Annexes to the Business Mauritius

Budget Memorandum 2022-2023

Annex 1 - Note on availability of FOREX on the market

Business Mauritius, 31 March 2022

Based on a sample of 12 companies, the requirements from importers of agro-commodities and agricultural products is estimated at USD 43.4M for March/April 2022 and USD 53.4M from May to August 2022.

	March-April	May-Aug	March-Aug		March-April	May-Aug	March-Aug
	In millions						
USD	40	42.6	82.6	USD eq.	40	42.6	82.6
EUR	2.5	8.2	10.7	USD eq.	2.8	9.0	11.8
ZAR	9.4	26.5	35.9	USD eq.	0.64	1.8	2.4
				Total	**43.4**	**53.4**	**96.8**

Businesses have expressed an issue in obtaining FOREX, particularly USD and ZAR, on the market.

- For importers, this is a critical issue because with the excess demand for commodities and freight, they are required to pay in full ahead of shipment.
- There is an even greater issue for the business community as lack of FOREX affects investor confidence and the ability to raise capital for Mauritian projects.
- With limited FOREX on the market, some operators are ensuring prudential treasury management to ensure security of FOREX for their future imports.
- There may also be some rational expectation motives as the MUR has been constantly depreciating and lost approximately 20% of its value with respect to the USD since 2019.

It would be necessary to take stock of the hard currency held privately in the market, excluding global business activities and the amount held by sector in order to develop targeted policy measures that would not jeopardise the Mauritius IFC and our strategy to attract international business and talents.

The Balance of Payments situation has improved significantly since the first negative balance in 2020 and has posted surpluses for 3Q21 and 4Q21, with overall balance of payments surplus of Rs25.5 billion in 2021Q4.

The external current account deficit has been estimated at about Rs21.7 billion for 2021Q4, representing around 16.0 per cent of GDP, with a widening of the goods account deficit while a surplus is noted in the services account.

Direct investment in Mauritius, excluding GBLHs and net of repatriation, amounted to Rs4.6 billion, while residents' direct investment abroad, excluding GBLHs, amounted to Rs3.5 billion.

Economic recovery for pillar sectors including tourism, textiles and sugar are well under way.

- In the hospitality sector, current forward bookings for the next 12 months and shows a trend for the high season 22 which is higher than in 2019 (even better than the bumper 2018 figures). At 28 March, we have crossed the 150,000 tourists mark.
- Textiles are showing a net improvement, which is further expected to improve since the current geopolitics situation are encouraging buyers to look for established alternatives such as Mauritius.

- With the exit from the EU blacklist, the financial services sector is also prone to see an increase in activities.

The business community believes that the strongest signal the Government can send at this point in time is on confidence on the Mauritian Rupee.

- The central bank has a key role to play to absorb the pipeline and stabilise the MUR through a strong and sustained intervention. With nearly USD 8BN in reserves, it is believed that there is the space for the Bank to intervene without affecting its position vis-à-vis Moody's.
- The business community holds part of its debt in currencies to match their exports. Furthermore, the current corporate debt situation is atypical. Due to lack of visibility created by the pandemic, companies have borrowed in MUR to cover losses and other costs. They have also reduced their CAPEX investments. With better visibility of the future, companies would refinance these debts and take new currency debts for CAPEX which will then be available on the local market.

In this line, there can be a role for corporates in helping in this initiative with some conversion at strategic periods to assist the stabilisation initiative

The strong signal that the MUR is stabilising and that it could even be on the upside, will also motivate those holding for speculative reasons to start selling their FOREX to avoid the carrying cost of MUR financing.

To further encourage the stabilisation of the MUR and increase availability of FOREX on the market, additional policies could be considered.

- The positioning of Mauritius as a safe haven in an uncertain world - linked to pandemic, climate change and geopolitical tensions – with an enviable lifestyle could be used to attract talents and investors over the next two years. This could be achieved by a time-bound relaxation of rules regarding purchase of property on the island, say for the next two years.
- The Mauritius port is seen as a location of choice for major shipping lines across the world. The port has received interest for strategic partnerships at several instances. It would be possible to provide a framework for a strategic partnership for the assets of the Port, whilst Government retains a controlling interest. This would serve a dual purpose of creating a Port dynamic, positively impacting bunkering and Freeport services, as well as provide a substantial FOREX inflow in a short period.
- Reviewing our currently high fiscal regime due to the solidarity levy in order to attract foreign investors and talents,

The Mauritian model of competitiveness, flexibility and agility have served the country well and has been replicated by several regional competitors. At this current juncture, it is important to strengthen the confidence of investors in the country, through clear and transparent policies and encouraging free flow of capital, avoiding at all costs the perception that the current exchange rate regime is being challenged as that would be very damaging for the attractiveness of Mauritius as a Financial Centre.

Business Mauritius would request the possibility to discuss the above further with the Minister of Finance at the earliest.

Annex 2 - The way forward to implement Renewable Energy Investment Plan 2026

1. Align MARENA/ BM Targets

Business Mauritius proposes an accelerated Renewable Energy programme to provide greater resilience to the domestic market as well as reduce our dependency on imported fossil fuels.

	BM IP 2026	MARENA RE Roadmap 2026	Remarks
on-shore wind	210	15	BM supports a strong onshore wind potential. MARENA only considers existing Plaine des Roches 15 GWh plant while proposing a more complex offshore wind power in 2026/2027.
Solar Residential	75	70	
Solar Commercial	300	199	
Solar Utility	300/640	640	To meet the ambitious MARENA targets of 640GWh, fast-track procedures will be necessary especially for ground facilities and battery storage.
Biomass	514	363	
Total (GWh)	1399/1739	1287	

A target between 1399 GWh to 1739 GWh is proposed, representing a minimum additional 112GWh to an achievable maximum of 452GWh above the MARENA targets. This is estimated at approximately 45% to 55% of energy demand forecasts of BM and, with the necessary demand-management policies, would meet the 60% RE transition objectives.

2. Clear RE Investment Frameworks

The main components of the RE Investment Framework could be as follows:

2.1 The Biomass Investment Framework

a) A price mechanism per kWh for electricity producers for bagasse;
b) A price mechanism per kWh for electricity producers for cane trash;
c) A price mechanism per kWh for electricity producers for woodchips;
d) A price mechanism per kWh for electricity producers for non-sugar biomass imported; and
e) An indexation mechanism for all producers of biomass electricity.

2.2 The Solar PV Investment Framework

a) A timeline of 3 months for clearing all projects under SSDG and MSDG;
b) An agreed price of Rs 4.50 for SSDG; and
c) An agreed price and indexation mechanism for MSDG.

2.3 Fast track for EIA clearances

A fast-track mechanism for EIA clearance for all RE projects

2.4 A dedicated innovation program

Based on a principle similar to the Collaborative Research and Innovation Grant Scheme (CRIGS), it is proposed that a dedicated innovation support program of Rs 500 M, be put into place.

3. Process to finalise Investment Framework

3.1 Existing committees:

- MOFEP on Import Substitution in the context of the international crisis
- EDB Public-Private committee on Energy
- MCIA on the National Biomass Framework
- MARENA RE Roadmap 60% in 2030

3.2 Our suggestions:

A joint Import Substitution (Energy) Committee (ISEC) with a mandate to finalise Investment Framework to meet agreed targets set as paragraph 1 above. The committee would include representatives of MOFED, MEPU, EDB and BM.

It is believed that two technical committees should assist the ISEC, including the existing Sub-committee on Biomass Framework to achieve biomass target but also a new subcommittee to work on non-biomass to achieve targets on solar PV and wind.

4. Outcomes

The Business Mauritius proposal would displace at least Rs 3.2BN of fossil fuel consumption per annum as well as create an estimated Rs 30BN of investments in the energy sector.

Investment Frameworks to be finalised in 6 weeks.

Annex 3 - Proposed amendments to the Workers' Rights Act

1. Section 3 – Application of the Act

- Subsection 3(2)(e) to be amended to exempt the application of Part V. of the Act to workers drawing more than 600k annually and who are working under work from home arrangements.

- This will promote a wider adoption of family friendly work practices from a more diverse segment of the labour market.

2. Section 16 – Compromise Agreement

- To amend section 16(3A) to provide that where a compromise agreement concerning termination of employment is made between a worker and an employer whereby the worker has negotiated a compensation package for his years of service, no contributions for past services and no shortfall of contributions should be payable to the PRGF by the employer.

- The law should recognise the will of contacting parties under an agreement. This will allow the practice of negotiating voluntary and amicable settlements as it has always existed in the past under employment relationships. Additionally, we will be moving away from a litigation culture and this will contribute to promote sound and conducive industrial relations at the workplace.

3. Section 24 – Overtime

- To amend section 24(4) to provide for the computation of overtime perform during week days on weekly basis instead of calculating on a daily basis.

- This will promote and increase the use of shift work and other flexible working arrangements.

4. Section 25 – Notional calculation of basic hourly rate

- To standardize the notional calculation of basic hourly rate for full-time workers on the basis of a month to be deemed to consist of 195 hours.
- To prescribe formula to compute the notional daily basic rate for part time workers.

5. Section 45(8) – Refund of Annual Leave

- The refund of unutilised annual leave is very costly and puts additional strain on small businesses at a time when additional payments such as end of year bonus is also payable. Refund should be limited only to cases where application of such leave has been made by the worker and such request has not been acceded by the employer for operational reasons.

- Businesses under their leave policies recommend and prefer that their employees enjoy their annual leaves as annual leaves provide an opportunity for short term compensatory breaks and the reconciliation of personal obligations. Accumulating annual leaves for refund purposes negates the health and safety benefits of such leaves.

6. Section 54 – End of Year Bonus

- To provide for the payment of end of year bonus on the basic salary as per the End of Year Gratuity Act 2001 to align the payment of EYB to every worker, irrespective of their salary drawn.

- The computation of EYB on the basis of 1/12th earnings is costly and act as deterrent for employers to introduce any incentives/productivity payment to its employees.

7. Section 87 – Interpretation of PRGF

- To amend the definition of monthly remuneration to be defined as the monthly basic wages paid to a worker.

- The payment of monthly contributions to the PRGF on monthly remuneration represents a significant cash outflow for employers, thus, impacting on the day to day operations of enterprises.

Moreover, all other social contributions, such as social contribution (CSG), NSF and training levy are paid on basic salary.

- It is to be noted that on the exit of an employee, under Section 96 of the WRA, the Administrator will carry out a benchmarking exercise on the basis of 15 days' final remuneration of the worker to compare the gratuity payable against the accumulated fund (contributions for past services + monthly PRGF contributions + Return on Investment)

8. Section 95 and 96 - Contributions for past services/shortfall of contributions

- To amend S95 (Contributions for past services) to be made applicable only in the case an employer wishes to pay same at any time before the retirement/ termination of employment/at death of a worker.

- In case of termination of employment, retirement and death of a worker, there should be no obligation on an employer to pay the contributions for past services. In paying the shortfall of contributions on the basis of 15 days' remuneration per year of service less the accumulated fund, the contributions for past services are already being accounted for in the 15 days' remuneration per year of service.

The requirements to pay contributions for past services and shortfall of contributions on the occurrence of the above mentioned events is not only confusing to employers but also administratively inconvenient as there is duplication of work in respect of calculation, submissions of return and payment of these contributions.

Thus, there is need to make this provision more user friendly to enable its smooth contributions.

- To exempt an employer to pay contributions for past services and shortfall to a worker under PRGF, in cases where the latter has committed a serious gross misconduct such as fraud, theft, gross negligence.

9. Section 97 – Joint liability of employer and job contractor to pay PRGF contributions

- To amend section 97 to exclude an employer to be responsible for the PRGF contributions that should be borne by a job contractor in relation to his employees.
- The Act does not provide a definition of 'job contactor' and the term can be interpreted very widely
- This joint liability remains as a perpetual threat to a principal which must be recognized until the workers' of the job contactor reach retirement. This measure is administratively cumbersome and impacts the financial performance of a company.
- The job contractor is usually a legal entity in its own right who operates with all the registered and approved licenses from the Regulatory Bodies and as such has to bear his obligations as an employer.

10. Section 109 – Gratuity on Retirement

• To amend section 109(4)(a) to allow the deduction of the total amount of any gratuity paid to a worker payable instead of deducting only half of the gratuity paid under a fund or scheme set up by the employer from the gratuity on retirement payable.

• It is to be noted that in cases where an employer has contributed to a private fund or scheme, the gratuity paid to the worker under Section 109 is calculated on the basis of contributions made by the employer to the private fund or scheme. Allowing deductions for only half of the gratuity accumulated under the private fund or scheme is grossly inequitable and serves as a disincentive for businesses to engage and invest in private pension initiatives.

Annex 4 - Recommendations for the Mauritius Port

Objectives

- Connectivity – make Mauritius more connected with the rest of the world via the seaport. Main KPI – average time taken for shipments to and from the key import and export hubs (including average waiting time to get the vessel and transshipment time)
- Cost – reduce the cost to import and export goods. Main KPI – average shipment costs to and from key hubs
- Value creation – to generate value for Mauritius through its activities, to keep majority of the Mauritius port under Mauritius ownership (not to lose control to any foreign public or private body)

Challenges

- Governance challenges
    - MPA – owner, operator, and regulator are all the same organization
    - CHCL – again owned by state and very little competition
- Infrastructure – dated infrastructure in terms of quay, cranes, and lack of good breakwater
- Productivity – CHCL operates the two most important terminals of bulk and container and has very low productivity and no competition and low incentives to change

How do we achieve that?

- Mauritius as a cargo hub – our captive volumes (~150k TEU annually) are too small to help us with either of the three objectives. With neither the population of Mauritius or consumption / production growing significantly over the years, we will not increase this figure substantially. Hence, we need to have a hub strategy –
    - Transshipment hub – to help tranship the volumes in the region
    - Light manufacturing SEZ hub – to increase the volumes substantially
- Improve Governance – improving governance will invite investors that will give us the funding to drive change. The owner, operator, and regulator roles should be separated
- Clear part for terminal privatization (not port privatization) – especially container and bulk terminals – this will need reform of CHCL
- Make Mauritius a key service port – for bunkers, underwater surveys, small repairs and maintenance, crew change
- Innovation – the shipping industry is going green. Mauritius has the chance to be the first green port of the world, and most definitely the Southern Hemisphere. This will be a game-changer for the port and may even give it a chance to pitch for and operate other ports in the region. MPA has already committed to net-zero b 2040 (https://vimeo.com/671007728)

Potential Solution

Step 1 – Fix governance, release cash for driving strategic projects on infrastructure and energy in the port

1.1. Separate the land and asset ownership of the port from MPA to another SPV
1.2. Get a minority investor (e.g., a Private Equity firm like Helios, APMC, CDC, et al) against a 2–4-year reform plan for the port. Release USD 100m-400m in the process

1.3. Invest part of the money on the right infrastructure immediately to get gains in productivity and kick start reform project
1.4. Government to allow Private sector dialogue in the committee discussions for decision making via BM / MEXA / et al

Step 2 – Quick gains

2.1. Make Mauritius a service hub by tendering for the right services and doing the right marketing – bunkering, crew change, underwater surveys, et al
2.2. Prepare the 2–4-year terminals reform plan along with the minority partner and share with the key shipping operators in the region to get their input and also ensure that we get their buy in

Step 3 – Reform of Mauritius Ports and Terminals

3.1. Carry out a 2–4-year reform process to ensure that the activities of the port are brought to world class levels to make Mauritius the leading and the only green port of the southern hemisphere as a gateway to eastern freeboard of Africa.

MPA	**SPV**	**Terminal Operations**	**Energy and Bunkering**
Port Policies and Governance Nautical policies and infrastructure Emergency preparedness	Ownership of assets and infrastructure at the port. - Real estate manager and landlord functions Award of private-public partnerships in key areas - Towage - Mooring - Dredging - Pilotage - Cargo Handling - Digital connectivity services - Educational services - Emergency Management services	Container Terminal General Cargo Terminal Oil Terminal Bunkering terminal Cruise terminal Dry docking	Energy infrastructure at the port to make it net zero by 2040 latest Bunkering including neofuels

Step 4 – International expansion of the Mauritius Port to make it a regional operator of modern ports and terminals.

Annex 5 - Additional proposals on the Real Estate sector

Smart Cities & PDS:

- Extension of the Residential Area within Smart City developments in line with market requirements, by increasing the ratio of Residential to Non-residential to 80/20 in line with good urban practice, instead of the current 50/50.
- Increase the quota for residential serviced plots allowable under the smart city scheme, IRS and PDS Scheme from 25% to 50% as the market has changed and buyers prefer the flexibility of buying plots and then designing their own villas rather than buying off plans.
- Extend the possibility to sell serviced plots to Non-Citizens to 30 June 2026 (Actually 30 June 2024) in PDS and Smart Cities as it takes time for promoters to conceptualize and implement projects and it will be very difficult for new projects to propose this incentive in the coming months as they will not be ready for signature of the Deed of Sale by 30 June 2024;
- PDS, IRS and G+2 projects to be exempted from VAT where deed of Sales signed prior to 31 December 2023 and construction completed by 31 December 2025;
- Authorise foreigners to borrow up to 80% of property value (instead of 60%) as most of them need to take loans;
- MIC to provide Bridging guarantees for VEFA built-up projects targeted for foreigners etc8-year tax holiday to be from the receipt of SC developer certificate and not the SC Certificate
    - Extend validity of Smart City and PDS permits as a lot of time has been wasted due to lock-downs and closure of borders
    - Need to find a way to screen PDS and G+2 promoters as many lack experience and their mistakes could severely impact the image of the destination

Accelerate project implementation timeline:

Projects a take long time to get off the ground due to the difficulty to get permits.

- Remove the requirement to obtain Land Conversion Permits in Smart Cities as project already get initial clearance to convert land into smart city projects through the Smart City application process. Only the Land Conversion Tax, where applicable, needs to be paid with MOA depending on the land-use
- Very High contribution fees paid to CWA & CEB for upgrades that will benefit to the whole region. Should be reviewed and a rate per square meter of construction area of land area be applied. Utility Regulatory Authority to become fully operational as CWA and CEB should not be judge and party
- Modify SIE Act – 12th schedule Section 1A 8 (a) as follows:
    - Extend the validity period from 2 to 4 years after the obtaining the land conversion to allow enough time to obtain all clearances & permits.
- Land Conversion obtained under approved scheme such as VRS, 2:1, should not be time-barred, to avoid time wasted to re-apply etc…
- PV farms up to a capacity of 5MW to be exempted from EIA certificate under the EPA
- Announce fiscal incentives under REIT which is the key success factor
- To amend Section (2B) of Land (Duties & Taxes) Act to reduce the number of non-significant re-assessments.
    - Reassessments by government valuers should be applied only above a threshold of Rs 100,000 or 5% of valuation difference, whichever is higher to avoid assessments for small differences on big transaction (e.g: Rs 100,000 difference is very small for a RS 20m transaction)

- Consider implementing electronic signatures for Deed of Sales

Boost local demand and facilitate access for Citizens to home ownership

Rapid increase in cost of construction complicating access for Citizens to Home ownership. The following are proposed:

- Extend the Home Loan Scheme and Home Ownership Scheme to December 2024 and extend the maximum amount from Rs 500,000 to Rs 600,000
- Housing Development Certificate: Increase the value threshold for units to MUR10m and extend the sales and completion of units to December 2024.
- Modify the Home Loan Scheme to include VEFA projects
    - Citizens buying a residence through a VEFA project (apartment or duplexes) do not qualify for the Home Loan Scheme as the definition of residence do not include this type of property. Many Mauritians now choose to buy a residence through VEFA projects instead of constructing their own house. Proposal to add the following to the definition of "qualified residence" and to the "declaration by the borrower":
        - "residential unit which is being acquired on the basis of a plan or during the construction phase, governed by the provisions of a *vente à terme* or *vente en l'état future d'achevement (VEFA)* as the case may be, in accordance with articles 1601-1 to 1601-45" of the Code Civil Mauricien.