THE MAURITIUS CHAMBER OF COMMERCE AND INDUSTRY

Memorandum

for the

2015 National Budget

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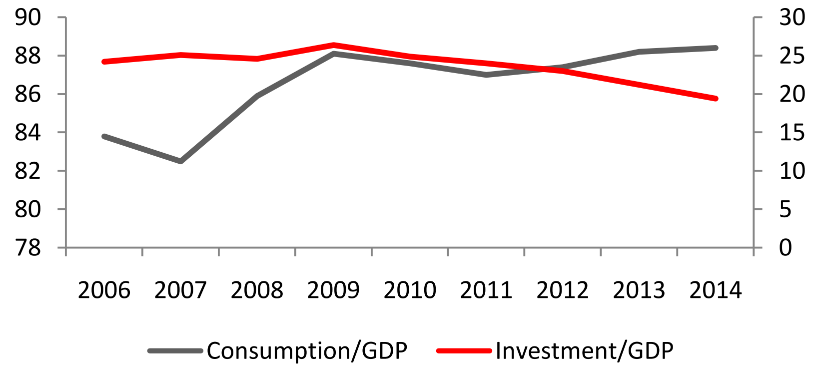
I. The Economic Context

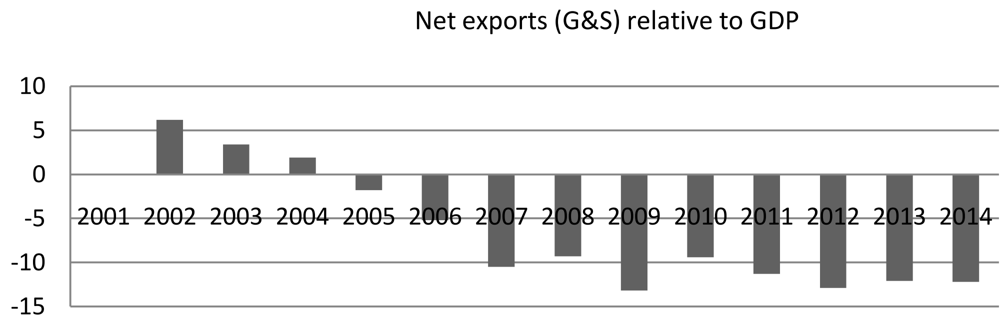
The IMF, in its January update to the World Economic Outlook report, has projected an estimated global growth rate of 3.3 percent for 2014, the same as in 2013. The momentum remains heterogeneous across different regions however, with growth in advanced economies expected to be slower than in emerging ones.

In Mauritius last year, GDP growth stood at 3.5 percent, an improvement from the 3.2 percent growth of 2013. This is reflective of the situation prevailing in the economy for the past few years, with growth rates across all indicators being either negative or insufficient. In fact, all the major components of growth have been well below par, be it consumption, investment or exports.

Final consumption expenditure has been sluggish, growing by an average of only 2.6 percent over the five year period from 2010 to 2014 while consumer confidence remained fragile. By comparison, from 2005 to 2009, the average growth was at 4.7 percent.

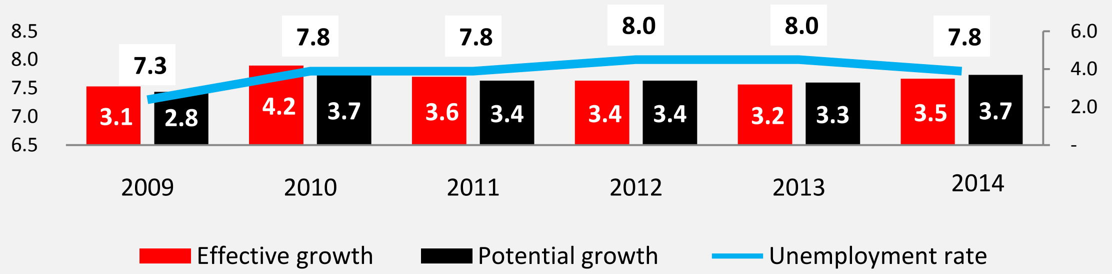


Investment has been hit even worse. On average, investment growth has been a mere 1.1 percent for the last 5 years, with 2014 being the third consecutive year where it contracted.



The situation concerning net exports (goods & services) is equally alarming, with a rapid widening of the deficit. In 2001, net exports represented 6.2 percent of GDP. By 2014, it had already fallen to -8.8 percent, representing difficulties in exports as well as an increasing reliance on imports.

FIGURE 1 EFFECTIVE GROWTH RATES, POTENTIAL GROWTH RATES AND UNEMPLOYMENT



Analysis of previous years' figures shows that recently the tendency has been pointing towards an inadequacy of policy to outstrip potential growth. This is despite the latter being significantly low, leaving the economy in a situation of high unemployment. Our potential GDP growth rate, as estimated by the MCCI, revolves around 3.7 percent for 2014, and as long as potential growth is higher than our actual growth rate, it will be difficult for us to achieve our objectives.

Reduction of unemployment as an ultimate objective relies on improving our effective and potential growth rates. This builds up a case for the need of both countercyclical measures, for quick wins, and structural reforms, for longer term improvements.

These are reconciled by acting through the major components of GDP. Expansionary demand-side policies are required to reverse the actual trend and increase the effective growth rate in the short term through budgetary measures to increase exports, boost domestic demand, and addressing supply-side bottlenecks, such as labour supply, productivity of the workforce and especially productive investment.

The object of this Memorandum is to highlight the views of the members of the MCCI in the context of pre-budgetary consultations.

The MCCI Budget Memorandum has been structured around the main growth parameters as well as certain cross sectoral measures in support thereof.

II. Measures to increase both potential and effective growth rates

1. Consumption

Consumption is sometimes used as a surrogate for standard of living in a country, the underlying assumption being that the more consumption, especially household consumption, takes place, the better off is the population.

In Mauritius, final consumption expenditure has been growing rather modestly over the last few years, with a growth rate of 2.3 percent in 2013. Within it, households' final consumption expenditure has increased by a meagre 2.6 percent during that time.

This is insufficient, and a significant boost is needed in consumption with Mauritius having the advantage of being a small dynamic economy, at times singular measures can have a wide impact.

The MCCI believes that the following measures would go a long way in stimulating activity within the economy.

a. Export retail services

A major measure to boost consumption on the domestic level is to allow a partial refund of VAT on accommodation for tourists.

This measure will significantly increase the contribution of export retail sales and stimulate other productive sectors of the economy through a perceived level of new affordability for our long haul tourists and providing us with a competitive advantage in the region.

On average, it is estimated that a tourist spends around Rs 43,850 in Mauritius. Half of this goes into accommodation services, which is in line with the expenditure pattern elsewhere.

The amount reimbursed will be ploughed back into the economy though enhanced consumption expenditure across the board. Entertainment, shopping and sightseeing combined, currently accounts for only 20 percent of average tourist expenditure. This percentage could be doubled with significant benefits accruing to the economy as a whole.

The refund 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 increase in their expenditure.

Furthermore, It is estimated that the tourism expenditure multiplier is close to 2. 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.

The annex contains more information concerning the operationalisation of such a scheme.

b. Fiscal impulse

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

i. Income tax

The table below depicts the different thresholds of income exemption currently prevailing. Under this particular system, the weight assigned to each subsequent dependent (spouse or children) is regressive, with the first dependent scaled at 0.4 of the individual incurring the tax payment, the second at 0.22 and the third at 0.15.

Table 1:Income Exemption Thresholds

	Current	Weight of dependent (additional)
Category A (An employee with no dependent)	Rs 275,000	
Category B (An employee with one dependent)	Rs 385,000	0.4
Category C (An employee with two dependents)	Rs 445,000	0.22
Category D (An employee with three dependents)	Rs 485,000	0.15

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

However, as opposed to previous years, changes in the threshold should not take the form of a lump-sum increase. Redistribution in the weights should be entertained with each dependent being given a weight of 0.5, irrespective of whether the dependent is the spouse or child.

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

ii. 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.

The rate and quantum could be fixed according to the strength of the public account. The negative income tax is designed to struggle against the poverty trap.

The amount to be disbursed by the government will be almost entirely be recouped in terms of VAT and as such would not imply that much of a burden to the government.

2. Investment

It is widely recognised that investment is one of the major factors that underpin growth, effective or potential. Unfortunately, investment in Mauritius has been floundering since the start of the crisis, and a rebound has not been achieved despite improving situations elsewhere. There is a bi-causality in the investment-growth equation that needs to be acknowledged- as much as investment is important for growth, growth is as important for investment. Both have been low recently, condemning the economy to a cycle of lethargic activity.

GDFCF has shrunk by -3.3 percent in 2013, following another contraction of -0.8 percent a year before. The drop was felt in both private and public sector investments, with the latter contracting by -4.9 percent and the former by -2.8 percent.

Foreign Direct Investment inflows meanwhile have been unable to match those of 2012. In fact, a contraction of over -50 percent was registered, with only Rs 9,512 million of inflows recorded for 2013. Over half of that was in real estate activities, which are not necessarily activities that add significantly to the long-term productive capacity of the economy.

A multi-pronged agenda should be set up to promote productive investment in the economy, relying on a stable monetary policy, improving the ease of doing business, eliminating unnecessary costs hampering the conduct of business and by initiating regulatory reforms to create an investment-friendly framework to improve the overall attractiveness of the country as a business destination.

In addition, a single Apex Trade and Investment Promotion Agency will bring much needed coherence and alignment between the trade agreements that we sign , market access opportunities and investment in targeted sectors that will allow us to move to a high income economy. This novel approach should be supported by an Accelerated Technology Transfer Platform as a Public/Private Partnership to complement the efforts of improving the supply capacity of Mauritius through the acquisition of patents and know how.

a. Monetary policy

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

It should 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 of other economies.

The repo rate is currently at 4.65 percent, with the last MPC meetings unanimously maintaining the status quo. This decision vindicates the long held view that we needed to favour a pro growth agenda and fight a targeted rate of inflation..

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

The MCCI believes that there is no haste 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. Forward guidance in the same vein as the Bank of England could be adopted, where commitment has been made to maintain low interest rates until the unemployment rate falls below the 7 percent mark.

Nevertheless, locally, the linking of the repo rate should be set up against a target inflation rate of 4.5 percent rather than the unemployment rate.

b. Business facilitation

The “2006 reforms” laid a lot of emphasis on business facilitation. A new series of the same is required today. Reforms at institutional level, rationalisation of administrative entities and one-stop shops are the way forward in improving the service delivery of public services to the wider business community..

i. Single Licensing Unit

With a view to further facilitate business in Mauritius, the creation of a Single Licensing Unit (SLU) is being proposed. The SLU would:

- Be the single authority to interact with the applicant of a business
- Provide advisory services to the applicant (website, dedicated desk, guidelines, information/documents that should accompany an application, established time-frame to determine the application)
- Receive applications and communicate to applicants.
- Ensure “silent is consent” rule is applied systematically.
- Have an oversight on new legislation being proposed and to carry out regulatory impact assessment of the regulation to be introduced.

The creation of a real “one-stop-shop”, the Single Licensing Unit, which would operate either under the aegis of the Ministry of Finance or PMO, would have the authority to direct relevant regulatory bodies to take decisions within specified time frames and according to set procedures. The Unit would be aligned with government strategies and priority areas.

To operationalise the Single Licensing Unit, two options are being proposed: creation of a virtual single window and creation of Small Business Development Centres at regional level.

ii. Institutional reforms and rationalisation

The next major intervention area is that of institutional reforms. Good governance is a must in any country that wants anchorage in the high income country bracket. Transparency, accountability and simplicity of procedures are the keywords in this new paradigm.

- *Rationalisation*

Re-assessment and rationalisation of para-statal organisations and state owned enterprises has for far too long been only the subject of mention in most of our budget speeches, offering only the promise of re-visiting their purpose and cost effectiveness but short of a time bound and action oriented plan for a complete overhaul. It is high time to review the activities of all para-statal organisations and activities financed under extra-budgetary funds.

- *Red-tape action team*

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

- *Procurement Act*

A Review of the Procurement Act is also required, especially with respect to the Independent Review Panel, entertaining the possibility of strengthening its capacity to reduce delays that may occur if there are appeals or to offer compensation in case of non-awarding of contract to a bidder subsequently found to be better qualified by a court of law, whilst allowing the selected candidate to start its works.

c. A Revamped Permanent Residency Scheme

Moving away from a Real Estate led FDI strategy , we need to diversify both the source and destination of our FDI with a bias towards Know how and technology transfer. Linking Permanent residency to property ownership (e.g. IRS, RES schemes of the Board of Investment) did provide the necessary boost at the appropriate time and worked its way well into the economy.

But the time is right, given the political uncertainties looming in various parts of the world, to introduce a new scheme which leverages on our stability, quality of life and peaceful environment based on mobility through the provision of a special Mauritian passport which is not based on citizenship . The aim being to attract high net worth individuals and intellectual capital. Free movement to visa free destinations out of Mauritius will provide a significant appeal to attract a new breed of international entrepreneurs especially from Asia.

The main criteria for eligibility should be investment in Regional Headquarters, or any productive sector of the economy with a minimum set at USD 1 million.

d. APEX Investment and Trade Promotion Agency

Today, we have different organisations separately promoting Mauritius. Very often, the target markets are the same, and individual efforts made on a piecemeal basis neither reflect the country's holistic capability nor do they send a consistent message and lack the critical mass to have any impact in the long run. The image that we have overseas is mixed , be it in financial services, as a manufacturing destination or as a high end tourist destination. It is timely to revisit the manner in which resources are organised and deployed and the overseas presence we need to maintain.

The MCCI proposes that an *APEX Trade and Investment Promotion Agency* be set up with a view to regroup all stakeholders to rationalise efforts to promote exports of goods and services and attracting FDI into the economy while addressing the weak coherence of investment policy with national development and competitiveness strategy.

A strategic alignment of investment policy and delivery potential is necessary to this end, and different directorates dedicated towards the promotion of export of goods, export of services, tourism development, transfer of technology and investment promotion could be set up, with other cells involved in promoting components such as research and development and capacity building in the economy.

Trade and Investment promotion offices should be opened in strategic locations overseas to feed into the country instead of covering these destinations through sporadic missions which cannot address needful follow up in the source countries. Such offices, in Europe, Africa and Asia will also benefit the local business community as a springboard to deepen market penetration by providing the necessary on the ground support, intelligence and assistance.

e. Regulatory reforms

Any potential investor would look for a transparent and predictable framework when making investment decisions. Regulatory certainty definitely forms part of such an assessment and the lack of clarity or instances where the sector is regulated by the operator itself invariably leads to conflicts of interest. It is therefore imperative to review the structure and independence of our existing regulatory institutions and benchmark same against best practices. The regulatory framework governing Public Private Partnerships is one such example.

i. Regulatory Authorities

The regulations and policies concerning utilities are dispersed, and the administrative procedures involved weigh heavily on the cost of doing business. Furthermore, there is an absence of a clear strategy concerning the future development of certain key sectors, leading to a lack of visibility over future financing for infrastructure projects resulting in poor investor interest

In that respect, the single regulatory body for utilities should be activated and made operational soonest.

ii. ADR as a Business Facilitation Tool

ADR (Alternative Dispute Resolution) is a management tool for our operators as it allows predictability of time and costs. Our present legal framework should therefore be in tune with this strategy to better facilitate recourse to ADR; we recommend that:

- Institutional arbitration be favoured over Ad hoc arbitration; the latter remains too opaque and suffers from a lack of due monitoring and governance;
- Our present domestic Arbitration Act (Code de Procedure Civile (Amendment) Act 1981 which has become obsolete be replaced by a new Act which will give a real boost to internal Arbitration and be coherent with our overall policy to position Mauritius as an attractive arbitration venue;
- A Mediation Act be adopted which is crucial for the use and development of such Alternative Dispute Resolution Mechanism and very much suitable to our culture and the majority of business disputes in our country.

iii. Public-private partnership

Besides potentially expanding the finance or funds available for infrastructure investment, using PPPs can improve the outcomes of this investment. The real benefits of PPPs can include improved value for money, sustainability, and accountability for government investment in infrastructure over traditional public procurement. Most of these benefits arise from a crucial feature of PPPs—the ability to efficiently allocate risk between public and private parties.

The MCCI proposes that the current PPP framework be reviewed by a committee with a significant representation from the private sector. The current PPP framework has not taken off as it should have, and there is much room for improving the procedures. There is a need to redefine the PPP framework and concentrate on the promotion of equity financing for infrastructure development rather than loans.

iv. Public Infrastructure Fund

A modern country requires modern infrastructure, and for the advent of what we are aiming at, there is the need to invest in upgrading existing and developing new infrastructure, be it road networks, the port and the energy sector.

However, this brings with it the conundrum of trying to avoid infrastructural progress coming at the expense of the widening of the budget deficit. The solution lies in tapping Private Equity investment.. In that respect , the MCCI proposes the setting up of a public infrastructure fund that will package different asset groups , some revenue generating while others still need to be developed , altogether providing a target investment rate of return , in which the financial community and other equity funds would be invited to pool their resources- this would be akin to the Port Louis Fund. in terms of packaging public assets on which funds were raised.

The fund would be intended to provide an additional alternative source to bridge the ever-increasing gap between investment demand and available financial resources to develop infrastructure, and to create an appropriate vehicle for foreign investors to participate in infrastructure investing opportunities in Mauritius.

f. Productivity, Research & Development and Technology transfer

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

In 2013, labour productivity increased by a paltry 0.2 percent, capital productivity contracted by -0.4 percent, while multifactor productivity registered no growth. Meanwhile, average compensation to employees over the same period increased by 7.8 percent. This situation has been prevalent for a few years now, and is affecting local companies directly.

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 to this end.

i. Accelerated technology transfer platform

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

A multi-sectoral approach, encompassing the manufacturing sector, agro-industry and services should be adopted.

In addition, work should be undertaken to strengthen the enforcement mechanisms of IP framework (IP Office with enforcement powers) and improve the dissemination of facilities offered to sensitise more companies and start-ups on the benefits accruable from a proper understanding of existing legislations.

ii. Productivity, research and competitiveness scheme

A broad-based incentive in the form of a **Productivity, research and competitiveness scheme** could be introduced, providing a matching grant on investments on a range of spending, including the following activities:

- R&D expenditures (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)

iii. Training

Lack of adequate skills is often hailed as one of the biggest obstacles for businesses. Continuous training and greater public-private-academia coordination are sine-qua-non for addressing the widespread mismatch so much talked about. Several such measures to improve productivity could be entertained:

- Increasing the grant of the HRDC given to employers sending their workers for continuous training to 90 percent. The existing ceiling on the amount that can be claimed should be reviewed to reach four times the contribution.

- Reimbursing up to 50 percent of absentee payroll for those undertaking training.

- 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.

- Setting up of a monitoring and evaluation team to identify areas where there is a dearth of suitably qualified skilled and semi-skilled labour on a regular basis.

iv. 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 for enhancing energy efficiency within the country with clearly measurable tangible benefits.

3. Export

Our export strategy during the seventies has served the country well, and the export sector remains one of the most important pillars of our development model. With the wave of liberalisation and the erosion of trade preferences, we will have to reinvent our export model.. The initiation of the National Export Strategy under the aegis of the ITC in Geneva by the Government is a most laudable initiative to help redefine the export landscape on a national scale , providing the first comprehensive review of all sectors concerned.

a. National Export Strategy

The MCCI is of the view that the new National Export Strategy being elaborated should be built on market diversification, product upgrading and addressing structural and supply side impediments.

The strategy should be elaborated and coordinated at the level of the Apex Investment and Trade promotion Agency mentioned under investment proposals. Trade and investment policies are often complementary and targets in terms of markets are mostly the same. Effort and cost should be minimised through the pooling of scarce resources ...

i. Re visiting the -Africa Strategy

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. It should also be clear what are the objectives being pursued namely , export of services, market penetration or financial returns in terms of repatriation of future dividends arising from outward investment.

An enduring presence on the African continent is sine-qua-non for meeting our objectives, with the need for on ground business facilitation services and increased economic diplomacy through permanent Trade and Investment Promotion Offices across targeted countries in Africa.

Also, concerted efforts could be made to tap into the Mauritian Diaspora for resource mobilization as well alongside the Mauritius Africa Fund.

Finally, special tax credits should be given on exports to Africa to increase the movement of goods to the continent.

ii. Go East Strategy

There is also the need for greater proactivity to develop new markets as a result of the findings of the National Export Strategy. The suitability of our manufactured products must be assessed against the maturity of our target export markets, and hence the need to look at more sophisticated markets eastward..

The MCCI proposes that the facilities offered to exporters to Africa should be extended to exporters willing to explore those Eastern countries, following the development of a Go East strategy.

In addition, the strategy should assess the growth potential of main sectors to increase exports substantially (Textile and Clothing, Fish and Fish products, Jewellery) while identifying new sectors with growth potential (medical devices, artificial body parts, …).

Also, such a strategy should entail the consolidation of resources and identify needs with respect to offering visibility to exporters in terms of sourcing of raw materials.

b. Bridging distance to markets

Sea-locked countries like Mauritius are always going to be at a disadvantage vis-à-vis competing economies with respect to distance to markets and the additional costs that transportation of goods requires. Nevertheless, the Government can play a significant role in improving competitiveness of Mauritian exports by reducing the costs of transport. The MCCI is proposing the following measures as means of addressing the distance problem.

i. Re visiting the Freight Subsidy Scheme

The MCCI welcomes the initiative of the Government to introduce a Freight Subsidy Scheme for exports to Africa.
Based on discussions with operators , it would be advisable to include the following :

- The inclusion of the west coast of Africa in the scheme given that there are shipping lines which are currently sailing to these ports and it has been noted that exports to the west coast are substantial.

- While we take note that Tamatave (Madagascar) is excluded from the scheme, other ports of Madagascar such as Diego Suarez and Tulear could be included as there are frequent exports to these destinations.

- While currently inland transport cost is excluded from the Scheme, the MCCI would be in favour of finding a formula to also subsidise inland transport cost as this element represents a substantial cost on the competitiveness of products exported.

In addition, the MCCI proposes that an Import Subsidy Scheme be introduced on imports of raw materials for enterprises willing to commit to increasing their exports.

ii. Infrastructure development

The importance of infrastructure to facilitate trade should not be underestimated. Upgrading of the seaport, acquiring a feeder vessel and development of a cargo and logistics centre at the airport will assist exporters and offer them the required facilities to benefit from the opportunities that exist in the region and beyond.

- Seaport

The TEU handling capacity at the Port is currently around 400,000 and in the long run should be upgraded to around million containers.

This will require a major upgrade of the port infrastructure with a doubling of the container park and putting into operations of six additional container handling units. On the other hand the productivity level at Cargo Handling Corporation has barely improved – with moves per hour lower than those of neighbouring ports. A major international shipping line has decided to make Port Reunion its hub port , bringing stiffer competition closer to our shores. It is high time that the efficiency of the Cargo Handling Corporation and its governance structure be seriously looked otherwise the benefits of the huge infrastructure investment being made by MPA would be dampened if other shipping lines decide to leave Port Louis.

- Acquisition of a feeder vessel

The poor network of regional feeder vessels serving the island severely limits market access, significantly increases transit lead times and related costs as well as compromises our status as a regional maritime hub. Undue delays, sometimes extending shipment time to as much as 45 days, can cause undue inconveniences to the exporters, thus impacting heavily on our exports competitiveness.

The Indian Ocean Commission has already conducted a feasibility study and identified the type of vessel required. The Government of Mauritius should take the lead and make the acquisition of a vessel that would improve the visibility of exporters in the region to complement its policy of subsidising freight costs.

- Airport

An Airport Cargo and Logistics Centre (ACLC) next to the airport area would be positioned as a prime energy efficient, East- West trade and logistics platform, enabling the level of air-freight logistics in Mauritius to increase from its current level of 40,000 tons.

Consolidation and transhipment are the only means of addressing the cargo imbalance of the region to support an efficient import and export strategy.

4. 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 economies in this area. However, as far as cost of doing business is concerned, the reality is much different.

There are several inconsistencies in regulations and needless taxes and levies have been added that are little by little eroding a large part of the competitive advantage we had over economies similar to ours in their development strategy.

The MCCI proposes 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.

Some of the other existing issues are highlighted in what follows:

a. Trade Fees

The GN 314 Of 2013 (regulation 2) increased the fees for several items falling under classified trades. However, the extent of the increases were for the majority uncalled for and by far exceeded the inflation rate over the period.

For several items, in particular for advertising, the increases in the charges impacted heavily on the costs of companies, forcing them to increase prices to maintain a decent profit margin, leaving the consumer at the receiving end of the hikes in prices.

The MCCI proposes that the quantum of increases be reviewed and that a maximum increase reflecting the inflation rate over the period spanning from the previous reviews in trade fees be applied.

b. Recoverability of Input VAT on certain cost

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

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

Furthermore, this goes against the general principal under the VAT Act, which purports that input VAT may be recovered to the extent that such costs are incurred to make taxable supplies. This makes S21(2) of the VAT Act inconsistent in this respect.

The MCCI proposes that the VAT Act be amended and that VAT is made recoverable for these items. The issue is further elaborated in the annex.

c. Other costs

The overarching objective of the last fiscal reforms of 2006 was the harmonization and simplification of the tax system in Mauritius. The measures were exceptional, and allowed the economy to wade through the crisis resiliently.

However, there are still numerous taxes, tariffs and levies that are either obsolete or have been introduced without any rationale.

- Tax on sugar

A new Excise Tax of three cents per gram of sugar content was introduced on soft drinks, whether imported or locally produced. The main objective of the new excise tax is unclear as only certain types of beverages containing sugar are subject to the new excise tax.

The application of the new excise tax has created an uneven level playing field among operators, and consumers are bearing the brunt of the price increases following the application of the taxes.

The MCCI proposes that the Excise Tax be reduced to 1 cent per gram of sugar content, and that a more specific definition of drinks is proposed.

- Redundant Dockers' levy

Exports of sugar-based products such as fruit juice, soft drinks and sugar confectionaries which have been manufactured locally have considerably increased during the past years, with exports to the African region. However, some peculiarities remain.

The Mauritius Cane Industry Authority (registration of Person Making Contribution from Sale of Sugar on Local Market) Regulations 2012 provides for importers and refiners of sugar to contribute Rs 3.70 per kilogramme of sugar sold on the local market to the MCIA.

Local manufacturers of sugar-based products such as fruit juice and sugar confectionaries purchasing their sugar as raw materials on the local market for manufacturing their products for exports have to pay for the levy of Rs 3.70/kg.

MCCI proposes that this levy of Rs 3.70/kg of sugar purchased locally be refunded for exports of sugar-based products which have been manufactured in Mauritius.

- Excise duty on PET bottles

Excise rates for PET bottles, plastic bags and cans have been doubled to Rs 2 per unit in 2011. The effects are still being felt, as soft drinks and other similar products have been registering exorbitant increases in prices, again harming the consumer more than the producers.

It is proposed that the duty be halved for the consumers to benefit from cheaper prices.

- Taxes on Plastic bags

Taxes on plastic carry bags have significantly increased the cost of operations of retailers. The decision reflects a poor appraisal of the alternative use of carry bags by both policy maker and consumers. A plastic carry bag can be re-utilised several times over, and proper disposal of plastic bags would negate any possible adverse effect they could have on the environment.

Sensitisation campaigns and putting at the disposal of users appropriate methods of recycling would work better.

Furthermore, the MCCI proposes that when formulating policy decisions concerning plastic bags, care is taken to differentiate between plastic bags for carrying purposes from those used in the packing process. While he latter can be substituted using paper bags or other similar bags, the former has few alternatives.

- VAT on Machinery

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

Often SMEs do not have the necessary treasury to pay the VAT and have to make use of overdrafts for short term loans. The VAT recovered does not take into consideration the interest they have to incur and thus implies an additional cost for their businesses and causing a certain reluctance on their part to invest in new machinery and equipment.

It is proposed that the imposition of taxes are harmonised and that all machinery imports are treated similarly to machinery imports for the textile sector.

- Bonded warehouses

In order to operate a normal bond, stakeholders are allowed to use a personal guarantee as financial security/surety (see details in Customs Act - Part VII section 70 – Bonded Warehouse) but if a company wants to operate under the Specified Bonded Warehouse rule (see detail in section Customs Act - Part VII 67.A Specified Bonded) where in a nut shell the ease of doing business is tripled by the fact there are no keys, no on site Customs officer involved with the whole operation becoming a virtual (100% electronic) one.

However, in order to approve such status, Customs necessitate a bank guarantee for the maximum value of duties payable at any one time during the year. The cost of such guarantee stands at approximately 1% of the value involved, hence highly adding to cost on top of seeing the legal burden and responsibility of missing items transferred to businesses.

Amending the law so that conditions of section 70 equally applies to section 67.A would ease the cost to companies.

III. CROSS- SECTORAL MEASURES

1. Strategic planning

It has become clear that a central planning function would have helped in bringing greater alignment in terms of cross-cutting policies and ensure that plans already established are implemented in a timely manner.

In addition, the policy recommendations from the National Physical Development planning process should be implemented as it would provide useful pointers to the type of development being envisaged and eventually leading to more efficient land use. The confines of the NDP transcend that of only one ministry , and should have a wider mandate as it has real cross-cutting implications.

2. Immigration reforms

One of the major obstacles in our quest to foster growth and develop the economy resides in our constrained market size. Attempts at increasing our exports only will not be enough.

There is the need to increase domestic demand as well, and this will be achieved by opening our borders to allow immigration of different classes of workers in the economy in various sectors of activity, with the additional benefit of addressing latent labour market imperfections and increasing productivity.

Indeed, it is no secret that there exists a mismatch of skills and an inadequately trained labour force in several sectors of activity in the economy, namely a lack of low-skilled and semi-skilled workers in the manufacturing and construction sectors while skilled and well qualified persons are imperative for us to foster higher growth rates in ICT and engage in research and development.

An influx of workers into the economy would have several macroeconomic arguments as well. An expansion of the labour supply would extend the pool of available labour for firms and given that migrants tend to be young adults, a rising trend of migration can help to increase the population of working age and also the flexibility of the labour market. With our rising problem of ageing population, increasing the labour supply would reduce the burden on workers and ensure a better life for our elders.

Furthermore, an increase in labour supply from migration is likely to restrain wage growth in the short term. A slower rate of increase in wages has the effect of easing cost-push inflationary pressure with lower costs of production for suppliers which can then feed through into lower retail prices for consumers.

Equally important are the aggregate demand effects migrants are likely to earn more, contributing to the growth of the local or regional economy, increasing consumption, contributing to the growth of the retail sector and increasing the revenue of Government through taxes collected.

The MCCI proposes that a general Migration Masterplan is elaborated with a view to regulate and facilitate the arrival of foreign labour into Mauritius. Short term sector specific measures on recruitment of foreign labour are proposed later in this document.

3. Transport Masterplan

Our current transport system does not allow the economy to develop as it should. While the Government has invested massively in road decongestion, with road networks covering practically the whole country, they remain well underutilised beyond a certain time.

The country's GDP depends to a large extent on hours worked, and unfortunately, with public transport being unavailable after late afternoon, 06 00 p.m. even in certain regions, the volume and value of goods and services being produced in the economy encounter a severe constraint.

Many companies today are willing to open their factories after traditional working hours to maintain production, as is the case for several ICT/BPO companies that work primarily with foreign companies operating in different time zones. However, the cost of transporting employees represents far more than their contribution to the production process and thereby forcing enterprises to reject orders.

The MCCI proposes that an attempt be made in developing an overall Transport Masterplan, with the objective of promoting a real 24/7 work and life culture around certain sectors and maximising the benefits from the government's investment in infrastructure upgrading.

In the short term, the MCCI proposes that the Government encourages private operators to operate on existing lines until 10 00 p.m. across all regions by offering them a grant scheme until the lines become profitable when more and more activity develops.

The benefits will accrue to operators in the manufacturing sector, ICT/BPO as well as encourage consumers to stay out later and thus increasing retail activities.

4. Regulatory impact assessment

In the recent past, there has been a number of regulations and policy changes which were unpredictable and sudden in their application .

This lack of predictability and visibility often implies significant costs for entrepreneurs, who did not cater for same in their own budgets, causing problems of cash flow.

So far the excellent synergy between the public and private sector which has been heralded as one of the enablers of our economic success , should find its way in a new mode of participatory policy making (PPM) as well .

The MCCI proposes that Regulatory Impact Assessments (RIAs) become part of the process of policy making.. The role of the RIAs would be to provide a detailed and systematic appraisal of the potential impact of a new regulation in order to assess whether the regulation is likely to achieve the desired objectives. The need for RIA arises from the fact that regulations commonly have numerous impacts and that these are often difficult to foresee without a detailed study and consultation with affected parties. Economic approaches to the issue of regulation also emphasize the high risk that regulatory costs may exceed benefits.

IV. SECTORWISE POLICIES

1. Agro-industry

While the pursuit of a high income economy status warrants a services-based development agenda, this should not distract us from addressing food security issues.. The advantages of the development of a comprehensive agricultural policy will be manifold, and will help achieve self sustainability, reduction of unemployment as well as providing a means to combat food inflation.

For 2014, agriculture is expected to be one of the fastest growing sectors of the economy, with a rate of 7.4 percent exceeding the 0.4 percent growth of 2013. The share of the sector in GDP is however declining, falling to an estimated 3.2 percent of total GDP in 2014.

There is a lack of clear policy direction or strategy for the sector, and there is a need to adopt a novel approach, with agricultural clusters developing from a Comprehensive Agricultural Policy and through incentives to prioritise certain products. Such a policy would imply the following:

a. Agricultural economic zones

This would include the setting up of agricultural economic zones to further the development of agro-industry in the country. Special clusters will help achieve economies of scale, reducing costs of inputs while taking a significant leap in reaching self sustainability.

A product-specific approach is required, and in a first instance, focus should be given to horticulture, dairy and rice production. Regulations towards the use of unused land to implement the zones is necessary as well.

The initial stages of such projects will require improving the recruitment process for foreign labour, with an inadequate skills-force available in the island to develop the agricultural sector.

b. Subsidy on agricultural products

Focus until now to increase the local production of certain agricultural products has been on reducing costs. However, despite existing incentives, self-sustainability has been achieved in only few products.

It is proposed that direct subsidies be paid to producers in certain lines of agricultural production, with guaranteed prices ensuring a certain fixed supply over the years, reducing imports and increasing local production. The subsidy should be given on milk, livestock, and animal feed production.

In addition, it is proposed that the role of the AMB is reviewed, especially in view of designing a strategy towards imports that allow the market to align with fundamentals.

2. Manufacturing

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 laid bare the fact that those countries with a potent manufacturing sector have fared better than the others.

In 2013, the manufacturing sector did better than in preceding years, with a growth rate of 4.4 percent. However, it is unlikely that this level of activity will be sustained even in 2014. The share of the manufacturing sector has fallen below 17 percent in recent years, and this figure should be increased to 25 percent for the country to benefit from the multifarious benefits of a healthy industrial base.

In addition, the manufacturing sector's potential growth rate is at 2.5 percent, lower by 2 percentage points than the potential rate of 2006.

The MCCI is putting forward the following propositions for the resurgence of the manufacturing sector, based on the principles of consolidating local enterprises and improving their ability to capture new markets , while attracting new high calibre manufacturers from abroad..

a. Investor targeting -Special tailor-made packages

While it is important to develop an open platform (low taxation , ease of access to land and imported labour , free repatriation of capital and profits , no exchange control , highest ranking in world bank ease of doing business index , etc…) that can attract any types of investment, there is also a heightened need to attract certain major international companies in specific sectors where we have a comparative advantage .In that respect, flexibility should be given to tailor specific packages of incentives.

A list of potential investors in automobile, spare parts, electronics, pharmaceutical and medical equipment and supplies could be drawn and contacted to negotiate terms of potential investments in the country. Some of the conditions which could be given are:

- Tax holidays of 10 years, renewable for 10 more (corporate tax, VAT on inputs, VAT on final products and all other levies applicable)
- Buildings and necessary infrastructure
- Dedicated department at Government level
- Open access to finance for these companies at near zero cost
- Simplified citizenship and passport procedures
- Special zones/ industrial villages to accommodate the factories and expatriates working in the zone
- Greater bandwidth capacity

b. 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.

- Buy Mauritian Act

It is imperative that a Buy Mauritian Act is prepared, to guarantee that a percentage of public purchases of Ministries, local government bodies and para-statal organisations are locally manufactured, allowing for a 10 percent margin in terms of pricing. This will offer some protection to local entrepreneurs as well as show the belief of authorities in local know-how.

- Monitoring and Enforcement

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. It is essential that the Food regulations, the Dangerous drugs and chemicals act and related legislations are reviewed by a joint public-private committee.

Also, legislation concerning pre-market approval for new products should be amended to allow products to get into the market more easily. The onus should lie on the producer to ensure that all requirements are met and officers should verify the claims after they have been put for sale moving to an ex-post system.

- Age certificates

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

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

c. Revolving Credit Fund

Revolving credit basically is an arrangement which allows for the loan amount to be withdrawn, repaid, and redrawn again in any manner and any number of times, until the arrangement expires. The creation of such a mechanism will help many small and medium manufacturing companies deal with short-term cash-flow problems.

Indeed, orders for many companies come at several months intervals, causing some working capital issues for companies who have to borrow money or make use of overdraft facilities which are costly.

It is proposed that a Revolving Credit Fund is established at the Development Bank of Mauritius helping similar companies to ease their cash flow issues. The scheme would work like a line of credit, with incentives such as no interest charged if repayment is effected within 6 months.

e. Recruitment of foreign workers

Several companies in the manufacturing sector rely heavily on imported labour to be able to meet orders. However, they are faced with severe administrative bottlenecks when they have to recruit or renew their workforce, in some instances taking over 6 months to process documents.

This situation results in local enterprises losing orders and failing to consolidate relationships with importers of our products, and fermenting into a situation of uncertainty in the manufacturing sector.

The MCCI proposes that the labour legislation concerning recruitment of foreign workers be reviewed and that a silent agreement principle be applied to such a class of workers with the onus lying on the recruiter to ensure that all relevant documents are in order. Officers from the Ministry concerned could in such a scenario effectuate inspections to ensure that the workers meet all the requirements.

This would ensure that factories remain in operation and give them a certain assurance in accepting orders. Lack of predictability and uncertainty in the recruitment process should be completely removed .

3. Wholesale and Retail

The growth of wholesale and retail has been somehow tepid at 3.1 percent in 2013, although the share of the sector relative to total GDP has been increasing, reaching 12.3 percent in 2013.

The slow growth has been to a large extent the result of falling growth in consumption, and reversal in that trend would go a long way in improving the situation in wholesale and retail. However, the current environment for that business segment has gradually been worsening.

Measures to improve this business environment would include :

a. Trade Fees

The reduction of trade fees (already mentioned under proposals for reducing the costs of doing business) would provide a much needed boost to the retail sector.

b. Unfair Competition

Local entrepreneurs are facing increasing competition from hawkers or other operators who do not have the required licenses or permits to operate. Many of the goods supplied by the latter do not meet the quality standards set by the relevant legislative framework. Often at the expense of the consumers' health, these goods are generally much cheaper because of the low quality inputs and the absence of fees payable to authorities.

In addition, there is the increasing problem of counterfeits being sold across the country, conning locals and tourists into purchasing them as erroneously perceived bargains. In the longer term this will significantly dent tourist confidence in making purchases at bona fide outlets as well . reducing further an already low amount of shopping spend per tourist.

A resolute decision is required by the Government to deal with this situation and allow local entrepreneurs complying with legal requirements to do their business without having to face unfair competition. The much acclaimed selling point about the Rule of Law , should Actually be upheld for the benefit of all law abiding citizens.

c. Sales Season

The realisation of a sales season in Mauritius, with a mindset of making it " the Mauritius Shopping Special " 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.

d. Single Supermarket licence

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

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

It is proposed that a single supermarket licence encompassing all the required permits and licences should be issued.

e. 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 longer 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.

Also, the MCCI is proposing that the roles of the STC and the AMB be reviewed against their initial set objectives and whether they are actually correcting market inefficiencies they were intended to correct.

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.

4. Construction

Construction remains the most hardly hit sector, with continuous contractions in the output cementing a not very sought after place in the economic landscape. This is an immense cause for concern, given that the repercussions of the construction sector are spread high and wide across all sectors of the economy. With a contraction of -6.7 percent in 2014, the time is ripe for drastic actions. The same holds for a closely related sector- real estate activities, where growth has been weak at 2.7 percent during the same period.

a. Review of the guidelines for IRS and RES

Changes to current guidelines and eligibility requirements could help the sector fulfil its potential while at the same time encouraging locals to invest in the purchase of these types of establishments.

There are certain very important factors that need to be taken into consideration when reviewing guidelines for the sector.

First it concerns the reputation amongst existing investors needs. This is closely linked with the stability of the tax regime they were promised. In particular, stability is crucial on the following policies:

- taxes and duties on re-sales, as one of the first questions an investor asks when investing is regarding the costs of exit. Transfer tax was recently increased for re-sales and it is important to reinstate the original cap of USD 50,000 on re-sales
- the current policy of zero capital gains taxes, estate duties, taxes on dividends or municipal / residential property taxes are a cornerstone of their investments and must be maintained

Another concern is about global competitiveness. The sector competes with other global property investment destinations which have substantially lower transaction costs – in particular, the current level of registration duties and transfer taxes reduces the competitiveness of the sector.

To this end, the MCCI proposes the following measures:

- Aligning the building requirements and guidelines for IRS/RES with those for normal residential projects, reducing the costs for builders and allowing them to do more with their capital. An example is the existing requirement of an environmental impact assessment for an IRS/RES, as opposed to what is required for non-IRS/RES projects. This needs to be reassessed, with the procedure being time-consuming as well as costly.
- The land development area limit of 10 hectares differentiating RES projects from IRS projects should be eliminated and one single regime should be put in place. The rationale for imposing this restriction at the time was to encourage small landowners to engage in property development. However, this has had limited success as most of them really found alternative ways of disposing their land to developers instead. It would make sense therefore to realign these schemes under a single umbrella with a single regulation, namely a revamped Real Estate Development Regulation. At the same time, to give a new impetus to the sector a realignment of the registration duty and land transfer tax would be desirable in this respect.
- The Building Control Act has been amended to oblige contractors and/or developers to provide decennial insurance to their clients. This will add an estimated 2.5% to the cost of construction and will be passed on to the ultimate client, further reducing competitiveness (regardless of whether the insurance is to be contracted by the contractor or developer). IRS/RES schemes should either be exempted from having to provide such insurance or should be allowed to credit the costs of such insurance against transfer tax payable.

- The regulations governing the procedures for the importation of personal effects under the E9 regime by persons benefitting from residence under the IRS/RES schemes should be simplified in order to streamline implementation and avoid post-clearance disputes

b. Protection of property buyers

There are several construction projects that have started, but have either been abandoned before completion or have been commercially unsuccessful. This is mainly due to an absence of regulation in the sector, allowing competing and overlapping projects getting a go-ahead without adequate assurance regarding their completion.

This has also resulted in many small contractors being left with unpaid invoices for their work, causing financial foreclosure. Based on the feedback from our members the MCCI would like to propose the following :

- Review the terms and conditions concerning projects approved under the Vente en état Future d'Achèvement (VEFA).

  Currently, projects aimed at locals are not bound by the need to have a *Garantie financière d'achèvement (GFA)*. It is imperative that we have a level playing field between foreigners and locals. Protecting local purchasers of residential units in large-scale projects is necessary, and the essence of the GFA should therefore be considered for all property developers.

- Given that the issuance of GFAs would represent an additional cost to promoters , a possible abatement through registration duties could be considered making future projects affordable while providing the security of completion.

c. Lease purchase

Loans are often costly, and renting residential properties does not provide the tenant with ownership of the house.

The introduction of a framework allowing *lease purchase*, a system which exists in other countries, would give a significant boost to the sector. This would also preserve and promote home ownership in the country, which has been traditionally the norm for Mauritians.

In essence, a *lease purchase* is a legally binding contract made between a landlord and a tenant for a residential (housing) purpose. The lease gives a tenant the right to use certain residential property in exchange for money paid to the landlord.

Such a framework would require opening up the market for foreign or local financing institutions (as landlords) which would finance the purchase of a housing unit on behalf of the person interested, and keep a claim on the property until the final payment is made. An initial downpayment could also be made applicable.

d. Housing Empowerment Scheme

In the construction sector, one corrected irregularity could go a long way in boosting the level of investment in the sector, and the economy as a whole.

The Housing Empowerment Scheme launched recently is a welcome initiative to encourage home ownership and stimulate investment in the sector.

However, the limit of Rs 50,000 concerning income household is arbitrary and likely to favour those with fewer dependents. As an example, an individual/household with no dependent earning Rs 49,000 per month is considerably better off than an individual/household with five dependents earning Rs 51,000 per month. Under the existing scheme however, it is the former who will benefit from the scheme.

Removal of the limit would put everyone on fairer ground, dissipate all ambiguity in the definition of households and make the administration of the scheme easier while providing a significant boost to the construction sector.

In addition, removal of VAT on all new constructions or purchases of houses or flats for first time buyers is recommended, irrespective of the size or cost of the unit.

In addition, the following measures could be considered:

- Use of non-agricultural land close to urbanised areas
- The exemptions applicable under the current scheme be maintained and even extended
- Financial institutions such as pension funds and property funds be allowed to invest in this scheme. Their participation will be limited to a given threshold and will be governed by strict conditions. These may include fixing maximum monthly rental thresholds as well as yearly increases thereof. They may also have to put the units for rent for a minimum period of, say, seven years. This will thus create a rental market at affordable rates for the middle-income group.

e. Repair and maintenance

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

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

f. Loan-to-value ratio

Guidelines issued to commercial banks when granting credit facilities to a household for the purchase/construction of a first housing unit dictate that the LTV ratio must not exceed 90 per cent of the value of the residential property for credit facilities up to an amount of Rs 5.0 million, 80 per cent for credit facilities up to an amount of Rs 12.0 million; and 70 per cent of the value of the property for credit facilities above an amount of Rs 12.0 million.

However, for many households, this limit is prohibitive, and causes much harm to their chances of constructing their own houses. The MCCI therefore proposes that the LTV ratio imposed is completely eliminated. In addition to providing a house for many families, it will reduce indebtedness arising from the contraction of more expensive loans to cover the upfront payment.

g. Retirement Property Purchase Scheme

A dedicated Retirement Property Purchase scheme applicable to proven retired persons (55 years old and over)with pensions and other benefits transferred to a local bank account could be implemented.

This specific scheme would allow a permanent residence permit to be allocated to buyers of property with a minimum price of USD 200,000 instead of USD 500,000.

The potential of such a scheme is immense, with positive spill-over effects on consumption, investment and job creation.

h. Sale of life rights

The sale of life right (the right to live in a specific apartment or unit within a Retired Home Village) will allow a retired (above 55 years) to live in Mauritius without purchasing a property but still with a resident permit until his death. The owners of life rights will have to live here and spend their money until their death. The idea is to bring in regular FDI and providing jobs to our local citizens.

i. Boat marina.

The appropriate legislation has to be introduced to allow for the construction of marinas.

j. Training.

The building and construction sector suffers from a dearth of trained local manpower and more often than not projects are delayed to the shortage of skilled labour.

We propose the establishment of a high reputation school specialised in the construction sector with training in, inter alia, masonry, carpentry and other woodwork, electrical work and appliances, ceramics and plumbing.

k. National urban renewal scheme

A National Urban Renewal Scheme is required to make our towns and other major villages economically productive and efficient by a strategy of upgrading the social and economic infrastructure and wide-ranging reforms to strengthen municipal governance. Such a scheme would rather reward towns for projects aimed towards these objectives though grants and soft loans. The standard of living of inhabitants would find itself uplifted as well in the process through an Urban Regeneration Programme breathing economic life back into our major conurbations .

5. Financial Services

Financial and insurance activities have had a healthy growth rate over the last years, surpassing the 5 percent levels, with banking activities, insurance and leasing all prospering in the period. This is at par with its potential growth rate of 5.0 percent.

The sector represents 10.1 percent of the GDP, making it the third largest contributor, and having a highly strategic importance. The progress of the sector is primordial as it facilitates the development of all other sectors of the economy. For the advancement of the sector, the MCCI is proposing some measures that would build on the momentum of financial services and provide some visibility to entrepreneurs.

a. Pension and medical scheme

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

It is proposed that pension and medical schemes are treated as exemptions and are made deductible from chargeable income.

b. Development of new products and markets

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.

In addition, some funds should be made available for the development and promotion of new financial instruments in Mauritius and in the region.

6. Tourism

2014 is likely to finally be the year we manage to break the 1,000,000 tourist arrivals barrier. Initially, it was projected that we would be welcoming 2 million tourists by 2015. However, the crisis put a severe dent in our expectations, and we have lost some ground over attaining our objective and against our competitors in the region. The potential growth rate of the sector remains low however, at around 2 percent.

One decisive factor is the cost of travel when the tourist decides on potential destinations. To remain competitive, we have to make sure we offer the most attractive rates to visitors. Furthermore, we have to redefine our overall strategy for the sector, with re-updating the roles of major stakeholders in the sector and by expanding our markets. The MCCI is putting forward several recommendations in this optic.

a. National Air Carrier

We should 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 tourist arrivals.

b. Reduction of air ticket prices

The cost of travel is the major deciding factor for tourists in choosing a destination.

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

Alternatively, the MCCI is of the view that the Government should subsidise the cost of air tickets by 30 percent during the off-peak season (May- September).

In parallel, a decision should be taken concerning liberalising our all access once and for all. Resolute decisions followed with strong actions will allow more operators to get into the country. An increase in the supply of seats and competition will increase quality of travel and reduce the prices as well.

c. Special tariffs

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

d. Diversification

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.

e. Review of Tax Refund

Increase the proportion of local sales from 20 percent to 50 percent, 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.

f. Refund of VAT for Mauritian national living abroad

There are many Mauritian nationals who are living abroad for work or for studies who visit the country on a regular basis. Currently, purchases made in Mauritius are not reimbursed for VAT when they leave again.

The MCCI proposes that VAT is refunded to Mauritian nationals living abroad and not holding a foreign passport to encourage consumption in Mauritius.

g. Refund of VAT on accommodation

This measure, as proposed under consumption boosting measures, will significantly increase the number of tourists arriving in the island and improve occupancy rates in hotels.

7. ICT/BPO

The ICT sector has over the last few years not been able to sustain its initial growth rates, and the share of the sector in overall GDP has not been able to reach levels expected. In fact, ICT has moderated around 6.4 percent of GDP over the last 5 years, with growth rates over the period falling under the 10 percent rates it enjoyed prior to the crisis.

There are several obstacles that are hindering a proper development of the sector, with major lacunas lying at the skills level and on competitiveness of services offered. The MCCI is proposing some measures that would help fill those gaps and address the limitations of Mauritius as an outsourcing destination.

a. Skills mismatch

This sector is the one 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 increasing mismatch of skills in this particular sector could play against its progress in the future and this needs to be addressed. For that, we should open our shores to talented individuals from abroad to share their experience with locals while at the same time encouraging multinational companies to expand their operations in Mauritius. The current restrictions concerning occupational permits are in the way of such a strategy.

The MCCI proposes to remove the limitations concerning on the recruitment of foreign employees for new companies committing to recruit more than 100 employees in their first five years of operation, with not more than 50 percent of the workforce being foreign employees, down to 25 percent after that.

b. Digital infrastructure and Price of Bandwidth

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

Access to the internet should be treated as a public good in Mauritius, given the importance information dissemination and access plays in our world. Therefore, it is the duty of the Government to ensure that the population has access to cheap and rapid internet for the development and modernisation of the economy.

Currently, provisions in the law allow other operators to utilise the existing network. However there still is a certain degree of monopolistic influence on the viability of the projects undertaken by new operators, limiting reductions in prices of services.
In this context, the MCCI proposes as a medium to long term measure to:

- Either recuperate the network that it itself invested in building to allow operators to utilise it freely, or

- To finance the construction of new IT infrastructure across the island, building from connection with the forthcoming BRICS cable.

In the shorter run, the MCCI proposes that amendments are made to existing regulations and allow unbundling of telecommunications services. Unbundling prices would be set by the ICTA rather than the incumbent operator.

8. Creative Industries

Creative industries are central to economic prosperity, as it becomes increasingly recognised that the potential of these kinds of industries to provide an impetus to other sectors is enormous. 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 is part of our cultural and creative know-how.

A creative cluster could be developed, favouring certain industries such as jewellery or handicrafts, with the offer of attractive tax rates similar to those mentioned previously in the document. The cluster will also provide tourists with a novel place of attraction and allow them to buy locally manufactured products at factory prices.

Other measures could include:

a. Chamber of Crafts

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.

b. Showcase of local know-how

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.

9. Education Hub

Tertiary education providers have mushroomed over the years across the island, and a lot of effort is being made to attract students from abroad, especially from Africa. While the general environment in the country is conducive for students, there are still ways to improve the cost competitiveness of our offers to be able to rival more popular destinations for studies.

a. Online Training

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

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

b. Work permits for foreign tutors/ lecturers

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

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

c. Recovery of VAT

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

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