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Chapter 3

Investment promotion and facilitation in Mauritius

The Government of Mauritius places strong emphasis on attracting FDI, especially from emerging economies. Significant improvements in the business environment have been made, starting with the 2006 Business Facilitation Act and followed by the rationalisation of investment incentives and continuing simplification of business licencing procedures. Strategic bodies (such as the Inter-Ministerial Committee on Business Facilitation or the Joint Economic Council) together with a very dynamic Investment Promotion Agency (the Mauritius Board of Investment) have been established and manage regular communication with investors. However the dominant emphasis in national development strategies (such as the ten-year Economic and Social Transformation Plan, ESTP) is mostly on wide-ranging social objectives, and Mauritius could benefit from a long-term strategy dedicated specifically to investment. The framework for SME promotion and business linkage creation could also be enhanced and better co-ordinated, notably to ensure that SMEs can fully utilise the available support schemes and investment opportunities.

3.1. Investment promotion and facilitation strategy

A strong focus on attracting FDI, especially from emerging economies, in current growth strategies

Throughout the different phases of economic reform, since 2005 government policy in Mauritius has been firmly centred on promoting foreign investment. This followed a period of intense questioning within the Mauritian government, as Mauritius' economy suffered at the turn of the millennium from the erosion of trade preferences and of labour cost advantages. Government therefore embarked on a new economic strategy aimed at creating an open, transparent investment climate to enhance foreign and domestic investment. As expressed by the Mauritius Board of Investment (BOI, the country's investment promotion agency), "the only route to more robust growth is more investment […] for policymakers, the growth equation is simple: no investment, no growth". This reflects the continuing importance of investment as a generator of employment and income, a vehicle for technology transfer, and a means for higher economic growth.

Economic and investment policy post-2005 can be categorised in the following three stages (as outlined by the President of the Republic of Mauritius on the occasion of the Second Session of the Fifth National Assembly, on 16 April 2012):

- The first stage covered the period of 2005 until 2008, during which government embarked on radical reforms to the economy, including simplification of investment procedures (as embodied by the **Business Facilitation Act 2006**, detailed below).
- The second stage covered **2008-12**, when government focused on macroeconomic stability in the face of the 2008 global financial crisis. This included the **Economic Restructuring and Competitiveness Programme** (ERCP), launched in 2010 to withstand global economic contractions. The latter comprised measures to provide short-term financial breathing space and support restructuring and deleveraging of firms that were judged to be viable for the long-term. The ERCP (since renamed as the Restructuring Working Group and scheduled until 2014) promotes a restructuring plan based on market diversification, improvement of products, efficiency and productivity.
- The Second Session of the Fifth National Assembly was held to "mark an important third stage of Government's action since 2005". This stage has

emerged in the context of the 2011-12 Euro-zone crisis, which increases the urgency of a well-formulated industrial policy based on market diversification (in 2010, 95% of sugar industry earnings and 72% of tourists to Mauritius were from European markets). The post-2012 stage is expected to shift the focus of economic and investment policy towards new regions (including Asia, Latin America and Africa), and to move Mauritius towards becoming a high income nation – notably by raising the skills and capacities of the Mauritian people, harnessing the power of technology, modernising and streamlining institutions, accelerating innovation in existing industries, and encouraging diversification and growth in new and more sophisticated sectors.

In line with this third phase, Mauritius aims to become a "regional springboard" for innovation and financial market development – both through "horizontal shifts" into more innovative industries and by "vertical shifts" and technological upgrading within existing industries. BOI has notably identified five sectors (all at high levels of industrial sophistication) for focus in coming years: agribusiness and biotechnology, hi-tech manufacturing, medical tourism, seafood/aquaculture, and knowledge-based industries. The government also recognises the need to update the Mauritius Vision, published in 1997. In this vein it proposes to set up a National Strategic Transformation Commission.

Government has also announced preparation of a ten-year **Economic and Social Transformation Plan** (ESTP) which will set out strategies to raise per capita income from the current level (USD 8 000) to high-income levels (at least USD 14 000). This plan is expected to help meet the challenges for an accelerated sustainable and equitable growth through increased human capital, better policies and processes, as well as more complementary public and private investment and productivity advances. The ESTP will gradually be linked to the Performance-Based Budgeting (PBB) plans elaborated by ministries and all government agencies on a rolling three-year basis; in this view a series of consultations with ministries, which seek to align the 2013-15 PBB with ESTP objectives, is already underway. These growth and diversification ambitions provide the guiding directions for investment policy in the country.

Nevertheless, aside from the Industrial and SME Strategic Plan 2010-13 (see below) and the BOI Strategic Plans, Mauritius lacks an overarching strategy dedicated to investment policy: national strategy documents place dominant emphasis on wide-ranging social objectives such as employment, education and health, but do not establish any dedicated and strategic long-term goals for investment itself. The alignment between investment and export competitiveness objectives is only implicit. Moreover, while different priority sectors are outlined in several broad policy documents (like the 2010 report on Facing the Eurozone Crisis, government budgets, the Government Programme for 2012-15, or the industrially sophisticated sectors identified by BOI), the

process for identifying these sectors remains unclear and fragmented across the existing documents.

For these reasons, a national investment strategy document could be a useful complement to the above framework for policy design. It could for instance be aligned with the goals and framework of the forthcoming ESTP, which is still in very initial phases of elaboration. Such a document could: define strategic and time-bound investment objectives; ensure better coherence with other national strategy documents (on fiscal policy, trade, human resource development, infrastructure, etc.); and facilitate the alignment of the overall investment policy framework with these investment objectives. This would help boost growth in important industries as well as improve policy coherence and predictability for investors.

Business Facilitation (Miscellaneous Provisions) Act 2006

The economic reform process since 2005, which has brought about radical improvements to the investment climate, began with the promulgation of the **Business Facilitation (Miscellaneous Provisions) Act 2006.** This legislation opened up the economy by facilitating entry of foreign investors as well as attracting foreign talents and technology. The act amended more than ten acts covering business registration, companies, immigration, investment promotion and employment. Many investment incentives schemes were also eliminated (see Section 3.3). To further improve the business climate, the government has recently announced that the Business Facilitation Act (BFA) will be revisited by MOFED and BOI, so as to adopt more of a 'whole of government' approach for business facilitation As it currently stands, the stated objectives of the BFA are to:

- provide for a "new legal framework which allows businesses to start operations on the basis of self-adherence to comprehensive and clear guidelines", with authorities checking for compliance and exercising *ex post* rather than *ex ante* control;
- facilitate doing of business and acquisition of properties by foreigners; and
- enable small enterprises to start their business activities within three working days.

Reforms undertaken to date to facilitate business registration in Mauritius, including through the BFA, include the following:

- Since 2006, all businesses are required by law to register with the Registrar of Businesses; and through on-line reforms, since 2009, companies are allocated a unique business registration by the Commercial Registry, under which all transactions can be conducted remotely.

- Small enterprises, incorporated with a single shareholder, without a constitution and no minimum paid-up share capital, are now able to start their business activities within three days.
- In 2008, a **Central Business Registration Database** was implemented, linking the following governmental agencies directly to the Registrar of Businesses: the Mauritius Revenue Authority; the Board of Investment; the Ministry of Social Security, National Solidarity and Senior Citizens' Welfare; the Small and Medium Enterprises Development Authority (SMEDA); and all Local Authorities. This database enables information-sharing across these authorities; for example companies no longer need to register separately with the tax administration, as the Commercial Registry automatically informs tax and local authorities of their registration.
- As concerns **property registration**, over 2008 and 2009 Mauritius reduced the property registration fee, and two requirements (obtaining clearance certificate from the Waste Water Authority, and obtaining a tax clearance certificate for municipal taxes) were eliminated. In 2010, a statutory time limit of 15 days was moreover placed on delivery of final property titles by the Land Registry. Most recently, in 2012 Mauritius has implemented an electronic information management system at the Registrar-General's Department, in view of further accelerating property transfers (see Chapter 2).
- **Criteria for business registration** are now more clearly set out in the Investment Promotion (Amendment of Schedule) Regulations 2010. For companies intending to carry out economic activities in Mauritius, the initial investment must be of a minimum of USD 100 000 (compared to USD 35 000 for self-employed persons in the service sector), and the annual turnover must exceed USD 130 000. Foreign companies willing to conduct business activities in Mauritius without incorporating a local company must register as a branch of foreign company, within one month of establishment in Mauritius.

Reducing and simplifying business licensing procedures

Alongside the above registration reforms, **business licensing** was simplified post-2006: trade licences were abolished and replaced by a single trade fee; the Development Permit and the Building Permit were merged into a single Building and Land Use Permit (BLP); and the 40 activities covered by Development Permits were rationalised into four clusters – services, industrial, commercial and *sui generis*. With a view to attracting new talent, skill and expertise, the work and residence permits were also combined into a single Occupation Permit (OP, which is now delivered within three days compared to over 80 days previously).

Both the OP and the BLP operate under the "**silent agreement principle**", by which authorisations are automatically deemed to be granted once they have exceeded expected timelines. Most monitoring activities related to the award of these permits therefore take place in an *ad hoc* manner, so as to accelerate initial business establishment: subsequent to the granting of a business license, local authorities are to communicate fees, relevant guidelines, and any other provisions to the businesses that intend to trade within their jurisdictions. These local authorities are also charged with carrying out *ex post* control during company operation to ensure compliance with relevant guidelines. Between October 2006 and May 2012, more than 115 000 individual businesses were registered in Mauritius, more than 11 000 OPs issued, and more than 30 000 BLPs approved.

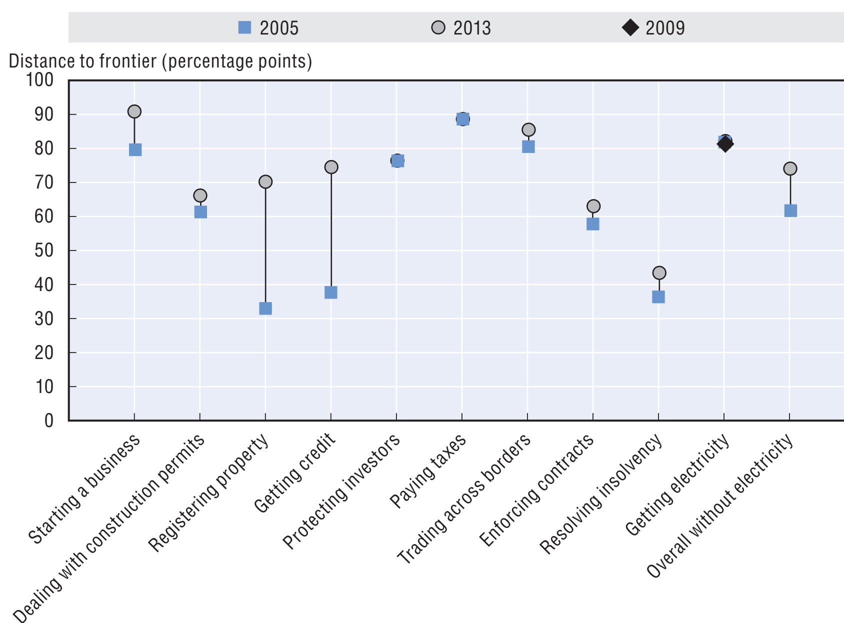
The 2014 Budget Speech plans for the introduction of several additional measures to further simplify business licensing and establishment. To address delays in the delivery of BLPs, a central E-Monitoring system will be created within the Ministry of Local Government and Outer Islands to track applications. In addition, prior clearance on some permits required for the tourism sector will no longer be necessary, and delivery of work permits for Export-Oriented Enterprises (EOEs, see below) will be fast-tracked to two weeks, in recognition of the particular need of EOEs need to rapidly expand operations so as to effectively compete on a worldwide basis. Work permit delivery will also be streamlined by online application and payment in 2014.

Doing Business rankings and the Joint Public Private Sector Business Facilitation Task Force

As a result of the above reforms (barring the 2014 measures which have yet to be implemented), the time taken to start a business according to the World Bank Doing Business Indicators has reduced from 46 to five days between 2005 and 2014. This time is reduced to only three days for small enterprises that are incorporated with a single shareholder, without a constitution, and with no minimum paid-up share capital. As for its overall ranking in annual *Doing Business* reports, Mauritius has progressed from 49th place out of 112 countries in 2007 to 20th out of 189 in 2014. Over the last five years, this has placed Mauritius first out of all Africa countries. Likewise in terms of overall economic competitiveness, the World Economic Forum's 2013 Africa Competitiveness Report ranks Mauritius and South Africa as the continent's top performers (at 54th and 52nd out of 79 countries covered, respectively, just below the Southeast Asian average and above emerging market economies of India and Russia). According to BOI, the considerable increase in FDI since 2005 (from USD 93.6 million to 315.2 million over 2005-11) and the drop in the unemployment rate (from 9.1% in 2006 to 8.3% in 2013) can be attributed to the above investment climate reforms.

More specifically than these annual rankings, the World Bank "distance to frontier" measure shows how far each economy is from the best performance achieved by any economy since 2005 on each of the nine *Doing Business* indicators. This more fully reflects how the business regulatory environment in an economy has changed over time. Figure 3.1 illustrates this dynamic for Mauritius between 2005 and 2013 (that is, since enactment of the Business Facilitation Act and other related reforms). It appears that the most progress has taken place in the areas of registering property and getting credit, both from a rather low base compared to global best-practices; meanwhile the position of Mauritius is closest to the "frontier" of global best performance for starting a business, paying taxes, trading across borders, and protecting investors.

Figure 3.1. **Evolution in *Doing Business* rankings of Mauritius, 2005-13**



Source: World Bank (2013), *Doing Business 2014: Understanding Regulations for Small- and Medium-Size Enterprises*, Washington, DC, World Bank Group, StatLink: *http://dx.doi.org/10.1596/978-0-8213-9615-5*, License: Creative Commons Attribution, CC BY 3.0.

However, the 2012 World Bank *Doing Business* Report, published in October 2011, ranked Mauritius three notches worse than the previous year – at 23rd overall. In reaction to this, a **Joint Public Private Sector Business Facilitation Task Force** was set up and is operating since October 2011. It is co-chaired by the Financial Secretary of MOFED and the Director of the Joint Economic Council (JEC, representative of private sector). The function of this Task Force has been to identify bottlenecks and review systems, procedures

and legislations in order to continuously improve the business environment in Mauritius. The Task Force comprises five working groups which focus on: land permits; import and export permits; licenses/clearances relating to the tourism and hospitality industry; permits relating to local authorities; and issues relating to utilities.

The collaboration within the working groups of this Task Force has been uneven to date, due to the diverse interests involved (particularly in the case of export and import licensing for agricultural goods for instance), and the Task Force has not been very vocal lately although its committees are still in place. Nevertheless it did make several contributions to the 2012, 2013 and 2014 Budget processes, particularly as concerns simplification of the Building and Land Use Permit (BLP). The five-notch improvement in the overall *Doing Business* rank for Mauritius as per the 2013 report, upheld in the 2014 rankings, may be an encouraging sign that some of the efforts of the Task Force are beginning to bear fruit.

Inter-Ministerial Committee on Business Facilitation

In addition to this Taskforce, an **Inter-Ministerial Committee** (IMC) on business facilitation has been set up in August 2012 to provide strategic guidance for the removal of red tape and bureaucracy in the Mauritius regulatory framework. Removing these barriers is hoped to reduce the cost of doing business in the country and to help position Mauritius as a high-income economy. The IMC is chaired by the Minister of Tertiary Education, Science, Research and Technology, comprises the Ministers of: Housing and Lands; Local Government; Tourism and Leisure; Industry, Commerce and Consumer Protection; and Business, Enterprise and Co-operatives. One of the objectives of the Committee is to position Mauritius among the top 15 destinations for doing business globally – which requires at least a four-notch improvement from its current position, at 19th place worldwide.

Since its establishment, the IMC’s first task has been to tackle remaining issues pertaining to the BLP and to the Morcellement Permit (which is required to allow the subdivision of land for residential, commercial, industrial, and agricultural purposes). Together with the relevant ministries and the private sector, the following reforms have been agreed upon by the Cabinet of Ministers:

- A new set of comprehensive guidelines defining the BLP application process has been drafted to replace the existing one, and will be available on the website of the Ministry of Local Government (MLG).
- MLG has re-engineered its BLP application review process, in view of processing all applications within a 14 day timeframe.

- An e-local government system has been implemented in all municipalities and district councils to allow online submission of BLP applications and to facilitate their tracking.

Meanwhile, clear procedural and technical guidelines in compliance with the Morcellement Act have been published, and are available on the website of the Ministry of Housing and Land. An information desk has also been set up, together with a timeframe for application processing: a letter of intent is to be issued within eight weeks from the application date, followed by a Morcellement Permit four weeks later (provided that the applying promoters complete the required infrastructure works). Following these two successes, the IMC is now working on reforms that include, amongst others: developing a land conversion permit; simplifying processes for environmental impact assessments; rationalising import and export permits; and promoting growth and investment in the education and knowledge sector.

Moreover, as announced in the 2014 Budget, in addition to the IMC in 2014 the Prime Minister is to establish a fast track committee under chairmanship of the Financial Secretary (comprising the Board of Investment, the Prime Minister's Office and other ministries) to expedite the processing of all permits and approvals concerning major "big-impact" investment projects. The Budget announces that necessary legislative amendments will be made accordingly to facilitate this fast-tracking (notably to the Investment Promotion Act and the Non-citizens Property Restriction Act; and subsequently to the Planning and Development Act, the Building Act, the Morcellement Act, the Environment Protection Act, the Local Government Act and the Sugar Industry Efficiency Act.). This measure is expected to result in 20 billion Rupees (USD 659 million) worth of additional projects over the next few years.

3.2. Establishment of an investment promotion agency

Creation and functions of the Mauritius Board of Investment under the Investment Promotion Act

The Mauritius **Board of Investment** (BOI) was created in 2001 with the mandate of spearheading investment climate reforms in the country. BOI is an apex agency which integrated within its organisational structure: the investment division of MIDA (Mauritius Industrial Development Agency, which was the former One-Stop-Shop division of the Ministry of Industry); the Mauritius Freeport Authority; and the Financial Services Promotion Development Authority. The BOI is administered and managed by a Board whose Chairperson is appointed by the Prime Minister, and which hosts representatives of the public sector, private sector, academia and trade unions. BOI has played a decisive role in: attracting higher levels of FDI into Mauritius; mobilising domestic investments; diversifying the economy into

higher value-added industries; promoting knowledge-intensive export-oriented services; and leading policy initiatives to improve the investment climate. BOI has been acclaimed on various occasions by international agencies as "best investment promotion agency" – most recently receiving the Africa Investor "IPA of the Year" award in 2011.

The Investment Promotion Act 2000 (as amended in 2009) clearly sets out the roles and functions of BOI, which include: promoting and facilitating the development of all forms of investment; formulating investment promotion policies and marketing strategies, and serving as a focal point for multi-sectoral promotional activities; highlighting policy issues and making policy recommendations to government; and promoting Mauritius as an international financial centre. Finally BOI is the hub for registering investment proposals and facilitating approval and implementation of projects: it receives all applications for investment certificates and acts as a one-stop service to obtain all secondary permits and clearances from various public sector agencies. These agencies are given four weeks to process permit applications (except where environmental impact assessments or development permits are necessary, in which case the deadline is extended to eight weeks).

BOI also ensures co-ordination and co-operation between public and private sectors on matters of investments and related policy decisions. In this context it has taken several steps to promote transparency and accessibility of information: relevant laws and regulations have been uploaded on the BOI website; it provides free-of-charge counselling and advisory services to potential investors; a Work and Live Department has been set up to provide assistance to non-citizens applying for Occupation Permits; and BOI has launched an e-platform which acts as a repository for license requirements.

Co-existence of regulation and promotion functions within BOI

The powers of the BOI under the amended Investment Promotion Act provide that in addition to licensing and promoting investment, BOI may among others: periodically carry out surveys to assess the socio-economic impact of registered investments; act as government's representative in co-ordinating, facilitating and implementing public private partnership projects; and set up such technical committees as it deems fit to assist it in the discharge of its functions. The BFA 2006 also strengthened the powers of BOI for stimulating and facilitating foreign and direct investment in the country, and gave it a greater role in policy advocacy.

Recent studies by the World Bank (Investment Climate Advisory and International Finance Corporation) note that Mauritius provides a rare example of efficient combination of investment promotion and regulation functions: BOI is one of only two "promoter-regulators" that feature among the

30 top-performing IPAs worldwide. The majority of successful IPAs instead keep the functions of investment promotion and investment regulation (such as approving investments, managing incentives, and issuing licenses and permits) separate in view of their widely different operational needs and strategic interests. This avoids conflicts of interest as well as different staffing requirements between functions of FDI attraction and functions ensuring that investment complies with legal requirements. In general there is a substantial performance gap between IPAs considered to be "dedicated promoters" of investment, and "promoter-regulators" which have a weaker track record on driving reform. The BOI stands out as an exception: it has remained efficient thanks to efforts for clearly separating promotion and regulation efforts internally, and for working together with government to streamline the regulatory procedures that it oversees – thereby creating an easier investment climate to promote.

The possibility of applying for investment licenses online, together with the move from screening and approving investments to the more *ad hoc* system of "silent approval" are other positive steps forward which render regulation processes lighter and more transparent, thereby allowing BOI to dedicate more of its resources towards investment promotion instead. This World Bank assessment is fully consistent with the attitude adopted by BOI in recent years, which has been striving to further free itself from "non-value-adding services" – that is, to re-direct resources away from the issuance of investment certificates alone, and towards a greater focus on increasing foreign and domestic investment flows. To this end, in 2014 and as announced by the 2014 Budget Speech, business facilitation will be further enhanced to support investors in the implementation of large projects in particular.

3.3. Investment incentives and their evaluation

Transparency and clarity of legal framework for incentives: Investment incentive schemes before and after 2006

Prior to 2006, the provision of incentives (primarily fiscal) was a central foundation of investment promotion in Mauritius. The Development Incentives Act of 1974 was introduced to encourage import substitution enterprises in manufacturing, and to develop Mauritius's Export Processing Zones in the textile industry (for export under preferential trade arrangements to Europe). Alongside, the Industrial Expansion Act of 1993 offered tax incentives to manufacturing and industrial support industries catering to the local market. The 1993 reform also aimed to reduce the abuse of tax holidays. Such schemes were rapidly extended to services (especially hotels and tourism) and to companies in the Mauritius Freeport and the Global Business banking and business centre. In the 1990s, additional incentives were provided for

companies to list on the stock exchange and for investors to buy listed securities, in order to promote domestic capital markets and financial services. Meanwhile, export-focused incentives included deductions for export marketing and promotion costs, as well as 15% tax credit for up to 40% of firms' export volumes.

This resulted in the co-existence of over a very wide range of incentive schemes by the late 1990s; these applied to 22 categories of investors, including: export and export service enterprises; global (offshore) businesses; pioneer enterprises; strategic local enterprises; modernisation and expansion enterprises; industrial building enterprises; small and medium enterprises; regional headquarters; as well as investments in agriculture, tourism, leisure, financial services, venture capital, fishing, health, and ICT. As put by UNCTAD in its 2000 review of the island's investment policies, the "investment incentives offered by Mauritius [were] so extensive as to defy comprehensive summary". Likewise in 2004, the SADC Tax Sub-Committee singled out Mauritius as having "the most extensive and complicated set of [investment incentive] programmes" of all SADC countries, together with "by far the most complicated list of targets for preferred tax status".

According to international best practice (see the OECD Principles set out in Box 3.1), tax incentives for investment should only be granted in accordance with a comprehensive policy, which lays down principles and policy objectives for the introduction or continuation of each incentive. Governments should provide a justification for tax incentives (such as regional or territorial development, employment creation, etc.) together with the expected costs and intended benefits. These objectives and their rationale should moreover be communicated publicly through regularly updated statements, so as to provide the basis for the assessment of tax incentives, to avoid overlap and duplication, and to allow governments to be held accountable for all tax incentives granted.

In Mauritius, several of the incentive schemes available prior to 2006 met with limited success: many incentives lacked a strategic rationale, were excessively costly for public finances, or lacked the necessary public support. This was for instance the case of incentives for IT development. Cognisant of the risks of this multiplication in incentive schemes, the Development Incentives Act was repealed in 2000, and in 2001 the government commissioned a "Review of Fiscal Incentives for Investment", comprised of three parts: a Comparative Taxation Survey; a report on greater harmonisation of the onshore and global services sectors; and a report on the impact of tax initiatives aimed at attracting and retaining talented Mauritians.

This review provided recommendations pertaining to: corporate tax and tax on dividends; capital allowances; changes in basis of taxation; FDI

Box 3.1. **OECD principles to enhance the transparency and governance of tax incentives for investment in developing countries**

Action is needed by governments to:

- make public a statement of all tax incentives for investment and their objectives within a governing framework;
- provide tax incentives for investment through tax laws only;
- consolidate all tax incentives for investment under the authority of one government body, where possible;
- ensure tax incentives for development are ratified through the law-making body or parliament;
- administer tax incentives for investment in a transparent manner;
- calculate the amount of revenue forgone attributable to tax incentives for investment and publicly release a statement of tax expenditures;
- carry out periodic review for the continuance of existing tax incentives by assessing the extent to which they meet the stated objectives;
- highlight the largest beneficiaries of tax incentives for investment by specific tax provision in a regular statement of tax expenditures, where possible;
- collect data systematically to underpin the statement of tax expenditures for investment and to monitor the overall effects and effectiveness of individual tax incentives;
- enhance regional co-operation to avoid harmful tax competition.

In addition to governments, stakeholders have responsibilities. Action is needed by development partners and donors to include tax incentives and revenues forgone in the dialogue with governments in developing countries and provide appropriate technical advice and assistance. Action is needed by business to:

- Refrain from seeking or accepting exemptions not contemplated in the statutory or regulatory framework related to taxation, financial incentives or other issues;

Action is needed by civil society to:

- Draw attention to, and publicise, revenues forgone from wasteful tax incentives that could free up resources for development.

Source: OECD Centre for Tax Policy and Administration.

incentives; capital gains tax; import duty regime; and budget revenue losses. The review notably found that fiscal revenue generated from indirect taxation contributed almost 55% of the government revenue over 2000-04, while

revenues from direct individual and corporate taxes combined to only 14% of total revenue. Therefore, although in 2003 the total tax burden reached 21% of GDP, corporate tax only reached 1-2% of GDP. Given this low burden for direct taxation, it was notably recommended to rationalise existing incentives, including by reducing tariffs and raising corporate taxation.

The **BFA 2006** abolished the vast majority of these multiple investment schemes. The reform rather privileges simplification of doing business in Mauritius through fiscal consolidation, labour market reforms and accelerated business registration. EPZs no longer exist and the fiscal regime has been particularly simplified. Whereas previously the common tax benefit for incentivised enterprises stood at 15% in place of the standard 25% rate, a single taxation rate of 15% has been adopted for all corporate as well as personal tax. Registration duty has been reduced from 13.2% to 5%, and the Capital Gains Tax has been abolished. The process of paying taxes is also relatively smooth: although since 2006, the time taken and payments made per year has not changed, and the total tax rate has increased slightly (from 26.2% of profits in 2006 to 28.5% in 2012), Mauritius ranks 13th out of 189 economies on the ease of paying taxes according to the 2014 *Doing Business* Report. The remaining incentive schemes in Mauritius as of 2006 are outlined in Box 3.2.

Box 3.2. **Mauritius Incentive Schemes – Real Estate Development Scheme, Regional Headquarters Scheme and Permanent Residence Scheme**

In Mauritius, the Real Estate Development Scheme, the Regional Headquarters Scheme, and the Permanent Residence Scheme are all clearly targeted towards facilitating business establishment, right of residence or immigration, regional deployment, and access to immovable property for foreign investors (although domestic investors can qualify as well).

The **Real Estate Development Scheme** (outlined under the Investment Promotion (Real Estate Development Scheme) Regulations, last amended in July 2012) has three sub-components, listed below. As announced in the 2013 Budget, registration duty with respect to property acquisition under the RES and IRD schemes will be reviewed over 2013, and these schemes will be better rationalised.

- **Integrated Resort Scheme** (IRS, outlined in the 2002 Regulations of the Investment Promotion Act). This Scheme aims to attract mainly high net-worth non-citizens into Mauritius by allowing them to acquire luxury villas. Incentives include exemption from the Morcellement Act, and from the duties and taxes detailed under the Land (Duties and Taxes) and the Registration Duty Acts, during transfer of land to a company holding an IRS

Box 3.2. **Mauritius Incentive Schemes – Real Estate Development Scheme, Regional Headquarters Scheme and Permanent Residence Scheme** *(cont.)*

investment certificate. Moreover, foreign IRS investors are eligible for Immigrant Status.

- **Real Estate Scheme** (RES, introduced under the Investment Promotion Regulations 2007). Under this scheme, small landowners are allowed to develop and sell residences to non-citizens, as well as to local or foreign companies incorporated under the Companies Act. The development must include commercial and leisure facilities as well as security, maintenance, gardening, and household services. The RES must be developed on a parcel of freehold land covering at least 1 arpent, but not exceeding 10 hectares (23.69 arpents). Incentives to small land-owners include exemption from registration duty and land transfer tax during transfer of land, and exemption from the Morcellement Act. Meanwhile, the RES company which invests in the land is liable to 15% corporate tax, and dividends are tax-free.
- **Invest Hotel Scheme** (IHS, subject to the 2002, 2007 and 2009 Investment Promotion Regulations) allows hotel developers to finance hotel projects by allowing them to sell villas, rooms and other components of a hotel to individual buyers (including citizens and non-citizens, as well as foreign and local companies). This is applicable for both freehold and leasehold (State) land (for the latter the promoter must apply for approval to the Ministry of Housing and Lands prior to securing the IHS certificate). Both freehold and leasehold promoters must also obtain a Tourist Enterprise License, delivered by the Mauritius Tourism Authority, and must contribute MUR 25 million (USD 804 400) to the Mauritius Tourism Fund. The amount of tourism fund is calculated on the extent of land leased. Hotels in operation may also apply for the scheme, conditional on approval of the hotel owner's restructuring plan by the RWG Committee.

In addition, the **Global Headquarters Administration and Global Treasury Activities Scheme** is aimed at companies wishing to provide headquarters services and treasury management to related corporations in countries of the region. The Global Headquarters Administration Licence and a Global Treasury Licence have been introduced under the Financial Services Act 2007 and holding a GBC1 shall be deemed to conduct business outside Mauritius – thus availing the benefits of the Global Business regime. The main incentives provided under this scheme include a 10-year tax holiday and a 15% corporate tax thereafter, tax-free dividends, and certain duty-free imports for expatriate employees.

Under the **Permanent Residence Scheme**, foreigners investing a minimum of USD 500 000 in qualifying business activities (such as manufacturing, freeport, financial services, information technology, hotel, tourism and

Box 3.2. **Mauritius Incentive Schemes – Real Estate Development Scheme, Regional Headquarters Scheme and Permanent Residence Scheme** *(cont.)*

related services, operational headquarters of multinational companies, agro-based industry, fishing and marine resources, build-operate-transfer concession projects, and film production) are eligible for permanent resident status. This allows investors to purchase immovable property not exceeding one arpent (slightly more than one acre) for personal use. The investment in property can amount to 20% of the original investment made in a qualifying business activity.

In Mauritius, the Real Estate Development Scheme functions as an umbrella for the HIS, the RES and the IRS, and BOI provides online guidance manuals for each of these schemes. Each scheme is also set out in the various regulations of the amended 2000 Investment Promotion Act. Alongside these central investment schemes, enterprises operating Mauritius Freeport and in the Off-shore sector, as well as certain activities in the agricultural and manufacturing sectors and export-oriented enterprises (formerly EPZ companies) are all offered specific investment conditions, as detailed in the next two sections.

For transparency reasons, international best-practice suggests that all such tax incentives for investment should be provided through tax laws only – such as the income tax law, rather than dispersed across multiple laws governing investment (including procurement laws, as well as stand-alone decrees, agreements and regulations such as those contained within Budget Speeches). **Dispersion in the legal provision of tax incentives** creates grounds for duplication and can hide the true extent of the incentives. However, while the consolidated Investment Promotion Act also makes reference to the Permanent Residence Scheme (which is outlined in more detail in the Immigration Act) and to the Freeport certificate (governed more specifically by the Freeport Act 2004), incentives for the Off-shore sector and sector-specific schemes for SMEs and for the tourism, textiles and agricultural industries are not referred to. Indeed these exist only under separate legislation (such as the Industrial Expansion Act and the Financial Services Act, see below).

Although the various amendments of the Investment Promotion Act certainly do take important steps towards consolidation and transparency of all available investment incentives in Mauritius, there therefore remains scope for further unifying all remaining incentives (along with their eligibility criteria) under the same legal text or within the main body of tax law. This consolidation can ensure that all tax incentives are scrutinised by the law, and thus facilitate their ratification through law-making bodies or parliament.

Export-oriented enterprises

Export Processing Zones in Mauritius have long been highlighted for the success of diversification into the textile manufacturing sector in the 1980s and 1990s. Although Mauritius as a whole retained a highly protectionist tariff structure over this time, the EPZ largely insulated the export sector from these effects. EPZ companies also benefited from a ten-year tax holiday as well as preferential interest rates on loans (conditions that were outlined first in the EPZ Act of 1970, and since replaced by the Industrial Expansion Act of 1993). This was combined with effective administration of EPZ privileges and tax incentives, and a consistent framework of other supportive policies and institutions. Until the enactment of the 2006 BFA, Mauritius EPZs provided 15% corporate tax, no tax on dividends, free repatriation of capital, profits, and dividends, and relief from customs duty and value added tax on raw materials, machinery and spare parts.

A quantitative assessment conducted by the University of Mauritius in 2008 concluded that although Mauritius had been able to attain its objective of reducing unemployment and raising foreign exchange through the creation of the Mauritius EPZ, overall the economic costs of the EPZ however exceeded the benefits – principally because of large and costly (fiscal as well as non-fiscal) incentives offered to producers working in the EPZ sector. Particular harmful incentives were found to be those for domestic borrowing (which enable foreign firms in the EPZ to borrow on the local capital market at a lower interest rate, and which create a net welfare loss that was not recuperated through principle and interest repayments) and for electricity usage (which was made available at preferential rates).

Today, the official EPZ regime has therefore been phased out, and replaced by a network of **export-oriented enterprises** (EOEs) located throughout the island and which operate on a level footing with all other enterprises. Following the dissolution of the Export Processing Zones Development Authority (EPZDA), since 2005 these enterprises have since been transferred to the oversight of Enterprise Mauritius (EM). In 2013, the bank guarantee required for expatriate work permits for work in EOEs is moreover being abolished and replaced with an annual fee, to simplify hiring procedures and release cash flow to the sector.

More recently, **Special Enterprise Zones** are also gradually being put into operation. Through providing tax benefits and an enabling infrastructure framework for investing companies, such zones will aim to become valuable platforms for value-addition and local capacity-building, allowing large and small enterprises to mutually benefit from each-other's presence. In Mauritius this includes the nascent Mauritius Jin Fei Economic and Trade Co-operation Zone (JFET). While the JFET was originally intended to provide a manufacturing and services platform for Chinese enterprises doing business in Africa, it is

becoming increasingly directed towards real estate and commercial estate development. There are no tenants at the site as yet, but nine Chinese companies have expressed interest in various sectors (including construction materials, a business school, real estate, electronics, food processing, and chemicals). Incentives to the zone's developers include: concessionary land lease rate for 99 years (at a token rate of USD 3 per hectare, which will increase by 50% after 10 years and by a further 50% after every 10 years subsequently); establishment of JFET as a Freeport zone during the initial (eight year) construction phase, allowing for duty and tax-free entry of construction materials, equipment and machinery; and provision of offsite infrastructure. Commercial companies in the zone, in turn, will operate along the national framework for FDI (with the standard, flat 15% corporate tax, duty-free entry of materials and capital equipment, and 100% foreign ownership of investments).

However, the zone's future success remains uncertain for now, as despite the government investments in the zone (MUR 267 million, or USD 8.53 million), by end 2012 only four out of the 172 hectares allocated to Chinese investors since 2006 had been developed, with expressions of interest placed on only 84 others. Moreover, out of the 43 000 jobs which the zone was initially hoped to generate (including 34 000 directly), the use of expatriate labour for much of construction and operation has made it likely that only 10-15% of these jobs will in fact accrue to Mauritians. As Mauritius has been working on setting up additional Special Enterprise Zones (including with the DRC and the Seychelles), the causes of Jin Fei's stagnation and shortcomings, and means of avoiding similar situations in future, should carefully be explored. In addition, government should remain aware that while well-structured and well-managed SEZs can generate economies of agglomeration, by reducing transaction costs among firms and stimulating creativity and co-operative innovation, these benefits do not arise automatically and cannot be taken for granted. Indeed SEZs often run the risk of instead becoming micro-economies, with poor linkages and transfer of technology to other parts of the economy, and where practices such as transfer pricing and declaration of losses are facilitated.

Mauritius Freeport

Meanwhile **Mauritius Freeport** (regulated by the Freeport Act 2001, and its 2004 amendment) was established in 1992 as a customs-free zone for goods destined to re-export. The Freeport provides logistical services as well as office and storage facilities for exporting companies; as such it hosts both operator and infrastructure developer companies. At a difference with Mauritius's former EPZs, minimal product transformation occurs in the Freeport and it mostly serves as a platform for import, transit and re-export; or for sea or airport-based export orientation. Initially covering 5 000 square metres, the Freeport sought to capitalise on existing preferential trade agreements – such

as the Cotonou Agreement, the Generalised System of Preferences (GSP) and the Africa Growth and Opportunity Act (AGOA), as well as preferential access to Eastern and Southern African markets secured through membership of COMESA and SADC.

Freeport operations may be 100% foreign-owned and use Global Business banking facilities. The Customs and Excise Department, the Mauritius Ports Authority (MPA), the Cargo Handling Corporation, Ltd. (CHCL) and Airport of Mauritius, Ltd. (AML) all play important roles in the functioning of the Freeport. **Current Freeport incentives** include: exemption from company tax and tax on dividends; preferential rates for warehousing; reduced port handling (including 50% deduction on port landing charges for containers destined for re-export); and exemption from import duty and VAT on finished goods, machinery, equipment and materials. As of 2013, the sector's tax holiday has been extended indefinitely; this followed on a 2006 announcement that the Freeport would begin incurring tax as of 2009, and which had initially been delayed.

The Freeport sector stagnated somewhat over 2006-10, as the objective of making Mauritius a "duty-free island" (launched in 2006) ran into difficulties and competitiveness of Freeport operators *vis-à-vis* other countries declined. While the Freeport risked closure at that time, in 2009 the **BOI took over the functions of the Freeport Authority (FPA)** and licensing was rationalised: whereas customs authorities previously gave the operating license and the FPA granted the Freeport Certificate, the entire licensing process was merged under the responsibility of BOI. The Freeport has considerably grown since, reaching 180 000 square meters by 2012 and counting close to 280 active operators (mostly in re-export, trans-shipment, minor processing, and assembly) – thus representing 381 000 tonnes of trade volume, and contributing 0.5% of GDP (mainly in communication, warehousing and storage). Over the past ten years, the sector is estimated to have cumulatively fostered 4 500 direct jobs and 13 000 indirect jobs.

Starting in 2013 and in view of promoting Mauritius' "Africa Strategy" for investment promotion, **Freeport status has been extended to manufacturing companies** provided that at least 95% of annual enterprise turnover goes towards export of manufactured goods (of which at least 80% is exported to Africa); meanwhile the remaining percentage may, upon BOI approval, be put on the local market and subject to taxation. Introducing additional manufacturing activities into the Freeport should enable an increase in the volume of activities, and boost trade flows between Asia and Africa (especially in the sectors of electronics, agricultural light equipment, and household consumables among others). This is also expected to increase occupancy levels of Freeport infrastructure, to boost FDI into capital-intensive activities, and to facilitate technology transfer as well as job and business linkage creation – notably in derived service businesses such as freight forwarding, custom

brokers, transport facilities, banking, and insurance. In addition, other Freeport zones are planned near the Mauritius port and airport (so as to encourage trade in goods that are perishable, or that have low volume but high value).

For these efforts to bear fruit and to be fully effective, it will nonetheless be necessary to **engage in greater promotion of the Freeport.** As noted by Freeport operators, there is almost no FDI in the Freeport to date, and although momentum for developing the zone has increased since the merger between FPA and BOI, there is still a lack of general strategy and insufficient awareness-raising among the international community concerning the opportunities offered by the Freeport. By contrast, other industries in Mauritius (particularly financial services and tourism, through the dedicate Mauritius Tourism Promotion Authority MTPA) benefit from a higher level of government attention and from large budgetary allocations. Nonetheless the Freeport itself could also benefit from greater investments, particularly as concerns the port capacity – which would need to double given current container volumes, and on which attractiveness of the Freeport area is predicated. As a result of this lack of political as well as international visibility of the Freeport, operational costs remain insufficiently competitive and the potential as a regional platform for re-export and investment is not fully exploited. Given the high promise of the "Africa Strategy", future promotional and infrastructure investments in the Freeport should be adapted to servicing African markets in particular.

The Mauritius Off-shore sector

The Mauritius Offshore Business Activities Authority (MOBAA) was established in 1992 to develop Global Business banking and non-bank financial services in Mauritius. It has served promotional functions, with a focus on investment funds, investment holding and international trading, and has since 2001 been replaced by the **Financial Services Commission** (FSC, see Chapter 5). The off-shore sector today functions according to a clearly established set of legislations, under FSC supervision. The most important types of off-shore business activity carried out from Mauritius include: banking (since the 2004 Banking Act, banks are no longer required to have separate licenses for their "domestic" and "Global Business" activities); insurance; investment funds and collective investment schemes (also governed by FSC rules, and which have access to Mauritius' Double Tax Treaties); and ship management and maritime operation businesses.

Off-shore companies can be incorporated either as a **Category 1 or Category 2 Global Business Company** (GBC1 or GBC2, see Box 2.1 in Chapter 2). As of July 2003 and so as to ensure a level playing field for offshore and onshore companies, GBC1s are liable to the standard tax rate of 15%. GBC2s are exempt from tax in respect of all income, while GBC1s are exempt from inheritance taxes, customs duty, excise duty and VAT on essential imported office

equipment and furniture. Interest, rent and royalties payable to a non-resident as well as dividends payable to their shareholders, whether resident or non-resident, by both types of companies are also exempt from income tax.

To benefit from tax relief under Mauritius' Double Taxation Avoidance Agreements (DTAAs), GBC1 companies must obtain a Tax Residence Certificate (TRC) from the Mauritius Revenue Authority. By contrast, as GBC2s are automatically tax exempt and are considered non-resident for treaty purposes, they cannot access the DTAA network. Obtaining a TRC requires demonstrating that the company's "effective management and control" is in Mauritius (including by: having at least two resident directors in Mauritius; chairing Board Meetings from within Mauritius; maintaining a registered office in Mauritius; and having a local company secretary, a local auditor, and an active local bank account). The 2013 Budget adds "compliance with enhanced commercial substance requirements" to this list of TRC eligibility criteria. As of 2013, the Stock Exchange of Mauritius (SEM) will be working with GBCs to help them address this requirement – including by sitting on the SEM and creating more "back-office" employment.

As of December 2011, the Mauritian Global Business sector counted 23 924 registered Global Business Companies, including 829 funds and 30 insurance intermediaries. It had also created 5 868 direct jobs as at end of December 2011. The island's total financial services sector thus accounted for 10.3% of GDP in 2012. Yet, global businesses make up only a **small share of the island's total financial services sector**, accounting for only 5% of the sector's 15% contribution to GDP in 2011. Among the 20 licensed commercial banks, Mauritius Commercial Bank and State Bank of Mauritius continue to dominate the banking sector in particular (with 45% and 25% of market share, respectively). To increase the performance of global business within the financial services sector, in 2013 a rule on the "Special Purpose Fund" regime has been adopted. This introduces tax exempt status for global funds, independently of their inclusion in a DTAA; as noted by BOI, this scheme should "allow the graduation of the Mauritian international financial centre from a purely treaty-based jurisdiction to a financial centre with a wider spectrum of activities and possibilities".

Double Taxation Avoidance Agreements to bolster the off-shore sector

Concluding a number of strategic DTAAs, together with considerable simplification of the corporate tax system, have indeed made Mauritius a **low-tax gateway for channelling investments to and from third destinations**, in particular India and South Africa. Building on the DTAA between Mauritius and India, India is thus the source of approximately 70% of global financial business activity in Mauritius. India's new Direct Tax Code, tabled since 2010, includes adoption of General Anti-Avoidance Rules (GAAR) so as to curb

"round-tripping" by Indian companies (a means of reducing the tax bill and possibly enhancing investor protection by investing in India by way of Mauritius). In January 2013, India's Finance Minister announced that GAAR implementation, originally planned for April 2013, would be deferred by three years to April 2016; moreover the Expert Committee established by the Ministry of Finance to look into grievances on GAAR provisions recommended that these provisions not apply "to examine genuineness of residency of Mauritius entities". As this tax reform will nonetheless affect Mauritius in other ways beyond 2016, and may challenge the commercial viability and relevance of the DTAA between the two countries, the DTAA with India has been under revision since 2012. The 2013 Budget announces the signature of a Tax Information Exchange Agreement (TIEA) with India, which will reinforce the existing co-operation between India's Tax Authorities and the Mauritius Revenue Authority. Since 2013, both countries are also collaborating on establishing an India-Mauritius-South Africa Textile Corridor, targeted to the South African market (see below).

As manifested by the "Africa Strategy" introduced in 2012, Mauritius is also eager to further enhance its role as a lynchpin for African investments. For the first half of 2012, 47% of all new global business vehicles structured in Mauritius indeed had an African investment mandate. Drawing on this momentum, government has announced the preparation of **five new DTAAs in Africa** over 2013 (including in Algeria, Angola, Burkina Faso, Tanzania, and South Sudan). This would add to the 14 DTAAs that Mauritius has concluded to date with African countries, and is one of several measures considered to encourage the setting up of regional headquarters and regional treasury management activities in Mauritius.

Incentives for SMEs in specific sectors

The Small and Medium Enterprise Development Authority (SMEDA, see below) offers **fiscal and non-fiscal incentives to SMEs** in Mauritius, in addition to the different financing schemes proposed by the Development Bank of Mauritius (as expanded in Section 3.7). Fiscal incentives for SMEs registered with SMEDA include:

- exemption of Customs duty on various vehicles for SMEs with turnover of at least MUR 3 million (USD 97 000) that have been in operation for at least two years in furniture making, light engineering or footwear;
- exemption of land conversion tax for the relocation, expansion or the setting up of an industrial enterprise; and
- reduced road tax for owners of certain vehicles who are registered with SMEDA and employ at least five staff per year.

Meanwhile, **non-fiscal incentives** ensure that the holder of a SMEDA certificate can obtain a Building and Land Use Permit in three days following completion of application and notification procedures at any local authority, subject to payment of permit fees. The 2013 Budget moreover raises the threshold for SME VAT exemption: SMEs with a turnover of under MUR 4 million (USD 128 400, up from MUR 2 million previously) will be removed from the VAT net.

In addition to these incentives available to all SMEs, certain measures have been undertaken **outside of self-standing incentive schemes**, in order to boost specific economic sectors. For instance the Schedule of Annual Allowances in the Income Tax Act will provide for accelerated depreciation in respect of investments made during 2013 and 2014, in manufacturing and in "green" technology equipment. Meanwhile, a VAT Refund Scheme is available for the agro-industrial and fisheries sectors, and will be extended until end 2013. The 2013 Budget also announces that 50% accelerated depreciation will be offered on acquisition of plant, machinery and equipment for the textile industry; and maintains the payment of an 80% advance to sugar planters as soon as their crops are sent to the mill, to support the cane industry.

Administration and governance of tax incentives

Where various Ministries are involved in the **administration and granting of tax incentives**, they may not co-ordinate their incentive measures (tax and non-tax) with each other or with the national revenue authority. As a result incentives may overlap, be inconsistent, or even work at cross-purposes. Administrative discretion in the management of incentives also seriously increases the risk of corruption and rent seeking. Moreover, once particular tax incentives are introduced this creates constituencies in their favour, which in turn can make it politically difficult to remove the incentive once it is no longer needed or has proven to be ineffective.

It is therefore considered good practice to **place all tax incentives under the authority of one government body**, ideally the ministry in charge of finance, rather than under the responsibility of several different ministries (such as trade or investment or other ministries). Consolidating administration of all incentives under a single body can: limit risks of corruption and rent seeking; increase transparency by limiting the discretionary power of policymakers; help to avoid unintended overlap and inconsistencies in incentive policies; and enable policymakers to coherently address problems that may arise with the governance of tax incentives.

Tax authorities should also periodically carry out **audits of cases where tax incentives have been claimed** to ensure that they are not misused Other recommendations for transparent and effective governance of tax incentives

include calculating and regularly reporting on the amount of revenue forgone attributable to tax incentives for investment – ideally through an annual, publicly released statement of tax expenditures which covers all main tax incentives. This requires that data be collected systematically to underpin the statement of tax expenditures. Such calculations can shed light on the revenue cost of tax incentives, rather than scrutinising cash expenditure budgets alone. Embedding estimates of revenues forgone by tax incentives in the yearly budget process can provide policymakers with timely required inputs for informing policy decisions, and supports medium-term fiscal planning. Annual tax expenditure reports can also highlight the largest beneficiaries of tax incentives, thus enhancing the public legitimacy of governments and their revenue authorities, and improving tax compliance more broadly. Such taxpayer information could moreover contribute to data for determining the efficiency and equity of tax incentives (see below).

In Mauritius, prior to creation of the BOI, investment promotion and the facilitation of secondary permits was carried out on a sectoral ministry basis: the former Ministry of Industry, Commerce, Corporate Affairs and Financial Services or the MOBAA offered access to incentives in each sector falling under their oversight. The Investment Promotion Act of 2000 moreover provided government with additional powers to design and grant fiscal incentives on a case-by-case basis, applicable to a variety of business activities where new investments exceeded USD 400 000. This discretionary power has since been revoked, with the BFA 2006 and the Investment Promotion Act 2009 notably vesting the BOI with more decision-making authority. **The award of investment incentives is thus centralised within MOFED alone**. Alongside BOI and also in the case of more *ad hoc* incentives, MOFED is now invariably consulted for financial clearance of any commitment of public funds entailing the creation of a liability. MOFED is free to analyse the economic implications and value for money of prospective MOUs, taxes and exemptions, duties, levies and fees, before Cabinet approval is sought.

Impact evaluation of tax incentives

Internationally, strong evidence increasingly **calls into question the effectiveness of some tax incentives** for investment – in particular tax free zones and tax holidays. Ineffective tax incentives are no compensation for, or alternatives to, a poor investment climate. They may be unsuccessful in attracting sustainable investment, and may damage a country's revenue base. Investment incentives can be wasteful for the following reasons: ineffectiveness (if the incentive fails to produce benefits to the host economy that exceeds the budgetary costs); inefficiency (where benefits outweigh the costs, but authorities fail to properly maximise the benefits and minimise the costs); opportunity costs (when the issue of alternative usage of funds arises, as

incentive schemes are rarely a first-best option for attracting investment); deadweight loss (if the investments would, with the benefit of hindsight, have taken place in the absence of incentives); and triggering harmful competition or a “race-to-the-bottom” (if other jurisdictions put in place matching measures).

The above risks make it essential to **adequately analyse the costs and benefits of investment incentives in a national context**, to support government decision-making and allow frequent review of incentives provided. A system of evaluation at regular intervals is also indispensable because the wasteful effects of incentives can change over time and depending on the capacity of the implementing authority. Performance reviews of tax incentives for investment may be conducted once every few years. This requires that data be collected systematically by tax authorities and finance ministries. The results of such periodic reviews, publicly reported together with the review criteria, can inform decision-making around the continuation or removal of individual tax incentives. These assessments should involve open public consultation so as to accurately include social – and not only financial – costs and benefits in the analysis.

In order to ensure that incentives are **fulfilling their objectives**, i.e. attracting more investment with justified and limited impact on the national budget, both *ex ante* and *ex post* evaluations must be conducted. In Mauritius, the rationalisation of tax incentive schemes post-2006 was the consequence of such an extensive cost-benefit assessment (starting with the “Review of Fiscal Incentives for Investment” commissioned in 2001, as mentioned above). Meanwhile, tax revenue data suggests that Mauritius has so far managed to strike a positive balance with regards to the impact of tax incentives for off-shore companies on the national budget: over 2011-12, corporate tax from the financial sector, together with ICT, has contributed to nearly a quarter of the government’s direct receipts. This notably contrasts with the situation prior to 2006 and the consolidation of incentive schemes: in 2004, although total tax revenue averaged about 20% of GDP, company income tax accounted for only 1-2%.

The **performance of EOEs**, in turn, is reported upon to a certain degree by Statistics Mauritius in quarterly reports. 2012 reports suggest that EOEs have had variable returns in terms of employment creation and value-addition. By December 2012, Mauritius counted 337 EOEs, which employed 54 187 workers in total (of which 35.4% were expatriates). The sector’s value-addition levels have fluctuated over the past two decades: between 1998 and 2011, value-added by EOEs declined from 49.9% of total manufacturing to 37%, and from 12% to 6.3% of GDP. On a more positive count, the balance of visible trade by these enterprises (the ratio of exports *minus* imports to total exports) rose from 37.3% to 42.4% between 2011 and 2012. Visible trade for 2012 thus stood at MUR 19 573 million (USD 619 million). This trend was upheld in 2013: total exports for the period January to October 2013 recorded a 13.5% increase over

the corresponding 2012 period, and exports of Export Oriented Enterprises (EOEs) for the first nine months of 2013 amounted to 35 billion Rupees (USD 1.15 billion), a 5% increase compared to the previous year.

Several of the investment incentive schemes available in Mauritius are moreover made **conditional on *ex ante* impact evaluations**; since 2009 for example, Integrated Resort Scheme project applications must include a social impact assessment, to identify the impact of the proposed IRS project on the local community, and a written undertaking by the promoters indicating the employment benefits and business opportunities that shall accrue to the local community and to small entrepreneurs generally. Meanwhile, RES applications do not require social impact assessments, but an Environmental Impact Assessment (EIA) licence and a Building and Land Use Permit must be secured. Finally, the IHS application requires a letter of intent from the Tourism Authority. In addition, the majority of approved IRS and RES projects have been established on land plots that did not serve any meaningful tourism or agricultural purpose (being mainly fallow, low-yield or wasted land, hunting grounds, or mangrove sites with little natural beaches) – with the aim of maximising the net benefit from land use.

However, the above examples only provide for **impact evaluation on a case-by-case basis**, for approval of specific projects, and not in view of assessing the effectiveness of investment incentives themselves. Even in the case of reporting on EOE performance by Statistics Mauritius, this has more of a disclosure objective and does not compare EOE benefits (in terms of value-addition or jobs created) to any fiscal costs incurred in supporting these enterprises. The wide-ranging evaluation which triggered the 2006 incentive rationalisation reforms thus does not appear to be conducted in a systematic manner in Mauritius. As the next section suggests, the reduced spill overs of the IRS (among other schemes) since the global financial crisis, as well as the risky concentration of remaining incentives schemes in the real estate sector, warrants more timely and frequent assessment.

Ex ante and *ex post* evaluation of SEZs will also become increasingly necessary given the government's objectives to put several SEZs into operation in coming years. For instance, independent analysis of the Jin Fei SEZ conducted by the African Economic Research Consortium (AERC) in 2010 suggests that the economic benefits to Mauritius may be small relative to the start-up costs borne by the government and its agencies. These costs include the obligation to provide offsite infrastructure for the zone – investments to extend the roads, water, telephone, sewerage and electricity networks to the site will cost an estimated USD 25 million in total, with zone developers shouldering only about USD 3.3 million while government and State-Owned utility providers (notably the Central Electricity Board, the Central Water Authority and the Waste Water Authority) sharing the rest of the cost. Meanwhile, the investments by zone

operators (notwithstanding their scale) may have only a marginal multiplier effect on job creation and income in Mauritius. Likewise, there is the risk of such zones functioning as enclaves and thus depriving the country of the expected technology spill-overs in the longer term. In view of facilitating transparent and accurate impact assessments of these zones throughout their lifetime, the confidentiality clauses on the basis of which most of them are being established should notably be reconsidered.

Systematic evaluation of incentive schemes as well as SEZ programmes should cover not only their impact on fiscal sustainability and investment flows, but also socio-economic factors such as employment creation, business linkages, value-addition and technology transfer. It should be regularly verified that incentives are only maintained as a compensation for proven market imperfections that cannot be otherwise addressed. These assessments should also consider **alternative means of supporting investment** – for instance, whether the forgone fiscal resources would not be better employed in training, research and development, infrastructure investment, and other efforts that can mitigate some of the structural and supply-side shortfalls that are currently constraining export competitiveness in Mauritius.

The ability to systematically evaluate investment incentives may improve in the course of 2012-13, as Mauritius' national statistical capacity is currently being strengthened: as of February 2012, Mauritius subscribes to the **IMF's Special Data Dissemination Standard** (SSDS). The SDDS is intended to guide members in the provision of their economic and financial data to the public. Subscription is expected to enhance the availability of timely and comprehensive statistics, thereby contributing to the pursuit of sound macroeconomic policies and the improved functioning of financial markets. However, to date no entity has been given a specific mandate (and the required data collection and evaluation capacity) to regularly assess tax incentives.

3.4. Adequacy of government funding and monitoring of the IPA

Programme Based Budgeting and associated performance indicators within the BOI

BOI is fully funded by the Government of Mauritius through its parent Ministry, MOFED. In 2011, BOI received MUR 158 000 (USD 5 000) in Current grants and MUR seven million (USD 226 500) in Capital grants. As is the case for all public entities receiving budgetary resources from the government, BOI's three-year strategic plans are monitored by MOFED through a performance-based budgeting (PBB) model that relates resources to proposed and achieved results. The PBB monitoring mechanism has clearly defined and measurable objectives, is reported upon quarterly, and includes consultations with all relevant stakeholders. The performance indicators established for BOI include:

inwards and outwards FDI levels; the number of jobs created; the identification and promotion of new markets and sectors of activity for investment; advice provided on investment policies; and the share of total FDI coming from non-traditional of emerging markets. For the latter, the 2012 target was set at 20%, while for 2014 it is at 24%.

In addition, the Mauritius Chamber of Commerce and Industry (MCCI) released an MCCI **Business Confidence Indicator** in June 2010 to measure sector-by-sector investment climate progress. This indicator is based on the 2003 *OECD Handbook on Business Tendency Surveys*. It is published on a trimester basis, based on surveys of businessmen operating in Mauritius (for which responses are weighted according to company size) and on sale prices and employment figures by sector. Such an indicator could also provide a useful cross-check to the BOI's internal performance measures, and can provide additional guidance and feedback *vis-à-vis* investment policy formulation. Likewise, the data collected by MOFED through Statistics Mauritius can contribute helpful inputs to monitoring the effects of investment projects on employment and other socio-economic objectives.

3.5. Streamlining IPAs and learning from investor feedback

Creation of the BOI in 2001 (by merging the Mauritius Industrial Development Agency with the Freeport Authority and the Financial Services Promotion Development Authority) was a very important step towards greater streamlining of investment promotion agencies and of the related administrative procedures. An additional step was taken in 2005 when the Export Processing Zones Development Authority (EPZDA), the Mauritius Industrial Development Authority (MIDA, formerly MEDIA) and the Sub-Contracting and Partnership Exchange (SUBEX-M) were combined within **Enterprise Mauritius** (EM). EM since functions as a one-stop service for promoting and developing exports and for assisting manufacturing firms with export facilitation. While the International Trade Division of MoFARIIT is responsible for advocating the position of Mauritius in international fora, EM together with other institutions and ministries also provides inputs and participates in the consultative and advocacy process.

EM carefully co-operates with other bodies in carrying out its functions: for example, it takes over from the Small and Medium Enterprises Development Authority (SMEDA, see Section 3.7) to assist SMEs once their products become exportable; and likewise EM can assist and advise foreign investors in marketing their products abroad once BOI has attracted these investors and facilitated the establishment of a production base in Mauritius. In view of further developing overseas markets, EM's annual budget has been expanded to MUR 135 million (USD 4.3 million) as per the 2013 Budget.

The **High Level Project Monitoring Committee**, set up in June 2011, also has potential for facilitating and streamlining investment procedures. This committee is assisted by the Office of Public Service Governance and operates under the chairmanship of the Head of Civil Service and Secretary to Cabinet. It aims to support and accelerate the implementation of major projects undertaken in partnership between the government and the private sector, to advise on policy clearance, and to ensure institutional co-ordination. The broader objective is to enhance the enabling regulatory framework, build up physical infrastructure and improve the management of national finances.

Indeed, key to fast implementation of projects by investors is the speed and cost of obtaining approval permits, licences and planning permissions from government ministries. All major stakeholders must share coherent objectives and a common agreement of the importance of receiving investment for improving the balance of payments and bolstering economic growth. The **High Level Project Monitoring Committee** has so far been able to mobilise the relevant ministries to expedite their processes and to ensure a co-ordinated and professional approach to project handling, from conception to implementation. In view of bringing in foreign capital and stimulating domestic investment, the committee thus aims to rapidly identify and resolve investment policy issues through a co-ordination of its meetings with those of BOI. Questions currently under discussion within the committee include operationalisation and implications of the nascent Jinfei SEZ (see above). Investor and private sector feedback to BOI and other investment promotion agencies is also provided by the **Joint Economic Council** (JEC), which submits memoranda to government on issues of major concern to private investors (as well as propositions for inclusion in the annual Budget – see Section 3.6).

In future, it will remain important to match these high-level mechanisms with sufficient attention to execution of the corresponding economic policies within individual economic sectors, including **effective co-ordination among implementing agencies**. Indeed, as pointed out by the policy research team of Japan's GRIPS Development Forum in 2012, while the division of labour among EM, SMEDA and BOI is theoretically clear, ground-level co-ordination among these implementing agencies appears to be suboptimal in reality. Progress is being considered on this front: the respective responsibilities of BOI and EM were further distinguished in the 2012 Budget Speech, which announced that BOI would be empowered to actively promote Mauritius and further develop the financial sector, ICT/BPO and the education and medical hubs, while Enterprise Mauritius would take care of promotion for manufactured goods and agricultural products. Meanwhile, the Mauritius Tourism Promotion Authority (MTPA, established in 1996 by the MTPA Act and which operates under the Ministry of Tourism and Leisure) will continue to co-ordinate investment promotion, organisation, information and government

advocacy functions for the tourism sector. In 2012, assistance from Singapore has been used to review the organisation and functioning of the MTPA.

3.6. Consultative framework among government, the IPA and investors

Voices of the private sector: the Joint Economic Council and the MCCI

Mauritius has a long-standing tradition of **dialogue between the government and the private sector**, which allows the private sector to voice its views on the development strategy of the country. In their 2012 investigation of industrial policy formulation mechanisms across different African countries, researchers of the GRIPS Development Forum highlight that, “Mauritius has a very strong and highly productive state-business relationship”, which enables “one of the most productive public-private dialogues seen in any country”. This dialogue takes place in a structured manner and can also occur on an *ad hoc* basis. BOI organises regular workshops and discussion sessions with investors so as to inform and propose business facilitation measures to government. BOI has also conducted surveys on potential export and investment markets, including Tanzania, Kenya, Zambia and Senegal. It interacts with the main platforms for voicing private sector concerns in Mauritius – namely the Joint Economic Council (JEC) and one of its component bodies, the Mauritius Chamber of Commerce and Industry (MCCI).

Founded in 1970, **JEC** is the peak private sector organisation and the co-ordinating body of the private sector of Mauritius. According to observers including the World Trade Organisation, JEC “has evolved over time into an ideal forum for sharing new ideas as well as developing shared views of problems and how best to pursue the country’s economic development”. Likewise, a 2009 UNDP Country Report notes that the policies advocated by the private and public sectors have become increasingly aligned over the years thanks to JEC co-ordination. The government holds regular meetings (usually twice a year) on broad economic policies with JEC. Especially during budget preparation, the private sector – through JEC and its constituent bodies, listed below – has structured meetings with the government (especially MOFED) to discuss policy changes.

JEC has provided regular policy advocacy on critical issues such as competitiveness – for instance, a JEC Task Force released a comprehensive report on the economic transition of Mauritius in 2001, followed by a roadmap for achieving meaningful competitiveness in 2005. The Task Force notably recommended that Mauritius diversify away from its narrow product base by converting its traditional niche production of sugar, textiles, and tourism into dynamic clusters, and by fully exploiting its comparative advantages in four emerging areas (knowledge, logistics and services, environment, and

pharmacology). JEC thus provided the initial platform for turning Port Louis into a regional seafood hub in 2004 (whereby other countries in the region with greater fish stocks but with insufficient technology or infrastructure can rely on Mauritius to facilitate the regional transformation and value-added processing of fisheries products, before exportation to European and American markets). Jointly with BOI, JEC also prepared the programme for business facilitation reforms of 2006.

JEC co-operates with the National Productivity and Competitiveness Council (NPCC) in some of its activities, and **regroups the main business organisations of the country**, as follows:

- Mauritius Chamber of Commerce and Industry (MCCI).
- Mauritius Chamber of Agriculture (MCA).
- Mauritius Employers' Federation (MEF).
- Mauritius Sugar Producers' Association (MSPA).
- Mauritius Export Association (MEXA – see Chapter 5).
- Mauritius Bankers Association Limited (MBA).
- Mauritius Insurers' Association (MIA).
- Association des Hôteliers et Restaurateurs de l'Île Maurice (AHRIM).
- Association of Mauritian Manufacturers (AMM).

Several of these bodies provide their own memoranda for the formulation of the annual Budget by MOFED, alongside JEC. Among the above bodies, **MCCI** is the oldest non-profit making institution representing the private sector. The Chamber took on its present name in 1965, when Mauritius was moving towards independence and was contemplating the diversification of its economy through appropriate forms of industrial activities. MCCI has always maintained close links with government and increasingly contributed to the development process of the country. It provides its members (over 400 firms, covering about 90% of larger business establishments in Mauritius) with two types of legal services: advice and information regarding the legal and administrative aspects of business undertakings in Mauritius (in particular company law, intellectual property rights, laws related to business environment, fair competition and trading practices); and a mechanism for efficient settlement of trade disputes (the Permanent Court of Arbitration).

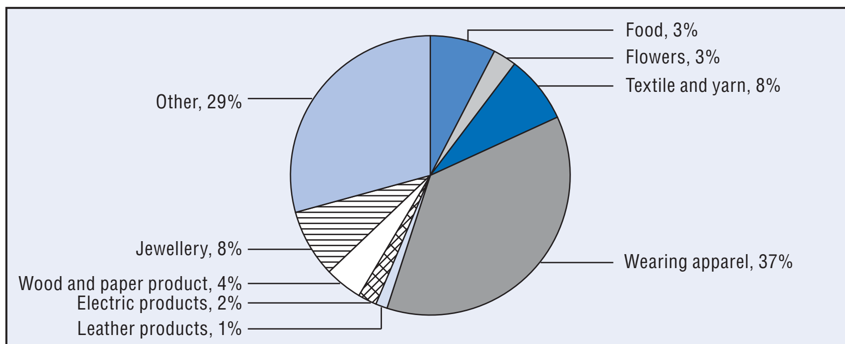
MCCI has also taken on a growing role in policy advocacy. It is regularly solicited concerning the development of commercial and industrial activities, and makes submissions directly to representatives of the government ministries and departments concerned. It also sits in all international trade negotiations alongside the Ministry of Industry. Finally, it has set up links and affiliations at international level with inter-governmental and private organisations aimed at widening its scope of activities.

3.7. Promoting investment linkages

Business linkages within EOEs and SEZs

As of June 2012, the bulk of EOE enterprises operate in wearing apparel, textile and yarn, and jewellery (Figure 3.2). Yet, this focus on manufacturing activities stands in contrast to the majority of investment schemes that persist in Mauritius. For instance the forthcoming Jin Fei Economic and Trade Co-operation Zone (which was initially destined to house various cutting-edge technology industries that Mauritius actively seeks to promote) seems to be evolving away from this focus on high-value manufacturing and services, and towards real estate and commercial estate development. EOEs aside, the majority of incentive schemes in Mauritius (especially those under the Real Estate Development Scheme) are indeed concentrated on relatively low-risk, high-return investments in real estate and property development. The RES/IRS schemes are intended to allow foreigners to acquire residential property in Mauritius not only in the aim of inducing greater FDI and foreign exchange inflows, but also of creating more employment and business opportunities (by stimulating the construction sector and by introducing wealthy non-citizen buyers within the domestic market). However it is not clear to what extent these spin-off effects have materialised in practice.

Figure 3.2. **Number of export-oriented enterprises by sector, June 2012**



Note: Export-oriented enterprises include all those enterprises previously operating with an EPZ certificate, and those enterprises manufacturing goods for exports and holding a registration certificate issued by the Board of Investment.
Source: Statistics Mauritius, September 2012.

Meanwhile, the majority of incentives provided to firms in other sectors (such as agriculture and textiles) are mostly geared towards small-scale companies only and made available in an *ad hoc* manner to overcome provisional sector-specific challenges. These sectors have not attracted FDI on a sustainable basis, and over 2007-12, the real estate and construction sectors have thus accounted for more than 40% of total FDI into Mauritius. This

growing **bias in investment incentives towards the real estate sector** could be a cause for concern, as such investments considerably depend on availability of land – as this production factor is particularly scarce, it may expose Mauritius to speculative risks.

Moreover, the **global financial crisis has limited the benefits of some of these schemes**, such as the IRS: many high-end luxury resorts established by promoters through the scheme are largely vacant, or remain at the planning stage to date. In 2012, the construction sector registered a slowdown, and the tourism sector, which benefits from the Invest Hotel Scheme, has been flagging for several years already: partially due to the drop in demand from European markets, Mauritius' share of the Indian Ocean market plunged from 41% to 33% over 2009-11, and hotel occupancy is low. This sector concentration of FDI may moreover generate employment risks: while some of these leading sectors may be labour-intensive (such as construction), it is worth questioning whether or not they open as many avenues for business linkages, value-addition or international trade as other labour-based industries (such as tourism and agriculture, which in 2011 attracted only 6% and 2% of FDI flows into Mauritius, respectively).

Government has nonetheless attempted to **encourage business linkage development** through various mechanisms. Award of investment incentives is in many cases made conditional on investor contributions to the local community: for example IRS companies must set up an IRS Social Contribution Fund, destined for implementing an approved programme, financing an approved NGO, or supporting the National Empowerment Foundation (established in 2008 to pilot roll-out of the government's Empowerment Programme). Plans for increasing business linkages were also made in the report on "Facing the Euro-zone Crisis and Restructuring for Long-Term Resilience", elaborated in 2010, in particular as concerns the sugar industry. This includes levying an Environmental Fee on molasses exports to encourage local value addition in the form of fuel ethanol and potable alcohol. Government also committed to ensuring that the production of ethanol and of Concentrated Molasses Stillage (CMS, a useful fertilizer) incorporated a maximum of small and medium planters and employees (these were to hold 35% of equity of the entity undertaking the production of ethanol).

The Small and Medium Enterprise Development Authority (SMEDA) Act

Based on a CSO Census of small establishments, the SME sector comprised about 92 000 establishments, employed some 209 000 workers and accounted for some 20.8% of GDP in 2007; by 2012, this had risen to 37% of GDP. In December 2003, the government created a new Ministry of SMEs to cater for the promotion of the SME sector, and in 2005, the **Small Enterprises and Handicraft Development Authority** (SEHDA) was created following the merger

of the Small and Medium Industries Development Organisation (SMIDO) with the National Handicraft Promotion Agency (NHPA). Companies eligible for SEHDA services had to have no more than 10 employees, and have an annual turnover of less than MUR 10 million (USD 321 000). All provisions of support were retracted if supported businesses expanded beyond these criteria. The aim was therefore to assist in the "incubation" of very small businesses in the country, before these "graduate" into larger enterprises.

In 2009, the **Small and Medium Enterprises Development Authority** (SMEDA) Act repealed the SEHDA Act. Since 2010, SMEDA replaces SEHDA, and operates under the Ministry of Business, Enterprise and Co-operatives (MBEC). SMEDA advises the Minister of Business, Enterprise and Co-operatives on policy issues regarding the development of SMEs, alongside the following functions: promoting a conducive business environment and empower SMEs to emerge and grow (including by implementing and operating a registration scheme for SMEs, which entitles them to specific incentives detailed earlier); promoting a service delivery network to increase the contribution of SMEs in the national economy; devising and implement SME support programmes (including facilitated access to industrial space, finance and other productive resources); and facilitating national and international market access and business opportunities for SMEs.

The SME definition within the SMEDA Act includes enterprises in all economic sectors (rather than adopting the more limited scoped of SEHDA, which only covered SMEs engaged in ICT, financial services, cultivation of land, and charity). No differentiation between services and manufacturing sectors has been made for small enterprises in terms of turnover thresholds. Needs of medium-sized enterprises (with annual turnover MUR 10-50 million – between USD 320 200 and 1.6 million) are defined separately from small-sized enterprises (annual turnover of not more than MUR 10 million) in light of the different support measures and objectives required.

SMEDA operates an online SME portal together with MBEC, which aims to be a One-Stop-Shop for all SME matters. The Portal regroups all SME-relevant legislation, as well as guidance for buyers and suppliers, and for potential as well as existing entrepreneurs (with specific advice for business planning, registering, financing, training, marketing, expanding, importing, exporting, and incentives). The portal hosts an SME directory which groups SMEs by industry as well as district and contains guidance for buyers and sellers, including strategies for using web-based tools and retaining customers. Guidance is also provided for supplier access to raw materials and machinery, as well as tendering processes. SMEDA has also undertaken some reports of export potential in different industries and towards different countries in the region; while useful, the bulk of these studies however date back to 2006 and have not been updated since.

Capacity building provided for small local enterprises

In addition to the above functions, SMEDA organises training programmes and seminars, workshops and conferences of short duration in regional centres across the country. These programmes are aimed at improving knowledge, skills and competencies in the technical, marketing, financial, compliance, policy, regulatory, legal, commercial and other important functions. SMEDA provides two training streams – management (entrepreneurship and small business management programmes) and handicraft (skill-based programmes, in view of manufacturing high quality handicraft items that are export-oriented. SMEDA conducts a training needs assessment every year, in order to identify the existing training needs of industry and businesses, particularly SMEs, so as to incorporate results into the SMEDA training plan.

Alongside SMEDA and the co-operatives division, MBEC also has a third arm: the **Mauritius Business Growth Scheme** (MBGS, operational since March 2011). This has grown out of the 2010 Mauritius Manufacturing and Services Development and Competitiveness (MMSDC) Project, undertaken in collaboration with World Bank to support enterprise growth, innovation, competitiveness, and employment creation in the manufacturing and services sectors. The MBGS Unit provides assistance to all commercial activities in the country, especially on the capacity building side (through technical assistance, business development services, marketing and branding, and verification of quality and standards). The unit falls under the purview of MBEC but operates much as a private organisation, with some autonomy and independence from the ministry.

As of October 2012, MBGS has received almost 650 applications for its support scheme, and 149 projects (for a total value of MUR 165 million, or USD 5.3 million) have already been approved. The rest is currently being assessed, or finalised through further mentoring. 86% of total beneficiaries had a "medium or small" annual turnover (below MUR 50 million, or USD 1.6 million), including 48% with a "small" turnover (less than MUR 10 million, or USD 321 000). Manufacturing SMEs are the primary beneficiaries (with 66% of schemes, including in wood, apparel, food and beverages, paint, and jewellery), distantly followed by services (22%, including education, healthcare and transport), ICT (7%), and tourism and other sectors (5%).

The Industrial and SME Strategic Plan 2010-13

In 2010, the Ministry of Industry, Science and Research together with MBEC released the **Industrial and SME Strategic Plan 2010-13**, which sets out five strategic priorities: an innovative approach to investment promotion; re-dynamising exports; supply-side capabilities development, including addressing Non Tariff Barriers to Trade (NTBs); sustainable industrial development; and dynamic trade negotiations. The Plan provides for institutional

upgrading, including setting up an Industrial Advisory Council, reviewing the role of the National Productivity and Competitiveness Council (NPCC), setting up an "Observatoire de l'industrie", and establishing a Competence Centre for the development of an Innovation System. Strategies specific to SMEs include: improving access to finance through support schemes, new financial products, and reform of the financial and institutional setup; expanding the entrepreneurial base through mentoring, capacity-building, and forging international linkages; improving access to markets by better connecting suppliers to buyers, better branding, and new marketing infrastructure for SMEs; strengthening the institutional framework for SMEs; improving the technology base for SMEs, including through an industrial linkage programme; and developing new growth poles for SMEs.

The **Restructuring Working Group** (RWG, which replaces the Economic Restructuring and Competitiveness Programme that was created following the 2008-09 crisis, and which now runs from August 2010 to December 2014) likewise places a strong emphasis on reducing import dependence, promoting SME development, and facilitating technology transfer. In order to create more industrial space at lower cost for SMEs, in 2012 government had also begun constructing an additional 175 units in industrial estates at five sites. These will be available to a wide array of SMEs, including mechanics, carpenters, metal workers, manufacturers and furniture makers, with a 50% discount on the rental during the first three years.

Implementation of this plan has been partial so far, and should be carefully followed up on by the Ministries responsible. It could also be more closely aligned with the work of SMEDA and of the MBGS. Given that the strategic plan does not exclusively address SME needs however, there is a risk that its many other priorities overtake the SME considerations. Implementation and re-prioritisation of the SME-specific facets of the plan could therefore be undertaken by MBEC. This could perhaps be facilitated by rationalising the three arms of the Ministry (namely SMEDA, the Co-operatives Division, and the MBGS), under the leadership of a single SME task-force which could consider means of further mainstreaming SME concerns and developing SME opportunities across all areas of investment policy and export promotion.

Enhancing SME awareness of opportunities in niche sectors of investment, export and public procurement

Indeed beyond addressing challenges of capacity-building and of creditworthiness (though the measures detailed previously as well as further below), a stronger strategy might be needed to increase **SME awareness of investment opportunities and to channel their investments towards sectors of priority** (as determined by national investment, infrastructure and competitiveness strategies). SME access to market intelligence, especially for

export-oriented production, could for instance be improved. The elaboration of an overarching national investment strategy (mentioned in Section 3.1) could therefore be co-ordinated with a streamlined strategy for SME support, along the lines of the Industrial and SME Strategic Plan 2010-13. This could notably draw on substantive inputs from the private sector and exporting businesses (for example through JEC and the Mauritius Export Association, MEXA). A committee within Enterprise Mauritius, the export promotion agency, is already empowered to call on SMEDA in order to collaborate on **export-oriented marketing support for SMEs** and on SME Export Development Plans; such efforts are highly necessary and would need to be considerably enhanced, including in terms of their visibility.

Concrete efforts are also being made in order to **increase SME participation in public procurement**, notably by revising elements of the Public Procurement Act of 2006. As of 2013, SMEs bidding for contracts of under MUR 5 million (USD 160 000) no longer need to submit Performance Bonds and Advance Payment Guarantees. An amendment to the act may also provide for at least two SMEs in the shortlists of restricted bidding (for procurement of up to USD 160 000), and for at least one SME in the restricted bid shortlists for low-value procurement (of up to 500 000 rupees, or USD 16 000). In 2013, the act has also been amended to grant a 15% preference margin to companies employing at least 80% local manpower, when competing for public works contracts. The Procurement Policy Office website has moreover elaborated a list of registered SME suppliers, including location, contact details and nature of business; it has also been conducting capacity-building workshops together with SMEDA and the Construction and Industry Development Board (CIDB) for SMEs interested in procurement projects. These efforts have contributed to raising the SME share in total government procurement from 6% over 2012 to 11% by the end of 2013.

Measures announced in the 2014 Budget likewise aim to make public procurement more "SME friendly", so as to reach a target of 20% SME participation in government procurement over the next three years. The Ministry of Public Infrastructure (National Development Unit and Land Transport and Shipping) is to henceforth unbundle contracts given on a district-wise basis, to ensure that a larger number of SMEs are appointed. In addition standard bidding documents for procurement will be simplified for SMEs, from 15 pages to only one page for goods and services, and to two pages for small works contracts. Finally, the Public Procurement Office is to hold a series of courses targeted to SMEs, and all SMEs will be provided with a free basic website in 2014 to grant them an online presence. These initiatives are essential and should again be co-ordinated with awareness-raising among SMEs so as to ensure that the available opportunities are utilised to their best advantage.

SME financial support is high on the government agenda

Access to finance and high cost of credit remain central challenges for SMEs in Mauritius, as in many developing and emerging economies. SME support has taken on particular importance since the 2008-09 and 2011 economic crises. To support all enterprises in facing the crisis (especially at micro and SME levels), government put in place the **National Resilience Fund** (NRF). The latter includes restructuring and finance for enterprises, access to markets (including investment promotion), and access to innovation and technology. Part of NRF funding is also to be used for SME industrial parks, the SME financing guarantee scheme, the MBGS, and the transformation of Development Bank of Mauritius (DBM) into an "MSME bank" (Table 3.1 lists the loan schemes for SMEs that are available at the commercial window of DBM; these are also listed in more detail on the SMEDA SME Portal).

In 2012, government doubled the size of the NRF – to more than USD 200 million – in reaction to the Euro-zone financial crisis. Moreover, in 2013 government announced the complete waiver of loans made by DBM for which capital outstanding did not exceed MUR 20 000 and which had remained unpaid for three years. To reduce confusion among these different financing schemes, the 2013 Budget also announced the rationalisation of these schemes and the establishment of an SME Help Desk which would centralise applications for all of the schemes. In addition, a Researcher Working Group has been established under the State Investment Committee to investigate the high cost of borrowing for SMEs (which currently stands at above 7%) and to explore more structural means of reducing it.

Alongside this framework, the RWG places a strong emphasis on reducing import dependence, promoting SME development, and facilitating technology transfer. Relevant measures include: an Import Loan Guarantee Scheme; injection of 5% Cumulative Preferential shares (to be replaced by an Equity Fund); access to the Export Credit Insurance Scheme (ECIS) and the ERCP Credit Financing Scheme (ECFS); and a Leasing for Equipment Modernisation Schemes (LEMS, for purchase of new equipment and machinery for enterprises with less than 50 million rupees in turnover). Over 300 enterprises – of which 56% are SMEs – have benefited from LEMS so far, which is currently in its fourth phase (addressing the refinancing of existing equipment). Since 2012, LEMS facilities have been extended to all industries, including traders, as long as their turnover does not exceed 50 million rupees. LEMS has also been prolonged until December 2014 in light of its successful record.

The 2012 Government Budget acknowledged that SMEs are the most vulnerable in times of crisis, and vouched that "on SME financing, [Mauritius] will break the mould". The Government Programme 2012-15 states that an Action Plan will be formulated for the monitoring and evaluation of all SME

Table 3.1. **Loan schemes for SMEs available at Development Bank of Mauritius**

Title of scheme	Purpose of scheme	Loan size	Interest rate and repayment period
Business development loan scheme	To finance start-up, expansion or modernisation of projects in manufacturing, transport, tourism, publishing, ICT and art.	Loan of up to 75% of project cost, capped at 2 million rupees.	Interest rate: 11.5 %. Repayment period: 8 years.
Booster (micro credit) loan scheme	To finance small-scale projects with value addition including: manufacturing, agricultural, agri-business, handicraft; tourism; plant nurseries, vegetable and flower cultivation; kindergartens; livestock breeding; ICT.	Maximum loan of 150 000 rupees (covering up to 100% of cost of project).	Interest rate : 9% p.a. Repayment period: 5 years.
Small business development-related scheme	To finance: the purchase of land for industrial or commercial purpose; the construction of industrial, commercial or office building; or any other business-related projects.	Loan of up to 75% of project cost, capped at 2 million rupees.	Interest rate: 12.5% p.a. Repayment period: 8 years.
Micro credit financing scheme (through trust fund for the social integration of vulnerable groups)	Providing finance to micro entrepreneurs in vulnerable groups involved in income-generating activities (family income below 6 000 rupees monthly).	Maximum 50 000 rupees.	Interest rate: 5%. Repayment period: 4 years, 6 months moratorium.
Quasi equity financing scheme	Providing equity and quasi-equity to SMEs.	75% of project cost up to a ceiling of 500 000 rupees as follows: 49% in the form of quasi-equity, namely redeemable preference shares or debentures with an appropriate coupon rate; 26% in the form of an equity loan to enable the promoter/s to buy shares in the company.	Quasi-equity: Coupon rate ranging from 9.0% to 13.0%; exit at the end of 5 years with a conversion clause. Equity loan: 9% p.a; loan and unpaid interests accrued thereon at the rate of 9% p.a are repayable after 5 years; interest payable yearly with a moratorium of one year.
Normal scheme for the agricultural sector	To finance projects in the following sectors: sugarcane; vegetable, fruit and flower; tobacco; livestock; transport (utility vehicles); fishing; agro-processing; and seafood hub.	80% of project cost up to a ceiling of 2 million rupees.	Loans up to 100 000 rupees – 10% p.a. Loans above 100 000 rupees – 11.5% p.a. Repayment period: 7 years.
Special loan scheme for the agricultural sector	To finance projects in the following sectors: Sugar cane; fine de-rocking and irrigation; potato or onion cultivation; fruit and flower, biotechnology; off-lagoon fishing (purchase of fishing vessel and engine/s); storage of agricultural produce; and production of agricultural seedlings.	80% of project cost up to a ceiling of 1 million rupees.	Interest rate: 9% p.a. Repayment period: 7 years.

Table 3.1. **Loan schemes for SMEs available at Development Bank of Mauritius** *(cont.)*

Title of scheme	Purpose of scheme	Loan size	Interest rate and repayment period
Transitional support scheme to finance small companies in difficulty or which are preparing for the recovery	To provide additional financial support: for the purchase of equipment for modernisation of the unit; to meet working capital requirements, on a revolving basis; or to restructure existing debts.	Purchase of equipment and debt restructuring: 75% of project cost up to a ceiling of 1 million rupees. Revolving working capital: 75% of project cost up to a ceiling of 500 000 rupees.	Interest rate: repo rate. Repayment period: 3-5 years for purchase of equipment. Up to 5 years for debt restructuring. Based on one production cycle for revolving working capital.
New micro enterprises scheme for women	Financial assistance is provided to existing and potential women entrepreneurs.	A loan of 40 000 rupees is provided to individual women or up to a maximum of 400 000 rupees grouped into societés/associations/co-operatives	Interest rate: 8.5% p.a. Moratorium on capital repayment for the first year, and thereafter repayment in 60 monthly equal instalments.

Note: Each of the above schemes has specific eligibility criteria – most often registration with National Empowerment Foundation (NEF), SMEDA, Agricultural Research and Extension Unit (AREU), Industrial and Vocational Training Board (IVTB), Tourism Authority, National Computer Board (NCB), etc.; or workers having been laid-off or retrenched in the EPZ or other sectors, such as sugar. Local ownership is also a requirement for most loans.
Source: SMEDA, *Financing Schemes for SMEs*, Development Bank of Mauritius Ltd., available at: *www.gov.mu/portal/sites/smeportal/financemain.htm*.

programmes and Business Development Schemes. The legal framework will also be reviewed to modernise the co-operative sector and enable co-operatives to adapt to the new economy, particularly in the case of women and youth. The 2012 Budget also launched an **SME Financing Scheme**, which made 3 billion rupees of bank loans (USD 96 million) available to SMEs over 2012-15 at a preferential rate of 8.5%, rather than 14% previously. As of 2013, this rate has been cut further to 7.5%, and the total volume of loans has been increased by an additional MUR 250 million (USD 7.9 million). The 2014 Budget announces that this scheme, in view of its success to date, will be further expanded in 2014. The main features of the scheme are as follows:

- new overdrafts and bank loans as well as renewal of existing facilities made at the rate of 7.5%;
- all processing costs and related charges are waived for SMEs with a turnover of under MUR 10 million;
- an Equity Fund provides a guarantee instrument to offer risk cover amounting to 35% of every loan and overdraft; and
- banks can claim the deduction from tax, in respect of SME bad debts without the need to have recourse to the courts; government will also exceptionally guarantee 50% of any losses incurred by the banks.

This scheme follows lengthy negotiations with the banking sector, with strong co-operation from the Governor of the Bank of Mauritius as well as

commercial banks. As concerns DBM, there is quite substantial flexibility in terms of the security and collateral accepted: this can be a General Floating Charge or Fixed Charge on immovable property, but pledge of sugar proceeds or bad weather allowance, a mortgage on a fishing vessel, or pledge of rights to the lease, are among others also accepted where applicable. By April 2012, in the three months since the start of the SME Financing Scheme, 248 applications had been received from SMEs and 192 million rupees of credit facilities already approved. In addition, the inscription fee levied on registered loans is removed for SMEs, as well as the registration duty for loans below MUR 1 million (USD 32 000).

The 2012-15 Government Programme moreover plans to introduce a **new legislation pertaining to hire purchase and credit sale**, to strike the right balance between promoting business and protecting consumer rights and interests. More specifically for small companies, government will propose legal amendments to improve bank resolution for the benefit of small borrowers. It will additionally review the whole area of personal loans granted by financial institutions, to make it easier for small borrowers to apply for, receive, and service their loans and to create effective dispute resolution mechanisms. Box 3.3 highlights additional reforms of the banking sector which have aimed both to facilitate SME access to finance, and to better position Mauritius as a hub for financial services in the Southern African region.

JEC also works to place SME needs high on the government agenda. A considerable portion of the JEC Memorandum in advance of the 2012 Budget was dedicated to SMEs, and noted that in spite of a wide range of support instruments for SMEs, the rate of utilisation of these instruments has been rather low. In light of JEC consultations with stakeholders, the Memorandum concluded that the two major issues facing SMEs were creditworthiness *vis-à-vis* financial institutions, and the absence of "one to one" support mechanism to enable them to utilise existing instruments. Accordingly, the JEC has made proposals for rendering the Credit Information Bureau more effective, so as to have not only a broader coverage of the population but also provide a wider cross section of the population with a credit rating profile. JEC thus encourages the urgent and time-bound implementation of the provisions of the Finance Act of 2008, relative to extending the activities of the Credit Information Bureau to include non-bank institutions and public utilities. It also proposes establishment of a mechanism to enable independent financial analysts to support SMEs, as a decentralised support mechanism which would: prepare up-to-date management accounts of the SMEs; set up accounting systems; prepare business plans; and identify financial instruments for the SME.

While the above schemes can definitely be of assistance to SMEs, they would nonetheless benefit from some rationalisation – as their multiplicity may at present be counter-productive, especially for certain companies

Box 3.3. **Enhancing the legal framework for financial services and rights of creditors and borrowers**

The **Bank of Mauritius** (BOM) is the Central Bank of the country. It regulates and supervises the activities of banks to make sure that the banking system functions properly. The Bank also plays a major role in creating a more conducive environment to enhance economic expansion. Alongside, the **Financial Services Commission** (FSC) is an integrated regulator for the financial services sector other than banking, and global business. The banking and financial services sector is well capitalised, comprising 20 banks (with total banking assets of MUR 855 billion as of April 2011), and 11 non-bank deposit-taking institutions (total assets of MUR 46 billion), 53 nonbanking financial institutions, and 21 insurance companies. In addition, the Stock Exchange of Mauritius Ltd., and the Global Board of Trade Ltd., make up the securities market.*

The following reforms have recently been underway to enhance the legal framework for financial services and rights of borrowers and creditors in the country. These reforms have potential both for facilitating SME access to finance, and for better positioning Mauritius as a hub for financial services in the Southern African region:

- Government has established an appropriate **legal framework to promote Foundations and Private Pension Schemes**. Both the Foundations Act and the Private Pension Schemes Act were proclaimed in July 2012. This is viewed to further consolidate the product offerings of the Mauritius International Financial Centre (MIFC) and enhance confidence of investors using the MIFC as a wealth and asset management jurisdiction.
- The **Borrower Protection Act 2007** regulates credit agreements for a sums up to MUR 2 million (USD 64 200) and establishes the Office of the Commissioner for the Protection of Borrowers. Among other functions, the act ensures that proper and adequate information is given to borrowers concerning the proper ways and means of obtaining a credit facility; promotes public understanding of credit facilities, including awareness of the associated benefits and risks; ensures that the terms and conditions of credit agreements are not extortionate; strives to strike a fair balance between the rights and obligations of borrowers and of lenders; deals with borrower complaints; and causes investigations to be conducted and, where appropriate, convenes hearings.
- The **Insolvency Act 2009 caters for the protection of creditors**. It consolidated and modernised the legal framework which was hitherto scattered among various pieces of legislations, and aims at providing a regime that effectively balances the interests of debtors and creditors. Notwithstanding the provisions of the Insolvency Act, there are specific

Box 3.3. **Enhancing the legal framework for financial services and rights of creditors and borrowers** *(cont.)*

provisions in the Banking Act 2004 dealing with conservatorship of financial institutions where the central banks deems it necessary in order to protect the assets of the financial institution for the benefit of its depositors and other creditors. The Banking Act 2004 also lays down: procedures for voluntary liquidation of financial institutions as well as provisions regarding the rights of depositors and creditors in such cases and the manner in which assets are to be distributed; and provisions regarding priority of claims, among others, in the event of a compulsory liquidation.

- The **Data Protection Act 2004** established a Data Protection Office under the Prime Minister's Office, headed by a Data Protection Commissioner. The act covers obligations on data controllers, the rights and exemptions of data subjects, and establishes data protection register.
- Section 52 of the **Bank of Mauritius Act** provides for the establishment of a **Credit Information Bureau** (MCIB, a unit of BOM) for the purpose of ensuring the operation of a sound credit information system in Mauritius. MCIB assists in providing information on over-indebtedness, principally of households. Through MCIB, BOM may require any institution offering credit (including leasing facilities and hire purchase or utility bodies) to furnish credit information for the purpose of: maintaining a database on recipients of credit facilities and guarantors; collecting, consolidating and collating trade, credit and financial information on recipients of credit facilities, whether fund-based or non-fund-based; storing the collected information; and disclosing, or allowing access to, this information in a confidential and regulated manner. To date, there are 38 participants to MCIB, including banks, non-bank deposit taking institutions, leasing companies, the Development Bank of Mauritius, the National Housing Development Company, BOM, and insurance companies. MCIB operation is exempt from the general provisions of the Data Protection Act. Sections 14A and 14B of the Banking Act also provide for the licensing of private credit information bureaus by the Bank of Mauritius.
- A registry has been set up under the Registrar General's Department (within MOFED) to **support the use of property as collateral and to expand business access to external sources of credit** – namely CH Live and the TBE Register.

* World Bank Group (2011), *Report on the Observance of Standards and Codes (ROSC): Mauritius, Accounting And Auditing*, June, available at: *www.worldbank.org/ifa/rosc_aa_mauritius2011.pdf*.

wishing to avail themselves of more than one scheme at a time; and their different eligibility requirements impose information processing costs for SMEs. As noted by MCCI in its memorandum for the 2013 Budget, the different

schemes available could instead "be managed by one single entity to make the process simpler for enterprises to get information on schemes that will suit them better". This "one-stop" arrangement would nonetheless not preclude that actual processing and disbursement of funds transit through specialised "channels". It would moreover provide more clarity on the available range of support schemes and investment incentives, and potentially help identify schemes that may not be meeting the desired objectives or where the financing structure may need to be re-thought.

3.8. International and regional initiatives for strengthening investment promotion expertise

BOI is a member of WAIPA, the **World Association of Investment Promotion Agencies** and AfrIPAnet. BOI also works in very close collaboration with international organisations like UNCTAD, OECD and the World Bank to build investment promotion expertise, formulate appropriate investment policies and adopt latest practices in terms of improving the investment climate. Mauritius is also a member of the AFRASIA Business Council (AABC), a consultative mechanism in support of building sustainable business partnerships between Africa and Asia launched in Mauritius in March 2005.

On a **bilateral basis**, Mauritius participates in missions to, and hosts visits from, neighbouring countries. As of May 2013, BOI had signed MOUs with 23 IPAs worldwide. Most recent MOUs, signed over end 2012 and early 2013, have been concluded with the Investment Support and Promotion Agency of Turkey (ISPAT), the General Authority for Investment and Free Zones (GAFI) of Egypt, and the Malawi Investment and Trade Centre. This collaboration allows sharing of best-practices and reform experience. In Botswana for instance, the merger of the Botswana Export Development and Investment Authority (BEDIA) and the International Financial Services Centre (IFSC) into an over-arching investment promotion agency the Botswana Investment and Trade Centre (BITC) was inspired by an equivalent experience in Mauritius – where BOI and Enterprise Mauritius evolved out of similar mergers. Botswana's benchmarking exercise also looked into Mauritian financial sector laws, and into the "silent consent" approach to business licensing procedures (see Section 3.1). Also on a bilateral basis, Mauritius is increasing its co-operation with Kenya (see Chapter 5), notably through an MOU between BOI and the Kenya Investment Authority.

On a **regional level**, over 2012 a series of COMESA workshops was held with IPAs from member countries (including BOI, which hosted the first workshop in Mauritius) to identify the main needs of IPAs in terms of capacity strengthening, and to investigate appropriate mechanisms for overcoming the lack of data on Cross Border Investments (CBIs) and investment opportunities in the COMESA region. As mentioned in Chapter 2, the end-goal of this

co-operation is to establish a Regional Investment Observatory with the following role: setting up a database for CBI statistics; strengthening the IPAs' capacity and fostering networking between the IPAs; monitoring and benchmarking performance of COMESA economies against the World Bank Doing Business criteria; and showcasing investment opportunities in the region. In addition, in 2012, two roving Ambassadors for Africa and one non-resident Ambassador to the Seychelles were appointed to assist Mauritius in achieving greater integration with the African continent. The Ambassadors avail of their networks to accelerate the development of relevant agreements (notably Framework Agreements, DTA/IPPAs, and Tax Information Exchange Agreements) that aim to help consolidate political, investment and trade relations between Mauritius and other African countries.

Also within this regional framework, Mauritius has been actively engaged in moving forward with the COMESA Accelerated Programme on Economic Integration – in particular by co-ordinating reform and accelerating policy discussions with other reform-oriented countries including Zambia, Seychelles and Malawi. In early 2013, the Vice-Prime Minister of Mauritius (and Minister of Finance and Economic Development) also discussed with the Secretary General of COMESA the possibility of softening COMESA rules of origin, so as to boost cross-border movement of trade and investment.

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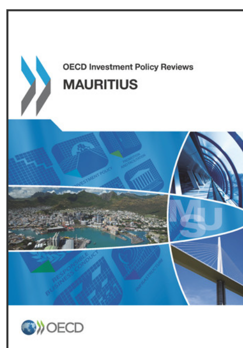

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