MEMORANDUM ON THE 2016-2017 BUDGET

Towards an Innovation-led Economic Model

APRIL 2016

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1. INTRODUCTION

In line with its mission to defend and promote the interests of the business community to play a leading role in the economic development of the country, the MCCI is coming up with its Budget Memorandum for the fiscal year 2016/2017 spelling out its position on key economic issues and its vision for the country's development.

The MCCI believes that for the Mauritian economy to move forward and propel itself into the league of high-income economies, there is a need for a transformation of our economic model with a multi-faced approach including fiscal, regulatory and other policy reforms to become an innovation-led economy.

The most advanced economies in the world today have based their growth model on the opening up of the labour market to foreigners, a deliberate policy to attract investment in the economy and a move towards R&D and innovation. Since its independence, Singapore, using its strategic geographical position in the heart of Asia, has adopted a policy to attract high-end professionals and innovative companies in order to transform its economy. Around 40 years later, more than 30 percent of Singapore's population consisted of expatriates and the country hosts 41 per cent of Asia-Pacific headquarters among 319 global Fortune 500 companies[1]. In 2015, the country's GDP per capita is more than 55,000 USD. Furthermore, according to Forbes Magazine, Singapore is the third richest country in the world, ranking behind only Qatar and Luxembourg.

In Mauritius, using this model, it is essential for us to leverage on our geopolitical advantage to become a hub for investors from Asia and Europe into the African region and attract multi-national companies to invest in the productive sectors of the economy.

The Budget 2016/2017 is a unique opportunity to transform our economic model in line with the Vision 2030.

The object of this Memorandum is to highlight the views of the members of the MCCI in the context of pre-budgetary consultations. Through consultations with our members, the MCCI has earmarked a number of key existing and emerging levers for economic growth in the economy.

The MCCI Budget Memorandum has been structured around the Economic Context, the main macro-economic enablers, the foundations for economic transformation as well as certain sectoral measures in support thereof.

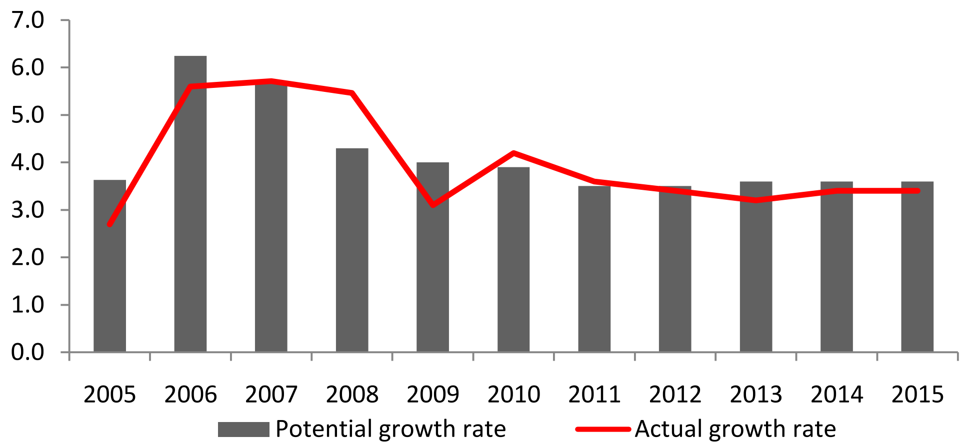
[1] PWC Regional Headquarters Study, 2015

2. THE ECONOMIC CONTEXT

The global economic crisis, starting in 2008, was felt across economies worldwide. In 2015, the world economy was faced by subdued demand and diminished prospects in a number of developing and advanced economies. In fact, structural reforms in China, increased volatility in a number of advanced economies, and geopolitical tensions in the emerging nations have all piled up to create a world environment where growth remains lethargic.

In Mauritius, due mainly to this uncertain external environment, the economy has been showing signs of fragility, with growth rates of less than 3.5 percent since 2009. This below-par growth has been the effect of a number of factors, most particularly the erosion of trade preferences with our major trading partners. Moreover, the country has been affected by the headwinds of the global financial crisis, reducing in the same vein our economy's potential. In fact, the potential growth of the economy has fallen by 2.6 points between 2006 and 2015.

Figure 1 Actual and Potential Growth Rates (2005-2015)



In addition, our economy continues to grow below its potential, showing that the factors of production have been under-utilised. The country's output gap has been in the range of 0.2 to 0.4 percent since 2012. This is largely explained by the degradation in our productivity levels. In fact, in the past few years, the major components of growth have been alarmingly low, whether consumption, investment or exports.

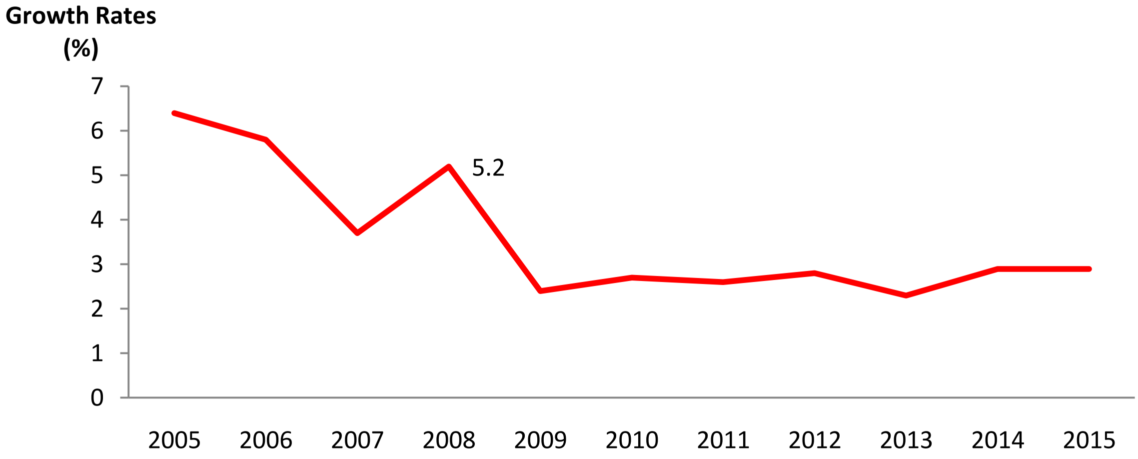
At a sectoral level, the segment most affected by the crisis has been the construction industry, which has been contracting since 2011. Other sectors, whether manufacturing, agriculture or trade have been growing at low rates. Growth was hence achieved through the resilience of the financial and tourism sectors, with a dynamism that was unabated by the crisis.

3. KEY MACRO-ECONOMIC ENABLERS

3.1. Consumption

Consumption is one of the major components underpinning growth in the Mauritian economy. In 2015, consumption expenditure increased by 2.9 percent, a figure that remains far from our long-term consumption growth patterns. Since the start of the crisis, growth in consumption expenditure has been pallid, at an average of less than 3 percent annually. In comparison, pre-crisis consumption growth has been at more than 5 percent.

Figure 2 Consumption (2006-2015)



For the Mauritian economy to be dynamic, it is essential to have necessary measures to stimulate domestic consumption, drive demand and increase the purchasing power of households. The MCCI is of the view that the following measures would go a long way in stimulating activity within the economy.

3.1.1. VAT refund for outbound tourists

Today, more and more people are spending their income in countries other than Mauritius, contributing to an outflow of foreign currency and lower domestic consumption rates. In 2015, latest figures from Statistics Mauritius point to 253,688 Mauritian passengers leaving Mauritius for other destinations. Based upon an assumption that an average of Rs 15,000 is spent by each, the amount of local consumption foregone nears the Rs 4 billion, representing 1.2 percent of our GDP.

The MCCI proposes that **tax-free shopping be extended to the Mauritian Diaspora and all departing Mauritians.** This would lead to a significant increase in domestic consumption and have vast spill over effects across all sectors of economic activity.

Any additional injection, coming from an increased expenditure in the domestic economy will hence seep in to benefit different other sectors, stimulating economic activity and creating employment. The additional contribution to GDP is much needed, and the extension of the system to Mauritians would go a long way in fulfilling our development agenda.

The proposal is elaborated further as per **Annex I**

3.1.2. Fiscal impulse through redefinition of income exemption threshold

Fiscal measures should be directed at increasing the purchasing power of those who are the most vulnerable. With a higher marginal propensity to consume, any addition to their income will be released back into the economy, having consequential effects on consumption.

The table below depicts the different thresholds of income exemption currently prevailing. Under this particular system, the weight assigned to each subsequent dependent (spouse or child) is regressive, with the first dependent scaled at 0.39 of the individual incurring the tax payment, the second at 0.21 and the third at 0.14.

Table 1: Income Exemption Thresholds

	Current Thresholds	Dependent Weight (additional)	NEW THRESHOLDS
Category A (An employee with no dependent)	Rs 285,000		Rs 285,000
Category B (An employee with one dependent)	Rs 395,000	0.39	Rs 427,500
Category C (An employee with two dependents)	Rs 455,000	0.21	Rs 570,000
Category D (An employee with three dependents)	Rs 495,000	0.14	Rs 712,500
Category E (An employee with four dependents)	Rs 495,000	0	Rs 855,000
Formula Category (1+X dependents)			Rs 285,000 * (1+(0.5*X))

Minor tweaks in the treatment of those dependents would go a long way in increasing the total level of household consumption.

However, as opposed to previous years, changes in the threshold should not take the form of a lump-sum increase. The model proposed by the MCCI is based on the Oxford scale of households whereby a dependent adult is assigned a scale of 0.7 and a child a scale of 0.5.

The MCCI proposes that there is a redistribution in the weights assigned with each dependent being given a weight of 0.5, irrespective of whether the dependent is the spouse or child.

These changes in the Income Exemption Threshold will increase disposable income offering a much needed boost in the level of economic activity.

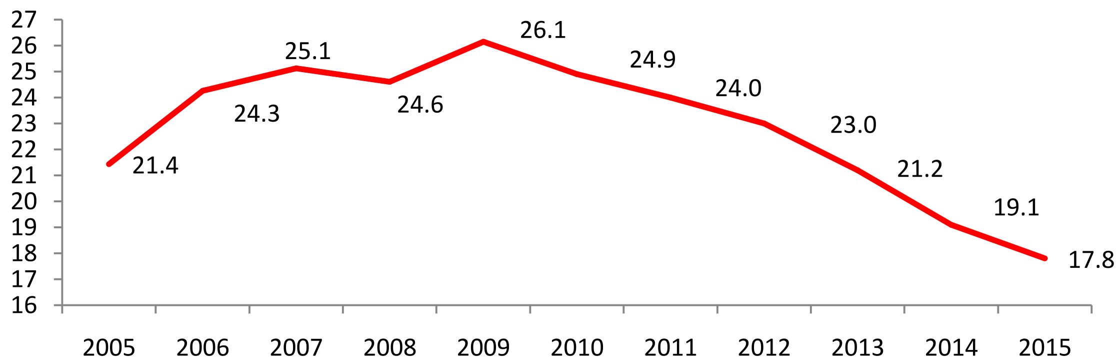
There is also a need to create a new threshold for an employee with any number of dependents. Currently, as from the fourth dependent there is no additional weight.

Furthermore, it will address the low birth rates of around 1.4 per woman in 2015[2] , far from the replacement rate which is estimated, according to the United Nations, at 2 births per woman.

3.2. Investment

It is widely recognised that investment is one of the most important components that underpin growth in an economy, contributing through the multiplier effect to the growth rate over several years. Unfortunately, investment in Mauritius has been floundering since the start of the crisis, and a rebound has not been achieved despite improving situations elsewhere.

Between 2012 and 2015, investment in the economy, and most particularly private investment, has been contracting. The investment rate is today at an all-time low of 17.8 percent of GDP, losing over less than a decade 10 percentage points. This is supported by the MCCI's Business Confidence Indicator (BCI) which shows that confidence of entrepreneurs in the economy has been since 2012 in the negative territory, reminiscent of a slow growth and a lack of visibility. Entrepreneurs, faced with a number of challenges, are unwilling to significantly increase their capital investment, expand their activities and recruit more workers.



Similarly, FDI inflows have been unable to match those of 2012 and have been at their lowest for over a decade. According to latest statistics from the Bank of Mauritius, excluding global businesses, inflows in the economy is estimated at only Rs 7.3 Billion for 2015 while there is around Rs 1.9 Billion of investment abroad. The Net FDI inflow in the economy is estimated

[2] *Statistics Mauritius, 2015*

at Rs 5.4 Billion.[3] Investment and FDI inflow in the productive sectors of the economy is henceforth critical for renewed dynamism in the economy. The MCCI believes that a multi-pronged agenda should be adopted to promote investment in the productive sectors of the economy.

3.2.1. Monetary Policy

The MCCI believes that there is enough leeway for the Monetary Policy Committee to cut down the **repo rate by 100 points**, to reach 3.40 percent, with inflation rate estimated at a historic low of 1.3 percent last year.

An expansionary monetary policy will reduce the cost of capital and thus attract investments to the economy. There is thus a pressing need to send a strong signal to facilitate investment, increase employment, and create wealth.

In order to have better clarity and predictability in the monetary policy framework, the MCCI is of the view that a **Rules-Based Monetary Policy** be adopted. This could take the form of a 2 to 4 percent inflation target. As practised in different countries, the Bank of Mauritius will adjust its monetary policy to meet the target set by the Central Government. This model brings predictability in the business environment and helps entrepreneurs in their decision making for investment in the economy.

3.2.2. Economic Development Board

There is today a number of organisations involved in promoting Mauritian products and services abroad and attracting investment to strategic sectors of the economy. There is however an over-lap of the target markets leading to scattered individual efforts and a lack of a powerful and consistent message which could be a disadvantage in the long-run. The country should adopt a holistic approach and deploy its overseas presence in a consistent and unified way to avoid duplication and increase efficiency.

The MCCI proposes that an Economic Development Board be set up, similar to advanced economies such as Singapore. The Board would act as a central entity for planning and implementing strategies to enhance and promote the country as a destination for investors and the promotion of exports.

3.2.3. Public Investment for the Deployment of Strategic Infrastructure

At times of low economic performance, the Keynesian model of economic theory advocates for public investment by the Government to boost the economy and break the vicious cycle.

[3] Bank of Mauritius, Balance of Payments 2015

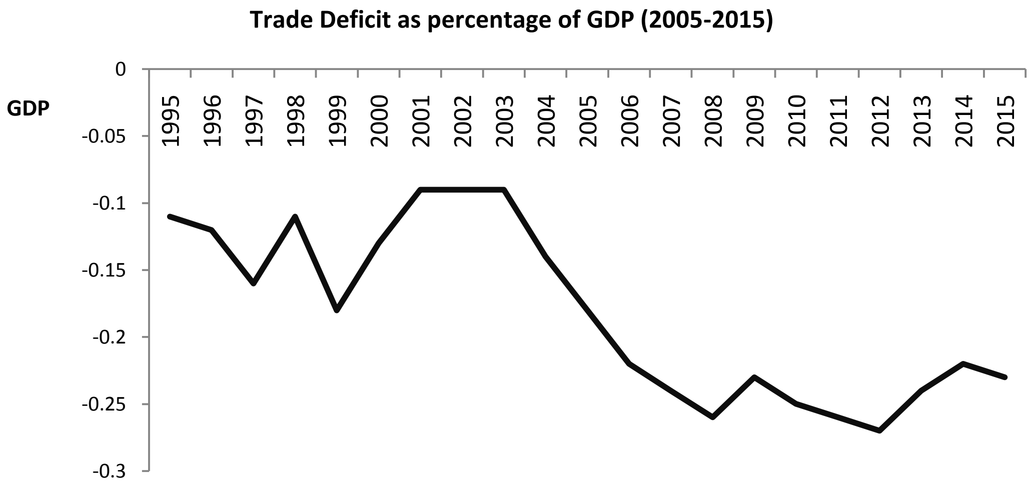
Increases in public investment will result in higher demand for investment goods, which therefore encourage suppliers to adjust their offers and thus to increase investment to meet the additional demand. By snowball effect, it will boost economic activity, increase recruitment, income as well as consumption. This will result in new increased investment. Increases in public investment in the economy will therefore, in fine, also boost private investment.

Nonetheless, between 2012 to 2015, public investment has in total increased by a mere 2 percent. The MCCI is of the view that it is critical for public investment projects to kick-start in 2016. Projects such as the Port Expansion, the new runway at the airport and the Road Decongestion Programme should be implemented in the shortest delay possible.

Furthermore, with the recently announced introduction of a Build Operate Transfer Projects Bill, the MCCI believes that projects such as the setting up of dedicated bus lanes could be considered. The latter will not only boost investment in the economy, but will also contribute to alleviating the transport problems as well as providing a cost effective alternative to road transport.

3.3. Exports

The export sector in Mauritius is one of the most important pillars of our development model. Our export strategy during the 1970s is recognised to have greatly contributed to the country's economic transformation. However, with erosion of trade preferences and the opening of the country, the gap between imports and exports of goods has increased in the last decade, with a deficit in the trade balance of 25 percent of GDP in 2015.



3.3.1. National Export Strategy

The MCCI has been closely associated in the consultations and the elaboration of the National Export Strategy for the country alongside ITC experts and other stakeholders. Its upcoming publication is highly anticipated and will provide a comprehensive review of our export strategy. The MCCI looks forward to the rapid implementation of the recommendations. The latter should be complemented by the necessary incentives and logistics system to sustain a growth in our exports.

3.3.2. Air Connectivity

The issue of air connectivity affects the whole economy and is particularly prominent for sub-sectors such as the Agro-Industry, Biotechnology and Medical Devices. With certain products such as samples with a low lifecycle, the prospects are currently limited due to the country's lack of air connectivity. Often, samples and products need to reach destination in a short time span and the lack of outbound flights from Mauritius prevents operators from dealing with such products that often have a high export potential.

The Air Corridor between Africa and Asia with Mauritius and Singapore as hubs is a highly welcomed initiative. However, it is necessary to increase the number of flights to mainland Africa. Today, there are less than 10 weekly flights to Africa, taking between 20 to 30 hours to reach a number of African destinations.

The MCCI, as a pro-active institution has been a strong proponent of enhanced air access and we believe that it is today essential to have daily direct flights to Nairobi, Mumbai and Changi.

The rethinking of our air access policy has the potential to open up our markets, enhance the movement of people, increase cross-border trade in goods and services, create jobs and through a multiplier effect, have an enormous impact on the country's economic development when fully implemented.

Furthermore, increased air connectivity will be a useful tool to attract multi-national companies and international law firms to set-up regional offices in the country.

3.3.3. Freight Related Costs to Export

Mauritius is faced by high freight related charges at the port and airport. Documentary procedures, customs and other costs are particularly high as compared to other countries. In Mauritius, the costs related to export, excluding the freight and inland transport are at $397[4]. In countries such as Austria, Denmark, France, and Italy, the cost is zero.

The MCCI proposes that a **level playing field policy** be adopted in the form of a tax credit equivalent to the difference between the freight charges in Mauritius and the most competitive countries in the world in terms of Cost to Export, as per the World Bank Ease of Doing Business Indicators. This will allow our effective freight charges to be at a par with the most competitive countries in the world.

[4] Doing Business Report, 2016

3.3.4. Expanding our Market Share

The Export Processing Zones (EPZ) established in the 1970s are widely recognised to have vastly contributed to the industrial development in the country. Consequently, Export-Oriented Enterprises (EOEs) contributed to about half of the manufacturing sector until the early 2000s. In 2015, it is estimated at less than 35 percent and has been on the decline since 2007.

In our effort to expand the country's market base and boost exports, the MCCI proposes that existing and new manufacturers be provided with a **zero percent corporate tax on their exporting activities**. This will have the double effect of encouraging existing manufacturers to export and to attract new industrials to set-up manufacturing units in the country.

4. FOUDATIONS FOR NATIONAL TRANSFORMATION

4.1. Ease of Doing Business

The 2016 Ease of Doing Business report released by the World Bank has ranked Mauritius at 32^{nd} worldwide, and there have been notable improvements in the last few years, making us one of the top economies in Sub-Saharan Africa. Yet, the cost of doing business is still relatively high and is preventing entrepreneurs from benefitting the full prospects of the Mauritian economy.

Mauritius has the potential to be in the top 5 economies worldwide in terms of the ease of doing business. To achieve this, there is a need to correct a number of inconsistencies in regulations and needless taxes and levies that have been added over the years and are slowly eroding a large part of the competitive advantage we had over economies similar to ours in their development strategy.

4.1.1. One Stop Shop

The costs relative to the creation of a new business represent 2.1 percent of GDP per capita. In comparison, this figure is at 0.4 percent in New Zealand. For instance, procedures to start a new manufacturing unit in Mauritius take nearly 8 months.

It is proposed that a single counter be implemented for the payment and delivery of all administrative documents. While this concept has been adopted for SMEs through MyBiz, it is imperative that the ***One-Stop-Shop*** concept be made available to all enterprises.

4.1.2. VAT on Credit Card

Input VAT cannot be recovered on certain items such as banking services provided by banks, services in respect of credit cards or motor cars (including repairs, maintenance, petroleum gas, etc) under S21(2) of the VAT Act.

Whilst these costs may be borne in the furtherance of the business of the taxable person, input VAT on such items is not recoverable in all cases and this increases the cost of doing business. Furthermore, this goes against the general principal under the VAT Act, which purports that input VAT may be recovered to the extent that such costs are incurred to make taxable supplies. This makes S21(2) of the VAT Act inconsistent in this respect.

The MCCI proposes that the VAT Act be amended and that VAT is made recoverable for these items.

The benefits will be cross-sectoral, with operators in retail, tourism and financial services bearing the direct advantages from this measure. The gains will moreover strew across other sectors of the economy.

A full report can be found in **Annex II**

4.1.3. VAT on Machinery

Imports of machinery for the textile sector are not subject to VAT on delivery. Nonetheless, for all other machinery imports, such as for printing etc, VAT is chargeable. Although this can be recovered later, the simple fact that it has to be paid causes cash flow problems for the company.

It is proposed that the imposition of taxes are harmonised and that all machinery imports shall not be subject to VAT on delivery.

4.1.4. Trade and Advertising Fees

Industrials have been faced with a disproportionate increase in the Trade Fees since 2013, increasing cost of doing business, and there has been confusion in the application of the Trade Fees regulation, with District Councils charging a higher rate than municipalities.

Similarly, local authorities have increased advertising fees in relation to advertising in retail outlets and on road signs by more than 100 percent, with some amounting to even 400 percent increase.

These are a concern to enterprises and prove to have a negative impact on the cost of doing business. The MCCI proposes that a Joint Public -Private Committee be set-up to review trade and advertising fees.

4.1.5. Freight Costs

Entrepreneurs are faced with high freight costs, preventing them from remaining competitive in both the local and export market. The costs to import and export have increased by around 4 percent over the last decade. The costs associated with the export of one container of goods are estimated at around $593[5]. This is high compared to countries like Vietnam, Malaysia and Singapore, which are our direct competitors in a number of manufacturing segments. The high freight costs are also born by companies while importing raw materials and semi-finished goods with the costs associated with the import of one container at $656.

Given the insularity status of Mauritius, the costs of transport are likely to remain quite significant. It is thus proposed to introduce a **tax credit of 400 percent** on productive business inputs to include the full transportation costs.

4.1.6. 'Silent is Consent' principle

The Mauritian doing business environment is faced with high administrative costs and bureaucracy. Approval of permits, processing of documents and other procedures tend to not

[5] *Doing Business Report 2016 , World Bank*

only cost businesses but also takes valuable time. The bureaucracy surrounding our business environment acts as an impediment to businesses and their growth.

It is proposed that a **'silent is consent' principle** be implemented for the approval of permits and licenses. Hence, after a 5-day delay is over, it is understood that the authorities have approved the permit or license.

4.1.7. Red Tape

The business environment in Mauritius is still clouded by a high number of regulations and procedures. Recent estimates point to at least 350-400 business licences and permits required from various ministries and government bodies, driving up costs for businesses.

A Red-tape action team, comprising of members of key private sector organisations and government officials should be set up to assess the impact of each additional regulation, applying a **'1 minus 5' rule**, whereby each additional regulation introduced would require another 5 to be scrapped from our statute book, further simplifying business procedures within the country.

4.1.8. Standards and Norms

Some imported products do not meet the quality standards appropriate to similar products that are locally manufactured and provide unfair competition to local industrials. It is essential that the Food Regulations, the Dangerous Drugs and Chemicals Act and related legislations are reviewed by a joint public-private committee, and that imported products are subject to a strict control to ensure they meet the necessary standards.

Moreover, the only accreditation body in the country, Mauritas, is not a member of the International Laboratory Accreditation Corporation (ILAC). It is not considered as an independent body as it is established as a department under the Ministry of Industry, Commerce and Consumer Protection.

Companies established in Mauritius are hence faced with high auditing costs by international accreditation bodies when exporting products to European markets. It is hence necessary that Mauritas be established as an independent body, and obtain full membership of ILAC.

4.2. Labour and Employment

The economic crisis has resulted in a continuous rise in unemployment in Mauritius, rising almost 1 percentage point from the low point of 7.2 percent in 2008 to 7.9 percent in 2015. The figure is particularly high when we take into consideration that countries that have gone through recessions are experiencing lower unemployment rates.

Although part of this increase was due to cyclical unemployment related to inadequate economic growth, the vast majority is due to an increase in structural unemployment.

Indeed, DeLong and Summers (2012) show empirically that structural unemployment is likely to increase during a period of low cycle. The unemployed see their skills deteriorate, so their productivity and consequently their employability is reduced.

There is a need to address structural unemployment, reassess the current and future labour requirements of the economy and undertake reforms at all levels in the labour sector. This will allow Mauritius to attract world-class and leading companies to invest in the economy. The MCCI proposes the following measures to tackle unemployment in the economy:-

4.2.1. Labour market study

There is a skills mismatch between the private sector demand the training provided to students, both in training institutes and other universities. The demand for highly educated workers is not met, resulting in mismatches between the supply of available skills and the demand for skills. A recent report released by the World Bank shows that skills mismatches have grown by 30 percent during the 2000s[6], signalling urgency in implementing policy remedies.

There is furthermore a lack of data on the profile of jobseekers whether they are currently employed or unemployed.

It is proposed that firstly, a complete labour market study is conducted to assess the needs of the industries and tackle the increasing skills mismatch present.

4.2.2. Increasing the HRDC Grant

It is proposed to increase the grant of the HRDC given to employers sending their workers for continuous training to 90 percent. The existing ceiling on the amount that can be claimed should also be reviewed to reach four times the annual levy paid for employees contributing to more than Rs100, 000 annually.

4.2.3. Extension of HRDC to working professionals

It is proposed to extend the HRDC Grant to working professionals. These concern an increasing number of professions, including lawyers, doctors, engineers. There has been over the years a move towards the liberal professions. The extension of the HRDC Grant refund to such professionals will encourage continuous training.

4.2.4. Absentee Payroll

An absentee payroll is a grant given to employees to compensate for the manpower costs incurred when an employee is sent for training. The MCCI thus proposes to reimburse up to 50 percent of absentee payroll for those undertaking training.

[6] *Mauritius, Inclusiveness of Growth and Shared Prosperity, World Bank, September 2015*

4.2.5. Subsidy on foreign expertise

It is proposed to subsidise by 75 percent the cost of bringing foreign expertise to offer training to local workers, especially in areas where heavy automation will become prevalent.

4.2.6. Training in technology-intensive industries

It is proposed to fully subsidise the training of staff for new companies involved in technology-intensive industries the first two years of operation.

4.2.7. Up-skilling

With the country faced by an increasingly ageing population, it is essential that older workers be encouraged to stay in the workforce. A grant of up to Rs 25,000 for each additional qualification that will add to or improve their existing set of skills for those above the age of 40 undertaking training will help in this respect. The advantages will be the experience of the seasoned workers, which will be augmented through training in new processes.

4.2.8. Foreign Workers

Mauritius faces the prospect of an increasingly ageing population. By 2054, the proportion of people aged 60 and above in the population is projected to be 33.8 percent[7], around a third of the country's total population. This will not only decrease our working population but also create a higher demand for health-related jobs. It is essential to address these issues proactively.

In order to transform the economy, it is essential to recruit foreigners at every job level, similar to what is currently practiced in countries such as the US, Singapore and Hong Kong.

The MCCI proposes that limitations (quota) on the recruitment of foreign employees in technology-intensive sectors of activity be removed. This will in the first instance help to address the skills mismatch, but also help to maintain a dynamic working population.

4.2.9. Work from Home

Mauritius is currently faced with high levels of labour market rigidity and the legislative framework does not foster flexible working arrangements. It is proposed that as part of a review of the Employment legislation, provision should be made for allowing employees in the tertiary sector to work from home for a minimum number of days per month. This will not only help to reduce absenteeism at work, but also enhance productivity of the labour force.

[7] *Family Planning and Demographics Yearbook, Ministry of Health, 2014*

4.2.10. Labour Market Rigidity & Productivity levels

A recent World Bank report[8] points out that the labour market in Mauritius does not reward productivity, leading to a lack of motivation and thus causing labour productivity to decline.

To boost motivation of entrepreneurs and thus productivity levels, the MCCI is of the view that wage increments should be linked to the productivity of the labour force, with clear assessment and evaluation criteria.

4.2.11. Internships

There is a limited number of internships currently available to students with leading firms in innovative and high-tech industries. At employment, firms assert that graduates do not possess the appropriate skills and expertise and require further training in the firm before they can be employed.

The MCCI proposes the establishment of a ***high quality Internship Programme***, with a mandatory year in industry for specific sectors. Interns will be provided a stipend that will be funded on a 50-50 basis by the Government and the firm.

4.3. Innovation and R&D

The country is today in dire need of reinventing itself, and this will inevitably be achieved through a boost in its drive towards Research & Development and Innovation, with a spill-over effect on all sectors of economic activity. However, as shown by the latest Global Innovation Index[9], expenditure on R & D in Mauritius represents a mere **0.18 percent of GDP** today while EU countries in particular have R&D expenditure to GDP of 2 percent and further aim to spend at least 3 percent of their GDP on R&D as per the Europe 2020 Strategy[10].

It is widely recognised that most advanced economies are heavily reliant on innovation to drive long-term economic growth and improvements in living standards. In fact, though Mauritius experienced a similar GDP growth path as Singapore till the 1990s, it has since failed to keep up with the growth in GDP experienced by Singapore. The latter has invested in intensive industrial development in the 1990s and from 2000 onwards, switched to an innovation-led industrialisation model. In the future, it will be crucial for Mauritius to be equipped with the necessary tools to foster research and innovation in enterprises and support a move towards an innovation-led growth model.

[8] *Inclusiveness of Growth and Shared Productivity, 2015*

[9] *Global Innovation Index, WIPO, 2015*

[10] *Europe 2020, A Strategy for smart, sustainable and inclusive growth, European Commission, 2010*

A conducive and innovative policy is essential for Mauritius to attract world players such as Cipla, Google and EBay to use Mauritius as a regional HQ.

The MCCI proposes the following measures to boost R&D and Innovation in the economy:-

4.3.1. Matching Innovation Grant Scheme

The MCCI is of the view that a broad-based Innovation Grant scheme should be put in place for existing enterprises providing a matching grant on investments on a range of R&D expenditure, including the following activities:

- Acquisition and registration of IP rights (patent, copyright, registered design, geographical indication, lay-out design of integrated circuits, trade secret or information that has commercial value and plant varieties) and franchises

- Automation through technology or software

- Design activities (e.g. Fees to an outsourced designer)

4.3.2. Innovation Box Regime

In order to maximise innovation and reinvigorate the productive sectors of the economy, it is vital that a preferential tax regime be set-up in the form of a Innovation Box regime. The latter provides a novel – approach in incentivising firms to increase investment in innovation activities, attract and retain mobile investments that may be associated with high-skilled jobs and knowledge creation.

The MCCI proposes that in order to encourage IP and its flow on benefits to be developed, marketed and commercialised in Mauritius, our model should offer for a **zero percent tax** on worldwide income derived from the totality of Intellectual Property Assets, including:

- Patents and associated patent rights
- Supplementary Protection Certificate (SPC)
- Software
- Trademarks
- Designs and models
- Copyrights
- Utility models
- Domain names
- Trade secrets/know-how including Secret formulas and processes

The Innovation Box incentive would address the gap that leaves Intellectual Property vulnerable by supporting Mauritian innovators and manufacturers to invest in innovation-driven activities.

The tax regime would not only help to retain home-grown IP but also attract IP created overseas to be commercialised and managed from Mauritius. The implementation of the Innovation Box Incentive should make the commercialisation of IP in Mauritius more genuinely viable for businesses.

The Innovation Box Regime combined with adherence to the Madrid and Lisbon Treaties would make Mauritius become an undisputable platform for IP assets.

A full report of the Innovation Box Regime can be found in **Annex III**

4.3.3. Collaborative R&D

There is today a lack of collaboration among firms, most particularly on R&D. In a small market like Mauritius, firms are unwilling to work with each other on research activities. Nonetheless, the trend, as pointed out by a recent Economist Intelligence Unit (EIU) report[11] is towards collaborative R&D to address limited funds dedicated to R&D in company budgets.

The MCCI proposes to extend the MRC led Collaborative Research and Innovation Grant Scheme (CRIGS) to a wider collaborative R&D Matching Grant for firms wishing to engage in R&D together and for larger projects. The CRIGS maximum Grant should be increased to Rs 50M rather than the Rs 5M currently proposed.

4.3.4. Business Incubator

There is an absence of consultation and collaboration between industry players and the academia. The limited research carried out in universities today does not match the industry needs. The MCCI proposes the setting up of a **Business Incubator** at university, with an independent status, and with strong private sector input. The incubator should focus on providing incubation services, promoting linkages with industry and promoting an entrepreneurship culture at university.

4.3.5. Accelerated Technology Transfer Platform

The MCCI proposes the creation of an Accelerated Technology Transfer Platform, comprising of a proactive public-private sector working group to acquire patents, licences, IPs and partners for local firms to develop new products and consolidate existing ones to enhance the productive capacity of the economy.

A multi-sectoral approach, encompassing the manufacturing sector, agro-industry and services should be adopted to facilitate the transfer of technology.

[11] *The Future of Manufacturing, EIU, February 2016*

The model thus proposed for Mauritius forms the basis towards a conscious effort by suppliers, customers, technology support, and training institutes amongst others to collaborate and favour translational research.

The Accelerator will be supported by an **Intellectual Property Desk** at the MCCI which will become the focal point for business operators involved in and interested in Intellectual Property (IP). As a business membership organization and representative of the private sector, the MCCI is ideally placed to play an active role in helping enterprises understand and use Intellectual Property (IP) as a competitive tool in their business endeavours.

The Accelerated Technology Transfer Platform is further elaborated in **Annex IV**

4.3.6. 3D Printing Equipment

The use of 3D Printing promises to significantly reduce the cost and time associated with prototyping of products, traditionally one of the most difficult and expensive stages of the product R&D process. The World Economic Forum has identified the increasing use of 3D Printing as one of the key developments for the Fourth Industrial Revolution[12]. However, the high cost of acquisition of 3D printers act as a deterrent to industrials.

The MCCI proposes that, similar to 3D Printing incentives set-up in the most advanced countries such as Canada and the UK, Mauritius should provide a **40 percent grant on the purchase of a 3D Printer** for businesses. This will incentivise companies to move to high-tech production and engage in R&D activities.

4.3.7. Fab Labs

There remains today a lack of collaboration between entrepreneurs, designers and engineers amongst others. Currently, they work in separate 'bubbles' and there is no concerted effort to foster collaboration between the stakeholders.

The MCCI believes that there is a need for an emergence of **Fab-Labs** throughout the island. These state of the art technology centres will provide a creative space for budding product designers and entrepreneurs to not only meet but also to test their latest ideas. This co-working space will link engineers, designers, and innovators and have the latest digital infrastructure with high-tech computer controlled machinery and 3D Printing manufacturing devices.

4.4. Regulatory Framework

For the Mauritian economy to prosper and for policy measures to boost the economy to be effective, it is essential that a coherent regulatory framework be implemented to reduce bottlenecks in the ease of doing business, provide predictability and attract investment into

[12] *World Economic Forum, 2016*

the economy. Furthermore, the regulatory framework should cater for challenges acting as an impediment to economic transformation.

4.4.1. Mandatory Regulatory Impact Assessment

In the recent past, there has been a number of regulations and policy changes which were unpredictable and sudden in their application. This lack of predictability and visibility often implies significant costs for entrepreneurs, who are reluctant to lock their capital in projects.

The excellent synergy between the public and private sector, which has been heralded as one of the enablers of our economic success, should find its way in a new mode of Participatory Policy Making (PPM) as well.

The MCCI is of the view that there should be a **Mandatory Regulatory Impact Assessments (RIA)** prior to major legislations which affect business activity.

The role of the RIAs would be to provide a detailed and systematic appraisal of the potential impact of a new regulation in order to assess whether the regulation is likely to achieve the desired objectives.

The need for RIA arises from the fact that regulations commonly have numerous impacts and that these are often difficult to foresee without a detailed study and consultation with affected parties. Economic approaches to the issue of regulation also emphasize the high risk that regulatory costs may exceed benefits.

4.4.2. Data Protection

A European Commission study of the adequacy of data protection framework in Mauritius shows that the Data Protection Act in Mauritius lacks several elements in order to comply with the requirements of the Article 29 of the Data Protection Working Party's.

The MCCI is of the view that there is a need for a review of the Data Protection Act to comply with relevant international bodies.

4.4.3. Geographical Indications

A geographical indication (GI) is any sign or symbol that identifies goods as emanating from any specific region or location of a country that gives the goods its known quality, reputation or characteristics that are essentially attributable to that region or locality.

Although the Geographical Indications Act has been adopted by parliament in 2002, it has not yet been proclaimed. The absence of a Geographical Indications Act prevents industrials wishing to use GIs to market differentiated products at a premium price.

The MCCI believes that the Geographical Indications (GI) Act should be enacted.

4.5. Energy

The Energy sector in Mauritius today lacks the necessary level of efficiency to respond to a growing economy. Although most businesses do not seem constrained by electricity service disruption[13], the service quality is not always constant to support high-tech industries. For the provision of its energy, Mauritius is highly dependent on the import of fossil fuels and coal. The MCCI believes that there is room for the growth of renewable energy for a shift towards a fully sustainable development model.

4.5.1. Regulatory Framework for Photovoltaics

The mix of renewable energy, ICT and energy storage is expected to deeply change the energy production, distribution and consumption models in Mauritius. By 2030, a smart grid providing clean energy at very low cost to the entire population is attainable.

In order for this to happen, decentralized photovoltaic system has become an urgency for Mauritius. The Central Electricity Board opened in September 2015, a volume of 5 MW for photovoltaic plants SSDG "Small Scale Distributed Generation" of between 0 to 5 kWp dedicated to small residential installations.

However, concerning MSDG plants "medium scale distributed generation (50 kWp to 2 MWp), a lack of a dedicated and transparent program is felt among the producers. A number of operators including Bagatelle, Taylor Smith, La Croisette and the Food and Allied Group have been unable to implement photovoltaic systems due to the absence of a regulatory framework. The roof surfaces of commercial and industrial buildings represent a significant economic development potential for the solar photovoltaic sector in Mauritius. We believe that opening a volume of 10 MW will give sufficient visibility to investors in the amount of 1.5 billion rupees and the creation of a hundred direct jobs.

4.5.2. Preferential Industrial Tariffs

Utility costs are high in Mauritius and entrepreneurs find themselves faced with an increasing cost of doing business due to the latter. For instance, the cost of electricity in Mauritius is more expensive as compared to France and the United States due the need to import coal and heavy fuel. In addition, preferential electricity tariffs to industrials are no longer applicable for new enterprises.

The MCCI proposes to re-instil preferential tariffs on electricity for industrials and to apply preferential water tariffs for all companies holding an industrial license.

4.5.3. Solar Units for Businesses

In the last budget 2015/16, the Government has encouraged households to implement solar energy units through a tax deduction on the investment. Nevertheless, this will not be enough to attain a high energy mix from renewable resources as businesses and industries consume

[13] *Mauritius, Systemic Country Diagnosis, 2015*

an important share of electricity. It is proposed that the same incentive proposed for households be extended to businesses wishing to implement solar panels.

4.5.4. Sea Water Cooling Systems

Mauritius has the ability to leverage on its natural attributes in order to implement sea water cooling systems in buildings. The costs involved in such systems is high and owners do not have the necessary incentive to implement these facilities. The MCCI proposes that a tax exemption be introduced on the cost of implementing sea water cooling systems for new and existing buildings.

5. SECTORWISE POLICIES

5.1. Agro-Industry

Transformation in the Mauritian economy should be accompanied with policies to promote self-sufficiency and addressing food security issues. It is necessary for Mauritius to enhance its agro-industry to enable quality food products produced locally. The sector is strategic to all economies and will help Mauritius in its aim at reducing its import-reliance.

In 2015, the agricultural sector contracted by 1 percent compared to a growth rate of 3.9 percent in 2014. The share of GDP of the sector continues to decline, falling to an estimated all-time low of 2.8 percent in 2015. This figure was at more than 20 percent in the 1970s.

The phasing out of the Sugar Protocol and trade preferences has largely contributed to a decrease in the sector's contribution to the economy. There is a need for a strategic direction for the promotion of the sector, with a comprehensive agriculture policy and incentives for products of key importance to the economy.

The MCCI proposes the following measures for the Agro-Industry:-

5.1.1. Agricultural economic zones

The MCCI proposes the setting up of agricultural Special Economic Zones (SEZs) to further the development of agro-industry in the country. Such special clusters will help achieve economies of scale, reducing costs of inputs while taking a significant leap in reaching self sustainability.

A product-specific approach is required, and in a first instance, focus should be given to horticulture, dairy and rice production. The SEZ's should benefit from a special package of measures to attract local and foreign investment and include:-

- An 8- year tax holiday for new and existing companies operating at SEZs
- Cheap access to unused agricultural land.

- Access to foreign labour force
- Duty free imports of productive inputs such as plant and machinery
- Access to basic infrastructures
- Improved logistics at SEZs through on-site port facilitation, customs inspection and documentation at the zones.

5.1.2. Review of Procedures for Import Permits

Following representations from operators, there has been a request for a streamlining of the procedures for the import permits issued by the Division of Veterinary Services (DVS) and at the National Plant Protection Office (NPPO) of the Ministry of Agro-Industry and Food Security.

The main issue raised by operators relate to the complex and time consuming procedures for the issues of import permits given that an approval is required by the Head Office of the Ministry before the permits can be issued by the respective Government Agencies. It is to be noted that importers of these specific products (fresh fruits, vegetables, plants and meat products) have to submit applications to the Ministry, very often, on a weekly basis to supply their products on the market.

We would like to make the following proposals to simplify the procedures for obtaining import permits:

a. ***Amendment to the Animal Diseases Regulations***

Section 17 of The Animal Diseases Regulations 1925 stipulates that:

"No person shall import any live animal, carcase, egg, meat, meal, bone meal, fodder, litter, fresh or untanned hide, manure or other fertiliser of animal origin unless he holds a permit issued by the Permanent Secretary and pays the appropriate fee specified in Part I of Schedule A".

As per the above legislation, the permits have to be approved by the Permanent Secretary of Ministry (based in Port-Louis) before the permit can be issued by the Chief Veterinary Officer (based in Réduit). With a view of streamlining the procedures for the issue of import permits and facilitating trade, it is recommended that the regulations be amended to allow the 'Chief Veterinary Officer or any authorised officer' of the DVS to approve and issue all import permits.

This particular amendment in the legislation will avoid the double approval of import permits by the Permanent Secretary of the Ministry and the DVS. This amendment is expected to significantly reduce the time for the approval of permits.

b. ***Approval of the Import Permits at the National Plant Protection Office***

The current legislation allows the NPPO to issue the plant import permit directly the operators. However, it has been common practice by the NPPO to send the application for permit to the Head Office or Permanent Secretary from the Ministry for approval prior to the issue of the import permit.

With a view of facilitating trade, it has recommended that, as per the current Plant Protection Act 2006, the Officer in charge of the NPPO be empowered to approve and issue the import permits.

5.2. Manufacturing

A solid industrial base is essential for any economy that wants to reach the status of a high income country, especially with its ability to pull other sectors of activity through strong spill-over effects. The most advanced economies in the world today have based their post-crisis growth model on industrial advances, as the crisis bared the fact that those countries with a potent manufacturing sector have fared better than the others.

In Mauritius, the last decade was characterised by an erosion of preferential access to markets and a strong trade liberalisation policy, all contributing to a low growth in the manufacturing sector. In 2015, the local manufacturing sector continued to be affected by the effects of the global crisis, and experienced a low growth rate of only 0.5 percent. Moreover, the share of GDP from the manufacturing sector has fallen below 17 percent in recent years. This figure should be increased to 25 percent for the country to benefit fully from the multifarious opportunities of a healthy industrial base.

The MCCI is of the view that the way forward for an economy like Mauritius is to build on our industrial base in order to re-establish the manufacturing sector as an essential pillar of a new economic paradigm.

5.2.1. Tax holiday for new manufacturers in technology-intensive sectors

In order to attract Foreign Direct Investment and for new manufacturers to set up base in Mauritius, it is vital that the necessary incentives be put into place to achieve the latter. The MCCI is of the view that an **8-year tax holiday** be provided for new manufacturers who deal in technology-intensive activities. Those should include: -

- Automobile
- Electronic Assembly
- Microtechnics and micromechanics
- Manufacturing technologies
- Technical Textiles
- Medical devices
- Pharmaceutical Products and Equipment
- High precision plastic and rubber
- Photovoltaic
- High fashion jewellery products
- Waste Management

- Knowledge Process Outsourcing

5.2.2. Tax Credit on Key Productive Business Inputs for existing companies

The manufacturing sector faces high costs in terms of training of workers, investment in plant and machinery, R &D expenses and also the transport cost due to our insular position, compared to other sectors.

Thus, existing manufacturers should be given the necessary fiscal impetus to remain competitive and to restore the level playing field.

The MCCI proposes that, while maintaining the same level of corporate tax at fifteen percent, manufacturers would be given a tax credit, equivalent to two-third of the company's profit made in the previous year, for re-investment in key productive business inputs, including:-

a. *R &D Expenditure*

Research and Development (R&D) is known to have highly beneficial effects to an economy with spill-over on all sectors of economic activity. An incentive could be introduced, providing a tax credit on a range of R&D expenditures:

- Acquisition and registration of IP rights (patent, copyright, registered design, geographical indication, lay-out design of integrated circuits, trade secret or information that has commercial value and plant varieties) and franchises

- Automation through technology or software

- Design activities (e.g. fees to an outsourced designer)

b. *High-Tech Plant and Machinery*

The high cost of plant and machinery is a barrier to expansion for many of the country's manufacturers. A tax credit on the acquisition and maintenance of technology intensive plant and machinery would incentivise manufacturers to engage in the upgrading of their production processes.

c. *Transportation Costs*

Transportation costs for Mauritian manufacturers are particularly high due to our small island state status. The tax credit will provide our entrepreneurs the necessary tools to be competitive against imported products and should apply on: -

- Freight costs from the port of embarkation to the port of destination in Mauritius
- Port Charges and other administrative fees
- Inland transportation costs in Mauritius

5.2.3. Buy National Policy

More than setting mandatory requirements, a relevant and fully functioning Buy National Policy should aim at changing the mindset about prioritising consumption of local products.

A Buy Mauritian Act would go a long way in providing local manufacturers with a boost in their activities as well as sending a strong signal that the Government believes in the quality of local production. The Act could include, amongst others, the following propositions:

a. ***Bid Price Preferences***

Application of price preferences of between 10 percent and 20 percent for local manufacturers in public purchases of Ministries, local government bodies and para-statal organisations would encourage larger businesses not only to subcontract but also form consortiums with SMEs. In the latter cases, to give even more support to the development of SMEs, a further allowance in terms of price preference of 5 percent could be given.

b. ***Minimum domestic content in Government Supplies***

As the first step towards a Buy National Policy and to give a strong signal to its commitment to the protection of local manufacturers, the government could impose a minimum domestic content requirement in its supplies, usually ranging from 50percent to almost 100 percent in some cases. This could cover a range of services such as prisons catering, hospitals, or schools for instance.

5.2.4. Industrial Parks

In order to attract large companies, it is proposed that land be earmarked for the setting up of industrial parks for industries such as pharmaceutics, biotechnology, e-waste and similar. The industrial parks should be of international standards and equipped with appropriate infrastructural and utility systems. Immediate locations earmarked could include the Jin Fei region and Rose-Belle

5.2.5. Collaborative Sourcing

Mauritius being a small island state, with limited resources and a large number of industries as SMEs, the latter do not benefit from economies of scale when sourcing their raw materials. The most viable long-term option is to introduce and promote the concept of Collaborative Sourcing of raw materials and semi-finished goods. A central system of sourcing will help companies to benefit from buying in bulk, at lower costs.

5.2.6. Age Certificates

Some local companies are now producing quality aged products and their export customers are requesting that an age certificate accompanies expeditions.

However, there are no such provision in our Customs Act contrary to most other countries and having this facility provided would improve the export stature of our products. The MCCI proposes that the required amendments be made to provide for this facility.

5.2.7. Mitigating against dumping practices

With the elimination of trade barriers, a number of Mauritian manufacturers are experiencing unfair competition from imported products that often have a low shelf life remaining. In order to reduce the exposure of locally manufactured products to potential dumping practices, the MCCI is of the view that the government should impose a minimum shelf period of 50 percent for the import of dry products which have an equivalent local product. Hence, a product which has a shelf life of 12 months would be allowed to be imported only if there is more than 6 months remaining when it reaches customs.

5.2.8. Raw materials

Our economy is faced by a lack of natural resources and we need to import most of our raw materials used in the manufacture of high-tech products such as robotics, aviation and automobile. The costs involved are particularly high putting us at a disadvantage as compared to other countries where raw materials are available at a competitive price.

To compensate for the high cost of raw materials and its transportation, the MCCI proposes to have a **tax credit on the import of raw materials** for further processing in the productive sectors of the economy.

5.3. Wholesale and Retail

Over the last few years, growth of wholesale and retail has been moderate at an average of 3.1 percent.

The sector is mainly affected by falling growth in consumption and a global and local business environment which has been gradually worsening over the years.

In addition to the measures proposed to boost consumption as described in Section 2.1, the MCCI is of the view that the following proposals would go a long way in improving the situation in the sector:-

5.3.1. Hire Purchase

Given the difficult situation prevailing in the hire purchase business following the last budget decision to reduce the APR, there has been a request for the hire purchase legislation to be urgently reviewed as operators have indicated that they may be scaling down or ceasing their hire purchase operations.

It is proposed that the following amendments to be made to the hire purchase legislation:

(i) Given the breakdown of costs, it can be seen that the costs of financing the hire purchase operations are well above the revenue earned under the APR, it is therefore proposed that the APR to be restored to 19% so as enable operators to be able to continue their activities.

(ii) It can be noted that other public and commercial institutions are charging a much higher rate for late payments. It is proposed the surcharge for late payments for hire purchase activities be re-instated at 5% to encourage on-time monthly payments by borrowers.

(iii) Given the increasing prices of goods, consumers have sometimes difficulties in effecting their monthly payments or, sometimes, cannot afford to purchase goods under hire purchase. It is proposed that the maximum repayment period be increased from 30 months to 48 months to make the household goods more affordable to consumers.

A full report can be found in **Annex V.**

5.3.2. Single Supermarket License

Supermarkets sell a wide variety of products, including tobacco, alcoholic products and many others that require separate licences.

The procedures are time-consuming for supermarkets and have an incidence on their day-to-day running of their business.

It is proposed that a single supermarket licence encompassing all the required permits and licences should be issued. Such a measure was introduced for the tourism industry in the last budget whereby an omnibus permit is issued for hotels and other accommodation to cover various activities falling under the same management. The MCCI proposes that the same model be adopted for supermarkets.

5.4. Construction

Economic development in any country goes hand in hand with the development of its infrastructural facilities. In recent years, however, the construction industry has been negatively affected by the repercussions of the global financial crisis. The sector has been in contraction since 2011, with a –4.3 percent growth in 2015. The construction sector contributes significantly to the economy pulling the industries, financial services, commerce, transport and several other sectors of activity. The sector is of strategic importance to Mauritius, and for the economy to be in good health, the sector needs to be thriving.

The MCCI proposes the following measures to contribute to the deployment of world-class infrastructure facilities and to the expansion of construction activities in the economy:-

5.4.1. Opening up of Apartment to Expatriates

Today, expatriates are only allowed to buy property through the Property Development Schemes (PDS), or forced to rent an apartment while in Mauritius. It is proposed to allow expatriates to buy an apartment in Mauritius. This will boost the construction sector in the country with a number of apartments being built. This will lead to better interaction of expatriates with the local community.

5.4.2. Construction Permits

There are around 15 different procedures involved in getting a construction permit, taking on average 156 days. The costs involved are at around 0.6 percent of the warehouse value. In contrast, this takes 26 days in Singapore at a cost of 0.3 percent.

Mauritius has the ability to achieve a lower cost structure in the immediate future. The MCCI proposes that a one-stop-shop for construction permits be implemented and that the latter be bound by a 30 day time frame to approve a project plan.

5.4.3. National Urban Regeneration Program

There is a need for the implementation of a National Urban Regeneration Program to make our towns and other major villages economically productive and efficient by upgrading the social and economic infrastructure and wide-ranging reforms to strengthen municipal governance.

5.4.4. Eco Buildings

The costs of buildings based on the ecological concept are very high. While there are a number of eco-loans provided by commercial banks, these are currently not appealing to promoters and enterprises to develop buildings that respect the ecological criteria.

The MCCI believes that there is a need to provide an 'eco-incentive', in the form of a waiver on property tax, for new buildings which respect the ecological principles.

5.4.5. Repair and maintenance

There is no culture of repair and maintenance of buildings in Mauritius, leading to a proliferation of decrepit and dangerous buildings all across the island. Some incentives are required to encourage households and companies to undertake remedial works and upgrading of their buildings.

It is proposed that contractors are **exempt of VAT for large-scale projects** of repairs and maintenance of buildings.

5.4.6. Zero Rated VAT on Individual Residential Buildings

VAT on individual residential buildings not exceeding 300 ft^2 should be zero rated considering that individuals cannot recover VAT like companies do. This will enable builders to offer lower prices, thus increasing the demand and stimulating the market. This measure should be extended to first time as well as second time buyers.

5.5. Financial Services

Economic development in the country has allowed over the last decades the emergence of a rapidly growing financial services industry. In recent years, the sector has been growing at an average of more than 5 percent.

The sector represents 10.5 percent of the country's GDP and is taking more and more importance over the years. The development of the financial services sector facilitates the progress of all other sectors of the economy. The potential for the sector is vast with the possibility for Mauritius to become an indisputable International Financial Centre for the region.

The MCCI is proposing the following for the continued advancement of the sector:-

5.5.1. Pension Scheme

Private pensions becoming increasingly important for the consumer, and the demand for them is increasing. However, lack of financial incentives to enter these schemes often act as a deterrent for getting into them, preventing the demand to be really effective.

It is proposed that pension schemes are treated as exemptions and are made deductible from chargeable income. Contributions to pension schemes till a maximum of Rs 15, 000 per annum should be deductible from the individual's chargeable income.

5.6. Tourism

The tourism industry has been one of the fastest growing segments of the economy in 2015, with a growth rate of 8.5 percent. Furthermore, tourist arrivals increased by more than 10 percent as compared to 2014, and reached 1,151, 723 tourists. This has been achieved through an opening of the air access with flights to Stockholm and Istanbul amongst others.

While our performance has been remarkable, two of our main competitors - Seychelles and Sri Lanka - experienced higher increases in their tourist arrivals of 18.7 and 17.8 respectively.

There is room to develop and boost the tourism industry further with a number of quick wins:-

5.6.1. Reduction of passenger fees

The cost of air travel is the major deciding factor for tourists in choosing a destination. The insular status of Mauritius puts us at a disadvantage with most tourists coming through long-haul flights.

The MCCI has been advocating for a reduction of the Passenger Fee on Air Tickets by 50 percent. This would significantly reduce the cost of coming to Mauritius, as these taxes are acting as barrier to exports of services and eroding the competitiveness of the Mauritian destination.

5.6.2. Air Access Policy

The recent decision of the Government to liberalise air access with Turkish Airlines and Thomson Airways has proved to increase tourist arrivals from these destinations significantly. There is room for Mauritius to take resolute decisions to allow more airlines to serve the Mauritian destination. This could include low-cost airlines on short and medium-range flights. The resulting increase in the availability of seats and destinations will stiffen competition and reduce price of air travel.

It is also timely for Mauritius to redefine the strategy for its national air carrier. This strategy will require the Government to intervene, financially to assign clearer objectives when it comes to the economic development of the country.

5.7. ICT/BPO

The ICT sector has been one of the most dynamic sectors in Mauritius with a long phase of growth of over 10 percent annually. Nonetheless, since 2012, growth in the sector has slowed down significantly. The share of GDP from the sector has also remained stagnant, at around 6.4 percent since 2010. There are a number of challenges facing businesses in the sector, with the cost of operation, changing technologies, and a lack of skilled labour preventing the expansion of activities.

The MCCI is of the view that the following measure should be taken to further facilitate the development of the ICT sector:-

5.7.1. Broadband

With the country connected to just two cables, SAFE and LION2, the broadband costs are relatively high and uncompetitive as compared to competitors such as Kenya and Ghana, where the average price is around 20 percent lower. Companies involved in technology-intensive sectors are hence faced with a higher cost of doing business.

While the recently announced connection to a third international fibre cable which will also link Rodrigues is welcomed, the country should be connected to a 4th cable line. This will increase the speed of broadband and help to reduce the price of broadband services.

5.8. Education and Training

In the last decade, the number of tertiary education providers in the country has increased, with a deliberate effort to attract overseas students, especially from Africa and the Indian Ocean. In order for Mauritius to establish itself as a regional Education Hub, similar to Malaysia and China, with a number of reputable international universities and quality research, there is a need to improve the attractiveness and competitiveness of our offers .

5.8.1. Online Training

Online training and distance-learning have a significant potential for development, providing the ability for those in work to learn and offering the opportunity of foreigners to study in Mauritian institutions without the need of being physically present in the country.

However, the cost of internet and appropriate technology is highly prohibitive. It is proposed that the government subsidises the cost of internet and the acquisition of the software required to implement appropriate systems.

5.8.2. Work permits for foreign tutors/lecturers

There are several areas of studies for which there is significant demand on the part of students, especially in those where future sectors are expected to flourish. However, there is a dearth of local competencies as far as teaching capacity is concerned.

The MCCI proposes that the work permit requirements and procedures for foreign lecturers are simplified for certain priority areas. This will also have the added benefit of having experts in certain fields enhancing the level of tertiary education.

5.8.3. Recovery of VAT

Training centres and other education providers are classified as VAT exempt. This prevents them from recouping VAT payable on inputs while being unable to impose VAT on supplies.

The MCCI proposes that these providers are re-classified as zero rated so that they can claim back VAT on items such as furniture, stationery etc.

5.9. Life Sciences

Despite recent periods of economic recession and health care spending cutbacks by governments in a number of advanced and emerging economies, life science companies worldwide have demonstrated an incredible ability to survive and adapt to increasingly rapid changes in market conditions and demographic trends. In Mauritius, though the life-sciences industry is still nascent, it has been growing steadily over the last decade. There is a vast potential to make the country a leader in this sector through innovation processes. Focusing on developing the life sciences industry will ultimately contribute to revamp Mauritius into an innovation-led economy.

The MCCI envisions the life sciences and its main components - the pharmaceutical, biotechnology and medical technology segments - to contribute significantly to our economic growth in the future. Furthermore, the medical tourism industry should play a leading role in our economic transformation.

5.9.1. Hypothecated Export Tax

Mauritius has imposed a hypothecated export tax of $125 per primate as a contribution to the *National Parks and* Conservation Fund, under the Native Terrestrial Biodiversity and National Parks Bill. Furthermore, an export tax of $1 per ml of primate body fluid is levied. Those taxes on export of primates and fluids, at more than 5 percent of the company's turnover, discourages operators and breeders to develop their activities in the country, further contributing to a comparative disadvantage against Asian operators.

5.9.2. Master Permit for testing and CRO activities

Laboratories and research entities require a wide variety of chemical compounds and samples in order to perform their everyday operations. The current framework actually requires operators to seek an export or import permit on each sample or chemical compound traded. This creates unnecessary bureaucracy and increases the cost of doing business. In other countries, it is to be pointed out that operators are provided a "master permit" for testing and CRO activities.

5.9.3. 'One Stop Shop' Expertise

The life sciences industry is characterised by a number of specific technical requirements and there is currently no public body with the required expertise to facilitate the process and guide enterprises involved in this sector.

It will be necessary that the Health and Biotechnology cluster at the Board of Investment (BOI) be equipped with technical expertise in the Life Sciences in order to facilitate business procedures for operators and investors in the sector. The BOI should act as a One-Stop entity for operators in the cluster when seeking procedures and approvals.

5.9.4. Cargo transport of live animals

Currently, only one commercial carrier worldwide transports live animals for testing purposes. The Life Science sector in Mauritius suffers from this constraint as companies are forced to export test animals via France to their final destinations. The transport costs involved are high and this proves to be a deterrent to the competitiveness of the Mauritian breeding industry and to the expansion in new markets such as Korea & Japan. This monopolistic situation also exposes the operators to potential rupture of supply chain which would be detrimental to the operators' reputation.

The MCCI is of the view that the transport of live animals should be opened to new airlines.

5.9.5. Pharma Logistics Hub

In our strategy to fully develop the life sciences as a critical component of the country's economic paradigm, it is necessary that an adequate support system be implemented.

Mauritius needs to emerge as an international logistics hub to focus on pharmaceutical and biotech products. The airport should have a section dedicated to handling of pharmaceutical and other life sciences cargo. This will ensure high product integrity throughout the supply chain.

As a logistics hub, the country would ultimately be the ideal platform for pharmaceutical products from Asian countries to be exported to Africa. The dedicated pharma logistics facility will help attract operators to use Mauritius as a corridor for drug distribution to Africa.

5.9.6. Life Sciences and Medical Education

To support a growing health and life science industry, there is a need for a comprehensive, world-class, centre of academic health sciences and medical education. Education in the life science and medical fields need to meet the demands of the rapidly changing healthcare and demographics. It will hence be essential for international specialised medical colleges and universities with deep knowledge in the sectors of activity to set-up base in Mauritius. The latter will have linkages to experts throughout the world.

International specialised universities should be given access to long-term lease for the use of land and a fiscal incentive of zero percent for the first 10 years of operations.

In addition, exchange programmes for students and researchers should be set-up with foreign universities, such as the Galway Medical Devices Centre of Excellence in Ireland, the Newcastle Medical School in the UK, and Harvard in the USA.

5.9.7. Medical Tourism

Mauritius should be able to position itself as the region's medical hub. The country, should be able to provide the latest and most advanced medical treatments to local and foreign citizens. In recent years, medical tourism has been growing at nearly 25 percent annually[14], one of the fastest growing segments of the economy. Mauritius today has more than 10,000 medical tourists annually and the figure has been growing exponentially over the recent years. It is estimated that there are around 20 private clinics, and 8 specialty centres currently operating in Mauritius.

In order to attract highly specialised and technologically updated providers to set-up base in Mauritius, there needs to be a fiscal incentive of zero percent tax for the first 10 years of operation for the opening of more private and specialised clinics in the country. With accompanying measures such as flexibility on the employment of foreign workers and access to state-of-the art facilities, the country will be able to become a leading regional provider of medical care to foreign patients, most particularly from Africa and Asia.

[14] *BOI, Health and Wellness Document*

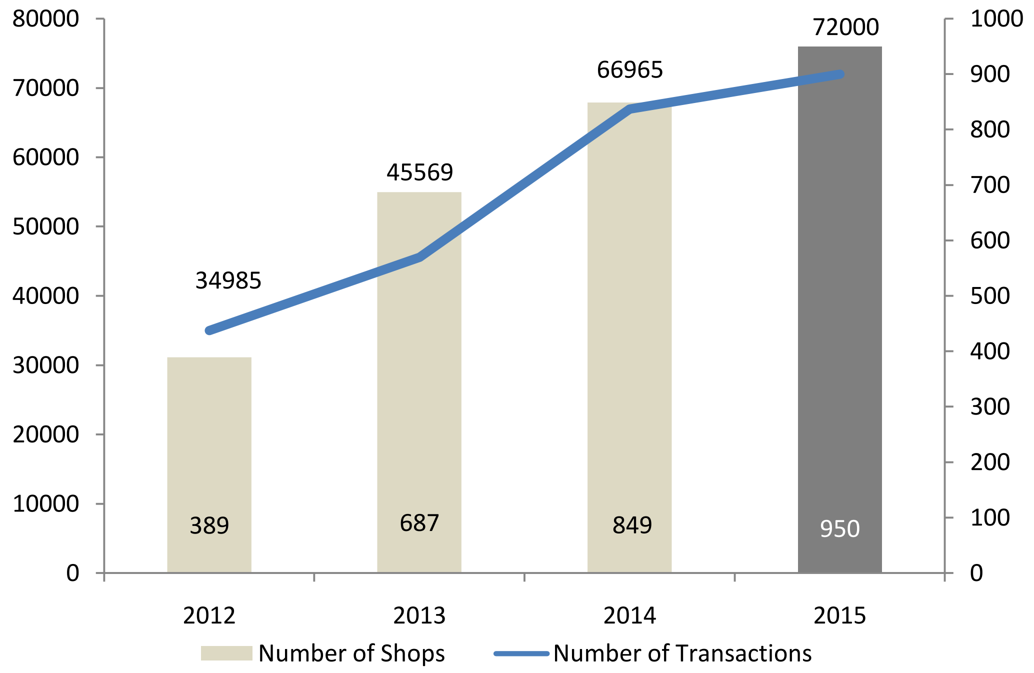
ANNEX I

Tax Free Shopping For Renewed Economic Dynamism

1. THE CONTEXT

The Mauritius Chamber of Commerce and Industry (MCCI) has been managing the Tax Refund counter at the SSR International Airport for almost twenty years, effecting VAT refunds on purchases made by visitors having a foreign passport.

In recent years, through extensive marketing and outreach programs, the number of shops registered for VAT refund and the number of transactions effected at the MCCI Tax Tourist Refund Counter have more than doubled.



Nonetheless, the share of transactions recorded is still minimal relative to the number of tourist arrivals, at around 6.0 percent only.

2. RATIONALE

The World Tourism Organisation[15] estimates that Travel and Tourism contributes to 9 percent of global GDP, generating one out of any 11 jobs created (direct, indirect or induced) and representing 6 percent of total world exports. It is a sector of activity that has been shielded from major crises with international tourism receipts totalling more than $1,245 billion last year. There has also been a conspicuous rise in the number of tourist arrivals worldwide from 25 million in 1950 to 1.13 billion in 2014.

In Mauritius, over the decades, the sector has been one of the main engines of growth within the economy, generating wealth and employment, directly and indirectly, with spill over effects fuelling the expansion of countless other sectors, and pulling us out of the lower income category. Nonetheless, growth rates in this sector have been timid over the last 5 years and gross tourism receipts has stagnated.

Table 1 Tourist arrivals and receipts (2011-2015)

	2011	**2012**	**2013**	**2014**	**2015***
Tourist Arrivals	964, 642	965,441	993, 106	1,038,968	1,115,000
% Growth	3.2	0.1	2.9	4.6	7.3
Tourism Receipts (Rs)	42.7 Bn	44.4 Bn	40.5 Bn	44.3 Bn	46.5 Bn

** Estimates*

It is felt that there is a tremendous untapped potential that can significantly boost our overall tourism earnings, which has so far been considered as ancillary to other tourism activities. A very strong impetus is required that can have the multiple effects of boosting arrivals, increasing tourism spending in the country and most importantly, to provide an overall stimulus to the overall economy through spill-over effects.

Our capacity to increase revenue and overall level of economic activity in the economy will be largely determined by our ability to make tax-free shopping a more competitive component of the visitor experience by increasing the share of expenditure spent on shopping activities. The latter has been stagnating, in recent years, at less than 10 percent of overall tourism expenditure.

The potential for tax-free shopping to boost the economy is significant. In fact, it is estimated that the tourism expenditure multiplier is close to 2. Concretely, this implies that any direct increase of Rs 1 will ultimately result in an additional Rs 2 increase in economic activity through increases in consumption spending.

15 UNWTO (2015), Tourism highlights

Moreover, the Mauritian economy is a consumption-led one. It represents more than 70 percent of our GDP. Boosting consumption spending is thus vital to create a new economic dynamism in the country and tax-free shopping for the Mauritian Diaspora and all departing Mauritians would lead to a significant increase in domestic consumption and have vast spill over effects across all sectors of economic activity.

Any additional injection, coming from an increased expenditure in the domestic economy will hence seep in to benefit different other sectors, stimulating economic activity and creating employment. The additional contribution to GDP is much needed, and the extension of the system to Mauritians would go a long way in fulfilling our development agenda.

3. THE WAY FORWARD

The way forward for Mauritius is to promote its destination as a tax-free shopping destination in order to attract high end visitors and retain consumption locally. The MCCI believes that a multi-pronged agenda should be adopted in this respect:-

(a) An Integrated Marketing and Communications Strategy

In its effort to promote tax-free shopping in Mauritius, the MCCI has launched in November 2014, the Tax Free Shopping Digital Portal *(http://www.taxfreeshopping.mu).*

This online platform provides a comprehensive catalogue of malls, retail shops as well as services in Mauritius, providing tourists with shopping ideas as well as their locations using Google Map functionalities.

There are also benefits accruing to the shops present on the platform, which, through their individualized websites, can significantly enhance their visibility. The digital platform includes only duly registered international brands with the MCCI and affords further protection to tourists against counterfeited product, thereby striving to enhance our reputation as an attractive shopping destination.

Incoming tourists are further notified of the platform immediately upon their arrival via a push SMS through the international roaming feature in their smart phones. The MCCI has managed to secure the support of the local mobile operators in doing so, which provides a modern and cost effective communication tool.

To complement the latter and to reach the target audience, it is necessary that a below the line marketing strategy be devised. With the necessary support from airlines, the Tax Tourist Shopping experience would be marketed to incoming tourists through a leaflet in the plane itself. The added value of this new marketing tool would be to reach the tourists before they land in the country. Also, there should be greater visibility of the tax free shopping opportunities in Mauritius for arriving passengers at the airport.

(b) Extension of the Tax Refund Scheme to Local Residents

The scheme could be further enhanced, by extending the same facilities to departing Mauritians as well. There has been over the years a constant increase in the number of departing Mauritians, which also implies that more and more people are spending their disposable income outside of Mauritius and in Foreign Currency.

Some of this expenditure could have been incurred in Mauritius itself. There is therefore a need to improve the affordability of such expenditure in the domestic market.

An extension of the VAT refund scheme to departing Mauritians on goods purchased at tax refund registered shops would have the twin effect of creating a level playing field while at the same time providing them with an effective discount of 15 percent. This will provide a consequential boom to consumption spending and the economy through spill-over effects.

Benefits of the extended scheme

The advantages of extending VAT refund to departing Mauritians would be multifarious, none the least that of tapping back a significant amount of foregone expenditure. The resulting increase in domestic consumption would represent a significant injection in our circular flow of income, and a positive multiplier effect will have considerable spillover effects across several sectors of activity.

In 2014, there were 257,068 Mauritian passengers leaving Mauritius for other destinations. Based upon an assumption that an average of Rs 15,000 is spent by each, the amount lost in terms of expenditure would near Rs 4 billion, representing 1.2 percent of our GDP.

Risks to public finances are quasi inexistent. The Government will have no need to have recourse to any additional spending, and would gain in terms of revenue arising from improved business activity levels in the country.

In addition, macroeconomic effects will be felt both in the short and long run, with improvements in several macroeconomic indicators including the balance of payments, unemployment rate, investment and GDP growth.

Beyond the economic benefits, locals would be treated on the same footing as foreigners , and thus would henceforth benefit from the full shopping experience of a duty-free island.

ANNEX II

Recoverability of Input VAT on Banking Services

I. Issue

The VAT reforms over the last decades have generally benefitted the economy, simplifying procedures and cost for businesses while managing to increase revenue for the government, with simpler streamlined administrative requirements.

However, there still exists some inconsistencies that permeate to operators in several sectors of the economy and affect businesses as well as end customers. The major discrepancy concerns section 21 of the VAT Act.

Currently, input VAT cannot be recovered on certain items such as banking services provided by banks (amongst others) under S21(2) of the VAT Act.

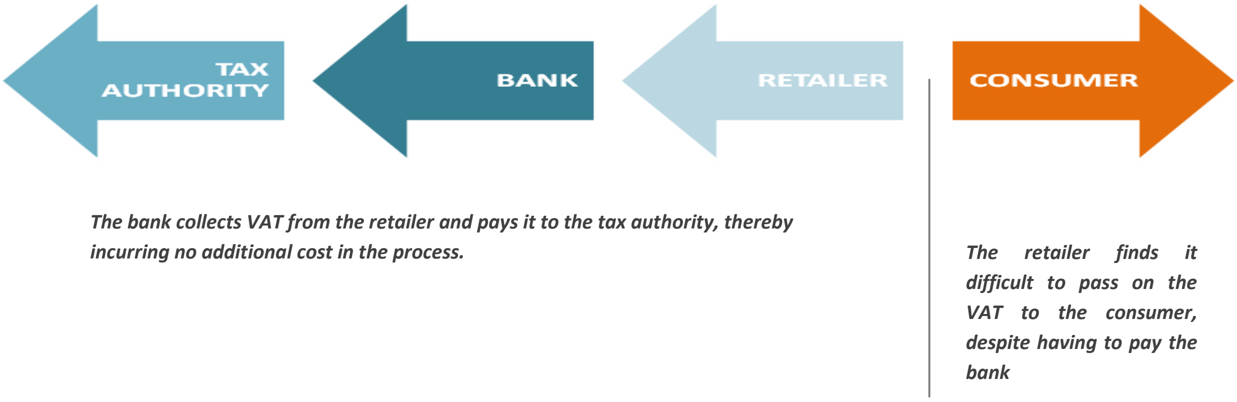
Specifically, the section says:

> No input tax shall be allowed as a credit under this section in respect of:
>
> a) Goods and services used by banks holding a banking licence under the Banking Act 2004 for providing banking services other than to non-residents and corporations holding a Global Business Licence under the Financial Services Development Act 2001
>
> b) Banking services provided by banks holding a banking licence under the Banking Act 2004 other than to non-residents and corporations holding a Global Business Licence under the Financial services Development Act 2001

Whilst these costs may be borne in the furtherance of the business of the taxable person, input VAT on such items is not recoverable in all cases and this increases the cost of doing business.

Hence VAT charged on banking services, which includes items such as merchant's discounts or commission on credit card is not recoverable by a registered entity even if this entity incurred these costs to make taxable supplies. This results in an increase of the operating costs of the said entity which is ultimately passed on to consumers.

VAT Flow for Banking Services



II. Implications

The general principle under the VAT Act is that input VAT is recovered to the extent that such costs are incurred to make taxable, and the abovementioned occurrence goes against this very principle.

It should be also noted that the same rationale could be extended to other items under S21(2) of the VAT Act, such as expenses in relation to motor cars (including repairs, maintenance, etc), certain petroleum oils and gas amongst others for which input VAT is not recoverable.

A burdensome tax system encourages tax evasion, with the opportunity cost being higher for the Government when compared to a simplified tax regime that would discourage such practices and raise revenue for the government through better revenue from improved activities.

In addition, the basis of VAT is that it is the end consumer who should bear the burden, given that it is a consumption tax. The existing irregularity opposes this idea.

III. Proposal

The MCCI proposes that the VAT Act is amended and that VAT is made recoverable for banking services.

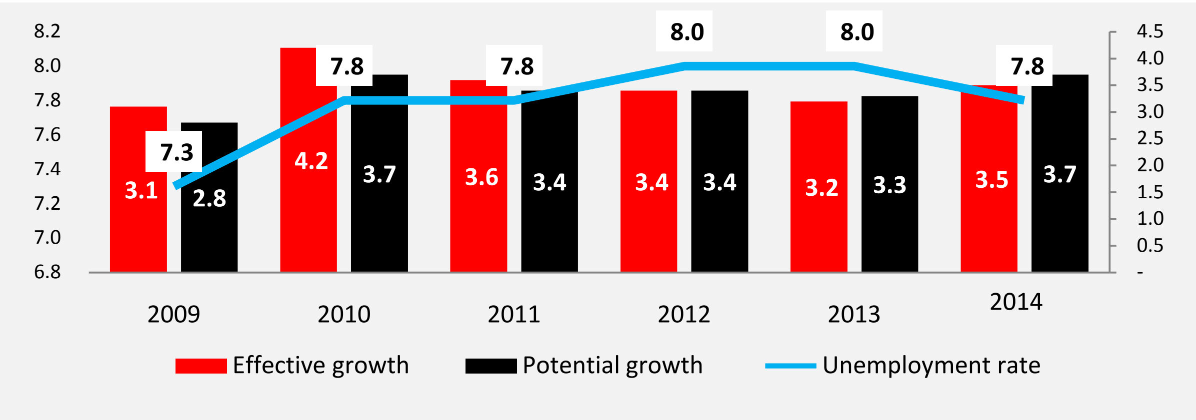
The benefits will be cross-sectoral, with operators in retail, tourism and financial services bearing the direct advantages from this measure. The gains will moreover strew across other sectors of the economy as well as end consumers who will have to incur fewer charges.

ANNEX III

The Case for an Innovation Box Regime in Mauritius

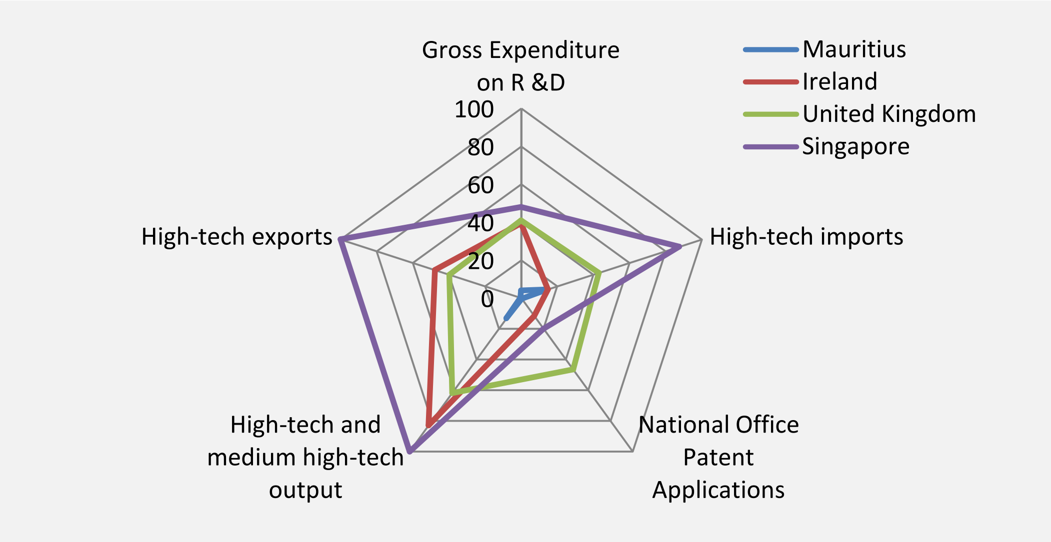
1. MOVING TO AN IN INNOVATION-LED ECONOMY - CRITICAL TO THE MAURITIAN ECONOMY

The Mauritian growth path is one based on the country's capacity to transform its economic structure and make the most of available resources and conditions. While growth rates of 5 percent and above were achieved in the years following independence, the country has, in the last few years, experienced timid growth. This not only has an effect on the capacity of the country to move to a high-income economy in the future but also affects our unemployment levels.



The country is thus today in dire need of reinventing itself once again, and this will inevitably be achieved through a boost in its drive towards R & D and Innovation, with a spill-over effect on all sectors of economic activity. However, as shown by the latest Global Innovation Index, expenditure on R&D in Mauritius represents a meagre 0.18% of GDP today. Meanwhile while EU countries in particular have R&D expenditure to GDP of 2 percent and further aim to spend at least 3 percent of their GDP on R &D as per the Europe 2020 Strategy.

Global Innovation Index - Comparison of Key Indicators[16]



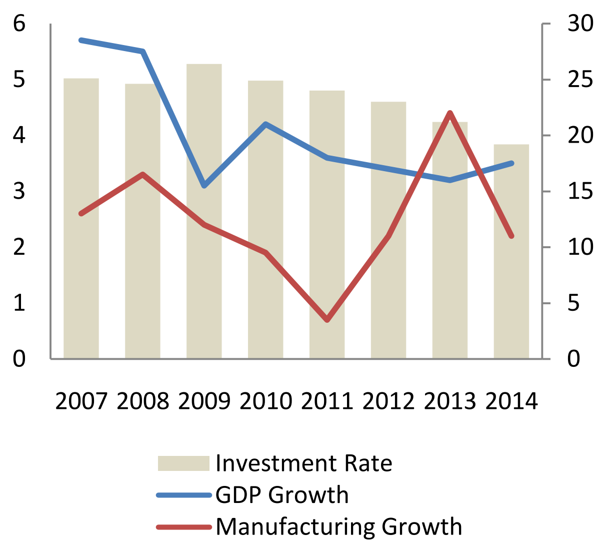
It is widely recognised that most advanced economies are heavily reliant on innovation to drive long-term economic growth and improvements in living standards. In fact, though Mauritius experienced a similar GDP growth path as Singapore till the 1980s, it has since failed to keep up with the growth in GDP experienced by Singapore. The latter has invested in intensive industrial development in the 1990s and from 2000 onwards, switched to an innovation-led industrialisation model.

2. Innovation - Key Driver of the Manufacturing Sector

A solid industrial base is essential for any economy that wants to reach the status of a high income country, especially with its ability to pull other sectors of activity through strong spill-over effects. The most advanced economies in the world today have based their post-crisis growth model on industrial advances, as the crisis bared the fact that those countries with a potent manufacturing sector have fared better than the others.

However, while manufacturing was once the lodestar of our economic development paradigm, is has recently started losing some of its shine with progress in the sector being pallid over the last few years. The share of GDP from the sector has fallen below 17 percent in recent years, and this figure should be increased to 25 percent for the country to benefit from the multifarious benefits of a healthy industrial base. In order to achieve the latter, structural reform is needed in the manufacturing sector with a move towards the production of high tech and medium high-tech goods, which accounts for less than ten percent of the country's manufacturing goods today.

[16] Global Innovation Index 2015, WIPO



In fact, innovation and manufacturing are different sides of the same coin. A constant push-pull operates, whereby innovation in product design encourages innovation in manufacturing processes, and vice versa. The manufacturing future of Mauritius thus lies in a number of high-tech and medium-tech industries such as pharmaceuticals, medical devices, light manufacturing, high precision engineering, food processing and jewellery to name but a few.

3. The Way Forward - Towards an Innovation Box Regime

Recent studies and empirical models have shown that a one-percent increase in R &D investment spending will result in an average of 0.15 percent points in GDP growth in the short run and this can increase to nearly a one percent increase in some countries. 17 The way forward for a country like Mauritius is to foster innovation by providing a preferential regime to support growth and innovation and devising a policy framework that supports all industries of the future, as well as traditional manufacturers, to maximise their potential for a stronger manufacturing and innovation sector in Mauritius.

What is a "Patent/ Innovation Box"?

A "patent box" is a preferential tax regime offered by a country to support growth and innovation. Countries offer a tax incentive, such as a lower rate of corporate tax, to encourage companies to locate activities associated with the development, manufacture and exploitation of patents in that country.

The patent box concept first appeared in France and Ireland in the 1970s and has in

If we are to maximise innovation and reinvigorate the manufacturing sector in Mauritius, it is vital that preferential tax regime be set-up to secure Mauritius' competitiveness and attractiveness for the future. The Patent or Innovation Box Regime thus provides a novel-approach by enticing companies with incentives at the back-end of the innovation chain. This takes the form of a lower rate of corporate tax or an exemption for income derived from IP assets.

[17] Study on Relationship between R&D Expenditure and Economic Growth of China, Peng, 2010

In fact, over the last decade, countries throughout the world, and most particularly European Union (EU) countries, have started to adopt "Patent/ Innovation Box" regimes, designed to increase innovation activities, create and maintain high-value jobs, and foster global leadership in patented technology.

4. GAMECHANGERS

United Kingdom

In response to high-tech company departures from the UK, the UK Government announced an initiative in 2009 called the 'Patent Box' - an effective reduction of corporation tax to 10% for income from patents. The scheme applies to the worldwide income arising from the exploitation of inventions that benefit from certain IP rights. With its aim at improving the competitiveness of the UK in the high-tech arena, companies have been offered the possibility to elect to enter the Patent Box regime since 1 April 2013. The regime is intended to apply to the worldwide income arising from the exploitation of inventions which benefit from a qualifying patent.

Cyprus

In May 2012, the Cyprus Government has introduced growth measures which include a package of incentives and tax exemptions relating to income from intellectual property rights, aimed at stimulating investment in research and development. Cyprus is considered to be the clear leader in terms of benefits offered to innovators through its Patent Box regime with a maximum effective tax rate of 2.5 %, the lowest in the EU.

Compared to a reduced rate of tax as adopted by the UK and Ireland, the Cyprus model provides for an exemption to taxation for a specific proportion of revenues. Cyprus not only provides for a four-fifths deduction of revenue from exploitation of IP rights, but also allows for deduction of the costs, including amortisation. Therefore, the actual rate of tax for most companies is below 2.5 %.

Ireland

As the pioneer of the patent box regime, Ireland has been an example of a country geared towards Innovation and Research and Development (R & D). The country is one of the world's fastest growing economies, and has been steadily growing since the mid-1960s.

Since 1973 itself, Ireland has incentivised its enterprises to involve themselves in innovative processes by allowing a zero percent tax rate for revenue derived from patented products. The Scheme has since been phased out but will be replaced in 2015 by a "Knowledge Development Box", similar to the Patent Box regime recently introduced in the United Kingdom.

5. ADAPTING THE INNOVATION BOX TO THE MAURITIAN CONTEXT

The MCCI thus proposes that a broad-based Innovation Box regime be put into place to incentivise firms to increase investment in innovation activities, attract and retain mobile investments that may be associated with high-skilled jobs and knowledge creation. The model proposed for Mauritius should be based on the Cyprus model, considered to be the leader in benefits offered through its Patent Box tax regime. The policy should be adapted to the Mauritian context, with a tax rate on income derived from Innovation activities at **zero percent**.

The Innovation Box incentive would address the gap that leaves Intellectual Property vulnerable by supporting Mauritian innovators and manufacturers to invest in innovative ideas. The tax regime would not only help to retain home-grown IP but also attracting IP created overseas to be commercialised and managed from Mauritius. The implementation of the Innovation Box Incentive should make the commercialisation of IP and manufacturing in Mauritius more genuinely viable for businesses, especially, if coupled with other measures, such as cutting red tape and increasing flexibility in industrial relations.The Mauritian Innovation Box regime should consider the following key aspects: -

I. Preferential Tax Rate

The goal of a patent box regime is to offer preferential rates to IP-sourced income. The tax rate applied would determine the attractiveness and effectiveness of the regime to bring R & D and Innovation to the country. Countries that have implemented innovation box regimes have effective tax rates ranging from 0 (Malta, Ireland before 2010) to 15.5 percent (France). As Mauritius already enjoys a comparatively low corporate tax rate of 15 percent, the innovation box regime should provide for a zero percent tax on IP-related income.

II. Eligible IP Assets

In order to be competitive and remain attractive as compared to other patent box regimes throughout the world, the Mauritian model should be as broad-based as possible and provide for the incentive on **all income derived from the totality of IP assets including:**

- Patents and associated patent rights
- Supplementary Protection Certificate (SPC)
- Software
- Trademarks
- Designs and models
- Copyrights
- Utility models
- Domain names
- Trade secrets/know-how including Secret formulas and processes

III. Eligible IP Income

In order to have a truly attractive Innovation Box regime, thereby encouraging IP and its flow on benefits to be developed, marketed, and remain in Mauritius, the Innovation Box regime should apply on **all worldwide income including compensation received for breach of rights.**

IV. Disposal of IP

After patenting and successfully commercialising an innovation, firms are still unlikely to capture all the benefits of their patent in the form of profits. Incentives should thus be given to innovators, allowing the disposal of their IP asset to be taxed at zero percent under the Innovation Box Regime.

ANNEX : KEY ASPECTS OF EUROPEAN BOX REGIMES AND PROPOSAL FOR MAURITIUS

	Cyprus	Belgium	France	Hungary	Luxembourg	Netherlands	Ireland (2010)	United Kingdom	MAURITIUS
Effective tax rate	2.5%	6.8%	15%	9.5%	5.76%	5%	0 %	10%	0%
Qualifying IP assets	All IP assets, including patents, trademarks, copyright, formulas, designs, know-how and processes	Patents and supplementary patent certificates	Patents, extensions, patentable inventions and industrial fabrication processes	Patents, know-how, trademarks, business names, know-how and copyrights	Patents, trademarks, designs, domain names, models and software copyrights	Self-developed intellectual property relating to patents or approved R&D	Qualifying Patents	UK and European patents, supplementary protection certificates and plant variety rights	All IP assets, including patents, trademarks, copyright, formulas, designs, know-how and processes
Ineligible IP assets	None	Know-how, trademarks, designs, models, formulas and processes	Acquired IP rights held for less than two years	None	Know-how, formulas, copyrights (other than software)	Trademarks and brands and acquired IP	Trademarks, brands, copyrights	Trademarks, copyrights and designs	None
Internally developed or acquired?	Internally developed and acquired intellectual property	Internally developed intellectual property and improvements to acquired intellectual property	Internally developed and acquired intellectual property	Internally developed and acquired intellectual property	Internally developed and acquired intellectual property, but not IP acquired from a related party	Self-developed only	Internally developed and acquired IP	Self-developed and actively managed (used in business) only	Internally developed and acquired intellectual property
Limitations on where R&D takes place	None	Some	None	None	None	Some	Some	None	None
Qualifying revenue	All income, including compensation for breach of rights	Patent income	Royalties net of cost of managing qualifying intellectual property	Royalties	Royalties net of costs (amortisation, R&D costs, interest)	Net income from qualifying assets	Net income from qualifying assets	Net income from qualifying intellectual property	All income, including compensation for breach of rights
Deduction rate	80%	80%	None – reduced tax rate	50%	80%	None – reduced tax rate	Exemption	None – reduced tax rate	Exemption
Overall limit of deduction	None	100% of pre-tax income	None	50% of pre-tax income	None	None	None		None
Gains on disposal included	Yes	No	Yes	Yes	Yes	Yes	No	Yes	Yes

ANNEX IV

Accelerated Technology Transfer Platform

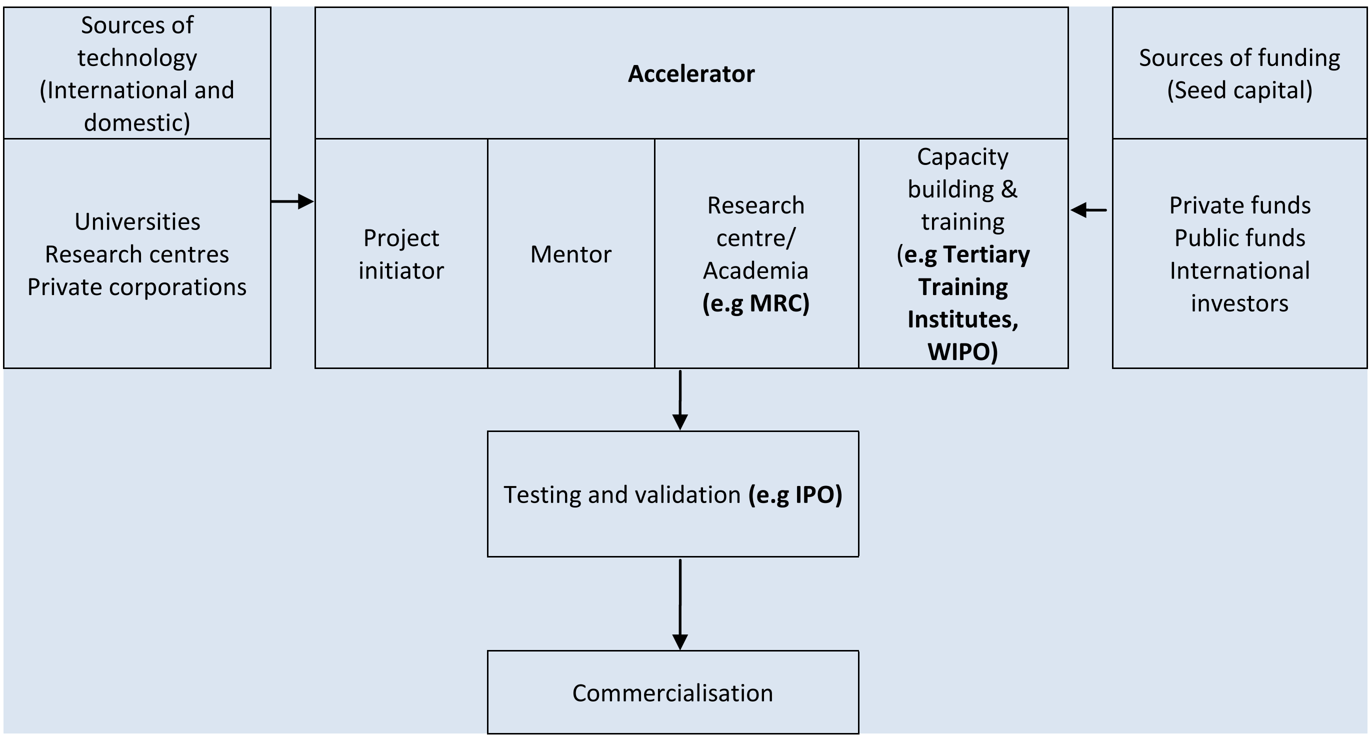
Technology transfer centres are essential for Mauritius in its aim at moving to an innovation-led growth pathway. However, they are very few, not well-developed, and tend to be focused on specific sectors.

The creation of an Accelerator, comprising of a proactive entity to acquire patents, licences, and IPs would enhance the productive capacity of the economy. Furthermore, it would help find partners for local firms to develop new products and consolidate existing ones.

A multi-sector approach, encompassing the manufacturing sector, agro-industry and services should be adopted to facilitate the transfer of technology.

The model thus proposed for Mauritius forms the basis towards a conscious effort by suppliers, customers, technology support, and training institutes amongst others to collaborate and favour translational research, that is, research that aims at 'translating' theory from sciences to use in everyday life.

Accelerator Platform



The overarching role of the Accelerator is to bring together the different participants in the collaborative process, namely the project initiator, investors, and research centres, whether local or foreign and to manage the financing procedures.

Additionally, the Accelerator will have to perform the following functions:

- Assessing sectors with potential and the required needs of those sectors
- Mapping innovative technologies
- Cataloguing innovative business opportunities
- Organising study tours for specific sectors
- Promoting matching requirements with technology users to social platforms that attract innovative ideas for SMEs or propose innovative services
- Ensuring the commercial viability of projects proposed
- Promoting connections between different markets at transnational level
- Information dissemination
- Assist in policy proposals to constantly improve a national innovation strategy

The Accelerator will be supported by an **Intellectual Property Desk** at the MCCI. The latter will become the focal point for business operators involved in and interested in Intellectual Property (IP). As a business membership organization and representative of the private sector, the MCCI is ideally placed to play an active role in helping enterprises understand and use Intellectual Property (IP) as a competitive tool in their business endeavours.

The responsibilities of the MCCI Intellectual Property Desk will include:-

- Providing information and advice in IP to business operators
- Creating awareness on the importance of IP and innovation
- Encouraging businesses to innovate
- Interacting with operators and organizing with them awareness sessions, allowing for a dissemination of an innovation culture and creativity in business
- Working in close collaboration with the Intellectual Property Office (IPO) and the Mauritius Research Council (MRC)
- Collaborating with Customs and Police on the enforcement aspects
- Providing basic support and information to operators
- Advising on contracts (licensing, franchising)
- Dealing with specific IP disputes through Mediation/Arbitration
- Interacting with IPO for regulatory requirements and facilitating registration of IP
- Providing ongoing IP training through MCCI Business School in collaboration with the World Intellectual Property Organisation (WIPO)
- Advocating IP policy vis à vis Government (recommendations; proper legal framework; incentives for investors, enforcement; parallel imports; unfair trade practices).

ANNEX V

Review Of The Hire Purchase Legislation

1. BACKGROUND

In the Budget 2015/16, there have been major amendments made to the hire purchase legislation. The Annual Percentage Rate (APR) was reduced from 19% to 12% and the surcharge for late payments from 5% to 2% per annum without any consultations with operators. This came only a couple of years after the APR fell from 24.8% to 19%. This double reduction in the APR has impacted negatively on the operations and profitability of the companies engaged in hire purchase business.

2. DECREASE IN THE ANNUAL PERCENTAGE RATE (APR)

Over the last five years, operators in the hire purchase business have been subject to two major cuts in the APR and the surcharge applicable for late payments as shown the table below:

Table 1: Evolution of APR and Surcharge applicable on Hire Purchase

	Annual Percentage Rate (APR)	**Surcharge**	**REPO Rate (Bank of Mauritius)**
Before 1 Nov 2012	24.8%	8%	-
1 November 2012	19%	5%	4.9%
1 April 2015	12%	2%	4.65%

First, there was a decrease in November 2012 where the APR was reduced from 24% to 19% and the surcharge from 8% to 5%. It is to be noted that the amendments to the legislation were effected by the Ministry of Industry, Commerce and Co-operatives after taking into consideration the submissions of private sector operators and other stakeholders. The APR was calculated based on a Repo Rate of 4.9% and on inputs from private sector operators regarding the various costs incurred for financing hire purchase operations.

In the budget 2015/16, the APR was further reduced from 19% to 12% without any consultations with the private sector this time. For the operators, there was no justification for this reduction in the APR. It is to be noted that the Repo Rate only decreased by 0.35 points for the period 2012 to 2015.

3. IMPACT OF THE DECREASE IN THE ANNUAL PERCENTAGE RATE (APR)

These major cuts in APR have considerably affected the operations and profitability of companies offering hire purchase facilities to consumers.

The companies have submitted a detailed breakdown of the costs linked to financing hire purchase activities:

Table 2: Total Costs of Hire Purchase Operations

Company Breakdown	Range
Cost of borrowing[1]	7% - 9%
Administrative[2] and Credit Management Costs[3]	7% - 8%
Bad Debts and provision for bad debts	2% - 3%
Total Costs	**16% - 20%**

Notes:

(1) *Cost of borrowing is calculated between 7% to 9% p.a. of the average loan disbursed throughout the financial period. It represents the Prime Lending Rate (PLR) which currently ranges between 6.25% – 7.5% + the bank's margin.*

(2) *Administrative costs include costs such as rent, telephone, stationery and general expenses*

(3) *Credit Management costs include all costs related to the credit approvals process, credit follow ups and are inclusive of staff salaries, IT hardware and software expenses.*

As per the breakdown of costs given above, it can be seen that the costs of financing hire purchase facilities is higher the APR prescribed in the hire purchase legislation. Hire purchase operators face operating costs between 16%-20%, therefore under current structure, this business model is loss-making

Moreover, the reduction in surcharge for late payments, which normally acts as a deterrent for late payment, has sent a negative signal to borrowers. It has led to an increase of 50% to 60% in late payments.

The main consequences of these two consecutive reductions in the APR are as follows:

a. Potential job cuts as approximately 700 people are expected to be employed in relation to hire purchase business activities whilst hire purchase operators start to accumulate loss, this could lead to closure and the exit of some operators from the market.

b. There is mismatch between competing products as banks and other financial institutions involved in the micro-financing sector are seen to have an unfair disadvantage v/s hire purchase operators; unsecured loans, credit cards and other products which don't offer underlying security to the lender comment much higher premiums to reflect the risk taking. These are not capped in terms of interest income and exceed that of Hire purchase operators by between 6-12%.

c. Hire purchase operators would typically borrow at interest rates of 7-9% (PLR + bank's margin), leaving only 3% to manage operations, approve credit transactions and manage debt follow up and recovery processes including bad debts, for which there is no recourse because of a lack of security (products are heavily depreciated by the time debt collection procedures come to their close) and relatively expensive legal fees involved in going to court

d. This current APR will discourage competition and lead to the creation of monopolistic market conditions as operators are weakened and there is no incentives for new operators to enter such a market segment

4. SPECIFIC CHARACTERISTICS OF HIRE PURCHASE ACTIVITIES

Hire purchase normally cover high-risk and unsecured loans destined to low and middle-income consumers who would not have normally have access to typical banking or financial services to finance the purchase of the household and other consumer goods.

The interest rate charged for Hire purchase activities cannot be compared to the credit facilities given by the banking sector where the loan/credit facilities given are secured by fixed and floating charges on assets.

As regards to the surcharge for late payments, a comparison of the different rates of surcharge applicable for late payments applied by other institutions (both public ad private) are given the following table:

Table 3: Comparison of Surcharge Applicable for Late Payments

Surcharge	Interest rate per Annum	Interest rate per Month
Hire Purchase (APR 12% + 2%)	14%	1.17%
Credit Cards	20% to 26%	1.7% - 2.13%
Central Water Authority	120%	10%
Mauritius Telecom	120%	10%
Central Electricity Board	60%	5%

5. PROPOSALS TO REVIEW THE HIRE PURCHASE LEGISLATION

Given the difficult situation prevailing in the hire purchase business following the last budget decision to reduce the APR, there has been a strong request for the hire purchase legislation to be reviewed as some operators have indicated that they may be scaling down or ceasing their hire purchase operations.

It is proposed that the following amendments to be made to the hire purchase legislation:

(i) Given the breakdown of costs, it can be seen that the costs of financing the hire purchase operations are well above the revenue earned under the APR, it is therefore proposed that the APR to be restored to 19% so as enable operators to continue their activities.

(ii) It can be noted that other public and commercial institutions are charging a much higher rate for late payments. It is proposed the surcharge for late payments for hire purchase activities be re-instated at 5% so as to encourage on-time monthly payments by borrowers.

(iii) Given the increasing prices of goods, consumers have sometimes difficulties in effecting their monthly payments or, sometimes, cannot afford to purchase goods under hire purchase. It is proposed that the maximum repayment period be increased from 30 months to 48 months so as to make the household goods more affordable to consumers.

ANNEX VI

Bringing the Mauritian Experience to Tourists

1. BACKGROUND

The Tourism industry has been a catalyst for economic development in the economy, with vast spill-over effects on all sectors of activity. There is a need however to boost tourism expenditure and to have a coherent approach in promoting the Mauritian destination. The Mauritian tourism industry needs to move from a hotel-only industry to a tourism industry. In this context, we are proposing the following measures:-

2. PROPOSALS

(A) MAURITIAN EXPERIENCE BOOKLET

The Government will distribute a newly designed booklet to depict the Mauritian experience in the plane itself. The booklet will give a panorama of the endless opportunities in Mauritius - ranging from our rich historical and cultural sites, the entertainment, leisure and shopping activities, to include even investment and business opportunities amongst others.

This new marketing tool will be an asset in targeting the tourists even before they land in the country. Available in English, French, Mandarin and Hindi, the booklet will provide passengers onboard a firsthand experience in his own language. As it is of national interest, this project will be financed on a PPP basis with the involvement of the private sector.

(B) MAURITIUS BY LIGHT

It is necessary to provide tourists with a unique and genuine experience of Mauritius such that through word-of-mouth marketing, they will automatically become our brand ambassadors.

Following the success of the "Porlwi by Light" initiative in December 2015, it is proposed to create a national concept - Mauritius by Light - to provide locals and tourists with a late night shopping experience across the island during the week-end. This will be complemented by entertainment by local artists, exhibitions and food fairs to give a typical Mauritian experience to tourists -encouraging them to spend more. The "Mauritius by Light" model will be an improved model of the Port-Louis by Light. Proposed sites include Grand-Baie, Flic-en-Flac and Belle Mare.

The increased movement in these areas is expected to give a real boost to economic activity throughout the island.

(C) BOOSTING TOURISM EXPENDITURE THROUGH TAX FREE SHOPPING

The percentage of tourists claiming back VAT on spending is today at 6 percent, the aim is to achieve 25 percent of refunds. Furthermore, according to estimates, only around 16 percent of tourism expenditure is for shopping. In line with the aim to boosting tourism expenditure (the figure is at Rs 43,853 per tourist in 2015), we are proposing a Rs. 200 voucher for tourists entering Mauritius to be redeemable in tax-free shopping shops duly registered at the MCCI, with a minimum of Rs. 1000 spent.

In order to open up the duty-free shopping experience, it is proposed to do away with the minimum of 80 percent of sales to tourists. Hence, the Customs Regulations should be amended to delete the Paragraph 90 (4c) which restricts duty-free shops to operators who sell mainly to visitors only. All the goods purchased duty-free should be delivered at the airport.

This will allow local companies with tourist sales representing less than half of total sales, to be registered as a duty-free shop with the MCCI.

It is proposed to amend the Paragraph 90 (14) of the Customs Regulations to read as follows - *"approved person"* means the Mauritius Chamber of Commerce and Industry (MCCI).

ANNEX VII

Exemption and Refund of Tax on Sugar and Sugar-based products

1. Exemption of excise taxes on natural sugar content in fruit juices

Currently, manufacturers and importers of fruit juices are paying an excise tax of 3 cents per gram on total sugar contained in fruit juices. Fruit juices are being manufactured from 100% fruit juice concentrate which already contains a percentage of 'natural sugar'. 'Natural Sugar' also known as 'fructose' is the sugar which is already found in the fruit concentrate.

Table 1 below gives an example of the current tax structure on sugar content levied on 3 types of fruit juices.

Fruit Juice	**Natural Sugar Content (gram/litre)**	**Added Sugar (gram/litre)**	**Total Sugar Content (gram/litre) = Natural Sugar + Added Sugar**	**Tax paid on Total Sugar Content (Rs/litre); 3 cents X Total Sugar Content**
Cococut Juice (1Litre)	28.80	80.0	108.80	**324.00**
Pomegranate (1 Litre)	26.60	102.0	128.60	**385.80**
Lemon and Mint	26.60	82.0	108.60	**325.80**

Following representations from operators, there has been a request for the exemption of the excise tax of 3 cents per gram imposed on the natural sugar contained in fruit juices.

Proposal:

Operators have requested that the definition of 'sugar' in the Excise Act be amended to exclude 'fructose' (natural sugar) as it is an input in the manufacture of the fruit juices and that provision is made for the excise tax to be imposed only on added sugar contained in the final fruit juice.

The table below shows the proposal from the MCCI:

Fruit Juice	Natural Sugar Content (gram/litre)	Added Sugar (gram/litre)	Total Sugar Content (gram/litre)	Proposal from MCCI: Tax charged only on Added Sugar (Rs/litre); 3 cents per gram X Added Sugar
Cococut Juice (1Litre)	28.80	80.0	108.80	**240.0**
Pomegranate (1Litre)	26.60	102.0	128.60	**306.0**
Lemon and Mint	26.60	82.0	108.60	**246.0**

The Food and Agriculture Laboratory of the Mauritius Standards Bureau (MSB) has already indicated that it can issue a Certificate to differentiate between natural sugar and added sugar in fruit juices provided that both the concentrate and the final fruit juice is submitted to the MSB.

2. Refund of 'Dockers Contribution Fee' on exports of products containing sugar

The Mauritius Cane Industry Authority (Registration of Person Making Contribution from Sale of Sugar on Local Market) Regulations 2012 provides for the imposition of a dockers' 'contribution fee' of Rs 3.70/kg on the sales of sugar on the local market. The 'contribution fee' is levied on the imports, milling and refining of sugar.

Currently, the 'contribution fee' of Rs 3.70 / kg induces a higher production costs for local manufacturers and exporters sugar-based products as compared to manufacturers and exporters in other countries. The 'contribution fee' increases the export price and reduces the competitiveness of our exporters in overseas markets.

Proposal:

Following consultations with our manufacturers of sugar-based products, there has been a request for the refund of the 'contribution fee' of Rs 3.70 per kilo on sugar and sugar-based products being exported.

ANNEX VIII

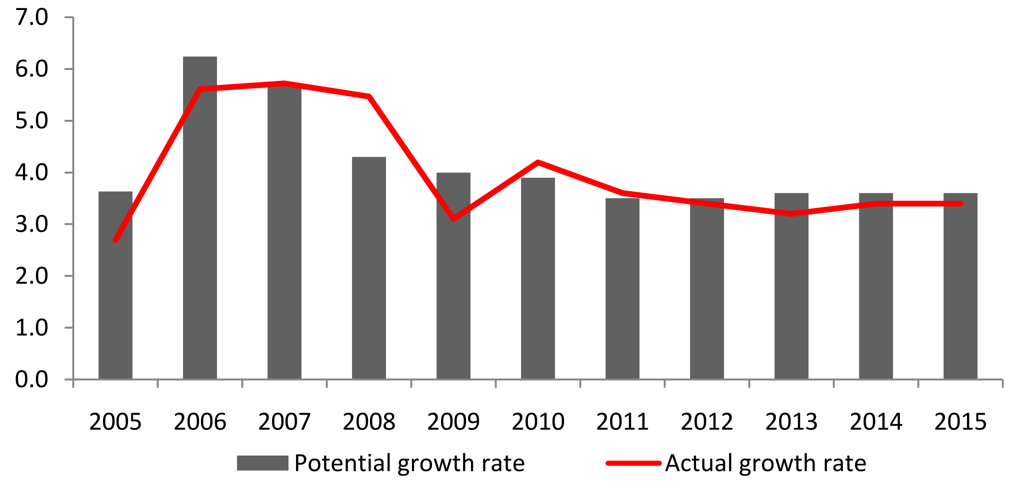
The Knowledge Hub

1. INTRODUCTION

The global economic crisis, starting in 2008, was felt across economies worldwide. In 2015, the world economy was faced by subdued demand and diminished prospects in a number of developing and advanced economies. In fact, structural reforms in China, increased volatility in a number of advanced economies, and geopolitical tensions in the emerging nations have all piled up to create a world environment where growth remains lethargic.

In Mauritius, due mainly to this uncertain external environment, the economy has been showing signs of fragility, with growth rates of less than 3.5 percent since 2009. This below-par growth has been the effect of a number of factors, most particularly the erosion of trade preferences with our major trading partners. Moreover, the country has been affected by the headwinds of the global financial crisis, reducing in the same vein our economy's potential. In fact, the potential growth of the economy has fallen by 2.6 points between 2006 and 2015.

Figure 3 Actual and Potential Growth Rates (2005-2015)



In addition, our economy continues to grow below its potential, showing that the factors of production have been under-utilised. The country's output gap has been in the range of 0.2 to 0.4 percent since 2012. This is largely explained by the degradation of productivity levels.

At a sectoral level, the segment most affected by the crisis has been the construction industry, which has been contracting since 2011. Other sectors, whether manufacturing, agriculture or trade have been growing at low rates. Growth was hence achieved through the resilience of the financial and tourism sectors, with a dynamism that was unabated by the crisis.

2. KNOWLEDGE HUB - TERTIARY EDUCATION AND TRAINING

The economic crisis has resulted in a continuous rise in unemployment in Mauritius, rising almost 1 percentage point from the low point of 7.2 percent in 2008 to 7.9 percent in 2015. The figure is particularly high when we take into consideration that countries that have gone through recessions are experiencing lower unemployment rates.

Although part of this increase was due to cyclical unemployment related to inadequate economic growth, the vast majority is due to an increase in structural unemployment.

Indeed, DeLong and Summers (2012) show empirically that structural unemployment is likely to increase during a period of low cycle. The unemployed see their skills deteriorate, so their productivity and consequently their employability is reduced.

There is a need to address structural unemployment, reassess the current and future labour requirements of the economy and undertake reforms at all levels in the labour sector. This will allow Mauritius to attract world-class and leading companies to invest in the economy.

In order to have economic transformation in our economy, it is essential to have an education system that meets the demands of the ever-changing labour market. Higher levels of education and training will be the sine-qua-non to economic development in Mauritius. Moreover, there is a need to encourage a culture of research in firms, universities and training institutes.

The MCCI proposes the following measures for the Tertiary Education Sector and the Vocational/TVET Sector:-

2.1. Our Short-Term Strategy for the Budget 2016/2017

In the short-term, it will be critical for the economy to invest in education and research that includes the participation of industries and the private sector. This will go through an increase in the number of Dual Training Programmes offered. Moreover, there is a need to stop the brain drain of local talents to other countries. There are a number of challenges to be addressed in the short-run:-

2.1.1. Labour Market Study

There is a skills mismatch between the private sector demand the training provided to students, both in training institutes and other universities. The demand for highly educated workers is not met, resulting in mismatches between the supply of available skills and the demand for skills. A recent report released by the World Bank shows that skills mismatches have grown by 30 percent during the 2000s[18], signalling urgency in implementing policy remedies.

There is furthermore a lack of data on the profile of jobseekers whether they are currently employed or unemployed.

[18] *Mauritius, Inclusiveness of Growth and Shared Prosperity, World Bank, September 2015*

It is proposed that firstly, a complete labour market study is conducted to assess the needs of the industries and tackle the increasing skills mismatch present.

2.1.2. Dual Training Programme (DTP) and HRDC Grant

In order to increase job creation and incentivise companies to recruit workers, it is proposed to revisit the training refund scheme. Government aid and HRDC refund should hence be linked to a proper training needs analysis and priority should be given to schemes such as the Dual Training Programme.

The Dual Training Programme (DTP) system combines apprenticeships in a company and education at a vocational school in one course. This system is practiced in several countries, notably Germany, France, and for some years now in China.

The DVT system plays on three main linkages- Training institute and Enterprise, Training institute and Trainee, Trainee and Enterprise- to address skills mismatch and improve the performance of enterprises through better trained workers.

Since several years, a number of private operators have been offering courses that reconcile academic instruction with hands-on work experience, with job placements holding a predominant place in the curriculum. Graduates of the courses on offer are deemed as being highly employable, with a majority of them being able to find a job within weeks of completing their studies.

It is proposed to refund the cost of DTP training, which lead directly to job creation and employment up to 90 percent of the total cost of training through the HRDC, in line with the HRDC Grant provided to employers for training of workers.

2.1.3. Subsidy on foreign expertise

It is proposed to subsidise by 75 percent the cost of bringing foreign expertise to offer training to local workers, especially in areas where heavy automation will become prevalent.

2.1.4. Training in technology-intensive industries

It is proposed to fully subsidise the training of staff for new companies involved in technology-intensive industries the first two years of operation.

2.1.5. Up-skilling

With the country faced by an increasingly ageing population, it is essential that older workers be encouraged to stay in the workforce. A grant of up to Rs 25,000 for each additional qualification that will add to or improve their existing set of skills for those above the age of

40 undertaking training will help in this respect. The advantages will be the experience of the seasoned workers, which will be augmented through training in new processes.

2.1.6. Internships

There is a limited number of internships currently available to students with leading firms in innovative and high-tech industries. At employment, firms assert that graduates do not possess the appropriate skills and expertise and require further training in the firm before they can be employed.

The MCCI proposes the establishment of a ***high quality Internship Programme***, with a mandatory year in industry for specific sectors. Interns will be provided a stipend that will be funded on a 50-50 basis by the Government and the firm.

In the last decade, the number of tertiary education providers in the country has increased, with a deliberate effort to attract overseas students, especially from Africa and the Indian Ocean. In order for Mauritius to establish itself as a regional Education Hub, similar to Malaysia and China, with a number of reputable international universities and quality research, there is a need to improve the attractiveness and competitiveness of our offers .

2.1.7. Work permits for foreign tutors/lecturers

There are several areas of studies for which there is significant demand on the part of students, especially in those where future sectors are expected to flourish. However, there is a dearth of local competencies as far as teaching capacity is concerned.

The MCCI proposes that the work permit requirements and procedures for foreign lecturers are simplified for certain priority areas. This will also have the added benefit of having experts in certain fields enhancing the level of tertiary education.

2.1.8. Increasing the HRDC Grant

It is proposed to increase the grant of the HRDC given to employers sending their workers for continuous training to 90 percent. The existing ceiling on the amount that can be claimed should also be reviewed to reach four times the annual levy paid for employees contributing to more than Rs100, 000 annually.

2.1.9. Extension of HRDC to working professionals

It is proposed to extend the HRDC Grant to working professionals. These concern an increasing number of professions, including lawyers, doctors, engineers. There has been over the years a move towards the liberal professions. The extension of the HRDC Grant refund to such professionals will encourage continuous training.

2.1.10. Absentee Payroll

An absentee payroll is a grant given to employees to compensate for the manpower costs incurred when an employee is sent for training. The MCCI thus proposes to reimburse up to 50 percent of absentee payroll for those undertaking training.

2.2. Our Medium-Term Strategy

In the medium-term, our country should aim to reduce its unemployment level to 4 percent. The figure in 2015 is at 8 percent and it has been at this level for a number of years. In order to provide the job market with a qualified and rightly skilled labour force, it will be necessary to foster University – Private Sector Partnerships to offer courses in the emerging and innovative sectors of the economy. The challenges identified are:-

2.2.1. Dissemination of information

The quality and efficiency of our labour market information system should be improved. The Employment Information Centres (EIC) should be strengthened and operate as a one-stop shop, decentralised at district level, where all the necessary employment, training, guidance and advice and career-related information could be available under one roof.

Furthermore, targeted assistance could be given to the most vulnerable groups who have difficulty in finding jobs in order to manage and prevent long term unemployment.

However, the unemployed should report on a monthly basis to an EIC adviser, with the risk of being removed from the list if one does not comply for three consecutive months. This will lead to more pertinent information on the unemployment rate and on the characteristics of the unemployed. Thus, we can develop better policies to fight against unemployment.

In a longer term perspective, there is a need to assess the projected skills profile of the labour force so as to bring appropriate changes in the education/ training system to match the future demands of the economy.

The EIC should operate on a PPP basis , with stakeholders from the private sector involved in order to gather data on the short, medium and long-term skills needed.

2.2.2. Skilled labour force for high-tech industries

There is an absence of a skilled and competitive labour force in the knowledge-intensive sectors of the economy. For instance, the supply of skilled labour in the high-tech and new industrial sectors is low, driving up wages and preventing enterprises from being competitive.

The Dual Training Programme and industry-led training should be formalised in the Higher Education Framework as an alternative pathway for students following completion of secondary education.

2.2.3. Ageing Population

Mauritius faces the prospect of an increasingly ageing population. By 2054, the proportion of people aged 60 and above in the population is projected to be 33.8 percent[19], around a third of the country's total population. This will not only decrease our working population but also create a higher demand for health-related jobs. It is essential to address these issues proactively.

The MCCI is of the view that there is a need to implement new courses in tertiary education institutes. These should include new and existing jobs in the health-related industries to cater for an ageing population.

2.3. Our Long-Term Strategy

As we approach 2030, Mauritius should be able to establish itself as a regional Education Hub, similar to Malaysia and China with a number of reputable international universities. Universities and academics in the country should be recognised internationally in their field of work for the quality of their research. It will be crucial that research conducted particularly focuses around the priority technology-intensive sectors of activity earmarked for the future development of our economy. The challenges and proposals in the long-run are:-

2.3.1. Education/Knowledge Hub

Further to completion of their secondary education, Mauritians today favour pursuing tertiary education abroad rather than in Mauritius. This is particularly the case for the best qualified students and the latter rarely come back to the country after completion of studies. This 'Brain Drain' phenomenon is observed in a number of developing countries, with the lack of higher education opportunities as the biggest challenge facing those economies.

Mauritius needs to attract overseas universities in key priority sectors such as Biotechnology, E-Waste, Healthcare, Mechanics and Robotics. The latter should be incentivised to work in partnership with local institutions. To attract such universities, BOI needs to devise a special package for the setting-up of foreign campuses. This could include tax holidays, and long-term lease on land at competitive prices.

The Ministry of Education should further position Mauritius as a world class education hub, with an increase in the stipend provided to the best students.

[19] *Family Planning and Demographics Yearbook, Ministry of Health, 2014*

2.3.2. Life Sciences and Medical Education

To support a growing health and life science industry, there is a need for a comprehensive, world-class, centre of academic health sciences and medical education. Education in the life science and medical fields needs to meet the demands of the rapidly changing healthcare and demographic needs. It will hence be essential for international specialised medical colleges and universities with deep knowledge to set-up base in Mauritius. The latter will have linkages to experts throughout the world.

International specialised universities should be given access to long-term lease for the use of land and a fiscal incentive of zero percent for the first 10 years of operations.

In addition, exchange programmes for students and researchers should be set-up with foreign universities, such as the Galway Medical Devices Centre of Excellence in Ireland, the Newcastle Medical School in the UK, and Harvard in the USA.

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