



COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN MAURITIUS

Increasing Private Sector Participation in
an Innovation-Led Economy

Executive Summary

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EXECUTIVE SUMMARY

Mauritius has defied the typical obstacles small island states face by transforming from a monocrop agricultural producer to a diversified, upper-middle-income economy. In the past 50 years, Mauritius has undergone major structural changes to become a diversified economy by exporting textiles, promoting tourism, and providing financial, information, and business services. Export-led industries have translated into substantial employment creation while subsequent productivity gains supported rising salaries and welfare improvements. The country has experienced robust economic growth, with real gross domestic product (GDP) growing at an average of 4.7 percent from 1968 to 2017.¹

Several challenges have emerged during the past decade that affect Mauritius's long-term growth model. The COVID-19 pandemic exposed long-standing structural challenges affecting key sectors, including retail, finance, tourism, professional services, transport, and manufacturing; it also highlighted gender and youth disparities in labor force participation. Increasingly driven by household consumption, the economy has seen stagnating productivity gains and a sustained loss in overall export competitiveness. In addition, the economy is still geared toward traditional sectors, exposed to external shocks, and threatened by the surge in climate change risks.

Efforts to promote transformational investment, such as subsidies and tax incentives, have not yet translated into more substantial attraction of private investment in technologically advanced sectors with high-growth potential. Mauritius successfully attracts foreign direct investment (FDI) in the traditional finance, real estate, accommodation, and construction sectors, which accounted for 85 percent of gross direct investment flows between 2016 and 2018.² In 2022, Mauritius received net FDI of \$250 million, equivalent to 1.9 percent of GDP.³ But real estate accounted for one-third of the investments between 2009 and 2019, even though it contributed to only 10 percent of total value-added growth. Mauritius's competitiveness has declined across established export sectors, and it lost market share in its six largest export sectors. The manufacturing sector also declined in contribution to GDP and employment—from 112,900 jobs in 2007 to 85,000 jobs in 2021.⁴

Challenges faced by small and medium enterprises (SMEs) partially explain this difficulty to innovate, increase productivity, and diversify into more technologically intensive sectors. SMEs account for 99 percent of all businesses in Mauritius.⁵ They contribute 35.7 percent to gross value added (GVA) and 12 percent to exports; they are responsible for 49 percent of employment. SMEs face several challenges, including employees with limited technical skills, lack of capital for digitalization, difficulties in accessing financing, lack of market intelligence, and competition from imported products. Only 15 percent of the country's SMEs are involved in high-growth sectors such as information and communication technology (ICT) and financial services. Many SMEs operate at almost subsistence levels: 47 percent operate with five or fewer employees and annual turnovers of less than MUR 2 million.⁶

Climate change presents a significant challenge to a small island state such as Mauritius, but it also provides opportunities for innovation. More than 10 years after the *Maurice Ile Durable policy strategy and action plan* was introduced to make Mauritius a world model for sustainable development, significant work is still needed to realize that vision. Despite initiatives to increase renewable energy, Mauritius heavily depends on imported fossil fuels, which account for 79 percent of its total primary energy supply, while renewable sources contribute only 21 percent. Mauritius continues to face challenges in water management, solid waste management, and protection of its biodiversity. Further promotion of sustainable tourism practices is needed to address climate change impacts. To adapt to climate change and reduce emissions, Mauritius has set an ambitious plan to increase the use of renewable energy sources for electricity generation to 60 percent by 2030 and phase out the use of coal. Increasing climate resilience and reducing Mauritius's carbon footprint will help reduce its exposure to external shocks. All of these areas offer opportunities for innovation and knowledge-based solutions that can and should come from both private and public actors. Prioritizing and fostering these links will be essential.

CHALLENGES AND OPPORTUNITIES FOR PRIVATE SECTOR-LED GROWTH

The Country Private Sector Diagnostic (CPSD) is a joint World Bank–IFC analytical tool that identifies opportunities for private sector investment and financing to drive development. The Mauritius CPSD comes amid an opportunity to rethink Mauritius's previously successful growth model, the legacy of the COVID-19 pandemic, and the rising impacts of climate change. Strong private sector participation is needed to shift the country to a new, innovation-led economic model based on increasing the productivity of existing sectors and developing new, high-growth economic activities that can also contribute to the country's sustainability. Three sectors (education, renewable energy, and health care) and a cross-cutting theme (innovation) were prioritized for analysis after consultations with local private and public stakeholders and World Bank experts. This CPSD (a) identifies the sector-specific and cross-cutting policy issues that undermine the role of private sector solutions to development challenges, (b) highlights and discusses the sectoral opportunities that can catalyze private sector investment in Mauritius, and (c) suggests policy actions to unlock these sectors for greater private sector participation that can drive the country's next stage of economic development.

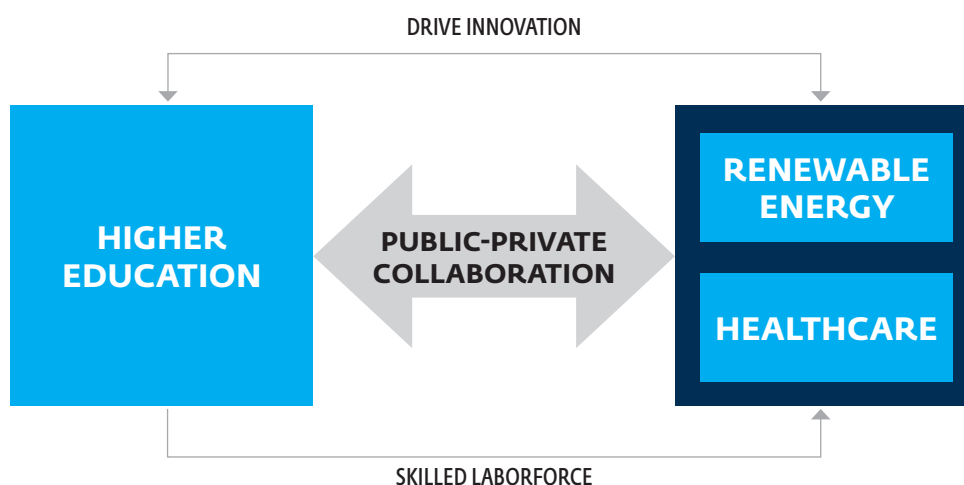
Innovation capacity

Mauritius must do more to improve its innovation⁷ system to support its desired transition to a higher value-added economy. Innovation can and should play a leading role in moving Mauritius to a new development model. Among the challenges the country needs to address for this to happen are: (a) lack of prioritization of innovation at the highest levels of government, (b) underinvestment (both public and private) in research and development (R&D) and technology transfer efforts, (c) higher education institutions (HEIs) that do not produce enough knowledge that can be transferred to the real economy, and (d) uncoordinated and dispersed efforts to promote innovation. Mauritius possesses assets that make it a desirable destination for entrepreneurs and researchers, including a stable and enabling business environment—including helpful regulations to start a firm, hire workers, and import talent; good infrastructure and internet connectivity; and a safe and attractive place to visit or live. The CPSD recommendations suggest actions the country can take to better leverage innovation and support diversification goals to become a more knowledge- and technology-driven economy.

Sectoral analysis

An assessment of existing sectoral data and consultations with Mauritius's private sector and policy makers suggest that three sectors—education, renewable energy, and health care—can help drive the export-led private sector growth model. Though many technologically driven sectors contribute to an innovation-led economy, this CPSD prioritized and analyzed the sectors where Mauritius has distinct comparative advantages, there is demand for more of these services, an existing private sector is interested in expanding its presence, and there is value-added growth potential. Other filters used to prioritize sectors were (a) potential for leveraging and expanding into regional markets (to take advantage of FTAs, among others); (b) potential to address climate change challenges; (c) potential to mobilize FDI; and (d) potential to create better-paid jobs in Mauritius. The filters also considered the value added by including the sector in the CPSD. It excluded sectors with more recent IFC or World Bank analytical engagements, such as the tourism and financial sectors. In addition, the selected sectors are either geared to support the supply side of an innovation-driven economy (education) or to encourage the shift in the demand side with increased private sector participation in technologically advanced and innovative activities (health care and renewable energy). The CPSD recommendations aim to increase the investments in and competitiveness of these sectors.

FIGURE ES.1 RATIONALE FOR SECTOR SELECTIONS



Source: World Bank.

Lack of a clear strategy, challenges in effective coordination with the private sector for policy design and implementation, and skills gaps are common constraints across the three sectors. Mauritius is able to articulate policy goals it seeks to achieve; however, strategies to achieve these goals can lack depth and clear identification of structural issues. Mauritius's education hub policy is an example. Consultations with public and private higher education stakeholders reveal that there is no shared vision, strategy, or structured consultation process. Similarly, the Health Sector Strategic Plan 2020–24 could benefit from more focus and prioritization. Detailed operational plans developed by Thematic Working Groups are a positive step, providing more focused coverage of sector-specific priorities which are being implemented at the Ministry of Health and Social Welfare (MOHW). In the renewable energy sector, the private sector reported that in the past, dialogue with the government had been intermittent—although there are current efforts to remedy this through regular meetings with Business Mauritius. Extensive consultations were undertaken to produce the Renewable Energy Roadmap 2030 and the National Biomass Framework, but the private sector was not consulted on major target revisions. Finally, there are not enough local experts to fill the skill gaps identified in the three sectors. Both the education and health care sectors face challenges in hiring specialized professionals from abroad, especially because of difficulty obtaining visas.

Higher education

Drawing on the future mobility trends of Sub-Saharan students and considering Mauritius's comparative advantages as a destination for studies, the country has a great opportunity to become an education hub for the region. Yet Mauritius is far from achieving the features of an education hub or of a knowledge hub whose goal is the production and distribution of knowledge and innovation. The private sector already plays a crucial role in the higher education sector, which has both private and public providers. Education contributes 4.6 percent to GVA and is responsible for 5.7 percent of total employment.⁸ To realize the ambition of an education hub will require developing a common vision and strategy among higher education stakeholders, aligning the Mauritian and foreign higher education systems to ease admission of international students, promoting research excellence, and building relationships between the research community and industry at public universities. It is imperative to first focus on attracting international students to existing schools by simplifying the visa issuance process, reviewing admission criteria, and improving welcoming conditions. To attract more high-quality HEIs, clearer policies and incentives are needed. The country could also explore public-private partnerships (PPPs), illustrated by multiple international examples, to fund additional investments in higher education.

Renewable energy

The private sector has opportunities to participate in utility-scale projects for public provision of renewable power supply and to support businesses in industry and commerce for self-generation and increased energy efficiency. The electricity sector contributes modestly to GDP and employment; its expansion could bring Mauritius closer to its goal of sustainability, create demand for skilled labor in well-paying jobs, and create spillovers by making electricity-dependent industries sustainable. The government aspires to increase the supply of renewable energy to approximately 700 megawatts by 2030 through private participation in generation. The private sector is poised to fill the gap; it already operates solar photovoltaic and wind farms on the island, and tenders for new large-scale projects have been awarded. There are also opportunities to participate in distributed generation schemes, which allow companies to lower electricity costs by self-generating it. There is also potential to develop market opportunities for energy service companies. However, obstacles remain to increase the use of renewable energy, including a need to develop further details to implement the Renewable Energy Roadmap 2030 to prevent delay in private sector investments; to make improvements to ensure competitive auctions and the stability of the grid; and to provide updated information on the potential impact of integrating renewable energy sources on electricity tariffs currently being prepared by the Central Electricity Board (CEB).

Health care

Mauritius aims to become a regional health care hub catering to patients from continental Africa, in addition to expanding medical services for the emerging medical tourism industry. Private investments have fueled the growth of the health care sector, with an increasing number of private health care providers. Opportunities exist to expand PPPs in the provision of health care services, particularly in specializations that require higher levels of capital investment and skills, such as oncology, renal dialysis, and diagnostic imaging services. In addition, Mauritius is developing greater capacity to provide clinical trial services through locally based contract research organizations, which serve international biomedical and pharmaceutical clients globally. However, the country faces challenges in becoming a health care hub because of a lack of specialized health care skills and no conducive policy, legal, and regulatory frameworks to support its vision. The country also faces uneven quality of health care infrastructure; limited investments in R&D; and strong competition from well-established international medical hubs such as India, Singapore, and South Africa. To address these constraints, the government should create an action plan to promote the growth and better coordination of the health care ecosystem and to consolidate the technical, legal, and institutional foundations for the medical tourism and biopharmaceutical industries. This needs to be followed by a plan to better leverage existing supporting institutions for new private investments and scaling up.

PRIORITY REFORM RECOMMENDATIONS

The CPSD provides a series of actionable recommendations across the sectors covered in the report. Table ES.1 summarizes recommendations for increasing private sector investment in Mauritius's economy to spur greater competitiveness, diversification, and growth. The CPSD prioritizes policy actions likely to be achieved in the short or medium term and policies that have high development impact. The actions are feasible for a country with an excellent track record of development and reform and that desires to reach greater heights through "a modern, vibrant and innovative economy that delivers sustainable and inclusive growth."⁹

TABLE ES.1 KEY RECOMMENDATIONS IN MAURITIUS

SECTOR	RECOMMENDATIONS	RESPONSIBLE ENTITY	PRIORITY	TIME FRAME (SHORT 1-2 YEARS; MEDIUM 3-5 YEARS)
INNOVATION				
Establish a coherent, coordinated vision for innovation	Develop a national innovation strategy with a clearly stated vision, objectives, and up to three priority sectors	Ministry of Finance, Economic Planning and Development	High	Short
	Ensure interinstitutional coordination by establishing an Innovation Council led by the Prime Minister	Prime Minister's Office	High	Short
	Transform MRIC into a national innovation agency with strategic priorities and enhanced budget allocations to accelerate change	Prime Minister's Office	High	Short
Support entrepreneurship and direct engagement with VC	Strengthen entrepreneurship initiatives, including the existing incubator and accelerator programs	Mauritius Research and Innovation Council	High	Short
	Encourage the VC industry based in Mauritius to stimulate deal flow and accelerate new technology-based firms in priority areas	Ministry of Finance, Economic Planning and Development	Medium	Medium
Increase collaboration and funding for research initiatives	Boost private and public sector expenditure on R&D in the priority areas defined by the national innovation strategy	Ministry of Finance, Economic Planning and Development; Mauritius Research and Innovation Council	High	Medium
	Pursue reforms of HEIs to promote research excellence and build relationships between the research community and industry	Ministry of Education, Tertiary Education, Science and Technology	High	Short
Follow good practice for effective program design and the intellectual property agenda	Strengthen the national intellectual property framework and enforcement mechanisms	Mauritius Intellectual Property Office	Medium	Short
	Ensure that all entities responsible for public support programs apply good practice in design and implementation, including monitoring and evaluation	Relevant program implementation institutions	High	Short

Note: HEI = higher education institution; MRIC = Mauritius Research and Innovation Council; R&D = research and development; VC = venture capital.

SECTOR	RECOMMENDATIONS	RESPONSIBLE ENTITY	PRIORITY	TIME FRAME (SHORT 1-2 YEARS; MEDIUM 3-5 YEARS)
HIGHER EDUCATION				
Develop a shared vision for higher education	Create a Higher Education Advisory Council for a structured consultation process	Ministry of Education, Tertiary Education, Science and Technology	High	Short
	Develop a common vision of the education hub by private and public higher education representatives and stakeholders	Ministry of Education, Tertiary Education, Science and Technology	High	Medium
Promote research excellence and collaboration	Increase and reform R&D funding at HEIs so they can be channeled into multidisciplinary and multiyear programs	Ministry of Education, Tertiary Education, Science and Technology	High	Short
	Create links with international knowledge organizations and tap into international research funding from the private sector	Ministry of Education, Tertiary Education, Science and Technology	High	Medium
Attract international students	Align the Mauritian and foreign education systems by recognizing prior learning and using the National Credit Value and Transfer System	HEC	High	Medium
	Strengthen the attraction of existing private education providers by improving the visa issuance process, admission criteria, and welcome conditions	Ministry of Finance, Economic Planning and Development; Ministry of Labour, Industrial Relations and Employment	High	Medium
Attract high-quality higher education providers	Set up clear policies and incentives to attract high-quality HEIs	Ministry of Education, Tertiary Education, Science and Technology; HEC	High	Medium
	Establish a legal framework to distinguish between for-profit and nonprofit institutions to avoid questionable practices	HEC	High	Medium

Note: HEC = Higher Education Commission; HEI = higher education institution; R&D = research and development.

SECTOR	RECOMMENDATIONS	RESPONSIBLE ENTITY	PRIORITY	TIME FRAME (SHORT 1-2 YEARS; MEDIUM 3-5 YEARS)
RENEWABLE ENERGY				
Improve the institutional setup and processes	Provide greater clarity and transparency on the process, status, and timeline for issuing policy decisions on biomass, energy generation schemes, and energy efficiency.	MEPU	Quick win	Short
	Set up a coordination mechanism to implement the Renewable Energy Roadmap 2030, with representation from relevant stakeholders	MEPU	Quick win	Short
Support the CEB for inclusion of renewable energy	Modernize CEB's power purchase agreements and tendering process to align with international good practice	CEB	High	Short
	Perform a variable renewable energy integration study and develop a least cost generation plan	CEB	High	Medium
	Support the development of the Utility Regulatory Authority (URA)	MEPU, URA	Medium	Medium
Prepare for new markets to fulfill renewable energy goals	Diagnose opportunities for SMEs in the supply chain for biomass	Agro-industry, MCIA, MEPU, MARENA	Medium	Medium
	Improve the framework and implementation of energy efficiency	EEMO, MARENA	Medium	Medium
	Prepare and implement a strategy to anticipate the demand for green jobs	MEPU, MARENA	Medium	Medium

Note: CEB = Central Electricity Board; EEMO = Energy Efficiency Management Office; MARENA = Mauritius Renewable Energy Agency; MCIA = Mauritius Cane Industry Authority; MEPU = Ministry of Energy and Public Utilities; SME = small and medium enterprise; URA = Utility Regulatory Authority.

SECTOR	RECOMMENDATIONS	RESPONSIBLE ENTITY	PRIORITY	TIME FRAME (SHORT 1-2 YEARS; MEDIUM 3-5 YEARS)
HEALTH CARE				
Improve strategic, legal, and regulatory frameworks	Establish mutual recognition agreements with international health insurance companies	Ministry of Health, EDB, Mauritius Institute of Biotechnology, private health care insurance providers	High	Short
	Refine the health care sector strategy, including prioritization of initiatives, to align with becoming a regional medical hub	Mauritius Institute of Biotechnology	High	Medium
	Establish internationally aligned accreditation criteria and strengthen the local accreditation capacity of health care providers	Ministry of Health, EDB, Mauritius Institute of Biotechnology, private health care insurance providers	High	Medium
Invest in infrastructure and human capital	Strengthen the quality of physical infrastructure and technologies to meet international standards and for more specialized services	Ministry of Health, EDB, private health care providers	High	Medium
	Enhance the capacity of the health care workforce by introducing uniform accreditation and licensing requirements	Ministry of Health, Ministry of Education, private HEIs, private health care providers	High	Medium
Improve collaboration and R&D for innovation	Strengthen intersectoral coordination and collaboration for R&D and PPP opportunities among health care sector stakeholders	Ministry of Health, Ministry of Education, private HEIs, private health care providers	High	Short
	Promote incentives for greater resource allocation and investments in R&D and biotechnology	Ministry of Health, Ministry of Education, private HEIs, private health care providers	Medium	Medium
Boost private investments and opportunities for PPPs	Establish PPP models to help develop a regional medical hub	EDB, Board of Investment, Ministry of Tourism, Ministry of Foreign Affairs	High	Medium
	Leverage preferential trade agreements to boost health care sector investments	EDB, Board of Investment, Ministry of Tourism, Ministry of Foreign Affairs	High	Medium

Note: EDB = Economic Development Board; HEI = higher education institution; PPP = public-private partnership; R&D = research and development.

NOTES

- 1 World Bank, WDI (World Development Indicators).
- 2 Bank of Mauritius.
- 3 World Bank, WDI (World Development Indicators).
- 4 Statistics Mauritius (database), <http://statsmauritus.govmu.org/>.
- 5 Ministry of Finance, Economic Planning and Development, Ministry of Industrial Development, SMEs and Cooperatives, Economic Development Board. Handbook on Schemes & Incentives for MSMEs & Entrepreneurs. September 2020.
- 6 UNCTAD (United Nations Conference on Trade and Development), *Industrial Policy and Strategic Plan for Mauritius 2020–2025* (UNCTAD, 2020).
- 7 Innovation in this context means any new idea that, when implemented, can help address an existing challenge or spur the development of a new product or service. These are new ideas that are developed to have a tangible economic and/or social impact.
- 8 Statistics Mauritius (database), <http://statsmauritus.govmu.org/>.
- 9 MCCI (Mauritius Chamber of Commerce and Industry), *Government Programme 2020–2024: Towards an Inclusive, High Income and Green Mauritius – Forging Ahead Together* (Port Louis, Mauritius: MCCI, 2020).

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