THE MAURITIUS CHAMBER OF COMMERCE AND INDUSTRY

MEMORANDUM ON THE 2013 BUDGET

Gearing towards a more competitive economy

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Introduction

The year 2007 marked the beginning of a crisis that forever changed the face of the global financial system, plunging countless economies in recession.

Five years later, we are still where we were; if not slightly worse off as there seems to be only limited firepower against such a situation.

In Mauritius the stimulus packages have had a marginal contribution. In fact, the country has until now surfed on the wave of reforms started in 2006. The benefits are however wearing out, and a new agenda is more than necessary.

This crisis is neither the first nor the last, and is not going to be fatal. History shows that crises are inherent to the liberal model. The latter, which has existed for over two centuries, proceeds by trial and error. Excesses, such as the case of the subprime loans or the sovereign debt, are necessarily purged by crises. However, the flexibility of this doctrine always brings back the economy towards equilibrium and the economy normally finds an ascending phase again. Although there is an emerging consensus that, given the depth of the crisis, the recovery might take much longer than in the past.

Until then however, there is the need to design and implement a new set of reforms that will guide us through the storm that awaits us in 2013 while cementing the way for sustainable long term growth. We need to bring forward our ambitions tinged with realism to achieve higher rates of growth and overall prosperity.

The Mauritius Chamber of Commerce and Industry believes that the 2013 Budget should come forward with new policies and measures to consolidate the resilience of the Mauritian economy, stimulate its creativity and exploit its full potential and its capacity to re-invent itself in the face of adversity.

In this context, the Mauritius Chamber of Commerce and Industry is submitting its proposals for the 2013 Budget organised as follows:

In a first instance we present the current international and local economic situation, providing the basis for our proposals. Second, we outline broader macroeconomic policies, followed by business reengineering measures that would contribute to stimulate the level of economic activity. Finally, we address sector-specific issues faced by the local business community with proposed solutions.

1.1. International context

By the end of 2011, it appeared that the Euro area was going to experience another bout of acute pressure on its sovereign markets, with its effects threatening to bring down the global economy into another recession in 2012.

However, particularly timely policy measures taken at that time to reinforce the commitment of world leaders, especially in the Euro area, towards greater fiscal consolidation and better management of public finances, coupled with the provision of liquidity by the European Central Bank through its Longer Term Refinancing Operations (LTRO), managed to circumvent an impending catastrophe. The Euro was still alive, and so was the global economy.

Stimulus measures and the actions taken by the US government also had the desired effect of bringing back a certain level of confidence in the economy and thereby stimulating business activity.

Unfortunately, increasing political and financial uncertainty in Greece, banking sector issues in Spain and the lack of commitment on the part of partner countries have deteriorated the overall economic sentiment.

All these resulted in massive capital outflows, increase in sovereign bond yields and a contraction in credit to the private sector, stifling the growth prospects. The stabilizing effect of the Long term refinancing operations of the European Central Bank (€489 billion in December 2011 and €529.5 billion in February 2012) rapidly eroded. These contributed to a loss of momentum created initially in the US.

The effects however did not limit themselves to the advanced economies. Emerging economies are starting to bear the full force of the problem. The falling overseas demand was further exacerbated by decreasing domestic demand. The lack of certainty and policy tightening managed to pervade into emerging economies. The effects have been a reversal in the level of confidence and a worsening of the economic climate.

Recent figures confirm the trend. The UK is already in a double dip recession, with GDP contracting in three consecutive quarters. Growth in the US has decelerated in the 2nd quarter to 1.5 % from 2 % in the 1st quarter.

The means to counter the crisis are getting scarce. The priority, it would seem, remains in solving the debt crisis in the Euro area. This would bring stability to the financial system and abate the negative effects to emerging countries and the US.

Already, the July update to the World Economic Outlook of the IMF estimates world output to increase by 3.5 % in 2012, which is 0.1 percentage point less than what was initially estimated. In the advanced economies category, growth is expected to amount to 1.4 %, which is the same as the figure projected in April. Output is expected to contract by -0.3 % in the Euro area while in the US it is expected to expand by 2.0 %. For emerging and developing economies, a growth of 5.6 % is forecast, which is 0.1 percentage point lower than initially estimated.

1.2. Local context

While Mauritius managed to wade through the main crisis of 2008 and 2009, the resilience of the economy is beginning to feel the strains of the worsening global economy. The situation of our main trading partners is precarious, and its effects are rippling to our shores.

For 2012, the IMF and the World Bank on the other hand both forecast a growth rate of 3.6 %. Latest figures from Statistics Mauritius however show that GDP growth will amount to 3.2 %. .

For 2013, the IMF expected GDP to grow by 4.0 % while the World Bank expected growth to amount to 4.3 %, following an expected improvement in the global situation.

A scenario of growth exceeding 4.0 % for 2013 is looking increasingly unachievable in the current situation and with the existing set of policies. In the last decade, we have been constantly underperforming the Sub Saharan region, and this is expected to continue in the short term.

Indeed, the Sub Saharan region has experienced an average growth rate of 5.7 % per year in the last decade while Mauritius managed only a 4.0 % average annual growth. Our current growth is even much less than figures from Developing Asia, where they are significantly above the 7.0 % mark, while Emerging and Developing economies as a whole are expected to grow by 5.6 % in 2012.

There are signs that our economy is losing its growth momentum. One of the factors is definitely the external situation. The 2006 reform had presented us with an opportunity to stimulate growth, but the crisis has changed the economic paradigm and now, we need a new reform which will improve our competitiveness.

The existing economic strategy contains the foundations for a solid growth performance, but there is the need to review some of its policy orientations in the light of recent developments. Pro-activity is the keyword in any new development model.

Any strategy should show ambition and commitment towards achieving growth rates in excess of 6.0 % on average, the only way to pull people out of unemployment.

What we need is coherent monetary, fiscal and exchange rate management policies that will improve our macroeconomic framework, address supply side issues and provide a framework to boost activity in particular sectors to lead us through the storm towards even greater heights.

2. Macroeconomic policies

2.1. Fiscal policy

In times like these, the Government has a major role to play in stimulating the level of economic activity.

The MCCI believes that there is enough fiscal space for the Government to give certain fiscal incentives for private enterprise while maintaining a reasonable level of expenditure to prepare for greater prosperity in the coming years.

The tax reform undertaken in 2006 set a Uniform Corporate Tax and Personal Income Tax rate at 15 %. The motivation behind this is that the Flat tax model has the desirable trait of minimising economic distortions caused by specific taxes on special-interest driven initiatives, and thereby increasing the efficiency criteria.

Furthermore, the low flat tax has certain economic reasons for its raison- d'être. It gives a competitive edge over competitors, and this relative advantage leads to greater rates of economic and income growth, higher levels of capital formation and investment, and greater social welfare.

In addition, people are encouraged to save and invest more of their income, since their investments are not taxed at every turn. Finally, an increase in consumption, savings and investment has positive spill-over effects on the economy as a whole.

The flat tax has served its purpose in that it has succeeded in creating an attractive environment for all activities, a major source of competitiveness for Mauritius and, to a certain extent, negated the effects of the recent crisis leading us to growth levels which would have been difficult to achieve without it.

Further, FDI inflows to the country reached record levels, and remain higher than in the years before the tax reform of 2006 despite everything.

The flat tax has proved its worth and capacity as an effective policy tool to stimulate activity in our economy. This is why at the MCCI we believe that it should be maintained as temptations to introduce new taxes in times of crisis are high. In fact the Government has in recent years introduced some distortions which need to be addressed.

'Paying Taxes 2012' of the World Bank has expressed its concern over the trend noted in the past two years which is reflecting a move away from a simplified and single rate tax system. The total tax rate increased from 22.9 % in 2010 to 25.0 %, following the introduction of the CSR tax and other charges.

While the removal of the capital gains tax and the tax on interest and dividends came as a relief for investment promotion, there are still anomalies to be addressed, including the Solidarity tax on hotels, banks and telecommunication companies.

Furthermore, the time has probably come to review the 15 % rate.

It is noted that Eastern European countries have gone below the 15 % corporate tax rate (for instance, Albania, Bosnia-Herzegovina and Serbia have a corporate tax rate of 10 % and have been performing relatively well on the growth front).

The MCCI believes that either lowering the corporate tax rate below 15 % and/or removing the other taxes will send a strong signal that the growth agenda is very much prominent for the Government.

Finally, although the principle of uniformity should continue to be the rule, a few temporary exceptions, however, if fully justified, can enhance the effectiveness of the tax system. Lower than the uniform rates, and in some cases negative tax rates, which may take the form of a subsidy, can be applied in an exceptional manner to support specific activities or competitiveness enhancers at discounted rates.

In this context the taxation regime for the international financial services sector and Freeport services should be maintained.

2.2. Monetary policy

Monetary policy is undoubtedly one of the most important tools of Government, the more so in a context of economic crisis. Interest rate and exchange rate policies are at the heart of any stimulus programme or a strategy to enhance competitiveness.

2.2.1. Repo rate

A low interest rate has to be balanced with the threat of inflationary pressures.

However, over the last year inflation is becoming less and less of a problem, with a stabilisation in the prices of commodities (although recent developments have started to cause some anxiety). The Repo rate is at present at a reasonable level, but to send a strong signal on the commitment to growth it may be further reduced. However, more importantly, there is the need for investors to get a sense of stability over the medium to longer term.

Haphazard changes in the rate of interest negatively affect the level of business confidence as it instils a certain degree of apprehension leading to instability in the markets. In August 2011, when the Federal Reserve of the US pledged to maintain near zero interest rates for at least two years, the effects were

almost simultaneous. The Dow Jones increased by around 4 % following the announcement, which was its largest increase in more than two years.
The MCCI is of the view that bringing down the Repo rate to 4.5 % followed by a commitment for a minimum of 2 years that the Repo rate will jot go beyond 5 % would provide local businesses and consumers with greater certainty about the availability of low-cost borrowing as they consider making investments or major purchases and investment This will give the required impetus to the level of economic activity.

2.2.2. Exchange rate policy

At a time when fiscal and monetary policy are failing to get economies out of the crisis, exchange rate management policies are presented as the panacea to the floating spectre of a global meltdown.

Over the past years, several developing economies have been opting for a shift towards a weaker currency. China for one has been a main protagonist of weak currency, and India is going in that same direction. Argentina had managed to get out of its economic crisis through a devaluation of its Pesos. All these countries were able, through management of their exchange rate, to mitigate the adverse impact of an unfavourable external environment. Even a situation of Greece leaving the Eurozone hinged on a devalued currency.

In Mauritius, forced devaluations occurred in 1979 and in 1983. These devaluations served the Mauritian economy well, increasing the competitiveness of our exports and paving the way for high levels of growth (in excess of 8 percent in the late 1980s). In the last few years however, the Rupee has been consistently appreciating vis-à-vis major currencies, especially the Euro, harming the competitiveness of our products and reducing profitability of operators, especially in a situation of increasing competition from other emerging nations.

In 2008 the Euro was valued at Rs 41.40 on average for the year, and the following year it was at Rs 44.28. It can be argued that this weaker Rupee helped Mauritius over a difficult period in the global economy. Since then, the Rupee was allowed to embark on a reckless ascension against the Euro. The situation became even worse since the beginning of the year, with the Euro trading at Rs 36.65 by the end of May 2012, exacerbating the current account deficit, with importation of goods and services increasing continuously.

A strong currency is considered as a subsidy to imports. Since we have moved rapidly towards more openness, this factor is proving to be a major disadvantage to local production and can in the longer term threaten our local production capacity.

The actions initiated by the Bank of Mauritius to build reserves are only the first steps in a major overhauling of the exchange rate management policy required at the moment. The MCCI believes that the long-term objective of the exchange rate policy should be to have stability in the average exchange rate of the Rupee (preferably on a trade-weighted basis).

Nevertheless, in the short to medium term, there is the need to come back to the 2009 values which would counter the revaluation of the Rupee. This single measure will undoubtedly contribute the most to restoring the competitiveness of our industries, lessen apprehensions in many sectors and enhance our growth potential for coming years.

2.3. Growth supporting measures

In times of crisis the onus is usually on the Government to support growth with public investment taking over the role of private investment in the short run. However, such type of investment is by no way sustainable.

There is the need to stimulate the level of economic activity through a strategy that will stimulate private sector investment in the economy. The MCCI believes that such a strategy is necessary to achieve higher rates of growth in the longer term and increase the resilience of the Mauritian economy.

2.3.1. Investment

Investment is important for achieving sustainable growth and development for developing countries if it is directed towards improving the productive capacity of the economy in the medium and longer term.

New growth theory identifies three main potential influences on output and long term productivity growth: investment in human capital, research and development and investment in physical capital, mainly machinery and equipment.

Econometric evidence supports the view that investment in Machinery and equipment favour growth and productivity in the long run. Several studies[i] find that increasing Machinery and Equipment investment as a share of GDP by 1 percent increases long term productivity by 0.2 to 0.3 percent and output growth by 0.2 percent. Similar change in investment in other forms leads to 0.06 percent growth in output only.

Indeed, investment in machinery and equipment is imperative to sustain a rise in productivity levels and productive capacity. Internal economies of scale can be achieved and technological advances associated with new machinery enhance competitiveness and push the production possibility frontier.

In this context, the MCCI is putting forward specific proposals to give an added impetus to investment in innovative equipment and processes, including the acquisition of Intellectual Property and software found under other machinery and equipment.

They are as follows:

(i) A grant of 15 percent to be given to investment by local enterprises in innovative equipment falling into the category of Machinery. Based on figures for 2011, investment in other Machinery and Equipment stood at Rs 19.3 billion. If we assume, generously, that 20 percent of this figure concerns innovative and productivity enhancing investment, the grant scheme would cost around Rs 580 million, which can be financed from the National Resilience Fund.

(ii) Double VAT exemption on investment on innovative products, e.g., Property rights, software acquisition.

Double VAT exemption implies foregoing the taxing of the products at source and on the service delivery of the product. The cost will only be in terms of opportunity cost to the Government, and the benefits accruable to the economy will be a lot more.

(iii) A tax credit system for start ups and for businesses engaged in R&D. The MCCI proposes that the Government covers 40 % of R&D expenses in the 1st year, 35 % in the 2nd year and 30 % in subsequent years up to a certain limit. R&D expenses taken into account should include salaries, social security contributions, running costs, depreciation, acquisition of patents and software and other related items. This is similar to the system adopted in France where the Government reimbursed €6.2 billion in 2009 alone.

(iv) The creation of a Government managed fund similar to the case of Brazil where 30% of income generated by the corporate tax is used to finance investment. The government managed fund can further act as a partner to business practices engaged in innovative activities by co funding start ups or other R&D projects in specific fields.

(v) Further to its role of promoting the Mauritian destination to attract FDI, our local Investment Promotion Agency, the Board of Investment, should complement its role with increased efforts to stimulate the level of domestic investment.

The MCCI believes that the creation of a dedicated unit within the BOI is needed for this end, following the examples of the Malaysian Investment Development Authority which has a special unit, the Domestic Investment Promotion Division, to boost domestic private investment.

In fact, an UNCTAD survey[ii] of investment promotion agencies in 2000 found that 73 % of developing economies' investment promotion agencies is engaged in attracting domestic private investment.

Overall, the Government needs to adopt a coherent and complementing set of policy measures to create a favourable climate to attract investment.

2.3.2. Consumption

In time of economic crisis, attempts to support growth through consumption enhancement measures are very common as we have seen in recent years in the US, Europe or even China. These measures can be classified in three broad categories:

(i) By increasing the after tax income of households trough reduction in income tax,

(ii) By increasing the purchasing of consumers through reduction of indirect taxes; and

(iii) By giving more revenue to households either through mandatory increase in salaries or monetary hand out to households.

On direct tax measures, the margin of manoeuvre might be narrow. Depending on the fiscal space, the income tax rate can be brought down further than the 15 % (even as a temporary measure) to boost consumption, investment and growth. Other countries have already cut their uniform tax rate to below 15 %.

On indirect taxes, options are also limited as customs duties have been drastically cut in recent years and VAT is not applicable on many food items. Also we have to keep in mind the defensive interest of the local manufacturing sector, which is discussed later. However, one measure which can have a wide-ranging impact on both final demand and investment is a significant cut in the excise duty on petroleum products.

On the last category of measures, consideration could be given to the introduction of a 'negative tax'.

The basic idea is the same as a flat tax with personal deductions, except that when deductions exceed income, the taxable income is allowed to become negative rather than being set to zero. The flat tax rate is then applied to the resulting "negative income," resulting in a "negative income tax" the government owes the household, unlike the usual "positive" income tax, which the household owes the government.

Although the administration of such a tax might be complex, it provides an objective instrument to support income earners at the low end of the ladder.

2.3.3. Savings and pensions

In Mauritius, Gross national savings as a percentage of GDP fell from 17.2 % in 2008 to 15.2 % in 2011. GDFCF as a percentage of GDP represented 23.7 % in 2011, and has been continually higher that the savings rate. In a small economy like ours, this situation of imbalance can lead to much instability in the overall general equilibrium model. Investment should be backed by adequate levels of savings in an economy, so that when opportunities arrive, there are actually resources to capitalise upon them.

The primary way to increase savings is by increasing income. However in times of economic crises, novel measures have to be implemented to increase the savings rate.

These measures can only have an impact either if returns on savings are enhanced, which is quite problematic in a low interest environment to support investment and growth; or incentives are given, in the form of tax breaks of bonification of interest rates by Government, which run counter to the policy of uniform tax rate. However, consideration can be given to the following:

The MCCI proposes other approaches, aimed directly at influencing the savings level in an economy.

(i) Capital gains incentives to encourage firms to save part of their income.

(ii) The possibility to increase the return on long term savings rates by commercial banks. The government should look deeper into the matter.

(iii) A retirement plan, similar to the Individual Retirement Accounts (IRA) in the US may be introduced to increase the level of savings. Contributions should benefit from tax exemptions, and penalties may also be introduced to prevent savers to withdraw from the scheme earlier than agreed.

    The Government may also entertain the introduction of a mandatory defined contribution plan for all working Mauritians, and self employed individuals as well.

(iv) More importantly, a new approach should be adopted to the taxation of retirement pensions. The taxation should be significantly reduced to encourage both employees and employers to contribute to pensions schemes.

    The case for a total tax exemption for private pension schemes is even stronger. Prior to the 2006 reforms in tax administration, private pension contributions were exempted from income tax. Today, income used for contributions are taxed, and again at maturity where the lump sum is taxed. This policy goes against the concepts of fairness and equity which a system of uniform tax regime posits. Thus, the MCCI proposes that the private pensions contributions are exempted from taxation.

2.3.4. Business Consolidation Schemes

The current crisis is expected to intensify in 2013 and the MCCI believes that the National Resilience Fund should be increased.

The different schemes available, such as the LEMS, the MBGS and other credit financing schemes should be managed by one single entity to make the process simpler for enterprises to get information on schemes that will suit them better. This arrangement does not preclude that actual processing and disbursement would be done by specialised 'channels'.

2.4. Inflation

Whenever people talk about inflation, mention is made of its 'ugly head', as a monster that needs to be killed at all cost, as if nothing else mattered.

However, even in deciding whether there is a need to fight it or not, and if there is the need to do it, it is important to understand the root causes of inflationary pressures in an economy. An analysis of the sources of inflation in Mauritius in recent years reveals that increase in the price of imports of goods and services and the review of administrative prices and mandatory wage increases are the two key main contributing factors.

According to the IMF, most of the recent increase in the inflation rate appears to be due to one-time exogenous factors, as 53 percent of the CPI basket in Mauritius consists of imported goods, which have experienced a level increase. Being highly dependent on petrol imports, local products experienced surges in the general price level following the increase in the global price of oil in 2010 and early 2011.

The resurgence of the crisis this year has meant lower demand for oil and other commodities worldwide, translating into lower pressure on prices. In 2011, headline inflation at December stood at 6.5 %. By the end of this year, this figure will have shed off at least 1 percentage point.

In such a scenario the fight against inflation can have only a limited impact. More importantly, inflation does not only have a bad side.

It is true that the negative effects of inflation are there for everyone to see. The depreciating value of money implies lower purchasing power for fixed income earners such as pensioners. It is also an issue for an economy as it erodes a certain degree of competitiveness as investors and buyers tend to prefer countries where prices are more stable.

However, it is hyper inflation that mainly leads to these issues. A moderate level of inflation is often part and parcel of a growing economy. Indeed, economic growth relies heavily on investment, which can be an inflation factor as there are increases in income distribution prior to the goods and services resulting from the increase in investment finding their way to the market.

Further, inflation has a redistribution effect from lenders to borrowers. The latter have to repay their debts in depreciated money, and thus stand to gain. Given the high level of indebtedness in the economy, inflation is actually helping the cause of over indebted households as well as the servicing of debt by the Government. Moreover, contained within acceptable limits, it can serve the economic development of a country by stimulating demand in view of further price increases.

Thus, it can be argued that there is a certain level of inflation that can be beneficial for the economy.

According to Rogoff[iii], moderate inflation can help in crisis period because it can effectively absorb all non-indexed debt in the economy.

With inflation easing, the MCCI believes that growth pursuit may be done without worrying too much about inflation.

Lower and fixed income groups should be targeted and provided assistance or other forms of safety nets, but given the low level of inflation, this will not require digging deep in the budget.

All in all, it can be concluded that a certain leeway exists in depreciating the rupee and lowering the interest rate without seriously affecting the level of prices in the economy, and the monetary policy of the Government should focus in that direction.

3. Business re-engineering

3.1. Doing business

The regulatory environment in which business can be done in an economy is of high importance to policy makers. A conducive business environment is attractive to investors, be it local or foreign, in that it facilitates the decision making process in choosing one particular location for business activities over another.

In its vast economic reform projects undertaken in 2006, Mauritius also embarked on a process of facilitating the business environment, eliminating and simplifying constraining procedures, bringing down costs and enforcing regulations to render the local economy more attractive.

To a large extent these Business facilitation reforms paid their due. The World Bank’s annual Doing Business Report for 2011 ranked Mauritius 21st among 183 countries, and 1st in Sub Saharan Africa, better than South Africa and other industrialized nations.

Since, it appears that the commitment to improve the ranking has not been pursued relentlessly. In the Doing Business 2012 report, Mauritius has slipped to 23rd in the world, with several indicators degrading over the period.

To continue attracting high levels of FDI, reforms should be taken to enhance the attractiveness of Mauritius over other countries. With the adequate reforms, the MCCI believes that Mauritius has the potential of being in the top 15 in the world, not to say the top 10.

By benchmarking our business environment with international best practices, we can climb up the ladder. We are ranked badly in certain indicators, and measures to improve them are necessary.

a) Dealing with construction permits

In a 2009 survey of 218 companies in 19 Asia-Pacific Economic Cooperation (APEC) member economies, respondents identified the time and procedures in construction permitting as the biggest "regulatory impediment" to doing business.

Mauritius ranks 53rd out of 183 countries in dealing with construction permits. Currently, there are 16 procedures, taking 136 days, and costing 30.6 % of income per capita to complete these procedures. In Canada there is only 1 procedure, in Singapore it takes only 26 days and it costs only 1.1 % of income per capita in Qatar to do the same procedures.

We can point out some criteria which could and should be improved. The plan approvals from the CEB, CWA and WWWA authorities take 15 days, the sewage connection from the WWWA takes 60 days, power connection from the CEB and water connection from the CWA takes 14 days, phone connection from Mauritius telecom takes 10 days, building and land use permit takes 14 days, occupancy permit 10 days and plan approval from the Fire Department 14 days. Furthermore there are different costs attached to these procedures and you need to go to each of these institutions to obtain the approvals.

There is the need to design and implement a whole set of rules and regulations harmonising all the procedures to speed up the processes involved.

The MCCI believes that one of the main measures to this end would be the launching of a one-stop shop for construction permits. Botswana opened a 'Centre de facilitation des Actes de Construire' in 2008, merging 32 procedures into 15 and reduced the time required from 226 days to 122. Cost was cut by 40 %.

We propose the consolidation of internal administrative procedures and have quicker processing of permits. Furthermore, the plan approvals should take at most 7 days for all construction involved.

b) Getting electricity

Infrastructure services, particularly electricity, are a concern for businesses around the world. World Bank Enterprise Surveys show that managers in 109 economies, 71 of them low or lower-middle-income economies, consider electricity to be among the biggest constraints to their business. [iv]

Mauritius ranks 44th concerning Electricity. There are 4 procedures involved, taking 91 days and costing 328.5 % of per capita income. The corresponding indicators for the best performers are 3 procedures involved taking 17 days in Germany, and the lowest cost lies in Japan where it stands at 0.0 % of per capita income.

There is the need to increase the efficiency in providing electricity services to investors. One method is greater intra parastatal collaboration, and increasing reliance on sub-contracting services.

Hong Kong SAR made the access to electricity easier by increasing the efficiency of public agencies and streamlining the utility's procedures with other government agencies and Gambia started allowing customers to choose private, prequalified contractors to do the external connection works. This cut the total time, part of which was previously spent by the utility on tendering, by 100 days.

The MCCI proposes to open the external connection works to private prequalified contractors to reduce the number of days. In addition, we believe that the cost of connection should be completely borne by the Government.

c) Registering property

Registered property rights are important in providing support to investment and growth. Cadastres or surveys act as proofs of secure property rights. Lands and buildings form 50 %- 75 % of most economies wealth making up-to-date land information systems imperative.

The benefits of registered land go beyond the realm of the private sector. The Government has better information to help it in tax collections. Also, it helps in planning infrastructure development.

Mauritius ranks 67th in the world in this category. There are 4 procedures involved, taking 22 days and costing 10.6 % of per capita income. In Portugal, there only 1 procedure and it takes only 1 day to register property. The cost in the Slovak Republic is 0.0.

There is some work to be done in reducing the number of procedures, the time taken and the cost. Concerning the latter, the MCCI proposes that we could lower the transfer tax (5% of property value) and the registration fee (5% of property value) by half. Furthermore, we should introduce effective time limits and computerised systems which to a certain extent will decrease the time taken for the procedure.

d) Getting credit

This indicator assesses the legal rights of borrowers and lenders with respect to secured transactions and the sharing of information through 2 variables: the Strengths of Legal Rights Index (marked 0 to 10) and the Depth of Credit Information index (marked 0 to 6).

Mauritius is poorly ranked at the **75th** place for this indicator with a score of 6 for the strength of legal rights and a score of 3 for the depth of credit information index. New Zealand has a perfect score of 10 for the former while Japan has 6 for the latter.

Greater focus in information dissemination on available credit facilities can be encouraged. Angola strengthened its credit information system by adopting new rules for credit bureaus and guaranteeing the right of borrowers to inspect their data.

The MCCI recommends the broadening of the range of assets that can be used as guarantee (including future assets) and to introduce the possibility of out-of-court enforcement.

e) Enforcing contract

Courts to protect the rights of entrepreneurs are important. In the case where a customer fails to pay, businesses should know that there exists an efficient and transparent legal system to protect their rights. Speedy trials are also essential for small businesses, who may find it difficult to sustain long term trials.

Mauritius is ranked 61st in the enforcing contracts category. There are **36 procedures** and it **takes 645 days (25 days for filing, 440 days for trial and judgement and 180 days for the application of the judgement)** with a **cost of 17.4% of claim** to complete these procedures. Comparing with good practices (21 procedures in Ireland, 150 days in Singapore and a cost of 0.1% of claim in Bhutan), we find that the number of procedures, the time and the cost are too heavy and we need to act on the three variables.

Computerisation of the filing system should be envisaged and we should think to implement more specialised courts to make the whole process faster and easier for entrepreneurs.

f) Resolving insolvency

The economy currently ranks 79th in the resolving insolvency category (previously known as closing business). It takes **1.7 years** with a **cost of 15% of debtors' estate value** to Recover Debt and the recovery rate is 35.1%. Comparing with good practices (0.4 years in Ireland, cost of 1% estate value in Singapore and a recovery rate of 92.7% of in Japan), we find that there is a lot we can do to improve this criteria.

Recent improvements in resolving insolvency have resulted from amending outdated legislations. The needs today are different, and specific issues need to be addressed by specialized instances in a particular time frame.

The implementation of specialized civil and commercial courts will undoubtedly reduce the length of proceedings.

Furthermore time limit should be fixed for creditors to submit the reorganization plan and for the court to approve or reject the reorganization proceedings. Reforms like these will reduce the average time to recover debt and improve confidence of investors in our economy.

3.2. Competitiveness and productivity

The World Economic Forum's (WEF) Global Competitiveness report 2012-13 ranks Mauritius 54th in the world. The report places the country in the 'Efficiency-driven' category, which is the third stage of development in their 5 stage development model. The final stage is one where economies are driven by innovation lie.

The report highlights our achievements with respect to strong and transparent public institutions, with clear property rights, strong judicial independence, and an efficient government. There are effective auditing and accounting standards and strong investor protection, and highlights that infrastructure is well developed by regional standards. Its health standards are also much better relative to other sub-Saharan African countries. The WEF also finds that the goods market is highly efficient.

Nevertheless, there are some areas that need to be improved for Mauritius to make the shift towards the final stage of modernization and development.

a) Basic requirements

Mauritius tends to perform rather satisfactorily as far as the minimum requirements to develop a competitive framework for the economy. However, on certain accounts, there are things that require much improvement to boost productivity and competitiveness on a national level.

Concerning the level of infrastructure in the economy, the WEF report ranks Mauritius 58th on the quality of our roads, and 68th on the availability of air seats.

Heavy investment is already being carried out in developing proper road networks across the island to reduce congestion.

It is high time that we focus our efforts on a Mass Transit System in the form of Light Railway System on the Port Louis – Curepipe line to improve traffic flow and increase our competitiveness.

As for the air seats, opening up our skies to new carriers should be focused upon. Larger aircrafts are set to be able to operate in the new airport, and an opportunity should be taken by the Government to market the new facilities and attract more carriers.

b) Efficiency enhancers

One of the main drivers of efficiency, and a major component in the endogenous growth model, is education. Increasing the proportion of the work force with higher education is imperative to increase income and wealth in the country, through the provision of increased value added services.

i. Education and training

Improving the access to higher education in Mauritius is even more important. Currently, the gross enrolment rate in secondary education is 89 %, and in tertiary education at only 25 %. These figures rank us at 67^{th} and 82^{nd} respectively.

The MCCI suggests that the system is reviewed and adopt a targeted approach to compensate low and low middle income groups at the end of every month based on the attendance of the student. The attendance monitoring need not require much work since an e-register is already operating at the Ministry of Education.

Focus should also be given to increasing the level of training of workers. Government should encourage firms to send their employees for regular training. The refund by the HRDC can be increased from its 60 % to 100 % for high level specialized training programmes for individuals in the scientific and technology fields.

Singapore provides a course subsidy of 90% for certain certified courses and Academic Continuing Education and Training (CET) programmes at polytechnics for SMEs, and even provide some facilities for self employed individuals. Certain factors similar to these will increase efficiency in our SMEs and help them develop into larger organizations.

ii. Labour market issues

One factor seriously hampering our productivity and competitiveness is the local market conditions. The WEF report finds that poor work ethics by the local workforce is the 7^{th} most important problem in the ease of doing business. It ranks higher than inflation.

The MCCI believes that the poor working mentality is due to the complacency in the labour market regulations.

The two main issues regarding labour market efficiency is the flexibility of wage determination, and hiring and firing processes. In the former we are at the 108th place while in the latter we are 78th.

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 remunerations 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 compels employers to resort to imported labour, which increases their costs and, again, erodes their competitive edge.

There is no quick fix to address labour market issues. In the short term, assessment of skills requirements at sector level, and incentives for specialised training, coupled with complete flexibility in the recourse to imported labour, are the appropriate responses.

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 available under one roof.

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

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

In a longer term perspective, there is a need to assess the projected skills profile of the labour force so as to bring appropriate changes in the education / training system to match the future demands of the economy. In parallel, given the narrow skills base of the country and the ambitions of a 'knowledge economy', a more systematic and open recourse to foreign specialised labour should replace the 'ad-hoc' approvals of work permits.

iii. Wages policy

In these troubled times, marked by the crisis, we should rethink and build a coherent wage policy with the only aim to protect jobs. We are ranked 71st in the 2012-13 report.

The level of wages and the quantum of increases should be based on productivity increases and the capacity to pay.

In the private sector, it is at the company level, that the compensation should be decided. Given that we are in a free labour market, we should let the latter determine the equilibrium point and adjust automatically the price of labour.

As for the public sector, the relevance of the PRB should also be addressed.

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

Falling revenue for the Government in times where growth is faltering and when the public debt is increasing, paying increments, compensations and on top of that adding the PRB compensation seems unreasonable at the present crisis time. Given that workers in 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.

One effect of the PRB is the boosting up of consumption, which is generally good for growth. However, it may result in a surge in imports which would adversely affect the current account balance.
In addition, it will increase our inflation rate.

Thus 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.

iv. Market Size

The WEF report ranks Mauritius at a poor 109th place in market size. Within this category, we are 110th in domestic market size, and 103th in foreign market size. It would normally be argued that we are constrained by the geographical size of the country and that the domestic market cannot support a large demand and production of goods and services.

However, this would be merely a poor excuse. Physical limits can be overcome as is the case in Singapore. It ranks 37th in market size, 48th in domestic market size, and most importantly, in foreign market size it is ranked in 12th place, in front of countries which are way larger. It is a signal that with appropriate policies, our export sector can increase its range of output and diversify our markets to reap economies of scale.

c) Innovation and sophistication factors

Several recently modernised economies have rightly anticipated that the future lies in innovation. We cannot continue doing the same things over and over again and expect to move forward. Innovation, research and sophistication are the only keys to improve the growth potential.

Unfortunately, Mauritius is not going in this direction. This needs to be changed.

We have to recognise wake up calls when we get them, and then take appropriate measures to correct where we are wrong. We are currently ranked 98th in the world in innovation, which for a country with the ambition to become a high income country, is completely unacceptable.

In the sub categories, we are ranked 112th in the capacity for innovation, 83th for the quality of scientific researches, 96th for company expenditures in research and development, 91th in university-industry collaboration, 116th in availability of scientists and engineers and 85th in Patents Cooperation Treaty applications.

These are hardly glowing figures for our country, and these issues should be specifically addressed.

More than anything, incentives should be given to the private sector to undertake research and development, and invest into programmes that will result in increased value-added ventures. Certain specific measures provided previously to boost investment in machinery and equipment will help us to reach our end.

4. Sector-wise policies

4.1. Non-Sugar Agriculture

The non-sugar agricultural sector is to become an increasingly strategic component of the economy. There is increasingly talk that we are on the brink of another global food crisis, one potentially more dangerous that the 2007/08 crisis.

The UN's FAO warned recently of an 'imminent global food crisis' following a surge in its Food Price Index of 6% in July 2012 alone. Adverse weather conditions in the US has already lead to corn and soya-bean prices surpassing the 2007/08 price levels while wheat prices have doubled in the last few months.

Unlike the speculation driven price increases in commodities in the previous crisis, the danger now lies from the adverse weather conditions prevailing, and the increasing demand for bio-fuels.

To avoid a food crisis situation in Mauritius, the Government should provide a much needed boost to the Food security fund and increase local production of agricultural products to both create wealth and to ensure self sufficiency.

The non-sugar agricultural sector is all-encompassing, with production of poultry, beef, pork, cattle, venison, flour, fruits and vegetables and animal feed falling under it. Some of the measures the MCCI is proposing can be applied for most of them.

(i) Reinforced laboratory services at the Division of Veterinary services, with recruitment of additional staff to launch preventive as well as curative services to farmers.

(ii) Provide insurance schemes to breeders and concessions on loan interest to incentivize the adoption of modern breeding techniques and to encourage large scale operations.

(iii) Encourage the development of effective waste management plans.

(iv) 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.

(v) Leasing of land to farmers to enable expansion of industrial production of chicken, livestock and cultivation of fruits and vegetables.

(vi) The labour, metrology and environmental legislations must be streamlined to ensure monitoring of dumping of near expiry date produce from abroad.

(vii) 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.

4.2. Manufacturing

Most high income economies have built their success on a heavily industrialised base. As often argued, the manufacturing sector represents the real economy. In Mauritius, the Manufacturing sector currently represents 17.7 percent of the economy. The MCCI believes that this figure should reach the 25 percent mark to be able to play a most important role in getting our economy back on track.

Domestic industries' survival however is increasingly under threat. 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.

As a matter of fact, we have been experiencing unparalleled surges in imports which is set to continue as incomes continue rising. It is difficult for local companies to match the prices and competition of the foreign companies producing from low cost manufacturing economies. Often, their goods are dumped on the local market and many of them to not meet safety requirements and truly represent health hazards for the local population, as opposed to goods produced locally.

The poor performance of exports, and increasing imports have resulted from the combined effects of too rapid trade liberalization on our part and a lagging productivity improvement on our part. Indeed, in the Deloitte's Global Manufacturing Competitiveness Report 2010, we are nowhere near the most competitive economies in manufacturing. The first four places are occupied by China, India, Korea and Brazil while Mauritius lies far from them.

Nevertheless, those countries who are leading in terms of productivity and competitiveness are still those who are highly protected. China is ranked at the 56^{th} place in the Enabling Trade Index Report 2012 of the World Economic Forum (down from 48^{th} in 2010). India is at the 100^{th} place (84^{th} in 2010) and Brazil at the 84^{th} place. Mauritius ranks above all of these much more competitive countries at 36^{th}.

There is today the need to understand that during particularly difficult economic times, it is imperative to support the local industries or else they are set to disappear forever. Import substitution failed in the past as at that particular period in time there was not the adequate infrastructure, skills and know-how to get into it. Today however, we have a resilient, committed and capable local manufacturing sector that can produce a vast array of products to cater the need of the population if it is given the right incentives.

a) Level playing field

While competition from abroad is necessary for the local industries to innovate and improve, it should be realized that the competition should be fair and on a level playing field. A complete elimination of all import duties, or even reducing the existing ones on manufactured products classified as sensitive, would be irresponsible.

The "*DOE Manufacturing- What strategy for a new generation of growth?"* report commissioned by the MCCI and the AMM illustrates the different problems and analyses the effects of the rapid liberalization policy of the Government on local producers.

The report attempts at providing certain suggestions towards building a framework to address some cross cutting issues that will lead to the 'level playing field' necessary to sustain our manufacturing sector. The 'level playing field' however, as the report defines it, should consider all elements bound to create a source of competitive disadvantage from importers on a sub-sector basis, going beyond the issue of child labour, norms and tariffs.

The report suggests that it considers the cost of labour, scale of production, size of market, level of technology, fiscal incentives, trade policies, and production facilities put at the disposal of manufacturers in importing countries and the access to finance.

To achieve this level playing field, the MCCI recommends, firstly, to put in place a calendar concerning the tariff policy and, secondly, to introduce a minimal residual duty for all sensitive products that have experienced a surge in imports averaging 15 % during the last 4 years.

This will allow the local industry to compete to a certain extent on prices and sustain their survival at least in the shorter term. In the absence of the duty, several SMEs will be forced to close down and making thousands of workers redundant. If this happens, there will be no competition for the foreign goods, creating a monopoly situation.

Another issue currently facing certain operators in the industry is the unfair levy on water charged at a rate of Rs 1.50 per little of drinks (non-alcoholic, which is bottled, canned or packed) since the start of the year. This amount is hugely disproportionate, and even more so since imported drinks are not subjected to this levy, making competing against imports most unfair.

The MCCI believes that reviewing the levy and charging the same rate to importers would lead to a level playing field, promoting healthy competition without putting at risk the survival of local companies.

b) 'Pôles de Compétitivité'

The concept of 'Pôles de Compétitivité' 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. The poles are mainly focused on industry, but must be understood in the broader sense, i.e. all sectors with an industrial nature.

They have as aim the development of 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 'Poles', economic policies, the strategic research and development program, quality of partnership, the degree of collaboration between businesses and research facilities as well as training must be well-planned. It requires full involvement of SMEs, sufficient international openness and complete clarity of strategy. The 'Pôles de Compétitivité' project for industry migrates from France where it has been implemented with significant success.

In general, financial benefits granted to programs associated with the '**Pôles de compétitivité'** are:

• Tax exemptions. In France, for example, a company involved in research and development in an area defined for this purpose does not pay corporate tax in the first three years.

• Credits intervention to support research and development.

The MCCI proposes the setting up of a steering committee of the key stakeholders of the Public sector, the Private sector and academia in the industrial field to study its implementation. It should include the Ministry of Finance and Economic Development, the Ministry of Industry, Commerce and Consumer Protection, the BPI, the MCCI, the University of Mauritius and the Mauritius Research Council amongst others.

The MCCI is of the view that the steering committee puts forward six separate and independent task forces to set up six different poles, namely in:.

- Agro Industry
- Jewellery
- Light engineering
- Marine resources
- Textile
- Others

c) Promotion of Mauritian Products on the Local Market

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. To-day, 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.

There is a joint project of the MCCI and AMM covering the creation and administration of a National Brand. We think it should be the perfect tool to promote Mauritian Product on the local market and the start of a new policy to favour local products against imports.

This project needs the full political and financial support of the Government for its successful implementation.

d) Unfair Practices

- VAT Zero-Rated

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%.

- Same Quality Standard between local and imported products

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.

e) Export promotion

Our preferences have for certain time provided us a solid platform to export our products. However, their disappearance, and a difficult situation concerning our currency, has implied that we need to focus our efforts into export promotion activities in enabling diversification both in terms of products and markets/

As far as diversification of, and improvement in the quality of products, EM with the support of sector organisations is already involved in a series of activities in various sectors (textile & clothing, jewellery, agro-industry…). These have to be maintained and more resources dedicated to this exercise.

The diversification of markets is a much bigger challenge. Increased public-private interaction into concerted efforts to identify and exploit the potential of new markets is imperative.

Overall, efforts should be made to increase the competitiveness of our products relative to our competitors', and through incentives to exporters to take the leap. To this end, the MCCI recommends the following:

(i) Targeted and sustained promotional campaigns in identified markets, especially in the African markets

(ii) Re-introduction of the grants for marketing trips with a higher level of grants for developing new markets;

(iii) Extend the Export Credit Insurance Scheme to the new markets (some countries, especially in Africa, are not covered by the COFACE scheme);

(iv) Review existing and put up new facilities for certification of products according to standards required in targeted markets; and

(v) Put more emphasis on bilateral economic diplomacy to eliminate NTBs and enhance market access conditions.

f) Other measures to promote a healthy industrial environment

The following measures can be adopted by the government to provide some further support to the development of the local manufacturing sector are:

- Providing access to finance at concessionary rates of interest and non financial resources (for example land)
- Develop a policy to channel foreign investment in areas requiring foreign inputs (finance, marketing, expertise) rather than in those where local operators are already present
- Monitor dumping practices
- Negotiate for the relaxation of the 35 % value added requirement with regards to exports to the SADC and COMESA.

4.3. Construction

The local construction industry is currently going through a rough patch given the adverse economic climate. Construction represented 6.5 % of our GDP in 2011, implying that it remains a sector that requires much attention.

The growth rates have been worrying to say the least. In 2008, the construction sector expanded by 11.6 %. By 2011 however, the industry contracted by -2.0 %. This trend is expected to continue in 2012, as Statistics Mauritius predicts a fall of -1.2 %.

Investment in Building and construction grew by 7.7 % in 2009, while in 2011, a contraction of -2.1 % was noted. The contraction occurred as a result of a negative growth of investment of -21.0 % in non-residential buildings while investment in residential buildings increased by 14.1 %. However, for 2012, a contraction is expected in both sectors.

The situation is mainly due to the completion of major projects across the island. The IRS/RES scheme has been experiencing certain setbacks, and can never be considered as an eternal panacea to this sector.

The Government through massive investment in infrastructural projects has been able to prevent a complete crash of the sector. However, Government expenditure is not sustainable in the long run. Incentives given to the private sector will ensure the sustainability of the construction sector in the medium and longer term.

In this context, the MCCI puts forward certain recommendations that will increase private involvement sector in construction:

- A National Master plan for infrastructure development including environmental, land use and building planning, housing, transport and urban design, with a section devoted to the training aspects of relevant institutions.
- 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.
- PPP projects should also be entertained for provision of social housing.
- VAT on individual residential buildings not exceeding 300 ft^2 should be zero rated considering that individuals cannot recover VAT like companies do. This will enable builders to offer lower prices, thus increasing the demand and stimulating the market. To avoid a speculative bubble however, this facility should be offered to those building a house for the first time.
- Financial charges in obtaining housing loans from financial institutions are also often costly. The MCCI believes that they should be reduced for individuals building a house for the first time.
- 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.

4.4. Trade

a) An Open Trading System

Mauritius is ranked as the world 8th freest economies[v] in the world in front of United Arab Emirates (35th), South Africa (70th), Brazil (99th), India (123rd) and China (138th). Furthermore, around 94 percent of tariff lines are already duty free.

On this basis, we can say that we are ready to implement the 'shopping paradise' concept, which could be a new source of growth for the Mauritian economy. The 'Shopping Paradise Concept' can still complement the protection of local entrepreneurs in the Manufacturing sector if a proper planning takes place.

Besides, we should not try to adopt a 100 percent duty free regime as this policy will put at risk our preferential market access to the region (IOC, SADC, COMESA) which should be a major target for market diversification. Even Singapore or Dubai are not 100 percent duty free.

The MCCI propose the set up of a Committee, chaired by the Ministry of Finance and comprising representatives from the JEC, MCCI and AMM, to devise a strategy that will reconcile the objective of an open trading system with the continued development of our manufacturing sector.

The strategy should focus on:

- The elimination of duty on remaining non industry-sensitive products';
- 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 extension of the VAT Refund System.

The MCCI also proposes the setting up of a committee for the development of a one-month sales season in Mauritius. This could also entail the extension of the 'Mauritius Shopping Fiesta' into a full blown Sales season with greater marketing abroad in summer, with massive clearance sales on end-of-season apparels and other electronics equipment similar to those occurring in France or the UK.

b) Price Control

Following several years now, the Chamber has been pressing for a review of the legislation on price control, which is unnecessarily extensive, especially for the goods subject to 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 Chamber, with 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 MRRP to all the other products subject to the Maximum Mark-up regulations as the alternative to price control.

The implementation of the Maximum Recommended Retail Price (MRRP) as an alternative for price control for milk powder has been a positive transitional step towards the complete elimination of price control. The introduction of the MRRP has given positive results. There are now several new brands of milk powder on the market with consumers having a wider variety of products at more competitive prices. Moreover, the monitoring system in place with the MRRP has proven to be less cumbersome since importers have to submit their cost structure to the Ministry of Commerce for information purposes only.

4.5. Financial intermediation

From the financial liberalisation process of the early 1990s, the Mauritian financial intermediation sector has become one of the most important pillars of our economy, representing 10.1 % of our GDP in 2011. However, the sector has been showing signs of wavering in the last few years. Growth of the sector has fallen to 5.5 % in 2011 while in 2008 it amounted to 10.1 %.

The recent years have seen the sector under the threat of accusations, mainly from India, saying that Mauritius is a harbour for money laundering activities. There is today the need for the Government to restore the credibility and transparency of the system in the eyes of foreign investors.

The DTAT with India represents a most important treaty. It will be difficult to completely avoid the consequences of the promulgation the GAAR. The is the need for the Government to accept certain conditions of the Indian Government while finding ways to negotiate the terms in a way that the GAAR benefits Mauritius in some other ways.

Indeed, there are opportunities to be derived from a revised DTAT. Potential investors will possibly have to put up an office in Mauritius, employ a few locals, and pass a minimum expenditure test. This is to some extent what is happening in Singapore. Foreign institutional investors, private equity investors and multinational companies' expenditure to fulfil these conditions in Mauritius may lead to an asset boom and other multiplier effects.

Therefore, the Government should put in place a framework that will make the fulfilment of these conditions easier for potential investors such that we manage to keep current investors.

4.6. ICT

The Information and Communications Technology (ICT) sector is one of the key driver of economic growth and a dynamic engine of job and wealth creation in Mauritius. ICT today contribute 6.9 percent of our GDP and is employing over 15000 people.

Given that the MCCI works very closely with OTAM and assists in the formulation of its proposals, we support the main submissions of the ICT Sector which are:

(i) A decrease in the price of IPLC (International Private Leased Circuit). There is room to decrease the price by at least 50%.

(ii) Tariffs of ADSL, which is a key component in the democratization of high speed Internet access, still need to be reviewed further down. Increasing competition in the sector will definitely have the desired effect.

(iii) Government should create the appropriate environment to encourage partnership between the training institutions and the private sector for skill development and to make people more employable. This is becoming a serious issue. There is an increasing mismatch of skills noted in the sector, and training institutions should provide courses designed to meet the requirements of the industry.

(iv) IT entrepreneurship should be encouraged among the young graduates and entrepreneurs in the technology sector to develop technology products for the global market.

(v) Put in place an ICT portal to provide the necessary information on the ICT sector for existing operators and potential investors.

4.7. Export of services

The quality of services can be crucial in stimulating product exports and are critical in maintaining such transactions. But export of services have become an essential source of growth to many economies, representing a high value added potential. Export of services usually include Travel and tourism, Transportation services, construction, and engineering, Education and training services, Banking, financial, and insurance services, Information services or Professional business services amongst others.

The 2012 Budget entrusted the Board of Investment (BOI) with the responsibility of actively promoting foreign investment in Mauritius to further develop the financial sector, ICT/BPO and the education and medical hubs.

However, there is a lack of a strong dedicated entity or organisation that would specialize in the promotion of export of services in a strategic manner. Most efforts have been performed so far in a fragmented approach. Such an example is the promotion of the Mauritian tertiary education sector on the African markets.

The MCCI believes that entrusting to an existing entity (the BOI? or EM?) or a new entity with this task with sufficient resources can make a difference. In a first instance, priority should be given to tap the regional market, where it will be relatively easier to export our services.

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[iv] World Bank Enterprise Surveys (2002–10). The data sample includes 113 economies.

[v] 2011 Index of Economic Freedom