Mauritius Productivity Study

June 8, 2021

FOREWORD

Mauritius has been a standout economy in the Sub-Saharan Africa and Indian Ocean regions for decades showing steady economic growth supported by a highly ranked business environment. A vibrant private sector is essential to continuing this trajectory of economic growth and is also necessary to meet the needs and aspirations of the people of Mauritius. The formal private sector is the most powerful driver of job creation and rising living standards in the country. Fostering the kind of environment in which the private sector can thrive requires a detailed understanding of the key determinants of firm-level performance and knowledge of the major challenges that businesses face.

For these reasons, the National Productivity and Competitiveness Council (NPCC) and the World Bank Group (WBG) worked together with several key Mauritian stakeholders to produce this Mauritius Productivity Study and Report. It presents the results of the 2020 Mauritius Enterprise Survey (ES) which captured information from over 730 private firms in the manufacturing and services sectors.

The report leverages this data to produce detailed insights into the performance of Mauritian businesses and the business environment they operate in while, due to a standardized approach, allowing benchmarking of many measures with over 145 economies around the globe.

Firms in Mauritius face productivity pressure commensurate with their new status within a high-income economy competing on a global scale and in many markets. Businesses identify workforce skills as a significant constraint, with a need for the re-orientation of basic education and vocational training, so that workers and entrepreneurs are prepared for the modern work environment. Enhancing the productivity of firms in Mauritius also requires greater outward orientation among firms, something which will support innovation by facilitating the acquisition and adoption of knowledge about new products and processes. The World Bank Group remains committed to supporting private sector development in Mauritius in close partnership with local authorities, institutions, and stakeholders.

Idah Z. Pswarayi-Riddihough
Country Director, Mauritius
World Bank Group

FOREWORD

For the past decade, Mauritius has had a sustained and resilient growth story despite impending global and local challenges. But,2020 has been an unprecedented and difficult year for everyone. Few among us would have imagined that we would still be battling the COVID-19 pandemic today. In the Mauritian context, for the first time since the 1980s, GDP contracted by 14.9 percent in 2020. To keep up the momentum and regain our high-income status, the importance of productivity as a driver of growth for the country, firms, and individuals amid new, demanding and complex challenges including those caused by the COVID-19 pandemic cannot be undermined.

Improving productivity is not an easy task. Each one of us must develop our potential to the fullest to create value added. This needs a holistic transformation, requiring productivity improvements to be charted differently, not only in terms of technology, regulations, industry structure, talent and skills, and productivity drive, but more importantly in terms of understanding our current status of productivity. This is rightly put forth by Peter Drucker, the famous management guru who said: ***"If you can't measure it, you can't improve it."***

This study prepared with the technical assistance of World Bank and local co- authors provides insights about how we fare in the area of productivity. Existing gaps along with recommendations to improve are also underlined. We hope that this study serves as a useful reference point for decision makers and other relevant stakeholders to craft appropriate policies and measures to steer the country towards more inclusive and sustainable growth. I seize the opportunity to extend my deep-felt appreciation to all the stakeholders who have provided their invaluable support for this study. ***"Life is like riding a bicycle. To keep your balance, you must keep moving."*** Albert Einstein

Despite the disruptions brought about by COVID-19, there are significant opportunities and we need to 'keep on moving'. I have no doubt that if we continue to work closely together, Mauritius will continue to grow from strength to strength. At the level of the National Productivity and Competitiveness Council (NPCC), we are committed to translate the recommendations made into actions. We will work closely with relevant stakeholders to better the lives of our citizens.

Ashit Gungah
Executive Director
National Productivity and Competitiveness Council,
Mauritius

EXECUTIVE SUMMARY

With steady economic growth since its independence, Mauritius is seen as a model of success within the Sub-Saharan African and Indian Ocean regions despite its limited resource endowment and geographical remoteness. One notable attribute of the country's development path is its inclusiveness, which has contributed significantly to poverty reduction. Today Mauritius stands as a high-income economy according to the latest income level classifications of the World Bank.

Although the country boasts one of the most thriving economies in Africa, it faces many challenges that could inhibit future growth and threaten its position as a high-income economy. These include the erosion of its preferential access to certain markets via trade agreements, sharpened regional and international competition, relatively low technological adoption—particularly by small and medium-sized firms, which may impede the transition toward high valued products and services—and COVID-19's negative shocks, mainly on tourism, trade, manufacturing and financial services.

A sound business environment is indispensable to the development of a strong private sector capable of sustained economic growth. Well-designed economic policies that follow best practices can help generate and sustain such an environment. Evaluating policies and tracking their effects at regular intervals needs to be an integral part of monitoring and improving economic growth and dynamism in Mauritius. Using a nationally representative sample of private businesses operating in the formal sector and outside of agriculture and extractive operations, this report moves beyond aggregate measures to examine the business environment as it is experienced by individual Mauritian firms.

This report scrutinizes the experience of businesses and their association with concrete outcomes such as productivity and employment that link directly to the economic wellbeing of the population of Mauritius. By incorporating firm-level data on self-reported experiences of firms with careful statistical analysis to pinpoint the relationships among variables, this report surfaces revealing patterns with important policy implications.

The Mauritius Productivity Report (2020) draws on extensive surveys of a representative sample of firms by firm size, region, and sector while focusing analytically on the overlapping and complementary topics of productivity, business environment, and workforce. Logistically, tracking productivity measures and labor market trends will require continued estimates of firm-level productivity, accounting for heterogeneous inputs. Such measures can be produced by detailed, firm-level surveys such as the Enterprise Surveys (ES), which can be regularly implemented to provide a window into tracking and acting on dynamic changes over time.

There is no doubt that productivity metrics are powerful tools for data-driven decisions particularly in assessing competitiveness, innovation and progress against global benchmarks, such as the Sustainable Development Goals (SDGs). Policymakers often require several different metrics, used in conjunction. In addition to the labor productivity measures used in the Mauritius Productivity Report, additional and robust multi or total factor productivity measures are often required (MFP and TFP respectively).

Such MFP and TFP measures incorporate diverse inputs beyond just labor, but also require complex estimations: these benefit from regular and frequent data collection.

The World Bank welcomes the desire to collect future rounds of firm-level Enterprise Survey data in Mauritius on a regular basis and can offer technical support for future rounds. Doing so will not only bolster insights into productivity but also allow monitoring of important productivity drivers such as innovation activities, R&D spending, and workforce competencies.

During the 2020 round of data collection, the achieved sample size was just over 60 percent of the original target sample size of 1200. While some of the reduced sample size can be attributed to difficulties in convincing firms to participate during the pandemic, a number of lessons can be learned from the fieldwork that will be relevant when collecting data in future rounds as desired by Mauritian stakeholders. Some of the key findings of the 2020 Mauritius Productivity Report are summarized in this study.

KEY FINDINGS OF THE 2020 MAURITIUS PRODUCTIVITY REPORT

Firstly, the story of the Mauritian economy over the last several decades has been one of growth and productive structural transformation, recent years have seen that growth flatten or even decline.

This dynamic comes at a moment when Mauritian firms continue to trail their high-income competitors on important productivity measures in key sectors. Further compounding the issues surrounding structural transformation, Mauritian firms have labor cost shares similar to other high-income economies while productivity more closely resembles that of upper-middle-income economies. This may indicate that the road to increasing productivity levels will require bolstering worker skills and adopting technological improvements that complement the labor cost structure.

KEY FINDINGS OF THE 2020 MAURITIUS PRODUCTIVITY REPORT

Mauritian manufacturing appears to generally remain on a flat or declining trajectory however, food manufacturing stands out both in terms of productivity, growth, and investment.

Despite this above-average performance, the food manufacturing sector remains characterized by low value-added goods, a correspondingly low labor-cost share, and low penetration of foreign investment. While this sector may be able to continue such performance, it seems unlikely that the sector can grow beyond servicing a relatively limited scope of goods and markets without significant investment both within the sector and within complementary services sectors that can support and drive such growth. Luckily, there is evidence that food manufacturers are upgrading processes through R&D and other spending at a rate outpacing other sectors. The story for Mauritian textile manufacturers may not be as rosy as international competition for cheap labor within the sector continues to squeeze firms unrelentingly.

KEY FINDINGS OF THE 2020 MAURITIUS PRODUCTIVITY REPORT

The accommodation and food services sector - consisting of hotels, villas, room rentals, restaurants and bars, as well as several other services - is central to the Mauritian economy.

Restaurants and bars in Mauritius tend to operate at a relatively low productivity level while the hotel industry compares favorably to other high-income economies. Mauritius competes for international tourism by leveraging its natural beauty and relative isolation such that the tourism sector has a potentially bright future in expanding and upgrading as firms compete on quality with other international destinations.

KEY FINDINGS OF THE 2020 MAURITIUS PRODUCTIVITY REPORT

To continue to drive productivity growth, focus should be paid on opening cross-sectoral support linkages, supporting broad investment in education programs that prepare people for work, as well as fostering outward orientation across all sectors in the economy.

While such steps may strengthen investment, innovation, and research and development (R&D) spending, the country's services and manufacturing sectors should also natively look to increase R&D spending, bring new products and services to the market, and to invest in capital accumulation. Such steps can improve international competitiveness perhaps creating a reinforcing cycle whereby firms participate further in export markets, adopt international standards and improve products thereby driving productivity growth.

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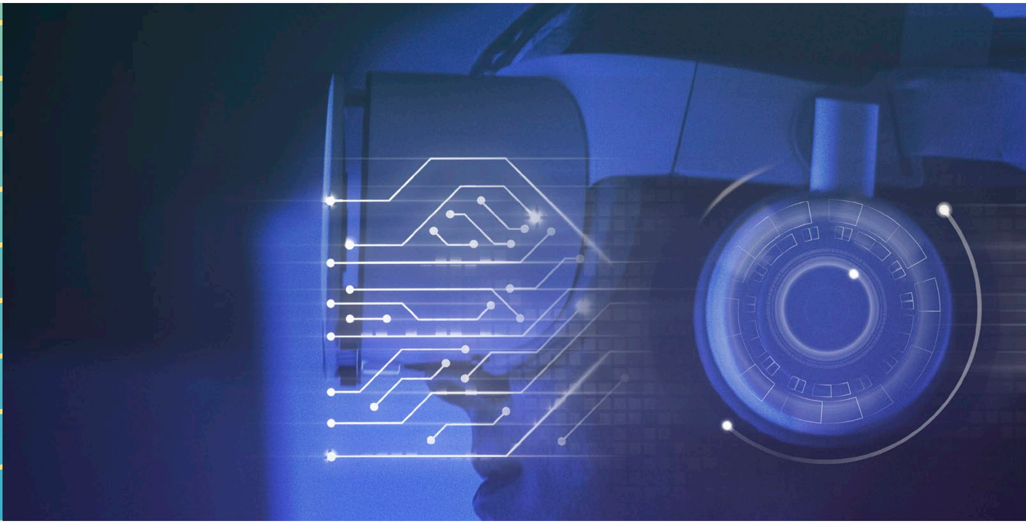
KEY FINDINGS OF THE 2020 MAURITIUS PRODUCTIVITY REPORT

The business environment in Mauritius is, overall, highly conducive to fostering economic activity but is not without room for improvement when it comes to access to finance and trade facilitation.

Businesses face difficulty accessing finance and accessing foreign markets with results more pronounced for firms less integrated in international financial markets and those not associated with domestic conglomerates. Accessing finance may be difficult for businesses without traditional forms of collateral. The cost of trade is high with the cost to export is $303, much higher than the OECD average of $136.8, and the cost to import is $372, compared with the OECD high income average of $98.1. The fluidity of trade may also be undermined by the complexity of tariffs, where the nation has a ranking of 56 in the 2019 Global Competitiveness Index (GCI). Clearance customs costs have been included as one of the key areas of focus under the World Bank Action Plan for Trade Facilitation in Mauritius.

KEY FINDINGS OF THE 2020 MAURITIUS PRODUCTIVITY REPORT



Despite the robust business enabling environment in Mauritius, which is reflected in its dynamic economy, innovation and R&D amongst Mauritian firms lags other economies.

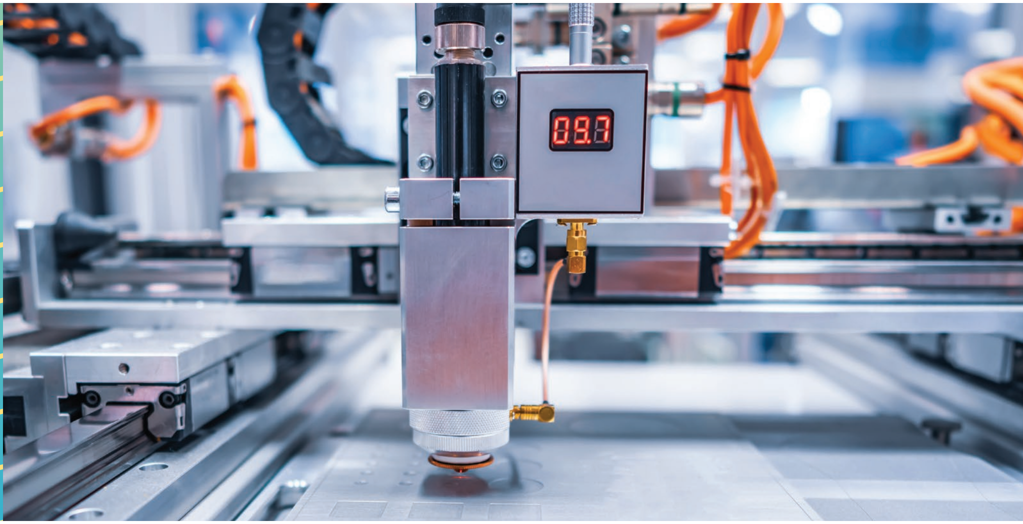
Measures of innovation such as the percentage of product and service innovations that are new to the market, the percentage of firms introducing process innovations and, the percentage of firms spending money on research and development lags both High-Income and regional comparator economies. Process innovations are typically more indicative of technological progression and here, Mauritian businesses lag comparators with only 17 percent of firms introducing process innovations compared with 25 percent of firms in High Income economies and 33 percent in African economies. Likewise, the percentage of firms that spend money on R&D is lower, at only 9 percent of businesses, than in High Income economies where nearly 14 percent of businesses spend on R&D.

KEY FINDINGS OF THE 2020 MAURITIUS PRODUCTIVITY REPORT

Lags in innovation show up in intellectual property outcomes as well.

Less than 10 percent of firms were granted patents or trademarks. The relatively low rate of innovation outputs is consistent with other indices. These trends are concerning since, as illustrated in World Bank (2020a)[1], innovation and experience with economic complexity, related to participation in global value chains and cross-border technology transfer, are key drivers of productivity.

KEY FINDINGS OF THE 2020 MAURITIUS PRODUCTIVITY REPORT



The low rate of process innovation is also reflected in low uptake of automated manufacturing and automated inventory management systems (about 20 percent of companies).

The remaining eighty percent use mostly manual processes or machines controlled without computers. When asked about the main technology used to organize inventory, 27 percent responded that it was handwritten management of information while 61 percent reported that it was manually updated using computers. Only 12 percent of the firms use Warehouse Management System software. This is further illustrated in the low usage of online channels for purchases and sales.

KEY FINDINGS OF THE 2020
MAURITIUS PRODUCTIVITY REPORT

Despite the association of innovation activity with higher productivity, Government programs targeting innovation have had low uptake and do not appear to be associated with productivity gains.

Improving the targeting and uptake of these programs may help bend the curve on innovation and improve international competitiveness.

KEY FINDINGS OF THE 2020 MAURITIUS PRODUCTIVITY REPORT

The Government of Mauritius may also have a key role to play in fostering a skilled populace of entrepreneurs and workers.

Businesses report a high level of difficulty in finding new workers with specific skills namely, work-ethic, English language skills, problem solving skills and managerial skills and for particular job openings such as ‘skilled manual workers’ and ‘plant and machine operators’ which are especially difficult to hire. Revisiting basic education curriculum and technical and vocational training programs may help alleviate skills shortages over the medium to long term by upgrading the overall quality of workers and entrepreneurs in Mauritius. In the short term, foreign workers with profiles that can fill both low-skilled jobs in sectors such as textiles and high-skilled positions in sectors such as food manufacturing and IT may boost overall productivity and innovation in Mauritius.

KEY FINDINGS OF THE 2020 MAURITIUS PRODUCTIVITY REPORT

Training and up-skilling of the workforce by businesses appears especially limited for small businesses who are unlikely to provide any formal training opportunities for workers.

Across all firm sizes, an average of fewer than one in five businesses had provided any formal training to workers in the previous year. While businesses that provided training frequently matched training topics to the same areas they identified as skills shortages within their workforce, they often failed to provide any formal language training even when the reported need was critical. Learning why businesses do not engage in language training programs may reveal an opportunity for up-skilling the labor force in this dimension.

KEY FINDINGS OF THE 2020 MAURITIUS PRODUCTIVITY REPORT

Women are active in both business ownership and the labor force in Mauritius however, the picture changes dramatically when the focus shifts to upper levels of responsibility and decision making.

Women account for only 13 percent of top managers in Mauritius and only nine percent of businesses are majority female owned. Overall, labor force participation of women is reported to be hampered by a lack of support mechanisms such as on-site and alternative childcare as demonstrated in the data where firms that provide some support mechanisms report fewer skills shortages.

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KEY FINDINGS OF THE 2020 MAURITIUS PRODUCTIVITY REPORT

Unlocking women's potential in the Mauritian private sector is key to promoting more dynamism in the economy with potential gains not only for women but for the whole of Mauritian society.

Having female management is associated with both fewer skill shortages and with increased support mechanisms for female employees suggesting that encouragement and support of female entrepreneurs may lead to increased female labor market participation rates as well.

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