the IIAG identified room for improvement in the ‘participation and human rights’ category, particularly the sub-category on ‘gender equality’, where the country was ranked only 14 out of 54 countries. On Transparency International’s Corruption Perception Index for 2017, Mauritius continued to enjoy a decent ranking of 54 (out of 180 countries). Transparency International’s Country Report pointed out that, although Mauritius performs well in regional comparative indices, it does not adequately meet standards on the right to access information or the funding of political parties.

SOCIAL CONTEXT AND HUMAN DEVELOPMENT

Building human resources

Mauritius falls within the UNDP’s high human development category. In 2014, it scored 0.78 on the Human Development Index (HDI), which is above the average of 0.735 for countries in this group and well above the Sub-Saharan African average of 0.502. Globally, Mauritius ranked 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 2017. Health indicators show good progress. Under-five child mortality has fallen substantially from 23 per 1 000 live births in 1990 to 15.7 per 1 000 live births in 2016, though the target to reduce the baseline rate of child mortality by two-thirds still has to be achieved. Several measures have been taken to reduce child mortality, including implementation of the National Sexual and Reproductive Health Action Plan, enhancement of the Expanded Programme on Immunization against vaccine-preventable diseases, and a scheme to ensure that specialists are present round the clock 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. The Government has made provision to spend 10.7 billion Mauritian rupees or 10.2% of the 2017/18 budget on healthcare, with the aim of reducing the healthcare expenditure burden on households and improving the efficiency and quality of healthcare provision in the country.

Current education indicators for Mauritius show that the country is doing relatively well. The youth literacy rate is 96.8% and the adult literacy rate is 88.8%. Universal access to primary education (MDG2) has been achieved and; and Mauritian children received 15.6 years of expected schooling (in 2014). The primary school completion rate stood at 74.6% in 2012. About 15% of the 22 419 schoolchildren who sat the Certificate of Primary Education (CPE) examination in 2015 failed to obtain it; excluding re-sits, the overall pass rate was 74.6%, compared to 70.8% in 2014. The performance of girls (76.9% pass rate)
significantly exceeded that of boys (64.1%). Following the introduction of re-sit exams in 2013, the pass rate of schoolchildren who passed at their first sitting in 2014 or their second sitting in 2015 reached 83.5%, according to analysis by the Mauritius Examinations Syndicate.

Poverty reduction, social protection and labour

Essentially, no extreme poverty is present in Mauritius. Less than 1% of the population live on less than USD 1.25 per day (PPP). However, relative poverty has increased from 9.4% in 2012 to just over 10% in 2016. According to the authorities, some 35 000 households were reported to be living in relative poverty. The gender dimension of poverty is all too evident, since in 2016 female-headed households were more than twice as likely to be poor (19.2%) as male-headed households (9.0%). There is continued concern that the Government is prioritizing foreign private investment at the expense of social inclusion and equity. Critics note that the last two national budgets have extended generous tax holidays for high net worth individuals and businesses. In some cases, companies have been granted tax breaks for between 5 and 8 years at a time when resources are limited and the Government is unable to spend sufficiently on social programmes. With unemployment standing at 7.1% and persistent income inequality (the Gini index averaged 0.40 between 2012 and 2017), the Government risks losing credibility if living standards among the most vulnerable do not improve significantly.

In addition to new housing programmes for vulnerable groups in the population, the Government has announced a rise in old-age pensions 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 increase the country’s fiscal exposure in the short to medium term. The Government’s social protection programmes were also criticised recently for allegedly failing to target need adequately.

Basic labour standards continue to be relatively well protected in Mauritius. The Government has ratified most relevant international conventions that affirm core labour standards and has policies in place to implement them. In January 2018 it introduced a minimum wage in an effort to ensure a decent salary for workers in both the public and private sectors. The minimum wage policy applies to full time workers, part time workers, young persons aged 16-17, and apprentices. The minimum wage has been set at a monthly rate of MUR 8 140 (USD 239) but take home pay will be closer to MUR 9 000 (USD 264) when expected official compensation payments are included. Thousands of workers will benefit from the reform, particularly women and young adults working in the textile and construction sectors. Their standard of living is expected to improve significantly and overall household expenditure is projected to grow in the short to medium term.

Gender equality

Although women in Mauritius are relatively well educated, this has not translated into equality in terms of income or representation in political life. The 2016 IMF Article IV Report estimated that low participation of women in the labour market reduced income by between 22% and 27%. The Government announced a series of measures in its 2016/17 budget to address these challenges and five ministries were allocated MUR 200 000 to conduct gender analyses of services they provided. The Government has also announced that it will introduce a gender development index to measure Mauritius’ progress towards gender equality.

Relatively more women occupy high positions in Government services than in the private sector. An estimated 39% of the most senior Government positions were occupied by women; and 44% of the judiciary in 2015 were women. In private companies, by contrast, women’s representation at board level is dramatically low. To change this, the Government has required every company listed on the Stock Exchange of Mauritius to include at least one woman on its board of directors. In addition to this, a Back to Work programme has gathered momentum in recent years, and an increasing number of women are resuming employment. However, the Government has yet to fulfil its commitment to extend maternity leave from 12 to 14 weeks and has been slow to address issues of land tenure rights and business ownership opportunities for women; rigid traditional and cultural practices appear hard to overcome.

THEMATIC ANALYSIS: INFRASTRUCTURE FINANCING

As Mauritius seeks to accelerate its transformation from an upper MIC to a HIC in the next 10 years, it will need to significantly upgrade and extend the country’s infrastructure in all sub-sectors. Government, the private sector and bilateral and multilateral partners have identified projects for improving the country’s power sources, water supply, transport, and ICT infrastructure. The country’s economy will also benefit from reducing energy costs and traffic jams. Infrastructural improvement is entirely feasible if Mauritius continues to invest in projects that assist the country to restructure. The financing of infrastructure development remains a key challenge, because the country has relatively high levels of public debt and is naturally reluctant to contract substantial sovereign debt. An opportunity exists to make use of innovative financing modalities to secure funding.
for the economy’s infrastructure needs. This chapter starts by reviewing the State of Mauritius’ infrastructure before describing new developments and the landscape of infrastructure finance.

**Mauritius’ current infrastructure**

**Energy.** Mauritius has no natural reserves of fossil fuels and, as an island, has no regional electricity interconnection. It therefore depends heavily on imported fossil fuels to meet its energy requirements (79%). Renewable energies account for only 21% of total production. Bagasse (sugar cane residue) is the key source of renewable energy (16.5%); the remaining 4.5% is provided by hydro, wind, landfill gas, and solar PV sources. One hundred per cent of the population had access to energy (in 2016). The electricity tariff was equivalent to USD 17 cents/kWh, higher than Africa’s average effective electricity tariff of USD 14.5 cent/kWh (in 2016) and significantly higher than the SADC average of around USD 9.5 cents/kWh. The Central Electricity Board (CEB), the power utility, plans to increase the grid’s capacity to absorb intermittent energy from 148 MW to 160 MW by 2018. The key challenge is to upgrade grid infrastructure and rehabilitate existing power stations to ensure a reliable energy supply and mitigate risks associated with environmental pollution and health hazards. The Government is pushing ahead with implementing national energy plans to diversify energy resources and move in the direction of a sustainable future. It is targeting an energy mix to which renewable energies will contribute over 35% by 2025, reducing the country’s dependence on imported fossil fuels and reining in future oil import bills.

**Transport.** The road network is relatively well developed. 1,834 km of Mauritius’ 1,910 km of roads are estimated to be paved. However, several road corridors on the island are consistently congested. In 2016, road transport congestion cost the economy an estimated 1.4% of GDP and traffic accidents 1.6% of GDP. These challenges are compounded by the lack of a transport sector strategy, weak asset management of the road network, and lack of alternative means of transport. No railway networks are available and bus services are limited to the capital (Port Louis). In response, the Government has earmarked investment of up to USD 0.4 billion to upgrade road networks as part of the public sector infrastructure investment programme (PSIP). A major new direction in the development of transport infrastructure will be taken when Mauritius operationalizes the USD 560 million Metro Express project, financed predominantly by the Government of India (USD 500 million). One of the objectives of this flagship project is to drastically shrink commuting time by reducing traffic congestion on the island’s road networks. This will both raise productivity and help cut greenhouse gas (GHG) emissions on the island.

**Water and sanitation.** Mauritius is one of a few Sub-Saharan countries to enjoy good access to water and sanitation services. In 2016, 99.9% of the population had access to water services and 93.1% to sanitation services. However, the island faces potential water shortages in the medium to long term because water demand increasingly exceeds supply, a situation exacerbated by a downward trend in mean annual rainfall. In addition, because domestic and industrial sewage effluent is not adequately collected or treated, surface and groundwater resources are being polluted, including in the coastal zone (due to sea outfalls from the country’s few sewerage treatment plants). To cope with these challenges and take coherent decisions on water resource development, the Water Resources Unit of the Ministry of Energy and Public Utilities (MEPU) has developed a water resources master plan. It defines the strategic direction of water resource development in Mauritius between 2025 and 2050 and sets out priority investment options for exploiting water resources and improving water security immediately and in the medium (to 2025) and long term (to 2050). In addition, through the PSIP and with support from development partners, the Government plans to implement major water and sanitation infrastructure operations to address challenges in the sector.

**ICT.** The ICT sector has emerged as a major pillar of the economy and is a substantial employer. The sector benefits from a strong enabling environment and has experienced high growth in recent years, resulting in an annual turnover of USD 1 billion. The 2016 edition of the WEF Global Information Technology Report ranked Mauritius 49 out of 139 economies in terms of its ‘network readiness index’. Mauritius was the only African country to rank in the top 50 economies overall, performing particularly well in the ‘political and regulatory environment’ sub-index, where it was ranked 30 out of 139. However, it recorded lower rankings in the ‘infrastructure and digital contents’ (68 out of 139) and ‘skills’ (53 out of 139) sub-indices, reflecting significant gaps in infrastructure and skills in this sub-sector. The Government is currently implementing its ‘Smart Mauritius Strategy’ in an attempt to address some of these critical issues and transform Mauritius into a knowledge and technology hub in Africa. Projects and programmes associated with this strategy include connecting the island to a third sub-marine fibre optic cable, which is expected to increase internet connection speeds from 1 Mbps to 10 Mbps at constant prices, and establishment of a new techno park that would provide training facilities, particularly to youth.
Financing Mauritius’ infrastructure development

The Government hopes to use the vibrant private sector to draw global investors as well as bilateral and multilateral partners into more innovative forms of financing to meet the island’s infrastructure and development needs. These would include such instruments as partial risk and credit guarantees, loan syndications, local currency loans, and public-private partnerships (PPPs). Total public investment anticipated for the next 5 years is estimated at MUR 153 billion (USD 4.32 billion); the Government is heavily constrained by mandatory sovereign debt thresholds. In terms of financing the PSIP, anticipated sources include: (i) loans from domestic sources (55%); (ii) public corporations’ own funds (16%); (iii) grants from bilateral and multilateral co-operation (14%); (iv) loans from bilateral and multilateral co-operation (11%); and (v) Government funds (4%).

Commercial investors and financial institutions are expected to contribute substantially to financing the country’s infrastructure needs. They include the African Development Bank, World Bank, European Investment Bank, Agence Française de Développement, Kuwait Fund, and Arab Bank for Economic Development in Africa. Some of Mauritius’ mega projects will continue to be funded by bilateral assistance from France, India, China, Germany, and Japan. These sources already fund a broad portfolio of projects, including port and airport upgrades, sewage treatment, energy and telecommunications projects, sports facilities, and the construction of roads, bridges and dams, and hospitals and housing. Investment funding is a high priority but technical assistance, project preparation facilities and monitoring and evaluation mechanisms are also required to enable Mauritius to implement these critical infrastructure projects effectively.

Mauritius has long-established PPP legal and regulatory frameworks in place; its Public-Private Partnerships Act was enacted in 2004. To date, however, the Government has not been able to partner effectively with private operators in current PPP frameworks to realize the country’s infrastructure development objectives. Two mega projects in the transport sector – the light rail transit (LRT) system and road decongestion programme (RDP) – were recently identified as projects that would be financed on a PPP basis. The Government was looking to raise MUR 15 billion (USD 417 million) for the LRT project and MUR 30 billion (USD 834 million) for the RDP project. However, local institutional investors showed insufficient interest due to the projects’ ‘high risk’, and even large foreign banks were unable to muster sufficient investor appetite. This and lack of political support led the Government to shelve both projects in early 2015. By mid-2016, however, both were back on the table. The Government announced that it had received a grant of USD 500 million from the Government of India, the bulk of which would be spent on the LRT project. Additional funds for the RDP project and other major transport projects have recently been provided by other bilateral partners.

In light of the challenges highlighted above, the Government has been rolling out its build, operate and transfer (BOT) procurement model. This method of procurement is now available to line Ministries for implementation of projects. The BOT Act provides for and encourages private sector participation in infrastructure development. However, capacity constraints and the need for institutional and regulatory reforms continue to hinder progress. A BOT Projects Unit has been set up at the Procurement Policy Office and focal points have been deployed in all line ministries. The Government recognizes that the PPP Act must be amended to allow the BOT Projects Unit to oversee all matters relating to PPPs. Development Financial Institutions will provide additional technical assistance to line ministries and the BOT Projects Unit to improve and facilitate implementation of large-scale projects.

The country also remains a highly attractive jurisdiction for the establishment of special purpose vehicles (SPVs), which are often used to structure the financing of large infrastructure projects. The Government and private operators are increasingly turning to the SPV model to develop, finance and construct mega projects, leveraging expertise in Mauritius and outside the country. Shareholding in these companies is normally open to public sector entities, local and international financial institutions, strategic investors and other private investors. SPVs also benefit from long-term financing and competitive rates, particularly from multilateral finance institutions. SPVs in Mauritius are operating across all infrastructure sub-sectors, but most particularly in the areas of renewable energy, land transport and ICT.