UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD

report on the implementation of the investment policy review

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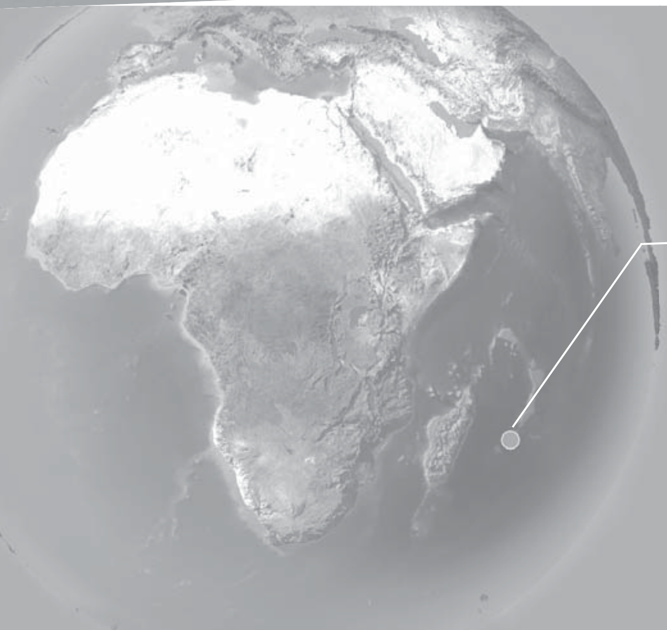

MAURITIUS

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Notes

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The following symbols have been used in the tables:

- **Two dots (..)** indicate that data are not available or not separately reported. Rows in tables have been omitted in those cases where no data are available for any of the elements in the row.
- **A dash (-)** indicates that the item is equal to zero or its value is negligible.
- **A blank in a table** indicates that the item is not applicable.
- **A slash (/) between dates** representing years – for example, 2004/05 indicates a financial year.
- **Use of a en dash (–) between dates** representing years – for example, 2004–2005 signifies the full period involved, including the beginning and end years.
- **Reference to dollars ($)** are to United States of America dollars, unless otherwise indicated.
- **Annual rates of growth or change**, unless otherwise stated, refer to annual compound rates.
- **Details and percentages** in tables do not necessarily add to totals because of rounding.

Contents

Abbreviations

BOI	Board of Investment
BPO	business process outsourcing
CCM	Competition Commission of Mauritius
DTAA	double taxation avoidance agreement
FinTech	financial technology
FDI	foreign direct investment
GBC	global business company
GDP	gross domestic product
ICT	information and communications technology
IIA	international investment agreement
IPR	Investment Policy Review
IT	information technology
SEM	Stock Exchange of Mauritius
SME	small and medium-sized enterprise
SPE	special purpose entity
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UNDP	United Nations Development Programme

Investment Policy Review Series

1. Introduction

Almost 20 years ago, the Government of Mauritius requested UNCTAD to carry out an Investment Policy Review (IPR). The country had been pursuing a successful development path, from a commodity-producing economy based on sugar to a leading manufactures exporter in sub-Saharan Africa. By then, Mauritius had established itself as a middle-income developing country and had entered “the league of outward investors as [its] firms began to establish operations in lower wage sites in the region” (UNCTAD, 2001). While Mauritius had received little foreign direct investment (FDI) in nominal terms, the influx of foreign firms had nonetheless been critical to its first structural transformation. The IPR recommended several reforms to upgrade and intensify the country’s diversification drive, both in markets and activities, by increasing value addition in well-established industries (such as textiles and garments, sugar, tourism and fisheries) and expanding services into new areas of higher value (e.g. financial and business services, and information technology (IT)).

Since then, the majority of the IPR recommendations have been implemented, and the objectives set in the IPR have been largely achieved. Mauritius has since undergone a second structural transformation through the development of a globally competitive services sector, based on financial services and IT. The inflows of FDI have increased dramatically and the country has leveraged the contribution of multinational enterprises to the development of the island as an offshore financial hub — one of the Government’s key objectives at the time of the IPR’s publication. Mauritius has also achieved the objective of becoming a regional leader in the IT sector, with hundreds of ICT-business process outsourcing (BPO) enterprises, including several global players. The marine sector, led by fisheries, has continued to expand and Mauritius is now a destination of choice in the high-end tourism market. Mauritius has also made significant progress on several development indicators, including poverty reduction, life expectancy, educational attainment and health. All these factors have made Mauritius a development success story, and UNCTAD is proud to have been associated with its economic journey.

The island nation now aspires to graduate to the next level of development and become a high-income economy by 2030. To do so, it would have to overcome persisting challenges to its sustainable development, which include rising income inequality, stagnant productivity, a fragile small and medium-sized enterprise (SME) segment, as well as a downward FDI trend since 2013. The Government wants to prevent a “middle-income trap”[1] and leverage the country’s strong educational and infrastructure advantages to become a regional hub for investment and services to the African continent, enhance its role as a knowledge-based economy by attracting investment in financial technology (FinTech)[2] and the digital sector, develop the ocean economy and further move up the value chain in traditional industries. To this end, in 2017, the Government

[1] Where an economy reaches a ceiling in terms of the contribution of manufacturing to wages and growth and cannot yet sufficiently exploit higher productivity, higher value added activities based on innovation and investment.

[2] Technology used to support or enable banking and financial services.

requested UNCTAD's assistance in the preparation of a report on the implementation of the IPR recommendations, and in the formulation of a strategic investment plan that will reflect a new generation of investment policies and support Mauritius in the realization of sustainable development and its Vision 2030.[3]

2. Key economic and foreign direct investment trends

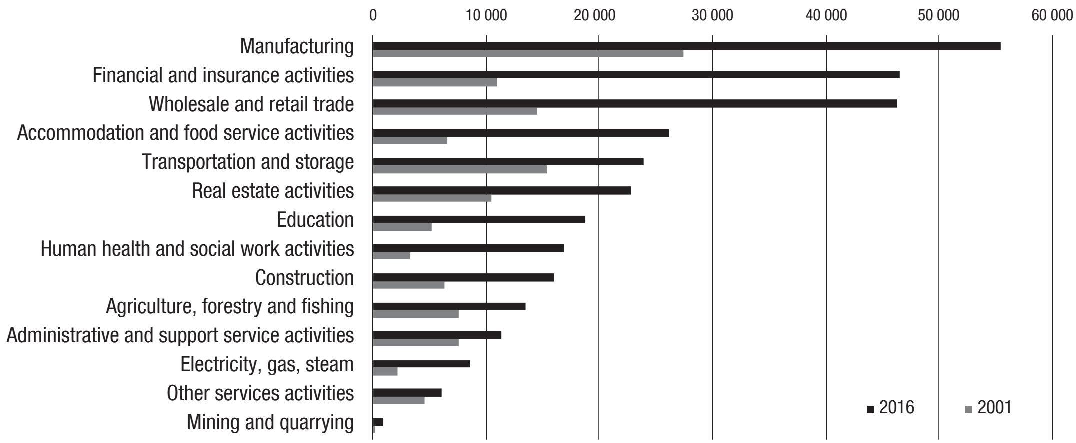
Since the completion of the IPR in 2001, Mauritius has experienced significant economic development and high levels of GDP growth, averaging 4 per cent per year between 2001 and 2016. During the same period, total GDP has more than tripled, from Rs 120 billion ($4.1 billion) to Rs 387 billion ($12.1 billion), and gross national income per capita has risen from $3,900 to $9,760. As shown in figure 1, the structural transformation of the economy, which had started in the 1980s with the transition from sugar to manufacturing exports, has continued. The share of services in GDP has risen another 12 per cent, from 66 per cent in 2001 to 75 per cent in 2016 (UNCTADStats, 2017). Among industry groupings, financial services have seen some of the highest growth, with tourism, education, health services, and construction and real estate also experiencing strong increases. Manufacturing output has doubled while agriculture, which once provided the foundation of the economy, now accounts for only 3 per cent of output, principally in fisheries and sugar cane production.

The economic performance of Mauritius was largely the result of the policy commitment towards maintaining a stable macroeconomic environment, a predictable regulatory regime and a reputation for good governance. It was also the result of effective use of trade preferences, particularly with Europe and India, and of a consistent policy effort aimed at establishing a competitive investment climate. This has led to the implementation of the majority of IPR recommendations (see sections 3 and 4 for more details). As a result of these efforts, Mauritius scores highly in all international competitiveness and business climate surveys, and currently sits 25th out of 190 countries in the Doing Business rankings (World Bank, 2017) and first in Africa. It also outperforms all other African countries (except for the Seychelles) on the Human Development Index where, in 2016, it ranked 64th out of 188 countries (UNDP, 2017).

FDI responded positively to the policy efforts of the Government and contributed, to a large extent, to the transformation of the economy. Average annual FDI flows to Mauritius have grown from $38 million in 2001–2006 to $404 million in

[3] This report was prepared by Joseph Clements, Kritika Khanijo and Massimo Meloni under the direction of Chantal Dupasquier, Chief of the Investment Policy Review Section, Division on Investment and Enterprise (DIAE). Overall guidance was provided by Joerg Weber, Head of the Investment Policies Branch, and James Zhan, Director, DIAE. Comments were received from Richard Bolwijn, Joachim Karl, Maha El Masri and Elisabeth Tuerk. The data were made available by the Trends and Data Section, DIAE, and research support was provided by Jovan Licina and Irina Stanyukova. Desk research was complemented by a fact-finding mission to Mauritius in September 2017.

Figure 1. GDP of Mauritius by industry group
(millions of Rs)

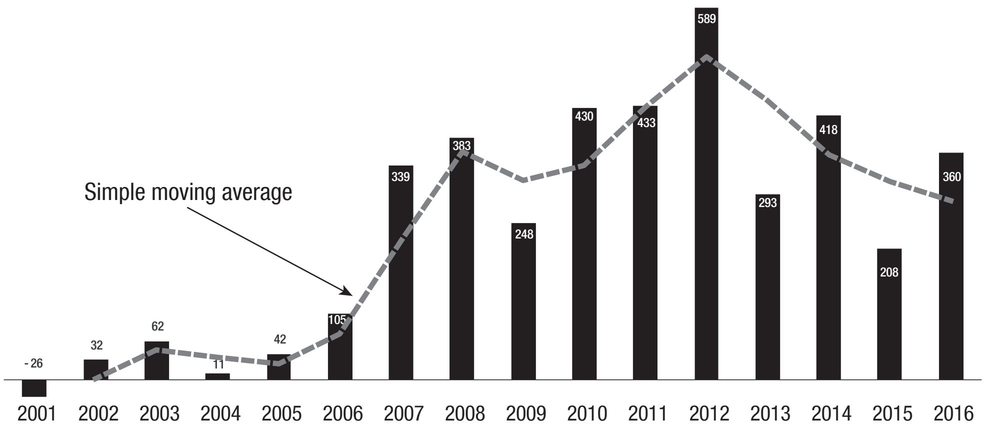


Source: UNCTAD calculations based on data from the Bank of Mauritius.

2007–2012 (table 1). Looking at general trends over the entire period, three distinct phases stand out. In the early years following the publication of the IPR, FDI inflows remained low. Between 2006 and 2012, they rose dramatically, positively impacted by several regulatory changes. A turning point was the passing of the Business Facilitation Act (2006), which amended 26 laws with the aim of simplifying business procedures by removing the scope for discretion and focusing on a rules-based approach. The Act also rationalized the fiscal regime, in particular the incentive structure and corporate income tax rate (see section 4). Despite a short-lived decline during the global financial crisis, FDI flows reached a peak of $589 million in 2012. Since 2013, inflows have been more volatile and overall on a declining trend. This is partly explained by the ending of the Multi-Fibre Agreement and the phasing out of other preferential agreements that had attracted efficiency-seeking FDI and investors looking for market access to the European Union (figure 2). Initial estimates for the FDI inflows in the first quarter of 2017 show a fall of 32 per cent year-on-year.

Figure 2. Net FDI inflows to Mauritius, 2001–2016

(millions of dollars)



Source: UNCTAD.

The impressive FDI attraction record, as well as the recent decline in FDI inflows, are also reflected in Mauritius' relative FDI performance, i.e. in terms of FDI per capita, as percentage of GDP or gross fixed capital formation vis-à-vis comparator economies. Table 1 illustrates how, from the first phase (2001–2006) to the second (2007–2012), Mauritius experienced a 10-fold increase in per capita FDI, while FDI per $1,000 of GDP and as a percentage of gross fixed capital formation increased more than five-fold. This is a stronger performance than that of most comparator countries and of the Southern African Development Community. However, between the second and third phase (2013–2016), all FDI attraction performance indicators for Mauritius have declined, while the performance of several other comparator economies was improving. The inward FDI stock of Mauritius has also slightly fallen, from $4.7 billion in 2010 to $4.6 billion in 2016. This suggests that in recent years, Mauritius has faced challenges to attract FDI in an increasingly competitive global environment.

Table 1. Comparative FDI performance, Mauritius and selected countries, 2001–2016

Country	Average inflows of foreign direct investment												Foreign direct investment stock		
	Absolute figures			Relative figures											
	Million dollars			Per capita (dollars)			Per $1 000 gross domestic product			As percentage of gross fixed capital formation			Total million dollars	Per capita (dollars)	Percentage of gross domestic product
	2001–2006	2007–2012	2013–2016	2001–2006	2007–2012	2013–2016	2001–2006	2007–2012	2013–2016	2001–2006	2007–2012	2013–2016	2016		
Mauritius	38	404	317	31	324	250	6	41	26	3	17	13	4606	3605	39
Botswana	358	550	401	195	269	180	45	42	27	17	13	12	5835	2533	40
Ghana	196	2339	3315	9	96	122	12	71	81	6	30	32	29882	1066	69
Kenya	39	1186	738	1	30	16	2	30	12	1	15	7	11233	238	16
Mozambique	273	2016	4509	14	81	165	47	153	300	32	69	83	31830	1107	271
Namibia	282	834	651	141	381	269	54	79	54	27	32	21	4367	1737	40
United Republic of Tanzania	472	1293	1682	13	28	32	29	41	36	13	13	12	19818	359	41
Zambia	354	1254	1410	30	91	90	54	65	56	22	25	22	14936	893	69
Zimbabwe	31	196	421	2	14	27	5	20	30	20	18	25	4286	268	32
SADC*	12392	29167	32214	52	105	102	44	51	49	25	22	22	304011	923	50

Source: UNCTAD (2017), FDI/TNC database.

*Southern African Development Community.

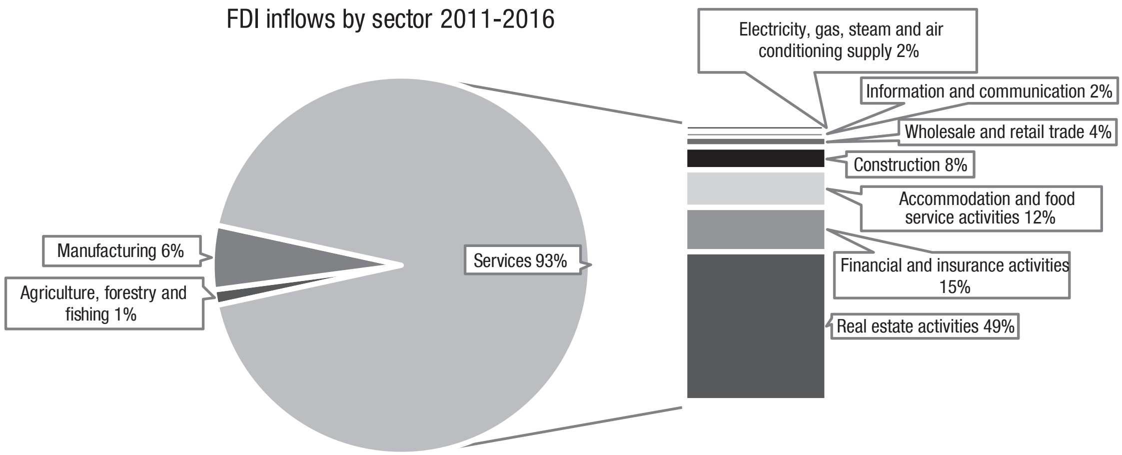
The sectoral distribution of FDI illustrates well its contribution to the structural transformation. Bank of Mauritius data for 2011–2016 show, for instance, that over 90 per cent of FDI has targeted services (figure 3). The largest proportion of FDI flows into real estate, whose relative weight has also increased over the years, boosted by tourism, smart cities and other property development. Financial and insurance activities follow. Over the past two decades, aided by its network of international investment agreements (IIAs) and double taxation avoidance agreements (DTAAs), Mauritius has established itself as a regional offshore financial centre (see box). The bulk of foreign investment to the island is in the form of investment flows through special purpose entities (SPEs) or "global business companies" (GBCs)[4] routed to third countries through Mauritius. As such, these flows are not recorded as FDI. The cumulative stock of these flows amounted to almost $270 billion in 2015, the equivalent of over a third of Africa's total inward FDI stock. And in contrast to the recent contraction in FDI stock without SPEs/GBCs, this figure has grown by 45 per cent since 2010. Likewise, whereas the outward FDI stock was relatively low, at $1.4 billion in 2015, the outward stock, including SPEs/GBCs, jumped to $221 billion – 45 per cent of which was held in India (UNCTAD FDI/TNC database, based on data from the Bank of Mauritius). The renegotiation of the DTAA with India and the recent adoption of more stringent anti-tax avoidance rules, however, have put the financial sector under pressure (see box). This is encouraging the Government of Mauritius to reorient its financial sector and create an ecosystem of ancillary services, which add value to the financial industry by attracting regional headquarters, treasury management centres and international law firms, as well as fund and asset managers (FSPA, 2017).

Although total flows to the sector are comparatively lower, FDI has also played a key role in establishing Mauritius as a leader in BPO services. It has attracted several global players, including Accenture, Ceridian, Huawei, Orange Business Services and Infosys, to develop one of the richest technology ecosystems in Africa. Over 700 ICT/BPO enterprises employ over 21,500 professionals (see matrix). Likewise, while FDI inflows to the marine sector are relatively low, their contribution to the sector's development has been significant. The seafood industry now accounts for some 18 per cent of export earnings and 1.3 per cent of GDP, and it employs roughly 12,000 people directly. The sector is one of the fastest growing industries, with an average increase of around 6 per cent since 2008.[5]

[4] GBCs are companies incorporated in Mauritius for the purpose of doing business primarily outside the country. They are governed by the Financial Services Act of 2007. Category 1 of GBC (or GBC1) is allowed to undertake any business activity which is not illegal or against public policy, including those involving capital raising from the public, and has access to Mauritius' network of DTAAs. A category 2 of GBC (or GBC2), by contrast, is suited for trading (non-financial), holding and managing private assets, and cannot engage in certain activities such as financial services. A GBC2 bears many of the same characteristics as other offshore exempted or international companies. A GBC2 is not resident for tax purposes and therefore is debarred from benefiting from double taxation relief under the Mauritius DTAAs (Conyers, Dill and Pearman, 2014).

[5] The Mauritius Seafood Industry, Issue No. 70 of the Board of Investment, investmauritius.com/Newsletter/2014/October/article1.html.

Figure 3. FDI inflows to Mauritius by sector, 2011–2016



Source: Bank of Mauritius (2017).

Note: Based on gross FDI inflows. Excludes the activities of Global Business Companies.

The impressive economic achievements of the island have been accompanied by continued investment in infrastructure and education and the adoption of a comprehensive social protection system, made up mainly of universal pensions and a social assistance scheme. This has been instrumental in reducing poverty by more than half (UNDP, 2016). However, challenges remain, and the development of the highly skilled services sector has not systematically translated into benefits for everyone. For instance, while Mauritius gains from financial services and the GBC sector in terms of fiscal revenues (see box), their contribution to employment is low.[6] Also, as prosperity is not equally shared, inequality is on the rise, and the most vulnerable struggle to reap the benefits of economic growth. In this regard, the increasing concentration of FDI in real estate contributes to rising land prices. The role of large economic conglomerates in the economy is also important and risks crowding out the SME sector, which is crucial to achieving higher development levels and reducing income inequality.

[6] The financial and insurance industries account for 2.4 per cent of the workforce, despite their contribution to gross value added of over 12 per cent. Conversely, agriculture, forestry and fishing, which accounts for 3.5 per cent of gross value added, makes up for 8 per cent of the workforce, often employed in “non-large” enterprises. Similarly, the manufacturing sector, which contributes 14 per cent of gross value added, accounts for over 20 per cent of the workforce (Statistics Mauritius, Ministry of Finance and Economic Development, 2016).

The role of SPEs and GBCs in Mauritian investment

The GBC sector has been described as a source of "dynamism" for the Mauritian economy (IMF, 2016). While GBCs have focused primarily on investments to India, Mauritius has also begun to position itself as a platform for investment from China and India to East Africa. The income from GBC investments abroad accounts for 10 per cent of GDP and makes up for a significant current account deficit in the non-GBC economy, as well as making a sizable contribution to the Government's fiscal revenues.

The 50 DTAAs concluded by Mauritius, of which 42 are in force, have played a key role in the development of its financial sector. In particular, the DTAA with India, signed in 1983, limits the capital gains tax on the sales of assets in India registered in Mauritius, and has thereby facilitated the investments of both Indian companies and individuals seeking to invest domestically (so-called "round-tripping") as well as other international investors. Mauritius' extensive network of international investment agreements (IIAs), including 46 bilateral investment treaties – of which 28 are in force – and 11 other treaties with investment provisions (TIPs) – of which 9 are in force[7] – has also played a role in establishing Mauritius as a financial hub. The attractiveness as routing destination for FDI to other countries can be seen in the rising number of investor-State dispute settlement (ISDS) cases brought by Mauritian investors. By the end of 2016, Mauritian investors had started six ISDS cases against other States (four of which were against India, one against Pakistan and one against Madagascar).[8] However, Mauritius has also become respondent in two recent ISDS cases brought against it in 2015 and 2016.[9]

In 2016, the DTAA with India was amended and the changes will impact the GBC sector in Mauritius. In addition, in July 2017, Mauritius signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (the MLI). This will, likely, impact many other DTAAs. The diversification of markets as well as innovation within the financial services industry is therefore essential for Mauritius to continue to benefit from its status as a leading financial services provider. Hence the country's pivot towards Africa to position itself as a regional investment and services hub and its intention to develop a globally competitive FinTech sector that exploits emerging technologies, such as blockchain, i.e. digital ledgers for recording and managing transactions which are linked and secured using cryptography.

Source: UNCTAD.

[7] For details, see UNCTAD's Investment Policy Hub, IIA Navigator, available at http://investmentpolicyhub.unctad.org/IIA.

[8] *Astro All Asia Networks and South Asia Entertainment Holdings Limited v. India*, UNCITRAL; *Courts* (Indian Ocean) *Limited and Courts Madagascar S.A.R.L. v. Republic of Madagascar* (ICSID Case No. ARB/13/34); *Khaitan Holdings Mauritius Limited v. India*, UNCITRAL; *Devas v. India CC/Devas (Mauritius) Ltd.*; *Devas Employees Mauritius Private Limited, and Telcom Devas Mauritius Limited v. Republic of India* (PCA Case No. 2013-09); *Progas Energy Ltd v. Pakistan, UNCITRAL; Bechtel Enterprises Holdings, Inc. and GE Structured Finance* (GESF) *v. The Government of India*, UNCITRAL. See UNCTAD, Investment Policy Hub, ISDS Navigator, available at http://investmentpolicyhub.unctad.org/ISDS.

[9] *Thomas Gosling, Property Partnerships Development Managers* (United Kingdom), *Property Partnerships Developments* (Mauritius) *Ltd., Property Partnerships Holdings* (Mauritius) *Ltd. and TG Investments Ltd v. Republic of Mauritius* (ICSID Case No. ARB/16/32); *Dawood Rawat v. Republic of Mauritius* (PCA Case No. 2016-20).

3. Summary of main findings

The recommendations of the IPR aimed at assisting Mauritius achieve further diversification to support the structural transformation of the economy and reach the country's development objectives. They can be grouped under three main pillars: (a) aligning investment policy and the operational framework to best practice; (b) enhancing overall competitiveness; and (c) upgrading traditional sectors (vertical growth) and supporting the development of new sectors (horizontal growth). The main findings for each pillar are summarized below, and more details are presented in the implementation matrix of section 4.

(a) Aligning investment policy and the operational framework to best practice:

In line with the IPR recommendations, Mauritius has progressed towards closing key gaps in the regulatory framework. It has set up a Competition Commission equipped with a broad range of functions, and several regulatory authorities have been established to oversee and regulate non-bank financial services, the ICT sector, as well as postal services, water, waste and electricity. Ensuring the full independence and operationalization of these new institutions should now be a priority. The Government has also taken significant steps to modernize the intellectual property framework and comply with its obligations under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), though implementation challenges persist. With UNCTAD's assistance, much progress was also achieved in simplifying the tax regime and reducing the number of incentive schemes, which had a positive impact on tax revenue and administration (see implementation matrix). New labour legislation addressed the need highlighted in the IPR to clarify labour contract termination procedures. Though Mauritius has not issued any policy statement on FDI, as recommended in the IPR, conditions and guarantees on entry, treatment and protection of foreign investors, it continues to rely on its very good track record, making this recommendation less relevant to further improve the investment environment. On investment promotion and facilitation, Mauritius has continued to develop its expertise and the Board of Investment (BoI) has evolved into a model agency for the continent and beyond.

(b) Enhancing overall competitiveness:

Mauritius' vision of becoming a high-income, high-skilled, primarily services-based economy is dependent on the quality and suitability of its human resources and its infrastructure. The country has taken several steps to upgrade both, in line with the recommendations of the IPR. It has established a multi-stakeholder body – the Human Resource Development Council – that aims to respond to the needs of the private sector and emerging economic trends by supporting vocational training and retraining. The Government is also establishing polytechnics that focus on professional and vocational courses and training as well as schemes to support tertiary education and research, including in partnership with overseas educational institutions and private investors. Initiatives to facilitate the access to foreign skills were introduced, including a combined residence and work permit for some categories of professionals, and a Mauritian Diaspora Scheme. Mauritius intends to become a regional telecommunications hub and is actively pursuing a broadband strategy that has helped attract IT companies at the cutting edge of the digital economy. Three companies now compete in mobile telephony, in addition to several broadband operators and the country is connected to international fibre optic cable networks, which has reduced costs. Finally, in line with the IPR recommendations, Mauritius set up a Joint Public-Private Sector Business Facilitation Task Force in 2011, which conducts systematic benchmarking of the competitiveness of the business environment.

(c) Upgrading traditional sectors and supporting the development of new sectors:

As discussed in section 2, Mauritius has successfully developed its financial services sector into one of the most advanced in Africa. It has also become a leader in ICT/BPOs, while the marine sector has continued expanding, and the development of the ocean economy has become one of the key priorities of Vision 2030. This was the result of a consistent policy effort to build the skills required for the three sectors, improve the underlying regulatory and physical infrastructure (e.g. via the access to international broadband networks) and enhance the investment promotion efforts through the proactive targeting of investment. Mauritius has also moved beyond the sectors recommended in the IPR and currently targets investment for the development of new sectors. These include the digital economy and FinTech, where the country hopes to exploit the opportunities of the largely untapped African market and the increased Internet usage in the continent. To this end, it is developing a set of new tools and regulations to improve the attractiveness of the island, including a Regulatory Sandbox Licence,[10] an Intellectual Property box, and a preferential residence scheme for innovating investors. As further discussed in the implementation matrix (section 4), Mauritius has also adopted an Africa Strategy to expand its investment presence and the provision of services to the African continent, and thus reduce reliance on the offshore financial sector.

[10] The new Regulatory Sandbox Licence, is modelled on similar approaches used by Australia, Singapore, Switzerland and the United Kingdom of Great Britain and Northern Ireland. It is a license to allow firms to experiment with new technology, and offer innovative financial products and services – but within a clearly defined space and for a limited period. It is intended to encourage innovation in financial, medical and digital industries, where the pace of technological change has outpaced regulatory adaptation, and to facilitate investment in these industries. To be considered for approval, firms must meet several criteria, including that the project is beneficial to the Mauritian economy.

4. Implementation matrix

What	Why	How	Status	Findings
I. Align investment policy and the operational framework to best practice	Overall, Mauritius offered a high-quality framework for investment. However, some areas needed policy attention. In taxation, for instance, a proliferation of over 30 different concessional corporate income tax rates and incentives rendered the regime complex and many incentives lacked a strategic rationale. Absence of competition legislation had resulted in the occurrence of uncompetitive behaviour in the supply of certain goods and services (including airfreight, telecommunications and insurance). The FDI-specific regime required pre-approval of all new investments, but lacked clarity as to the screening criteria or the conditions that may be imposed on approved investments. The intellectual property rights regime was incomplete and implementation weak. Industrial relations were good, but termination provisions lacked clarity and needed streamlining.	**I.1.** Move towards a single corporate income tax regime.		A single corporate income tax rated at 15 per cent was introduced as part of the overhaul of the tax regime brought about by the Business Facilitation Act of 2006 (see below).
		I.2. Remove tax incentives which are not backed by a strategic rationale and whose cost exceed the benefits.		In 2003, as a follow-up activity to the IPR, UNCTAD and the UNDP office in Mauritius carried out a review of fiscal incentives. It was followed, in 2005, by the first tax expenditure estimation, measuring revenue foregone due to exemptions, deductions, special exclusions, special credits, preferential rates or deferred liability. The two reports highlighted the cost of granting tax incentives, and triggered the 2006 tax reform package, which removed virtually all tax holidays and abolished 20 incentive schemes. In addition, since 2007, the annual budget has included a report on tax expenditure for approval by the National Assembly. Despite the reduction in tax rates, revenues from personal and corporate income taxes have grown at an average annual rate of 14 per cent during the period 2006–2011. The simplified tax system has also reduced administrative and compliance costs significantly (Lal, 2014). The remaining incentive schemes target Freeport developers, the export of manufactured products, the Global Business sector,[11] and small-scale firms.

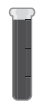
[11] The Global Business Licence is granted by the Financial Services Commission (FSC) to resident companies wanting to conduct business outside Mauritius. GBC1 companies can deal with residents with the approval of the FSC and can only operate in the activities authorized by the Commission as per the Business Plan submitted for the License. GBC1 companies are liable to tax at the rate of 15 per cent. However, they are entitled to a foreign tax credit equivalent to the higher of 80 per cent of the Mauritius tax chargeable or the actual tax suffered abroad in respect of foreign-source income. The maximum effective tax rate is therefore 3 per cent. GBC2 companies, equity funds and special purposes funds under the Financial Services Act 2007 are considered non-taxable entities and are prohibited from dealing with residents and operating in any type of financial activity (IBFD, 2017).

= implemented; = substantially implemented; = partially implemented; = not implemented.

What	Why	How	Status	Findings
		I.3. Increase capital allowance rates to stimulate new investment.		Higher capital allowance rates have been introduced, as well as accelerated depreciation and tax credits to promote investment in hotels, high-end or green technology electronic and other manufacturing equipment (IBFD, 2017).
		I.4. Introduce a competition law and authority.		The Competition Commission of Mauritius (CCM) was established in 2009 to enforce the Competition Act of 2007 (which was amended in 2012). CCM can investigate and impose sanctions on a full range of anti-competitive acts. It has an advisory role to the Government, and has signed Memoranda of Understanding with sectoral authorities, and with France, Seychelles, South Africa and the Common Market for Eastern and Southern Africa Competition Commission.
		I.5. Carry out sector studies of industries and services prone to anti-competitive practices.		CCM is mandated to conduct sectoral studies on competition. In 2011, a study of the cement sector recommended that price controls and import quotas be removed. In 2016, CCM also recommended that the planned ban of scrap metals export by the Government be lifted. New market studies on the pharmaceutical and construction industries are being prepared. Stakeholders interviewed by UNCTAD have nonetheless raised concerns regarding the competition impact of large conglomerates on the economy and the capacity of CCM to address it.
		I.6. Clarify termination procedures.		The Employment Rights Act of 2008 replaced the Labour Act of 1975. The Act is all-encompassing legislation which covers hours of work, parental benefits, equal remuneration for the same work and gratuity. The Act introduced a standard termination procedure that applies to all employees, and envisages instances under which an agreement cannot be terminated.[12]
		I.7. Strengthen the intellectual property rights regime and its enforcement.		The Government has moved to bring its intellectual property law framework in line with its obligations under the Agreement on TRIPS. Following the IPR publication, five pieces of legislation were adopted: (a) the Patent, Industrial Designs and Trademark Act 2002; (b) the Layout Designs (Topographies) of Integrated Circuit Act 2002; (c) the Geographical Indications Act 2002; (d) the Protection against Unfair Practice Act 2002; and (v) the Copyright Act 2014. The Layout Designs Act and the GI Act never came into force. However, an Industrial Property Bill is currently in preparation, which would consolidate all IP-related issues in one statute, and establish an Intellectual Property Council, with the objective of addressing remaining human resource and institutional coordination issues (Government of Mauritius and WIPO, 2017).
		I.8. Adopt an FDI policy statement to: (a) Stipulate admission criteria; (b) Clarify the list of reserved sectors; (c) Incorporate key standards of treatment and protection.		No consolidated investment code or policy statement on investment was adopted and investors keep relying on the very good track record of Mauritius and the treatment and protection standards offered through the large network of treaties the country has, consisting of 47 bilateral investment treaties and 11 other treaties with investment provisions.

12 For example, during maternity leave.

What	Why	How	Status	Findings
		I.9. Consolidate investment promotion and facilitation, including the execution of concession programmes.		The Investment Promotion Act was amended in 2006 to assign the Board of Investment a business facilitation role, adding to its investment promotion functions. The Act was further amended in 2015 and now allows the BOI to also assist public sector agencies in reviewing their procedures to facilitate business. As part of its facilitation role, the 2015 amendment to the Act also made the BOI a one-stop shop for enterprises valued more than Rs 20 million (approximately $550,000). An Investment Projects Fast-Track Committee was also set up in 2015 to examine the reason as to why a company application was not given approval by a public sector agency. The BOI is a state-of-the-art investment promotion agency organized around sector clusters that follow the entire life of an investment project, from lead generation to promotion, facilitation and after-care. Dedicated units also deal with policy advocacy and business reforms initiatives. The BOI is not responsible for the execution of concession programmes, which falls within the remit of the BOT Projects Unit at the Procurement Policy Office, under the aegis of the Ministry of Finance and Economic Development. Nevertheless, the BOI publishes on its website tenders and calls of expression of interest issued by other governmental entities. An Economic Development Board Bill is currently being considered, which would regroup the BOI, the Financial Services Promotion Agency, Enterprise Mauritius and the Mauritius Africa Fund into a super agency responsible for trade and investment promotion and facilitation as well as strategic economic planning and economic policy formulation. The Board would also act as a coordinator and facilitator between the BOT Projects Unit, the public-private partnership (PPP) unit of the Ministry of Finance and Economic Development and the private sector for the assessment of a PPP project, its implementation, development and monitoring.
II. Enhance overall competitiveness	At the time of the IPR, Mauritius had successfully diversified its economy, which relied primarily on sugar exports at independence, into tourism and light manufacturing, and it was positioning itself to become a hub for financial and offshore services. To witness the next stage of growth, the IPR recommended intensifying the diversification drive and further utilizing FDI. This required enhancing competitiveness in several areas, including:	**II.1.** Integrate industry needs in the development of curricula.		Mauritius enacted a Human Resource Development Act in 2003. The Act established a Human Resource Development Council with representatives of Government and the key economic sectors to promote the necessary human resources to successfully transform the country into a knowledge economy. One of the Council's functions is to develop schemes for retraining and multi-skilling. The Council can establish sectoral committees, which would advise it on emerging economic trends and relevant training needs in sectors such as agriculture, financial services and ICT. Despite this and a number of other initiatives described below, skills mismatch is still a concern of both the private and public sector, as quality control and in-job learning become increasingly important.

What	Why	How	Status	Findings
	<u>Skills development</u> A paucity of skilled and trained workforce was an impediment to the diversification objective. <u>Cost and efficiency of infrastructure</u> An injection of private investment and competition in strategic utilities such as telecommunications was considered necessary to bring down costs and enhance the competitiveness of the economy, including of sectors which depend on information exchange, such as financial services, banking and information technology. <u>Regional interconnection</u> Enhanced regional links could support Mauritian companies to expand and relocate low-end, labour-intensive industries such as textiles and garments to other countries in the region and assist those countries in kick-starting their industrial processes.	**II.2.** Encourage investment in private tertiary institutions, including dual-degree programmes in association with overseas universities (e.g. from the United Kingdom and Australia).		According to the Tertiary Education Commission (TEC), which promotes and coordinates post-secondary education in Mauritius, there are currently 53 private institutions. Most are local counterparts of overseas institutions and offer programmes ranging from sub-degree to postgraduate through a mixed-mode system, encompassing both distance learning and face-to face tutorials. The TEC has also introduced criteria governing the setting up of foreign private tertiary educational institutions, which include, among others, the need for the academic quality and standards of the parent campus to prevail at the branch campus, and the degree to be recognized in the home country.[13]
		II.3. Establish polytechnics to provide practical training in engineering, business and information technology.		Three polytechnics are being established to meet the demands of a knowledge-based and skills-driven economy. Expected for 2018, their courses will include: (a) middle management, ICT and ICT-related fields; (b) tourism, including hotel management and cruise tourism; (c) health care for nurses, technicians and trained personnel in the medical field. The polytechnics would establish strategic partnerships with local industry as well as foreign leading polytechnic systems.[14]
	<u>Benchmarking competitiveness</u> Introducing systematic analysis of cost, productivity and efficiency indicators at sectoral or industry level (telecommunications charges, electricity rates, rental of industrial space, turnaround time etc.), was considered necessary to identify areas which require reform and corrective action.	II.4. Pursue a policy to attract foreign talent to Mauritius to supplement the limited pool of skilled workers.		The Government has liberalized and streamlined immigration policies to access specialist knowledge and develop new sectors. Employers can apply for necessary work visas for their foreign professionals through two channels: (a) The occupation permit: A combined work and residence permit introduced in 2006, which allows certain categories of professions to work and live in the country for up to three years renewable;[15] (b) The regular work permit: For professionals who do not satisfy the criteria for the occupation permit, and subject to stricter entry conditions. Investors and self-employed can also access the residence permit upon satisfying certain investment or income thresholds.
		II.5. Attract Mauritian diaspora to participate in the development of the target sectors.		In 2015, the Government introduced a Mauritian Diaspora Scheme with the aim to attract its highly skilled dispersed community to return home and invest. A Mauritian Diaspora Research Funding Scheme was also introduced, which encourages any Mauritian-born foreign national or foreign national born to Mauritian parents, who is a recognized subject expert, to undertake a research programme in Mauritius.

13 See tec.mu/regulations_guidelines

14 See govmu.org/English/News/Pages/Knowledge-based-economy-Setting-up-of-three-Polytechnics-campuses.aspx.

15 The basic salary should exceed Rs 60,000 per month (approximately $1,800), or Rs 30,000 (approximately $900) in the ICT sector.

What	Why	How	Status	Findings
		II.6. Establish sector regulators to supervise areas prone to monopolistic practices.		A Financial Services Commission was established in December 2001 as the regulator for the non-bank financial services sector. Also in 2001, the Information and Communication Technologies Authority was established as the national regulator for the ICT sector and postal services. Legislation to regulate the electricity, water and waste sector was introduced in 2004 with the adoption of the Utility Regulatory Authority Act. However, the Act never become operational. In June 2016, it was amended to alleviate stiffness criteria around the recruitment of a Chairperson. A Chairperson and the Board members have since been selected. Their stated priorities are the recruitment of a director and qualified staff to work on the updating of the existing legislation as well as the formulation of implementing regulations.[16] Stakeholders interviewed by UNCTAD have also raised concerns regarding the level of independence of the sector regulators.
		II.7. Liberalize telecommunications.		Mauritius opened up its telecommunications market in 2003. Three mobile operators – Emtel Ltd., Orange and Mahanagar Telephone – and 13 Internet service providers are now active in the market. Mauritius is successfully pursuing a policy to make telecommunications the fifth pillar of its economy, and to become a regional telecommunications hub.[17]
		II.8. Improve telecommunication, air and sea links with countries in the region.		Since 2005, the South Africa Far East (SAFE) fibre optic cable links Mauritius to Europe via South Africa and to Asia via India and Malaysia. A new submarine fibre optic cable, LION 2, is also operational since 2012. Local and international costs have decreased dramatically and the number of internet users has more than tripled since 2001. By 2016, 53.5 per cent of the population was using internet in Mauritius, the second-highest rate in the Common Market for Eastern and Southern Africa. Two new cable links connecting Mauritius to South Africa are also being explored. In ports, the Mauritius Ports Authority has been upgrading and extending the container terminal to increase annual throughput capacity to one million twenty-foot equivalent units by 2025. A ports masterplan is being developed, including a new breakwater as well as an island terminal project to cater to container traffic beyond 2025, with the support of the African Development Bank.[18] As part of its “Africa Strategy” (see below), Mauritius plans to review the air access policy to become a regional aviation and tourism hub, and provide the airport with necessary facilities to allow its development into a transit hub for Africa However, competition in the Africa-Asia market and in Mauritius is intensifying, which could make it difficult for Air Mauritius to succeed.[19]

16 Available at www.govmu.org/English/News/Pages/The-Board-of-the-Utility-Regulatory-Authority-constituted.aspx.

17 Research and statistics for Mauritius, available on https://www.budde.com.au/Research/Mauritius-Telecoms-Mobile-and-Broadband-Statistics-and-Analyses

18 See joc.com/port-news/international-ports/mauritius%E2%80%99-port-louis-expands-handle-rising-african-trade_20150828.html

19 For an analysis of the aviation industry in Mauritius, see mauritiustrade.mu/en/market-survey/market-report?id=532641&type_affichage=

20 Available at http://ionnews.mu/private-banking-mauritius-big-boost-stand-alone-private-banks-2904/.

What	Why	How	Status	Findings
		II.9. Benchmark the competitiveness of Mauritius against international competitors and undertake corrective action where required.		In December 2014, an interministerial Business Facilitation Task Force was established under the aegis of the Prime Minister's Office. The task force, co-chaired by the Ministry of Finance and Economic Development and the BOI, focuses on ensuring that business facilitation reforms are duly implemented by the public administration. In addition, in 2016, a Doing Business task force, coordinated by the BOI, was set up to monitor directly the relevant World Bank's and World Economic Forum's rankings and ensure that Mauritius retains its competitive edge. As a result, a new Business Facilitation Act came into force in May 2017. It amends 29 laws to further eliminate regulatory and administrative bottlenecks and promote the use of IT in various areas, such as company incorporation or licensing. Other improvements relate to the process for registering property and initiatives undertaken to enhance transparency. The Act also aims at facilitating international trade by streamlining the process for import permits, eliminating duplications and ensuring the respect of deadlines.
III. Upgrade traditional sectors and support the development of new sectors	As part of its diversification strategy, the IPR recommended that Mauritius focus on developing knowledge-based industries (horizontal growth) and upgrading traditional sectors (vertical growth) of sugar, textile and tourism.	**III.1.** Promote private banking.		The Bank of Mauritius started moving away from the universal banking model when the law was amended in 2007 to provide an enabling framework for the implementation of Islamic banking in Mauritius. Then, in December 2010, the Banking Act 2004 was amended to broaden the range of banking activities and encourage banks to carry on specialized lines of banking activities. Further to the two amendments, today a bank in Mauritius may carry on any or all of the following: banking business, Islamic banking business, private banking business, and investment banking business. In 2014, two new banks, Warwyck Private Bank Ltd. and Banque Richemount Limited, became the first stand-alone, fully-fledged private banks to be licensed in Mauritius and offer specialized services and financial advice.[20]
	In this regard, it encouraged Mauritius to develop high-value services, such as financial services. In view of its established base of IT professionals, its bilingual workforce, its time zone advantage to reach the European market and the highly skilled diaspora, it also encouraged Mauritius to develop its nascent ICT/BPO sector into a fully-fledged industry with the assistance of FDI. Finally, it provided recommendations to develop the marine resources sector, in particular the fisheries sub-sector, which had not yet attracted significant levels of FDI, and to target high value operations in fish processing to propel a higher growth trajectory.	**III.2.** Promote Mauritius as a regional centre for the African market.		Mauritius has been consolidating its position as an International Financial Centre since the completion of the IPR. Over the past few years, it has also been increasingly positioning itself as a gateway to doing business in Africa, including in response to increased international pressure to stop companies moving profits to low tax centres and "treaty shopping" for tax benefits combined with changes to India's DTAA. To this end, an "Africa Strategy" was formulated in 2015, containing a number of initiatives to support outward investment to the continent and position Mauritius as a finance, investment and services hub for Africa. One of the main initiatives relates to the establishment of the Mauritius Africa Fund Ltd with a view to promoting Mauritian investments into Africa and placing emphasis on the development of integrated projects, including Special Economic Zones (SEZ), Technology Parks, Logistics Parks, Agro-industrial Parks, Seafood, among others in selected African countries. The Government of Mauritius has targeted Senegal, Ghana, Ivory Coast and Madagascar for the development of these special economic zones and is working in collaboration with the governments of these countries for the setting up.

21 See investmauritius.com/investment-opportunities/ict.aspx

What	Why	How	Status	Findings
		III.3. Position the Mauritian Stock Exchange as an offshore regional stock exchange.		The Stock Exchange of Mauritius (SEM) has grown to one of the most important financial exchanges in Africa, and accepts both primary and secondary listings of offshore and foreign companies. As part of a development strategy launched in 2008, the SEM is aiming to become the regional centre for the listing of extractive companies, Africa-centred ventures, specialist-debt products, and government securities. According to the SEM, around 50 instruments have been listed under this strategy, including, in 2016, the CoreShares S&P 500 ETF, the first S&P 500 product to be listed on an African exchange. The SEM also listed its first “Masala Bond” (Indian-rupee bonds issued by Indian corporate entities) in December 2016.
		III.4. Adopt a targeted marketing campaign to promote Mauritius as an IT centre for consulting, Internet/software development and call centres.		With 700 ICT-BPO based enterprises, the country has one of the richest technology ecosystems in Africa. The industry, which currently employs over 21,500 professionals, is being increasingly leveraged as a value added destination. Global players such as Accenture, Ceridian, Huawei, Orange Business Services and Infosys, among other, have established their operations in Mauritius. The sector has developed distinctive strengths in telecoms; banking, financial services and insurance; IT application development; and maintenance support.[21] In the Global Information Technology Report 2016, Mauritius ranks 49 out of 139 countries and first in Africa. However, while the development of the industry is led by the BPO segment, dominated by FDI, the IT segment, led by local SMEs, is struggling to compete and is looking to expand its access to the African market.
		III.5. Engage international experts to develop a business park to attract world-class electronic business companies.		Business Parks of Mauritius Ltd. (BPML) was created in 2001 as a government-owned private company to spearhead the development of ICT by providing state-of-the-art facilities for advanced software promotion and IT-enabled services on a par with the best in the world.[22] The Cyber City built by BPML is a modern development on a site of 152 acres, strategically located at the centre of the island, at Ebène, and provided with world-class facilities. Five distinct zones comprise the Cyber City, the Cyber and Multimedia Zone, the Business and Finance Zone, the Knowledge Centre, the Commercial Zone and the Residential Zone. After the success of the Ebène Cyber City, BPML is developing a business park near the airport, targeting telemedicine services for the continent.[23]
		III.6. Foster regional negotiations with foreign countries for access agreements on international and regional tuna fisheries.		In 2012, Mauritius and the European Union entered into a new Fishery Partnership Agreement and Protocol. It allowed vessels from France, Italy, Portugal, Spain and the United Kingdom to fish in Mauritian waters and forms part of the tuna network fisheries agreements in the Indian Ocean.[24] In April 2017, the European Union and Mauritius reached a provisional agreement on a new protocol.[25] Mauritius has also signed fishing agreements with Japan and the Seychelles, which contain provisions for transhipping catches in Mauritius Port, and supplying fish to processing factories. Finally, a tuna agreement with Mozambique has been negotiated and awaits finalization.

22 See theneweconomy.com/business/mauritius-cyber-city-attracts-business-from-across-the-globe.

23 See defimedia.info/rose-belle-business-park-rs-150-millions-pour-un-centre-de-telemedecine.

24 See the European Commission website at ec.europa.eu/fisheries/cfp/international/agreements/mauritius_en.

25 See ec.europa.eu/fisheries/new-protocol-sustainable-fisheries-partnership-agreement-between-eu-and-mauritius_en.

What	Why	How	Status	Findings
		III.7. Ensure that Mauritian products meet the requisite standards for exports.		As per the Fisheries and Marine Resources Regulations 2010, the "Competent Authority" is the seafood unit of the Ministry of Ocean Economy, Marine Resources, Fisheries and Shipping, which verifies and certifies fish and fish products intended for export. The Competent Authority also ensures that all seafood processors operate in accordance with international norms and standards (HACCP, SPS and European Union regulations).
		III.8. Prepare sectoral profiles and pro-actively target investment to further develop the marine sector (e.g. small pelagic fishing, tuna fisheries and aquaculture).		Mauritius has a largely untapped Exclusive Economic Zone of 1.9 million square kilometres and is located close to some of the world's best non-Exclusive Economic Zone tuna fishing areas. The ocean economy, or marine sector, has attracted increasing investment through the value chain in areas such as fishing, aquaculture, and fish and fish waste processing. The sector now accounts for some 18 per cent of export earnings and 1.3 per cent of gross domestic product, and it employs roughly 12,000 people directly. However, Mauritius continues to be a minor player within the region, accounting for just 3.7 per cent of total Indian Ocean Commission fishery production (though it outpaces Reunion and Seychelles). To further develop the sector, the Government, together with the International Trade Centre (ITC), has developed a new export strategy for the sector, for the period 2017–2021 (ITC, 2017), as well as an Ocean Economy Strategy focusing on the development of new opportunities. In recent years, the BOI has been proactively targeting investors both in existing and new segments of the marine economy, such as aquaculture operations, marine biotechnology or development of domestic vessels. Its current focus is the development of well-researched propositions.

5. Conclusions and the way forward

The reform effort undertaken by the Government of Mauritius, including through the direct implementation of IPR recommendations, has been remarkable. It led to the establishment or strengthening of several institutions and the closing of several regulatory gaps. Government procedures and business operations have been streamlined and several interventions, aimed at supporting skills and infrastructure development to cater for both the needs of the population and the development of the economy, have been undertaken. As a result, FDI has increased more than 10-fold in the 10 years following the IPR and the country has been transformed. New sectors have developed and several traditional sectors have expanded, income per capita has almost tripled and poverty has halved since 2001.

New challenges have also arisen, many associated with the country's middle-income status, including increasing income inequality, the loss of labour-cost based competitiveness and the need to further develop the skills, regulations and infrastructure to move into progressively higher-value added activities and services. The long upward trend in FDI flows, which started in the mid-2000s, has come to a halt and FDI is now increasingly concentrated in real estate development. At the same time, the financial sector, which now accounts for over 10 per cent of GDP, is under pressure, due to the expected revision of several DTAAs. Progressing on the sustainable development path and achieving high-income status, as envisioned by the Government in its Vision 2030, will require further adjustments in the structure of the economy, the development of new sectors, activities and niches, as well as increased participation of the local SME sector in the economy. The forthcoming strategic investment plan, to be prepared by the Government of Mauritius with the support of UNCTAD, taking into account the new generation of investment policies that foster inclusive growth and sustainable development, will look into policy options and tools to address these challenges (UNCTAD, 2015 and 2017).

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