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Mauritius – Systematic Country Diagnostic (SCD) Update

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Currency Equivalents
(Exchange Rate Effective as of January 21, 2022)
Currency Unit = Mauritian Rupee US$1.00 = MUR 43.7

Abbreviations and Acronyms

BoM	Bank of Mauritius
BRP	Basic Retirement Pension
CWA	Central Water Authority
CMMs	Conservation and Management Measures
CMPHS	Continuous MultiPurpose Household Survey
COP	Conference of the Parties
CPF	Country Partnership Framework
CPPM	Capital Project Process Manual
CSG	*Contribution Sociale Généralisée*
FDI	Foreign Direct Investment
GBV	Gender-Based Violence
GDP	Gross Domestic Product
GHG	Greenhouse Gas
HIC	High-Income Country
ICT	Information and Communications Technology
IMF	International Monetary Fund
IOTC	Indian Ocean Tuna Commission
IP	Intellectual Property
IPP	Independent Power Producer
JEE	Joint External Evaluation
MARENA	Mauritius Renewable Energy Agency
MBA	Master of Business Administration
M&E	Monitoring and Evaluation
MTCs	Minimum Terms and Conditions
MUR	Mauritian Rupee
NCDs	Non-Communicable Diseases
NCE	National Certificate of Education
NHA	National Health Accounts
NPCC	National Productivity and Competitiveness Council
NTRS	National Training and Reskilling Scheme
NYCBB	Nine-Years of Continuous Basic Education
OOPs	Out-Of-Pocket Payments
PhD	Doctorate
PIMA	Public Investment Management Assessment
PIMU	Public Investment Management Unit
PPP	Public-Private Partnership
PPPs	Purchasing Power Parities
PSIP	Public Sector Investment Program
RFMOs	Regional Fisheries Management Organizations
RLI	Rule of Law Index

SCD	Systematic Country Diagnostic
SMEs	Small and Medium Enterprises
STEM	Science, Technology, Engineering and Math
SWIO	South Western Indian Ocean
SWIOFC	South West Indian Ocean Fisheries Commission
TVET	Technical and Vocational Education and Training
VAT	Value Added Taxes
WJP	World Justice Project

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Executive Summary

Mauritius is one of the world's most inspiring development success stories and would be a High-Income Country (HIC) today had it not been for the impact of COVID-19. Mauritius temporarily achieved HIC status in 2019, but promptly fell back to Middle-Income the following year due to the impact of COVID-19 on its economy. While temporary, the HIC graduation marks a milestone in this small island nation's development trajectory from a poor, remote monocrop producer to arguably Africa's best development success story. At the time of independence in 1968, per capita gross domestic product (GDP) was US$260 and agriculture, mainly sugar cane production, accounted for more than 22 percent of GDP. Over the following years, successful public-private collaboration paved the way for economic diversification and employment creation, and Mauritius moved toward a diversified economy, exporting textiles and developing robust industries in tourism, financial and information and business services. Part of Mauritius' development success is that growth was widely shared. Export-led industries translated into substantial employment creation while subsequent productivity gains supported rising salaries and welfare improvements. Growing income not only improved the quality of life but also contributed to human capital development through strong public investment in free education and health programs. This shared economic growth pulled most of the population out of poverty and created a large middle class (World Bank 2015).

With HIC status in its reach, Mauritius' focus naturally turns to a new generation of reforms to support a growth model driven by innovation, productivity, and a more proactive private sector. Efforts to fine-tune multiple, mostly well-functioning institutions and improve microeconomic policies and policy coordination becomes key under such a growth model to promote skills development, encourage innovation, open more spaces for public private partnership, and ensure a level playing field for competition (World Bank 2021a). However, this will require Mauritius to overcome a number of structural challenges that have emerged in recent years and pre-date the COVID-pandemic, including a growth trajectory increasingly driven by consumption with a declining share of private investment and stagnating capital productivity; a sustained loss in export competitiveness, reflected in declining market share of traditional exports; an ageing population and increasing friction in the labor market, resulting in structural unemployment and inactivity as well as rising skills shortages and exclusion in particular of low educated women and youth; and continuous fiscal deficits combined with limited growth effects of public expenditure, resulting in rising levels of public debt to GDP.

Mauritius has undertaken various new initiatives to address priority areas highlighted in the 2015 Systematic Country Diagnostic (SCD), though not all of them have been successful or sufficient. The 2015 SCD identified 18 priority areas under three thematic areas: i) Boosting competitiveness by moving from industrial policy to innovation policy; ii) Improving equity in public service delivery and ensuring employment opportunities for all; and iii) Aligning resources and priorities to sustain development. Important reform initiatives were undertaken in the past five years in each thematic area, including measures to boost innovation and support SMEs, promote more inclusive and labor market-oriented education and training, support those in need through targeted and activating assistance programs, and strengthen the public sector's effectiveness. However, while most of these initiatives were well-designed, they have not always translated into sizeable progress at the outcome level: competitiveness continued to decline in many traditional sectors while promising new economic activities have not yet reached the scale to drive growth. Skills mismatches remain prevalent as new initiatives to promote practice-oriented learning are limited in scope and, building on the progress made through a recent reform, additional efforts are required to reduce inequality in education outcomes. A trend of increasing income inequality was successfully reversed, but at the expense of elevated fiscal cost and dependency as new programs were introduced without sufficiently reigning in cost pressures from existing measures, in particular the basic pension. And while Mauritius continues to rely on strong public institutions, government effectiveness could be improved through stronger policy coherence and coordination across sectors and improvement in the monitoring and evaluation (M&E) framework.

Recent developments and new evidence are taken into account in this SCD update through a revised prioritization mechanism:

- Despite a successful health response and extensive government support to the private sector, COVID-19 had a profound economic and social impact on the country. This has likely reversed previous gains in poverty reduction and income equality as those in informal employment – already at the bottom end of the income distribution – were affected disproportionately. Thus, all priority areas are updated and revisited in light of recent events.

- The COVID-shock also greatly deteriorated the country's fiscal situation, bringing debt levels to over 100 percent of GDP. Debt was already on an increasing trend prior to COVID-19, highlighting the need for a medium-term fiscal consolidation program once recovery from the COVID-shock is well underway. To account for this new fiscal reality, the SCD update introduces an additional prioritization criterion that looks at the expected fiscal impact of potential reforms and how they could contribute to fiscal consolidation in the medium term.

- New evidence from extensive World Bank knowledge work during the SCD period highlights the critical role of gender equality for poverty reduction and inclusion in Mauritius, in particular the need to better support women with limited educational attainment in succeeding in the labor market. To better align findings across priority areas to these important findings, the SCD update introduces a new prioritization criterion that looks at the impact of potential reforms on gender equality and the welfare of women.

- The need for decisive measures to adapt to climate change has also become more pressing since the 2015 SCD was written as Mauritius is increasingly experiencing its impact and time for decisive adaptation measures is running short. At the same time, there are important opportunities to switch to a more green and resilient growth model that Mauritius can exploit to boost its recovery from the COVID shock. The SCD update therefore also introduces a separate prioritization criterion on the impact of potential reforms for climate change adaptation and mitigation.

The results of the prioritization exercise highlight opportunities for high impact reforms moving forward. By applying the revised prioritization methodology and updating findings across all priority areas, the SCD update narrows the initial 18 priority areas from the 2015 SCD to 7 top priorities. Revisiting industrial policy through the reallocation of resources from state support to mature industries towards a private sector driven, innovation focused and digitally enabled paradigm, is key to put Mauritius on a higher, productivity led growth path. Raising the efficiency of social protection and promoting labor-entry would have a direct positive effect on the poor through better and more targeted support, while also safeguarding the sustainability of the system by ensuring its fiscal sustainability. Two priority areas related to education focus on raising the quality and availability of skills while also reducing inequity of outcomes and boosting quality, complementary objectives that are crucial in terms of both the growth and inclusiveness dimensions of Mauritius' development trajectory. By improving labor market institutions and eliminating gender gaps, Mauritius could further promote inclusiveness in the labor market, maintain its competitiveness, and keep up with demographic change in light of rising dependency ratios. Better ingraining evidence based and M&E policies to raise public sector efficiency could yield strong development benefits across the board and strengthen delivery in key areas such as education and training, SME and innovation support, and programs to promote labor market integration. Finally, strengthening policies and institutions for resilience against natural hazards and climate change would likely yield very significant development benefits both directly, by protecting the poor and bottom 40 and their livelihoods against direct harm and income losses from natural disaster, and indirectly, through productivity and growth dividends from exploring opportunities for green growth and building a more resilient economy.

1. Introduction

1. **Mauritius temporarily achieved High-Income Country (HIC) status in 2019, but promptly fell back to Middle-Income status the following year due to the impact of COVID-19 on its economy.** While temporary, the HIC graduation marks a milestone in this small island nation's development trajectory from a poor, remote monocrop producer to arguably Africa's best development success story. At the time of independence in 1968, per capita GDP was US$260 and agriculture, mainly sugar cane production, accounted for more than 22 percent of GDP. Over the following years, successful public-private collaboration paved the way for economic diversification and employment creation, and by 2003 economic transformation had reduced agriculture's share of GDP to below 10 percent. Starting as a monocrop producer, Mauritius moved toward a diversified economy, exporting textiles, and developing robust industries in tourism, financial and information and business services. As a tourism dependent nation, Mauritius has suffered a severe economic impact from COVID-19 that led to a 14.9 percent recession in 2020, but with the recent reopening of borders for vaccinated tourists in October 2021 and a solid vaccination campaign growth is expected to pick up significantly in 2022.

2. **With HIC status in its reach, Mauritius' focus naturally turns to a new generation of reforms and a growth model driven by innovation, productivity and a more proactive private sector.** Over the last five decades, Mauritius has benefited from strong economic management and democratic continuity with peaceful transitions of power virtually uninterrupted since 1968. As such, it is rightfully seen as a reform champion in Africa where most of the big, stroke-of-the-pen reforms in economic management, openness, and investment in human capital have already taken place. However, as Mauritius approaches HIC status, a number of structural challenges have emerged in its traditional growth model. These include a growth trajectory increasingly driven by consumption, with a declining share of private investment, and stagnating capital productivity; a sustained loss in export competitiveness, reflected in declining market share of traditional exports; an ageing population and increasing friction in the labor market, resulting in structural unemployment and inactivity as well as rising skills shortages and exclusion in particular of low educated women and youth; and continuous fiscal deficits combined with limited growth effects of public expenditure, resulting in rising levels of public debt to GDP. Attention therefore naturally has shifted towards second generation reforms to promote a new growth model based on innovation and productivity growth, both in terms of technological upgrading of existing activities to maintain competitiveness and the discovery of new areas of comparative advantage. World Bank (2021a) argues that such a model would require a rethinking of the relationship between public and private sector, with the traditional, directive industrial policy paradigm replaced by a more supportive and collaborative approach to identify and address market failures that prevent innovation and discovery across sectors. Efforts to fine-tune multiple, mostly well-functioning institutions and improve microeconomic policies and policy coordination becomes key under such a growth model to promote skills development, encourage innovation, open more spaces for public private partnership, and ensure a level playing field for competition (World Bank 2021a).

3. **While the development narrative and policy areas that were identified in the 2015 SCD remain valid, recent events and the availability of new evidence affect their prioritization.** The 2015 SCD identified 18 priority areas organized under three thematic areas: i) Boosting competitiveness by moving from industrial policy to innovation policy; ii) Improving equity in public service delivery and ensuring employment opportunities for all; and iii) Aligning resources and priorities to sustain development. Section 2 discusses a number of cross-cutting areas in which recent developments and new evidence affect the narrative and prioritization criteria. These include the impact of the COVID-19 pandemic, recent developments in poverty and inequality, the deteriorating fiscal situation, the impact of climate change, and new evidence on the role and determinants of gender imbalances.

4. **Uneven progress in different policy areas in combination with the above-mentioned trends inform a revised prioritization exercise.** Section 3 discussed progress against the policy priorities highlighted in the 2015 SCD, takes stock of recent reform initiatives and outcomes, and specifically looks

at the links with climate change and gender equality. The findings are brought together by a revised prioritization exercise in section 4. The prioritization criteria used in the 2015 SCD are amended to account for new developments – the increasing urgency of climate change and the deteriorated fiscal situation – as well as new evidence on gender equality. The revised prioritization exercise, presented in section 4.2. narrows the 18 priority areas from the 2015 SCD down to a shortlist of 7.

2. Country context – what has changed since 2015?

2.1. The COVID-19 shock

5. **Mauritius delivered a successful health response to the global COVID-19 pandemic through hard lockdowns, quarantine measures and a comprehensive vaccination program.** A first outbreak in March 2020, with a total of 525 cases, claimed ten lives. The government imposed a strict lockdown that forced most firms to close in March and April, which lasted until a gradual reopening starting in May 2020. As local cases dropped to zero in April 2020, strong quarantine requirements remained in place for entry into the country, which depressed tourist arrivals almost entirely. In early March 2021, Mauritius detected new cases of local transmission of COVID-19 and a second lockdown was promptly issued, though with more generous provisions for economic activity to continue. As of January 9 2022, there have been a total of 24,051 cases and 240 deaths, and 71.8 percent of the 1.3 million residents have been fully vaccinated.[1]

6. **However, the pandemic caused a deep recession in 2020 and the prospects for a fast recovery remain uncertain.** GDP contracted by 14.9 percent in 2020, mostly due to the lockdown imposed from March 2020 to May 2020 and the absence of tourism, which directly accounted for 7 percent of value addition to the Mauritian economy in 2019 and declined by 67 percent in 2020. Other closely linked sectors such as transport and recreational services also experienced severe contractions, at -29 percent and -32 percent, respectively. Mauritius responded with a large state support program implemented by the government, Bank of Mauritius (BoM), and parastatals, including the State Investment Company and the Development Bank of Mauritius, to support the private sector in coping with the effects of COVID-19. The big-ticket items alone add up to approximately 32 percent of GDP if fully implemented, making Mauritius' COVID-response package one of the largest in the world as a share of GDP (World Bank 2021a). These measures appear to have been effective in preventing widespread bankruptcies or a contagion of the crisis to the banking sector, but also came at a high fiscal cost and potentially diminished the incentives for the restructuring or exit of firms that had already become unviable pre-COVID. At the same time, some of the most vulnerable groups appear to have been disproportionately affected by the social impact of the pandemic (see next section). On October 1st, 2021, Mauritius fully reopened its borders for vaccinated travelers without quarantine requirements to relaunch the tourism sector.

7. **At the same time, the COVID-shock also presents an opportunity for Mauritius to re-calibrate its growth model.** The disruptions caused by the pandemic could catalyze a process of renewal and adaptation where firms who are able to adjust increase their market share and expand at the expense of less adaptable firms shrinking or exiting the market. Collectively, this could lead to a productivity dividend from reallocation of resources towards more productive firms. One example is in the retail sector, where new digitally enabled business models expanded during the two lockdowns. At the same time, with state support at unprecedented levels, there is a historic opportunity to combine short-term stabilization with medium- to long-term policy objectives to promote green, resilient, and inclusive growth.

2.2. Trends in poverty and inequality

8. **Over the period leading up to the 2020 pandemic, sustained and shared growth contributed to the reduction of inequality in Mauritius.** Mauritian households experienced robust consumption growth from 2012 to 2017, with per capita consumption increasing 2 percent on an annual basis on average.

[1] World Bank COVID-19 dashboard.

Overall, growth was pro-poor, with poorer households' consumption growing faster than that of richer ones and thus reversing the trend of increasing inequality in previous years. Figure 1 presents the annualized growth rates for each decile in the 2006-2012 and 2012-2017 periods, showing stronger growth among the poorest in the latter. Indeed, the shared prosperity indicator for this period reveals that the bottom 40 percent's consumption grew at an annualized growth rate of 2.7 percent, 0.7 percentage points faster than that of the overall population. This stands in sharp contrast to the preceding survey interval from 2006 to 2012, in which overall consumption growth was more sluggish and the poorer households grew at a slower pace than the better off, leading to an increase in inequality. The Gini measure of inequality, which rose from 35.7 to 38.5 from 2006 to 2012, fell to 36.8 percent in 2017 when measured using internationally and temporally comparable consumption data. Mauritius's official measure of inequality, based on a different methodology[2], saw a similar trend. The reduction in inequality has been aided by public transfers, which mitigated rising wage income inequality (Ranzani, 2019). In December 2016, the Social Integration and Empowerment Act introduced a targeted anti-poverty scheme under which every adult on the Social Register of Mauritius living below the absolute poverty line of 2,720 Mauritian Rupees (MUR) and who has signed a Marshall Plan Social Contract is entitled to a monthly subsistence allowance. This poverty line was increased to MUR 3,000 effective as from July 2021. A negative income tax (wage subsidy for low-income earners) was introduced in 2017 as was a minimum wage in 2018 and a special allowance in 2019, which all appear likely to further reduce inequality.

9. Mauritius saw solid progress against poverty until the onset of the 2020 pandemic, but this was rapidly reversed. As shown in Figure 2, poverty reduction accelerated from 2012 to 2017, when measured at the international poverty line of US$5.50/day at 2011 purchasing power parities (PPPs).[3] From 2006 to 2012, the share of people living below this poverty line declined from 21.1 to 17.9 percent, while in 2017, the share of poor had fallen further to 12.7 percent of the population. Strong growth likely continued this positive trend in poverty reduction from 2017 to 2019, with poverty projected at 10.5 percent in 2019. Simulations for 2020 based on the 2017 survey, GDP growth, and no policy change, suggest that, in the absence of the government's countermeasures, poverty could have increased to 15.9 percent in 2020 as a result of the pandemic.

10. A more detailed decomposition analysis of the drivers of poverty reduction shows that both growth and inequality reduction contributed positively over the 2012-2017 period. Growth alone is estimated to have led to a 4.2 percentage points reduction in poverty, while reduction in inequality contributed to 1 percentage point of the overall poverty decline of 5.2 percentage points seen over the period. This stands in sharp contrast to the preceding period from 2006 to 2012 where overall poverty fell 3.2 percentage points but would have decreased further had it not been for an increase in inequality, which contributed a 3.3 percentage points increase in poverty relative to distribution-neutral growth. These results emphasize the importance of tackling inequality in the effort to reduce poverty.

11. Reducing inequality is even more important for reducing relative poverty. As many high-income countries, Mauritius uses a relative national poverty line of 50 percent of the median income to measure national poverty. As inequality increased from 2006 to 2012, relative poverty also increased. Despite an overall fall in inequality from 2012 to 2017, relative poverty continued to increase slightly from 9.4 to 9.6 percent. An increase in inequality as a result of the pandemic would also contribute to increased relative poverty.

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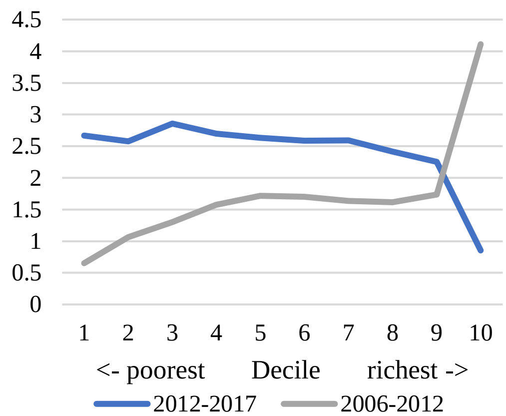
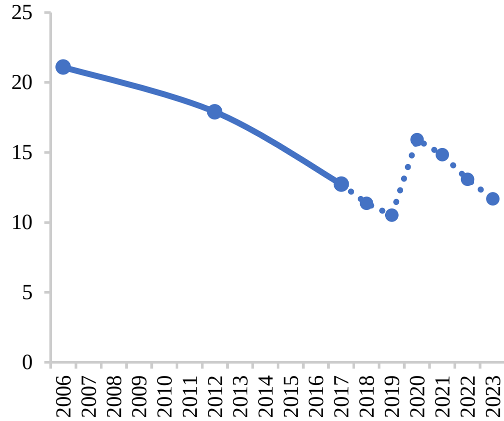
[2] The official measurement of inequality is based on income and adult equivalents within the household, whereas the World Bank uses consumption and per capita household allocation. Poverty measurement differs in an additional key point which is that while the official poverty line is relative (50% of the median), the World Bank uses an absolute poverty line.
[3] The poverty line of $5.50/day at 2011 Purchasing Power Parities, reflect the value of typical national poverty lines of upper middle-income countries and is a relevant poverty threshold for Mauritius when making international comparisons.

Figure 1: Consumption growth incidence curves by decile and period (%)



Source: Authors' analysis using Household Budget Survey 2006/7, 2012 and 2017.

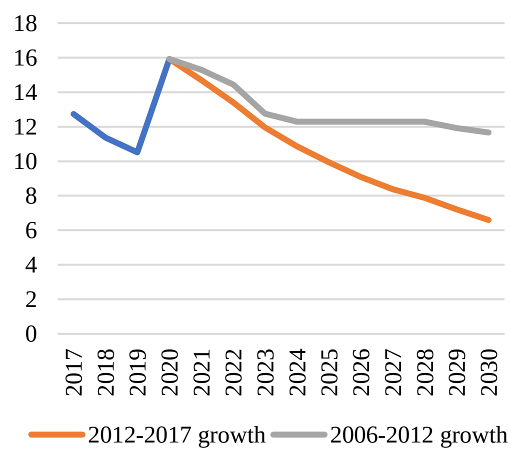
Figure 2: Poverty in Mauritius at US$5.50/day (%)



Note: Dotted line indicates projections.
Source: Macro poverty outlook for Mauritius, World Bank, March 2021.

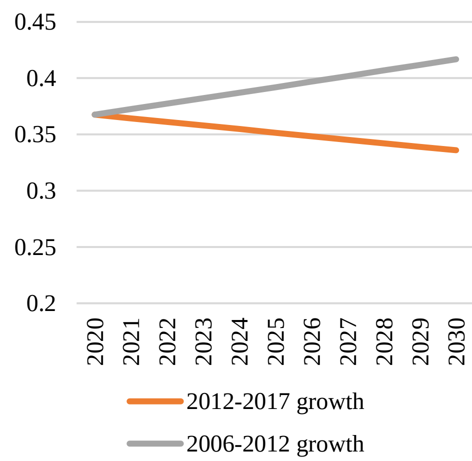
12. **Restoring shared growth will be important to tackle poverty and inequality towards 2030.** To illustrate, simulations are able to contrast future poverty trajectories using the diverse growth experiences from 2006-2012 and 2012-2017. Assuming that the type of inequality-reducing growth seen from 2012-2017 continues from 2020 through 2030, we would see a rapid decline in poverty down to six percent by 2030, while a growth experience similar to that of the 2006 to 2012-period would lead to poverty levels at almost double that figure in 2030 (See Figure 3). Inequality would increase under the latter and decrease under the former scenarios (Figure 4). Consequently, relative poverty would remain stable if the most recent growth experience from 2012 to 2017 is extrapolated forward to 2030, but increase by more than one-third if a less pro-poor growth trajectory, like the 2006 to 2012-period, is followed.

Figure 3: Scenarios for poverty until 2030 (%)



Note.: Poverty using $5.50/day poverty line. Trajectory until 2020 from Macro poverty outlook for Mauritius, World Bank, March 2021. 2020-2030 using growth experiences from 2012-17 and 2006-2012.
Source: Authors' analysis using Household Budget Survey 2006/7, 2012 and 2017.

Figure 4: Scenarios for inequality until 2030 (Gini ratio)



Note: Scenario for inequality using growth experiences from 2012-17 and 2006-2012.
Source: Authors' analysis using Household Budget Survey 2006/7, 2012 and 2017.

13. While Mauritius has an effective social protection system which has contributed to poverty reduction, the fiscal cost has increased dramatically over the past decade as a result of insufficient targeting. Noncontributory benefits include basic pensions, which cover the elderly, the handicapped, widows, and orphans, irrespective of their economic status, as well as more targeted allowances such as social aid, food aid, income support, and unemployment hardship relief. Overall, the system has been effective in mitigating poverty. In 2017, the national poverty headcount ratio was reduced by one-third as a result of social transfers.[4] The Gini index of pre-fiscal income, used for national inequality tracking, was 40.0 percent. Direct and indirect taxes, as well as transfers and subsidies, were overall progressive, thus reducing the Gini to 34.2 percent (Ranzani 2019). At the same time, the average share of social protection expenditure increased from 22.2 to 28.2 percent of total government expenditure between 2010-2014 and 2015-2019. The bulk of social protection spending, more than 50 percent[5], is on the basic retirement pension (BRP) which is increasingly costly, untargeted, and creates adverse labor market incentives. The benefit is available to every Mauritian reaching the age of 60 (unlike the contributory pension, which starts at 65), despite a significant increase in life expectancy at age 60 from 12.6 years to 20.6 years since the program's inception. As of December 2019, the BRP benefit was raised from MUR 6,210 per month to MUR 9,000 per month. An additional pension benefit through a newly introduced Contribution Social Generalisee for those aged 65 and above is planned for 2023/24 which could increase the total pension benefit that each Mauritian, regardless of contributions made, is entitled to to up to MUR 13,500 per month. Due to its universal nature, the BRP is not an efficient anti-poverty instrument, and it encourages early retirement and adversely affects labor force participation of those reaching the age of 60.

14. Despite extensive government support to the private sector, the severe recession brought about by COVID-19 caused job and income losses which disproportionately affected informal and self-employed workers. As a result of lock-down measures and the absence of tourism following border closures, the unemployment rate among those aged 16 to 64 rose from 7.2 to 10.4 percent between the first quarter and December of 2020. The increase was roughly proportional between men (5.2 to 8.6 percent) and women (9.9 to 13.1 percent) though starting from a much higher level for women. Further job losses were prevented by a strong government response to mitigate the effects of the crisis which committed the equivalent of approximately 32 percent of GDP to various schemes providing wage subsidies, emergency credit lines, and other types of support to firms (World Bank 2021a). In December 2020, 68.8 percent of those in self-employment and 20.0 percent of those in wage employment reported that their income had declined in comparison to the pre-pandemic level.

2.3. Rising debt

15. Even pre-COVID, public debt was on the rise. Although fiscal deficits were limited to an average of 3.3 percent of GDP between fiscal years 2015/16 to 2018/19, additional government expenditure took place through transactions with special funds, leading to an overall increase in public debt from 62 percent of GDP at the beginning of FY2015/16 to 65.4 percent at the end of FY2018/19. Large increases in social spending were the main driver of rising budgetary government expenditure, with its share of total expenditure increasing from 22 percent on average over the first half of the decade to 28 percent during the latter half. Extra-budgetary expenditure mostly supported investment projects, including large initiatives like the new metro express system and a sports complex.

16. The fiscal shock from COVID-19 further added to public debt and contingent liabilities as most additional expenditure was financed by an exceptional budget transfer from the Central Bank. As a result of rising expenditure in response to the pandemic and the sharp contraction in GDP, the debt

[4] Measured against the MUR 6,404 a month per adult equivalent poverty line used, nationally poverty would have been 15.1 percent, but declined to 9.2 percent as result of transfers.
[5] BRP expenditures from July 2018 to June 2019 amounted to 54.6 percent of all expenditure on social protection

stock rose from 65 percent of GDP in June 2019 to 101 percent in June 2021[6] and will likely remain elevated in the medium term. In addition, Mauritius undertook non-refundable transfers to the budget from the Central Bank amounting to a total of approximately 13 percent of GDP in fiscal year 2020/21, and the Bank of Mauritius has also been heavily involved in the direct financing of COVID-response measures. Fiscal risk is increasingly hard to ascertain, as contingent liabilities arise from the operations of Special Purpose Vehicles used for public investment, weakening of the Central Bank's balance sheet, and its exposure to significant commercial risk through the Mauritius Investment Corporation. Moody's announced a downgrade of Mauritius' sovereign long term foreign and local currency issuer rating from its longstanding Baa1 to Baa2 (negative outlook) in March 2021. However, the debt composition is favorable with limited exchange rate and rollover risk as most debt is domestic and medium (1-5 years) or long term (>5 years).

[6] See footnote to Table 1 for an explanation of the discrepancy between debt to GDP figures presented in this report and the official government figures.

Table 1: Selected Macroeconomic Indicators and Forecast

Output, prices and exchange rate	**2018**	**2019**	**2020**	**2021p**	**2022p**	**2023p**
Real GDP growth	3.8	3.0	-14.9	4.8	6.5	4.3
Inflation (period average)	3.2	0.5	2.5	4.0		
Exchange rate (MRU / USD), period avg	33.9	35.5	39.3	..	..	..
Money and Credit	**2018**	**2019**	**2020**	**2021p**	**2022p**	**2023p**
Broad Money (M3) growth	6.3	8.5	16.9	20.4	-5.3	-8.5
Credit to private sector (% of GDP)	78.3	80.3	95.9	93.9	86.6	84.6
Key repo rate (end of period)	3.5	3.35	1.85	..	..	..
NPLs (% of total loans, end of period)	6.5	4.9	6.2	..	..	..
External Sector	**2018**	**2019**	**2020**	**2021p**	**2022p**	**2023p**
Current account balance (% of GDP)	-3.9	-5.4	-12.6	-10.8	-11.4	-10.0
Goods trade (net, % of GDP)	-21.3	-21.9	-19.6	-23.5	-25.0	-25.0
Services trade (net, % of GDP)	7.6	6.0	-0.1	-0.5	5.1	6.3
Income (net, % of GDP)	12.6	13.3	10.0	16.4	11.0	11.1
Transfers (net, % of GDP)	-2.9	-2.7	-3.0	-3.2	-2.4	-2.4
Gross int. reserves (months of imports)	10.3	11.3	16.6	18.7	13.8	12.7
Central Government Budget	**FY 2018/19**	**FY2019/20**	**FY2020/21**	**FY2021/22**	**FY2022/23**	**FY2023/24**
Revenue and grants (% GDP)	23.0	20.9	22.3	24.1	24.3	25.0
of which tax revenue	20.8	17.8	20.8	22.2	22.1	22.8
Current Spending	22.7	26.3	30.7	29.0	27.3	28.6
Capital spending (budgetary)	2.8	4.6	10.2	5.9	3.6	3.4
Budget balance	-3.3	-10.8	-20.6	-12.4	-7.9	-8.2
Overall borrowing requirement	4.8	12.1	24.1	13.6	8.2	8.6
Public sector debt (% of GDP)	67.6	77.7	100.6	106.1	102.4	103.6

Notes:
(1) All percentages are calculated using the calendar year GDP as denominator, including for Central Government Budget variables. Historical debt figures are aligned with Government's latest debt data release on October 29, 2021, however, there are two sources of discrepancy with the official debt to GDP figures: First, unlike official figures, numbers presented do not include the official figures' consolidation adjustment for Government Securities held by non-financial public sector entities, and second, as mentioned above, due to the use of a calendar year based denominator
(2) Non-refundable transfers from the Bank of Mauritius are considered financing rather than revenue and have therefore been deducted from the official figures on Budget Balance and the Overall Borrowing requirement.

Sources: Ministry of Finance, Economic Planning and Development, IMF, World Bank Staff estimates, Statistics Mauritius, Bank of Mauritius

17. Staff simulations show that in the absence of significant adjustments to the fiscal trajectory, the debt level would rise to unsustainable levels in the medium term. This is illustrated in two scenarios[7]:

a. Under the baseline scenario, both expenditure and revenue perform in line with their pre-COVID levels as a share of GDP (2014-19), with the exception of pension expenditures which are projected based on expected benefit levels and demographic trends.

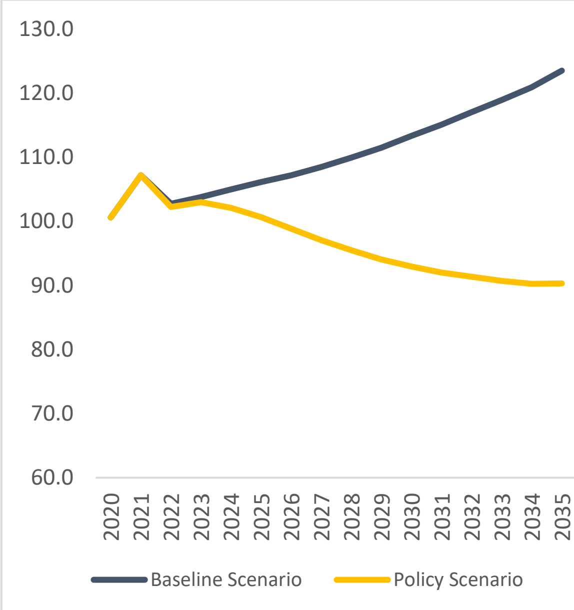
b. The policy scenario assumes tighter fiscal spending over the medium and long term compared to the baseline. Comprehensive policy measures in expenditure prioritization and efficiency would cut public spending by 1.6 percentage points below the baseline by 2035. The CSG would be implemented in a revenue neutral manner, limiting the level and future increases in benefits to the revenue generated by CSG contributions, and BRP benefits would remain capped at their current level in nominal terms. Besides, an ambitious tax reform agenda would increase overall domestic revenue, pushing total revenue as a percentage of GDP to rise by 1.4 percentage points above the baseline scenario over the forecast.[8]

18. Under the baseline scenario, soaring pension costs due to generous benefits and aging population are expected to drive a sustained increase in expenditures over the medium- and long-term. Under this scenario, the debt to GDP ratio would decline in the short-term as the COVID-measures are gradually rescinded but start rising again once CSG benefits are introduced in fiscal year 23/24 to spike to over 120 percent by 2035. While Mauritius has been pursuing a clearly defined debt strategy aimed at reducing external debt and extending the maturity structure, debt vulnerabilities could intensify if further increases in new debt uptake were to require the government to borrow more externally or at lower maturity and higher interest rates. While the highly liquid domestic market has provided for most of the Government's borrowing requirements over the past years (about 80 percent of total public-sector debt as of 2020), a higher take of external debt would expose Mauritius to possible exchange rate risks. Overall, higher debt service would leave lower fiscal space for spending in critical areas after the crisis period.

19. The policy scenario shows that Mauritius would need to make considerable efforts to increase revenue mobilization combined with a certain degree of fiscal tightening to bring the debt to a more sustainable trajectory. Under this scenario, the debt-to-GDP ratio would continue a gradual downward trajectory to reach 90 percent of GDP at the end of the forecast period. Debt sustainability would continue to depend on the government's ability to roll-over domestic debt at relatively low interest rates, which has been the case so far.

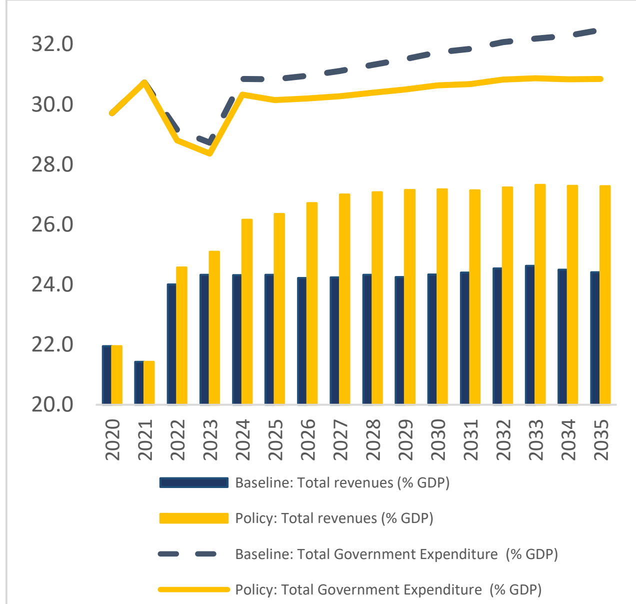
[7] See Annex 1 for the full set of assumptions of each scenario.
[8] This rhythm of revenue increase compares to the ones experienced by Liberia (2003-12) and Rwanda (2009-15), two country cases that are usually cited as successful stories in the area of tax revenue reforms.

Figure 5. Debt-to-GDP Ratio Projections



Source: Authors' calculations

Figure 6: Projections for Fiscal Indicators



Source: Authors' calculations

2.4. Impact of Climate change

20. **Mauritius, lying within the cyclone basin of the Indian Ocean, is highly vulnerable to natural disasters and climate change.** Mauritius experiences direct losses due to tropical storms and floods of some 0.8 percent of GDP on average and each year, there is a 1 percent chance of losses exceeding US$1.9 billion (13 percent of GDP) (World Bank 2016). While cyclones do not directly hit the main island of Mauritius that frequently, it experiences the indirect effects every year. Climate change has already increased the frequency and intensity of cyclones and is likely to raise these risks in the future. The outer island of Rodrigues is at particular risk and has experienced significant storm impact over the past years.

Box 1: Current and future climate trends in Mauritius

Though the greenhouse gas (GHG) emissions of Mauritius are small on a global scale, the effects of climate change on natural and ecological systems are already palpable. Analyses of temperatures recorded in Mauritius and its outer islands show a definite warming trend. The average temperatures at all stations are rising at a rate of 0.15 °C per decade and have risen by 0.74 – 1.2 °C when compared to the 1961-90 long term mean. At some urban stations the temperature has risen by even greater amounts.

Similar warming trends have also been observed at the outer islands like Rodrigues, St. Brandon and Agalega. The last two of these islands are 1.5 km^2 and 70 km^2 in area, at about two meters above mean sea level at their highest point and a variable population of less than 100. The temperature at Agalega is rising at a rate of 0.11 °C per decade with an average rise of 0.62 °C during the last ten years when compared with the 1961-90 mean. Temperature at St. Brandon and Rodrigues has warmed by 0.5 – 1.0 °C.

The warming of the atmosphere has also impacted the hydrologic cycle over the southwest Indian Ocean. Long-term time series of rainfall amount over the past century (1905 to 2007) show a decreasing trend in annual rainfall over Mauritius with a decrease per decade around 57 mm. The level during the last ten years is about 8 percent below that in the 1950s. This has been accompanied by a lengthening of the intermediate dry season, a shift in the start of the summer rains, a higher number of consecutive dry days, and a higher number of heavy rainfall events.

Source: Mauritius Met Service[9]

21. The coasts of Mauritius are particularly exposed to erosion and disaster risks. Mauritius' coastline is the location of most of its critical infrastructure, housing, and a high percentage of the country's economy. About 20 percent of the population of Mauritius resides in coastal areas. The coasts are already prone to severe erosion and flooding, and the risks are expected to increase with climate change and sea-level rise (Atela, et. al, 2017). A 2019 report estimated that 17 percent of the beaches around Mauritius island are severely eroded and 33 percent already have hard protection structures (MSSNSESD, 2019). Coastal vulnerability poses significant risks to hotel attractiveness. Addressing coastal degradation in Mauritius will require strategic investments in building climate-resilient coastal infrastructure, artificial or nature-based, by both the government, the tourism industry, and private coastal landowners.

22. Climate change poses a significant challenge to many key sectors. For instance, Infrastructure, transport, housing, education and tourism are already affected by flooding, coastal erosion and cyclones. Heavy rains and insufficient drainage infrastructure are causing roads and buildings to be inundated, resulting in frequent interruptions to services and economic activity, as well as school closures. Cyclone winds, especially on Rodrigues, frequently destroy houses and public infrastructure. Increased frequency and intensity of these events under a changing climate will, if left unmitigated, cause increasing losses for the exposed sectors. Sea level rise considerations need to be integrated in all coastal developments to ensure the sustainability of investments.

23. Building resilience of key growth sectors to rising climate impacts is a priority to realize future growth under changing climate conditions. Adaptation to climate change needs to be incorporated in all sectoral policies and investments, to ensure resilient infrastructure and service delivery. Achieving the resilience of coastal people and assets through integrated and sustainable blue economy investments is a priority for growth for Mauritius, with needed investments to ensure levers of growth from the tourism and fishing industries are fully climate resilient, while reaping new opportunities from global decarbonization.

24. There are also opportunities for climate mitigation as the country transitions to a green and sustainable economy. In some cases, climate mitigation and adaptation can be pursued simultaneously, for example through conservation and restoration of forests and other natural ecosystems that contribute both to carbon storage and flood risk reduction. Mauritius' Climate Change Bill[10] provides the policy framework for addressing mitigation and adaptation through a dedicated climate change Council and Department, as well as through sectoral mainstreaming. In the 2021/22 budget speech, the Government of Mauritius announced the ambitious target of 60 percent renewable energy by 2030 (currently: 24 percent), a significant upward revision of its previous 40 percent target under the Renewable Energy Roadmap 2030. This is expected to open significant opportunities for private investment in renewable energy. Similarly, the adoption of a new solid waste management strategy is expected to create opportunities for the private sector in this field through PPPs (World Bank 2021a). Business Mauritius, the country's apex business federation, listed climate change adaptation as one of the key 'enabling factors' in its national business roadmap (Business Mauritius, 2019).

2.5. New Evidence on Gender Equality

25. The most critical gender gaps in Mauritius are mainly centered around issues related to women's economic empowerment, with a recent World Bank (Gaddis and Ranzani, 2020) report offering additional insight into constraints in this area. There is generally strong provision of basic services such as education and healthcare, which has helped to keep gender gaps in human endowments

[9] http://metservice.intnet.mu/climate-services/climate-change.php

less pressing than in other countries in the region. Yet even here there is room for improvement. While Mauritius has a free and high-quality universal healthcare system and close to 100 percent of births are attended by skilled health staff, only a third of pregnant women initiate prenatal care in the first trimester and the maternal mortality rate (61 deaths per 100,000 live births) is high compared to the average for middle and high-income countries (43 and 11, respectively). In education, Mauritius has already achieved gender parity in enrollment and completion at all levels of education. While there are small reverse gender gaps (i.e. favoring female) in secondary and tertiary education, these are roughly in line with levels in most upper-middle-income and high-income comparators. The more pressing gender gaps in education are around sex segregation by subject, with women less likely to follow science, technology, engineering and math (STEM) streams at school, less likely to be in vocational education and, among those in tertiary education, less likely to be on doctorate (PhD) and master of business administration (MBA) programs. This segregation, informed by gender norms around the types of subject that are suitable for women and girls, feed into gender gaps in employment.

26. Despite considerable progress, women still lag behind men in terms of labor force participation and pay. The labor force participation rate among women increased from 44.5 percent in 2008 to 48.3 percent in 2018. This compares with a participation rate of 78.9 percent in 2018 among men. The disparity is heavily driven by the low skilled segments of the labor market. Only about 1 in 3 women with up to primary education participates in the labor market, compared with over 2 in 3 women with upper secondary education. Improved educational attainment has therefore played an important role in mitigating the gender gap in labor force participation. Among women with post-secondary and tertiary education, labor force participation is above 80 percent, as high as the average rate among men. Younger generations of women, particularly those born in the 1970s or later, have higher participation rates relative to their older counterparts at any age. For example, about 77 percent of women born in the 1990s participate in the labor market at age 25. This compares with about 70 percent among women born between 1986 and 1990 at the same age. World Bank (2021a) also finds that women, especially at lower levels of educational attainment, continue to face significant disadvantages against men in terms of compensation. In 2008, a woman employed in the private sector made on average about $0.70 cents to a dollar made by men. Ten years later, this had increased to about $0.82 cents. Still, the gender pay gap clearly poses a deterrent to the labor force participation of women. Among the observable characteristics that explain the gap, industrial sector of employment, occupation, job tenure, and enterprise size are the most important. However, the largest portion of the gap (about 78 percent) remains unexplained by the data. Notably the gender wage gap is reversed in the public sector, with women’s advantage here explained by their higher levels of education and concentration in more highly skilled positions. As of January 2022, government initiatives in this area are underway, including the preparation of a Gender Equality Bill and the cabinet’s approval of the National Gender Policy 2021-2031.

27. Social norms contribute to gender gaps in labor force outcomes, including by burdening Mauritian women with a disproportionate role in domestic chores, and gender-based violence remains a pressing issue. Labor force participation is much lower among married than among single women, especially during reproductive years. When asked about the main reason why they are not engaged in the labor market, most inactive women with only primary or no completed education mention household and family responsibilities. According to data from Afrobarometer (2017), seven in ten Mauritians think that it is better for a family if a woman has the main responsibility of home and child care, and almost half of Mauritians agree with the statement that men should be given preference when it comes to jobs. During focus group discussions, many women commented on the difficulty of balancing work with care for young children and other unpaid household work and some also mentioned that women’s labor force participation may be viewed by men as threatening traditional gender roles. Government policies may exacerbate the negative impact of these social norms on women’s employment and may reinforce women’s primary caregiver status, with maternity leave benefits being the responsibility of the employer rather than of the government and with fathers only entitled to seven days of paternity leave, versus 98 days of maternity leave for women. Women's relative position in society is also reflected in high rates of certain forms of gender-based violence (GBV). Social norms may also contribute to gender differences in labor force participation by influencing which fields are seen as suitable for women and men. While there are reverse gender gaps in educational participation at all levels, there is gender segregation in the subjects pupils study, with girls less likely to enter STEM streams and with women less represented as MBA or PhD students among those in tertiary education. According to a 2017 survey (Sultan 2017) domestic violence affects 18.4 percent of Mauritian women, with 12, 9 and 8 percent of women reporting having been subject to physical, sexual, and emotional abuse respectively over a period of 12 months. While there is a Protection from Domestic Violence Act, it uses a narrow definition of domestic violence. Support to victims is weak, though a recently launched National Strategy against GBV introduces promising new measures.

3. Synthesis of progress in thematic areas

3.1. Thematic Area #1: Boosting competitiveness — moving from industrial policy to innovation policy

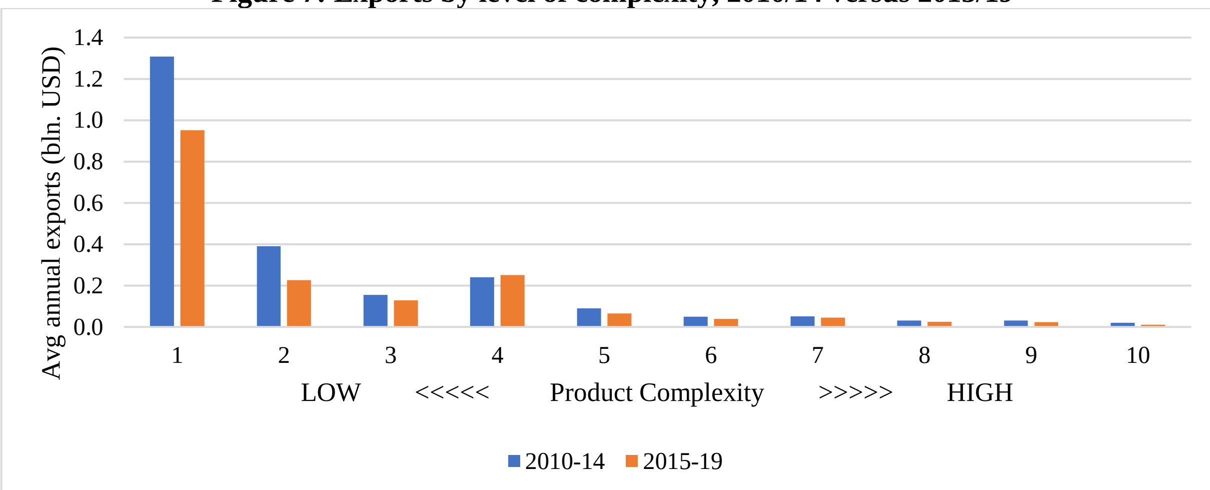
28. Over the last five years, Mauritius has implemented several new measures to boost competitiveness through innovation-oriented policies. Since 2015, the Government has outlined several strategies and introduced institutional changes to promote innovation[10] and moved to better protect intellectual property (IP) in the country through a new IP law, boosting Mauritius' ranking in the Global Innovation Index. Similarly, the institutional set-up to support the growth of small and medium enterprises (SMEs) has improved significantly in the last five years, and the government has presented ambitious strategic plans for developing knowledge intensive new economic activities and modernizing existing sectors. In the critical area of skills, a comprehensive school reform, the introduction of tuition free tertiary education, the creation of the polytechnical schools for practice-oriented degrees in Information and Communications Technology (ICT), nursing and tourism, and gradual improvements in the terms for occupation permits for skilled foreigner workers are noteworthy. Mauritius' digital economy has strong foundations to build upon. The ICT sector in Mauritius has gone a long way to position itself as the 3rd pillar of the economy, and the country's digital infrastructure is robust. Earlier efforts in the liberalization of the telecommunications sector in Mauritius allowed for new players to join the industry and provide competitive connectivity rates. Consequently, Mauritius is doing well in terms of access to telecommunications and broadband services, boasting high penetration rates such as 151 percent for mobile penetration and 87 percent for broadband penetration respectively. Much progress has also been done on the cornerstones for the digital governance. Recent years have been marked by the significant push of the Government of Mauritius to advance a digital strategy for services and the country's adoption of digital transformation is thus expected to achieve greater maturity in the coming years. The Digital Government Transformation Strategy 2018-2022 (DGTS) provides directions for a digital Government, and sets the course for accelerated public sector digitization efforts to enhance operational effectiveness and efficiency and to provide better service to citizens.

29. While such reforms generated encouraging intermediate outcomes, the decline in competitiveness continued in most sectors and innovation through investment in non-traditional sectors remained subdued. Between 2009 and 2019, exports dropped from 57 to 40 percent of GDP. Over the same period, the country lost market share in all of its six largest export sectors. This includes tourism, where before COVID-19 Mauritius showed solid growth but still performed below regional competitors, as well as apparel and business services, where Mauritius' export growth was negative. Mauritius gained market share in some non-traditional manufacturing activities, including fertilizer, medical devices, and optical glasses (World Bank 2021a), but these remain relatively small. Generally, Mauritius lost significant export volume in less sophisticated traditional products but was unable to scale up more complex new

[10] A complete review of the relevant institutions and schemes is available in World Bank (2021).

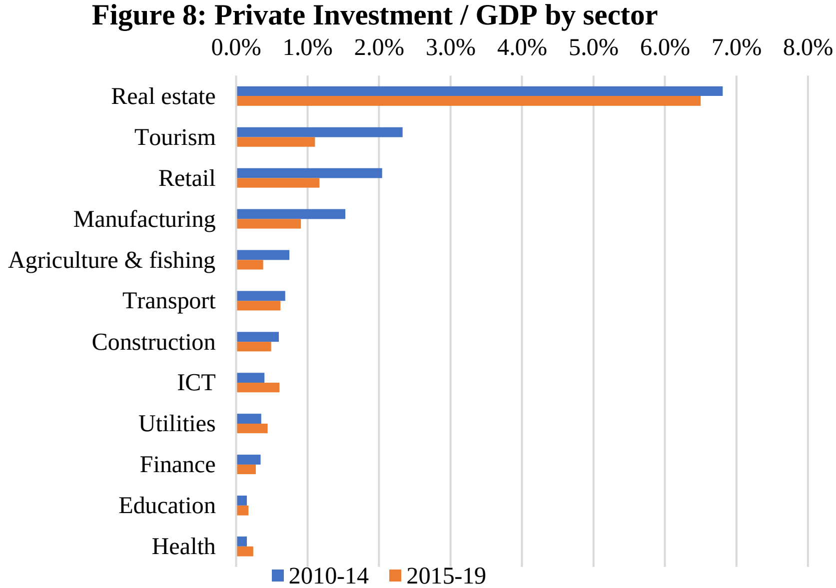
exports at a sufficient scale to compensate the decline (Figure 7). Private investment averaged 14 percent of GDP over the (pre-COVID) SCD period and mostly remained focused on traditional sectors. Real estate in particular accounted for nearly half of private investment in the period 2015-19, while investment in tourism, retail, manufacturing and agriculture all declined. With the exception of ICT, there was no comparable uptick in investment in non-traditional sectors (Figure 8). Foreign Direct Investment (FDI) flows fluctuated around 4 percent of GDP over the period, with approximately half related to the sale of high-end real estate occupied mostly by foreign residents.

Figure 7: Exports by level of complexity, 2010/14 versus 2015/19



Source: World Bank (2021), based on data from UN COMTRADE.

Figure 8: Private Investment / GDP by sector



Source: World Bank (2021), based on date from Statistics Mauritius

30. Disappointing outcomes can in many cases be traced back to implementation issues and a lack of policy coherence. For instance, while innovation is a declared priority, subsidies and other state assistance continue to disproportionately support established sectors such as textiles, sugar and real estate rather than innovation and discovery (World Bank 2021a). While such measures may in some cases protect existing jobs, they impede incentives for economic diversification towards higher value-added activities. At the sector level, private sector involvement is often impeded by a lack of cohesive policy vision or regulatory clarity. While innovation support schemes have been ramped up and generally follow good practices, their effectiveness is reduced by a high level of institutional fragmentation and insufficient monitoring and evaluation. With a large number of institutions involved in innovation support and often implementing multiple programs targeting similar companies, likelihood of overlap is high. Similarly, despite promising new initiatives, World Bank (2021) still found deficits in the alignment of some programs with labor market needs, including a focus on lower technical and vocational education and training (TVET) when most demand is in higher TVET and insufficient focus on soft skills, digital literacy and labor market placement in many education and training institutions. The absence of a clear institutional champion for skills development was identified as one of the key factors preventing more effective reform. Finally, in the area of connectivity, anomalies in the port regulatory framework have prevented the entrance of private operators that could boost performance, and further competition enhancing reforms could contribute to lowering cost and improving service quality in air transport. Similarly, limited competition in certain segments of the telecom market, in particular for fixed broadband, where there is a clear dominance of the incumbent SOE Mauritius Telecom, presents a constraint to the further development of the sector and the provision of more affordable broadband services. Better policy coordination is also required to overcome a lack of digital skills and talent shortage. The development of a strong digital entrepreneurship and innovation ecosystem in the country would further contribute to this outcome (World Bank 2020a).

31. **The response to COVID-19 has brought government involvement in the economy to unprecedented levels.** A plethora of measures were implemented by the government, Bank of Mauritius, and parastatals to support the private sector in coping with the effects of COVID-19. While not all these measures can be easily costed, the big-ticket items alone add up to approximately 32 percent of GDP, making Mauritius' COVID-response package one of the most comprehensive in the world (World Bank 2021a). The strong government response to COVID-19 in the short- to medium-term has been instrumental in saving livelihoods and stabilize ailing firms, and initial crisis response measures were gradually supplemented by more forward-looking tools to invest in new priority sectors and support re-skilling of workers, opening potential avenues for promoting a green and more resilient recovery. Nevertheless, there is a risk that some of the support measures intended for short-term stabilization could end up delaying re-allocation of resources to higher value-added sectors.

32. **Promoting women's success in education and the labor force has an important role to play for Mauritius' move towards an inclusive knowledge economy.** State support to traditional sectors cements a de facto bias in favor of male workers as employment in these sectors is skewed towards men. According to 2019 data from the CMPHS, male to female employment ratios in the established sectors of the economy that have benefitted the most from state support range from 1.4:1 in tourism and retail, to 1.7:1 in manufacturing, to 4:1 in sugarcane, and 30:1 in construction. A recent Enterprise Survey conducted jointly by the Mauritian National Productivity and Competitiveness Council (NPCC) and the World Bank found that women account for only 13 percent of top managers and only nine percent of businesses are majority female owned. However, having female management is associated with fewer skill shortages and increased support mechanisms for female employees (NPCC and World Bank, 2021).

33. **Climate change is arguably Mauritius' largest innovation challenge, and state support could be further aligned to Mauritius' ambitious adaptation and green recovery goals.** Some existing state support schemes explicitly target environmental or climate adaptation goals. A tax holiday is available for the development of Deep Ocean Water Air Conditioning (but has not yet been used), and several incentives promote investment in renewable energy. Furthermore, support provided for the development of smart cities can significantly reduce transport related emissions, in support of achieving Mauritius' target of abating its

greenhouse gas emissions by 40 percent by the year 2030[11]. Mauritius is resolutely embarked on a path to diversifying its energy sources and has further ramped up its plans for renewable energy under the 2021/22 budget. On the other hand, some subsidies such as the Support for Trade Promotion & Marketing Scheme (air freight subsidy), preferential electricity rates for manufacturing, and a tax holiday for bunkering activities likely create adverse incentives for environmentally sensitive investment. Finally, state support, including subsidies on sugar cultivation, also plays an important role for land use, and a reorientation to support reforestation, integrated landscape management and community livelihood resilience activities could have significant benefits in terms of both climate change adaptation and mitigation.

3.2. Thematic Area #2: Improving equity in public service delivery — ensuring employment opportunities for all

34. Over the last five years, Mauritius has initiated a number of reforms and policies to improve equity in public service delivery and increase employment opportunities among a wider scope of the population. In recent years, the government has embarked on various initiatives to achieve better and more inclusive results in education, the most important being the Nine-Years of Continuous Basic Education (NYCBE) reform introduced in 2016.[12] The NYBCE reform aims to enhance preschoolers' readiness for primary school, and to ensure that all children establish solid foundational skills and attitudes through nine years of basic education to succeed through various pathways in post-basic education.[13] If successful, this would help reduce the inequality in learning outcomes observed among Mauritian students. From a health perspective, Mauritius has been largely successful in controlling communicable diseases, including a strong response to the COVID-19 pandemic. The success is attributed to the robust and integrated surveillance system for the control of communicable diseases and is demonstrated by the increased Joint External Evaluation (JEE)[14] scores from 55 to 71 between 2013 and 2017. In addition, under its Economic Recovery Programme, the Government has implemented the National Training and Reskilling Scheme (NTRS) to re-skill and train people who lost their jobs due to COVID-19.

35. However, challenges remain, and continuous reform efforts in particular in social protection and education will be needed to promote inclusiveness and maintain fiscal sustainability in light of an aging population. Cash transfer programs are progressive and pro-poor, except for the basic retirement pension (BRP). With social protection accounting for about 23 percent of total public spending, the social protection system includes both universal and targeted cash transfer programs. Social protection's contribution to reducing inequality is estimated at 4.5 Gini points, with BRP explaining the largest share of the reduction because it channels the bulk of social protection spending, more than 50 percent. However, the BRP is not targeted to the poor and there has regressive effects, in addition to creating adverse labor

[11] As per Mauritius' commitment under its nationally determined contribution to COP26.

[12] Other recent important education initiatives include: (a) programs in the early primary grades to reinforce foundational skills (viz., Early Support Programme and Early Digital Learning Programme); (b) additional support for the country's 50 worst performing primary schools located in highly disadvantaged communities; (c) creation of the Mauritius Academy for Teachers to offer continuous professional development; and (d) benchmarking schools against standards specified in a new Quality Assurance Framework. Policies and programs for Early Childhood Development remain nascent. In post-basic education, notable initiatives in TVET include creation of the Institute of Technical and Technology Education; and Polytechnics Mauritius Limited to modernize and rebrand the sector. In higher education, they include: (a) the Free Tertiary Education Scheme in 2018; (b) the 2020 launch of the Faculty of Medicine at the University of Mauritius, and 1st phase of the AgriTech Park; and (c) new academic programs (e.g., Artificial Intelligence and Robotics; and Massive Open Online courses). Sources: World Bank (2021) and Government of Mauritius (2020).

[13] Instead of the CPE, children now sit for the Primary School Achievement Certificate (PSAC) examination; the lowest scorers enter the Extended Programme in Grades 7-9 where they follow a modified curriculum over four years instead of the normal three. All Grade 9 students sit for the National Certificate of Education and their NCE scores are used for selection into upper secondary schools, including the 12 newly established academies designed for the high-flyers.

[14] The joint external evaluation (JEE) is a voluntary, collaborative, multisectoral process to assess country capacities to prevent, detect and rapidly respond to public health risks whether occurring naturally or due to deliberate or accidental events. The JEE helps countries identify the most critical gaps within their human and animal health systems in order to prioritize opportunities for enhanced preparedness and response.

market incentives by encouraging retirement at 60. BRP also reaches the most affluent households and represents an ineffective use of public resources. Indeed, the poverty rate among those 60 years old and above is only 4.4 percent, while the poverty rate among those below this age is 11.7 percent (and 10.4 percent for population overall). So the BRP benefits a group that is, comparatively, less poor than the rest of society. The same effect on inequality could be achieved by spending 30 percent of what is currently devoted to the BRP. Similarly, the same reduction in the distance between household income and the poverty line could be obtained by spending only 12 percent of what is currently directed to the BRP. By contrast, the Social Aid Program, which is targeted on households temporarily unable to earn a livelihood, is pro-poor: over 85 percent is absorbed by households in the bottom 40. The Marshall Plan Social Contract appears to be well targeted: about 94 percent of the cash transfers provided under this scheme are absorbed by households in the bottom 20 percent of the pre-fiscal income distribution, and no allowance is received by households in the top 60 percent. This targeted program generates a more equal distribution of income and is superior to untargeted transfers such as noncontributory pensions because it is able to achieve the same degree of poverty and inequality reduction with fewer resources. Furthermore, unlike the former contributory pension, which starts at 65, the BRP is universal and will become more costly given the significant increase in life expectancy at age 60 from 12.6 year since the program's inception to 20.6 years (2019). As of December 2019, the BRP benefit was raised from MUR 6,210 per month to MUR 9,000 per month. An additional pension benefit through a newly introduced Contribution Social Generalisee (CSG) for those aged 65 and above is planned for 2023/24 which could increase the total non-contributory pension to up to MUR 13,500 per month. Due to its universal nature, the BRP is not an efficient anti-poverty instrument, and it encourages early retirement and adversely affects labor force participation of those reaching the age of 60. As part of the CSG reform, the contributory pension system for private sector workers was dismantled, which could put further pressure on future GSC increases as the population ages.

36. Unemployment and low labor market participation are highly concentrated among low educated youth and women who did not complete their school certificate (Figure 9), and the bottom 40 percent of the income distribution is lagging in educational attainment. As of 2018, between 34 percent of working age individuals in the 4th income decile and 44 percent in the 1st income decile had not successfully completed primary education. The NYCBE reform has set out an ambitious agenda to address these shortcomings, but a number of areas require additional attention, including early childhood development, lagging schools and educators, and educational technology. An aging population and the growing burden of non-communicable diseases (NCDs)[15] is also expected to continue putting pressure on the health system. While total health spending is increasing, it is disproportionately skewed towards private spending, largely out-of-pocket payments (OOP).[16] Furthermore, increased total spending on NCDs is incurred mainly towards hospital costs and medications, whereas more spending on essential primary health care services would be necessary for the prevention and control of NCDs.[17,18]

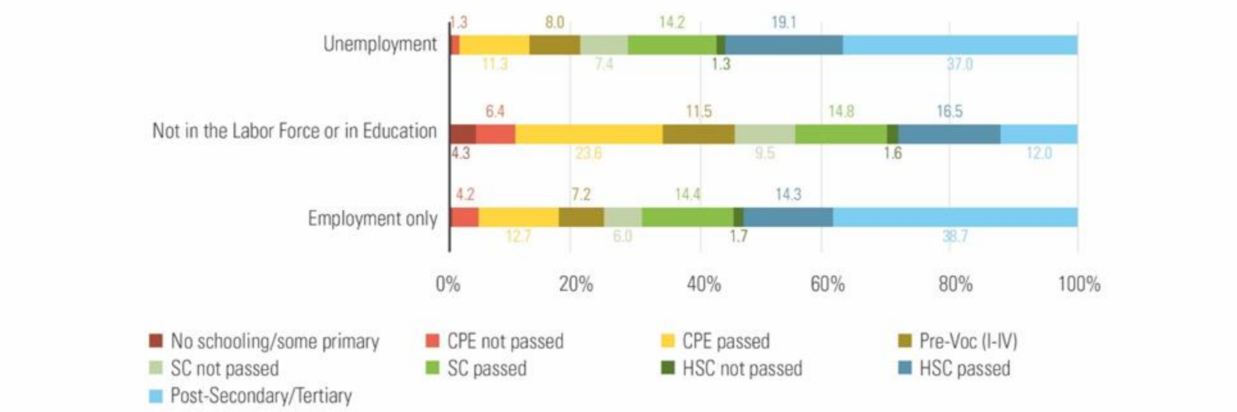
[15] According Institute of Health Metrics and Evaluation, Global Burden of Disease, NCDs accounted for 83 percent of the total disease burden in 2019.

[16] According to the National Health Accounts (NHA), domestic general government health spending was estimated at 43 percent compared with 48.5 percent for OOP in 2018.

[17] While Mauritius spent Rs 17.20 billion (66 percent) of its total health expenditure (Rs. 25.91 billion) on NCDs in 2017, the spending went towards hospital costs (Rs 11.84 billion) and medications (Rs 5.52 billion). For public spending, Rs 8.69 billion (72 percent) went towards hospital costs compared with Rs 1.05 billion and Rs 656 million spent on pharmaceutical products and primary health care services, respectively.

[18] According to the World Health Organization, Global Strategy on Diet, Physical Activity and Health (2003), up to 80 percent of cases of coronary heart disease, 90 percent of type 2 diabetes cases, and one-third of cancers can be avoided by changing to a healthier diet, increasing physical activity, and stopping smoking.

Figure 9: Employment status by educational attainment



Source: World Bank (2021), based on data of the 2018 CMPHS, Statistics Mauritius.

37. The Government's response to the COVID-19 pandemic was instrumental in cushioning economic hardship and ensuring ongoing service delivery, albeit unevenly and at a high fiscal cost. The wage support scheme and self-employed assistance scheme implemented during the first lockdown and eventually scaled to the tourism sectors that remained severely affected by COVID-19 were widely credited by stakeholders as a quick and non-bureaucratic approach to prevent layoffs. However, their impact appears to have been somewhat uneven between wage and self-employed workers: In December 2020, 68.8 percent of those in self-employment and 20.0 percent of those in wage employment reported that their income had declined in comparison to the pre-pandemic level. And as the crisis lingered, the limitations on workforce adjustment imposed by these systems increasingly became a concern to tourism operators. The COVID-19 pandemic also alerted educators to the need for greater resilience in service provision. School lockdowns in 2020 and 2021 disrupted the school calendar and examinations, and the way schools functioned. The Ministry of Education began offering educational programs on national TV channels and video lessons via online platforms, but currently no data is available on their effectiveness.

38. Despite progress in recent years, there are still large gender gaps in the labor market, perpetuated by social norms. Despite progress in recent years, the gender gap in labor force participation still lies at 30 percentage points. While girls have slightly higher levels of education participation and learning outcomes than boys, only 40-50 percent of women with only primary or secondary education are in the labor force compared to over 80 percent of men across said educational categories.[19] The gender pay gap narrowed from 30 to 18 percent between 2008 and 2018, but women remain underrepresented in higher paying sectors and fields of education (including STEM) and social norms still assign them a disproportionate share of non-remunerated household and care duties (World Bank 2021a). A recent report based on the Enterprise Survey found that only a minority of businesses offered support mechanisms such as flexible work schedules, childcare or working from home arrangements, which might help parents better balance work with caring responsibilities. As such, addressing the social norms that directly (e.g. by promoting a more equal distribution of household and care work and perceptions on which subjects, sectors, and jobs are considered suitable for women versus men) and indirectly (e.g. by extending childcare offers and work place flexibility) impact women's occupational choices will be critical to improving economic and social opportunities for women.

39. Climate change poses new threats to service delivery and labor market outcomes, requiring strong proactive adaptation measures. Climate change will inevitably affect the frequency and severity of future natural shocks, requiring a disaster response system that includes social protection, such as a rapid scale up of the Social Aid Program to protect the most vulnerable. Similarly, education facilities need to be made more resilient against natural disasters, and alternative learning modalities (such as those implemented under COVID-19 school closures) developed to ensure limited interruptions in schooling. Rising temperatures may also bring new public health concerns, both among communicable diseases and NCDs.

3.3. Thematic Area #3: Aligning resources and priorities — sustaining development

40. Public sector reforms to improve sustainability, efficiency, effectiveness, and transparency have laid the foundation for the government to improve the delivery of key public services. Mauritius has gradually increased its tax collection over the past decade, increasing from 18.0 percent of GDP in fiscal year 2010/11 to 20.0 percent in 2018/19, mobilizing additional resources to finance development priorities. Indirect taxes, mostly value added taxes (VAT), continue to account for the lion share at 12.5 percent of GDP in 2018/19. Similarly, there has been some progress in strengthening the institutional framework for public investment management. Mauritius made progress implementing the 2016-2017 Public Investment Management Assessment (PIMA) recommendations and strengthened several components of its public investment management system, although challenges remain. The Finance Audit Act was amended in July 2017 to provide a unified framework for planning, financing and implementation of capital projects. The Capital Project Process Manual (CPPM) set up a new framework for appraisal and approval for funding of capital projects. A Public Investment Management Unit (PIMU) and a Public Sector Investment Program (PSIP) Unit were established to carry out the appraisal of project proposals and ensure that funds are allocated to projects that are ready for implementation; and undertake the monitoring and evaluation of capital projects. To address infrastructure needs, especially in light of climate change, in 2019, the Government adopted the Renewable Energy Roadmap 2030. The roadmap aims at achieving the target of 40 percent of renewable energy in the electricity mix by 2030 which was raised further to 60 percent under the 2021/22 budget. In 2020, the renewable energy share stood at 24 percent. To achieve these targets, the Government has introduced a variety of fiscal incentives, simplified procedures for approval of renewable energy projects and set up the Mauritius Renewable Energy Agency (MARENA). Progress has also been made on disaster risk reduction and management at national and sub-national levels. Mauritius has a strong disaster risk management framework, with robust legislation and well-functioning administrative and operational arrangements, including the NDRRMC (CADRI, 2019). The governance of Mauritius' fishery resources also improved along with that of others in the Regional Fisheries Management Organizations (RFMOs) (tuna and deep sea).[20]

41. Mauritius' infrastructure, while well developed, is under increasing pressure from climate change. Mauritius' electricity infrastructure continues to rely primarily on coal and oil, and will require significant investments if the country is to meet its GHG reduction targets by 2025 and 2030. Solid waste management, water and sanitation infrastructure also require upgrading to ensure continued sustainability as the economy grows. Similarly, the transportation sector is under increasing pressure from more congestion. Much of the primary and secondary road network, and virtually the entirety of the tertiary network, are not engineered roads and have been constructed by paving of the former tracks across sugar cane production areas, leaving them highly exposed to the impacts of climate change. Access to water

[20] As an example, the compliance rate of Mauritius with Conservation and Management Measures (CMMs) of the Indian Ocean Tuna Commission (IOTC) has increased from 81% to 92% between 2015 and 2020. Under the framework of the South West Indian Ocean Fisheries Commission (SWIOFC), Mauritius and other members adopted the Guidelines for Minimum Terms and Conditions (MTCs) for Foreign Fisheries Access in the SWIOFC region, a major achievement for the South Western Indian Ocean (SWIO) region. Finally, coordinated efforts allowed SWIOFC countries, including Mauritius, to submit several proposals for CMMs to the IOTC, showing reinforced regional collaboration and support for management of marine resources.

supply and basic sanitation services continues to be hindered by very high levels of financial inefficiencies and suboptimal use of precious water resources (World Bank, 2017).[21] Mauritius has developed a public-private partnership (PPP) compatible institutional framework, but these statements have not yet translated into contracts other than independent power producer (IPP) projects in the energy sector. Finally, as a small island nation, Mauritius sees the Blue Economy as a pathway to sustainably improve and diversify its national economic development, but progress in developing sustainable commercially viable new activities has been limited so far.

42. Limitations in transparency, anomalies in regulatory frameworks and insufficient planning constrain better results. Since 2015, there appears to have been some reversal of previous progress made with Program Based Budgeting, and fiscal management has deteriorated due to the increasing use of off-budget vehicles for public investment. Major capital projects are managed off-budget using Special Purpose Vehicles and significant amounts of public investment are channeled through extra-budgetary funds such as the National Resilience Fund, National Environment Fund and, more recently, the COVID-19 Projects Development Fund. Activities of SOEs and, in some cases, regulatory anomalies that give them privileged positions vis a vis potential competitors are affecting competition in key upstream industries, including ICT, energy, and transport (World Bank, 2021a). Likewise, disaster risk reduction has improved in recent years, but more attention to the mitigation of risks is required for greater resilience. Beyond a changing climate, some of the causes of the recent increase in vulnerability to tropical cyclones and floods relate to inadequate development planning. Instruments to avoid risk-prone constructions are poorly enforced, and the responsible authorities often have a limited understanding of disaster risks. Similarly, Mauritius has adopted a capacity-building strategy that has both technical and legislative dimensions to promote management of domestic fisheries. However, despite having technical expertise, there is a need for additional human resources and tools for managing the domestic fisheries and enforce existing regulations.

Box 2: Perceptions of public institutions have deteriorated

Trust in public institutions and democracy is decreasing. Satisfaction with democracy as well as trust in the main public institutions and leaders was decreasing before he COVID-19 pandemic. Mauritius' ranking in The Economist Intelligence Unit's 2020 Democracy Index has dropped by three places to 20th out of 167 countries, with the score declining from 8.22 to 8.14. The score still leaves Mauritius among the 23 countries in the world that are considered "full democracies". It is the only country in Africa to have this designation and one of only seven countries outside Europe and North America.[22] The satisfaction of Mauritians with the way democracy is working is decreasing, and only half of the population says they are “fairly satisfied” or “very satisfied” according to the most recent Afrobarometer survey. Nonetheless, the majority of Mauritians still prefer democracy over any other system and almost as many say it is more important for the government to be accountable than to be efficient.[23] Moreover, political bodies and leaders earn the lowest levels of popular trust.

Mauritius has dropped its ranking on the Corruption Perceptions Index since 2012.[24] In this index, Mauritius was ranked 52 of out 180 countries in 2020, dropping 4 positions since 2012. According to the 2020 Global Corruption Barometer, 61 percent of citizens believe that corruption has increased in the past 12 months.[25] In the World Justice Project (WJP) Rule of Law Index (RLI) 2020, Mauritius received a score of 0.59/1 in the absence of corruption indicator and was ranked 43 out of 128 countries. Specifically, the legislature received the lowest score of 0.33/1 compared to the executive branch (0.6/1) or the judiciary (0.79/1). This is in line with the results of the

[21] The Central Water Authority (CWA) presents high levels of operational inefficiency characterized by: (i) non-revenue water at 59 percent, above the average of 15 percent for developed and 35 percent for developing countries; (ii) intermittent supply during dry season and risk of water shortages due to lack of bulk water optimization; and (iii) revenues which barely cover costs of operation. This threatens the sustainability and security of service provision. It hinders efforts to address the remaining quality and intermittency of service provision as well as efforts to raise financing for the sector. More than 20 percent of the population have intermittent supply under normal conditions and 75 percent receive intermittent supply during dry season. Source: (World Bank, 2017).

[22] The Economist Intelligence Unit. Country Report. 1st Quarter 2021.

[23] Ibid.

[24] Transparency International. Corruption Perceptions Index. 2020

[25] Transparency International. Global Corruption Barometer. 2020

2020 Global Corruption Barometer which shows that, in Mauritius, 23 percent of citizens think that most or all members of parliament are involved in corruption and 14 percent believe that most or all government officials are involved in corruption.

43. COVID-19 caused a number of disruptions to progress on aligning resources and priorities. The large and multi-faceted COVID-19 response package has introduced a number of new programs and support measures in a time sensitive situation characterized by high uncertainty. While broadly successful in cushioning the economic shocks, this has come at a high fiscal cost, coupled with diminished revenues, leading to a significant increase in public debt and thus reducing fiscal space in the medium term. At the same time, the involvement of the state in the economy rose to unprecedented levels, creating a challenge to gradually rescind short term crisis response measures. COVID-19 also created disruptions in the SOE sector, for example forcing the placement of the national carrier under voluntary administration. During the pandemic, the pressures for SOEs to reform have only increased, particularly due to significant funding allocated to and importance of social functions carried out by them. On the other hand, the COVID-19 crisis may provide an opportunity and momentum for political consensus on SOE reforms.[26]

44. The infrastructure sector is highly vulnerable to climate change, particularly the ICT, energy, water and transport sectors. Many critical infrastructure sites and extensive housing are located on the coastline, and coastal businesses generate a high percentage of the country's economy.[27] All these assets are at risk from severe coastal erosion, flooding and storm surges, and those risks will be exacerbated with the impact of climate change and sea-level rise. Climate change is already negatively impacting physical water availability. CWA produces about 46 percent of treated water from surface water resources and about 54 percent of the treated water from boreholes. Mauritius has reached the limit of sustainable exploitation of its aquifers and the availability of water resources is heavily dependent on rainfall which is affected by climate change. It is projected that Mauritius would move from being a water-stressed country to become a water scarce country when it reaches a population of 1.34 million (as of 2020, the population was 1.26 million), with a projected per capita water availability of 974 cubic meters (World Bank, 2017).[28] Improving water security is critical to securing the continuity and good quality of a potable water supply for the island's population and to sustain its economic development.

4. Conclusion

4.1 Revised prioritization methodology

45. This SCD Update follows a revised prioritization process that amends the criteria used in the 2015 SCD to account for three key challenges that have risen in importance during the SCD period: the deteriorated fiscal situation, gender equality, and climate change. In combination with the main prioritization criteria used in the 2015 SCD, this yields the following metrics for prioritization. :

[26] A recent study seeks to assess the impact good corporate governance in SOEs in Mauritius by collecting survey data targeting SOEs employees. A focus group discussion was useful in identifying additional views on the impact, barriers, issues and challenges on the level of good corporate governance. A survey was then being conducted. The analysis focused on the objectives of the study, which were to assess the practice of good governance in SOEs in Mauritius, its benefits and the barriers towards practicing good governance in these firms. The major findings of the study showed that most respondents acknowledge the positive impact of good corporate governance in the day to day of their organizations. However, they also reported that constant governmental intervention acts as a barrier for the proper functioning of SOEs in Mauritius. See Rughoobur Soujata at https://ideas.repec.org/a/blg/journl/v13y2018i1p166-180.html

[27] Coastal businesses contribute to at least 12% of Mauritius' GDP. Broken down by sector: a) fisheries contribute approximately 1.4% to Mauritius' GDP (2014-2016); b) tourism (which is mostly coastal) contributes 8.6% (2018); c) container shipping contributes 2% to GDP. Source: Cervigni, Raffaello, et. al (2017).

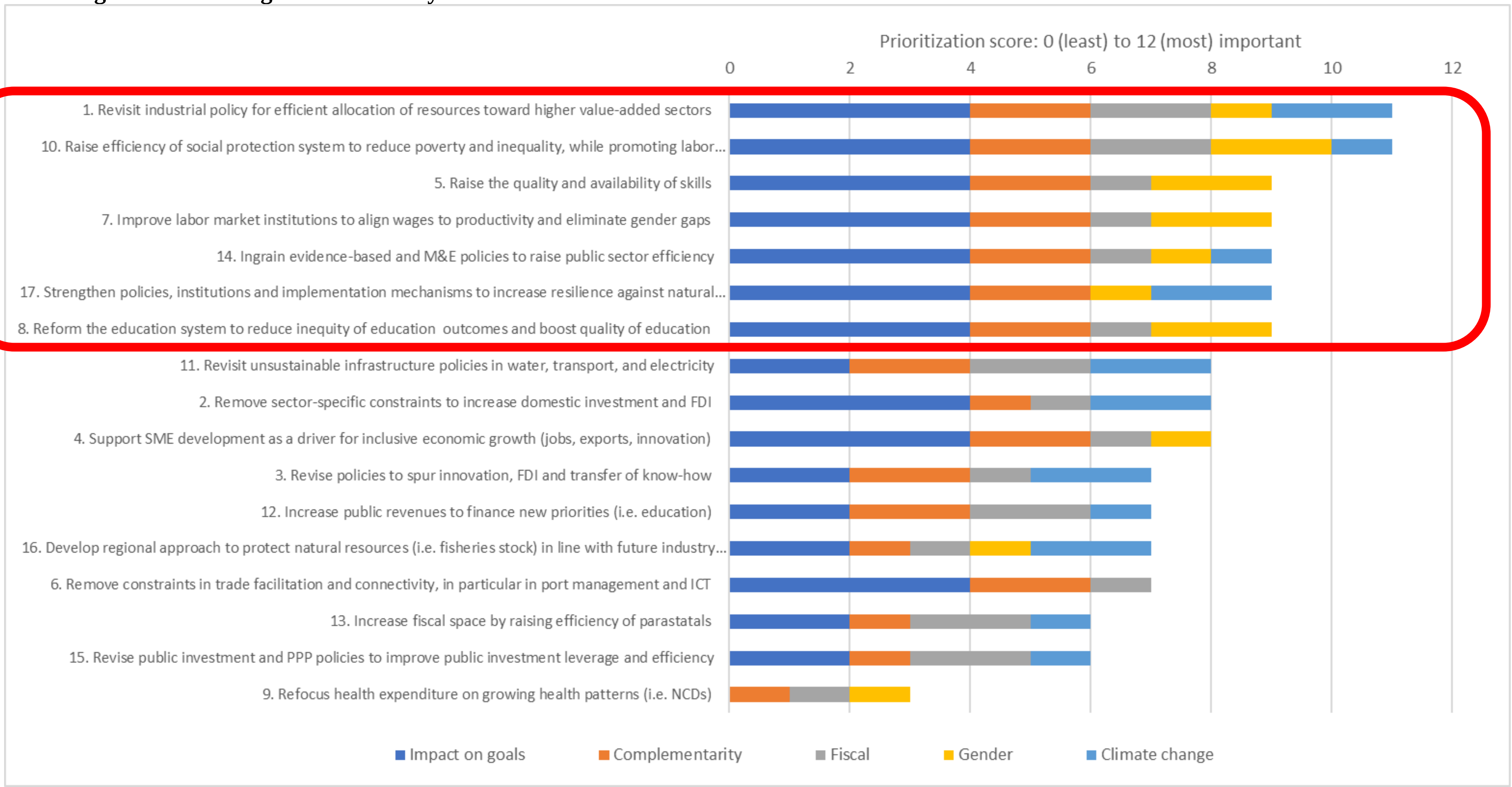
[28] Conventional definitions of levels of water stress: water-stressed country - below 1,700 m^3 per capita per year; water scarce country - below the 1000 m^3 per capita per year.

- *Impact on twin goals (same as 2015 SCD)*: To what degree will the reforms proposed impact poverty reduction and ensure a sustainable increase in the welfare of the less well off? The main area assessed in here is the impact that the proposed reform has on raising the income of the poor and the most vulnerable.
- *Complementarities (same as 2015 SCD)*: To what degree does the issue have influence across different domains (growth, inequality, sustainability) and/or would magnify the positive impact of addressing other constraints?
- *Fiscal impact (new indicator):* This criterion focuses on whether a proposed reform would have a negative, positive, or small / negligible fiscal impact. It is rated as positive if a reform would likely lead to fiscal savings or revenue generation in excess of 0.5 percent of GDP, negative if it would likely cause additional expenditure of more than 0.5 percent of GDP, and neutral if in between.
- *Gender equality (new indicator):* To what degree does a reform in this area affect the remaining causes of discrimination based on gender, or contribute to enhancing social and economic opportunities for women?
- *Climate change (new indicator):* To what extend would a reform contribute to Mauritius' ability to cope with the effects of climate change through enhanced resilience, and / or contribute to the reduction of greenhouse gas emissions?

4.2. Revised prioritization

46. The prioritization exercise highlights important opportunities for high impact reforms and narrows the 18 priority areas from the 2015 SCD down to 7. The results of the prioritization exercise are based on extensive stakeholder consultations and background research on each of the priority areas by World Bank experts. For better readability, scores across prioritization dimensions are aggregated in Figure 10 (detailed results are reported further below in Table 2). In addition to the introduction of the new prioritization criteria discussed in section 4.1., in some cases ratings on existing prioritization criteria from the 2015 SCD were adjusted to account for new evidence. These changes and their justifications are shown in annex 3. The results are used to further narrow down the 18 priority areas from the 2015 SCD to the 7 top rated priority areas discussed below.

Figure 10: Ranking of SCD Priority Areas



Source: Authors. As shown in table 2, each policy priority is rated low/medium/high along the 5 prioritization criteria: impact on twin goals, complementarity, fiscal impact, impact on gender equality, and impact on climate change. For aggregation purposes, a numerical score 0 /1 / 2 is assigned corresponding to the three-level rating scale where higher scores indicate stronger development impact. Given its overarching importance to the Bank's mission, the twin goal indicator is multiplied by two to double its weight. Indicators are then aggregated up and organized by score. The red frame at the top marks the seven highest ranked priority areas that are selected for further discussion below.

47. Revisiting industrial policy through the reallocation of resources from cost support to mature industries towards a private sector driven innovation focused paradigm is key to put Mauritius on a higher, productivity led growth path. As Mauritius is clearly outgrowing its comparative advantage in labor-intensive traditional activities, a new innovation focused industrial policy paradigm could give a much-needed boost to the expansion of competitive new industries and technological upgrading of existing ones. This is not about reallocating subsidies from one sector to another but would require a phase out of cost support measures that currently mostly benefit traditional activities along with a new paradigm of private sector led growth supported by strong public institutions promoting innovation, skills development, public private partnerships, and competition. By integrating ambitious green growth targets, such an approach would also support climate change adaptation and mitigation measures. While the 2015 SCD aggregated digital development into a shared priority area with transport connectivity, the adaptation of digital technology, and a concerted policy approach to overcome remaining constraints in particular in the areas of competition, skills development, and support to innovation and entrepreneurship are an important part of this agenda. World Bank (2021) lays out a comprehensive policy agenda to refocus Mauritius' industrial policy paradigm. This would also address horizontal bottlenecks to growth in particular in the areas of skills development, competition, public private partnerships, and the sustainable management of natural resources. The fiscal effect of a well-crafted reform could be positive as state support to traditional industries has become increasingly costly over the past years. While these challenges are present in the 2015 SCD, the need for a strong, green and resilient economic recovery from COVID-19 in combination with the unprecedented increase in state involvement in the economy in response to the pandemic further raise the stakes to get this right.

48. Raising the efficiency of social protection and promoting labor-entry would have a direct positive effect on the poor through better and more targeted support, while also safeguarding the sustainability of the system by ensuring its fiscal sustainability. The impact on gender equality could also be substantive as inactivity and social support dependence are particularly high among women with low educational attainment who could benefit from more targeted activating support. The fiscal impact could be positive if the pension is reduced in favor of a more targeted system. The imperative to reverse rising inequality appears to have been addressed since the 2015 SCD, including through new and targeted social protection instruments like the Marshall Plan. Yet moving towards a more efficient and activating system has increased even further in importance with the significant disruptions from COVID-19, ongoing demographic change, and the fiscal imperative to reform the basic pension.

49. The two priority areas related to education ('raise the quality and availability of skills' and 'reform education system to reduce inequity of outcomes and boost quality') both also score among those with the highest development impact. Improving the availability of skills would yield benefits in terms of growth, innovation and productivity, as well as for job creation and inclusiveness. This includes a better alignment of training and education programs, including on the job training, TVET and tertiary education, to labor market needs, as well as a more open and effective immigration regime. Some of the associated benefits could materialize in the shorter term especially when it comes to upskilling measures and inwards migration. While some priority measures, such as investment in better ICT training facilities, would undoubtedly require higher spending, others such as realignment of skills training to labor market needs and enhanced openness could be fiscally neutral or even beneficial. The second priority area in education is mostly about inclusiveness and ensuring high quality education for all, which stands out as arguably the most important determinant of an individual's economic and social success in Mauritius. Improvements would have direct benefits for the poor and bottom 40 in boosting their economic opportunities and quality of life, as well as strong complementarities both in terms of growth and productivity dividends. The impact on gender equality would also be strongly positive as gaps in female labor force participation are closely linked to education levels. This would require some additional fiscal resources dedicated in particular to early childhood education and lagging schools. Significant reform progress since the 2015 SCD has demonstrated the political will and feasibility of impactful reforms in this area, but with significant gaps remaining the reform priority remains high.

50. Improving labor market institutions and eliminating gender gaps is critical to promote inclusiveness, maintain competitiveness, and keep up with demographic change. For instance, improvements in parental leave provisions could go a long way in addressing gender norms that assign women a disproportionate role in childcare, while investment in quality early childcare could be a double win in terms of enabling more women to work while also strengthening school preparedness of children (World Bank 2021a). A review of wage setting mechanisms and remuneration orders, combined with more proactive labor market policies to support upskilling, could aim to align wages more closely with productivity levels and phase out inter-sectoral distortions. In addition to their direct development benefits, such measures could also have important complementarities by increasing Mauritius' competitiveness and attractiveness as an investment destination. Increasing female labor force participation would also be critical to counteract the increasing dependency ratio resulting from demographic change.

51. Better ingraining evidence based and M&E policies to raise public sector efficiency could yield strong development benefits across the board. According to World Bank (2021), overlap of programs and a lack of evidence-based performance monitoring are prevalent in various policy areas of direct relevance to the poor and bottom 40, including education and training, SME and innovation support, and programs to promote labor market integration. A more cost-efficient evidence-based public sector could also yield dividends in other policy areas, including through fiscal savings and improved delivery of public services. The 2015 SCD rightly identified public sector efficiency among its priority areas. As Mauritius approaches High Income status and is faced with increasingly complex policy challenges, while at the same time COVID-19 response measures have led to an all-time high of state involvement in the economy, reforms to improve policy coherence and implementation have gained further in importance (World Bank 2021a).

52. Finally, strengthening policies and institutions for resilience against natural hazards and climate change would yield very significant development benefits both directly, by protecting the poor and bottom 40 and their livelihoods against direct harm and income losses from natural disaster, and indirectly, through productivity and growth dividends from exploring opportunities for green growth and building a more resilient economy. As the urgency of action against climate change has further increased over the past years and the costs of inaction are rising, these measures have increased further in priority since the 2015 SCD.

Table 2: Prioritization criteria applied to each of the original priority areas[29]

	Impact on twin goals small / medium / large	Complementarities weak / medium / strong	Fiscal impact negative / neutral / positive	Gender equality low / medium / high	Climate change low / medium / high
1. Revisit industrial policy for efficient allocation of resources toward higher value-added sectors	Large	Strong	Positive	Medium	High
2. Remove sector-specific constraints to increase domestic investment and FDI	Large	Medium	Neutral	Low	High
3. Revise policies to spur innovation, FDI and transfer of know-how	Medium	Strong	Neutral	Low	High

[29] The priority area 14 of the 2015 SCD, "Reexamine health and pension policies to cope with growing costs of aging population", was scrapped for the SCD Update because the topic is already covered in the health and social protection notes.

4. Support SME development as a driver for inclusive economic growth (jobs, exports, innovation)	Large	Strong	Neutral	Medium	Low
5. Raise the quality and availability of skills	Large	Strong	Neutral	High	Low
6. Remove constraints in trade facilitation and connectivity, in particular in port management and ICT	Large	Strong	Neutral	Low	Low
7. Improve labor market institutions to align wages to productivity and eliminate gender gaps	Large	Strong	Neutral	High	Low
8. Reform the education system to reduce inequity of education outcomes and boost quality of education	Large	Strong	Neutral	High	Low
9. Refocus health expenditure on growing health patterns (i.e. NCDs)	Small	Medium	Neutral	Medium	Low
10. Raise efficiency of social protection system to reduce poverty and inequality, while promoting labor re-entry	Large	Strong	Positive	High	Medium
11. Revisit unsustainable infrastructure policies in water, transport, and electricity	Medium	Strong	Positive	Low	High
12. Increase public revenues to finance new priorities (i.e. education)	Medium	Strong	Positive	Low	Medium
13. Increase fiscal space by raising efficiency of parastatals	Medium	Medium	Positive	Low	Medium
14. Ingrain evidence-based and M&E policies to raise public sector efficiency	Large	Strong	Neutral	Medium	Medium
15. Revise public investment and PPP policies to improve public investment leverage and efficiency	Medium	Medium	Positive	Low	Medium
16. Develop regional approach to protect natural resources (i.e. fisheries stock) in line with future industry development (e.g. ocean economy and tourism)	Medium	Medium	Neutral	Medium	High
17. Strengthen policies, institutions and implementation mechanisms to increase resilience against natural hazards and climate change	Large	Strong	Negative	Medium	High

4.3. Knowledge gaps

53. Work on the SCD update has revealed a number of important knowledge gaps that future ASA could seek to address in order to enhance the knowledge base for priority reforms. While not exhaustive, these includes the following issues:

- **Land**: Issues related to the ownership, use, and development of land are critical for a number of areas discussed in the SCD. Anecdotal evidence suggests that land ownership remains highly concentrated and subject to distortions, making it a limiting factor to firm entry, competition, and innovation. This also suggests a strong link with inclusiveness and equity. At the same time, land use, spatial planning, and urban development are key for climate change adaptation and efficient public and private investment in transport and public utilities.

- **Development impact of climate change**: While aggregate data on the likely damages from climate change and natural disasters are available for Mauritius, a more granular appreciation of the development impact of climate changes, including by geographic areas and population groups, would be important to inform and prioritize adaptation policies.
- **Skills and innovation**: As the SCD update highlights the importance of innovation and development of relevant skills for Mauritius' growth model, more attention is warranted to the identification and formation of skills demanded by innovative firms and activities. While skills demand surveys are available for Mauritius, carried out by the Human Resource Development Council, more attention to non-traditional skills and occupations and their complementarity with ongoing and future innovation initiative is warranted.

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Annexes

Annex 1. Baseline and Policy Fiscal Scenario Assumptions

Baseline scenario assumptions

Under the baseline scenario, GDP growth will accelerate in the short-term due to the post-pandemic recovery, and then taper and maintain a steady pace over the forecast horizon. From 2021 to 2023, real output growth is assumed to grow at an average of 5.4 percent and then level-off to 3.3 percent in the medium-term and 2.9 percent in the long-term by 2035.[30] Imports are assumed to grow at a similar level as exports.[31] After a spike between 2021-2022 to 3.5 percent, inflation is projected to slow down but remain above the target rate of 2 percent during the forecast horizon.[32]

Rising government expenditure is assumed to be driven by higher social spending linked to the Government's generous pension scheme and Mauritius' aging population. The recently announced *Contribution Sociale Généralisée* (CSG) (to start in 2024, partly financed by a new tax on labor), along with the universal BRP, represent a significant weight in the Government's budget.[33] Under the baseline projections, the fiscal cost of pensions is projected to rise progressively from 7.6 percent of GDP in 2021 to 9.6 percent of GDP in 2035. Health, education and other public in-kind transfers are assumed to remain constant throughout the timeframe, despite the aging population.[34] Other public expenditure components are assumed to remain at their 2014-2019 average (i.e., pre-COVID level), except for interest payments, which are projected to increase progressively as a result of higher outstanding debt.

On the revenue side, we assume no major revenue mobilization efforts. Tax revenues are expected to increase only in the short term as a consequence of the new tax to finance the CSG pension scheme. Other revenue components are assumed to remain at their 2014-2019 average. Grants are assumed to decrease progressively over the forecast horizon and no longer contribute to the budget by 2035 in line with Mauritius' graduation to HIC status.

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[30] We assume a progressive decline in the working age population that is not fully compensated by an increase in labour productivity, which implies a slight decrease in that real output growth towards the end of the period considered.

[31] The Mauritian economy is assumed to continue benefiting from a vibrant service sector, with the tourism industry assumed to recover to pre-COVID levels in the medium term. As Mauritius's comparative advantage in low complexity labor-intensive manufacturing declines over the medium term, it is expected that higher-end industries start to take up market share and stimulate the export sector.

[32] The heterodox monetary policy and sustained accommodative fiscal policy is assumed to result in inflation rates oscillating around 2.5 and 3 percent over the forecast period.

[33] Our baseline assumptions for pensions takes into account the recently announced CSG and aging population. In December 2019, the government announced an increase of the BRP to Rs. 9,000 per month (from the previous Rs. 6,210), and in 2020 it introduced the new CSG. The CSG will pay a flat benefit to all Mauritians (starting in 2024), and is partially financed through a tax on labor (that started in September 2020). The new tax on labor is paid by the active population (18-64), with proceeds collected before 2024 transferred to the Consolidated Budget. The CSG benefit would only be paid from age 65 onwards (as opposed to the BRP which pays from age 60 onwards). In the baseline, we consider the BRP benefit cap at Rs 9,000 per month until 2024, indexed to inflation and half indexed to growth (as a proxy to wage growth) thereafter. The CSG contributions are collected from 2021, and it is assumed that the CSG benefit is distributed from 2024 at Rs 4,500 per month, also indexed to inflation and half indexed to growth thereafter.

[34] In addition to pension-related spending, Mauritius's changing age structure will impact other age-related public expenditures, particularly the provision of education and health. Yet, the associated costs of these two sectors will mostly compensate each other, since the changing of age structure will lead to a significant rise in health spending due to the ageing population, but an almost simultaneous decrease in education expenditure (due to negligible population growth).

Policy Fiscal Scenario Assumptions

The policy scenario assumes tighter fiscal spending over the medium- and long-term compared to the baseline. Comprehensive policy measures in expenditure prioritization and efficiency across the board (including wage bill and transfers) would cut public spending by 1.6 percentage points below the baseline by 2035. Under this scenario, total government expenditure would level off at 30.6 percent of GDP (compared to 32.2 percent of GDP in the baseline) by 2035.

On the revenue side, the policy scenario assumes a fiscally neutral CSG scheme, limiting benefits to what can be financed from CSG revenue, and sustained policy efforts in raising domestic revenue. Under this scenario, fiscal costs associated with the CGS benefits are assumed to be entirely financed by CGS contributions. Besides, an ambitious tax reform agenda would increase overall domestic revenue, pushing total revenue as a percentage of GDP to rise annually by 1.4 percentage point., on average, above the baseline scenario over the forecasting horizon.[35]

[35] This rhythm of revenue increase compares to the ones experienced by Liberia (2003-12) and Rwanda (2009-15), two country cases that are usually cited as successful stories in the area of tax revenue reforms.

Annex 2. Poverty and Inequality Analysis

The main poverty and inequality analysis presented here uses a per capita consumption welfare measure and an absolute poverty line, which differs from Mauritius official poverty methodology. Mauritius' official poverty measure is based on an income-based welfare measure adjusted for adult equivalents and uses a relative poverty line. This methodological choice is appropriate given the national context and the level of development in Mauritius. For international poverty measurement and comparison, the World Bank uses a per capita welfare measure with a poverty line that is fixed over time. In the case of Mauritius, the absolute poverty line of $5.50/day typical for upper-middle income countries is used.[36]

Changes in inequality are the key driver of changes to relative poverty. One key characteristic of a relative poverty line relative to the median is that growth alone does not reduce the poverty rate. If everyone's incomes grow at the same rate, poverty remains unchanged as the poverty line grows at the same rate as incomes do. Only differential growth across the income distribution, and thereby changes in inequality, can change a relative poverty rate. Individuals whose income grows slower than the mean or median, will get poorer or move closer to poverty. A decrease in inequality, holding everything else constant, will lead to a decrease in relative poverty. Thus, in cases like Mauritius, which uses a relative poverty line, reducing poverty can be directly linked to changes in inequality.

Trajectories of recent and future trends of poverty and inequality rely on extrapolation of past growth. Between the last household survey in 2017 and 2020, poverty estimates draw on the World Bank's Macro poverty outlook for Mauritius from March 2021. Growth in household consumption is assumed to follow a pattern of the overall economy, adjusted for typical passthrough of national accounts growth to household survey growth. Inequality is assumed unchanged up to 2020. To produce illustrative scenarios for poverty and inequality from 2020 onwards, past growth patterns from the 2006-2012 and 2012-2017 survey spells are used to simulate future household consumption until 2030. Both the overall level and distributional nature of growth is based on the annualized growth incidence curve of the past survey spells, extrapolated forward until 2030.

The decomposition of poverty reduction is implemented using the Shapley approach (Shorrocks, 2013).. This is **based on** the decomposition of changes in a welfare indicator into growth and distribution, following the shapley and non parametric methodology implemented in the Stata package DGDECOMP.[37]

[36] The World Bank's poverty methodology and poverty lines are documented in Jolliffe, D., & Prydz, E. B. (2016). Estimating international poverty lines from comparable national thresholds. *The Journal of Economic Inequality*, *14*(2), 185-198 and Ferreira, F. H., Chen, S., Dabalen, A., Dikhanov, Y., Hamadeh, N., Jolliffe, D., ... & Yoshida, N. (2016). A global count of the extreme poor in 2012: data issues, methodology and initial results. *The Journal of Economic Inequality*, *14*(2), 141-172.

[37] The decomposition methodology is documented in in Joao Pedro Azevedo & Andres Castaneda & Viviane Sanfelice, 2012. "DRDECOMP: Stata module to estimate Shapley value of growth and distribution components of changes in poverty indicators," Statistical Software Components S457563, Boston College Department of Economics. Datt, G.; Ravallion, M. (1992) Growth and Redistribution Components of Changes in Poverty Measures: A Decomposition with Applications to Brazil and India in the 1980s. Journal of Development Economics 38: 275-296. Shorrocks, A. F. (2012) Decomposition procedures for distributional ananified framework based on the Shapley value. Journal of Economic Inequality. Shorrocks, A.; Kolenikov, S. (2003) A Decomposition Analysis of Regional Poverty in Russia, Discussion Paper No. 2003/74 United Nations University.

<table>
<tr><th colspan="15">Annex 3: Changes in ratings from 2015 SCD and justification for change*</th></tr>
<tr><th rowspan="2"></th><th colspan="3">Impact on goals</th><th colspan="3">Compleme ntarities</th><th colspan="3">Political capital required</th><th colspan="3">Time horizon[38]</th><th rowspan="2">Justification for rating changes</th></tr>
<tr><th>small</th><th>medium</th><th>low</th><th>low</th><th>medium</th><th>high</th><th>low</th><th>medium</th><th>high</th><th>short</th><th>medium</th><th>long</th></tr>
<tr><td>1. Revisit industrial policy for efficient allocation of resources toward higher value-added sectors</td><td colspan="3">Medium => Large</td><td colspan="3"></td><td colspan="3"></td><td colspan="3"></td><td>World Bank (2021) presented new evidence on the level if allocation of government support to mature industries vs innovative activities and COVID-19 brought government involvement in the economy to unprecedented heights, raising the stakes on a ensuring that these resources are well allocated.</td></tr>
<tr><td>2. Remove sector-specific constraints to increase domestic investment and FDI</td><td colspan="3"></td><td colspan="3"></td><td colspan="3"></td><td colspan="3">Short => Medium</td><td>2015 SCD appears to have underestimated the time horizon of some of the envisaged sectoral measures, and new evidence (World Bank 2021a) identified additional sectors constraints to FDI in the port and solid waste management that would likely take more than two years to materialize.</td></tr>
<tr><td>3. Revise policies to spur innovation, FDI and transfer of know-how</td><td colspan="3"></td><td colspan="3"></td><td colspan="3">Low => Medium</td><td colspan="3">Long => Medium</td><td>World Bank (2021) discusses some of the issues related to economic concentration and cross-ownership that curtail entrance and innovation and would likely require political capital to overcome. At the same time, innovative disruptions in fast moving fields such as ITC would likely yield significant effects more rapidly than envisaged by the 2015 SCD.</td></tr>
<tr><td>4. Support SME development as a driver for inclusive economic growth (jobs, exports, innovation)</td><td colspan="3"></td><td colspan="3"></td><td colspan="3"></td><td colspan="3">Short => Medium</td><td>Experience over the SCD period has shown that new SME support programs, even if well implemented, mostly yield results over a medium-term time horizon.</td></tr>
<tr><td>5. Raise the quality and availability of skills</td><td colspan="3"></td><td colspan="3"></td><td colspan="3">Low => Medium</td><td colspan="3"></td><td>While new measures to promote improvements in training and education are usually met by broad stakeholder support, overcoming the institutional fragmentation identified by World Bank (2021) as a key obstacle to a more impactful reform would likely generate institutional rivalries requiring political capital to overcome. In addition, inward migration is also a key element of skills availability and measures towards more liberalization are frequently met with political resistance.</td></tr>
<tr><td>8. Reform the education system to reduce inequity of education outcomes and boost quality of education</td><td colspan="3"></td><td colspan="3"></td><td colspan="3">High => Low</td><td colspan="3">Long => Medium</td><td>An extensive and far-reaching education reform was implemented during the SCD period with the aim to promote greater inclusiveness, and while further improvements are needed, these would likely be less drastic, thus requiring less</td></tr>
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[38] Short = 1-2 years; Medium = 3-5 years; Long = 5+ years

					political capital, and yield results more quickly building on an existing foundation.
11. Revisit unsustainable infrastructure policies in water, transport, and electricity			Medium => High		Experience around the (ultimately unsuccessful) attempt to pair the CWA with a private operator, as proposed by Bank TA, highlighted the strong and complex political economy issues around private sector-oriented reform in infrastructure.
12. Increase public revenues to finance new priorities (i.e. education)		Medium => Strong			As Mauritius enters a period of tighter fiscal space and urgent need for consolidation, mobilizing new sources of revenue is a key pre-condition for most development priorities that require additional expenditure (see debt chapter of this report).
14. Ingrain evidence-based and M&E policies to raise public sector efficiency	Medium => Large		Low => Medium		World Bank (2021) discussed how efforts to address key development goals (including growth / innovation, inclusion, and education) were often hampered by lacking implementation capacity and M&E over the SCD period. However, international experience suggests that implementing such policies requires political capital to overcome initial resistance from implementing agencies and current program beneficiaries.
15. Revise public investment and PPP policies to improve public investment leverage and efficiency			Low => Medium		World Bank (2021) discusses examples in solid waste management and port operations where political economy issues related to institutional overlap and presence of SOEs are preventing successful PPPs. Similarly, experience around the (ultimately unsuccessful) attempt to pair the CWA with a private operator, as proposed by Bank TA, highlighted the strong and complex political economy issues around private sector-oriented reform in infrastructure
16. Develop regional approach to protect natural resources (i.e. fisheries stock) in line with future industry development (e.g. ocean economy and tourism)				Long => Medium	World Bank (2021) provides an update on the situation of regional fisheries stocks and highlights the urgency of better stock management. As the situation has become more acute, progress in regulation would likely yield quicker results in terms of damage prevention.
17. Strengthen policies, institutions and implementation mechanisms to increase resilience against natural hazards and climate change	Medium => Large				As discussed in this report, the threat of climate change to Mauritius social and economic infrastructure and the wellbeing of its population has become more acute in recent years, thus increasing the development impact of mitigation measures.

*) only indicators and priority areas with changes in rating from the 2015 SCD are shown. Newly introduced rating criteria that were not used in the 2015 SCD are omitted.