MEMORANDUM ON THE 2014 BUDGET
A PRO GROWTH AGENDA
While some expected 2013 to be the year that the global economy would bounce back and embark on a sustained and solid progression path, they were only greeted by a modest growth in activity levels.

Indeed, the IMF, in its July publication, has estimated that global growth will remain subdued at 3.1 percent in 2013, the same as in 2012. This is less than the April 2013 forecasts, reflecting the lingering uncertainties as to whether we are in the downswing or upswing phase of the economic cycle.

The growth however has been heterogeneous, with the global environment marked by acceleration in the US economy’s revival, offset by the Euro Zone’s recurring setbacks, the “stop and go” of the Japanese economy and a weakening in the growth of emerging economies with India posting a GDP growth rate of 3.2 percent for 2012, a rate unseen since 1991.

Mauritius hasn’t been spared in all of this. Our country is drifting further away from the growth rates in GDP experienced before the crisis. Last year, Statistics Mauritius posted a growth rate of 3.3 percent in GDP, down from the 3.5 percent growth rate of 2011. For 2013, the growth rate should be more or less the same.

The investment rate is on a downward path, with gross domestic fixed capital formation relative to GDP falling to 23.0 percent in 2012, compared to 26.4 percent in 2009. GDFCF growth rate for 2012 stood at minus 1.3 percent, with a growth of 2.7 percent in public sector investment which was offset by a contraction of 2.5 percent in private sector investment.

Low growth rates and low investment rates are creating an unemployment conundrum that seems to keep on worsening. Indeed, last year saw the unemployment rate rise above the 8 percent mark, and there appears to be no reversal in that trend.

In May this year, the release of the MCCI’s Economic Perspectives 2013 compared the pre crisis growth levels against the post crisis growth levels. It was found that the advent of the downturn in the global economy caused a loss of 2 percentage points in our growth potential.

Fundamentally, potential growth refers to the growth rates of potential output that can be sustained over the long term. Potential output in turn can be referred to as the natural output level, or even as the productive capacity of the economy.
**Pre crisis potential**

In the years preceding 2009, the economy had an average potential growth rate of 5.2 percent. **At that rate, by 2020, our per capita income would have been over $14,000**, excluding fluctuations in exchange rates and inflation. This stems from the momentum sustained by the tax reforms of 2006 and other business facilitation measures which provided a positive boost to the system.

**Graph 1: Actual and Potential growth rates, 2004-2008**

![Graph](image)

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<td>Potential Growth rate (%)</td>
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**Post crisis**

The dawn of the downturn however caused a severe dent in the productive capacity of the economy. The MCCI’s estimates have demonstrated that the impact of the crisis has shaved away 2 percentage points off our pre-crisis growth potential.

Indeed, the trend over the past few years has generally been indicating a potential rate of growth of 3.2 percent. At this reduced rate, **by 2020, the per capita income of Mauritius will only reach $11,560.**

**Graph 2: Actual and Potential growth rates, 2009-2012**

![Graph](image)

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<td>Potential Growth rate (%)</td>
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2014 onwards

The potential has already dwindled to a level that would prevent us from achieving the targets we had set out as a country for 2020.

We can however overturn this declining path with a set of strong and bold measures, allowing us to rekindle a new dynamism and renewed optimism among our entrepreneurs that will put us back on a sustainable growth path. The answers lie within us and are well within our control.

To achieve an enviable level of GDP and economic growth over the coming years back to pre-crisis levels, an average growth rate of 5.7 percent from this year onwards would be required.

This is not beyond our reach, we have always come back from far and WE CAN DO IT AGAIN as evidenced from the MCCI’s estimates which showed that the potential GDP growth rate jumped from 3.7 percent to 6.5 percent from 2005 to 2006 alone based on coherent and clearly articulated policy directions with a meaningful sense of purpose coming from the highest levels of Government.

The MCCI believes that the National Budget 2014 should be one based on solid economic foundations, forfeiting the diminutive effects of austerity, using a much needed fiscal impulse to steer us on a path of a sustained revival with the view of creating a new economic paradigm aimed at consolidating our productive capacity through measures that stimulate investment and promote a culture of innovation.

In this context the Mauritius Chamber of Commerce and Industry is formulating its proposals for the 2014 Budget at three levels.

First, propositions are made at monetary and fiscal levels, moving towards a more coherent set of macroeconomic policies.

Second, regional expansion and measures supporting growth will be elaborated. This will require improving our potential.

Third, sector specific proposals will be outlined.

A matrix summarising the main proposals can be found at the end of the document.
I. PRO-GROWTH MACROECONOMIC STANCE

Diverging views and conflicting decisions often end in less than desirable consequences. To steer the economy in the right direction, the instruments should lie in concordance with each other.

A propitious macroeconomic environment necessitates a well-oiled system of coherent and complementing fiscal, monetary and exchange rate policies.

1.1 Dynamic Fiscal Policy

Paying Taxes 2013 ranks Mauritius at the 12th place, which is a remarkable performance.

However, the report points out that since 2008, the total effective tax rate has been gradually increasing, reaching 28.5 percent in 2013. In 2008, it was at 24.0 percent.

There has been a lack of positive reforms in the taxation system since the last reduction of the Corporate Income Tax in 2006.

The country is in need of another fiscal impulse and a review of the existing taxes to sustain higher level of economic activity.

1.1.1 Fiscal impulse

Our potential output has not escaped unscathed from the shock of 2009, explaining to a certain extent the results we have seen in recent years. Indeed, Haltmaier (2012) confirms that slowdowns in economic activity are likely to have a negative impact on potential output, with a ripple effect.

Nevertheless a rapid improvement in the local economy remains possible, provided that actions are taken rapidly. As Olivier Blanchard put it, we are in an era of "unknown unknowns" and the worst solution would be to wait and do nothing.

Indeed, as Keynes pointed out with the notion of "animal spirits", it is the lack of confidence that makes people reluctant to consume, and businesses to postpone or cancel their investments. This behaviour, in turn, slows demand, slows activity, and ultimately, can become self-fulfilling prophecy.

To this end, the MCCI recommends a stimulus in demand through a fiscal impulse, which will result in boosting confidence of entrepreneurs and consumers alike.
The use of a fiscal impulse is warranted by notable economists in boosting the level of economic activity.

Marco Buti, Chief Economist of the European Commission, posits that in a difficult environment, there are high multipliers (positive and greater than 1), and which implies that any fiscal action will weigh heavily on activity.

This is confirmed by Olivier Blanchard, chief economist at the International Monetary Fund, who proposes that in absences of crises, the fiscal multiplier is 0.5 while in a trying period, the multiplier can increase up to 1.7.

The MCCI believes that the vehicle for this fiscal impulse should be the tourism sector, with its high growth potential and distinctive capacity to reach wide-ranging sectors of activity, through an extension of the existing VAT Refund Scheme to include accommodation services, as detailed in the ANNEX to this document.

The additional injection, coming from the resulting additional inflow of tourists and from the additional spending in the domestic economy will seep in to benefit different other sectors, stimulating overall economic activity and creating employment.

1.1.2 Review of Taxes

To generate more business ventures and create wealth, the MCCI proposes, in addition to other fiscal measures indexed elsewhere in the memorandum, that:

- A list of all existing taxes, tariffs and other duties be compiled, and that a committee comprising of the public and private sector be set up to carry out a comprehensive review in order to sharpen our competitiveness and decide upon which of these could be phased out.

- The personal income exemption threshold be increased by Rs 30,000 at each income level for the personal income tax. This will give a needed boost to consumption.

Furthermore, the last Budget introduced a new tax of two cents per gram of sugar content on certain types of beverages applicable equally to both imported products and local production. Given the extensive definition of the CWA Regulations 2011 for drinks, this measure has a definite impact on a relatively large number of operators and consumers.

Importers and manufacturers, subject to the new tax, have indicated a significant decrease in their sales of their products, undermining the process of consolidation of the manufacturing and retail sectors and promotion of exports.
Similarly, this measure remains detrimental to consumers, who have to bear the higher prices due to an imposed tax on one of the most important components of their basket.

The MCCI believes that to strengthen the capacity of operators and reign in the inflation rate, the Government should seek to review the rate of the tax.

Also, as per section 50 of the first schedule of the VAT Act (Goods & Services exempted), banking services are exempted from VAT and, accordingly under S21 (2) of the VAT Act no input VAT is recoverable on banking services.

The general principle under the VAT Act is that input VAT is recovered to the extent that such costs are incurred to make taxable.

However as per the section 50 of the first schedule of the VAT Act, some banking services are not exempted from VAT such as merchant’s discount (or commission on credit card) whilst S21(2) still prevents the recovery of input VAT on all banking services (including merchant’s discount). Hence VAT charged on merchant’s discounts 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.

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, petroleum gas, etc) for which Input VAT is not recoverable.

The MCCI proposes that the relevant sections in the tax legislations are reviewed.

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.

1.2 Resolute Monetary Policy

Monetary policy has been a determining factor in steering weakened economies back to a certain degree of stability.

Let it not be forgotten that it was the ECB’s commitment to pursue long term refinancing operations and the FED’s pledge to maintain a low level of interest rates in the US that instilled back some confidence in the markets, preventing in the process a complete collapse of the Euro and other economies.
The repo rate is currently at 4.65 percent, following a cut of 25 basis points in the last Monetary Policy Committee. The decision shows that there is increasing realization that low growth and the ensuing rise in unemployment are amongst the major issues facing the economy.

However, the absence of convergence on this issue keeps on sending mixed signals to economic operators and hence dampens the desired effect.

The MCCCI believes that there is no need to further reduce the repo rate but there is a definite need to send a resolute signal that all will be done to make investing easier for entrepreneurs, dragging people out of unemployment and creating wealth for everyone.

1.3 Competitive Exchange Rate

The movement of the exchange rate of the Mauritian Rupee vis-à-vis major currencies has been a source of contention over the years. Arguably, in the recent years, our best GDP growth performance was experienced when the Rupee slightly depreciated.

In 2010, the rupee averaged around Rs 30.9 to the dollar and Rs 40.95 to the Euro resulting in a GDP growth of 4.2 percent. In 2011 however, it is observed that an appreciation of our currency had the reverse effect on our growth rate, albeit this not being the single greatest factor.

The end of last year and the start of this one nevertheless have introduced a much needed level of stability in these rates of exchange after a market-driven alignment. Continuity in this state of affairs is desirable, as an overvalued Rupee is detrimental to the economy.

The MCCI is of the view however that increasing focus should be given to the currencies of our African counterparts. There has been much talk of diversifying our exports destinations and attracting tourists from countries other than our traditional markets, but the actions have been lagging behind.

Africa is increasingly touted as the next frontier in terms of our development strategy. However, with the current structure, it would be impossible to tap the full potential of what Africa offers.

The MCCI proposes that:
The situation of the Mauritian Rupee be closely monitored, and readjusted, vis-à-vis the main African currencies where we have decided to intensify trade in both goods and services. The South African Rand for instance has been depreciating rapidly against the Rupee in the last few years, leading to significant erosion of competitiveness of our products. By the end of 2010, the Rand was being traded at Rs 4.55, and had fallen to Rs 3.05 by mid 2013. This clearly warrants a dedicated programme to facilitate buying and selling of African currencies.

A competitive Rupee will attract tourists, facilitate exports and allow the expansion and diversification of the economy in the African markets.

1.4 New Export Paradigm, Africa

We are members of two Free Trade Agreements in Africa namely COMESA and SADC and are currently in negotiations for the creation of a new Tripartite Free Trade Area which will also encompass the East African Community. This will offer us a wider variety of preferential accesses for our goods and services. With the coming of age of Africa in the next decade, we should re-focus our efforts towards regional markets. Instead of devising a strategy for Africa, we rather need to understand that the strategy itself is Africa.

The time has come to look beyond our immediate borders where lies the biggest potential for our country. Instead, we have been going backwards, and this is something that needs to be remedied.

Intra-regional trade has been increasing, though not for Mauritius. Over 1996-2000, intra-regional trade over the African region was at 9.7 percent out of total exports, while over 2007-2011 it averaged 10.9 percent. Over the same periods, Mauritius’s share of exports dwindled from 10.3 percent to 8.6 percent.

Furthermore, a recent UNCTAD\textsuperscript{iii} report shows that the share of African exports out of total exports has fallen from an average of 4.9 percent over the period 1970-79 to 2.8 percent over 2000-10.

The problems for African firms are the same everywhere, including Mauritius. There is low competitiveness in production and trade as infrastructure issues pin down competitiveness. Barriers to trade are prevalent on the African continent, with the average protection rate faced by exporters to the rest of the world lower at 2.5 percent than within Africa at 8.7 percent. These are being addressed through the current Tripartite Free Trade Area negotiations among 26 African countries.

External factors have also played against the progress of some economies, especially those constrained by a small market. Product and market concentration remain high, as few
products are really exportable. Moreover, lack of innovation by industries undermines the value added of enterprises.

The MCCI believes that the whole process should be re-analysed to overcome these issues, and gain a competitive advantage. Our strategy should focus in boosting exports to the region, increasing the visibility of Mauritian know-how and encouraging local companies to start manufacturing on the continent itself as part of a drive to implement a MOVING INTO AFRICA strategy.

1.4.1 Re-engineering the export process

A small market size constrains many companies to remain small and thus prevent them from benefitting from economies of scale. There is a rising middle class in Africa that will soon require better quality goods and services which we could provide them with.

However, there is the need to have a competitive advantage over what other countries could offer. The full potential of the different agreements signed at the regional level are not being utilised, and there is a need to correct this. This is mainly due to the fact that local producers find it too costly to develop an export plan, and are unaware of the procedures required and the advantages that would accrue to them.

Therefore, the MCCI proposes that:

- Companies willing to devise an export plan on particular market(s) could avail themselves of resources coming from the Creativity and Competitiveness fund, detailed in Section II.

- The Freeport advantages are extended to all exports to the Africa region.

- Reviving the Indian Ocean Rim Business Council, especially in the wake of the recent IOR ARC conference held in Mauritius. In this respect, we need a platform that will provide the link between Asia and Africa given the difficulties of the Asians to get access to the African continent. Our bilingual workforce and cultural affiliation provides a competitive advantage, and better coordination is required.

Hence a special desk could be set-up, administered by a joint public-private sector board, to analyse the different avenues possible under such cooperation, with the main objective being the delocalisation of some services industries given the existing incentives and demand for a bilingual qualified technical expertise that we could offer African countries. It is really about exporting our know-how.
1.4.2 ‘Maison de Maurice’

To further reduce costs of production and distribution, companies should be encouraged to delocalise so as to be closer to markets and raw materials and benefit from less stringent rules of origin. A plan to support these activities would entail the following:

- Bilateral negotiations with targeted countries (Algeria, Botswana, Congo (B), Gabon, Ghana, Cote D’Ivoire, Kenya, Morocco, Mozambique, Namibia, Nigeria, Rwanda, Senegal, Tanzania, Uganda, Zambia, Zimbabwe) to ensure preferential treatment of Mauritian companies willing to set up operations in these countries. Preferential access to land, better tax rates, and improving facilities in a dedicated expanse of land which could regroup different companies, supported by an apex body governing the different promotion agencies. This ‘Maison de Maurice’ located in various overseas countries will be responsible to coordinate all the marketing initiatives and provide business facilitation services on the ground at the point of need.

- Dissemination of information on the nature of the negotiations and decisions to local entrepreneurs.

- Improving air access and communication to these countries through the creation of a REGIONAL AIR ACCESS HUB to consolidate AIR FREIGHT in and out of the region at a new CARGO VILLAGE to be established next to the new airport. Consolidation and transhipment are the only means of addressing the cargo imbalance of the region to support an efficient import and export strategy.

1.5 Trade facilitation

The benefits of trade facilitation in increasing GDP are widely recognised. They entail a series of measures whereby countries reduce red tape and simplify customs and other procedures for handling goods and services. An agreement to achieve this is required to reduce costs, speed up and streamline administrative and other official procedures, and create a more transparent, predictable and efficient environment for cross-border trade. In addition, more efficient trade processes increase the attractiveness of countries as destinations for foreign direct investment, as well as increases its export competitiveness.

Indeed, according to the OECD, the cost reduction potential of trade facilitation would reach almost 14.5 % of trade costs for low income countries, 15.5 % for lower middle countries and up to 13.2 % for upper middle income countries.

Renewed efforts in pursuing the conclusion of an agreement at the WTO and at regional levels with a view to leverage the opportunities that flow from more efficient administration procedures are required.
II. GROWTH SUPPORTING MEASURES TO RESTORE OUR POTENTIAL

In economic terms, improving the potential implies not only making an optimum use of available resources, but going beyond. This can be achieved by re-adjusting and enhancing our productive capacity.

There is an urgent need for a strong impulse in order to bring about a rapid improvement in the economic situation thereby negating the pervading sense of pessimism which has been clouding our horizons for far too long. This impulse should be complemented by a series of actions that will help define the path to sustainable recovery.

The MCCI is of the view that a multi-faceted approach should be adopted with special efforts at four levels to strengthen our economic potential and thus improving our effective growth rates as enlisted hereunder:

- Boosting productivity and competitiveness
- Promoting investment
- Reducing the cost of doing business
- Addressing the labour market and the wage policy issues

2.1 Productivity and competitiveness

Mauritius gained nine places in the last World Economic Forum’s Global Competitiveness Report and is now ranked 45th in the world. It is great news per se; however, with the potential that we have, we should aspire to do far better.

The economy is stuck in the third of the five stages of development of the Global Competitiveness Index, ranking 42nd in the Basic Requirement sub-category, 61st in Efficiency Enhancers and 57th in Innovation and Sophistication. The reasons of this rather underwhelming performance are un-productive bureaucracy, lack of infrastructure, inadequate labour skills and very limited capacity to innovate.

This is reflected in the poor performance in productivity indicators over 2007-2012, with labour productivity growing at an average rate of 2.2 percent per year, capital productivity by -1.0 percent and multifactor productivity by 0.1 percent.
We should aim at achieving productivity growth targets of 5-6 percent per year over the next decade to achieve higher wages, to increase skills and to have GDP growth rates that will firmly put us back on a pre-crisis trajectory in becoming a high income country. We need to maximise all the energies and the resources to support a major uplift in productivity.

**Innovation through R&D is the foremost solution.**

Governmental support is needed to help enterprises to innovate, to create more, to expand through commercialization of research and development and play an even bigger role on the African continent, benefitting fully from enhanced market access provided by the various Free Trade Agreements we have concluded.

Productivity and competitiveness are more often than not not the result of quality rather than quantity, which leads to a more efficient use of available resources. The lack of incentives, training and infrastructure has been compounding the problem further.

The way forward is to further open up by importing existing patented technologies, automating low value manual activities and through a programme of up-skilling of the labour force.

The MCCI is putting forward the following recommendations on several fronts to this end.

2.1.1 **Research, development and innovation**

Finland is a case in point and clearly illustrates how a sustained R&D policy can move a small economy up the innovation ladder.

In the early 1990s, Finland’s gross expenditure on R&D stood at 2% of GDP which was at that time below the OECD average. In the mid-1990s, the Finnish government dramatically increased funding for research and scientific education to bring their gross R&D investments to 3.4% of GDP by the end of that decade. Now, 20 years later and with close public-private collaboration, Finland has created an innovation economy that consistently tops the ranks in global indicators of scientific productivity and new-to-market product innovations.

To inculcate the same culture of research, development and innovation in Mauritius, the MCCI puts forward the following propositions.
2.1.2 Training

The mismatch of skills and employment opportunities has long occupied the national headlines and needs to be meaningfully addressed via the following proposals.

a) Setting up of a Creativity and Competitiveness Fund

Grants to help enterprises in all sectors where there is potential for large gains in productivity will undoubtedly further the above objectives. The fund can also be used to develop centres of expertise around specific clusters “on a wholesale basis” before being farmed out to retail manufacturers.

These actions can be undertaken through a CREATIVITY AND COMPETITIVENESS FUND, co-chaired by the public and private sector.

b) Productivity and Innovation credit scheme

To bridge the gap between where we are and where we want to be, there should be incentives for private entrepreneurs to readapt their processes and benefit from the economies that arise from high end innovative practices. Such schemes could include a Productivity and Innovation credit scheme.

Similar to the Singapore system, a broad-based tax incentive in the form of a productivity and innovation credit could be introduced, providing tax deductions of 200 percent per annum on investments on a range of spending, specially on the following activities:

- R&D expenditures (e.g. salaries or training for R&D personnel)
- 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).
- Automation through technology or software
- Design activities (e.g. Fees to an outsourced designer)
• Developing a framework to introduce the **Dual Education System** in Mauritius.

A dual education system combines apprenticeships in a company and vocational education at a vocational school in one course. This system is practiced in several countries, notably Germany, and France, and for some years now in China.

As one part of the dual education course, students are trained in a company for a number of days per week, with the other part being practical training through workshops run by the Chamber of Commerce and Industry, in order to compensate for the bias caused by training at only one company. These extra courses usually take three or four weeks a year. The time spent at the training centre is approximately 60 days a year.

• Increasing the grant of the HRDC given to employers sending their workers for continuous training to 90 percent. Also, reimbursing - up to 90 percent of absentee payroll for those undertaking the training.

• Setting up of a task force via the National Productivity and Competitiveness Council and comprising - the public sector, the private sector and academia to identify areas where there is a dearth of suitably qualified skilled and semi-skilled labour.

• Commissioning a report that will identify what are the future sectors of development in different spheres of the economy and what kind of labour will be required. This will also enhance the attractiveness of the Mauritian destination for foreign firms.

• Developing Centres of Excellence whereby training is provided for complex tasks, for mastery of existing skills and to deepen expertise in specific industries or for clusters of enterprises.

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

• Older workers should 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 by training in new processes, allowing them to remain in a particular field for longer and thus sharing their knowledge with those having recently joined the job.
2.1.3 Creative economy

We are currently in the face of losing several of our skills and crafts that have taken years to polish and form part of the new creative landscape. We must ensure that the next generation does not lose this heritage which forms part of our cultural and creative know-how. There is a strong correlation between the creative industry and economic progress. The European Commission has recognised the importance of the ‘cultural and creative sector’ to promote ‘Creative Europe’. UNCTAD, on the other hand has positioned creative industries as being central to address the global economic crisis, as it becomes increasingly recognised that the potential of these kinds of industries to provide an impetus to other sectors is enormous.

The MCCI proposes that:

- Funding be made available to carry out a survey of existing skills, and to set up a dedicated unit, under the aegis of the Ministry of Business, Enterprise and Cooperatives alongside the MCCI possibly, to showcase the expertise of local craftsmen, help them in designing an expansion/survival plan, and coordinate the mechanisms required to provide them with quality training that will increase the value-added of the products and prepare them for export markets. A public-private initiative will also be able to mobilise donor funding for such a programme.

- A Chamber of Crafts / Chambre des métiers is set up. This will offer different advantages to the economy, namely the creation of employment, industrial diversification, skilled workers in niche products, promotion and recognition of the Mauritian know-how and providing another dimension to the tourism sector.

- The Film rebate scheme is extended to sectors other than the film industry and includes live entertainment, festivals, and other projects that favour the promotion of the cultural side of the economy. More funds should also be allocated to finance the promotion of the scheme.

- A location should be identified to showcase the local know-how, be it in arts, culture, theatre, music, handicrafts and paintings. The venue should be large enough to accommodate a stage and several boutiques and galleries to meet the requirements of artists and craftsmen. This will strengthen the notion of the Mauritian national fibre, and offer tourists an insightful glimpse of all what Mauritius can offer. In that context, the Port Louis Granary Project should be revived as a national emporium.
2.1.4 Energy efficiency

Another step in increasing competitiveness is by reducing costs of energy. Within the manufacturing sector there is still a lot of inefficient energy practices which can be eliminated thereby leading to significant savings while at the same time reducing our carbon footprint.

The private sector has embarked on a pilot project on energy efficiency in collaboration with the AFD. The project involves the organization of grouped audits, organized by sub-sector or energy use to lower the cost and increase efficiency through capacity building. The audits aim at targeting big consumers (> 1 MWh/year). The audits could be made mandatory for all the big consumers, but the implementation of the recommendations need not be so.

Potentially, this could delay investments in additional power capacity of 40-50 Mw for the government and save Rs 1.1 billion per year, potentially representing 14 percent energy consumption reduction through pooling of competencies of different project groups and applying industry global best practices.

The MCCI proposes that the Government plays a bigger role, in the full roll-out of the project by funding same in terms of a direct support to enhancing energy efficiency within the country with clearly measurable tangible benefits.

2.2 Investment

Investment is one of the most important components of growth, both for the present and the future, contributing through the multiplier effect to current growth rates, and through acquisition of wealth creating capabilities, future growth. It is expected that in 2013, overall Gross Domestic Fixed Capital Formation will contract by 0.1 percent, which will make it the third consecutive year with a negative growth rate in the last 4 years.

Worse still, private sector investment is taking a tumble, having contracted by 1.9 percent last year, a trend that is expected to continue in 2013. The share of private sector investment has been rapidly falling over the years, from 83.2 percent in 2008 to 76.0 percent in 2012. Public sector investment has increased by 2.9 percent in 2012. However, the previous two years witnessed two contractions, and the same is expected for 2013.

The investment rate, which is the ratio of GDFCF over GDP, is dwindling at an alarming rate. In 2009, this stood at 26.4 percent. In 2012, it had already fallen to 23.0 percent.

The Government has a prominent role to play in that arena and could intervene in the following ways.
2.2.1 Financial transaction costs

The costs of engaging in financial transactions remain high in Mauritius, with the spreads of financial institutions way higher than those practiced in other countries. Entrepreneurs, especially SMEs, find the charges they have to incur when dealing in foreign exchange, for credit card transactions and for loans prohibitive, and therefore readjust their investment decisions.

Better regulation and monitoring of the charges, with a swift appointment of an Ombudsperson as has been mentioned for a few years, will alleviate the cost burden of many, and increase the incentive to invest.

2.2.2 Angel funds under a Business Expansion Scheme

SMEs and start ups find it difficult to raise capital at the early development stages, constraining them into slow growth and limited expansion. A strategy focusing on capacity development, internationalization and financing, with heavy involvement of partners is required.

A framework could include developing a forum whereby Angel investors could be offered a waiver of 30 percent of their corporate tax payable to finance investment of start-ups or R & D projects, with provisions for IP rights protection. The platform, co-chaired by the public and private sectors can further act as an intermediary between ‘Angel’ partners and businesses engaged in innovative activities.

2.2.3 Investment promotion

Foreign Direct Investment plays a significant role in an economy, with the capacity of contributing to technology transfer, boosting domestic competition and by expanding domestic production capacities, overcoming obstacles constraining potential export competitiveness and growth of domestic firms.

Indeed, transfer of technology and know-how can favour export growth as foreign firms bring the knowledge of markets, marketing channels and managerial know-how in the destination country. This transfer can occur through a learning-by-doing process by local firms, through employment of skilled workers and high quality professional services that they bring in their stride, and through forward and backward linkages of the MNE. Furthermore, FDI promotes competition in a similar way as trade, forcing local firms to become more competitive, and fosters the need to introduce new products and services by local firms.
Locally, despite the efforts made so far in attracting FDI, it is apparent that the results so far have been skewed towards the real estate sector with very little diversification in terms of sources and destination.

A new approach destined at improving the quality and the source of FDI is long overdue. Technology transfers and domestically induced FDI should be privileged instead of continued general country awareness. The local business community should be allowed to participate fully alongside overseas financial partners in governmental contracts for goods and services to allow skills and knowledge transfer.

Infrastructure investment opportunities should be marketed through domestically led enterprises within a clear regulatory framework. In that respect the existing Public Private Partnership model should be reviewed with a contracting out of the entire transactional process to international advisers to ensure timely delivery of projects and market based competition for the appropriate risk transfer. It is felt that the present institutional model has not delivered tangible outcomes with an acute shortage of skills in dealing with nationwide infrastructure project financing. Properly designed and packaged infrastructure projects can attract a significant amount of foreign equity investment seeking stable returns in a low risk environment.

A joint public private sector initiative would work better.

The MCCI proposes that resources are put at the disposal of the private sector to set up a desk, working in close collaboration with the Ministry of Finance and the Board of Investment, to generate the dynamism required and to pool together investors around particular projects, especially in sectors identified as the next possible hubs, around the overriding objective of promoting domestic investment in and out of the country.

2.2.4 FDI policy - a GO EAST strategy

The Government should revise its inward FDI strategy with a clear bias towards emerging markets. For example, China has an abundance of wealth accumulated during years of plenty, and their progress has resulted in the birth of several millionaires who would like to get into Africa, but often find it too difficult to do so. The MCCI believes that Mauritius could provide them with a base for their operations, and to do this, a revamped “Permanent Residency Scheme” is required that will favour people from China and surrounding regions.

They would be granted a Mauritian passport for ease of movement and will not necessarily entitle an investor to acquire citizenship or a property in Mauritius, except under existing Schemes, and will aim at facilitating entry of investors, especially from China, in and out of
the country. The same principle could be extended to friendly countries in the region targeting the Asian diaspora and Madagascar.

Such a scheme could:

- Establish a higher threshold of USD 750,000 per investor to be eligible for the passport, renewable each year subject to satisfactory compliance with the scheme.
- Delink permanent residency with property ownership and allow increased investment flows to other productive sectors of the economy.
- Open up new sectors of the economy to foreign capital leading to further democratization.
- Become the hub between Asia and Africa, by attracting Investors from the Indian Ocean Rim countries.

2.3 Cost of Doing Business

The improvement in the ease of Doing Business has been notable in the last few years. Mauritius can count itself amongst the top 20 economies in this area ranking 19th in the World Bank’s 2013 survey. The indicators used in the survey indeed provide a compelling reason for foreign investors to consider Mauritius as an investment destination. However, the inside story is different as increasing administrative bottlenecks have slowed down DDI (Domestic Direct Investment) and businesses whether foreign or local are finding it relatively difficult to implement their projects. Business Facilitation and creation of a conducive environment provide long term predictability to investors who are looking at a time horizon spanning several years and not just short term. The consistency of policies and the timely enactment of legislation and their applicability are key considerations in the investment cycle. The above impediments constitute the biggest hidden costs to businesses.

We need to continuously improve our business climate as invariably; more and more countries are carrying out business facilitation reforms and vying also for the top rankings in the world.

There is therefore the need to revisit some of our key business processes with a view to reducing the total costs of doing business in Mauritius including various permits and licences and applications for basic utilities.
2.4 Labour market and wage policy

2.4.1 Labour market issues

The two main issues regarding labour market efficiency are the flexibility of wage determination and hiring and firing processes. These are issues that need to be addressed in the legislation. Less stringent laws will benefit the economy as a whole.

Further to these two issues, there is also the mismatch that exists in the local labour market. It is due to:

- A ‘shallow’ market in term of the pool specialized skills. As soon as there are significant developments in existing sectors or emergence of new activities, the market dries up quickly, pushing employers in a ‘poaching mode’, which drives remuneration up artificially and, in the process, significantly erodes the competitive edge of enterprises.

- Resistance from Mauritian workers to join certain sectors (e.g. the textile and building industries) which invariably compels employers to resort to imported labour, thereby further increasing their costs and, again, eroding their competitive edge.

There is no quick fix to address labour market issues

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

In these troubled times, marked by the crisis, we should rethink and build a coherent wage policy with the only aim to create jobs. The level of wages and the quantum of increases should be based on productivity increases and the capacity to pay.

There is an incoherent dichotomy in the salary compensation mechanisms between the public and the private sector. Given that a number of workers of the private sector are only getting the minimum salary compensation, the Government policy is exacerbating the gap between public sector officials and private sector employees, with the inequality more pronounced for workers at the bottom of the salary scale.

The wage share of the public sector continues to rise and this even though the share of the public workforce to the total is falling.

A revision of the system is highly due, especially in the absence of any significant gains in productivity. It is time to have only one wage policy, based on productivity gains and capacity to pay, for both private and public sectors.
III. SECTORS OF GROWTH

Over the years, new emerging sectors have in turn pulled the Mauritian economy through periods of crisis, and proving a lot of economic pundits wrong more than once. Necessity is really the mother of invention and re-invention when it comes to Mauritian Entrepreneurs.

It is a fact that some sectors are thriving more than others. Information and communication services are growing at rates in excess of 8 percent, while financial services are maintaining growth rates of around 5.5 percent. The seafood sector has regained dynamism, and is today the fastest growing sector of our economy. These performances well exceed the overall GDP growth rate despite the difficult economic climate.

Table 1: Exports 2002 and 2012

<table>
<thead>
<tr>
<th>Products</th>
<th>2002 (FOB Rs Million)</th>
<th>2012 (FOB Rs Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Traditional Exports:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>T-Shirts of Cotton</td>
<td>9,850</td>
<td>7,740</td>
</tr>
<tr>
<td>Jerseys, Pullovers and Cardigans</td>
<td>3,905</td>
<td>2,380</td>
</tr>
<tr>
<td>Sugar</td>
<td>8,528</td>
<td>8,189</td>
</tr>
<tr>
<td><strong>New Exports:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preserved Fish</td>
<td>17</td>
<td>10,438</td>
</tr>
<tr>
<td>Shirts of Cotton</td>
<td>57</td>
<td>4,404</td>
</tr>
<tr>
<td>Polished Diamonds and Imitation Jewellery</td>
<td>1,498</td>
<td>4,270</td>
</tr>
<tr>
<td>Trousers of Cotton</td>
<td>41</td>
<td>3,458</td>
</tr>
<tr>
<td>Clock Dials and Watch Straps and parts thereof</td>
<td>296</td>
<td>864</td>
</tr>
<tr>
<td>Leather Articles and Handbags of Leather</td>
<td>75</td>
<td>641</td>
</tr>
<tr>
<td>Medical Instruments and Apparatus</td>
<td>62</td>
<td>607</td>
</tr>
<tr>
<td>Pet Food</td>
<td>175</td>
<td>442</td>
</tr>
<tr>
<td>Instant Noodles</td>
<td>9</td>
<td>427</td>
</tr>
<tr>
<td>Artificial Human Body Parts</td>
<td>0.2</td>
<td>316</td>
</tr>
<tr>
<td>Fertilizers</td>
<td>200</td>
<td>302</td>
</tr>
<tr>
<td>Wheat Flour</td>
<td>200</td>
<td>295</td>
</tr>
<tr>
<td>Sunglasses</td>
<td>106</td>
<td>210</td>
</tr>
<tr>
<td>Soaps and Detergents</td>
<td>62</td>
<td>206</td>
</tr>
</tbody>
</table>

There are several sectors that are expanding at a phenomenal pace, as shown in the table. In one decade, exports of preserved fish, cotton shirts and trousers, and polished diamonds and
imitation jewellery have increased massively, as they were given the necessary institutional support within a conducive fiscal and regulatory space which enabled them to re-adapt to changing economic conditions.

To sustain this state of affairs, the Government should ensure that no counter measure is taken to impose restrictions or impede the progress in these activities. On the other hand, measures taken should aim at ensuring that these sectors are broadened and fully included in the global value chain.

Other sectors which are not faring as well would require strong corrective and proactive measures.

The sector which is most at risk remains construction. A severe contraction of 7.7 percent is expected for 2013, following negative growth rates in the previous two years. Back in 2010, this sector represented 7.0 percent of the economy. This share is expected to fall to 5.6 percent in 2013, highlighting the rapidity at which this sector is losing ground.

The Tourism Sector has become the “parent pauvre “of the economy, it has neither attained the much promoted target of the one million tourist arrivals, nor a positive growth in 2012. The spillover on other sectors will be of consequence.

The Manufacturing sector, principal contributor to GDP, is not doing as well as it should be. The grit and determination of local entrepreneurs have until now maintained positive growth rates. These remain too low however.

Concerted Government action, in close collaboration with the private sector, is more than necessary to address the systemic weaknesses in that sector which still has a huge potential in terms of employment. Such partnerships worked well in the sugar sector and the textile sector which have undergone through a painful but necessary restructuration process.

This synergy should be the order of the day and the driving force behind the regeneration of the tourism industry which has made Mauritius the brand that it is today. The role and objectives of the national carrier are intertwined with the industry and a clear policy should be developed to directly support the sector. If the commercial viability of the national carrier is viewed over a longer time horizon, a win-win situation can be a real possibility. Short term financial imperatives are unfortunately clouding the greater picture.

The MCCI is of the view that the Government must concentrate its efforts on upholding the sectors having the most difficulties in this economic climate, with construction, tourism and manufacturing being those necessitating the most attention. Other sectors are faring fairly well, and would find their own growth path with the Government continuing to act as a facilitator only.
3.1 Agriculture

Agriculture has been for a long time one of the major sectors of the economy. Its contribution has been gradually declining over the years nonetheless, with the emergence of several other sectors. Today, Agriculture contributes to 3.4 percent of total GDP, with less and less emphasis on sugarcane activities.

The threats facing this sector are as before. Climatic changes and unpredictable weather conditions compound on producers’ inability to adapt to changing conditions and employment of new techniques of production, and their aversion to engage into risky locally unexplored practices makes it difficult for the sector to transcend its current phase. These are emphasized by prices of fertilizers and animal feed which remain relatively high, compounded by difficulties to switch to safer organic ways of production. Furthermore, there is an acute shortage of manpower to engage in agricultural activities.

However, even today, this sector remains strategic for Mauritius, especially in terms of food security and purveyor of employment. This is reflected by the faith entrepreneurs are showing. Based on this vision for the sector, Statistics Mauritius expects that in 2013, Gross Domestic Fixed Capital Formation will increase by a massive 100.6 percent.

The MCCI believes that the Government’s main objectives should be to strengthen the resolve shown in this sector, and focus on the urge of a new generation of farmers with the rationale aimed at maximizing economic results, but also open to technical and technological innovations. Greater research will be required to decipher this recently new stage of the agricultural sector, be it sugar or non sugar. Leveraging on the research and development activities of the University of Mauritius and other government research institutions would pave the way to a new generation of Entrepreneurial Farmers.

The MCCI is therefore formulating some measures that could be taken to give this sector another boost:

- Reinforced laboratory services at the Division of Veterinary services, with recruitment of additional staff to launch preventive as well as curative services to farmers.
- Provide insurance schemes to breeders and concessions on loan interest to incentivize the adoption of modern breeding and cultivation techniques and to encourage large scale operations.
- Encourage the development of effective waste management plans.
The Mauritian manufacturing sector finds itself at a crossroad today. Growth in this sector has been pallid over the last few years, and there is little indication that this is going to change in the coming years. Last year, a 1.5 percent growth rate followed an expansion of 0.7 percent in 2011. This is too small a growth rate for the major contributor to GDP and main employer in the economy.

A solid industrial base is essential for any economy that wants to reach the status of a high income country. 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, exemplified by the German model.

In Mauritius, from 2009 to 2012, investment in the sector has contracted by a cumulative amount of more than 30 percent, which does not augur well for the future. The share of the sector relative to total GDP has been gradually declining, while it should have been increasing. At 16.5 percent today, there is the need to raise this to 25 percent by 2025.

### Table 2: Manufacturing Sector

<table>
<thead>
<tr>
<th>Contribution to GDP</th>
<th>Actual Growth rate (2012)</th>
<th>Growth Rate (2013) *</th>
</tr>
</thead>
<tbody>
<tr>
<td>16.5</td>
<td>1.5</td>
<td>1.4</td>
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</table>

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- Leasing of land to farmers to enable expansion of industrial production of chicken, livestock and cultivation of fruits and vegetables.
- Concerted regional actions to create an environment conducive to the production of maize and soya in SADC, COMESA and IOC to reduce dependency on imports from faraway countries like Argentina and USA for animal feed which represent an important cost to breeders.
- The labour, metrology and environmental legislations must be streamlined to ensure monitoring of dumping of near expiry date produce from abroad.
- Increasing the land availability and offering incentives to small farmers to regroup will encourage large scale production of dairy products. The incentives could take the form of loans at concessionary rates, subject to the dairy farms investing in better farm management techniques and latest technology.
- Improve access to better quality pesticides that are not injurious to health.

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</tr>
</tbody>
</table>

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25
The challenges are daunting, and are many. On one hand rapid liberalisation has somewhat jeopardised the resilience of domestic oriented enterprises, while on the other hand fiscal reforms through the uniformisation of the corporate tax rate of 15 % also removed certain final manufacturing incentives by creating a level playing field with importers.

Importers, however, do not have the hassle of renting buildings, acquiring machinery, adhering to the different legal requirements concerning products, labour and production, and more importantly do not incur the same costs as those engaged in manufacturing. Above all, they create fewer jobs!

This should be cause for concern on several fronts. Increasing imports will affect our current account, widening the deficit, even more so as income increases. Local production will definitely be affected, as will the unemployment level. Furthermore, the Mauritian know-how and skills employed in industries are set to disappear if nothing is done to put them on the same level as foreign competitors entering the market.

The potential of the manufacturing sector has been severely affected by the effects of the crisis. Productivity and competitiveness have eroded, while investors are reluctant to lock their capital in industrial projects through the lack of predictability and long term visibility in this sector. Foreign direct investment in the sector represents a mere 2 percent of the overall inflows. All these have chipped 1 percentage point off our pre-crisis potential.

A major overhaul is required in this sector, addressing the various issues at different levels.

The MCCI believes that a better future should be built on a solid industrial base, and in this respect, is putting forward the following propositions for resurgence of the manufacturing sector.

3.2.1 Clusters/ Special Economic Zones

The concept of clusters is prevalent in several well advanced nations, and is defined as the consolidation of enterprises, higher education institutions and research institutions to work together to implement innovative economic development projects in a designated area, bringing forth the advantages of external economies of scale. The clusters are mainly focused on industry sectors, but must be understood in the broader sense, i.e. all sectors with an industrial nature.

‘Pôles de compétitivité’ in France, Silicon Valley, Las Vegas and Bangalore for instance bear testimony to the success of the cluster effect and economics of agglomeration.

They aim to develop a more competitive economy, based on increased private-public sector synergy, eventually leading to dynamic employment creation and development of more advanced and innovative products.
For the proper implementation of the clusters, the MCCI proposes that:

- A steering committee of the key stakeholders of the Public sector, the Private sector and academia in the industrial field be set up to study its implementation. It should include the Ministry of Finance and Economic Development, the Ministry of Industry, Commerce and Consumer Protection, the BOI, the MCCI, the University of Mauritius amongst others. The clustering of Institutions is key in the delivery mechanism especially to address the various cross-cutting issues.

- The competitiveness fund mentioned in section II could also be used for this purpose to finance research and development activities, in the areas mentioned previously such as acquisition of patents and IPs. This would be a measure specific to those companies registered as industrial, and would serve as complement to the tax deductions proposed. The IP protection rights would entice world class players to set up R & D centres in Mauritius, thereby fostering greater innovative practices.

3.2.2 Promotion of local products

Government devotes large budgets to the promotion of our products abroad while very little has been done to promote our products on the local market. Today, because of globalisation, we can no longer differentiate between local and external markets.

Local producers are competing on the local market with world producers/exporters. It is only fair that some resources are earmarked to promote Mauritian products on the local market.

The private sector has responded with the ‘Made in Moris’ campaign to give due recognition to products made locally and to defend themselves against the surge in imports following the rapid liberalisation of tariffs in recent years.

This project however needs the full political and financial support of the Government for its successful implementation, which could be provided from the national resilience fund.

3.2.3 Level playing field: Monitoring and enforcement

Locally manufactured goods which are exempted from VAT are discriminated against imported goods because local manufacturers cannot claim back the VAT paid on part of the raw materials used (e.g. sausages, tea, honey, poultry products, potatoes, onions).
In order to ensure a level playing field, it is recommended that locally manufactured VAT exempt goods be rather classified as zero-rated. This change would enable a price reduction varying between 2% to 7%.

Also, some imported products do not meet the quality standards appropriate to similar products that are locally manufactured. The government should make sure that there is strict control on imported products and that they meet the necessary standards.

The MCCI proposes that the capacity of relevant agencies and ministries be reinforced, with heavy involvement of the private sector, to track down unfair practices with the power of prosecution.

### 3.2.4 Credit schemes

The LEMS schemes have been popular amongst entrepreneurs since their inception. Their benefits need to be made known to a wider community of entrepreneurs. Currently there are four different schemes however, which may make it difficult for some to know exactly what is best for them, and make it administratively heavy.

The MCCI proposes that the LEMS are unified under one single simplified scheme to give an added boost to investment in machinery, with the following characteristics:

- No limit on turnover of companies
- No limit on amount leased
- An interest rate of Repo + 1 percent
- 50 percent guarantee by SIC on cost of assets
- Contribution of 10 percent by company
- Extension of the scheme till December 2015.

### 3.2.5 Specific item: CWA Tariffs

The Central Water Authority Act (water for non-domestic purposes) Regulations of 2011 puts industrial operators for ‘Manufacture of drinks’ under the Tariff 14 for ‘Business consumers’ classification with higher rates from Tariff 16 for ‘Industrial consumers’.

This has repercussions on cost of production, and ultimately on prices which will cause some damage to the competitiveness of local products through inflationary pressures whereby the consumer will tend to lose. Moreover, it goes against the Government’s policy to put local industries on a level playing field as imported products are not subject to any other additional measure.
Wholesale and retail share has been gradually increasing, growing at a reasonable rate of 3.9 percent last year. The potential has been affected however, and some measures are still necessary to allow quality goods at cheaper prices to get into the country.

**Table 3: Wholesale and Retail Sector**

<table>
<thead>
<tr>
<th>Contribution to GDP</th>
<th>Actual Growth rate (2012)</th>
<th>Growth Rate (2013) *</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.2</td>
<td>3.9</td>
<td>3.9</td>
</tr>
</tbody>
</table>

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3.3.1 **An Open Trading System**

Mauritius is ranked as the 6th freest economy in the world, with around 94 percent of its tariff lines already liberalised. We have to make full use of these attributes and adopt a full frontal approach to become the Indian Ocean’s ‘Shopping Paradise’, while offering the possibility to local enterprises to develop their manufacturing potential. In order to reconcile the trading system, the MCCI suggests the setting up of a committee by the Ministry of Finance and representatives of the private sector, to devise a strategy that will resolve the aims of the current trading system with continuous development of the manufacturing sector. The focal points of this approach should be:

- The alignment of our labelling and standards requirements on international best practice.
- The enforcement of Intellectual Property Rights Legislation, (including some licensing of shops) to comfort foreign buyers on branded products
- The realisation of a sales season in Mauritius, with a mindset of making “Mauritius Shopping Frenzy” campaign with seasonal sales and greater marketing for the services as well as promotion of an intensive clearance of end-of-season apparels and other electronics equipment similar to those occurring in France or the UK.

3.3.2 **Price Control**

MCCI has been stressing for the review of the legislation on price control, which is unreasonably broad with the view of Maximum Mark-up regulations.
There are several products such as tyres, timber, corned beef, corned mutton and pilchards, for which price control is no more justified and acting as a serious impediment to trade refraining new firms and new products from entering the market.

For the MCCI, with the Competition Commission and the Price Observatory being fully operational, the need for maintaining any form of price control needs to be re-assessed.

The MCCI would like to propose the extension of the Maximum Recommended Retail Price (MRRP) to all the other products subject to the Maximum Mark-up regulations as the alternative to price control.

### 3.3.3 VAT Price Labelling

According to provisions of the Consumer Protection (Price Label) Regulations 1998, traders are required to affix a white label indicating the price of the product with the mention ‘VAT INCLUDED’ for products subject to VAT and a blue label indicating ‘VAT NIL’ on all goods not subject to VAT.

The process of having to print, sort and affix labels of different colours for thousands of products is an important constraint to traders.

Amending the legislation so that only the mention “VAT INCLUDED” or “VAT NIL” are required on the labels and that the requirement to have a blue label for goods not subject to VAT be removed would reduce the time and lower the cost of labelling, with its positive impact likely to be felt on prices.

### 3.4 Construction

The construction sector is on a downward spiral, and is the sector that is more in danger than others. The growth rates have been negative in the last years, and the decline is accelerating.

<table>
<thead>
<tr>
<th>Table 4: Construction Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution to GDP</td>
</tr>
<tr>
<td>-----------------------</td>
</tr>
<tr>
<td>6.3</td>
</tr>
</tbody>
</table>

*Statistics Mauritius Forecast*

Completion of several major building projects by the Government and the private sector, and an absence of large scale projects in the immediate future are hampering the growth of this sector.
Bold decisions are needed to give back to this sector its lost impetus. The MCCI is submitting the following propositions to revive this sector:

- Putting in place an Urban Renovation Scheme whereby the Government would have the possibility of acquiring bare land and unsafe buildings where there has been an absence of development over a period of 30 years, to put at the disposal of potential developers. The focus should be in urban areas situated in proximity to central business areas.

- Encouraging private investment in PPP projects and other forms of public-private cooperation on building and construction projects. The framework for the PPP is already present but more incentives need to be provided to the private sector to stimulate their interest. The bureaucracy involved is also tedious, which tends to discourage investors.

- VAT on individual residential buildings, within a certain threshold on size, 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.

- Financial charges and procedures for registering property are cumbersome. The MCCI believes that actions should be taken to review the legislation, and to reconsider the transaction fees associated.

- The Government should also provide serviced lands for the development of particular industries, such as light engineering, medical and pharmaceutical. The EPZ has served us well in the past, and development of similar projects for other industries will benefit both the industries involved and the construction industry.

- Resources should be earmarked for research on the use of local sustainable materials that can be used in construction.

### 3.5 Tourism

The tourism sector has been one of the leading forces of the economy, generating wealth and employment over several decades, directly and indirectly. Nevertheless, the tourism industry has been severely affected by the crisis in the Euro area, where our major markets are found. Gross tourism receipts for the first quarter of 2013 were Rs 12,064 million, already a decrease of 12.4% compared to the Rs 13,768 million for the same period of 2012.
The situation today is such that as incomes have fallen in the advanced economies, people are looking for shorter, and therefore, cheaper destinations. Mauritius has been gaining a reputation as a high cost tourist destination in recent years, and this perception needs to be altered.

The MCCI believes that several small fixes can allow the sector to get back on track, with a strategy focused on offering quality services to tourists at lower costs than they are currently experiencing. To complement this approach, improvement in internal capacity and diversification to non-traditional markets are necessary. Policy decisions could include:

- Reduction of the Passenger Fee on Air Tickets by 50 percent, which would significantly reduce the cost of coming to Mauritius, as these taxes are acting as a barrier to exports of services and eroding the competitiveness of the Mauritian destination.

- Redefine the strategy for our national air carrier, which should operate as a public service company to promote the welfare of Mauritian citizens rather than as a profit making institution. This strategy will require the Government to intervene, financially, and allow the company to make losses while operating on markets that will not be necessarily be profitable in the short run, especially in the African region. This strategy will bear its fruits as the African continent becomes more prominent as a destination for Mauritian citizens and entrepreneurs and as a source of arrivals.

- Cut-throat ticket and hotel prices during the ‘Sales season’ as proposed earlier to countries in the region, with low-cost flights that offer few on-board services.

- Increase promotion of Mauritius in Northern Europe (Sweden, Netherlands and Denmark), China, Russia, India and Africa, and offering tailor-made services, including brochures and other facilities locally in the languages of these countries.

- Increase the proportion of local sales from 20% to 50%, at least temporarily, for operators under the Tax Refund Scheme. This will incentivise more shops to get into the system, thereby increasing the number of retail outlets offering duty free shopping. This will ultimately provide a major boost to export retail sales.

### Table 5: Tourism Sector

<table>
<thead>
<tr>
<th>Contribution to GDP</th>
<th>Actual Growth rate (2012)</th>
<th>Growth Rate (2013) *</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

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To the same end, a simplification of the customs procedures regarding Deferred Duty and Tax Scheme is required. This could include:
- Allowing operators to have corners around Mauritius without the obligation to have a full shop.
- Allowing sales exhibitions around Mauritius without any administrative constraints.
- Reviewing transfer procedures permitting operators having several shops to be considered as a company and not as a Point of Sale.

3.6 Financial services

The bouncing economic success reached in the 1980’s led to the emergence of a rapid growth of the financial services sector in Mauritius, becoming one of the most important pillars of our economy, with a projected growth of 5.5% in 2013, signalling a healthy business environment.

Table 6: Financial Sector

<table>
<thead>
<tr>
<th>Contribution to GDP</th>
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</thead>
<tbody>
<tr>
<td>10.3</td>
<td>5.7</td>
<td>5.5</td>
</tr>
</tbody>
</table>

*MCCI Forecast

There is still a cloud of uncertainty hanging over the Indian DTA treaty, despite several government statements made in support of its continued importance to both countries. However, the recently observed fall in both private and institutional funds flow into India through Mauritius depict the true story that unless this matter is resolved shortly, the Mauritius India route would lose most if not all of its appeal. Coupled with the G20 calls for a closer scrutiny of offshore financial centres, the combined effect could seriously affect this sector which has been absorbing a sizeable number of our young graduates.

The sector needs a specific attention and combined public private sectoral approach for its promotion and development. An overarching vision for the sector is also required as the message about our International Financial Sector is not consistent. Greater stakeholder involvement in the promotion efforts would be key in having a unified message about what the Mauritius IFC is all about.

We should also be careful in not over-regulating the sector in light of comments being made on the international scene, when our main competitors are doing the reverse. An impact
assessment should be carried out on any new measures being proposed for the sector prior to its implementation given the dynamic nature of this sector and its borderless confines.

The MCCI fully supports the work and recommendations of the Financial Services Consultative Council on new product development and promotion in that respect and are in favour of clearly earmarked funds to support such activities. We should continue our efforts to have all the signed DTAs, ratified and implemented before signing new ones. Already, some of our African partners are requesting re-opening of negotiations on some treaties already signed. Mauritius can become the biggest gateway for funds flowing into Africa, similar to what it did for India. This new African centricity should be nurtured at national level through the establishment of Trade and Investment Promotion Offices in the main capitals on the continent.

3.7 ICT

The ICT sector has been one of the most buoyant sectors of activity in recent times, with growth rates often exceeding the 10 percent level. However over the last two years the growth level somewhat slowed down.

<table>
<thead>
<tr>
<th>Table 6: ICT Sector</th>
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<tbody>
<tr>
<td>Contribution to GDP</td>
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<tr>
<td>4.5</td>
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*MCCI Forecast

The Government has always given this sector all its support, and this stance needs to be made more resolute so that ICT increases in size and importance as a commanding pillar of the Mauritian economy. It is the sector that can respond fully to the challenges posed by youth unemployment in terms of the variety of skills sets required and its international appeal to the younger generation.

The required measures that could help the sector further would be:

- Another decrease in the price of International Private Leased Circuit.
- Overhaul the existing ICT Portal, which will provide necessary information on the ICT sector for existing operators and potential investors on one single platform.
• Increase competition through connection to other cables

We are today in a situation where our regional competitors who once lagged behind us in the ICT sector, are able to provide more competitive services to customers. Kenya is currently connected to 4 cables, allowing broadband costs to be 20 percent lower. Meanwhile, Mauritius remains connected to SAFE and LION2 only.

Local competition is quasi inexistent, which keeps prices high and prevents others to make any significant impact on the market.

To provide consumers with better services at competitive prices, the Government should, together with the private sector, engage in the procedures to connect the economy to other cables, such as SEGANET or EASY, for internet connection.

This will lead to reductions in the price of broadband internet, allowing the expansion of the sector and the economy as a whole.

• Creation of a mechanism that will encourage partnership between training institutions and the private sector to identify skills required and develop courses that will address shortages. The increasing mismatch of skills in this particular sector could play against the progress in this sector in the future and this need to be addressed.

3.8 Ocean economy

The limited capacity of our land resources is pushing us to explore beyond. Our exclusive economic zone spans over 2.3 million square kilometres, and offers us a sea of opportunities that we should explore. The Ocean economy will not be just another pillar our economy but rather a strategy based on sustainable development. The National Task Force set up by Govt which also includes the MCCI, is developing the national action plan which for the first time is bringing together under the same umbrella different economic activities and stakeholders as well.

The MCCI fully supports this commendable initiative and its novel approach in fostering a public private sector partnership right at the strategy formulation stage. The expansive nature of such a national project which encompasses several ministries and government institutions should be funded in an innovative manner for it not to be subject to the usual administrative bottlenecks and rigidity of the approval systems in place.
A special fund – akin to a Sovereign Wealth Fund for future generations, should be set up with Government initial spending on the various projects identified by the National task force being capitalised as founding equity. These dedicated funds will be used to produce the necessary research, finance the necessary pilot projects, implement the necessary framework so that proof of concept can be clearly established and bankable feasibility studies prepared.

In a second phase, both local and international capital providers will be invited to participate in the fund on terms and conditions that Parliament will establish, given the bipartisan nature of such an endeavour.
# SUMMARY OF KEY MEASURES PROPOSED

<table>
<thead>
<tr>
<th>PRO-GROWTH MACROECONOMIC STANCE</th>
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</table>
| **Dynamic Fiscal policy**       | Fiscal Impulse  
MCCI recommends a stimulus in demand through a fiscal impulse, which will result in boosting confidence of entrepreneurs and consumers alike.  
Review of Taxes  
A list of all existing taxes, tariffs and other duties be compiled, and that a committee comprising of the public and private sector be set up to carry out a comprehensive review. |
| **Resolute Monetary Policy**    | Commitment to maintain stability in interest rates |
| **Competitive Exchange Rate**   | Dedicated programme to facilitate buying and selling of African currencies and monitoring there evolution vis-à-vis the Rupee |
| **New Export Paradigm, Africa** | Re-engineering the export process  
(i) Financing of export plans from Creativity and Competitiveness Fund  
(ii) Extension of Freeport advantages to all exports in the African region  
(iii) Reviving the Indian Ocean Rim Business Council, with the setting up of a special desk jointly administered by the public and private sector to analyse different avenue available under such cooperation  
Maison de Maurice  
(i) Bilateral negotiations with targeted countries for advantages on access to land, tax rates, clustering of Mauritian firms and facilities to develop a 'Maison de Maurice' in these countries to coordinate marketing initiatives and facilitate business  
(ii) Creation of a Regional Air Access Hub to consolidate air freight in and out of the region at a Cargo Village |

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## GROWTH SUPPORTING MEASURES TO RESTORE OUR POTENTIAL

| Productivity and competitiveness | Research, Development and Innovation  
(i) Setting up of a Creativity and Competitiveness Fund  
(ii) Productivity and Credit Innovation Scheme, with tax deductions of 200% on R&D expenditures, acquisition and registration of IP rights, Automation and Design activities  

| Training  
(i) Developing a framework for a Dual Education System  
(ii) Increasing the grant of the HRDC to 90 percent for training costs and reimbursing 90% of the absentee payroll  
(iii) Setting up of a task force comprising of the public sector, private sector and academia at the NPCC to identify areas of shortages of adequate labour and commissioning airport to identify future areas of interest  
(iv) Subsidising by 75% the cost of bringing foreign expertise for training of local labour  
(v) A grant of Rs 25,000 for people over 40 years to undertake further training  

| Creative Economy  
(i) Funding of a study to identify existing skills and set up a dedicated unit (Min. of Business in collaboration with the MCCI) to showcase expertise of local craftsmen  
(ii) Setting up of a Chamber of Crafts  
(iii) Extension of film rebate scheme to include other cultural activities  
(iv) A national emporium to showcase the local know-how to be set up  

| Energy Efficiency  
Provide direct support in terms of funding for the private sector project on energy efficiency involving the organisation of grouped audits |
| **Investment** | Financial Transaction Costs  
(i) Better monitoring and regulation of charges of financial institutions  
(ii) Appointment of Ombudsperson  
Angel Funds under Business Expansion Scheme, with a waiver of 30 percent of corporate tax payable for those willing to finance start-ups of R&D projects  
Investment Promotion  
(i) Review of Public-Private Partnership model with the contracting out the process to international advisors  
(ii) Resources for the setting up a desk by the private sector to pool together investors for particular projects  
FDI- Go East Strategy |
| **Cost of Doing Business** | Reengineer our key business processes with the view to reduce the cost of doing business, including permits, licenses, applications for basic utilities. Hosting of an online platform to register and monitor business complaints and queries |
| **Labour market and wage policy** | Employment Information Centre should be operated as one stop shop, decentralised at district level  
A wage policy for both private and public sectors that is based on productivity gains and capacity to pay |
<table>
<thead>
<tr>
<th>SECTORS OF GROWTH</th>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Agriculture</strong></td>
<td>Reinforced laboratory services with an expansion of staffs to provide a higher rate of preventive and curative measures for farmers. Insurance schemes for farmers. Waste management plans. Regional actions in SADC, COMESA &amp; IOC to produce animal feed. Leasing of land to farmers. Ensure the monitoring of dumping by streamlining the labour, metrology and environmental legislations. Incentive to small groups of farmers to encourage large production of milk products. Access to better pesticides that are less injurious to health.</td>
</tr>
<tr>
<td><strong>Manufacturing</strong></td>
<td>Clusters/ Special Economic Zones. (i) Steering committee comprising of Public sector, private sector and academia to study implementation of clusters. Level Playing Field. Monitoring and enforcement- capacity of relevant agencies and ministries to be reinforced, with heavy involvement of the private sector, to track down unfair practices with the power of prosecution. Credit Schemes. Uniformisation of the existing LEMS into one overarching scheme. Specific Issue- CWA Tariff. Re-classification of ‘Manufacturers of drinks’ under industrial category.</td>
</tr>
</tbody>
</table>
| Wholesale and retail | An Open Trading System  
(i) alignment of our labelling and standards requirements on international best practice  
(ii) enforcement of Intellectual Property Rights Legislation  
(iii) “Mauritius Shopping Frenzy” campaign  

Extension of the MRRP to all the other products subject to the Maximum Mark-up regulations as the alternative to price control  
Amending the legislation so that only the mention “VAT INCLUDED” or “VAT NIL” are required on the labels and that the requirement to have a blue label for goods not subject to VAT be removed. |
| Construction | Urban Renovation Scheme  
Encouraging private investment in PPP projects and other forms of public-private cooperation on building and construction projects  
VAT on individual residential buildings should be zero rated, applicable to second time home buyers  
Review the legislation on construction with a view to reduce or remove transaction fees  
Resources should be earmarked for research on the use of local sustainable materials  
Provision of serviced lands for the development of particular industries |
| Tourism | Reduction of Passenger Fee on Air Tickets by 50%  
Redefine the strategy for our national airline carrier directing to promote welfare for Mauritian citizens rather than being a profit making institution  
Reduction of ticket and hotel prices during Sales Seasons  
Customised services to certain destinations  
Increase the proportion of local sales from 20% to 50%, at least temporarily, for operators under the Tax Refund Scheme  
Simplification of the customs procedures regarding Deferred Duty and Tax Scheme |
| Financial services | New product development and promotion of the Financial Services Consultative Council Establishment of Trade and Investment Promotion Offices in the main capitals on the continent. |
| ICT | Increase competition through connection to other cables Decrease in the price of International Private Leased Circuit Providing the initiative and framework for companies to favour product research and development through appropriate regulations, schemes and training Overhaul the existing ICT Portal *Creation of a mechanism that will encourage partnership between training institutions and the private sector to identify skills required and develop courses that will address shortages.* |
| Ocean economy | A special fund – akin to a Sovereign Wealth Fund for future generations to be set up with Government initial spending |
1. Global Tourism Overview

The level of economic activity around the world managed to pick up following the 2009 contraction. While recent figures of the IMF do confirm that the recovery is well and truly present, the growth rates are heterogeneous across countries and the pace remains underwhelming as uncertainties endure.

The impact on travel and tourism is normally direct and strong, theoretically. The correlation between the willingness to travel is highly dependent on economic performances. The apprehensions of consumers translate in reluctance to travel.

The World Tourism Organisation estimates Travel and Tourism to contribute 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, highlighting the importance of tourism activities as purveyor of wealth.

The dynamism and promise of tourism is also reflected in the fact that it is a sector of activities that has been shielded from all the shocks that might have come in its way occasionally, as shown by the conspicuous rise in the number of tourist arrivals worldwide from 25 million in 1950 to 1.035 billion in 2012.

Indeed, following a fall worldwide at the peak of the crisis in 2009, tourist arrivals bounced back sustainably in the aftermath, surpassing the 1 billion figure last year and growing by 4.0 percent from 2011. Arrivals were more buoyant in the Asia-Pacific region, with a 7 percent increase, followed closely by the African region with an expansion of around 6 percent over a year.

Intensification on the receipts front was also maintained over the course of the rise in activity, with the 4 percent addition on international tourism receipts matching the growth in arrivals, although the growth rate has been lower than that immediately following the crisis.

All in all, international tourism receipts for 2012 totalled $1,075 billion, with over 90 countries receiving in excess of $1 billion from tourist activities.
2. Local situation

The Mauritian destination’s reputation is built on a foundation of picturesque sceneries, a strong identity of cultural diversity and as the epitome of hospitality. These qualities, coupled with the desire and audacity of the authorities, allowed a rapid expansion of the tourism sector.

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.

The performance over 2005-2008 has been exceptional, with the tremendous efforts made by the Government resulting in significant surges in tourist arrivals with a growth of around 25 percent. The period 2006-2007 alone accounted for a leap of over 100,000 arrivals while gross tourism receipts grew by 27.6 percent.

The pragmatic dynamism and the concerted public private efforts at that time explained to a large extent the relatively high growth rates of GDP, with the tourism sector reasserting its role as one of the most important contributors to the economy.

Table 1 Tourist arrivals and receipts (2005-2008)

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourists Arrivals</td>
<td>761,063</td>
<td>788,276</td>
<td>906,971</td>
<td>930,456</td>
</tr>
<tr>
<td>% Growth</td>
<td>5.9</td>
<td>3.6</td>
<td>15.1</td>
<td>2.6</td>
</tr>
</tbody>
</table>

On the basis of the commendable efforts during that period, tourist arrivals would have well and truly exceeded 1 million arrivals by 2010, in line with the vision, expectations and strategy of the Government.

Unfortunately, the crisis caused a serious dent in tourism activities with arrivals falling by 6.4 percent, undermining the solid work undertaken till then.

The previous measures taken have nevertheless allowed us a soft landing and prevented a complete collapse of the sector, which managed to get back on an upsurge trend once again.

Table 2 Tourist arrivals and receipts (2009-2012)

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourists Arrivals</td>
<td>871,356</td>
<td>934,827</td>
<td>964,642</td>
<td>965,441</td>
</tr>
<tr>
<td>% Growth</td>
<td>-6.4</td>
<td>7.3</td>
<td>3.2</td>
<td>0.1</td>
</tr>
</tbody>
</table>

However, the pre-crisis growth rates still remain an uphill struggle to achieve. Growth rates in this sector have been timid over the last 5 years.

The MCCI’s Economic Perspectives issued in May 2013 demonstrate that the pre-2009 growth potential in the tourism sector vastly exceeded that of the recent years, condemning us into a state of
impervious inertia on the number of arrivals. Indeed, the crisis led to a drastic reduction in the average potential growth rate, from 7.4 percent pre-crisis to 3.2 percent post-crisis.

Table 3 Accommodation and food services

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution to GDP %</td>
<td>7.0</td>
<td>6.7</td>
<td>7.0</td>
<td>7.1</td>
<td>7.0</td>
</tr>
<tr>
<td>Growth Rate %</td>
<td>1.3</td>
<td>-6.0</td>
<td>6.0</td>
<td>3.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Potential Growth %*</td>
<td>3.1</td>
<td>-3.9</td>
<td>4.7</td>
<td>1.2</td>
<td>0.1</td>
</tr>
</tbody>
</table>

*MCCI Estimates

Mauritius meanwhile has been pitched into the long haul travel destination category, which is playing against the attractiveness of the island as a visiting place of premium consideration. This perception needs to be altered, through a bold new strategy, the positive effects of which will transcend the sector itself.

Our capacity to increase revenue and overall level of economic activity in the economy will be largely determined by our ability to make this sector a more competitive component of the visitor experience, given the importance of the tourism sector as one of the most important triggers of economic development.

3. Rationale

Tourism is an export industry, as foreign visitors who travel to a country purchase the touristic experience of that country, which encompasses hotels, commodities, activities, car rentals and other services.

Figure 1 Share of Total Exports (2012)

Currently, the Bank of Mauritius estimates that travel activities single-handedly represent 24 percent of total exports of all goods and services, highlighting its preponderance over the foreign currency

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earning capacity of the Mauritian economy. This is more than half of all export-oriented manufacturing activities put together, despite representing a much lower proportion of GDP.

The World Bank on the other hand, has calculated that international tourism receipts represent around 32 percent of total exports.

These figures demonstrate that a thriving tourism sector is capable of bringing in significant returns in terms of foreign currency, with the potential of correcting our current account deficit and building up reserves that would ensure the provision of several weeks of imports.

Furthermore, accommodation and food service activities directly employ some 38,600 workers. Given that several other sectors, ranging from transport, manufacturing, retail and other services are highly dependent on the tourism sector for their survival, the importance of the tourism sector as generator of employment is not to be underestimated.

In addition to creating employment in other sectors of activities, tourism plays a major role in creating wealth as well. For many tourists, travel also offers the opportunity of indulging in retail shopping activities, at their own leisure in a relaxed environment with ample time to buy luxury goods as well as souvenirs and gifts.

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 SPEND in the country and most importantly, to provide an overall stimulus to the overall economy through spill-over effects.

4. Proposition

In addition to a strategy focused on the diversification to non-traditional markets in these trying times characterised by cut throat competition, we need to WALK THE EXTRA MILE with new and innovative policies. The Mauritian destination market should be more competitive, without going into a downward spiral in terms of rates and while maintaining the current standards of services being offered.

To this end, it is our considered view that a fiscal impulse could help to boost up the tourism sector with a sizeable multiplier effect reverberating throughout the whole economy.

The MCCI proposes an extension of the current VAT refund scheme to include accommodation services, for a limited period of time

This measure will significantly increase the contribution of export retail sales and stimulate other productive sectors of the economy as well through a perceived level of new affordability for our long haul tourists and providing us with an incomparable competitive advantage in the region.
Today, on average, a tourist spends Rs 43,853 in Mauritius. Half of this goes into accommodation services, which is in line with the expenditure pattern elsewhere.

The refund, which could take the title “Cash-back on VAT for Accommodation” will give us a definite advantage on our competitors.

The overarching objective of this measure is to increase the pace of GDP growth for our economy, and the contribution of the tourism sector needs to be improved back to its pre-crisis levels and in a sustained manner to bring it over the 10 percent GDP mark.

The amount reimbursed will be ploughed back into the economy though enhanced consumption expenditure across the board. Entertainment, shopping and sightseeing combined currently represent only 20 percent of average tourist expenditure. This percentage could be doubled for the economy as a whole to reap the full benefits. The fact that the amount reimbursed is to be spent within the country is a key attribute to win overall traction amongst our various stakeholders.

5. Process

- **Eligibility:** All tourists who have pre-booked for accommodation in registered hotels prior to departure from their country of origin through a predefined package. This represents 70 percent\textsuperscript{13} of tourist arrivals.

- **Amount:** It is proposed that the voucher amounts to the VAT applicable on hotel accommodation bills (or on an agreed percentage thereof). The voucher could be denominated

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Figure 2 Percentage distribution of expenditure per tourist per night and category of expenditure, 2010
in Rs 100 and Rs 1000 units, with an expiry date and redeemable at selected outlets, against endorsement with an ID. For easier management and greater flexibility, the voucher could be rounded to the lowest Rs 100.

**Procedure:** Upon checking in at their hotels, tourists would be given a stamped voucher after presentation of the documents (hotel bookings, passport). The voucher could be spent at registered outlets on the island and also at the airport prior to departure.

6. **Economic implications**

The benefits of the proposed scheme would be expansive, initially triggering an immediate benefit to the tourism sector with a consequent multiplier effect:

- **Export retail services**

  The measure will position Mauritius as a significantly more competitive tourist destination in the region, benefitting from a perceived discount on the overall travel package and as a strong marketing tool demonstrating the willingness of the country to adopt resolutely pro-growth strategies to enhance the overall tourist experience.

  Furthermore, the voucher would represent an additional income to be spent on the island. Empirically, it has been evidenced that the income elasticity of tourists ranges from 1.5 to 6.2, implying that the effect of increasing their income available to spend would lead to a greater percentage in their expenditure. The focus of such measures is under scrutiny in several other countries, such as Australia and Canada in recent years.
**Domestic economy**

It is estimated that the tourism expenditure multiplier is close to $2^{\text{st}}$. Concretely, this would imply that any a direct increase of, say $1, will ultimately result in an additional $1 increase in economic activity due to direct and induced production and consumption through the relevant transmission mechanisms.

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

The implications of the vouchers will not be as egregious to Government finances as could be thought.

First, with an effective overall tax rate of 28.5 percent$^{\text{th}}$ prevailing in the economy, potential revenue accruing to the Government as a result of implementing this measure will lead to even higher earnings and tax receipts, automatically financing a major part of the cost. **THE BENEFITS FAR OUTWEIGH THE COSTS TO THE TREASURY.**

Second, this proposed system would act as an automatic stabiliser. In periods where arrivals are low due to cyclical fluctuations or other factors out of our control, adjustments to Government expenditure would automatically be downwards. Therefore, as well as being revenue generating, the proposed extension would be self-adjusting.

**The success of the programme would nonetheless require a full-blown advertising campaign with emphasis laid on the fact that the traveller gets on the spot shopping credit, equivalent to VAT paid on accommodation.**
IMF, July 2013, World Economic Outlook update
iv MCCI, May 2013, Economic Perspective 2013
vii IMF (2013), WEO July update
viii UNWTO (2013), Tourism highlights
ixi Kulendran and Divisekera (2006) Australian tourism marketing expenditure elasticity estimates
xii Paying taxes 2013

Tourism and Transport Forum (2011) Economic structure and performance of the Australian Retail Industry
x Global Refund Canada (2007) The GST Visitor Rebate Program for Individual Travellers An Economic Impact Analysis


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