

Mauritius

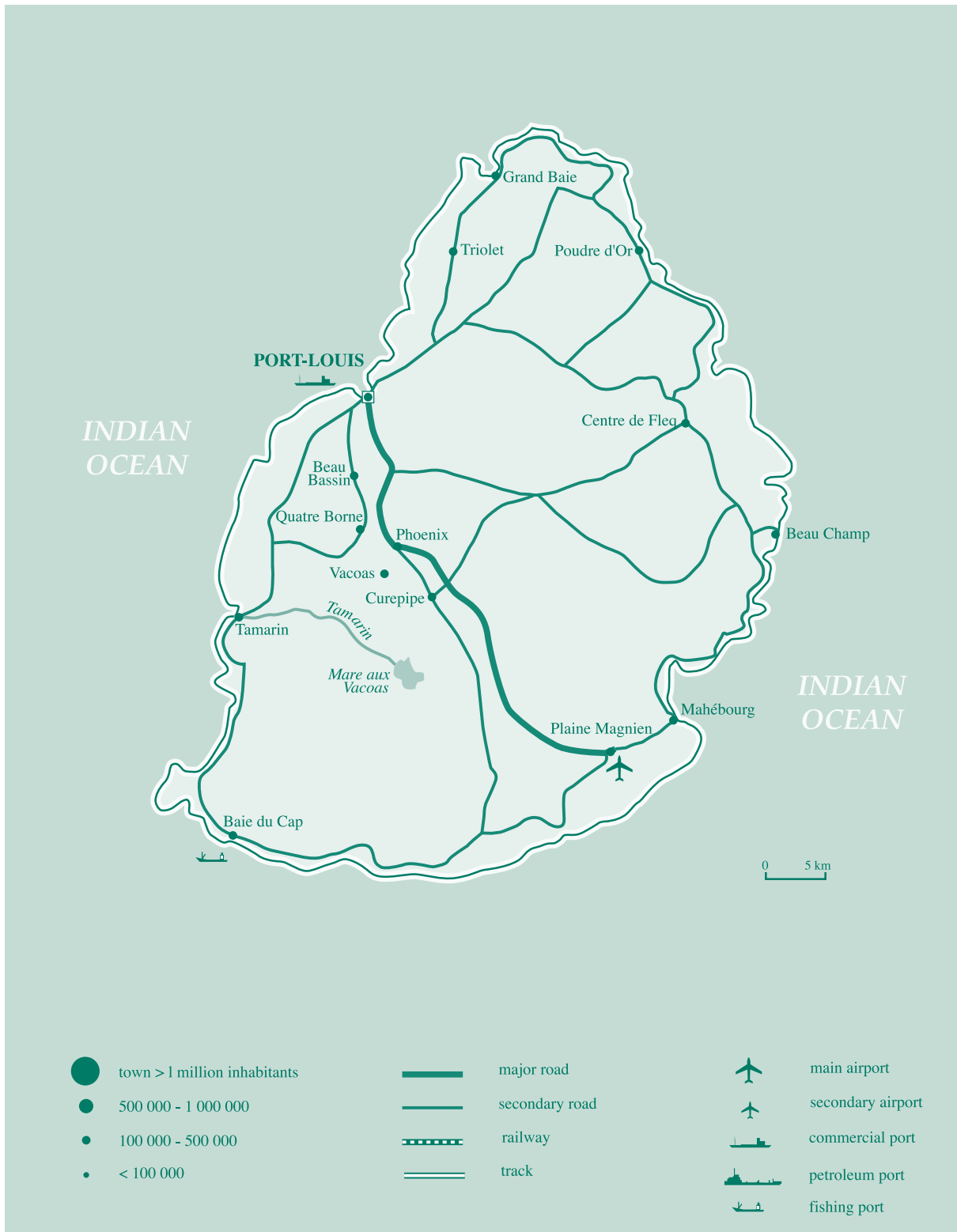


Port-Louis

key figures

• Land area, thousands of km ²	2
• Population, thousands (2007)	1 262
• GDP per capita, USD at constant 2000 prices (2007)	4 649
• Life expectancy (2007)	72.8
• Illiteracy rate (2007)	12.9

Mauritius



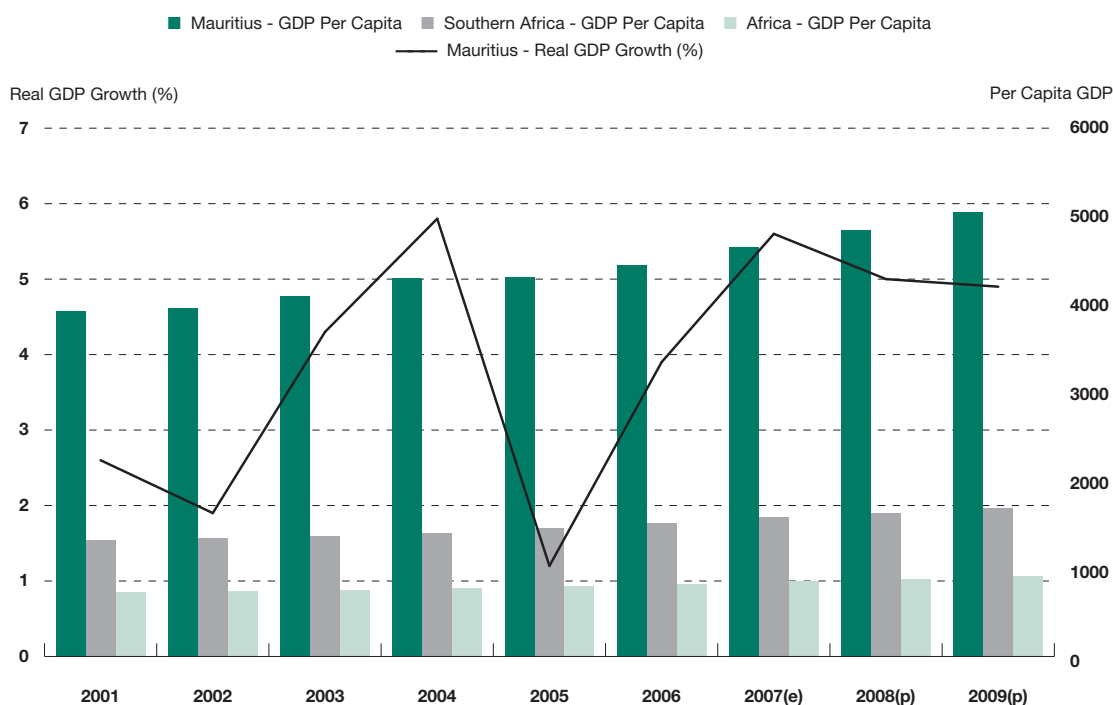
IN SPITE OF INCREASES IN THE PRICES of imported food and fuel and of the lingering effects of the end of preferential trade agreements, the Mauritian economy has performed well. In 2007 it continued to recover from weakness in the sugar sector, growing by 5.6 per cent, up from 3.9 per cent in 2006. Excluding sugar, the economy has performed even better, as the growth rate was 6.4 per cent compared to 5.3 per cent in the previous year. The good performance of the economy in 2007 was in large part driven by a boom in the tourism sector, which in turn led to strong growth in the construction sector, and by a better performing textile industry.

In 2008 and 2009 the Mauritian economy is expected to grow by about 5 per cent. However, it


remains vulnerable to external shocks, such as continued high oil and other commodity prices, and a further adverse performance of the sugar sector would result in slower growth. Individuals may become accustomed to expecting a high level of inflation and that could exert upward pressure on wages, which in turn could contribute to even higher inflation. The good external competitiveness of Mauritius in 2007 was also the result of the past nominal and real depreciation of the rupee vis-à-vis the currencies of its main trading partners. But the rupee stabilised, and even appreciated, against major currencies towards the end of 2007. Competitiveness in the export sector is central to its future performance. Productivity gains seem to be

Reforms and high private investment have partly compensated for lost preferential agreements.

Figure 1 - Real GDP Growth and Per Capita GDP
(USD at constant 2000 prices)



Source: IMF and Central Statistical Office data estimates (e) and projections (p) based on authors' calculations

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required, together with success in containing inflation and wage pressures. In the tourism sector, the challenge will be to maintain high growth without sacrificing quality of service and still targeting high-spending tourists.

On the social front, the recent increase in inequality, combined with a relatively high unemployment rate, could constitute fertile ground for social unrest. Finally, the government wants to reposition its economy further up the value chain and to build a knowledge economy. Meeting this objective requires skilled labour. That aim faces a problem inasmuch as only a small section of the current labour force has the required skills and the education system must change to produce a large number of skilled workers.

Recent Economic Developments

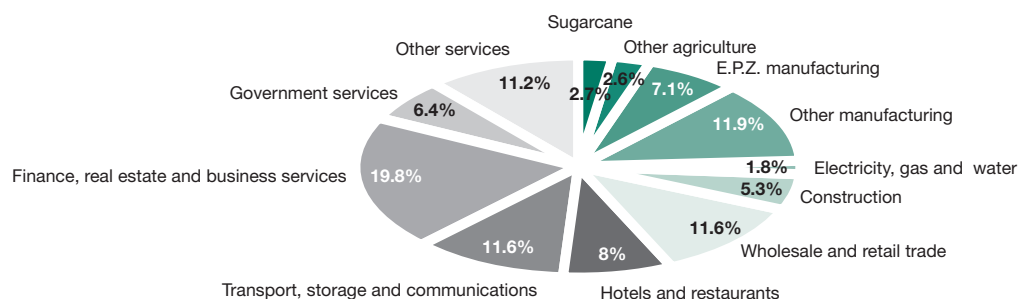
Private investment made the most important contribution to economic growth in 2007, increasing by 17.5 per cent in 2007 after the already high growth of 15.3 per cent in 2006. This increase is mostly attributable to investment in hotels and Integrated Resorts Schemes (IRS) projects. However, as a result of the decision to contain the budget deficit, public sector investment fell by 24.6 per cent (in real terms) in 2007. The strong growth in private investment helped total investment grow by 4.2 per cent in 2007 but, as a share of GDP, investment fell to 24.1 per cent of GDP in 2007, down from 26.4 per cent in 2006. Excluding aircraft, the rate would have increased

to 22.8 per cent in 2007 compared to 21.6 per cent in 2006.


Tourist arrivals reached 906 971 in 2007, which translates into a growth rate of 15.1 per cent compared with 3.5 per cent in 2006. While all source markets increased, the greatest rise in the number of arrivals came from China (58.7 per cent) while France – the first source market – grew by an impressive 31.7 per cent. Tourism receipts, denominated in domestic currency, increased by 30 per cent in 2007. The exceptional performance of the tourism sector is the result of good marketing campaigns and better air access. Construction grew at an impressive 15 per cent, compared to 5.2 per cent in 2006, mainly as a consequence of the construction and renovation of hotels, Integrated Resort Scheme (IRS) projects and expansion of the textile and clothing industries. The manufacturing sector grew marginally more slowly in 2007 at 3.7 per cent compared with 4 per cent in 2006. Textile and food processing industries performed fairly well as they grew respectively by 7.2 per cent and 3.9 per cent. Sugar is the only sector which showed negative growth in 2007. Indeed, following the downward trend in the recent past, as a result of the fall in guaranteed prices to ACP producers and adverse weather, sugar production contracted by 7.9 per cent with an output of 465 000 tonnes compared with 504 857 tonnes in 2006.

Inflation was a major concern during 2007 and reached 8.8 per cent for the full year. Among the reasons for a doubling of the inflation rate in 2007 the increase

Figure 2 - GDP by Sector in 2006 (percentage)



Source: Authors' estimates based on Central Statistics Office Data.

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in commodity and food prices played a major role. The removal of subsidies on basic foodstuffs, the rise in excise duties brought about in the 2006/07 budget, and the expansion of the monetary base also help explain the high inflation rate.

The finance, real estate and business services sector is the chief contributor to GDP. An important development in that sector has been the amendment of the 2004 Banking Act to allow for Islamic banking. The Finance Act 2007 defines Islamic banking business as any financial business, the aims and operations of which are, in addition to the conventional good governance and risk management rules, consonant


with the ethos and value system of Islam. An Islamic deposit means a sum of money or monetary equivalent of goods or services received by or paid to any person, under which the receipt and repayment shall be in accordance with the terms of an agreement made on any basis including custody or profit sharing. The Central Bank of Mauritius became an associate member of the Islamic Financial Services Board in November 2007 and any bank in Mauritius can opt to offer Islamic banking through a special window, or by launching a full fledged Islamic bank.

The banking sector was for the first time subject to a special levy based on turnover (0.5 per cent) and

Table 1 - Demand Composition

	Percentage of GDP (current prices)		Percentage changes, volume			Contribution to real GDP growth		
	1999	2006	2007(e)	2008(p)	2009(p)	2007(e)	2008(p)	2009(p)
Gross capital formation	26.8	26.4	4.2	8.8	7.8	1.1	2.0	1.9
Public	9.3	7.7	-24.6	5.0	4.0	-1.8	0.3	0.2
Private	17.4	18.7	17.5	10.0	9.0	3.1	1.8	1.7
Consumption	76.7	84.9	4.0	3.1	4.2	1.1	2.6	3.5
Public	14.3	14.3	1.1	3.0	2.2	0.2	0.4	0.3
Private	62.4	70.6	4.5	3.1	4.6	0.9	2.2	3.2
External Demand	-3.5	-11.3				3.4	0.4	-0.5
Exports	63.9	61.7	5.1	8.8	5.2	2.7	4.7	2.9
Imports	-67.4	-73.0	-1.2	7.1	5.4	0.7	-4.3	-3.4
Real GDP growth						5.6	5.0	4.9

Source: Central Statistics Office data; estimates (e) and projections (p) based on authors' calculations.

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accounting profits (1.7 per cent). Only 30 per cent of the levy was payable in the first year of application (2007/08).

Mauritius has based its development on preferential access to European markets. The sugar sector has been facing a major challenge as a result of the decision by the European Union (EU) decision to reduce the guaranteed price to African, Caribbean and Pacific (ACP) sugar producers by 39 per cent. The island is in the process of restructuring the sector with the objective of becoming a competitive producer of refined sugar and derivative products based on sugar cane.

Cost reduction will be achieved through the closure of seven of the existing 11 factories. Three of the remaining four are expected to produce more than 100 000 tonnes of raw sugar each. As a result there will be a reduction in labour costs; a substantial reduction of overhead costs at operational, administrative and institutional levels; and substantial economies of scale at all levels. As provided for in the Annual Adaptation Strategy Action Plan 2006-2015 (MAAS), factory closures and retirement schemes will be financed by EU accompanying measures. Following the successful conclusion between the government and the Mauritius Sugar Producers Association in December 2007, the

remainder of EUR 58 million in EU grants for the fiscal year 2007/08 is in the process of being secured.

The EU and the Eastern and Southern Africa (ESA) states, which include Mauritius, have concluded negotiations on an interim agreement that will establish the Economic Partnership Agreement (EPA). On 4 December 2007, Mauritius initialled the ESA-EU framework agreement and added its own market schedule. Mauritius has agreed to liberalise 95.6 per cent of its imports from the EU by 2022. The agreement was concluded as part of a package including provisions on trade, fisheries and economic development co-operation. On trade provisions, the EU will grant duty-free and quota-free market access to all goods exported by ESA states except for sugar and rice, which are subject to short transition arrangements. The ESA states which have initialled the agreement have also secured an additional quota of 75 000 tonnes that will be available from the 2008 marketing season. In respect of textiles and clothing the EU agreed to provide the "single transformation" rule of origin. This means that Mauritian clothing companies can now source fabrics from anywhere in the world, transform them, and export them to the EU free of duty and quotas. On fisheries, the ESA states which have initialled the agreement have obtained an automatic derogation on tuna and tuna loin exports of 10 000 tonnes. That means these products can be exported to the EU irrespective of the origin of the fish.

ESA states have agreed gradually to liberalise imports from the EU, covering mainly capital, raw material and intermediate products, for the most part over 15 years with an initial five-year preparatory period. Negotiations will continue on outstanding issues, namely agriculture, trade-related issues and trade in services.

Macroeconomic Policies

Fiscal Policy

The fiscal deficit was reduced from 5.3 per cent of GDP in 2005/06 to 4.3 per cent in 2006/07. In fact, the primary balance has improved considerably and has stabilised at around -0.3 per cent of GDP. The primary balance is an important performance indicator for the government, as it forms part of the criteria for disbursement by development partners. This performance is due to a number of measures taken by the government as well as to better economic conditions. Starting in 2006/07, the government reduced recurrent expenditures by containing wages and salaries as well as transfers and subsidies. In respect of wages and salaries, the government decided to fill vacancies only on a needs basis, contained pay increases and reduced the use of overtime. As regards current transfers and subsidies, they fell from 9.3 per cent of GDP in 2005/06 to 8.6 per cent in 2006/07. One reason for this improved

Table 2 - Public Finances (percentage of GDP)

	1998/99	2003/04	2004/05	2005/06	2006/07(e)	2007/08(p)	2008/09(p)
Total revenue and grants^a	20.2	20.3	19.9	20.0	19.2	19.3	21.6
Tax revenue	17.2	17.5	18.1	18.1	17.4	17.4	19.4
Grants	0.1	0.4	0.2	0.2	0.1	0.1	0.1
Total expenditure and net lending^a	23.7	25.7	24.9	25.3	23.5	24.1	26.7
Current expenditure	21.2	21.0	21.0	21.4	20.1	20.4	22.5
<i>Excluding interest</i>	<i>17.5</i>	<i>17.1</i>	<i>17.1</i>	<i>17.7</i>	<i>16.1</i>	<i>15.9</i>	<i>17.8</i>
Wages and salaries	6.9	6.6	6.5	6.3	5.6	5.4	5.7
Interest	3.6	4.0	4.0	3.8	4.1	4.5	4.7
Capital expenditure	3.2	4.3	3.5	3.6	3.2	3.6	4.1
Primary balance	0.1	-1.4	-1.0	-1.5	-0.3	-0.3	-0.4
Overall balance	-3.6	-5.4	-5.0	-5.3	-4.3	-4.8	-5.1

a. Only major items are reported.

Source: Ministry of Finance data; estimates (e) and projections (p) based on authors' calculations.

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fiscal deficit is that total expenditure, including capital expenditure, grew more slowly in 2006/07 than inflation. Finally, the government is benefiting from a large inflow of grants. Projections for 2007/08 indicate a slight worsening of the fiscal deficit to 4.8 per cent of GDP.

The Mauritian government has embarked on a major reform programme targeting both revenue and expenditure with the objective of containing the budget deficit. In particular it has taken measures aimed at fiscal consolidation, and has been implementing programme-based budgeting as well as the Medium Term Expenditure Framework (MTEF). By doing so it seeks to restructure public expenditure, strengthen expenditure controls and improve budgetary processes. This new system should enable it to focus more closely on objectives, results and performance.

On the revenue side, in the hope of boosting economic growth and entrepreneurship, the government had announced in its 2006/07 budget the introduction of a flat-rate personal and corporate income tax of 15 per cent effective as from 2008. However, it decided to accelerate the implementation of this change to 2007. Revenue collection has also been enhanced by consolidating revenue collection agencies under one authority, the newly established Mauritius Revenue Authority, thus eliminating overlapping, duplication of functions and waste. In an effort to get more individuals and businesses to pay taxes, the government introduced a Voluntary Disclosure Incentive Scheme (VDIS) and a Tax Arrears Payment Incentive Scheme (TAPIS). VDIS allowed individuals and companies to come forward and make voluntary disclosure of undeclared earnings with only 25 per cent of the penalty and interest that would have been imposed under normal provision.

On the expenditure side the government removed all subsidies on rice and flour, and those on the payment of School Certificate and Higher School Certificate examination fees in its 2006/07 budget. The policy is now to target needy households. For example, it now pays the full examination fees of students from such households. There is also an attempt to increase

productivity in the public sector. Finally, the government has moved to performance-based budgeting. However, some high expenditure items, such as subsidies to bus owners in exchange for providing free transportation to students and old-age pensioners, are still in the budget.

Public debt – composed of central government debt, domestic and external debt of parastatals, but excluding the Consolidated Sinking Fund – as a share of GDP has stabilised over the past three years and even started to fall as a share of GDP. Total public sector debt declined from 69.4 per cent of GDP in June 2005, or MUR 126 billion (Mauritian rupees: in March 2008 \$1 = MUR 27.375), to 63.1 per cent (MUR 138 billion rupees) in June 2007. This reduction can be dissected into a reduction of 3.7 percentage points in central government debt and 2.6 percentage points in the debt of public corporations. It should, however, be noted that external debt sustainability is not a problem in Mauritius. The problem lies with domestic debt which accounted for 50 per cent of GDP in June 2007. Public sector debt carries important risks because government debt is mostly domestic and short term, while parastatal debt is mostly external and long term.

The government is taking a number of measures to reduce further the debt burden to the EU benchmark of 60 per cent. It aims to improve debt management, including reviewing the mix of borrowing and lengthening the maturity. In doing so it seeks to address the fact that government debt is mostly domestic and short-term. Moreover, it wants to re-engineer parastatal entities to improve performance and reduce contingent liabilities. The government is implementing a new debt management strategy with the focus on mitigating major risks to the portfolio. One interesting measure concerns the roll-over risks of debt. In the medium term, the objective is to limit the amount of debt maturing in a year to 25 per cent to 30 per cent of the total. The process for lengthening the maturity structure of domestic debt has already started and the share of short and medium term instruments in total central government debt was reduced from around 82 per cent at the end of December 2004 to 75.5 per cent at the end of June 2007.

Monetary Policy

The primary objective of the Bank of Mauritius is to maintain price stability and to promote orderly and balanced economic development (Bank of Mauritius Act 2004). However, the bank has more recently moved in the direction of focusing mainly on targeting inflation by introducing a new monetary policy framework. The new strategy is based on a more comprehensive set of measures which *i*) focuses on economic analysis that measures short and medium-term risks to price stability and *ii*) evaluates monetary development and the associated long-term risks to price stability. In the new framework, the Bank of Mauritius uses the repurchase rate for treasury bills (repo rate) to regulate the supply of reserve money. An interesting innovation is the setting up a monetary policy committee, which meets on a quarterly basis, to vote on the repo rate. Such meetings have taken place as scheduled and decisions have been taken on the rate. However, there has been very little, if any, repurchase transaction between the Bank of Mauritius and commercial banks. Commercial banks have been placing their excess liquidity in government bonds.

The Mauritian rupee appreciated slightly in 2007 against the currencies of its major trading partners. This reflected the good performance of the economy, the increased arrival of tourists and inflows of foreign direct investment (FDI). In this respect, 2007 differed quite markedly from the previous years, during which the Mauritian rupee depreciated and thus helped exporters to stay competitive in their main export markets.

External Position

The main imports into Mauritius were refined petroleum products (15 per cent), telecommunications, sound recording and reproducing apparatus and equipment (10 per cent), and road vehicles (5 per cent). Thus, around 30 per cent of total imports have no local substitutes. The main exports of Mauritius are clothing and apparel (35 per cent of total export revenue) and sugar (16 per cent).

Thanks to the good economic performance, inflow of FDI and foreign assistance Mauritius has a healthy level of net international reserves. Based on the value of the import bill for 2006/07, these amounted to 40 weeks of imports in September 2007.


After several years of contraction related to the phasing out of the Multifibre Agreement, the exports of articles of apparel and clothing accessories increased during the past three years from MUR 21.8 billion in 2005, to MUR 24.5 billion in 2006 and are expected to exceed MUR 28 billion in 2007. Employment also rebounded slightly, with the number of those in work increasing to 54 199 in March 2007 from 45 573 in March 2006. This rebound can be explained by two factors: first the weak rupee vis-à-vis the euro stimulated exports, and second Mauritius benefited from the temporary restrictions on China's exports to the United States and the EU which were in place until the end of 2007.

Under the Cotonou agreement Mauritius exports clothing products to the EU duty-free. It also exports

Table 3 - **Current Account** (percentage of GDP)

	1999	2004	2005	2006	2007(e)	2008(p)	2009(p)
Trade balance	-11.4	-9.1	-12.7	-16.8	-15.9	-18.1	-18.8
Exports of goods (f.o.b.)	39.9	31.3	34.1	35.9	31.6	32.2	31.4
Imports of goods (f.o.b.)	51.4	40.4	46.8	52.7	47.6	50.4	50.2
Services	7.2	6.7	6.7	10.5	7.2	7.8	9.3
Factor income	-0.4	-0.2	-0.1	0.8	2.0	1.2	1.0
Current transfers	2.4	0.8	1.0	1.1	1.5	2.4	2.0
Current account balance	-2.2	-1.8	-5.2	-4.3	-5.2	-6.7	-6.6

Source: Central Statistics Office data; estimates (e) and projections (p) based on authors' calculations.

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mostly clothing to the United States under the African Growth and Opportunity Act (AGOA). However, Mauritius is not classified as a Least Developed Country and thus cannot use non-qualifying third-country textile inputs in the manufacture of AGOA-eligible clothing exports. As a result, only 40 per cent of Mauritian exports in the textiles and apparel category qualify for AGOA benefits. Mauritius continues to import a large share of its textiles inputs. There was, however, a fall in the imports of textiles and fabrics after 2003, mainly as a result of the creation of two new cotton-spinning mills in 2003 and 2004.

Mauritius has the second largest container port in sub-Saharan Africa which is capable of handling fifth generation vessels with drafts of up to 13 metres. There were bottlenecks in the port in 2007, in part because of the higher number of vessels transiting in Mauritius from Asia en route to Africa. While total container traffic increased by 10 per cent in fiscal year 2006/07 transshipment container traffic increased by 28 per cent.


Similarly, fish traffic more than doubled between fiscal years 2003/04 and 2006/07.

Given the assumption of this report that the average price of oil on the world market in 2008 will be slightly higher than in 2007, and the large share of oil in total imports, the trade balance is expected to deteriorate. The deterioration in the current account balance can be explained on the one hand by higher imports, which are driven by high commodity and oil prices, as well as by a relatively high growth rate, especially in tourism and construction, which prompts increased demand for imported products, and on the other hand by low sugar exports. Given the inflow of external resources, and depending on the success of the reform programme being implemented by the government to increase the competitiveness of the economy, there is a good chance that this gap can be closed. In particular, it is expected that textile companies will gradually become more competitive *vis-à-vis* their Asian counterparts, and that the exports of fish and fish products will increase over

Figure 3 - **Stock of Total External Debt** (percentage of GDP) and **Debt Service** (percentage of exports of goods and services)



Source: IMF.

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time. All those factors should contribute to reduce the current account deficit in the medium and long term.

The government has also attempted to put in place an oil import strategy to mitigate the adverse effects of the high price of oil. The State Trading Corporation (STC) usually procures petroleum products through open international tenders. However, for the fiscal year 2006/07 it imported its entire annual petroleum product requirement from Mangalore Refinery and Petrochemicals Limited (MRPL) in India. In July 2007, a new agreement was signed between the two parties for a period of three years ending in mid-2010.

Mauritius benefited from significant FDI in 2007. For the nine-month period ending September 2007, realised investment, according to the Board of Investment (BOI) of Mauritius, was MUR 7.637 billion. This amounted to a larger FDI inflow than in 2006 and confirms that Mauritius is an attractive destination for FDI. Although the Export Processing Zone (EPZ) sector recorded the larger part of FDI inflows, the hotel and services sector also benefited. In 1997, it was the banking sector that attracted the most FDI, registering more than 90 per cent of total FDI inflows. A few years ago, a large amount of FDI flowed into telecommunications, through the purchase of 40 per cent of the equity capital of Mauritius Telecom by France Telecom. More recently it has been the tourism sector that has been the main beneficiary of FDI through investment in hotel construction and Integrated Resort Schemes. During the last three years, the United Kingdom, the United States and France have been the main source of FDI for the country. Mauritius has also concluded 33 tax treaties and is negotiating a number of others. It has benefited particularly from the tax treaty with India.

Structural Issues

Recent Developments

Communication infrastructure and provision in Mauritius are among the best in the African region. Internet access is readily available to residential and business users and the number of Internet users has

grown rapidly over the years. Currently the number of dial-up Internet subscribers is around 60 000 (40 per cent business and 60 per cent residential) and the estimated number of users is around 146 000. In general, there has been a steady increase in communications and internet access since 1998.

The Port of Mauritius was ranked a lowly 137th in the 2007 World Bank Logistics Port Index. But the government is taking steps to improve its performance. For example, on 25 October 2007, a Customs Mutual Assistance Agreement between Mauritius and the United States was signed with a view to assisting the customs administration to implement the SAFE Framework of Standards of the World Customs Organisation. Its aim is to improve co-operation between the customs administrations of Mauritius and the United States with a view to helping fight customs fraud and other malpractices that may affect their economic, fiscal and commercial interests. Through this agreement Mauritius expects *i)* to benefit from the US experience in fraud prevention and detection; *ii)* to modernise its customs administration; and *iii)* benefit from the transfer of knowhow.

The World Bank's *Doing Business* report ranked Mauritius as the best place in Africa to do business, and 27th in the world, ahead of Korea, France and Chile. Measures to reduce the cost of doing business on the island started with the 2006 Business Facilitation Act. The act provided a new legal framework whereby businesses are expected to operate on the basis of self-adherence to comprehensive and clear guidelines. The authorities check compliance with these by exercising *ex post* control. The act also facilitates the establishment of businesses and the acquisition of properties by foreigners and enables small enterprises to start their business activities within three working days.

In the June 2007 budget a number of measures were announced in an attempt to facilitate business in Mauritius. Some of the measures which have already been implemented are:

- All foreigners who have been working in Mauritius for at least three years and with a

minimum basic monthly salary of MUR 150 000 are eligible for a permanent residence permit and will be allowed to purchase property.

- The maximum number of days allowed for a business visa was increased from 90 to 180 days.
- A short-term residence permit of up to nine months will be given to foreigners who have to work in Mauritius for less than a year.

Mauritius has an open, efficient, and competitive financial system. Distinctions between onshore and offshore banks were eliminated in 2004. The Stock Exchange of Mauritius (SEM) had a record year in 2007. Market capitalisation in local currency increased by 70 per cent over 2006, and was worth more than 100 per cent of GDP in early 2008. The SEM also provided a very good return to investors as the SEMDEX, the main stock exchange index, rose by 54 per cent in 2007. As a result of its good performance, the SEM has been included in the list of 19 markets that the MSCI Frontier Markets Indices will be tracking.

Over the last year, the Financial Services Commission (FSC) has taken several measures to reinforce its capacity to regulate the insurance sector and ensure consumer confidence. The commission has required insurance companies to put in place new complaints-handling procedures. Each insurer is required to appoint a complaints co-ordinator and have effective consumer complaints procedures to process complaints from persons not satisfied with the handling of their claims by the insurer. Complaints not satisfactorily resolved by the insurer would then be referred to the commission.

Integrated Resort Schemes (IRS) are an important component of the government's development policy. These projects are targeted at high net worth individuals whose spending habits are bound to have a large multiplier effect. The IRS policy was reinforced in 2007 when the government extended the concept to smaller plots of land (fewer than 10 hectares).

Technical and Vocational Skills Development

Technical and vocational training begins in secondary school. In general to be admitted to this

level, students have to sit a national examination, supervised by the Mauritius Examination Syndicate (MES), to receive a Certificate of Primary Education (CPE). At secondary school level students have to take the School Certificate (SC) and Higher School Certificate (HSC) exams. To take the SC exams, students must have attended secondary school for at least five years. After passing the SC level students have to attend school for two more years and then sit the HSC exams. The University of Cambridge Local Examinations Syndicate, along with the MES, oversees the final examinations for secondary students. Then the students move to the tertiary level.

A new pre-vocational education scheme was launched in 2001. This made provision for education for primary school leavers who failed the CPE twice or were too old for primary schooling after one failure and thus could not obtain access to secondary education. One of the objectives was to provide access to secondary education for drop-outs from the primary cycle for continued learning till the age of 16. The pre-vocational stream of study lasts for three years. The pre-vocational sector caters for around 4 000 students who failed to complete the primary cycle and thus did not meet the criterion for promotion to the mainstream secondary schools. Here the method of teaching is different from that in ordinary secondary schools. The emphasis is not so much on academic subjects but is more oriented towards preparing the students for vocational jobs. After their three years at the pre-vocational school, students are steered towards continuing their vocational studies. Since 2004 a one-year National Trade Certificate (NTC) Foundation Course has been run by the Industrial and Vocational Training Board (IVTB) to prepare them to join the first level of the vocational programme at the IVTB.

The IVTB was set up by the IVT Act of 1988 and became operational from January 1989 under the direct responsibility of the prime minister's office.

In 2004/05, Mauritius introduced compulsory and free education up until the age of 16. As of 2006, children who failed to pass the CPE were allowed to enter secondary school in pre-vocational classes enabling

successful pupils to enter the NTC foundation courses, and to proceed along this route to other professional courses. Depending on the field that they chose, students are admitted in different centres under the IVTB.

Private schools are widespread in Mauritius. The Education Act allows any business or individual in the country to create a primary or secondary school. The Private Secondary Schools Authority (PSSA) oversees government funding to private institutions. Private post-secondary institutions must be approved by the IVTB and are subject to audit by the National Accreditation and Equivalence Council

Technical and vocational education and training (TVET) objectives in Mauritius are to enhance the relevance, efficiency and effectiveness of IVTB services; create an environment which encourages the commitment and development of IVTB staffs; increase the supply of TVET; promote the development of knowledge management; develop IVTB as a knowledge organisation; and enhance responsiveness to demand for training in the region. The IVTB was initially expected to be a provider, a facilitator and a regulator of training in Mauritius. Experience has shown that the three roles of IVTB could give rise to conflicts of interest and were inconsistent with the principle of good governance. It was decided in 2001 that the IVTB would concentrate on its role as provider of training. In 2002, the role of regulator was transferred to the Mauritius Qualification Authority. The role of facilitator (design and management of the levy grant scheme) was transferred to the Human Resource Development Council (HRDC) in 2004. The objectives of MQA are to develop, implement and maintain a national qualifications framework; to ensure compliance with provisions for registration and accreditation; and to ensure that standards and qualifications are internationally comparable (quality assurance).

There are institutions that provide TVET throughout Mauritius. However, it is important to note that some of these institutions offer specialised courses that are not offered by any others. All of them have a main area of training. As Mauritius is very small

and transport by bus is free for students, the question of decentralisation does not really arise.

The Mauritius Qualifications Authority (MQA) is responsible for ensuring the quality of all training, be it the state or the private sector, and also deals with recognition and equivalence of technical qualifications. The MQA registers training institutions, managers, programme officers and trainers and approves courses as well as accrediting training institutions and courses. The quality assurance mechanism allows for accreditation of the providers of training, which ensures that courses delivered at different levels are evaluated for high quality education and training.

The IVTB's portfolio of training services covers 10 distinct vocational fields, namely: automotive engineering; building and utility maintenance; electronics and telecommunications; food and beverages services; hospitality and tourism management; industrial engineering; IT and multimedia; printing and graphic design; textile production; and wood technology. The training programmes are delivered in three modes: full-time, part-time and via an apprenticeship scheme. Through its mobile training unit, IVTB provides training to out-of-school young adults coming from underprivileged families who cannot travel long distances to follow a training programme. This is a social project, set up in collaboration with the trust fund for the social integration of vulnerable groups and the ministry of women's rights, child development and family welfare. Normally the length of this course varies between 150 to 200 hours and the following fields have been chosen: domestic installation works; basic plumbing and pipe-fitting; basic sewing skills; basic craft skills; and basic housekeeping. The unit consists in principle of a container that has been fully refurbished, equipped and furnished with basic tools and training facilities. Six such units are available.

Employers in Mauritius have to pay an equivalent of 1 per cent of their salary bill to the Human Resource Development Council (HRDC) for training purposes (training levy). The Training Levy Grant Scheme, which has been in operation since 1990, has been managed by the HRDC since 1 August 2004, before which the

IVTB was responsible for collecting the levy. The council, set up under the HRD Act 2003, has been vested with the responsibility of setting up and managing the National Training Fund. To encourage employers to provide training to as many staff as possible the council HRDC offers training grants as incentives. Under the existing provisions employers can recover up to 75 per cent of training costs, depending on their tax rate. To qualify for the training grant, training programmes may either be conducted in-house or in training institutions registered with the MQA.

The private sector and donors do not have a formalised way of contributing towards financing training on a yearly basis, except that firms have to contribute towards the training levy mentioned above. However, on an *ad hoc* basis several donors have contributed by donating vehicles or other equipment.

TVET in Mauritius faces the challenge of training enough people for the new sectors which are developing rapidly. For instance, the strong growth in the tourism sector will translate into the need for highly trained personnel. Similarly, the same holds true in the information and communications technology sector. Finally, TVET must be mainstreamed in the education curriculum so that it becomes a real choice for all students.

Political Context

The current government is in its second year in office and has three more years before elections are held in 2010. Although the economic reforms undertaken since it first came to power have met some resistance from members of the ruling party, it is likely that it will be in a position to complete its term,

Mauritius continues to be recognised as having some of the best institutions in Africa. It was, for instance, ranked first in the 2007 governance league table of the Ibrahim Index of African Governance. However, according to Transparency International, the perception of corruption increased in Mauritius between 2006 and 2007 with the country being ranked 53rd

(out of 179) compared to 42nd (out of 163) in 2006. Mauritius is ranked as the world's 18th freest economy according to the Heritage Foundation *2008 Index of Economic Freedom*. Its overall score increased by 3.1 percentage points compared to 2006, the second most improved economy in the 2008 index. Mauritius was also ranked first in Africa, and its overall score is well above the African average and even above that of France and Germany.

Social Context and Human Resources Development

Life expectancy increased from 63 years in 1985 to 71 years in 2005. At 75.6 years, women's life expectancy exceeds that of men's by 6.9 years. Infant mortality has declined from 24.2 per live 1 000 births in 1987 to 13.2 per live 1 000 births in 2005. Public health care is mainly provided free of charge and is used by 85 per cent of the population with the remaining 15 per cent purchasing private health care. As a result, the ministry of health and quality of life is third in importance among programme ministries and its 2007 budget should absorb 7.2 per cent of the budget. Mauritius nevertheless faces a number of challenges on the health front.

First, it has one of the highest prevalences of diabetes in the world. Nearly one in five adults was found to suffer from the disease in 2004, and more than 20 per cent of deaths are caused by diabetes. It is particularly worrying that half of those with it do not know they have it. The government has made the fight against diabetes a priority and formulated a National Service Framework for Diabetes (NSFD) in May 2004. Some of the proposed measures to fight the illness include the establishment of a register of the clinical details of all patients suffering from diabetes and prevention of Type 2 diabetes through prevention and advocacy.

A second emerging health challenge is HIV/AIDS. Although the extent of HIV/AIDS in Mauritius remains fairly limited, and is significantly lower than in many neighbouring countries and among the lowest in the

sub-Saharan African region overall, there are signs of an increasing upward trend in cases in recent years. Recent data coming from national sources quoted a prevalence rate of 1.8 per cent while it stood at less than 0.6 per cent in 2003. However, a direct comparison between those two figures is not straightforward because they do not arise from the same methodology. There is evidence that HIV prevalence rates are higher among certain populations in Mauritius, including sex workers, injecting drug users and patients being treated for other sexually-transmitted infections. Any HIV-positive person requiring treatment has free access to anti-retroviral drugs in Mauritius.

The unemployment rate for 2007 was estimated at 8.8 per cent against 9.1 per cent in 2006. The female unemployment rate was significantly higher, at 15.6 per cent, than that of males which stood at 5.6 per cent. Indeed, the female unemployment rate has been continuously on the rise since 2000 when it stood at 9.2 per cent. However, the 2007 small drop in the unemployment rate hides the fact that the Mauritian economy created more jobs in 2007 (7 100) than in 2006 (6 900). In spite of the high unemployment rate, there are a large number of vacancies which cannot be filled. Employers also report that they have difficulties in finding skilled workers. All this indicates there is a skills mismatch in the labour market. Moreover, it must be noted that the tripartite government-union-private sector wage compensation negotiations have been abolished. A national wage council was set up with the objective of linking wages to workers' productivity and companies' financial situation.

There is a recognition that particular attention must be paid to the social consequences of the sugar adaptation plan. To this end provision has been made for employees whose contracts are terminated to be appropriately compensated. In December 2007 an agreement was reached between the government and the Mauritius Sugar Planters Association (MSPA). The MSPA agreed to give 2 000 hectares of land to the government to facilitate the social acceptability of the economic reform. Also in this agreement the shares of planters and employees in the sugar cluster increased from 20 per cent to 35 per cent.

By international measures, there has not been any change in poverty in Mauritius: the percentage of persons living below the \$2 a day poverty line remained unchanged at 1 per cent in both the 2001/02 and 2006/07 household surveys. By all accounts, poverty as measured by the share of the population living below a dollar a day has been eradicated in Mauritius. However, relative poverty increased between 2001 and 2007. The proportion of poor households living below the relative poverty line (set at half median household income per adult equivalent) was 7.7 per cent in 2001/02 and 8 per cent in 2006/07. By the same measure, the proportion of poor persons below the relative poverty line increased from 7.8 per cent in 2001/02 to 8.7 per cent in 2006/07.

The government allocates close to 13 per cent of its budget to education. Secondary education absorbs approximately 43 per cent of the education budget while primary education accounts for close to 27 per cent. Primary and secondary schools are free for all Mauritians. Mauritius needs to train sufficient skilled workers to meet the current and long term demands of the labour market. In that regard, both government and civil society recognise that the education system and school curriculum, which are skewed towards rote learning instead of problem-solving, need to be changed.

Under the current education system, students sit for the CPE at the end of primary school. Their performance in the CPE determines the secondary school they attend: better CPE results allow primary school graduates to secure positions in better secondary schools which in turn conditions their performance in the SC and HSC exams, university studies and labour market performance.

The CPE is seen by many as being a bottleneck given that more than 30 per cent of students fail the exam. While the pass rate had increased from 62.6 per cent in 2005 to 67.9 per cent in 2006, it fell to 66.2 per cent in 2007. Of particular interest is the low CPE performance in the Priority Education Zone with a pass rate of 35.6 per cent. One explanation for the lower pass rate in 2007 than in 2006 is the change in exam questions which required students to think

through new problems. Children had the greatest difficulty with history and geography, with the pass rate dropping from 75 per cent last year to 70 per cent. The papers had more open-ended questions requiring the students to produce personal answers instead of choosing from formatted multiple choice questions.

Noteworthy developments have been taking place at the tertiary level. The Jeetah Trust fund, an Indian offshore campus, started operations in 2007. This is a privately-owned and run university with Mauritian and Indian capital. A private Indian-owned teaching hospital (Apollo) has been granted permission to start operations in Mauritius. Plans are under way for construction to start.

Enrolment at the University of Mauritius increased from 6 602 to 7 370 in 2006/07. It is of interest to note that more females (3 863) than males (3 507) were registered students at the University of Mauritius. This was true for all faculties except engineering. University students went on strike in 2007, protesting against group dissertation at the Master's level, the need to attend lectures in secondary schools because of lack of space in the main campus, and the large number of students per course. Following the strike, the decision to have group dissertation was reversed.

