SBM INSIGHTS

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Latest releases point to a positive outlook for the global economy although geopolitical tensions have significantly risen. An improving macroeconomic environment led the Federal Reserve to raise its policy interest rate in June while the UK has proven to be more resilient than expected post Brexit. Nevertheless, simmering tensions between England and the European Union coupled with the unexpected UK election result have made the situation pricklier than before. The oil output cut agreed by OPEC and non-OPEC countries has not had the intended effect resulting in oil-exporting countries being still vulnerable. BRICS countries are increasingly following divergent paths. China and India remain the bright spots despite the latter's demonetization move. On the other hand, the situation has significantly worsened in South Africa. Although we do not foresee a slowdown in world economy, geopolitical tensions across various regions could put some strain.

We maintain our positive outlook for the domestic economy although we have revised down our prognosis owing to a downgrade in sugarcane production due to unfavourable climatic conditions. Following years of downturn, the construction sector is projected to outperform on the back of extensive public and private infrastructure projects. The air corridor and the impending arrival of new airline companies should positively affect the tourism sector and ensure a strong growth as we expect tourist arrivals to surpass 1.3 million this year. Financial services and real estate sectors are expected to maintain their current trend. The outlook for the economy remains moderately positive over the next few years.

Headline inflation is expected to breach the 3% level in 2017, on an annual average basis, on the back of atypically sustained increases in the price of vegetables over the first half of 2017, which will have an important bearing on the overall CPI. The unemployment rate is expected to remain at 7.3% in 2017 but is projected to decline to 7.2% in 2018, underpinned by increasing activities in the construction, manufacturing and real estate sectors. External balances are expected to worsen as merchandise trade deficit is forecast to widen further in 2017. The balance of payments is nonetheless expected to remain in a surplus position, supported by strong net financial inflows, albeit at a lower share of GDP than in 2016. An accommodative policy stance is expected to prevail in 2017 in the light of the vulnerabilities in the economy.

Our country focus for this edition covers another African country, namely Senegal. The country is listed among the top three fastest growing countries in Africa and holds potential to move up the development ladder. In view of the country's recent strong performance, Moody's Investors Service upgraded its credit rating in April 2017 from B1 to Ba3. The implementation of the ambitious economic plan – Plan Sénégal Emergent – to help the country reach upper middle income country status presents many opportunities for the business community. Senegal is especially interesting for Mauritius given that the two countries have signed a G-to-G agreement for the development of an Industrial Park and a Cargo Village.

Our last section is on a topic of interest for the whole country – "Innovation as an enabler for a high income economy". SBM Insights® has since inception been a proponent of technology and innovation as a key lever for moving to a higher growth path. In this issue, we elaborate on the various benefits that innovation can bring to Mauritius but also comment on the long path ahead. Emphasis is particularly laid upon digitizing government services and putting in place an enabling infrastructure for the private sector to boost innovation initiatives. The recommendations are backed by examples in countries which invested in innovation over the years to improve efficiency and create wealth.

Shailen Sreekeessoon
Head of Strategy and Research
July 13, 2017

TABLE OF CONTENTS

ABBREVIATIONS

BCEAO	Banque Centrale des Etats de L'Afrique de L'Ouest
BOE	Bank of England
CPI	Consumer Price Index
DARPA	Defense Advanced Research Projects Agency
ECB	European Central Bank
ECOWAS	Economic Community of West African States
EU	European Union
EUR	Euro
FOMC	Federal Open Market Committee
GBP	Pound Sterling
GDP	Gross Domestic Product
G-to-G	Government-to-Government
GPS	Global Positioning System
ICT	Information and Communication Technology
IMF	International Monetary Fund
KYC	Know Your Customer
OPEC	Organization of the Petroleum Exporting Countries
PAP	Priority Action Plan
PCE	Personal Consumption Expenditures
PMI	Purchasing Managers' Index
PSE	Plan Sénégal Emergent
PSIP	Public Sector Investment Programme
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
SPV	Special Purpose Vehicle
STEM	Science, Technology, Engineering and Mathematics
TEC	Tertiary Education Commission
USD	United States Dollar
WAEMU	West African Economic and Monetary Union
WEF	World Economic Forum

LIST OF TABLES

LIST OF FIGURES

GLOBAL MACROECONOMIC ENVIRONMENT

HIGHLIGHTS

- A slowdown in US GDP growth in the first quarter did not prevent the Federal Reserve from raising its policy interest rate in June, the second increase this year. US economic prospects remain good, with GDP growth expected to pick up in the second quarter and the labour market continuing to strengthen.

- In the UK, a rise in inflation (reflecting the post-referendum depreciation of sterling) led to a slowdown in household consumption and GDP in the first quarter. Despite inflation exceeding its target since February, the Bank of England has resisted raising its policy interest rate due to the ongoing risk of future demand being affected by Brexit.

- Eurozone GDP growth accelerated in the first quarter and is expected to have increased further in the second quarter. Unemployment has continued to decline, reaching an eight-year low in April. But inflation has remained subdued, justifying the continued accommodative monetary policy stance.

- China's GDP increased by 6.9% year on year in the first quarter of 2017, up from 6.8% in the previous quarter and 6.7% in 2016 as a whole. Private investment in fixed assets has accelerated this year after slowing sharply last year.

- GDP growth in India decelerated to 7.1% in fiscal year 2016/17 (from 8.0% in the previous year), with a sharp slowdown noted in the final quarter (January–March). This likely reflects the disruption to economic activity caused by the demonetization move last November.

- Nigeria's GDP decreased in the first quarter for the fifth consecutive quarter, though the contraction was less severe than in previous quarters. The oil sector continued to be a drag but the majority of sectors showed growth.

- South Africa fell into recession in the first quarter, with GDP contracting for the second quarter in a row amid weak consumer and business confidence. The recent downgrades of the country's credit ratings are likely to weigh on investment going forward.

- The extension of the OPEC production cut agreement until March 2018 has failed to support oil prices due to ongoing concerns about oversupply. As of early July, the price of Brent is around USD 47/barrel, more than 10% below its level just before the extension was announced; while the December 2017 futures price is USD 48/barrel.

- After rising in the weeks following the US presidential election last November, the dollar has this year retreated due in part to diminished optimism that the Trump administration will be able to implement its promised expansionary fiscal policies. The median forecasts on Bloomberg for Q4 2017 are 1.12 for EUR/USD and 1.27 for GBP/USD, which suggest a slight strengthening of the dollar relative to spot rates in early July.

US

GDP growth in the US slowed to 1.4% (quarter on quarter, annualized) in the first quarter, from 2.1% in the previous quarter. Personal consumption expenditures increased by only 1.1%, after growing by at least 3% in each of the previous three quarters. But business fixed investment jumped by 10.4% following nine quarters of low or negative growth. The slowdown of GDP in the first quarter is viewed as transitory, reflecting low consumer spending on energy due to a mild winter, a decline in motor vehicle sales after an unsustainably strong fourth quarter, and possibly residual seasonality in the data (first-quarter performance in 2016 was also soft). Consumption is expected to pick up in the second quarter, underpinned by high consumer confidence, ongoing job gains, and rising wages. PMI data suggest GDP growth of just above 2% in the second quarter, while the Federal Reserve Bank of Atlanta's GDPNow model forecasts growth of 2.7%.

In June last, the Federal Reserve raised the federal funds rate by 25 basis points, to a range of 1–1.25%. This is the second increase in three months and reflects the continued strengthening of the US economy. Job gains remain solid, averaging 180,000 per month in the first half of the year. A slowing down in the pace of job gains compared to 2016 (187,000 per month on average) and 2015 (226,000) is consistent with diminishing slack in the labour market. Unemployment in May was 4.3%—the lowest rate since 2001—compared to 5.7% at the start of 2015. Meanwhile, inflation has this year moved closer to the Fed's 2% target on account of energy inflation—personal consumption expenditures (PCE) inflation averaged 1.8% in the first five months of the year, compared to 1.4% in the last three months of 2016. Core PCE inflation, which excludes energy and food prices, has been running somewhat below 2% since last year; but Federal Open Market Committee (FOMC) participants expect it to move closer to 2% next year, underpinned by further tightening of the labour market. In its June policy statement, the Fed also announced its expectation to start reducing its holdings of securities later this year, by decreasing the reinvestment of principal payments therefrom. The median estimate by FOMC participants is for one more 25-basis-point increase in the federal funds rate by the end of the year.

UK

The UK economy experienced a slowdown in the first quarter: real GDP rose by 0.2% (quarter on quarter), down from 0.7% in the previous quarter. The slowdown was led by consumer-facing industries, with retail trade, accommodation, and trade and repair of motor vehicles contracting. This is partly due to rising inflation: consumer price inflation averaged 2.2% in the first quarter compared to 1.5% in the prior quarter, reflecting the depreciation of sterling since the EU referendum. Looking at the expenditure components of GDP, household consumption slowed to 0.4% in the first quarter (compared to the average quarterly rate of 0.7% in 2016) while business investment expanded by 0.6% after contracting by 0.9% in the fourth quarter and by 1.5% in 2016 as a whole (the first yearly decrease since 2009). Business investment contracted in 2016 in part due to Brexit-related uncertainty but is expected to grow moderately this year. This is consistent with a pickup in indicators of investment intentions in the first quarter, which may reflect the resilience of the UK economy in the two quarters following the EU referendum as well as exporters' desire to increase capacity in view of the lower level of sterling. Nevertheless, uncertainty as to the UK's future trading arrangements continues to weigh on longer-term investment plans.

The Bank of England (BOE) kept the Bank Rate at 0.25% at its latest policy meeting in June. At that stage, the slowdown in household consumption and the ongoing risk of future demand being affected by Brexit were primary concerns. Above-target inflation—CPI inflation has exceeded the BOE's 2% target since February, reaching 2.9% in May—was a subordinate concern as the overshoot is due to the post-referendum depreciation of sterling. Measures of domestically generated inflation have mostly been steady over recent quarters. In particular, regular pay growth has been subdued, falling to 1.7% (year on year) in the three months to April from 2.4% in the previous three months. This is despite the continued tightening of the labour market: unemployment in the three months to April was 4.6%, the lowest rate in more than 40 years, and vacancies over the same period were at the highest since records began in 2001. The June monetary policy vote was more divided than the previous two: three (out of the eight) Monetary Policy Committee members were in favour of increasing the Bank Rate by 25 basis points, compared to one at the previous meetings in May and March.

Eurozone

The eurozone economy appears to be gaining momentum. GDP growth accelerated to 0.6% (quarter on quarter) in the first quarter, from 0.5% in the previous quarter. In the second quarter, growth is expected to have increased to 0.7%, according to composite PMI data (the average reading for the second quarter was the highest since the first quarter of 2011). Business and consumer confidence continue to increase: the European Commission's Economic Sentiment Indicator has been trending up since the middle of last year and reached a ten-year high in June. Meanwhile unemployment fell to an eight-year low of 9.3% in April (compared to 9.4% in March and 10.2% in April 2016), sustaining the downtrend that started in 2013.

Nevertheless, the lack of inflationary pressure continues to justify a very accommodative monetary policy stance. Consumer price inflation fell to 1.3% in June (from 1.4% in May) on account of lower energy inflation, falling short of the European Central Bank's (ECB) target of just under 2%. And measures of core inflation have showed no convincing upward trend: inflation excluding energy, food, alcohol and tobacco has averaged 1.0% so far this year, about the same as the average in 2016. At its latest policy meeting in June, the ECB maintained its key interest rates near zero. But due to diminished risk of deflation, it notably dropped the usual reference to the possibility of lower rates from its forward guidance, stating that it expects the key interest rates to remain "at their present levels" for an extended period of time.

Table 1.1: Growth projections

PERCENT CHANGE IN REAL GDP	2015	2016	PROJECTIONS 2017	PROJECTIONS 2018
US	2.6	1.6	2.1	2.1
UK	2.2	1.8	2.0	1.5
Eurozone	2.0	1.7	1.7	1.6
China	6.9	6.7	6.7	6.4†
India*	8.0	7.1	7.2	7.7
Nigeria	2.7	-1.6	0.8	1.9
South Africa	1.3	0.3	1.0	1.2

Sources: local statistical agencies; IMF (World Economic Outlook, April 2017; country reports; press releases)
* Data and forecasts are for the fiscal year ending in March of the following year.
† Average for 2018-20.

Emerging markets

China's GDP growth picked up to 6.9% (year on year) in the first quarter, from 6.8% in the previous quarter and 6.7% in 2016 as a whole. Output from industry, the largest component of GDP, increased by 6.5%, up from 6.1% in the previous quarter and 6.0% in 2016 as a whole. But the rebalancing of the economy from industry to services continued: the tertiary sector accounted for 56% of GDP in the first quarter, compared to 52% in 2016. After slowing in 2016, private investment in fixed assets has accelerated this year, rising by 6.8% (in nominal terms) in the first five months compared to 3.2% in 2016 as a whole. Investment by state-owned enterprises decelerated to 12.6% in the same period, from 18.7% in 2016. The authorities are targeting GDP growth of around 6.5% this year.

India's economy slowed in its fourth quarter (January–March) and in fiscal year 2016/17 as a whole, in part due to the cash shortage caused by the demonetization move last November. Real GDP increased by 6.1% (year on year) in the fourth quarter, down from 7.0% in the third quarter; and by 7.1% in the whole fiscal year compared to 8.0% in the previous year. There was a slowdown in most output components in the fourth quarter and in the year as a whole, with construction notably contracting in the fourth quarter. But this was mitigated by a sharp increase in public spending. With the ongoing issue of new banknotes to replace the retired ones, the amount of notes in circulation has been returning to normal. This should support a pickup in economic growth going forward. The IMF forecasts GDP growth of 7.2% this fiscal year and 7.7% in the next.

In Nigeria, sub-Saharan Africa's largest economy, real GDP fell by 0.5% (year on year) in the first quarter. Though this is the fifth consecutive quarter of contraction, it is an improvement on the fourth quarter performance (-1.7%). More economic activities showed growth than in the previous quarter—including manufacturing, which had contracted in the previous four quarters. But the oil sector continued to be a drag, with crude production lower than in the same period last year due to the damage to oil infrastructure caused by militant attacks. However, with the reopening of a major pipeline which had been damaged last year, crude production has been rising in recent months. The IMF forecasts a modest 0.8% increase in Nigeria's GDP this year. Last year GDP fell by 1.6%, the country's first full-year recession in over two decades.

Meanwhile, South Africa's GDP declined by 0.7% (quarter on quarter, annualized) in the first quarter, the second consecutive quarter of contraction (Q4 2016: -0.3%). Output fell in all sectors except agriculture, forestry and fishing, and mining. Output from agriculture, forestry and fishing jumped by 22% following eight quarters of contraction, as weather conditions improved after severe El Niño-related droughts in 2015-16. Looking at the expenditure components of GDP, household consumption fell by 2.3% (after growing by an average of 1.9% in the previous three quarters) while gross fixed capital formation slowed to 1.0% (Q4: 1.7%), amid weak consumer and business confidence. Going forward, the recent sovereign credit rating downgrades (by all three major rating agencies) are likely to weigh on both private and public investment, by making funding costlier and more difficult to access. Accordingly, the South African Reserve Bank lowered its GDP growth forecast for this year to 1.0% (from 1.2% previously). Last year GDP increased by 0.3%, the lowest rate since 2009.

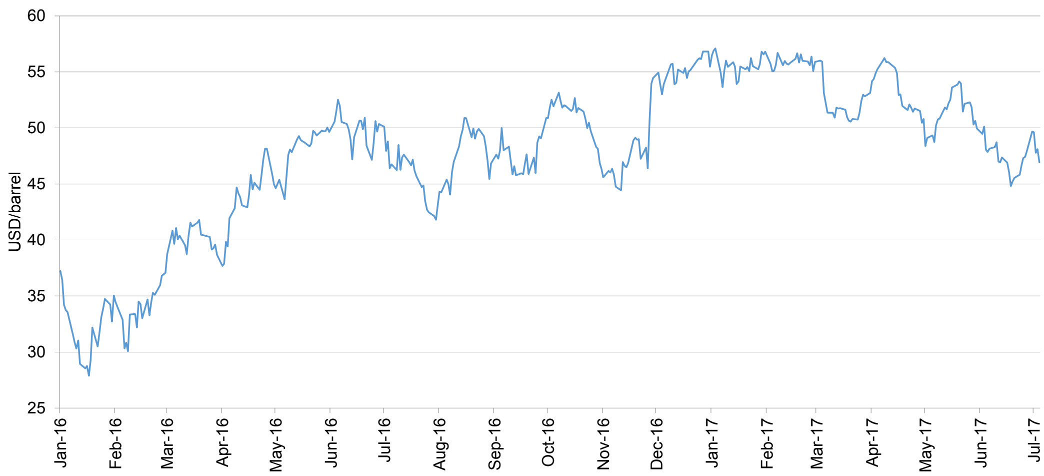
Commodities

On May 25, the OPEC and non-OPEC production cut agreement was extended by nine months until March 2018. Despite this, oil prices declined over the next month—Brent reached USD 45/barrel in June (close to its level just before the production cut was agreed last November)—due to concerns about oversupply. OPEC crude production rose in May, driven by increases in Nigeria and Libya, which are exempt from the agreement. US crude production has also been rising. Oil prices enjoyed a brief rally after reaching their June low. As of early July, Brent was trading near USD 47/barrel; while the December 2017 futures price was USD 48/barrel.

The IMF's metals price index (which tracks eight base metals) fell by 6% in the first six months of the year. But aluminium notably bucked the general trend, gaining more than 10% in that period. This is mainly due to planned cuts in aluminium production capacity in China, intended to reduce pollution. China accounts for more than 50% of world aluminium output.

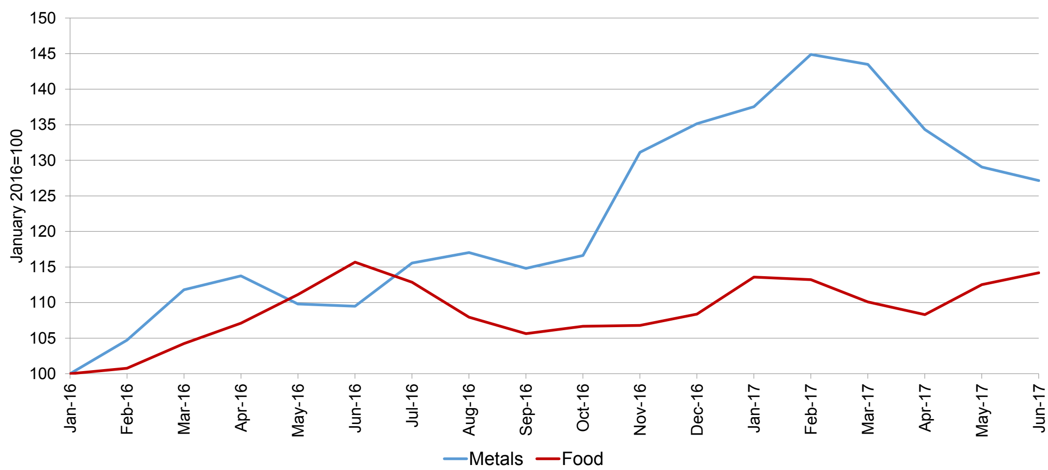
The IMF's food price index (which tracks six food categories) rose by 5% in the first half of the year. Wheat was one of the best-performing food commodities, with the benchmark US No. 1 Hard Red Winter gaining nearly 40% in that period. Prices were supported by unfavourable weather and a decline in wheat planted area in the US (one of the top three exporters). Wheat production in the US is forecast to fall to 49 million tonnes in 2017/18, more than 20% lower than last year. Global production is projected to decline to 735 million tonnes, from the record 755 million tonnes registered last year.

Figure 1.1: Brent price



Source: Bloomberg

Figure 1.2: IMF commodity price indices



Source: IMF

Currencies

The US Dollar Index—which measures the value of the dollar relative to six advanced-economy currencies—has lost 6% this year, trading in early July close to its level just before the US election last November. This partly reflects diminished optimism that the Trump administration will succeed in implementing its promised expansionary fiscal policies. The dollar is projected to strengthen slightly against the euro and sterling by the end of the year—the median fourth-quarter forecasts on Bloomberg are 1.12 for EUR/USD and 1.27 for GBP/USD, compared with spot rates of 1.14 and 1.29, respectively, as of early July.

The euro has appreciated by 5% in trade-weighted terms since mid-April—amid a decline in political risk with the election of Emmanuel Macron as French president, and positive data releases for the eurozone.

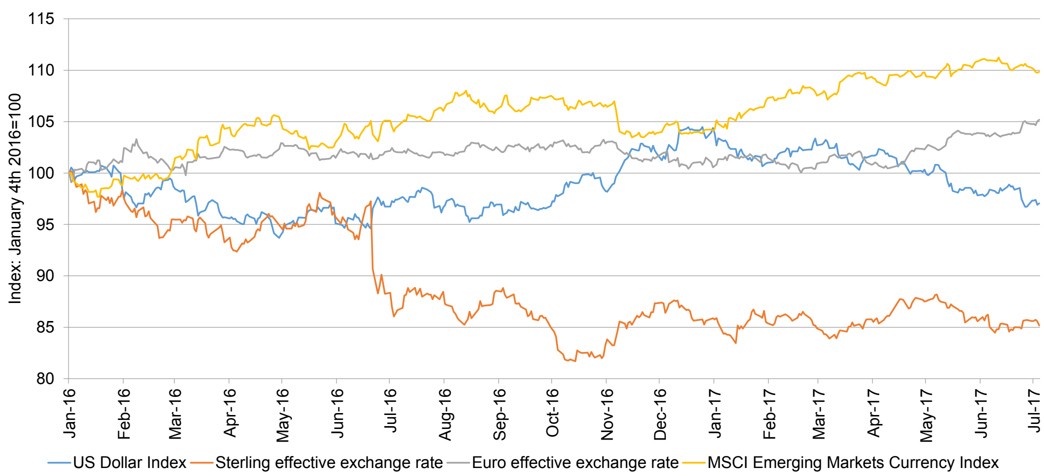
The sterling exchange rate index—a trade-weighted measure of the value of sterling—has lost nearly 3% since the start of May, reflecting in part a rise in political uncertainty in the UK. The Conservative Party lost its parliamentary majority at the general election in June, leading it to form a coalition to secure a working majority. This is seen as increasing the risk of a disorderly Brexit process.

Emerging-market currencies, which generally depreciated against the dollar in the weeks following the US presidential election, have rallied this year—benefiting from firming global economic prospects. The MSCI Emerging Markets Currency Index—which tracks the performance of 25 emerging-market currencies relative to the US dollar—has gained 5% since the start of the year, surpassing its level just before the US election.

Risks to the outlook

Risks to the outlook are mostly the same as flagged in our previous issue and include: a sharp economic slowdown in China in the next couple of years, accompanied by financial instability due to high debt levels; the failure of the UK to conclude timely an exit agreement with the EU as well as trade deals with its major trading partners; and the adoption of protectionist policies in the US which could trigger a trade war.

Figure 1.3: Currencies



Sources: Bloomberg, Bank of England, European Central Bank, MSCI

ECONOMIC OUTLOOK - MAURITIUS

HIGHLIGHTS

- The growth prognosis has been revised down by 10 basis points, to 3.8%, mostly due to a major downgrade in the forecast for sugarcane production.

- The construction and real estate sectors are projected to outperform initial estimates to grow at 8.2% and 4.5% respectively, boosted by the extensive public and private infrastructure investment projects.

- Tourist arrivals have been estimated at 1,320,000, boosted by the impending arrival of KLM and Air Mauritius adding to its carrier float for the Asia-Africa air corridor.

- The rough patch for textiles and apparels will persist, with a negative growth estimate of 1% to be recorded on the back of a difficult export market situation.

- Despite continued efforts by the authorities, the outlook for the economy remains moderately positive over the next few years. The prognosis may improve if, among others: (i) public investment is sustained through a timely implementation rate of the PSIP measures, and private investment is further boosted; (ii) the business and financial sectors outperform on the basis of higher added-value services due to spinoffs in the changing environment; (iii) fiscal incentives in the Budget Speech 2017/18 to boost exports are effectively implemented, thereby helping to curb the rapidly dwindling numbers; (iv) the construction sector remains upbeat, with double-digit growth rates; (v) economic diversification is pursued, with the emergence of innovative, high value-added products and services; (vi) skills upgrade and capacity building measures are effectively put in place; and (vii) external risks do not significantly materialize.

- Headline inflation is expected to breach the 3% level in 2017, on an annual average basis, on the back of atypically sustained increases in the price of vegetables over the first half of 2017, which will have an important bearing on the overall CPI. In particular, the usual pattern in the consumer price index of vegetables has been distorted, remaining high for the half-year of 2017, hence dragging upward the overall consumer price index. The inflation rate is expected to pull back to 2.3% in 2018 with a normalization of climatic conditions.

- The unemployment rate is expected to remain at 7.3% in 2017 but is projected to decline to 7.2% in 2018, underpinned by increasing activities in the construction, manufacturing and real estate sectors.

- External balances are expected to worsen as merchandise trade deficit is forecast to widen further in 2017. The balance of payments is nonetheless expected to remain in a surplus position, supported by strong net financial inflows, albeit at a lower share of GDP than in 2016.

- An accommodative policy stance is expected to prevail in 2017 in the light of the vulnerabilities in the economy.

Economic Growth:

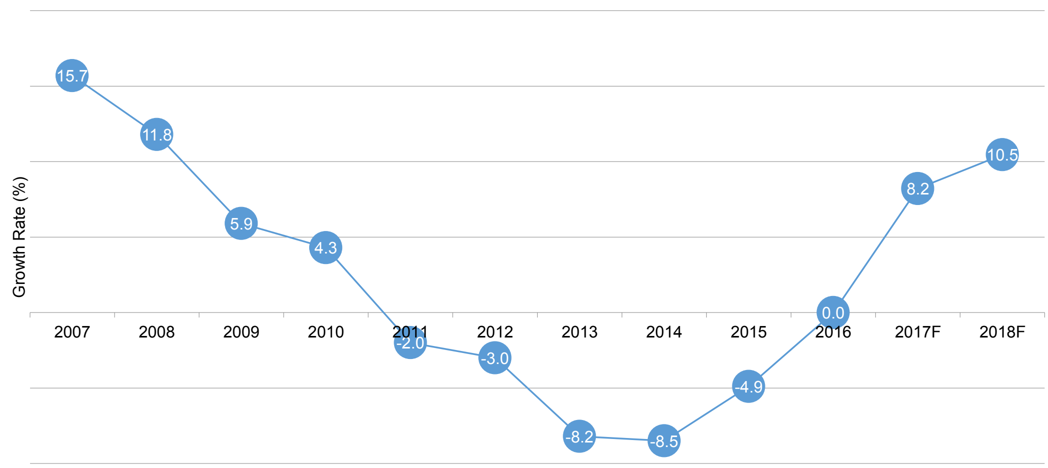
The Mauritian economy is expected to pick up pace in 2017 despite ongoing challenges on various fronts. The forecast for GDP growth rate, measured at basic prices, has been revised down by 10 basis points from initial estimates, to 3.8% for the year. Though dragged down by the sugar and textile manufacturing sectors, the economy is expected to maintain its thrust through strong contributions from construction, tourism, financial services, as professional and technical activities.

In fact, the construction sector is expected to remain upbeat in 2017 and 2018 with growth rates of 8.2% and 10.5% respectively. This is mainly driven by the strong performance of the sector in Q1 2017, the proposed Public Sector Investment Programme in Budget Speech 2017/18 and the adjustments in activities from delayed projects being implemented. This confirms the pick-up in activities in the construction sector observed since Q3 2016 after months of negative growth performances. This should be supported by private real estate development as well as public infrastructure projects. A more favourable prognosis may even be envisaged if the Public Sector Investment Programme is executed with an implementation rate above those of the previous two years.

The Q1 tourist arrival figures – showing a year-on-year growth of 3.6% – are indicative of the excellent run of the accommodation service activities. With the impending arrival of KLM for the operation of a direct route between Amsterdam and Mauritius, tourist arrivals for 2017 are forecast to reach 1,320,000, representing a 5.3% increase compared to 2016. Hence, an appreciable growth rate of 5.1% is foreseen for food and accommodation services in 2017. With Air Mauritius adding to its carrier float towards the end of the year, alongside hotel development projects being anticipated, the strong momentum should pursue in 2018.

One of the major performers in 2016, the sugar sector will suffer the opposite fate in 2017 due to poor extraction rates. Indeed, sugarcane production is expected to be down by 7% in 2017, but the impact on the overall sugar sector would be partly mitigated by a positive growth outcome projected in the milling segment. In fact, refining activity would be supported by imported input, notably from Brazil, to make up for the shortfall in local input. The performance in 2018 will again be dependent to a large extent on weather conditions, with a baseline growth of close to zero being factored in at this point. In the same vein, output in apparel and textiles is projected to maintain a downward trend in line with a difficult export market, compounded by competitiveness concerns domestically. Indeed, based on the current fundamentals, the main markets for apparels and textiles are on the wane.

Figure 2.1: Construction sector performance (year-on-year)



Source: SBM Staff forecasts

Table 2.1: Export performance in key markets for apparel and textiles

EXPORTS DESTINATIONS	Q1 2016 (MUR MILLION)	Q1 2017 (MUR MILLION)	% CHANGE (YEAR-ON-YEAR)
United Kingdom	2449	1930	-21.2%
South Africa	1786	1349	-24.5%
USA	1959	2137	+9.1%
France	1999	2122	+6.2%

Source: Statistics Mauritius

On the brighter side, other manufacturing input is expected to grow by 3.1% in 2017, thereby giving a thrust to the manufacturing sector, which is projected to grow at 1.2% in 2017. Potentially, the Budget Speech 2017/18 expresses good intent to curb the ongoing negative trend in this sector. The implementation, for instance, of the directorate for export promotion under the proposed Economic Development Board, tax credit to domestic export enterprises and the extension of the 'Speed to Market' scheme to a wider range of goods may help boost activities in the sector and improve the prognosis. Hence, the impact of such measures is expected to be visible from Q4 2017.

With regards to the business activities and financial services sectors, the initial estimates in our last edition have been revised down on the basis of the persisting uncertainty surrounding the Global Business sector in particular. As previously outlined, changes in the global tax environment will eventually lead to a major overhaul of the current business and financial ecosystem. Although the Budget Speech 2017/18 mentions the elaboration of a blueprint regarding the vision for the Global Business sector for the next 10 years, the adjustment to the new normal (post-tax changes and the strengthening of the regulatory framework regarding GBC1 companies) in the sector is expected to take time. Nonetheless, on the basis of past momentum, and ongoing efforts to diversify markets with emphasis on Africa, growth in business activities and financial services should remain appreciable at above 5% in both 2017 and 2018. Consequently, this sector is called to bring a higher contribution to economic growth in the medium term with the potential of Fintech, the development of the debt markets, and broadening of the service palette both for the domestic market and for Africa.

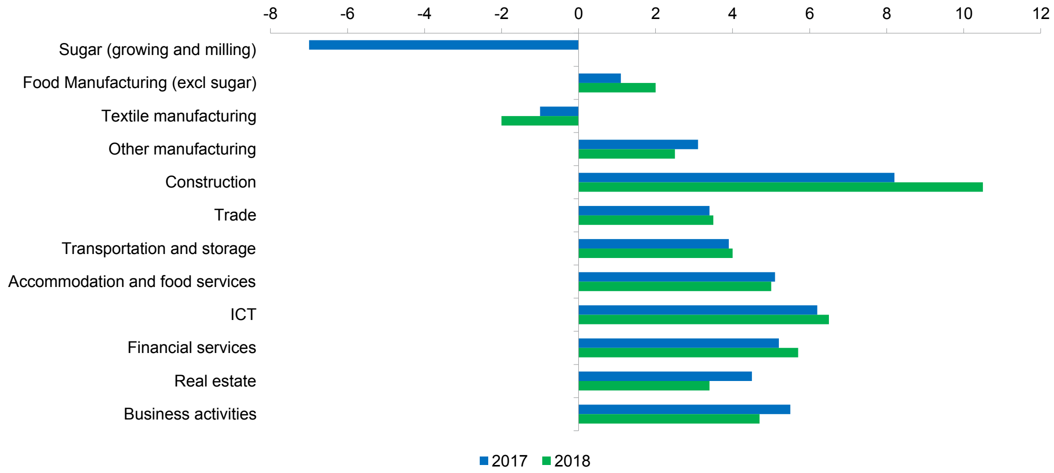
On the domestic banking front, while there will be consolidation of traditional services, the sector is expected to post growth in a similar trend as the previous year. The situation of excess liquidity is foreseen to remain, with deposits (segment A) expected to grow to 98.2% of GDP and 99.5% of GDP in 2017 and 2018 respectively, from 95.3% of GDP in 2016. Conversely, despite a projected pick up in private sector projects, credit to the private sector is forecast to decline to 63.7% and 63.1% in 2017 and 2018 respectively, compared to 65.7% of GDP in 2016 amidst disintermediation. Hence, liquidity in the banking sector is expected to remain high, exerting continued pressures on credit margins.

Table 2.2: Mauritius – Selected Economic Indicators

	UNIT	2014	2015	2016	2017(F)	2018(F)
REAL SECTOR						
GDP at market prices	MUR bn	392	410	434	459	485
GDP at market prices per capita	USD	10155	9243	9585	9865	10213
GDP at basic prices - real growth	%	3.6	3.0	3.6	3.8	3.9
Gross domestic saving (GDS)	% GDP	10.6	10.5	11.0	11.2	10.4
Gross fixed capital formation (GFCF)	% GDP	18.9	17.4	17.3	17.8	18.1
Private sector	% GDP	14	12.7	12.5	12.9	13.1
Public sector	% GDP	4.8	4.7	4.8	4.9	5.0
Headline inflation	%	3.2	1.3	1.0	3.4	2.3
Unemployment	%	7.8	7.9	7.3	7.3	7.2
FINANCIAL SECTOR						
Credit to the private sector (excl. GBL) †	% GDP	70.1	69.8	65.7	63.7	63.1
Deposits (Segment A)	% GDP	88.2	92.5	95.3	97.2	98.1
Key Repo Rate	%	4.65	4.4	4.0	4.0	4.0
Average MUR lending rate*	%	8.01	7.6	7.06	6.74	6.7
Average MUR deposit rate*	%	3.25	2.9	2.42	2.15	2.15
Average Treasury Bills rate*	%	2.37	2.14	2.68	2.51	2.5
GOVT SECTOR						
Budget balance	% GDP	-3.2	-3.2	-3.5	-3.3	-3
Public sector debt	% GDP	60.7	63.6	64.5	64.3	63.5
Public sector debt (for debt ceiling) †	% GDP	53.4	55.7	55.4	54.9	54.7
EXTERNAL SECTOR						
Balance of visible trade	% GDP	-19.7	-18.2	-18.8	-20.6	-20.7
Foreign direct investment (FDI)	% GDP	4.7	2.4	3.2	3.3	3.3
Current account balance	% GDP	-5.6	-5	-4.3	-6.5	-7
Balance of payments	% GDP	5.9	4.9	6.0	4.4	4.1
USDMUR annual average change	%	-0.1	14.8	2.1	2.7	1.8

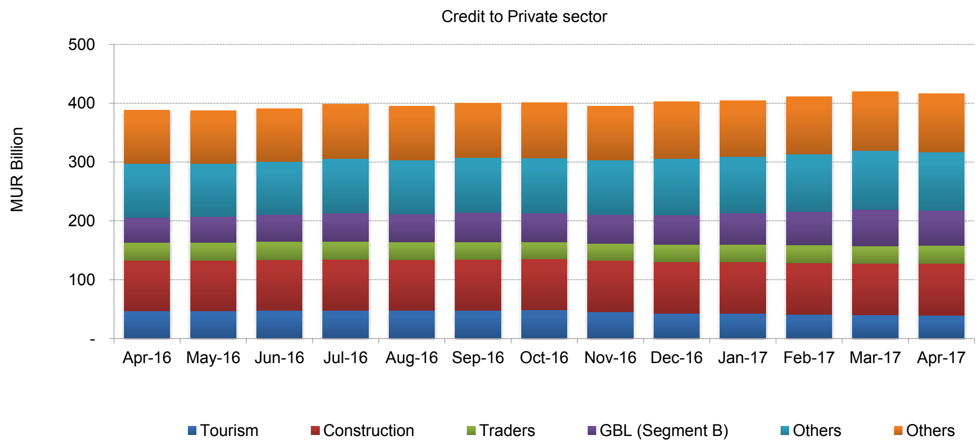
Sources: Statistics Mauritius, Bank of Mauritius, Ministry of Finance, SBM staff estimates
† End of period
* mean of monthly weighted averages (f) SBM staff forecasts
‡ due to the change in fiscal year from calendar year to a July-June cycle in 2015, 2014 figures relate to calendar year, the 2015 figure relates to the Jan-Jun 2015 period, and the 2016, 2017 and 2018 figures relate to the Jul15-Jun16, Jul16-Jun17 and Jul17-Jun18 fiscal years respectively.

Figure 2.2: Selected Industry Growth Forecasts



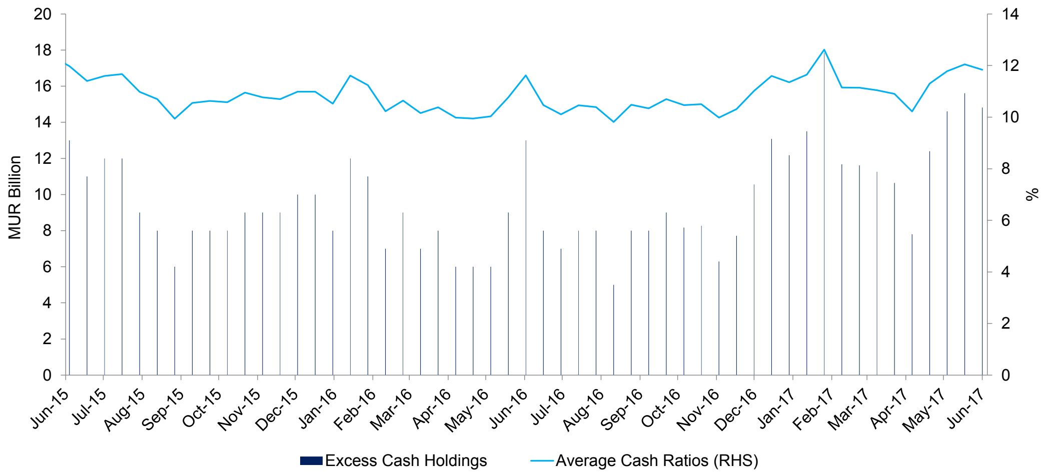
Source: SBM Staff forecasts

Figure 2.3: Credit to the Private Sector



Source: Bank of Mauritius

Figure 2.4: Excess Cash Holdings



Source: Bank of Mauritius

As regards other major sectors, trade growth would be moderate while real estate is expected to pick up in line with investments lining up in the residential segment in particular.

Despite continued efforts from the authorities to help the economy shift gear, a moderately positive economic outlook is envisaged over the next few years. The chances of a more optimistic outlook would, however, be possible if:

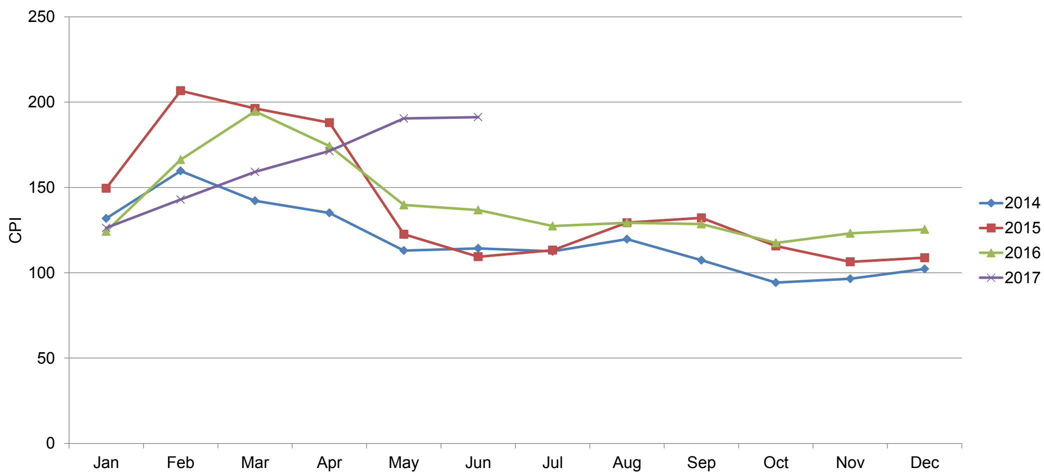
- Public investment is sustained through a timely implementation rate of the PSIP measures, and private investment is further boosted.
- The business and financial sectors outperform on the basis of higher value-added services due to spinoffs in the changing environment ('Regtech' & Fintech, Operation of MINDEX).
- Fiscal incentives (tax credit to export oriented enterprises, extension of Speed-to-Market scheme to various other items) in the Budget Speech 2017/18 to boost exports are effectively implemented, thereby helping to curb the rapidly-dwindling numbers.
- The construction sector remains upbeat, with double-digit growth rates.
- Economic diversification is pursued, with the emergence of innovative, high value-added products and services.
- Skills upgrade and capacity building measures are effectively put in place.
- External risks do not significantly materialize.

Inflation:

The inflation rate is projected to breach the 3% level in 2017, compared to the 1.0% rate recorded in 2016. This is mainly on the back of the persistent rise in the price of fruits and vegetables domestically, arising from the atypical weather conditions which affected supply locally. In fact, based on the last three years, the consumer price index (CPI) of vegetables followed a pattern, with an uptrend between January and March, before receding back to normal range over the course of the remaining months. In the case of the present year, the uptrend has persisted over the half-year, which will have an important bearing on the overall CPI.

In the same vein, international commodity prices are expected to rise further this year, on an annual average basis, which should further impact on the inflation rate domestically. Nonetheless, if the appreciation of the Mauritian Rupee vis-à-vis the US Dollar is further stretched, this should, in practice, dampen the impact of the rising prices of imported commodities and, if fairly passed through to consumers, help mitigate the impact on the purchasing power of the Mauritian Rupee. Assuming that weather conditions return close to normal, a pullback in the inflation rate to 2.3% in 2018 is expected.

Figure 2.5: Consumer Price Index for vegetables



Source: Statistics Mauritius

Unemployment:

The unemployment rate for 2017 is projected at 7.3%, similar to 2016. Increased activities in the construction, tourism, manufacturing and real estate activities should help support job creation. Indeed, with official vacancy figures over the same period standing at 18,644, the number of vacancies in these sectors recorded a notable rise between January and May 2017 compared to the previous year. Of these, 24.1% of the available posts were registered for the construction sector, while 34.6% of the figures were recorded for the manufacturing sector. The impact on the unemployment rate would be tempered, though, by the dearth of local workers in these segments, implying that foreign workers may have to be sought. In fact, the Budget Speech 2017/18 mentioned that the foreign labour policy would be altered to extend the work permit for expatriate workers in the manufacturing and construction sectors, amongst others. On the public sector front, recruitment is expected to continue at the same pace. Also, the different measures aiming to tackle youth unemployment and skills mismatch are expected to impact positively on the joblessness rate in the short to medium term.

External balances:

The current account deficit remains an area of concern for the Mauritian economy. The downtrend in exports figures is forecast to persist in 2017 while imports are projected to further rise during the year in line with a projected increase in international commodity prices. Q1 2017 figures of the balance of trade speak volumes about the spiraling deficit situation, increasing by 30.5% compared to Q1 2016, and we forecast that the current account deficit will widen from 4.3% of GDP in 2016, to some 6.0% of GDP in 2017 and 2018.

A better outlook for the current account balance will be possible if:

1. The focus on goods exports is gradually shifted towards invisible exports, with an integral regional approach;
2. The fiscal measures outlined in the Budget Speech 2017/18, aiming at boosting exports, ignite keen interest in the exports industry; and
3. Existing markets are consolidated and new markets are targeted.

On its part, the balance of payments (BoP) is projected to remain positive both in 2017 and 2018, with projected figures of 4.9% and 5.1% of GDP respectively, on the back of a lower than initially projected current account deficit and the line of credit from the Government of India. Against this background, the exchange rate of the Mauritian Rupee (MUR) is expected to remain relatively stable on a trade weighted basis, and the fall in the US Dollar (USD) since the start of 2017 has caused the MUR to appreciate against the latter. While this situation would have been beneficial to the current account balance, the USD is expected to correct its current pullback, thereby stabilising the USDMUR rate.

Monetary and Fiscal Policy

Considering the vulnerabilities of the economy on the growth front, coupled with a relatively benign inflation environment, notwithstanding a rise in the rate for 2017, policy is forecast to remain accommodative in 2017. On the monetary policy front, we project that the Monetary Policy Committee of the Bank of Mauritius will keep the Repo rate unchanged at least in 2017. Regarding fiscal policy, the budget deficit is expected to remain relatively high in the fiscal years ending June 2017 and June 2018, at 3.3% of GDP and 3.0% of GDP respectively, albeit lower than the deficit of 3.5% of GDP recorded in 2016. Amidst the major infrastructure projects earmarked in the last two budget speeches, though most of them will be financed through financial grants and lines of credit from the Indian authorities, the Public Sector Debt ratio (using IMF convention) is expected to remain significantly high. Despite the fiscal consolidation plans announced by the local authorities, the Public Sector Debt ratio is projected to stand at 64.3% of GDP in 2017 and 63.5% of GDP in 2018.

Budget Balance

Total Revenue	−	Total Expenditure	=	Budget Deficit
MUR 112.2 bn 2017/18		MUR 127.7 bn 2017/18		MUR 15.5 bn 2017/18
MUR 94.7 bn 2016/17		MUR 110.6 bn 2016/17		MUR 15.9 bn 2016/17

Budgetary Measures

FOSTER HIGHER GROWTH FOR MORE AND BETTER JOBS

- Establish Economic
- Development Board
- Build Innovative Mauritius
- Invest in skills development
- Modernize agro-industry
- Boost bio-farming, ocean economy, tourism, financial services and digital economy

INVEST MASSIVELY IN THE INFRASTRUCTURE OF THE FUTURE

- Develop public transportation and smart cities
- Enhance port and airport
- Encourage use of local resources of renewable energy

IMPROVE THE QUALITY OF LIFE OF OUR PEOPLE

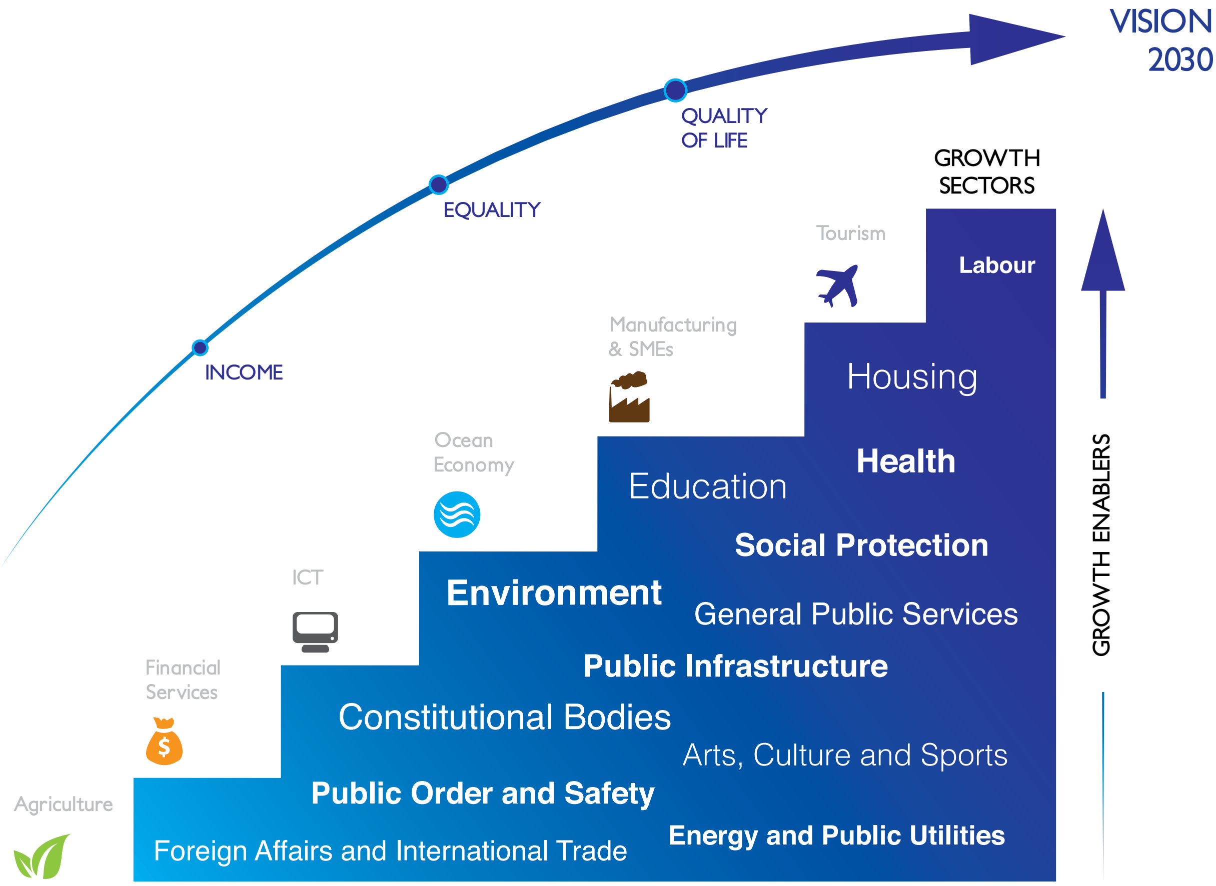
- Invest in water and waste management facilities
- Promote sports and leisure
- Improve healthcare and basic nfrastructure
- Tackle law and order
- Modernize the judiciary
- Invest in education

USHER IN A NEW SOCIAL PARADIGM

- Introduce negative income tax system and Solidarity Levy
- Introduce relief for medical insurance premiums and deduction for household employees
- Simplify CSR and give NGOs greater access to funding

BUILD MORE RESILIENT MACROECONOMIC FUNDAMENTTALS

- Amend Public Debt
- Management Act to establish Gross Debt rather than Net Debt as ceiling
- Bring Gross Debt to GDP ratio to below 60%



COUNTRY INSIGHTS: SENEGAL

WEAVING THE SOCIO-ECONOMIC FABRIC FOR A "SÉNÉGAL EMERGENT"

HIGHLIGHTS

- Since its independence in 1960, Senegal has been a politically exemplary country with a strong track record of political stability.

- To promote high, sustained and inclusive growth, the Government of Senegal adopted a new development strategy in 2014, namely the "Plan Sénégal Emergent" (PSE). The ultimate purpose of the PSE is to be the roadmap for Senegal to reach the upper-middle income and emerging market status by 2035 and be the "Sénégal Emergent".

- Today, Senegal is among the top three fastest growing economies in Africa, behind Ivory Coast and Tanzania.

- Between 2000 and 2016, Senegal's real GDP more than doubled, with growth rate reaching 6.6% in 2016.

- With the inflation rate at 1% in 2016 owing to low international oil prices, Senegal satisfies the convergence criteria of its regional central bank.

- Moody's upgraded Senegal's credit rating from B1 to Ba3 and changed its outlook from positive to stable in April 2017.

- The creation of 100-150 aggregation projects in the sectors of horticulture and livestock; the development of the tourist island Joal Finio; a health center specialized in cancer prevention to provide care are amongst the several forthcoming PSE projects.

- In 2015, the Government of Senegal and the Government of Mauritius signed the G-to-G Agreement for the development of an Industrial Park and Cargo Village in the new city of Diamniado (Special Economic Zone).

Background:

Located in West Africa, Senegal is a Republic with executive power in the hands of the President, who is also the Head of State. Since its independence in 1960, Senegal has been a politically exemplary country with a strong track record of political stability. This laudable repute was further consolidated, in 2016, when voters in a constitutional referendum reaffirmed a two-term limit on the presidency, reducing the term of the presidential office to five years from the then prevailing seven years. Having said that, the Casamance region, which is the southern region of Senegal, has been afflicted by an ongoing low-level conflict known as the "Casamance conflict" since 1982. Since then, peacemaking operations are ongoing, the latest effort being a unilateral ceasefire in 2014. Unlocking Casamance's extensive agricultural and tourism potential would not be possible, unless peace is restored to the region.

For more than two decades, Senegal has experienced an erratic growth trend. Economic activities have been plagued by low productivity, poor infrastructure, inaccessibility to factors of production (water, quality inputs), vulnerability of agriculture to climatic shocks, weak structure of agro-pastoral value chains, problematic access to land and funding, and governance issues. All these factors have impeded the country from unlocking its true potential, despite being blessed by much sought-after resources such as gold, iron, marble, phosphate, titanium and petroleum. Senegal is also strategically located with its capital city, Dakar, situated at the crossroads of several sea routes and giving it a comparative advantage for sea freight. The connection is performed in less than 6 days to Europe and 7 days to the United States. Moreover, Senegal is a member of the West African Economic and Monetary Union (WAEMU), that represents a market of 70 million consumers, and the Economic Community of West African States (ECOWAS), which gives access to a market of 200 million consumers.

Hence, to promote high, sustained and inclusive growth, the Government of Senegal decided to adopt a new development strategy in 2014, namely the "Plan Sénégal Emergent" (PSE). The plan establishes economic and social reforms in the medium and long term that would unlock growth potential in key strategic sectors. The ultimate purpose of the PSE, is to be the roadmap for Senegal to reach the upper-middle income and emerging market status by 2035 and be the "Sénégal Emergent". Besides, the strategic plan is expected to capitalize on the strengths of the country and create further business and economic opportunities while tackling its inherent weaknesses.

Recent performance:

Today, Senegal is among the top three fastest growing economies in Africa, behind Ivory Coast and Tanzania. Between 2000 and 2016, Senegal's real GDP more than doubled, with growth rate reaching 6.6% in 2016. The main drivers of growth, over the years, have been the telecommunication and financial services sectors which together accounted for 70% of growth. The economic structure, since independence in 1960, changed from one based essentially on agricultural production to a services-led economy. Senegal's early bet on telecommunications infrastructure, investing significantly in terms of capacity and modernization resulted in the country having a well-established telecoms infrastructure, and ranks first in West Africa in terms of penetration (fixed-line, fixed broadband and mobile sim) and quality service growth. Although the contribution of the primary sector to GDP has steadily decreased, about 70% of the Senegalese population is employed in the agricultural sector.

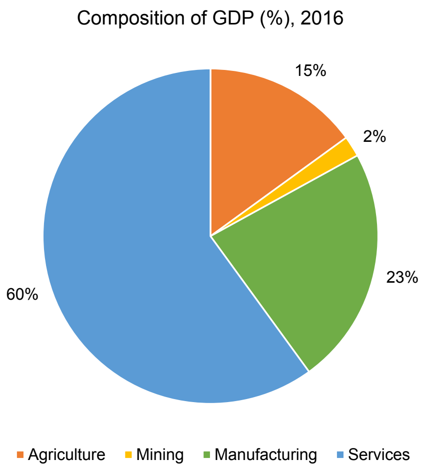
Table 3.1:
Telecommunication sector:
Market penetration rate 2016e

TELECOM SERVICES:	PENETRATION RATE (% POPULATION)
Fixed-line telephone	2.1%
Fixed broadband	0.7%
Mobile SIM	117%

Source: BuddeComm

According to the International Labor Organization, the unemployment rate is estimated at around 10% as of 2011. However, data on employment and unemployment are considered unreliable due to the large informal sector.

Figure 3.1



Source: BCEAO

With the inflation rate at 1% in 2016 owing to low international oil prices, Senegal satisfies the convergence criteria of its regional central bank. The monetary policy is defined by the Banque Centrale des Etats de L'Afrique de L'Ouest (BCEAO), a central bank serving eight West African countries which share the common West African CFA franc currency, with the aim of reducing inflation and preserving a fixed exchange rate between the CFA franc and the euro. Since 2004, the CFA franc has been stable at a peg of 655 CFA franc per euro. Foreign exchange reserves are pooled at BCEAO, of which at least 50% are deposited with Banque de France.

Table 3.2: Senegal's performance with respect to WAEMU Convergence Criteria based on latest data available

FIRST-ORDER CRITERIA	
Overall balance/GDP (≥ -3%)	✗
Average consumer price inflation (≤ 3%)	✓
Total debt/GDP (≤ 70%)	✗

SECOND-ORDER CRITERIA	
Wages & salaries/Tax revenue (≤ 35%)	✓
Tax revenue/GDP (≥ 20%)	✓

Table 3.3: Senegal - Selected Macroeconomic Indicators

SELECTED MACROECONOMIC INDICATORS	UNIT	2012	2013	2014	2015	2016E	2017F	2018F
GDP, constant prices	% change	4.5	3.6	4.3	6.5	6.6	6.8	7.0
GDP, current prices	USD billion	14.2	14.9	15.4	13.7	14.8	15.4	16.8
Population	Million	13.7	14.1	14.5	15.0	15.4	15.9	16.3
GDP per capita, current prices	USD	1037	1052	1057	913	960	973	1028
GDP per capita in PPP terms	USD	2226	2277	2349	2456	2577	2732	2904
Total investment	% GDP	29.3	27.8	25.1	24.0	26.9	27.2	27.0
Gross national savings	% GDP	18.5	17.3	16.1	16.6	19.8	19.4	19.3
Inflation, average consumer prices	%	1.4	0.7	-1.1	0.1	0.9	1.9	2.0
Volume of imports of goods and services	%	4.4	5.8	3.9	-5.8	7.2	2.7	5.9
Volume of exports of goods and services	%	1.4	12.3	5.1	-5.5	6.9	1.4	5.8
General government gross debt	% GDP	42.8	46.9	54.2	56.9	57.4	57.1	55.6
Current account balance	% GDP	-10.8	-10.4	-8.9	-7.4	-7.1	-7.8	-7.7
Foreign direct investment	% GDP	1.6	1.9	2.5	2.3	2.4	-	-
External debt	% GDP	61.6	65.4	69.6	70.0	71.2	-	-
Import cover	Month	3.3	3.6	3.2	4.0	4.2	-	-
Foreign reserves	% GDP	13.4	14.9	13.8	15.5	15.8	-	-

Sources: IMF World Economic Outlook Database, April 2017, BCEAO, National Statistics Agency

The current account deficit narrowed marginally to 7.1% of GDP in 2017. The strong performance of the external sector and lower oil prices contributed to the improvement in the current account deficit. Growth in export volumes has been driven by chemicals (especially phosphates), food (especially peanuts) and metals like gold. Imports wise, Senegal is dependent on external partners to provide local companies with machinery and equipment, used for industrial processes. Also, Senegal imports crude oil and petroleum products as the national refining company – the oldest refinery in West Africa – has a refining capacity which is lower than the national demand.

Table 3.4: Senegal's top trading partners for exports and imports of goods, 2016

EXPORTS

COUNTRY	VALUE (EUR MN)	SHARE
Mali	417	18%
Europe	357	16%
Switzerland	242	11%
India	188	8%
Ivory Coast	122	5%
China	115	5%
Gambia	78	3%
Guinea	77	3%
Mauritania	70	3%
UAE	67	3%
Others	559	24%
TOTAL	2292	100%

IMPORTS

COUNTRY	VALUE (EUR MN)	SHARE
Europe	1921	39%
China	510	10%
Nigeria	384	8%
India	377	8%
UAE	143	3%
Turkey	127	3%
Japan	112	2%
USA	111	2%
Brazil	109	2%
Ivory Coast	95	2%
Others	1064	27%
TOTAL	3889	100%

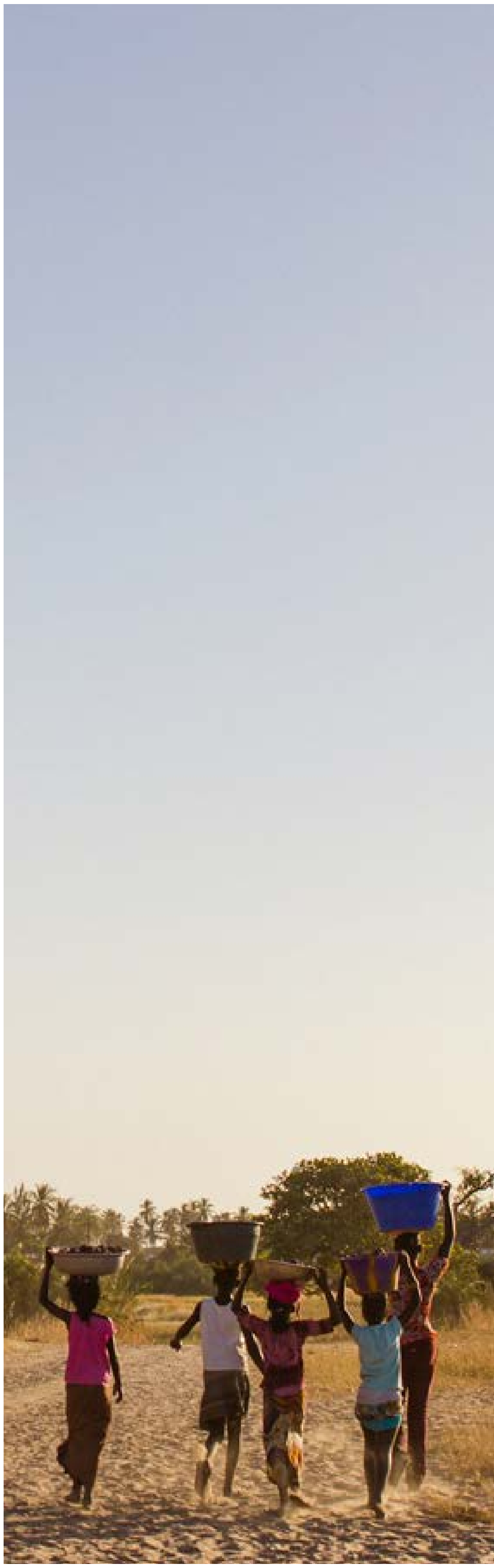
Source: Eurostat

On the fiscal side, the budget deficit fell from 5.5% of GDP in 2013 to 4.2% of GDP in 2016 and is on track to reach 3% by 2019, the medium-term target for the West African Economic Monetary Union. Over the last years, the Senegalese government has managed to reach its budget targets, thanks to a prudent approach with a buffer of 2.5% of budgeted capital expenditure. However, the government has also often reallocated revenue in excess of budgetary levels to operating and capital spending, thereby giving precedence to economic support instead of debt moderation.

The Senegalese financial system is relatively well capitalized but is subject to concentration risks as the financial sector remains dominated by a few banks (four of them international). Another worrisome aspect of the financial sector is the asset quality and relatively high nonperforming loans. In order to move Senegal to its desired path of high, sustainable and inclusive growth, the authorities will have to tackle with the vulnerabilities and seek to strengthen and deepen the financial sector.

Table 3.5: Highlights of the Senegalese financial sector

- 26 banks and 206 micro-finance institutions
- credit to the economy was estimated at 33% of GDP as of 2016
- banking penetration rate fluctuated around 15% in 2015 compared to 12% in 2014 (19% average in WAEMU); however, with the inclusion of micro-finance institutions - the banking penetration rate rose to 26% in 2015
- the inclusion of electronic money issuers increases the banking penetration rate to 48%
- dynamic microfinance sector: large microfinance institutions are sound and profitable
- access to finance for small and medium enterprises (SMEs) remains a challenge, with an estimated 80% of bank credit applications being denied due to insufficient collateral
- non-performing loans has been increasing in the past years reaching 20% in 2016
- regional and national fixed incomes markets are still in their early development stages; issuance by corporate remains limited
- investors can directly access primary markets, and various brokers and dealers provide indirect access, while foreign investors participate through local banks
- commercial banks still largely dominate the investor base as the main purchasers of treasury bills and bonds
- access to secondary markets within the WAEMU remains limited; all transactions can only be conducted by certified intermediaries, while most investors adopt a buy-and-hold approach
- no regional derivatives market



In 2017, Moody's upgraded Senegal's credit rating from B1 to Ba3, following improved growth on the back of upgrades to energy and transport infrastructures and structural reforms. Other factors reported were fiscal consolidation and the debt metrics being in line with the Ba3-rated sovereigns.

Should the government bring debt to significantly lower levels, a further upgrade in Senegal's Ba3 ratings is anticipated. Low levels of debt are expected to improve the economy's shock absorption capacity and boost local and foreign investment in the economy.

Table 3.6: Sovereign Credit Ratings

CREDIT RATING AGENCY	RATINGS	OUTLOOK	DATE
Moody's Investors Service	Ba3	Stable	Apr-17
Standard & Poor's	B+	Stable	Jun-17

Sources: Moody's Investors Service, S&P Global Market Intelligence

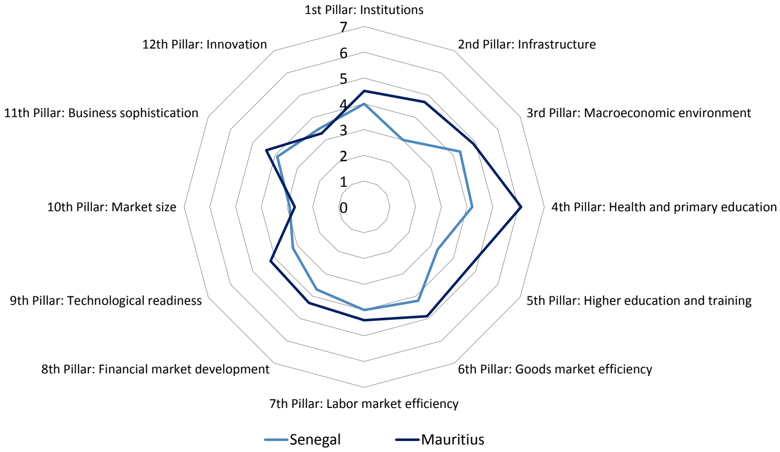
Table 3.7: International Rankings

	RANKINGS		
PUBLICATIONS	2016	2017	CHANGE
Ease of Doing Business	153th out of 189	147th out of 190	↑
WEF Global Competitiveness Index	110th out of 140	112th out of 138	↓
Index of Economic Freedom	111th out of 178	120th out of 180	↓
Corruption Perceptions Index	61st out of 167	64th out of 176	↓
Human Development Index	170th out of 188	162nd out of 188	↑
Global Gender Gap Report	65th out of 145	82nd out of 144	↓
Mo Ibrahim Index	9th out of 54	10th out of 54	↓

Sources: World Bank, World Economic Forum, The Heritage Foundation, Mo Ibrahim Foundation, Transparency International

In spite of its recent strong macroeconomic performance on the global stage, Senegal is positioned at the 112th place out of 138 countries, according to the World Economic Forum's (WEF) Global Competitiveness Report 2016-2017. Senegal fared well in the 1st pillar: Institutions, ranking at the 69th place globally, with signs of steady improvement across a range of other indicators. Senegal's relatively good ranking at the 50th position in the 12th pillar: Innovation, indicates the advancement of the Senegalese economy towards innovation. However, several areas require attention, more specifically health and basic education, higher education and training, for which Senegal ranks 126th and 111th respectively.

Figure 3.2: Senegal's competitiveness



While Senegal's outlook looks promising, there are some aspects of improvement required to strengthen the achievement of a sustained and high growth path. Agriculture, which has the highest concentration of the Senegalese labor force, remains heavily dependent on rain-fed crops which are vulnerable to adverse weather conditions. Food security remains a key challenge. The country experiences regular food crises and acute malnutrition rates that exceed the emergency threshold of 10%. Agriculture is also constrained by a lack of access to land, and insufficient high quality inputs (especially fertilizer and seeds). Value chains are also poorly structured and synergies between family farming and agribusiness are weak.

There is a notable infrastructure gap, which is also evidenced by its low score of 3.0 and 109th position in the WEF global competitiveness report. These infrastructure gaps represent bottlenecks to the development of agribusiness, value chains and the competitiveness of Senegalese products. In addition, rural communities have little access to socio-economic facilities (water, transport, energy and economic services) with wide regional disparities.

Projects and Opportunities:

For a 5–year span (2014-2018), Senegal has put in place a Priority Action Plan (PAP) to give momentum to the realization of the PSE. For the public-private partnership component of the PAP there is a wide diversity of sectors requiring investment. The most representative areas include infrastructure, tourism, agriculture and social.

Figure 3.3: Plan Sénégal Emergent

Sénégal Emergent

1. Sustained and strong growth followed by improved income per capita
2. High quality infrastructure
3. More production zones through a well-structured and diversified transportation network across Senegal
4. Strong and supportive agro-industry value chains
5. Senegal as West Africa's Business Hub

Enablers

- Strategic geographical position
- Commitment towards improving business climate
- Active involvement in international investment-related organizations

SOME OF THE PUBLIC-PRIVATE PARTNERSHIP PROJECTS AS OUTLINED IN THE "PLAN SÉNÉGAL EMERGENT"

TOURISM

Development of the tourist island Joal Finio called "shells island" (800 m long)

SOCIAL - HEALTH

A health center specialized in cancer prevention to provide care and perform research

INDUSTRY & SERVICES

Special Economic Zone - a reception area for economic activity, with a range of facilities and services of international standard

AGRICULTURE

The creation of 100-150 aggregation projects (farms) in the sectors of horticulture (fruits and vegetables) and livestock (dairy, poultry)

Challenges

- Inadequate resource mobilization
- Lack of necessary human capital to implement the reforms and projects
- Delays in investment climate reforms
- Resistance to change by certain players

Plan Sénégal Emergent

OBJECTIVE 1:
Structural transformation through the consolidation of current engines of growth and the development of new sectors to create wealth, jobs, and social inclusion, with a strong capacity to export and attract investment

OBJECTIVE 2:
Improvement in the well-being of the population, a more sustained effort against social inequality, while preserving the resource base and supporting the emergence of viable regions

OBJECTIVE 3:
Reinforcement of security, stability, governance and the consolidation of the rule of law to create better conditions for social peace and the fulfilment of potential

The Mauritian-Senegalese synergy

Mauritius and Senegal are both former French colonies. Diplomatic ties between the two countries were established in 1968, soon after Mauritius gained its independence. Since then, several bilateral agreements have been signed to foster trade and investment. Both are common members of the African Union; a continental organization founded in 1963 with the vision of an "integrated, prosperous and peaceful Africa, driven by its own citizens and representing a dynamic force in global arena".

With a view to further reinforcing bilateral relations between the two countries, a government-to-government agreement was recently signed for the development of a Special Economic Zone (SEZ) in Senegal. The realization of the SEZ project would benefit both – (1) allowing Mauritius to widen its economic space and explore opportunities in the West African market; (2) creating the conditions for the emergence of a center of competitiveness and growth that would eventually position Senegal as a business hub for West Africa.

The Senegalese tourism sector is another area into which the Mauritian authorities are looking forward to tap into. Since much of the Mauritian economic growth has been propelled by its flourishing tourism industry, Mauritius is well-positioned to assist Senegal in consolidating its hard and soft infrastructures in unexploited potentially touristic regions. It is to be noted that such projects are already in the pipeline, regions such as Saly, La Somone and Pointe-Sarene are being considered for the implementation of such projects.

These initiatives would be mutually beneficial for the two countries and herald the beginning of a new era of cooperation between Mauritius and Senegal.

Figure 3.4: Bilateral Relations – Mauritius / Senegal

Came into force as from October 2009

Signature of Bilateral Investment Treaties/Investment Promotion and Protection Agreements

March 2002

Came into force as from September 2004

Signature of the Double Taxation Avoidance Treaty

April 2002

Special Economic Zone (SEZ) Development of an Industrial Park and Cargo Village in the new city of Diamniado

Signature of G-to-G Agreement between the Government of Senegal & the Government of Mauritius

July 2015

The shareholders are the Government of Senegal and the Government of Mauritius, represented by Fonds Souverain d'Investissements Stratégiques and the Mauritius Africa Fund, respectively

Société des Infrastructures d'Affaires Atlantic

Incorporation of a Special Purpose Vehicle (SPV)

May 2016

Defining the agreed modalities and conditions for the development of the first SEZ Project

Signature of an "Accord de Developpement Conjoint and a Term Sheet

January 2017

SPECIAL REPORT: MAURITIUS

THE PATH TO AN INNOVATION-LED ECONOMY MAURITIUS

HIGHLIGHTS

- The Government's objective is to transform Mauritius into a high-income economy by 2030.
- One of the key enablers of this process can be through an innovation drive.
- In its simplest form, innovation refers to coming up with new ways of doing things. However, different institutions have different definitions.
- Research has shown a generally positive relationship between income and innovation
- South Korea is a good example of success through innovation
- Nonetheless, various rankings indicate that Mauritius has many obstacles to overcome and many milestones to reach before being called an innovation-led economy or a creative economy.
- One major step forward that can be taken in relation to innovation can be digitizing government services.
- Such a move could unlock significant benefits for the citizens, businesses and the economy at large.
- Government transactions would cost less, take less time and hence be more efficient.
- Citizens would win as they save on transport and postage costs and it is more convenient for them.
- A digital government or, at the very least, authorities that are willing to usher in the digital economy, would also pave the way for private sector innovations.
- The population must also accept and appreciate how the internet, technology and other innovations significantly influence the manner in which they behave and interact in society.
- A dynamic legislative setting as well, is a prerequisite for an innovative and digital society.
- Emphasis would also have to be on training and transferring knowledge to the population. Exchange programs with foreign governments would help.
- Stakeholder concerns in terms of security and intrusion of privacy would also have to be managed.

The Mauritius National Budget 2017/18 presented in June 2017 was accompanied by a 3 Year Strategic Plan. Elaborating on the path to becoming an inclusive High Income Economy, the paper proposes "a new phase of high growth with shared prosperity and enhanced quality of life, ultimately transforming Mauritius into an inclusive, high-income country by 2030 – the Vision 2030."

The will to transform Mauritius into a high income country is not new. In fact, it has been present since some years now but the path to turn this wish into reality is not easy. Many countries have tried and failed. The result being that they are still stuck in the middle income trap. Only a handful have managed to navigate these choppy waters. For Mauritius, one of the key enablers of this process is deemed to be through an innovation drive.

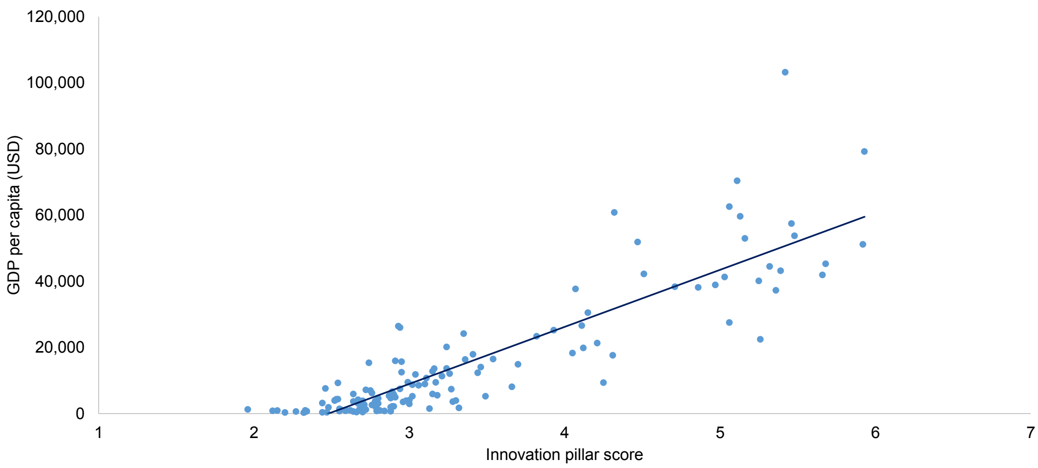
LINK BETWEEN INNOVATION AND INCOME

In its simplest form, innovation refers to coming up with new ways of doing things. Australia's Department of Industry, Innovation and Science defines it as change in processes or creating more effective processes, products and ideas. Meanwhile, the Organisation for Economic Co-operation and Development purports that innovation goes far beyond the confines of research labs to users, suppliers and consumers everywhere – in government, business and non-profit organisations, across borders, across sectors, and across institutions.

Gerguri and Ramanadi (2010), however, caution that different groups view innovation differently. For instance, customers view innovation as products with better service and quality. For businesses, innovation takes the form of actions that bring higher profits and growth. From the economy's point of view, innovation represents higher productivity and prosperity for all.

From an economic perspective, innovation enables an economy to improve production and income, thereby potentially improving welfare. In fact, the relationship between innovation and income levels has been the theme of several papers. In his 1956 flagship paper, Solow commented on the positive link between these two variables. On his side, Schumpeter developed the "creative destruction" concept whereby old products and technologies are replaced by new ones through innovation. The latter then have a positive impact on turnover and economic growth. New products also lead to more competition which has a positive impact on GDP according to Aghion et al (2010). Ulku (2004) showed that innovations have a positive impact on GDP per capita, both for developed and emerging markets.

Figure 4.1: Link between GDP per capita and innovation



Source: Global Competitiveness Report 2016-2017, SBM staff computations

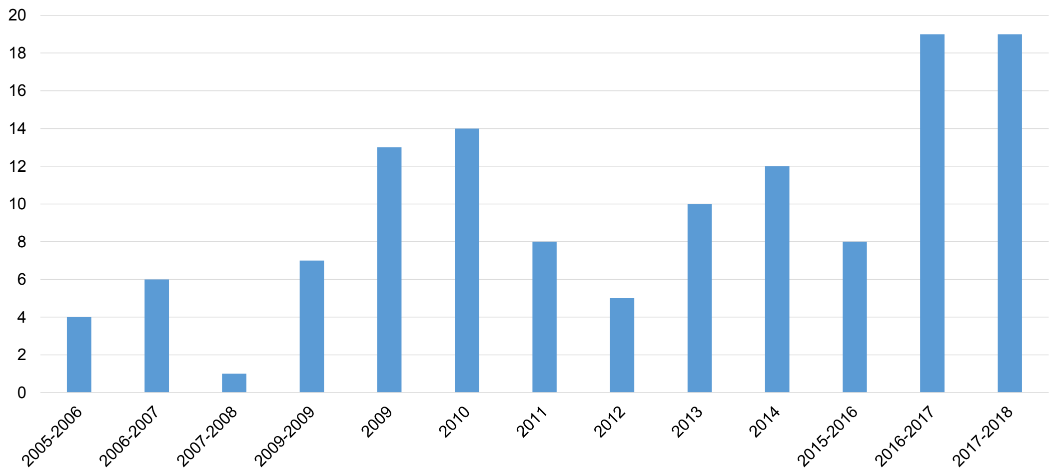
South Korea is a fitting example of how innovation can impact on economic growth. The country has built a dynamic economic system through massive and continuous investment in research and development and human resource. In the 1960s, when South Korea's GDP per capita was only around USD 160, the country invested in research and development. Substantial amount of worker training was provided and South Korea relied on reverse engineering and foreign licensing to boost its economy. This had the effect of rapidly developing several high tech industries such as semiconductor memory chips, liquid crystal displays and smart phones which led to a rise in income per capita. Today, the GDP per capita is around USD 28,000 – largely due to innovation and research and development.

TIME TO CATCH UP

Mauritius is not there yet. As per the Global Competitiveness Report 2016-2017, the Mauritian economy is in transition between being efficiency-driven and innovation-driven. The report attributed a score of 3.3 out of 7.0 to Mauritius on innovation (67th out of 138 countries), indicating that the country has some catching up to do in the matter. Other rankings also tell the same story. The nation is ranked 64th out of 127 countries on the Global Innovation Index 2017 while, more worryingly, it does not even make the grade for the Bloomberg Innovation Index. This indicates that there are many obstacles to overcome and many milestones to reach before being called an innovation-led economy or a creative economy.

Commendably, authorities have recognized the need for research and development. This is characterized by the flurry of measures announced to stimulate innovation in recent years. Words such as technology, innovation and digitization also feature more and more in budget speeches, as depicted in the illustration below.

Figure 4.2: Number of times words related to innovation and digitization appear in budget speech



Source: Ministry of Finance and Economic Development, SBM Staff computations

Several measures have also been announced by the authorities. Some of these measures are shown below.

Figure 4.3: Measures related to innovation and research

Budget 2015/16	Budget 2016/17	Budget 2017/18
• Smart City Scheme • MUR 125 million for National Innovation Programme	• MUR 500 million in SME Venture Capital Fund • Encourage start ups to develop mobile applications • Free WIFI spots • High speed internet • eLicensing • Regulatory Sandbox Licence • Industrial Property Bill	• Mauritius Research and Innovation Council • National Innovation and Research Fund • Industrial Property Office • Biotechnology Institute • MUR 50 million in TEC Research Fund • Innovator Occupation Permit • Economic Development Board

Sources: Ministry of Finance and Economic Development

Furthermore, in the latest budget speech, the Government launched the Citizen Portal to encourage the population to submit their views and suggestions on how to improve daily lives.

SBM Insights hereby seizes this opportunity to submit proposals on areas where research and development can change many things in the way of life of citizens as well as in the manner in which business is conducted in Mauritius. It can be the medium to level up the country's status to a high income economy.

DIGITAL GOVERNMENT SERVICES

One major step forward that can be taken in relation to innovation can be digitizing government services. By digitizing, governments can provide services that meet the evolving expectations of citizens and businesses. The internet has become common place in people's lives. With an internet population penetration rate (the total number of subscribers divided by the estimated 2016 population for Rep of Mauritius) of 86.3%, it is an opportune time, if not tardy, to digitize government services. Such a move could unlock significant benefits for the whole economy. By using a government mobile application or website, citizens would save time from reduced travel and waiting. Savings would also be realized through less transport and postage costs. A plethora of government services ranging from applying for driving license and national identity card to paying taxes, bills, fees and fines would be available right in the citizen's hand. Similarly, businesses would benefit from 24X7 availability of government services and faster execution. Citizens could also have access to their own "account" detailing their profile and transaction information, notices and identification.

In Estonia – a country with a similar population size as Mauritius, digitalization has brought significant convenience to the population. For instance, they can vote online, right from their homes, to elect their parliament. In addition, they can obtain tax overpayments within two days of filing their returns on an online system.

South Korean digital government services are regarded as the best in the world. Businesses benefit a lot from this system. For instance, the authorities handle all procurement stages online. The progress can be viewed in real time, hence increasing transparency and efficiency. Similarly, export/import reports and applications for quarantine and inspection are integrated to provide one-stop service. This has had a big impact in terms of processing time and costs. The time taken to obtain clearance for exports and imports has been reduced to 2 mins and 2 hours respectively compared to 2 or more days previously. Tax payment is also effected within 10 mins instead of 4 hours in the past. The digital system has rendered life easier for businesses.

The Government would also win through this move. Currently, it is difficult to keep track of thousands of documents that the authorities obtain and have to process. A lot of information is received and the authorities have to incur heavy costs to sieve this data. In addition, paper documents generate significant storage costs. Digital public services would be a cost-effective alternative.

Through this process, huge savings could be made. The UK Digital Efficiency Report (2012) found that the average cost of a government digital transaction is almost 20 times lower than the cost of a telephone transaction, about 30 times lower than the cost of postal transaction and about 50 times lower than a face-to-face transaction. Likewise, the Norwegian government's e-Government program report in 2012 estimated that digital transactions will cost less than 5% of the equivalent face-to-face interaction. These benefits are non-negligible. The storage costs would also substantially lessen. Digital information can be stored online, thus required no physical storage costs. The cost of building and maintaining warehouses would be eliminated. In addition, there would be more transparency, lower opportunities for corruption and less income leakages.

With a mobile application at their fingertips, citizens would make timely payments with regards to tax and other bills. The revenue collection would be more efficient therefore eliminating the need for additional resources to collect late payment. A digital public service system can also serve the purpose in a grimmer condition – time of war or other emergencies. The country could rapidly recover its services and capabilities compared to a government reliant on paper and concrete infrastructure.

PAVING THE WAY FOR PRIVATE SECTOR INNOVATIONS

A digital government or, at the very least, authorities that are willing to usher in the digital economy would also pave the way for private sector innovations. The demonetization move by the Government of India in November 2016 prompted a rush towards e-wallet and digital payment services. The private sector responded through a variety of mobile applications such as Paytm which quickly built a customer database. The company revealed that within hours of the demonetization taking effect, it had witnessed a sharp 200 percent hike in the number of app downloads and a 250 percent surge in the number of overall transactions and transaction value.

According to a McKinsey report, the United Kingdom started its digital transformation program by digitizing 25 basic services, such as voter registration. The authorities have now budgeted GBP 17.3 million to fund research into robotics and artificial intelligence. This latter is expected to boost private sector innovation amid forecasts that artificial intelligence could add around GBP 650 billion to the UK economy.

The Defense Advanced Research Projects Agency (DARPA) is a high-tech agency of the US government promoting research, development and innovations. Over the years, DARPA-funded projects have provided significant innovations such as the GPS and the internet.

In Mauritius, as well, guidelines from the Government have enabled the private sector to take initiatives in terms of innovation. For instance, the Ministry of Technology, Communication and Innovation in collaboration with the National Computer Board and SBM organized the ICT Innovative Business Idea Competition in October 2016. ENL Limited, a big conglomerate in Mauritius, has set up its Turbine Incubator to accompany and provide guidance to businesses with innovative ideas. Similarly, Total Mauritius organizes its "Startupper de L'annee par Total" to encourage start-ups and foster innovation.

DIGITAL CULTURE

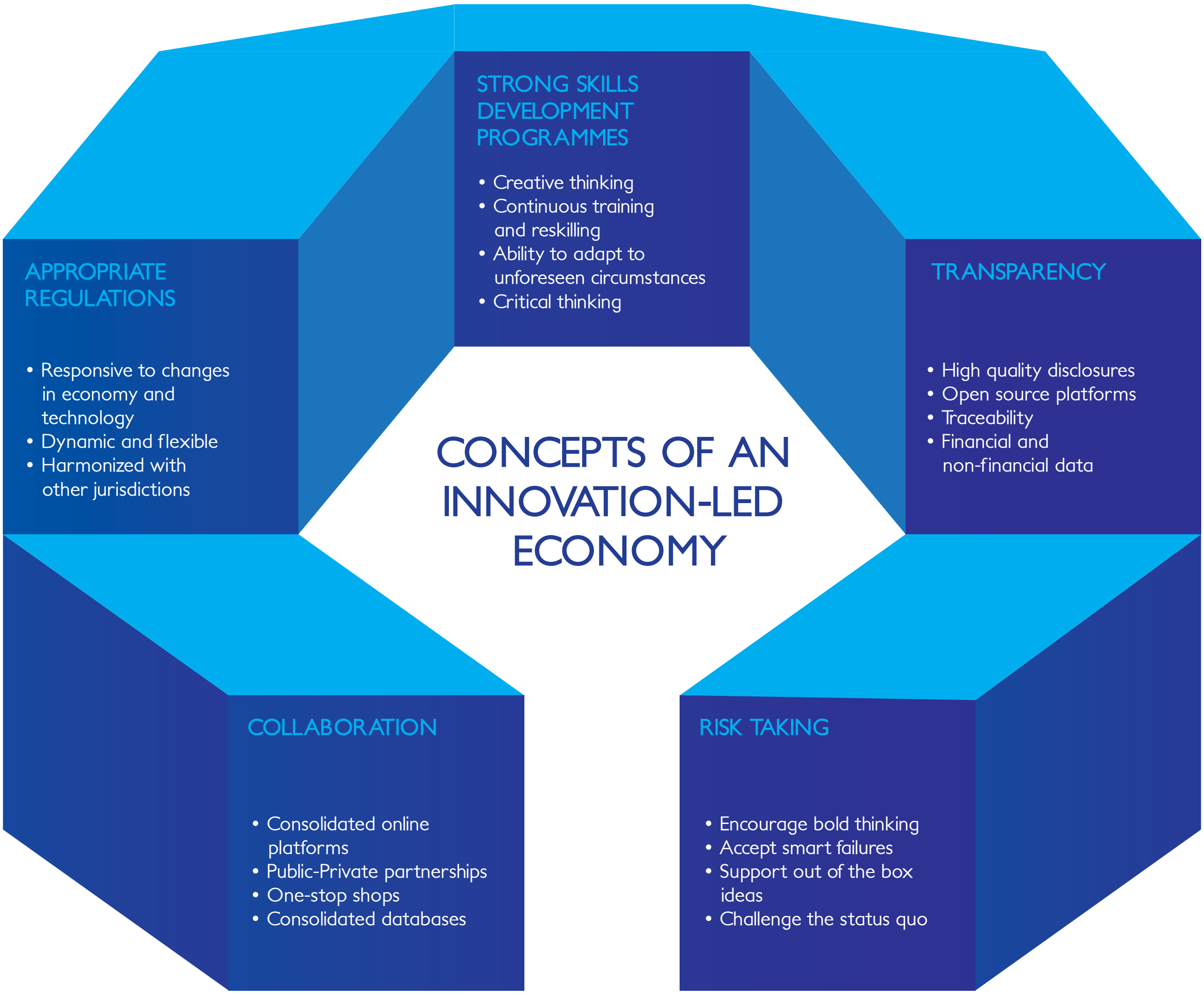
Nevertheless, a digital economy can only be successful if there is buy-in from all stakeholders in the process. To have this buy-in, however, a strong digital culture must be present. In other words, people must accept and appreciate how the internet, technology and other innovations significantly influence the manner in which they behave and interact in society. It would entail a fundamental rethink of everything the country currently does. Steps would need to be taken to ensure that innovation is a lifestyle rather than an initiative. Likewise, free and open communication would have to be encouraged and hierarchies eliminated. A new idea or product may not be the right one when introduced but may provide the base for the next product. As a result, mistakes would have to be tolerated and seen as a further step down the road to bring a new idea to fruition. Firms must encourage employees to share ideas and voice out their thoughts. The manner in which the country operates would change.

Peter Drucker once stated: 'Culture eats strategy for breakfast'. This holds true for innovation and digitalization as well. Unless and until there is a strong digital culture which is conducive to its execution, a digitization strategy would not work.

The digital culture also encompasses other elements. An innovation led economy dependent on technology and digital services would need to be agile to adapt to an ever changing operating environment. Furthermore, it must be prepared to constantly put its economic model into question and face the truth whenever needed. Another component of such a culture is collaboration. Instead of different groups working in silos, cross-functional collaboration is a must.

The transformation of the Danish Business Authority is a fitting example of the benefits of an agile system. In 2009, the organization decided to switch from a manual company registration system to a digital one. Nonetheless, the traditional waterfall approach whereby a team cannot move to the next task unless the present task has been completed, did not work. After two years, an agile-development model was launched. It proved to be much more effective.

Figure 4.4: Concepts of an innovation-led economy



LEGISLATION, INCENTIVES AND INFRASTRUCTURE

One of the key enablers in promoting innovation, research and development and technology might be legislation. Indeed, in the absence of appropriate legislations, even the best innovation would be useless. The new products, services or even the new manner of doing things might be illegal. A dynamic legislative setting is therefore a prerequisite for an innovative and digital society. Innovation, today, is happening at neck breaking pace. Things and matters that were not present in the past are today present. Terms such as blockchain and Internet of Things were unknown to people some time back. However, today, they form part of people's vocabulary. Thousands of Mauritians currently invest in crypto-currencies and the first IoT network has been set up in the country. The speed of change means that laws must also be passed at considerable speed to have a comparative, if not first mover, advantage. Mauritius must be able to do the same – enact appropriate laws within a short time frame – to attract firms. In so doing, new sectors will be developed.

Isle of Man took the lead in e-gaming by passing appropriate laws swiftly. The Isle of Man was one of the first jurisdictions to pass dedicated legislation for the e-gaming sector in 2001. As a result, today, it hosts some of the major e-gaming firms in the world. By stealing a march on its competitors through a dynamic legislative system, the island was not only able to attract some big firms but also attract other types of investment. The sector has attracted investment in telecoms infrastructure and some firms have set up even data centers in the jurisdiction. The Isle of Man is at present vying to be one of the technology hubs in the world.

In Estonia, the Government has gone even further by passing the Digital Signatures Act in 2010, thus giving digital signatures the same status as ink on paper signatures. People were encouraged to sign digitally. In turn, this prompted investment in digital systems as firms were forced by market demand.

India is rapidly becoming a pioneer in digital economy. The "India Stack" project is a flagship project of the Indian government to create a unified software platform and bring India into the digital age. The demonetization move and the Aadhaar card are both pieces of the project. The demonetization process, while disruptive, has been a major digital advance. Demonetization rendered 86% of cash in circulation useless and encouraged usage of digital wallets and mobile money. It has put India on the path to becoming the first cashless society in the world while promoting transparency. The Aadhaar card provides a unique biometric identification and is mandatory for receiving ration, filing tax returns and can also be used for forensic purposes.

With the appropriate legal backing, Indian has been able to put in place a system to improve transparency, communication and lessen corruption.

In addition to appropriate laws, a country also requires strong scientific and technical infrastructure for innovation. Various global rankings also show a direct correlation between the speed of broadband internet connection and innovation. Table 4.1 compiles data from different sources and indicates that countries which rank among the best for innovation also have among the fastest internet speeds in the world. South Korea which regularly tops rankings for high internet speeds is one of the leaders in innovation. South Korean firms regularly register patents and chaebols like Samsung invest a substantial amount funds in research and development. Other types of infrastructure are also important.

The presence of high end laboratories in Switzerland has enabled it to be a pioneer in the pharmaceutical industry. Sweden, on the other hand, is one of the most digitally connected economy in the world.

Table 4.1: Link between internet speed and innovation capacity

COUNTRIES	GLOBAL INNOVATION INDEX	GCI - INNOVATION CAPACITY	BLOOMBERG INNOVATION INDEX	AKAMAI STATE OF THE INTERNET REPORT
Switzerland	1st	1st	4th	5th
Sweden	2nd	2nd	2nd	3rd
Netherlands	3rd	3rd	15th	12th
USA	4th	6th	9th	10th
UK	5th	12th	17th	15th
Denmark	6th	5th	8th	9th
Singapore	7th	13th	6th	7th
Finland	8th	8th	5th	6th
Germany	9th	4th	3rd	25th
Ireland	10th	17th	16th	22nd
South Korea	11th	16th	1st	1st
Luxembourg	12th	7th	34th	45th
Iceland	13th	14th	25th	n/a
Japan	14th	19th	7th	8th
France	15th	20th	11th	51st
Hong Kong	16th	27th	35th	4th
Israel	17th	9th	10th	33rd
Canada	18th	22nd	20th	20th
Norway	19th	15th	14th	2nd
Austria	20th	10th	12th	29th

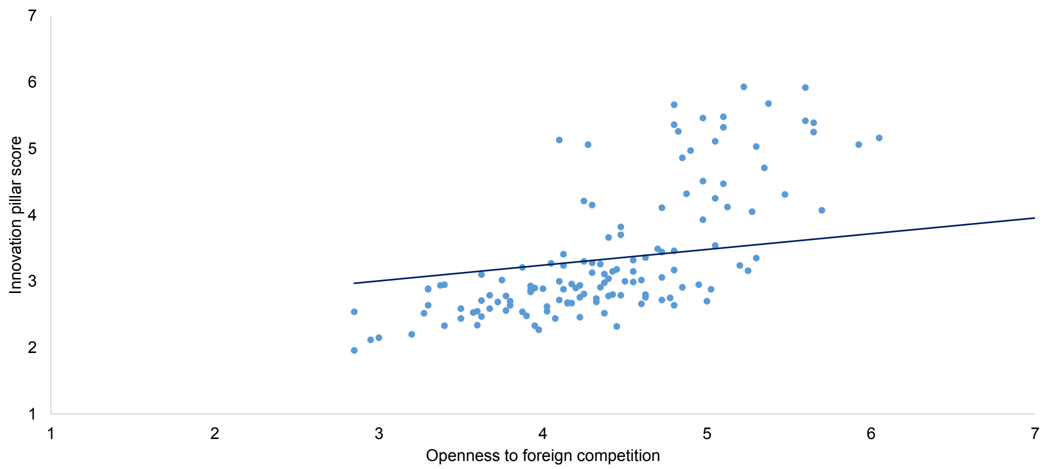
Source: INSEAD, Cornell University, World Intellectual Property Organization, World Economic Forum, Bloomberg, Akamai

SKILLS AND CAPACITY BUILDING

The appropriate skills are also important for digitalization and innovation. For Mauritius to address the innovation challenge there is a need to develop required skills. In a first instance, it might be necessary to attract foreigners to develop talent not readily available on the market. The emphasis would be on training and transferring knowledge to the local population. Exchange programs could also be set up for win-win partnerships. According to World Economic Forum, there is a direct correlation between openness and innovation.

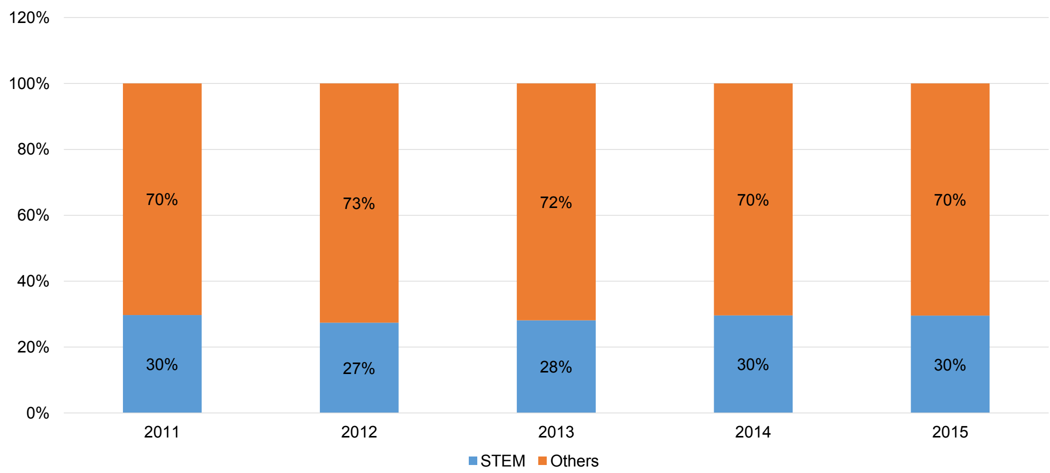
The local education system may also have to be reviewed to encourage studies in information technology and software engineering. Institutions must also be aligned to global standards. Mauritius' success as a financial hub of choice in the region has encouraged many people to undertake studies in social sciences and accounting. A fast growing sector coupled with demand from employers meant that these students found a job as soon as they were out of university. This impacted the number of students undertaking science, technology, engineering and mathematics (STEM) courses. STEM courses are usually deemed to provide the necessary resourcefulness and creativity for innovation. Nonetheless, today, Mauritius lacks such skill. As depicted in the figure below, only 30% of Mauritian students pursue STEM courses at university level. The kind of advances the country wants to make with respect to technology and digitalization stems mainly from STEM students. Nevertheless, Mauritius is currently short of the talent and skills required to make breakthroughs in technology and digital space. It is time to make STEM courses more attractive to people to encourage innovation. The recent success of 'tech-guys' such as Mark Zuckerberg, Evan Spiegel and Travis Kalanick may also entice students. Similarly, partnerships between universities and firms may encourage people to take up science as a subject.

Figure 4.5: Link between openness and innovation



Source: Global Competitiveness Report 2016-2017, SBM staff computations

Figure 4.6: Number of students pursuing STEM courses



Source: Statistics Mauritius

STAKEHOLDER CONCERNS

The transition to a digital economy, nonetheless, brings up some concerns. Addressing these concerns would be a prerequisite to transforming Mauritius into a digital economy. Storage of private data and the use of analytics might be considered as intrusion of privacy by certain people and even businesses. There is also the risk that the economy might be crippled by hacking. The security system must therefore be excellent.

Resistance to a digital economy might also be in the form of people who fear losing their jobs owing to obsolescence. A framework would therefore be necessary to continuously reskill people and prepare them for new roles in the job market. The benefits would accrue to the population.

South Korea has transformed itself into the economy it is today by continuously retraining its workers and providing them support over the years.

THE WAY FORWARD

Many measures have been announced by the Government and the private sector to foster innovation and digital services in Mauritius.

Indeed, institutions are banking on them to transform the country into a high income country by 2023. Nevertheless, it remains a significant challenge. Innovation requires the collaboration of both institutions and the population. The pace of implementation of announced measures would also play a big role. Without appropriate implementation of measures and tracking of progress, banking on innovation and technology for progress would remain a dream. The transition could be in three forms: 1) making new products and services for the domestic market with local talents; 2) encouraging foreign experts to work in Mauritius and train local people; and 3) developing niche markets by making high end technology intensive products (for instance, robotics) which can then be also marketed in other countries to make processes more efficient and enhance productivity.

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CREDITS

Contributors
Nuvin BHOLAH
Urvashi GAONJUR
Shaktiraj JUDIVADOO
Andy LAM YAN ON

Reviewers
Raj DUSSOYE
Gulshan RAMROOP
Shailen SREEKEESSOON

Advisors
Moses Harding JOHN
Kee Chong LI KWONG WING

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