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Mauritius Investment Climate Assessment 2009

Peter Ondiege*

Introduction

Mauritius has transformed itself from a mono-crop economy, where sugar accounted for over 95 percent of its export earnings, to a strong and diversified economy in which the services sector accounted for 72.5 percent of Gross Domestic Product (GDP) in 2008. This robust performance is a result of sound economic governance, strong partnerships between the private and public sectors, and preferential access to export markets in textiles and sugar. The reforms undertaken since 2006 have sparked growth, set the economy back on track, and advanced the country's transition from an economy based on preferential trade arrangements to an economy that competes at the global level.

Today, Mauritius is among the most successful economies in Africa. The country can market itself as a "business-friendly" destination, with bold and comprehensive government reforms that focus on making business procedures simple, transparent, and rule-based. The reforms have paid off. The World Economic Forum ranks Mauritius as 57th among 133 countries in 2009-2010 in the global competitiveness index. This places the country only behind South Africa in Africa. The 2010 World Bank Doing Business report rates it among the top African countries. In fact, its rank has moved up from 24th to 17th place, making it one of the top 20 countries for doing business globally.

Objectives and Implementation Arrangements

The overall objective of the Mauritius Investment Climate Assessment (ICA) is to evaluate the investment climate in all its operational dimensions. The analysis of the data enables us to link business environment constraints to firm-level costs and productivity measures. The ICA provides a crucial diagnostic of the business environment to the Government of Mauritius. The assessment was undertaken in collaboration with the World Bank and the African Development Bank's Southern Africa Regional Department (ORSA). The study uses a robust methodology that draws on a representative sample of 484 formal firms and 120 informal establishments. The sample covers SMEs and large firms in both manufacturing and services. Weights were used in the analysis of the data to ensure full representativeness of the results.

Findings

Improved competitiveness and economic diversification require that existing products be improved and that new sectors be discovered. For Mauritius to truly compete globally and expand its economy, it must find niche markets, establish links among sectors, and increase the knowledge component of products.

To achieve these objectives, Mauritian firms will have to increase technology absorption and innovation. This will depend on trade flows, labour mobility, and foreign direct investment. It also demands a good investment climate, skills, and domestic research and development (R&D). Mauritian firms are hampered in their efforts to compete by several constraints, including a poorly skilled labour force (especially for exporting firms), infrastructure deficiencies, and the difficulties in accessing finance, which has been exacerbated by the global financial crisis.

These constraints vary by firm type. A larger share of SMEs, domestic firms, and non-exporters believe finance to be a binding constraint more than do large exporters and foreign owned firms. These latter firms flag the lack of skilled labour as a key constraint. Infrastructure bottlenecks are more of a problem for SMEs, while most exporting firms found access to finance the biggest obstacle, followed by shortages in skilled labour and transport infrastructure bottlenecks. Thirty-three percent of these same exporting firms cited skilled labour shortages as a constraint, but only 19 percent of non-exporting firms found this to be a problem. The trend is the same for foreign owned firms, with 38 percent of them citing skilled labour shortage as a major concern. This is expected. Large exporters and foreign owned firms require a larger share of skilled labour force as compared to smaller, domestic, or non-exporting firms.

Conclusion and Recommendations

To address these constraints, the study suggests the following policy options:

Support exports

- Establish programmes that target firm entering new export markets or exporting new products in existing markets.
- Design programmes tailored to very small firms to help them become suppliers of larger exporting firms. Support in these programmes should be for a share of the estimated expenditures, significant enough to encourage applications but not so large so as to encourage free riding.

Improve private sector R&D and industry-research collaboration

- Fund a campaign of quality improvement and provide incentives, including tax exemptions, prizes, and study visits to facilities and institutions overseas.
- Raise awareness on quality needs, systems, and techniques, based on detailed analysis of enterprise prac-

tices and gaps, benchmarked against international standards. Within this framework, the infrastructure of metrology, standards, testing and quality should be improved, ensuring that industries have access to accredited facilities for testing, certification, and calibration.

- Make use of a matching grant scheme for innovation. With such a scheme, firms are still required to finance a share of the R&D project from their own resources. This ensures that firms have a stake and share the risk.

Upgrade skills and human resources

- Mauritius needs to introduce new measures to increase the scale and quality of its workforce. The country needs a long-term view that would ensure a broad base for skills development. A more comprehensive lower secondary school could cater for students with different learning abilities, and would provide all students at the primary level a meaningful education that prepares them to contribute to economic development.
- Invest in science and engineering education to strengthen the Mauritian technical workforce.
- Collaborate with overseas universities (e.g., in the United Kingdom and Australia) as an additional strategy for human resource development.

Expand access to finance

- Extend the coverage of the Credit Information Bureaus to other financial intermediaries, and lower the reporting threshold to improve the quality of information available regarding small borrowers.
- Rationalise and review the subsidised lending programmes to achieve better and more sustainable results.
- Provide financial literacy training, especially to SMEs, in order to build their capacity to develop and present bankable proposals. Provide support to SMEs to keep better accounts.
- Design and implement partial risk guarantees and other financial products aimed at reducing the risk associated with existing collateral, and supporting the banking system in better measures of risk assessment (based more on cash flows rather than on fixed assets).
- Establish a national Business Plan Competition to identify the best business proposals for start-ups. This programme would use both conventional methods, as well as a more innovative approach, including personalised mentoring by professionals, ideally from the Mauritian diaspora.

Comments and suggestions can be sent to:

Leonce Ndikumana
Abdul B. Kamara

Development Research Department
African Development Bank

BP 323, 1002 Tunis Belvedere, Tunisia – Tel.: +216 71 102 876 – Fax: +216 71 103 779 – E-mail: economic-research@afdb.org – Web: www.afdb.org

*Peter Ondiege is a Chief Research Economist in the Development Research Department AfDB.