Post-Budget Focus

21 June 2019

Dear Members,

The aftermath of the National Budget is a busy period with Business Mauritius (BM) working with various public sector counterparts on the operationalisation of measures that would impact the economic landscape. In this context, please find hereunder some perspective on the main areas where BM is actively representing the interests of its members.

1. BM Budget Memorandum & BM’s first post-budget reaction

For the Budget, the business community’s proposals were laid out in our Budget Memorandum, with a focus on cross-cutting fundamentals such as a better use of our natural resources, developing human capital potential, strengthening governance and addressing our environmental vulnerabilities. In conjunction with our Budget Memorandum, proposals were made by our partner members in the agro-industry, manufacturing, tourism, financial services, ICT, construction and commerce and industry sectors.

Setting the National Budget 2019/2020 against these proposals, BM held its post-budget press conference on Budget night together with its partner members, highlighting some interesting measures while stressing on the necessity to continue working together to meet the important challenges faced by several pillars of the economy.

2. Update on the current status of BM’s actions

Section 1: Representation and collaboration

Section 2: Economic measures warranting continued and sustained dialogue

Section 3: Concertation on macro-economic fundamentals

Section 1: Representation and collaboration

A. Continued Representation

As stressed in BM’s memorandum, we welcome that isolated measures and/or implementation of schemes were not introduced prior to the proper ecosystem being put in place.

- REVIEW OF OVERALL TAX SYSTEM INSTEAD OF TARGETED AND ISOLATED MEASURES
A holistic review of the tax system would include:
- the integration of global business to the economy
- the position of Mauritius as a jurisdiction of substance and an economic and business hub for investments between Europe, Asia and Africa.

- This model should favour efficiency and certainty through a long-term fiscal framework.
- In the meantime, the necessary amendments made regarding foreign sourced income are well noted and should be followed by an impact assessment exercise.

**BM has volunteered to participate in the in-depth assessment of our taxation system in order to create a strong fiscal framework which would meet the country’s long-term objectives.**

- **INTRODUCTION OF THE PORTABLE RETIREMENT GRATUITY FUND (PRGF)**
  - The introduction of the PRGF has been made with the necessary space for technical discussions in order to ensure that its setting up should not impose additional financial burden which may affect the capacity to pay.

**BM will participate in the technical committee towards the implementation of the fund in order to** find a solution which is acceptable to all parties, addresses the practical concerns of implementing the measure and minimises unintended consequences as well as overlaps with existing mechanisms.

- **CORRECTION OF ANOMALIES IN THE UNIVERSAL PENSION SCHEME**
  - The intent to bring better standards of living to our seniors is being pursued without jeopardising fiscal stability.

**BM's proposal for a National Consultation on the sustainability of public and private pensions** through social dialogue will be followed up with the relevant stakeholders, particularly in view of correcting anomalies in the universal pension system.

**B. Specific measures**

Hereunder are some of the measures which could be of interest to our members:

- **Development of Human Capital**
  - Facilitation of training is addressed, inter alia, through the setting up of a Skills Development Authority, the creation of a National Skills Matching Platform in collaboration with Business Mauritius and the streamlining of procedures for trainers, training institutions and non-award courses.
  - BM will continue working with the authorities to ensure that the necessary guidelines are implemented to facilitate the process for non-award courses.

- **Introduction of a “Post-Study Work Visa”** will allow international students to work for 3 years in Mauritius in scarcity areas.

- **Reduction of training levy to 0.5% instead of 1%** to those employees earning a salary not exceeding Rs 10,000 per month will provide some short-term
relief to employers faced with the higher than expected salary compensation earlier this year.

- **Energy Transition**
  - The constraint that a producer can produce from solar energy sources only 30 percent of the electricity it consumes is being lifted as is the monthly fee for supplying electricity from solar energy sources to the national grid. However, BM will continue its discussions with the Utilities Regulatory Authority with regards to ensuring commercially-viable renewable energy prices.

- **Environmental Vulnerability**
  - Public-private collaboration for coastal rehabilitation and the lift of the ban on export of scrap metal (which allows value addition to the circular economy) are noteworthy.
  - A national cleanliness and embellishment campaign will also be a step in the right direction.

- **Innovation**
  - New legislation to set up the Mauritius Research and Innovation Council and the setting up of a National Innovation and Research Fund will enable the acceleration of programmes such as the Collaborative Research and Innovation Grant Scheme and the Pole of Innovation Grant Scheme which are of practical use to businesses seeking to innovate production or processes.
  - Companies in innovation-box regime will benefit from 8-years tax holiday on IP income with 5 years for those in e-commerce and peer-to-peer.

- **Ease of Doing Business in Mauritius**
  - Further actions have been announced to improve the Ease of Doing Business as well as a simplified PPP Act and the BOT Projects Act and the expectation of better port logistics through the planning of the Port Breakwater to reduce downtime.

- **Connectivity**
  - A step in the right direction has been made, in the first instance to Kenya and Shanghai.
Section 2: Economic measures warranting continued and sustained dialogue

BM reiterates that we need to prioritise long-term measures over short-term ones if we want the sustainable economic development of Mauritius. In that context, the current challenges faced by some of the pillars of our economy, particularly the manufacturing sector and the cane industry, warrant urgent attention and accompanying measures for the structural transformation of these sectors.

- **Export-oriented manufacturing**
  - The support for the trade promotion and marketing scheme, the services of the Ideas Foundry and the structuring of the Investment Support Programme into a company are well noted.
  - The special incentives for mid-market enterprises are also welcome.

**BM’s role**

BM and its partner members will continue to engage in further collaboration with relevant authorities in order to develop the necessary ecosystem for Mauritius to emerge as an advanced manufacturing location.

This collaboration is essential and urgent to accompany our textile and apparel players towards transforming into or servicing a new breed of online companies targeting the millennial customer, as well as a package of measures directed towards attracting high-end brands to choose Mauritius as their sourcing location.

- **Local manufacturing**
  - The announcement of the Food Standards Agency needs to be followed by an acceleration of its implementation, which will enable a level-playing field between locally-produced goods and imports.

**BM’s role**

BM will pursue the dialogue with Government to ensure that there is a recognition of the local manufacturing ecosystem’s greater multiplier effect, its contribution to the complexification of the economy and the development of manufacturing services as well as being a source of sustainable, reliable and quality supply of strategic products.

- **Cane sector**
  - The support for 60 tons of sugar per planter is noted.

**BM’s role**

BM believes that there is the urgent need to sustain discussions on the transformation of the sector, namely the cost and revenue-generation measures that have been proposed.

BM and its partner members intend to further engage with the relevant authorities to urgently establish the platform for the implementation of the National Biomass Framework, which has a fundamental importance in the sector’s sustainability.
Section 3: Concertation on macro-economic fundamentals

Strengthening of governance for smart regulation is a key priority for the country. BM welcomes:

- The greater accountability of public institutions, namely through the establishment of a new expenditure framework that will be firmly rooted in the principles of evidence-based budgeting.

- The upcoming Business Facilitation Bill and further digitalisation of the public sector would also lead to better services for the public.

However, bold measures are required for the systemic development of strong and independent institutions.

BM’s role

- Continue its dialogue with the relevant authorities on these reforms.
- Continue working with the authorities to monitor e-Procurement targets and the digitalization of processes to improve efficiency and speed in the delivery of justice.

Macro-economic framework – BM welcomes

- the creation of the central KYC

Smart regulations such as the eKYC could be converted into a business opportunity where Mauritius could offer technology-backed KYC clearing houses for the region.

The robustness of our medium-term macroeconomic framework is an important consideration for investors using the Mauritius IFC who generally view macroeconomic variables with due caution.

BM’s role

- working with Statistics Mauritius, Bank of Mauritius and Ministry of Finance to better understand the set of assumptions underlying the estimated growth of 3.9% in fiscal year 2019 and the set of corrective measures that are planned to reach the optimistic 4.1% forecasts for fiscal year 2020.

Furthermore, the importance of long-term fiscal sustainability is highlighted, particularly in view of a domestically-raised recurrent revenue that should meet Government’s recurrent expenditure.

A robust medium-term macroeconomic framework coupled with a central bank fulfilling its mandate would ensure this fiscal sustainability. At this point, the dependence of the medium-term macroeconomic framework ratios on the GDP forecast should be raised, with possible divergences in the latter further impacting the former. The central bank’s assets would be committed to mandatory reserves, to provisions for import cover but also reserves to defend the exchange rate against destabilizing capital outflows, leaning against disorderly market conditions and/or valuation overshooting among others.
Again under the theme of long-term fiscal sustainability, the measures proposed in the budget regarding Inclusive Development have been well noted and understood in the context of balancing inclusiveness objectives with fiscal responsibility. As was highlighted by IMF earlier this year, in the context of the delicate situation of the global economy, “it is imperative that costly policy mistakes are avoided”.

This budget provides interesting measures, but in the current context of challenges faced by several economic pillars, it is essential to continue working together to transform the Mauritian economy.

Business Mauritius remains committed in its efforts to engage with the relevant authorities on the points highlighted above.

Furthermore, we will pursue our dialogue with the authorities on the urgently required structural transformations for some sectors as well as the concertation on macro-economic fundamentals with the relevant bodies.

A National Business Roadmap has been prepared by BM and will be launched soon. It will be an important tool for us to monitor progress on the cross-cutting fundamentals of improving the management of our scarce natural resources, developing our human capital, strengthening our governance, and addressing our environmental vulnerabilities.

Yours faithfully,

KEVIN RAMKALOAN

Chief Executive Officer