



MAURITIUS

SELECTED ISSUES

May 2024

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IMPROVING REVENUE MOBILIZATION IN MAURITIUS: ASSESSING THE POTENTIAL AND REFORM OPTIONS

Mauritius collects less tax revenue than its peers. This hampers its ability to preserve debt sustainability and undertake critical growth-promoting investments. Assessing Mauritius' tax gap—the difference between what the country could potentially collect and what it collects—is important to inform revenue mobilization policies. The tax gap in Mauritius is estimated at 5.6 percent of GDP, at the top end of tax gaps of its peers. Both domestic and international taxation reforms could help narrow the gap. Reforming the personal income tax (PIT) and the value added tax (VAT) could altogether yield 3 percent of GDP in additional tax revenue. This could be achieved by lowering PIT thresholds, while increasing the top rates, and streamlining VAT exemptions. The expected implementation of the global minimum tax on corporations internationally provides an opportunity to reconsider the tax policy approach to investment promotion in Mauritius. A desirable strategy for Mauritius would be to move away from the generous benefits offered, including tax holidays, towards a more neutral taxation of investments. While there is potential to mobilize additional revenue through tax reforms, care should be taken that vulnerable households are protected, including through compensatory social spending.

A. Background

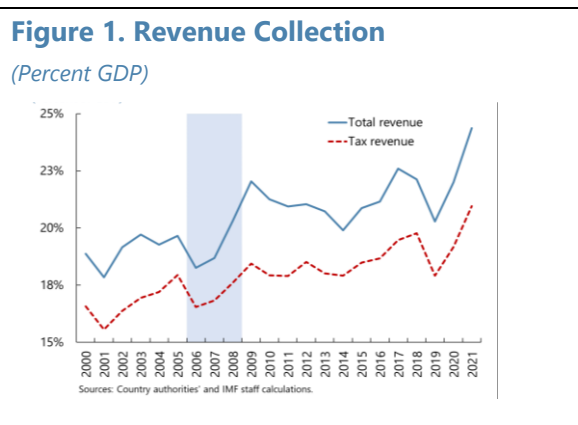
1. **Mobilizing additional tax revenue is a policy priority for Mauritius. First, this is key to support a medium-term growth-friendly fiscal consolidation aimed at preserving debt sustainability.** The pandemic and associated support measures pushed the stock of public debt to an unprecedented high level, which the country aims to reverse. Second, as Mauritius aspires to regain its “high-income country” status, higher revenues are needed to create fiscal space to scale-up public investment to foster economic diversification, transform Mauritius into a regional hub for trade and technology, and address climate change vulnerabilities. Furthermore, in the longer run, Mauritius' ageing population may also require a scaling up of public spending in labor-saving technologies, pension, and health care.
2. **Addressing these challenges will require tapping into additional resources to safeguard debt sustainability, while protecting growth prospects and the most vulnerable.** With tighter global lending conditions and limited fiscal space, the scope for raising domestic revenue through tax policy and administration measures should be considered. Furthermore, the global debate about welfare and inequality has increasingly shifted towards fixing loopholes in the international tax system with uncertain impacts on countries like Mauritius that host significant offshore businesses.
3. **This paper assesses the extent to which Mauritius can increase tax revenue.** First, it takes stock of revenue mobilization in Mauritius in recent decades (Section 2). Second, it estimates how Mauritius' tax revenue collection performs relative to the country's potential (Section 3). Third, it discusses tax policy reforms considering the evolving international context that will shape revenue

mobilization in Mauritius as a major destination of offshore businesses (Section 4). Section 5 concludes.¹

B. Taking Stock of Revenue Mobilization in Mauritius

4. Mauritius has made some progress in revenue mobilization in recent decades, supported by tax administration and policy reforms.

Several reforms underpinned a modest increase in revenue during 2000-19. However, the pandemic negatively impacted tax revenue, leading to a significant setback in FY2019/2020 from which recovery is ongoing (Figure 1). On the revenue administration front, the authorities established the Mauritius Revenue Authority (MRA) in 2006, with the purpose of “managing and operating an effective and efficient revenue raising organization.”² On the tax policy side, in the early 2000s there was a new focus on

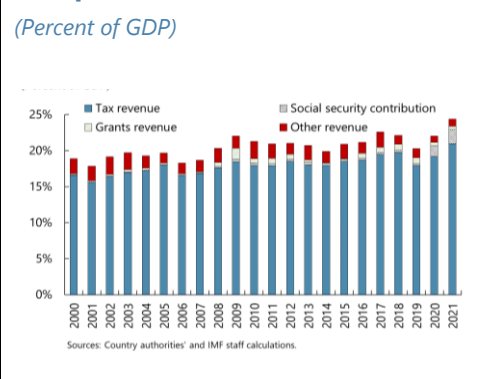


expanding the tax base through reduction of incentives, exemptions, and allowances, while lowering the statutory personal (PIT) and corporate (CIT) tax rates. The top CIT rate was reduced from 25 percent to 15 percent in 2008, while the PIT rate was cut from 22.5 percent to 15 percent. Since then, the PIT rate has evolved from a single flat rate to a differentiated system (see paragraph 16). The value added tax (VAT) system has also been reformed over the years, by increasing the standard rate from 10 to 12 percent and to 15 percent in FY2001/02 and FY2002/2003, respectively.

5. Tax revenue, notably from VAT and income tax, drove most of the improvements in total revenue.

Total revenue increased modestly from around 18 percent of GDP in FY2001/02 to reach 22 percent of GDP in FY2018/19.³ This was mostly driven by higher tax revenue which increased from 16 to 20 percent of GDP over the same period (Figure 2). An important share of tax revenue is accounted for by taxes on sales and production (which includes mostly the VAT), followed by income and excise taxes. Taxes on sales and production, which represented about 7 percent of GDP in FY2001/02, grew to reach 11

Figure 2. Total Revenue and Components, 2000–21

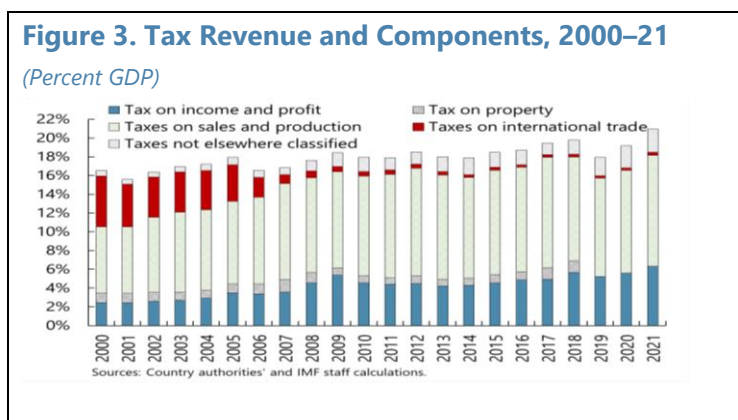


¹ The analytical exercises in sections 2, 3 and 4 rely on authorities' data, and the World Revenue Longitudinal Database (WoRLD) and Tax Policy Rates Database compiled by the IMF.

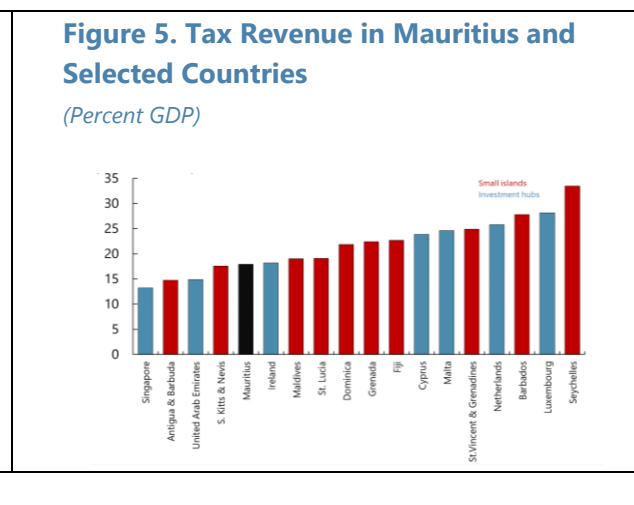
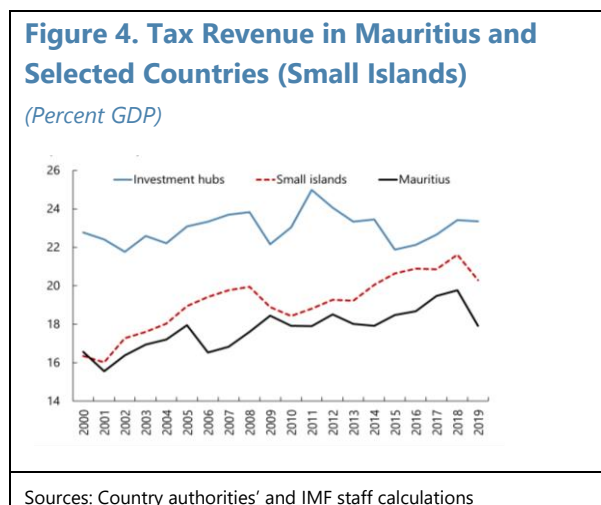
² As stated in the Mauritius Revenue Authority Act 2004.

³ The revenue-to-GDP ratio is much higher in FY2021/22 due to the exceptional increase in revenue following the pandemic period. Therefore, we focus the analysis on the most recent pre-pandemic year, i.e., FY2018/19. The same approach is taken when comparing Mauritius with its peers later.

percent of GDP in FY18/19 (Figure 3), mostly due to an increase in VAT collection from 4.5 percent to 6.3 percent of GDP. Income tax revenue also recorded a significant growth from 2.3 percent to 5.3 percent of GDP. As a result, tax revenue accounted for 87 percent of total revenue at end-June 2023.



6. Despite some progress, Mauritius collects less revenue compared to its peers. Tax revenue remained consistently below the average level in investment hubs and small islands during the 2000-19 period, including some stagnation in 2009-2016 (Figure 4).⁴ For instance, the median tax revenue-to-GDP ratio in 2019 for investment hubs and small islands was 24.7 and 20.5 percent of GDP, respectively, above Mauritius' 17.9 percent of GDP (Figure 5).

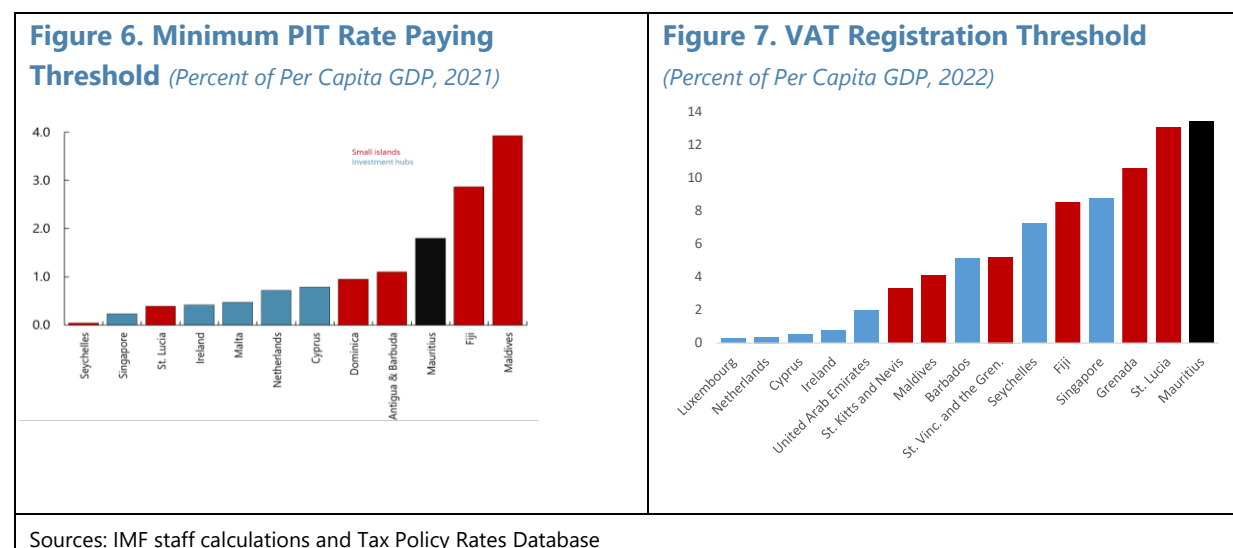


7. Relatively generous features of the tax system explain Mauritius' lower revenue compared to peers. As of 2021, the statutory minimum income threshold subject to PIT payment,

⁴ Relevant comparators for Mauritius include investment hubs and small islands (nine countries for each group). "Investment hubs" are defined as countries with ratios of foreign direct investment-to-GDP similarly high as in Mauritius, while "small islands" are identified using the UN's Small Islands Developing States (SIDS) definition. The selected investment hubs comprise high-income countries, while the small islands group include mostly middle-income countries.

as a percentage of per capita GDP, was relatively high in Mauritius compared to several small island states and investment hubs (Figure 6). The VAT registration threshold (Figure 7) and PIT deductions are also comparably high. Furthermore, the top PIT and CIT rates have been substantially lower in Mauritius, although the VAT rate has been slightly higher than in small island countries. The 2023 reform differentiated PIT rate bands and removed distortions, but also lowered the average tax rate for most taxpayers, including very high earners (see paragraph 16). Excise duties on alcohol and tobacco were further increased. However, VAT exemptions were extended to new mass consumption products.⁵ Also, significant tax incentives on imports of electric and luxury vehicles introduced during the pandemic have not been phased out despite the recent recovery of the economy.

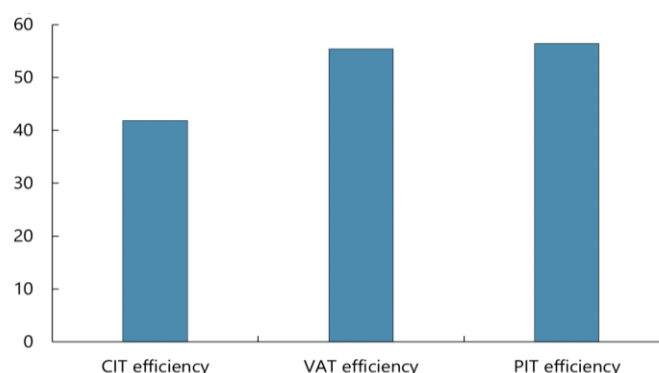
8. As a result, the efficiency of tax collection is low in Mauritius. The C-efficiency—the ratio of actual tax revenue to the product of the related standard rate and tax base—is notably below 100 percent that would be consistent with “perfect” enforcement (Figure 8).⁶ On this front, Mauritius also underperforms its peers. The C-efficiency for VAT was 55 percent in FY18/19, compared to the average of 75 percent in small islands (IMF, 2021). CIT productivity⁷ increased markedly following base broadening reforms, with the gradual reduction of the CIT from 25 percent in 2006 to 15 percent in 2008, combined with the elimination of most tax incentives. However, the more recent reintroduction of several investment incentives risks reversing these gains. Altogether, these features imply that Mauritius is likely performing below its potential. The next section employs regression analysis to assess whether this is the case.



⁵ In June 2023 VAT exemptions were extended to 15 products, including selected food, school, and infant-related products.

⁶ The C-efficiency ratio is an indicator of the departure of the tax from a perfectly enforced tax levied at a uniform rate on all final consumption (Keen 2013). To compute the C-efficiency, the actual statutory tax rates are used for the period in consideration: 15 percent for VAT and CIT, and an income-weighted average of 10.4 percent for PIT. The tax base proxies used for VAT, CIT, and PIT are, respectively, consumption, the aggregate gross operating surplus, and compensation of employees, all obtained from the national accounts compiled by Statistics Mauritius.

⁷ CIT productivity is the ratio of CIT revenue to the product of the statutory CIT rate and GDP.

Figure 8. Tax Efficiency in FY18/19, Selected Taxes*(In Percent)*

Sources: IMF staff calculations and Tax Policy Rates Database

C. Assessing Mauritius' Tax Potential

9. Inefficiencies in the tax system may be hampering revenue collection in Mauritius, putting it below potential. The source of these inefficiencies would relate to tax policy and revenue administration.⁸ To assess how much additional tax revenues could be raised by removing inefficiencies, we calculate the potential tax revenue, which varies by country. For example, the tax potential will be lower in countries with a large agricultural sector and higher in open economies with a large share of international trade in GDP.⁹ Similarly, when countries are more developed, higher tax rates are more readily accepted. Also, for countries with stronger governance, the capacity to collect tax and the willingness of taxpayers to support effective tax systems tend to be higher.

10. We estimate Mauritius' tax potential with regression benchmarking. The approach builds on Benitez et al. (2023) who provide a similar analysis for countries around the world. The methodology compares differences in tax collection between countries and relates them to explanatory factors, including GDP per capita, GDP share of agricultural value added and trade, and government effectiveness (as proxied by the World Bank index from Daniel Kaufmann and Aart Kraay, 2023). The tax potential of individual countries is then established by fitting a regression of tax revenues with the explanatory variables, with the fit designed to capture the highest observed levels of tax revenues. The estimated size of tax inefficiencies—or tax gap—is calculated by comparing estimated tax potential to actual tax collections. Data are taken from IMF's World Longitudinal Revenue Database (WoRLD, IMF 2022) for 157 countries over the period 1990–2021.

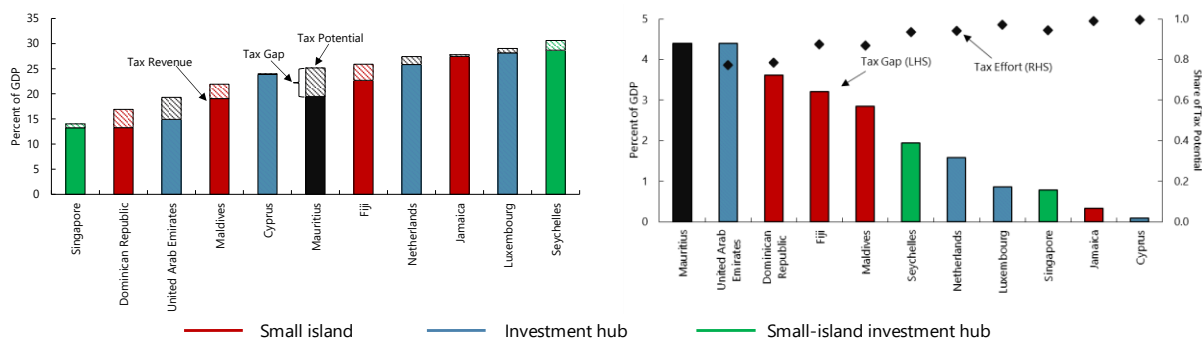
⁸As discussed earlier, sources of inefficiencies in Mauritius include significant tax exemptions. Other sources of inefficiencies may include investment incentives, and preferential rates, as well as weak compliance.

⁹Agriculture is more difficult to tax than other sectors due to a higher degree of informality and widespread tax relief for the sector. International trade typically facilitates tax collection through improved opportunities for collection at the borders.

11. Potential tax revenue for Mauritius is estimated at 25.1 percent of GDP, compared to actual tax collection of 19.5 percent of GDP in FY18/19. In other words, there is a gap between actual and potential tax capacity of 5.6 percent of GDP.

12. Mauritius has an above-average tax potential but a larger gap between tax potential and actual tax collections when compared against its peers (Figure 9). Mauritius shares many characteristics with investment hubs and small islands. At 25.1 percent of GDP, Mauritius’ tax potential is somewhat higher than the average in both groups (24.1 and 23.2 percent of GDP, respectively). Among these comparators, Mauritius has the largest tax gap. At 1.8 and 2.3 percent of GDP, the average tax gap is substantially lower among investment hubs and small islands, respectively.¹⁰ Looking at individual countries, Figure 9 shows that investment hubs and small island economies all have a lower tax gap than Mauritius. The tax gap of Mauritius is just below that of the United Arab Emirates where extractive resource revenues affect revenue priorities. Since Mauritius has a relatively high tax gap, this means that its tax effort—the ratio of actual tax collection to potential—is relatively low. Reliable data are not available to assess the relative contribution of tax policy and compliance factors to the estimated tax gap. Nevertheless, based on World Bank’s 2023 Public Expenditure Review for Mauritius, the contribution of policy factors is not negligible. Accordingly, the level of tax expenditures (which include tax holidays, reduced rates, exemptions, and zero-rating) was about 3.5 percent of GDP in FY21/22.

Figure 9. Tax Potential (Left) and Tax Gap (Right) for Investment Hubs and Small Islands¹
(Percent of GDP)



¹ Countries for which data are available. Small islands are included from the U-MIC and HIC groups. Mauritius is both included in the small islands and investment hubs groups.

Sources: IMF staff calculations, Benitez et al. (2023) and IMF WoRLD (2022).

13. The above findings suggest that Mauritius has substantial scope for raising additional revenues. The experience of other countries suggests that an increase in tax revenues of up to 5½ percentage points of GDP, to reach a tax-to-GDP ratio of 25 percent, may be feasible. The next section discusses options for reducing the tax gap.

¹⁰A broadly similar conclusion is reached when comparing Mauritius with the group of Emerging Market Countries and Advanced Economies.

D. Looking Forward: Reform Options

14. Tax policy reforms could help Mauritius narrow its tax gap. There is scope to consider alternative reforms aimed at both domestic and international taxation.

Options for Domestic Revenue Reforms

15. The introduction of a new PIT regime in 2023, together with the abolition of the solidarity levy, introduces a more differentiated rate schedule and removes distortions, but does not improve the redistributive capacity of the PIT. Since 2006, the PIT applied a 15 percent rate to all taxable income above the threshold with gradual adjustments over time to make it more equitable and increase revenue (e.g., introduction of an additional rate of 10 percent for a narrow range of income and introduction of a solidarity levy¹¹). Uncommonly, the application of the 15 percent rate applied not only to taxable income above that amount but to all taxable income, resulting in a discontinuity and creating an incentive for taxpayers to keep their income below the rate threshold (Figure 10a). The new schedule, implemented in July 2023, addresses this anomaly, and uses a progressive band of eleven rates up to 20 percent. However, it maintains an allowance threshold that keeps a large share of the population outside of the tax base,¹² and lowers the average tax rate for most taxpayers, including very high earners, thereby reducing its overall redistributive capacity and revenue collection (Figure 10b).

16. Mauritius could generate additional revenue of about 0.8 percent of GDP by lowering the PIT income threshold and increasing the top rates relative to the current PIT schedule. Overall, Mauritius's PIT maintains an effective tax rate below its peers (Figure 11a), resulting in a relatively weak comparative redistributive capacity (Figure 11b). An alternative scenario of maintaining the current rate bands but lowering all thresholds by 25 percent, while increasing the three highest rate bands by 1, 2, and 5 percent, respectively, would increase PIT revenue by about 0.8 percentage points of GDP and thus recoup revenue losses from the latest PIT reform. Redistributive capacity would also increase, while reducing the after-tax income share of the richest households (Figure 10b).

¹¹ Initially at a rate of 5 percent and then increased to 25 percent in FY2020/2021, applicable to income above Rs 3 million, but with the average rate capped at 10 percent, the marginal tax rate for the small number of taxpayers in scope fell from 40 to 25 percent for income exceeding Rs 5 million.

¹² Up to 80 percent of households have incomes below the initial allowance threshold, based on information from the World Inequality Database (2021) and household survey information (2017).

Figure 10a. Tax Rate Schedules

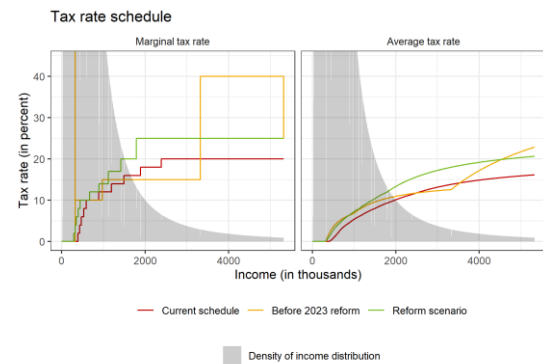
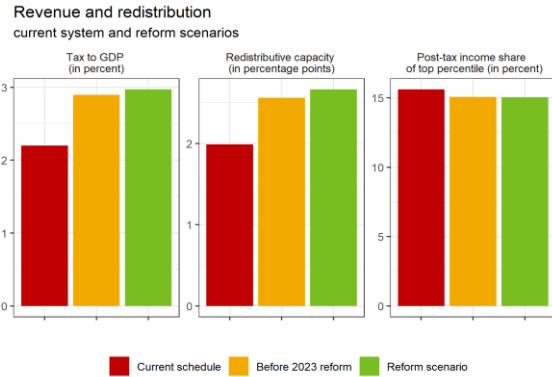


Figure 10b. Revenue and Redistribution



Source: IMF FAD PIT Tool

Note: PIT reform effects are calculated using tax parameters and revenue collection in 2021 as well as information from the World Inequality Database (WID). The tax parameters include the main rates, annual PIT revenue collection and a personal allowance threshold of 390,000 Mauritian Rupee (reduced to 292,500 Mauritian Rupee in the reform scenario). The WID database approximates a comprehensive worldwide income tax base and may overstate true income as net national income is estimated based on macro information and may include income from the informal economy and income derived from capital, especially for top of the income distribution.

Figure 11a. Tax Rate Schedules

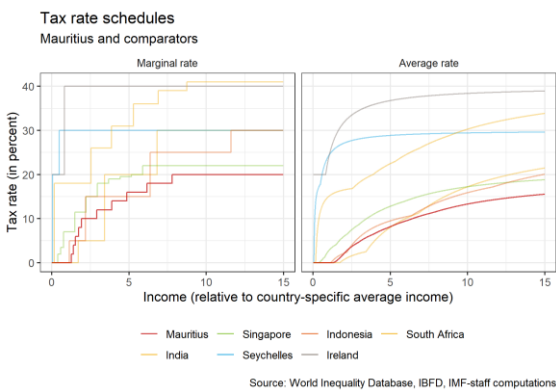
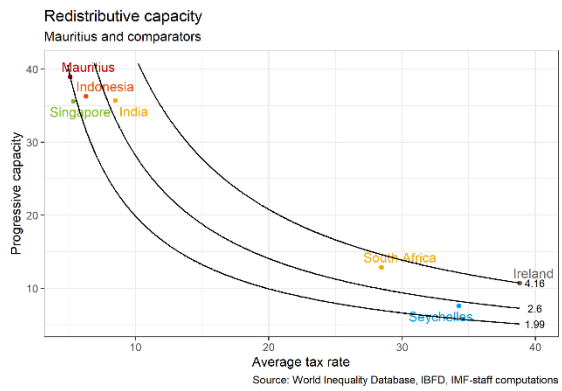


Figure 11b. Redistributive Capacity



Source: IMF FAD PIT Tool.

17. VAT reform also offers scope for generating additional revenue. In the reference year FY18/19, VAT collections amounted to 6.3 percent of GDP, or about 32 percent of overall tax revenue. At 15 percent, the standard VAT rate in Mauritius is equivalent to prevailing rates in small island economies, although lower than in investment hubs where rates average around 20 percent. The potential for increasing VAT revenues can be assessed by considering C-efficiency.¹³ The C-

¹³ The VAT C-efficiency expresses revenue loss due to tax policy and revenue administration factors at the present standard VAT rate.

efficiency of Mauritius in FY18/19 is estimated at 55.5 percent. So, relative to a VAT system where all final consumption is taxed at 15 percent, Mauritius' VAT gap is estimated at 5 percent of GDP.

18. A reasonable goal would be to raise the C-efficiency of Mauritius' VAT to the average of small island comparators, without changing the standard rate. As 15 percent is also the prevailing rate in small island economies, this seems a reasonable target. The average C-efficiency in small islands is about 75 percent. Raising C-efficiency of Mauritius to this level would raise VAT collections to 8.5 percent of GDP, an increase of 2.2 percentage points of GDP. This would be a major step to reducing the overall tax gap of 5.6 percent of GDP discussed in Section 3.

19. VAT revenues could be raised by reducing exemptions and enhancing compliance. Mauritius offers generous provisions for taxpayers. They include extensive exemptions for basic food items and services such as education and health, certain financial transactions, entertainment, and land. Other items are zero rated, including imports into the freeport zone, some food items, printed materials, certain utilities, and transport by air and sea. In addition, due to the high threshold for mandatory VAT registration, many businesses remain outside of the tax net. Mauritius also faces issues with VAT compliance, including due to the rapid growth of e-commerce platforms. Exemptions and other tax expenditures could be rationalized. Significant revenue could be raised by rationalizing VAT zero-rating which, according to World Bank's Public Expenditure Review (conducted for Mauritius in 2023), amounted to 1.9 percent of GDP in FY21/22. The VAT threshold may also be lowered to further widen the tax net. Care should be taken that vulnerable households are protected, including through compensatory social spending.

Options for International Taxation Reforms

20. Ongoing changes in international tax rules pose challenges and opportunities to Mauritius' corporate income tax (CIT) policy. The adoption of the global minimum tax,¹⁴ planned to take place in 2024,¹⁵ has potential broad implications for Mauritius, which has been able to historically attract large foreign investments. The goal for minimum taxation is to limit countries' choices in setting CIT effective tax rates significantly below 15 percent, especially on profit earned in a source jurisdiction where an entity has little economic substance. Where low CIT rates are applied to foreign companies in scope of the rules,¹⁶ once the global minimum tax regulation is implemented, low CIT rates will often no longer provide a competitive advantage for a given jurisdiction, as the minimum tax on 'excess profits' risk being imposed as a top-up tax in another jurisdiction. Mauritius has already introduced a Qualified Domestic Minimum Top-Up Tax (QDMTT)

¹⁴ Agreed by the members of the G20/OECD Inclusive Framework (IF) in October 2021 (OECD, 2021, 2022) and followed by the proposed Directive implementing it in the EU (European Council, 2022). The OECD has since issued administrative guidance and the European Council approved in December 2022 a directive mandating member states to transpose the model rules into domestic legislation for the upcoming fiscal year in 2024.

¹⁵ For a recent summary see Herzfeld (2023).

¹⁶ All entities that are part of multinationals with global turnover of at least €750 million are in-scope, with de minimis thresholds at the jurisdictional level.

in order to pre-empt top-up tax revenues arising elsewhere.¹⁷ The QDMTT ensures that these revenues for companies operating in Mauritius accrue in Mauritius.

21. The implementation of the global minimum tax rules provides an opportunity to reconsider the tax policy approach to investment promotion in general. Mauritius encourages investment through tax holidays, generous investment tax credits and large deductions. While the QDMTT prevents revenue losses for Mauritius, the minimum tax rules will reduce the effectiveness of some of the incentives currently offered. In light of the specific design of the minimum tax rules,¹⁸ and given broader principles of good tax policy, a desirable strategy for Mauritius is to move away from the selective benefits currently offered, including tax holidays, towards a more uniform and reasonably generous treatment of investments using immediate expensing (IMF, 2021).

22. Mauritius' tax treaty policy is likely to continue to face pressures related to international trends and evolving partner countries' priorities. In addition to responding to global minimum taxes, evolving standards, and other countries' unilateral efforts to address profit-shifting risks suggest that - to maintain its tax treaty network - Mauritius will likely need to continue to grant more taxing rights to source countries and more proactively address treaty abuse (IMF 2021). Following several recent high-profile renegotiations or terminations of Mauritius' existing tax treaties, abuse risks have been reduced through the adoption of anti-abuse measures, but these are often difficult to administer and perceptions of what is required for a balanced tax treaty are evolving in the eyes of treaty partners.

E. Conclusions

23. Mauritius' aspirations to regain "high-income country" status make strengthening tax revenue mobilization a key policy area. The country has made some progress in revenue mobilization over the past two decades but still collects less revenue than similar countries, in part due to a relatively generous tax system. The tax gap—the difference between what the country could potentially collect and what it collects—estimated at 5.6 percent of GDP is relatively large compared to its peers.

24. Reform options to narrow the tax gap include general tax policy as well as international taxation considerations. There is potential to further reform the PIT and the VAT, which combined could yield 3 percent of GDP in additional revenue. This could be achieved by lowering PIT thresholds, while increasing the top rates, and raising the C-efficiency of the VAT to 75 percent by streamlining exemptions and improving administration. With respect to corporate taxation, domestic reform momentum could be accelerated in the context of ongoing international tax reforms. The adoption of the global minimum tax provides an opportunity to reconsider

¹⁷ Mauritius introduced the QDMTT already in 2022. However, the rules are not yet in force and delays in their implementation may result in some top-up taxes being collected elsewhere.

¹⁸ In the application of the minimum tax rules, tax incentives that operate through timing effects will retain their effect on marginal incentives.

Mauritius' tax policy approach to investment promotion. Mauritius has already introduced a Qualified Domestic Minimum Top-Up Tax (QDMTT) in order to pre-empt top-up tax revenues arising in other countries. While the QDMTT prevents revenue losses for Mauritius, it will reduce the effectiveness of some of the incentives currently offered. A desirable strategy for Mauritius is to move away from the selective benefits currently offered, including tax holidays, towards a more uniform and reasonably generous treatment of investment using immediate expensing.

25. The choice of reform options should be informed by considerations to support a medium-term growth-friendly fiscal consolidation that protects the most vulnerable. While there is potential to mobilize additional revenue through VAT, PIT and CIT, care should be taken that vulnerable households are protected, including through compensatory social spending.

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CLOSING THE GENDER GAP AND FOSTERING LONG-TERM GROWTH¹

Availability of labor is a key challenge that Mauritius needs to address to sustain growth in the long run. Increasing women’s labor force participation—which is substantially lower than men’s—would support growth and help mitigate the impact of an ageing population. This would require addressing significant gender gaps, including in skills, training, and education, that prevent women from fulfilling their potential in the labor market. Policy recommendations include the need for: (i) financing skill-building, training, and education programs for women, including through spending reallocation away from broadly targeted subsidies; (ii) improving the availability of affordable childcare; and (iii) further improving the legislation on maternity and parental leave.

A. Background

1. Mauritius has made good progress in fostering gender equality. Gender inequality has declined significantly over the last decades and is much lower than the average in most regions, although still substantially higher than in Europe and Central Asia (Figure 2). Mauritius also scores well on having a female-friendly legal framework. Notably, the World Bank’s Women, Business and the Law (WBL) index, which is based on experts’ opinion, ranks Mauritius at levels similar to the average in OECD countries (Figure 1).² The WBL clusters on which Mauritius performs relatively low in terms of a women/men balanced legal framework include marriage, parenthood, and pension.³ Mauritius also ranks very high in terms of data availability for gender analysis, an important dimension to inform gender-based policy design. Comprehensive social and economic statistics disaggregated by gender are compiled and made publicly available through Statistics Mauritius and the Ministry of Gender Equality and Family Welfare websites⁴.

2. However, Mauritius faces significant gender gaps in some areas compared to middle-income countries in Sub-Saharan Africa, notably in the labor market and education (Figure 2). Significant gaps exist in access to labor market and employment, access to finance, and education and training, notably in science and technology fields (STEMs):

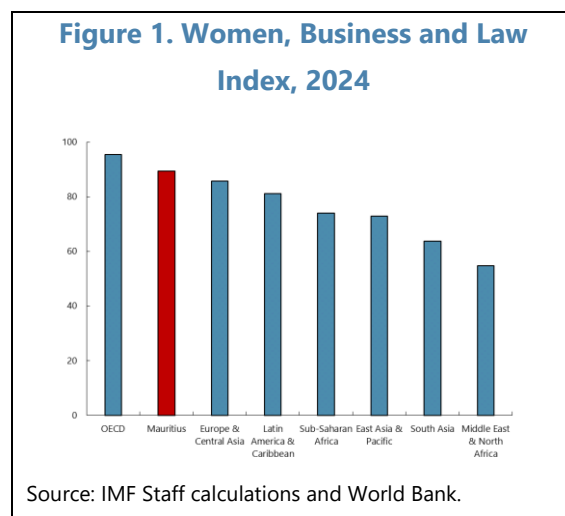
¹ Mauritius is a “light touch” country towards mainstreaming gender issues in the IMF work.

² The WBL index is computed based on experts’ opinion. It is intended to measure the extent to which the legal framework is balanced between women and men across indicators that capture women mobility, workplace environment, pay, marriage, parenthood, entrepreneurship, assets, and pension.

³ This reflects experts’ opinion that existing maternity leave benefits are not effectively administered and paid parental leave policies are suboptimal. The authorities note that some of these findings do not hold as of 2024 because measures have been taken to address them. For example, under the 2023 Finance Act the five working days of employer-paid paternity leave has been extended to adoptive fathers.

⁴ See, for example, the Gender Approach Reports available at: https://statsmauritius.govmu.org/Pages/Statistics/By_Subject/Gender/SB_Gender.aspx

- The gender gap in labor force participation is high, despite a smaller employment gap.** Female labor force participation has increased in the last decades. However, at 43 percent in 2021, it remains substantially lower than for men (70 percent). This gap is substantially higher in Mauritius compared to selected middle-income countries in Sub-Saharan Africa. The labor force participation gender gap is heavily driven by the low skilled segments. Only about 1 in 3 women with up to primary education participates in the labor market, compared with over 2 in 3 women with upper secondary education (World Bank, 2021). The wage gap, estimated at 18.5 percent in 2022, is also high and favoring male workers.⁵



- The low level of skills among women reflects a gender gap in access to education and training.** Boys are more likely than girls to enroll in tertiary education, and the female share of graduates from STEM programs is relatively low. Based on latest (2020) UNESCO data, 2.3 percent of young and adult women can write a computer program, compared to 3.8 percent for men. In addition, young women are more likely to lack training than their male counterparts. About 20 percent of Mauritians are not included in education, employment or training (NEET), of which about two thirds are women. NEET youths are mostly low educated (World Bank, 2021). In addition, a 2022 report by the Ministry of Gender, Equality and Family Welfare confirms that mainly boys enroll in engineering and more girls select the humanities and social sciences.

B. Increasing Female Labor Force Participation: Estimating the Growth Dividends

- Increasing female labor force participation (FLFP) will support higher and inclusive growth in Mauritius, mitigating the impact of a rapidly ageing population.** Total population has plateaued since 2018 and is projected to decline by 0.2 percent per year on average during 2022–27, with a more accentuated decline thereafter (Statistics Mauritius). The size of the labor force has trended down by an average 0.7 percent per year since 2017. These dynamics are likely to

⁵ Data on labor force participation and the wage gap come from IMF's Labor Market Tool, which uses ILO estimates suitable for consistent cross-country comparison. The authorities' figure for female labor force participation in 2021 is 40 percent (see the 2021 Gender Approach Report). Data lags and methodological differences may explain the discrepancy. The wage gap is calculated as the difference between male and female wages, expressed as a percentage of male wages. The authorities estimated the wage gap between male and female wages at 20 percent.

impact growth negatively in the long-term. Bringing more women into the labor force would help support the otherwise shrinking labor force and achieve higher growth while also supporting the long-term viability of the pension system. This would also make growth more inclusive, fostering higher gender equality as women play a greater role in the economy.

Figure 2. Gender Equality Indicators

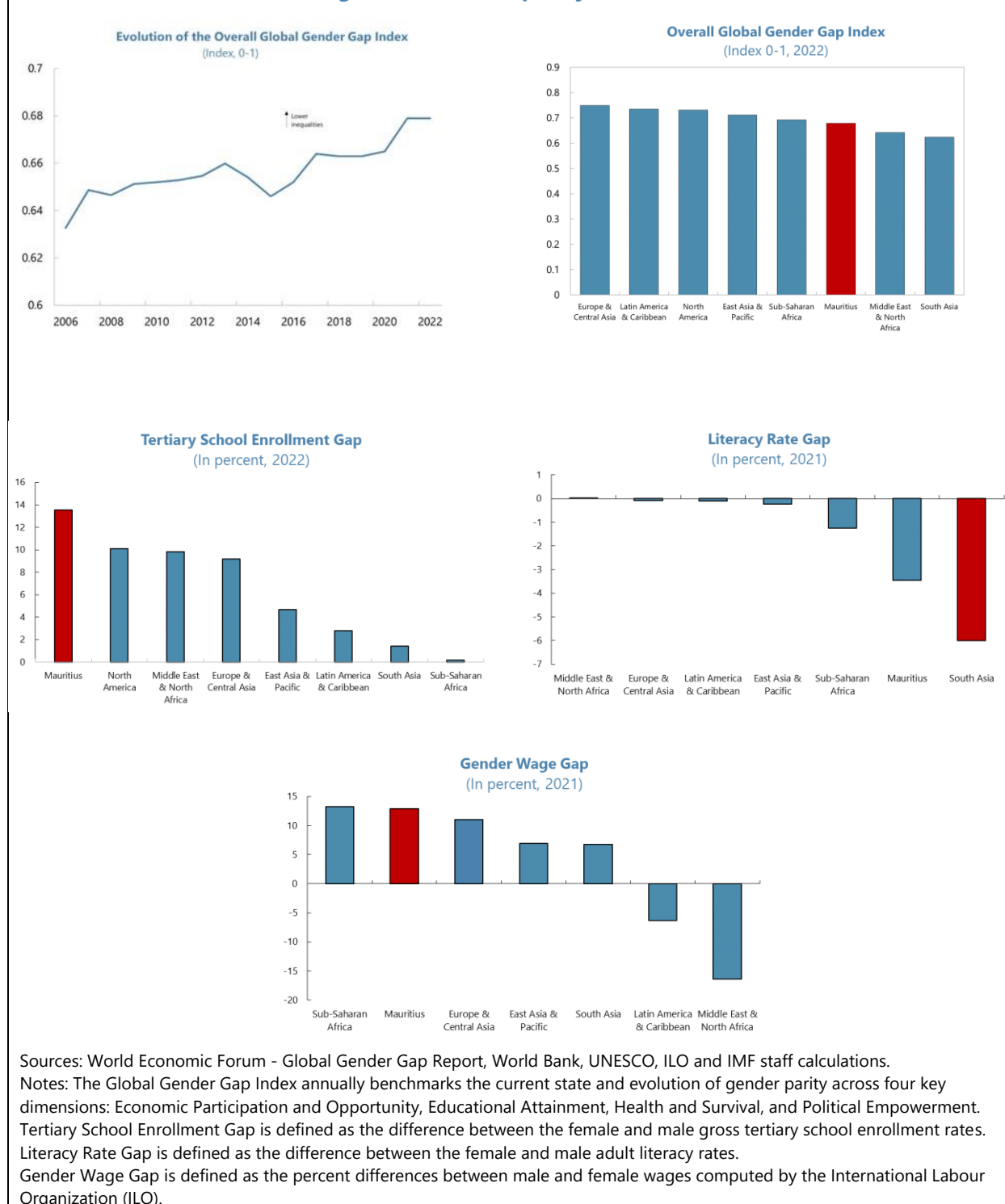
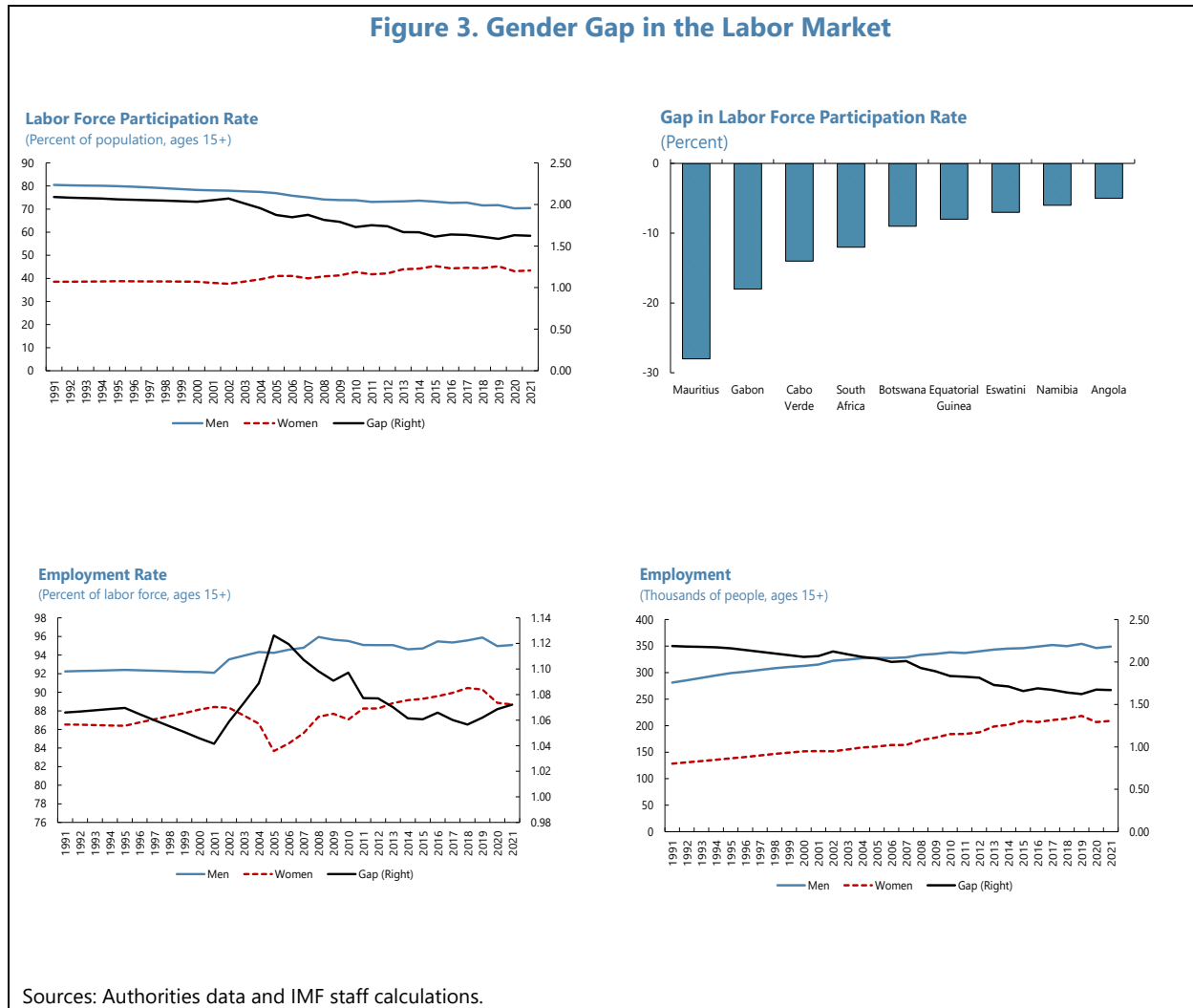
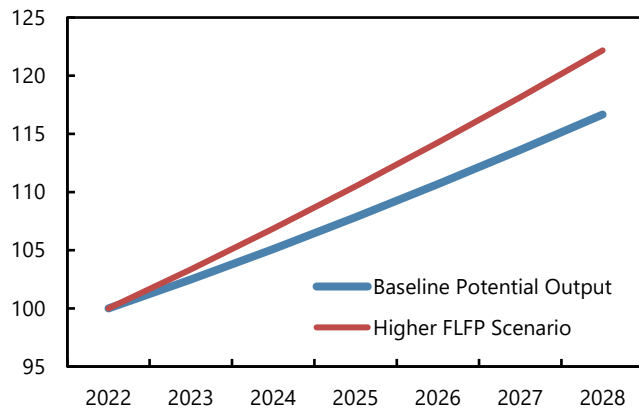


Figure 3. Gender Gap in the Labor Market



4. Scenario analysis suggests that higher female labor force participation could boost potential real GDP growth by 0.8 percentage point each year in the medium term. A growth accounting exercise, based on a standard production function, can help shed light on the potential impact of higher FLFP on growth. We estimate such a production function using Mauritius’ historical data on the labor force and stock of physical capital, and an assumption of 0.3 and 0.7 for the output share of labor and capital, respectively. Increasing the female labor force participation rate from the current

Figure 4. Potential Output Gains
(Projected Potential Output, 2022 = 100)



Sources: WEO Data and IMF Staff estimates

43 percent to 50 percent (OECD average), would increase real GDP growth on average by 0.8 percentage point in the medium term relative to a baseline scenario consistent with current levels (Figure 3).⁶

C. Recent Reforms and Policies to Foster Gender Equality

5. Several reforms and policies have been implemented in recent years to reduce gender inequality. The National Gender Policy 2022–30 (NGP), adopted in March 2022, aims at fostering a gender-inclusive society.⁷ Acknowledging the “deeply embedded” gender imbalances in Mauritius, the NGP proposes a framework for the empowerment of women and girls in social, economic, and political domains. The authorities report that the implementation rate of the NGP stood at 57 percent as of February 2024.

6. The anticipated outcomes of the gender policy framework are multi-dimensional, and adoption of temporary special measures is envisaged to help boost gender equality. Targeted outcomes include enactment of the Gender Equality Bill, eradication of all forms of gender-based discrimination, equity and equality in access to employment, equal opportunities for women leadership at all levels, implementation of Gender Responsive Budgeting in all sectors, and recognition of unpaid care and domestic work through provision of public services as appropriate. Temporary measures—such as the *Prime à L’Emploi* (see paragraph 8)—are envisaged to narrow the gender gap in employment.

7. The gender policy framework encourages Gender Responsive Budgeting. The Ministry of Finance and Economic Development is expected to undertake a study on the feasibility of Gender Responsive Budgeting. The results should facilitate an informed decision on resources allocated to Ministries for gender equality mainstreaming. In the meantime, annual budgets are encouraged to reflect gender perspectives from every budgetary unit.

8. A major policy measure—*Prime à L’Emploi*—was recently enacted to support women participation in the labor force. Closing the gender gap in the labor market is one of the top priorities in the authorities’ *Mauritius Vision 2030*. The *Prime à L’Emploi* scheme was introduced in the 2022 Finance Act to incentivize young people and women to join the labor force. Under the scheme, the government committed to provide a monthly contribution up to Rs 15,000 for the first year of employment of youths aged between 18 and 35 years and women aged up to 50 years. This monthly allowance is paid by Mauritius Revenue Authority for the first 12 months of employment of new recruits, capped to the first 10,000 eligible employees. The scheme has been modified under the 2023 Finance Act by extending its duration by two years while resetting the coverage to women and disabled individuals. With regards to women beneficiaries, the scheme currently applies to newly employed women or those who have been unemployed for at least a year under the scheme.

⁶ Mauritius’ comparators typically have higher female labor force participation than Mauritius. Average FLFP was 52 percent in OECD countries in 2021.

⁷ The 2022–30 NGP updates the 2008 NGP.

9. As a new scheme, the effectiveness of the *Prime à L'Emploi* is yet to be assessed. As of February 2024, about 6,500 women, representing about 1 percent of the labor force, had benefited from the scheme. However, of the Rs 1.9 billion earmarked to the scheme under the Solidarity Fund in the FY2022/23 Budget, only around 9 percent (Rs 166 million) was used. While the disbursement rate seems to have improved during FY2023/24, it also reflects a reduction in the budgeted amount after the scheme was re-targeted to exclude youth. Also, about 30 percent of eligible beneficiaries (including women) have not taken advantage of the scheme as of February 2024. The reason is still to be fully examined and the authorities report that it is partly voluntary—as some employees, after having been registered under the scheme, voluntarily leave their jobs for better prospects. Other potential factors include the fact that employers bear additional costs per each new employee under the scheme, including those related to traveling, training levy and other emoluments. In addition, they cannot claim the salary subsidy before fully complying with tax laws. Moreover, they are required to safeguard employment for two additional years, beyond the first year which is when the salary subsidy is provided. Accordingly, these factors may impact employers' incentives to participate in the scheme, helping explain that 30 percent of eligible beneficiaries are not participating.

10. The regulatory framework has also been strengthened to support women participation in the labor force. The 2023 Finance Act makes it compulsory for all companies employing more than 250 employees to provide necessary facilities for workplace-based childcare. It also envisages setting up public childcare centers in main areas under a Public-Private Partnership (PPP) model, allows a double deduction on the cost of setting up a childcare center, and makes it mandatory for all new shopping malls, office buildings and hotels to have a nursing room for women. The FY23/24 Budget also increases by 30 percent the grant for child daycare centers to undertake upgrading works.

11. Further measures seek to promote gender equality in the workplace and in the private sector. To increase the number of women in decision-making positions, all listed companies are required to have a minimum of 25 percent of women on their boards. To encourage women entrepreneurship, women-owned micro, small and medium enterprises (MSMEs) benefit from a 10 percent increase in the margin of preference for public procurement of goods.

D. Policy Recommendations

12. Achieving a higher female labor force participation can be an important element of Mauritius' long-term growth strategy. Gender growth dividends appear to be significant in Mauritius. The FY23/24 Budget Speech acknowledges the need for “enabling those willing to enter the job market to do so, in particular women.” Efforts to achieve this could include measures to improve availability of affordable childcare, strengthen skills supply among women, and further improving maternity and parental leave policies.

13. Improved availability of affordable childcare should increase women's interest in joining the labor force, but policies should place greater focus on market incentives instead of compulsory measures. Lack of affordable childcare affects women disproportionately because they

are primarily responsible for childcare (World Bank, 2021). While the authorities have deployed measures to increase the availability of child daycare, supply remains limited. Recent policies were adopted making it compulsory for large companies to have on-site childcare facilities. Moving forward, the authorities could consider further measures to increase private sector incentives to invest in daycare facilities. While public childcare centers have been set up, enabling the private sector to supply such services may be more cost-effective, which could help protect the government fiscal space. The envisaged increase of childcare facilities through PPP model should be carefully considered, including related quality standards, to avoid new fiscal risks.

14. Increasing the supply of education and training for young women would help improve their skills and potential growth prospects. Given that the labor force participation gap is heavily driven by low skilled segments, increasing the supply of skills among the female labor force should be prioritized ahead of demand-based policies, such as the *Prime à L'Emploi*, to maximize their growth impact. Existing policy initiatives—such as targeted tax incentives for private sector-led childcare supply and policies supporting female entrepreneurship—should be continued and strengthened. However, given the 30 percent enrollment gap, considerations should be given to further complement the *Prime à L'Emploi* program with more skill-building programs. Schemes like the *Prime à L'Emploi* are likely to be more effective once the critical level of skills has been built among females, reducing training costs for employers under the scheme.

15. Skill-building for women could also be financed by reallocating public spending. Employers note that public funding of skills-building training programs is insufficient. At the same time, certain current allocations of public resources could be reconsidered—e.g., untargeted housing subsidies (0.3 percent of GDP), a wage allowance scheme initially intended to be temporary (0.6 percent of GDP), and a regressive tax incentive to promote usage of electric vehicles. Reallocating part of these incentives to finance skill creation for young women could be part of the solution to improve female labor force participation.

16. Maternity and parental leave legislation could be further improved. The length of maternity leave is currently in line with International Labor Organization (ILO) standards.⁸ However, maternity leave benefits remain the liability of the employer, instead of being funded from mandatory social security contributions or other public funds as in many middle- and high-income countries (World Bank, 2021). The prospects for public co-financing of maternity and parental leave could be considered. To create needed fiscal space, in addition to considering phasing out abovementioned untargeted/temporary/regressive programs, considerations could also include increasing social contributions and strengthening the targeting of the basic retirement pension (BRP).

⁸ The length was increased from 12 to 14 weeks in 2015.

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