Results Profile: Backing Reform in Mauritius

Overview

Mauritius has built much of its successful development record since independence in 1968 on proactive and effective growth strategies. A long-term development vision based on diversification, value-added activities, skills development, and a knowledge-intensive economy was conceived during the 1990s. Over time, piecemeal reforms were implemented toward these goals, but results were limited. After suffering trade shocks in 2005, Mauritius accelerated much-needed and difficult economic reforms in 2006, enabling the country to boost growth and avert the worst impacts of the global economic downturn.

Challenge

In 2005, a triple trade shock caused by an erosion in textile and sugar preferences, and combined with rising energy prices, shaped a very difficult outlook for Mauritius. Old growth drivers were already faltering, the unemployment rate was close to double digits, public sector debt was growing rapidly and the country’s external balance was threatened.

Approach

In 2006, a newly elected government announced an ambitious and comprehensive plan for accelerating implementation of key reforms based on four pillars: fiscal consolidation and public sector efficiency; trade competitiveness; an improved investment climate; and social inclusion. The International Bank for Reconstruction and Development (IBRD) backed Mauritius with a $210 million development policy lending program from 2006 to 2010, representing close to 2.5 percent of the country’s 2008 GDP. The task for the IBRD was to fine-tune homegrown policies and institutional reforms, supporting their swift and successful implementation through a range of analytical and advisory activities.

A 2006 “Aid for Trade” report analyzing the competitiveness of the Mauritian economy put forward recommendations for fundamental restructuring and reform. A series of policy loans provided a structured platform for policy dialogue and timely identification of entry points for deploying the Bank’s expertise. It also provided a platform for coordination of
development partners' budget support. This approach also favored good sequencing of reforms as the preparation cycle of each operation created a platform for planning, monitoring and course-correcting.

Results

Between 2006 and 2008, growth in GDP averaged 5.3 percent annually. This contrasted with the average of 3.3 percent between 2002 and 2005. The unemployment rate declined to 7.2 percent in 2008 from 9.5 percent in 2005, and the unemployment rate for women went down significantly as new job opportunities emerged in the service sector. The budget deficit shrank to 3 percent of GDP in 2008/09 from 5.4 percent of GDP in 2005/06, and the debt-to-GDP ratio eased to just over 50 percent of GDP from nearly 70 percent.

The outlook turned gloomy by the end of 2008, but improved substantially throughout 2009, despite continuing uncertainty worldwide. Most importantly, overall economic activity did not collapse and 2009 GDP growth is projected at 2.8 percent. Mauritius’s unemployment rate is expected to have increased only mildly to 8.1 percent in 2009 from 7.2 percent in 2008. Private investment for 2009 is expected to fall by 2.2 percent while foreign direct investment for the first nine months of 2009 compared to the same period last year declined by a relatively moderate 13 percent.

A set of targeted and temporary microeconomic interventions was put in place and helped to contain social costs. In particular, the interventions helped to save more than 3,000 jobs. Targeted and temporary incentives to boost vulnerable sectors (including tax relief) have also avoided a profitability plunge at companies particularly sensitive to external demand.

Several initiatives have been launched to help the poor and vulnerable adapt to a transforming economy. More than 6,000 workers (a little more than 1 percent of the labor force) have been placed in jobs by government programs. Vulnerable groups, such as older women displaced from textile occupations, are being supported through other targeted initiatives. The government has also started to rationalize the social protection system in Mauritius to improve its targeting and the efficiency of its programs.

The economic landscape has also been profoundly reoriented through key pieces of new legislation and bold trade policy. Notable among these were the Business Facilitation Act, new insolvency legislation, and employment legislation, and the establishment of the competition commission. At the same time, the joint World Bank and IFC Doing Business surveys confirm that it now takes only three working days to start a new business in Mauritius. Mauritius’ global ranking in the annual Doing Business Survey was 49 in 2007, 32 in 2008, 24 in 2009 and 17 in 2010; and stayed at No. 1 in Africa through those last three years.

Toward the Future

As the first development policy lending series comes to a close in 2010, the government has expressed interest in further IBRD support along these lines. At the same time, new technical assistance and investment lending operations have been approved in 2009 and 2010. While the IBRD will certainly continue to deepen its engagement and support to policy reforms in Mauritius, the precise instrument with which it will accomplish this is still being discussed. A new Country Partnership Strategy Progress report currently under preparation will outline the IBRD’s agreement with the Mauritian government on the program going forward. Under the Mauritius Economic Transition Project (METAP), the IBRD is also providing support to a range of investment climate reforms.