

**SECURING THE TRANSITION:
FROM TRADE PREFERENCES TO GLOBAL COMPETITION**

Mr Speaker,

Sir,

I move that the Appropriation Bill 2006/07 be read a second time.

2. I bring before the House the 2006/07 Budget at a critical time for our country. However, if we embrace timely and bold reforms, we can transform challenges into opportunities. Now is the time for us to seize the occasion.

3. Mr Speaker, Sir, we have reached the end of an economic cycle. A cycle based on trade preferences that has allowed our country to make significant progress since independence. We have used these trade preferences and also overseas development assistance well. However, the world has changed and we have not adapted. The preferences are now being swept away but we have not reacted. We have been naïve in believing that these preferences would endure and that we could continue to obtain concessionary finance to sustain our now outdated socio-economic model.

4. Mr Speaker, Sir, many thought that the price of sugar would not fall, let alone by a significant 36 percent. Then they expected that the adjustment would take place over a very long period. Moreover, they hoped that we would obtain compensation and accompanying measures commensurate to the financial prejudice we incur. Finally, they prayed that we would receive assistance from friendly countries with no strings attached.

5. Mr Speaker, Sir, none of this has happened.

6. The danger signs are already here. While the rest of the world and even our region are registering solid growth, our economy has descended to a lower growth path. Unemployment is at its highest level in twenty years while there is a mismatch of skills that prevents expansion of several sectors. There are serious imbalances in our external trade. The balance of payments is in the red for two years in a row. And we have been left with a very high budget deficit and an excessive public debt. These predicaments are compounded by rising energy prices and freight rates.

7. We must no longer bury our head in the sand. Let us draw the lessons from what has happened to us in sugar and not make the same mistakes. We simply cannot continue on the same path. It is the surest way to economic disaster and social upheaval. And those who will suffer most are the very people we want to protect: the poor, the vulnerable, the unemployed.

8. We must charter a new course. Government is responding with boldness and imagination to create jobs, promote employment and return to high growth. Implementation of this plan will require discipline from all of us for the next two to three years.

9. Our plan requires us to stop subverting noble objectives with policies that achieve the very opposite. We must understand what is wrong with the current framework to accept that only wholesale change and adoption of a totally new paradigm is needed to emerge from the current mess.

10. For example, we all want to promote SMEs but we make it impossible for them to operate in the formal sector. We want to encourage employment but we subsidise capital and impose high costs on those willing to hire. We want exports but we continue with a system that has a heavy anti-export bias. We want technology and a Cyber island but we make it hard for investors to come and even harder to establish residence and bring in needed skills.

11. Mr Speaker, Sir, we should eliminate these paradoxes.

12. Our greatest deficiency is the misery we have imposed on our workers. By protecting jobs we have made it impossible for our younger workers to find employment and for those who lose their jobs to get back to work. The inflexibility of some laws and the rigidity of some regulations and practices have consigned tens of thousands of our compatriots to the margins of development. They have been excluded by the very system that purports to protect them.

13. It is time for the nation to embrace radical change and build a new, open and competitive service platform that is fully integrated into the global economy, like Hong Kong, Singapore and Dubai. Moving in this direction would benefit all Mauritians. Those with the lowest incomes and those currently unemployed will gain most. More important, by also removing other disincentives to small businesses and to hire workers, we will increase employment, reduce vulnerability and alleviate poverty.

14. This is why the first Budget of l'Alliance Sociale is not, as many feared, about austerity but instead launches the changes needed for a new era of growth, wealth and employment creation.

15. Even the presentation of this Budget will reflect change. I will not dwell on sectors and ministries as in past budget speeches. I do this, Mr Speaker, Sir, not because it is unimportant but because my colleagues will address these issues in the course of debate. I need to explain the many reforms being introduced. Mauritians should understand why bold reforms are necessary to create jobs, why jobs will come from opening the economy and why we have to take some calculated risks to generate employment and return to high growth.

16. This budget ushers in forty major reforms that sweep away a non-functional system which is very complicated, hard to understand and open to abuse and even corruption through excessive discretion. We want to make things simple, transparent and rule based.

Investment Facilitation

17. On investment facilitation, we will

1. make it easier to start a business by getting rid of trade licences and do away with a very cumbersome system with complex and long procedures;

2. facilitate access to existing business premises by doing away with the need for a development permit;
3. rationalise the 40 activities covered by development permits into three clusters: services, industrial and commercial;
4. work towards pre-designated development areas where the development permit would not be necessary and would be integrated into the building permit;
5. facilitate foreign investment by establishing clear guidelines that allow starting up without government clearance;
6. integrate the EPZ and non-EPZ sectors and do away with all investment certificates except for the Integrated Resort Scheme (IRS) and the Freeport;
7. do away with the discretion and powers of remission of the Minister of Finance and have clear rules and regulations that will be enforced uniformly.

Opening up the economy

18. To open the economy we will
 8. attract foreign talent, know how, ideas, technology and money to absorb the unemployed, upgrade skills and raise earnings of our workers;
 9. encourage the Diaspora to participate in our development by taxing Mauritians on income remitted instead of world-wide income and facilitate their return with a concessionary duty for a car;

Labour market reform

19. On labour market reform we will
 10. link wages to productivity so that firms can maximize the number they employ and raise average wages while workers have an incentive to improve their efficiency;
 11. reduce the cost to employers of releasing labour to promote hiring of the many excluded today, especially the young, the long-term unemployed and those who lose their job;
 12. shift protection from jobs to workers and increase their security so that they do not lose out while shifting employment and have opportunities for improving their skills or starting a business;
 13. integrate the various labour markets into one regime with the same rules and procedures for all;

Social Policies

20. On social policies we will

14. rationalise the fragmented social assistance schemes to make social insurance fiscally sustainable and equitable;
15. streamline transfers and subsidies while better protecting the poor;
16. consolidate our social policies against the backdrop of an aging population;
17. save the pension system by taking account of changes in life expectancy and a decline in the number of workers supporting those who are retired;

Controlling wastage and securing efficiency gains in the public sector

21. To control wastage and improve efficiency in the public sector we will
 18. rationalise programmes, institutions and financing, combat abuse, clamp down on wastage and improve service delivery;
 19. close down the DWC and the Police Garage and review Government involvement in casinos;
 20. control spending by insisting on value for money, improving work planning, investigating cost overruns, introducing performance indicators and accountability;
 21. reduce transfers to parastatals and provide the context for productivity gains in service delivery;

Fiscal consolidation and discipline

22. To achieve fiscal consolidation and restore discipline we will
 22. enforce the following fiscal rules:
 - first, the golden rule that limits government borrowing to the financing of investment;
 - second, the sustainable investment rule that requires that the net public debt ratio to GDP is on a downward track; and
 - third, the constant expenditure rule that requires that total expenditure remains constant after adjusting for inflation;

Tax reform

23. In the area of taxation we will
 23. reform the tax system to make it simple and fair;
 24. unify in steps the Corporate Income Tax to a single rate;
 25. review capital allowances to end the bias against investment in people;

26. make all those with similar incomes pay the same taxes and those with more income pay more taxes;
27. introduce a National Residential Property Tax;
28. meet the pledge in our election manifesto to remove lower income taxpayers from the tax roll;
29. cut customs duties to move to a low tax platform, increase the purchasing power of consumers, eliminate the need for exemptions and move faster towards a duty free island;
30. review VAT;
31. rationalise excise duties to comply with the WTO and harmonise taxation rates across products;
32. review taxes on cars to make ownership more affordable;
33. lower registration duty to promote economic activity and increase penalties to encourage compliance;
34. introduce new taxes to protect the environment;
35. levy temporary solidarity charges to assist the most vulnerable; and
36. ensure taxpayer compliance and step up enforcement;

Broadening the circle of opportunities

24. To broaden the circle of opportunities we will
 37. set up an innovative and comprehensive Economic Empowerment Programme;
 38. tackle high female unemployment and low earnings of women;
 39. radically improve the support framework for new entrepreneurs and SMEs;
 40. expand the range of financing instruments for micro enterprises and SMEs.
25. We, in Government are the first to realise that while the ends are noble the means may be painful, especially for the next two to three years. Not only is change hard but, due to past inaction and the economic legacy, we now need to take many measures all at once. Worse, we have to do this at a time when we are hit by external shocks equivalent to three very strong cyclones simultaneously: lower price of sugar, soaring energy costs and erosion of our textile markets.
26. We cannot take away the pain from so much change in such adverse circumstances but we can lead with example. This is why, Mr Speaker, Sir, all the members of this Government are giving up some of our privileges and we are asking all Members of the National Assembly to follow suit.

1. We propose a 3.5 percent pay cut effective 1st July 2006;
 2. we will forgo the salary compensation for next year;
 3. we are increasing the renewal period for duty free cars for MNAs from 3 to 4 years; and
 4. we will change their retiring allowance system.
27. Implementing the reforms will also involve high costs in monetary terms.
28. As a nation we will need to spend around Rs 150 billion over the next ten years, most of which will be frontloaded in the first three to five years. We cannot mobilise such sums on our own. We need both foreign investment and support from our external partners to make it possible to move from a four pillar economy dependent on sugar, textiles, tourism and financial services to a diversified economy that is resilient to shocks. To unlock such support, we need to be bold, to show resolve and above all to overcome our resistance to competition from outsiders and instead swing our doors wide open. It is time to be fully open.
29. Finally, as the reform package delivers higher growth, the policies we put in place now will ensure that rising incomes would be shared more with the low-income workers, the unemployed, and other disadvantaged groups that are making the biggest sacrifices.
30. As we embrace change to make the future work for our children, let us remember that if we do nothing, what is now a precarious but rectifiable situation could degenerate into a severe crisis and become unmanageable. Economic adjustment will then be forced upon us from outside and the conditionalities for foreign assistance will be sour pills for the population. They will be difficult to endure.
31. Mr Speaker, Sir, it is in the best interest of the nation that we act - and that we act decisively. Now is the time.
32. This is a time to challenge our ingenuity and resolve as a nation. This is a time for radical novelty.
33. Therefore, Mr Speaker, Sir, the single over-riding purpose of this year's Budget is to create jobs, promote employment and return to growth by securing the transition from a preference dependent to a globally competitive economy.
34. Before elaborating on the reasons for and the nature of our reforms, I will review the economic situation this year and outline prospects for next year.

ECONOMIC REVIEW

35. The outlook for world GDP is continued robust growth in 2006 and 2007 of around 5 percent supporting an expansion in world trade of around 8 percent.
36. Regional growth also remains solid at about 5 percent in SADC and 6 percent in COMESA.

37. In contrast, our economy grew by less than 3.5 percent in 2005/06, amongst the lowest in the last decade except for years of drought and cyclone. The low growth reflects a fall in output in the textile and clothing sector and the poor performance of the sugar sector. As a result, the unemployment rate in September 2005 was 9.5 percent, up from 8.5 percent a year earlier.

38. For 2006/07, we are expecting that better performances across all sectors would pull GDP growth to around 5 percent.

39. Consumption expenditure in real terms, driven by high household spending grew by around 7 percent in 2005 and is expected to grow by 6 percent in 2006.

40. Thus, domestic savings as a ratio of GDP fell to seventeen and a half percent in 2005 and would decrease further to reach around fourteen and a half percent this year. This is the lowest savings rate since 1980.

41. But, the most worrying of all is the trend in investment as a ratio of GDP. It has been falling since 2000 to reach 21 percent in 2005. And even more disturbing is that private sector investment as a ratio of GDP has declined from 18 percent in 2000 to around 15 percent in 2005. In 2006 it is forecast at around fifteen and a half percent.

42. Foreign direct investment has not been impressive either although it increased from Rs 1.8 billion in 2004 to reach Rs 2.4 billion in 2005. Our share in global FDI has continued to fall as investors have gone to other markets at an 8 percent annual clip.

43. Similarly, our share in international trade has declined while that of other developing countries has increased. As a result, our trade deficit has doubled from Rs 10 billion in 2003/04 to Rs 20 billion in 2004/05 and is expected to reach Rs 25 billion in 2005/06.

44. The current account shows a deficit of Rs 6.2 billion in 2004/05 compared to a surplus of Rs 1.3 billion in 2003/04. It would worsen further in 2005/06 with a deficit of around Rs 7.7 billion.

45. Net foreign reserves dropped to Rs 53.5 billion in June 2005 before recovering slightly to around Rs 60 billion at end June 2006 representing 7.9 months of imports.

Budget Outturn 2005/06

46. In regard to the budgetary performance for 2005/06, we had to deal with quite a complex situation. Soon after coming to Office, this Government implemented its pledge for introduction of free bus fares for students and senior citizens and holding of municipal and village council elections. These have together involved additional cost of Rs 625 million.

47. To contain expenditure, we have initiated a comprehensive exercise for reviewing the priority of projects and programmes. However, in the process, various financial obligations left unaddressed by the previous Government came to light. To start our reform programme on a sound footing, I am meeting in this financial year

some of these obligations. In this context, I will soon present an Estimate of Supplementary Expenditure for 2005/06 to the National Assembly.

48. Furthermore, we have rolled over the bulk of the 3-year Treasury Notes issued in 2004/05 with the interests capitalised on redemption in 2007/08. While this procedure has generated cash deficits that are lower than should have actually been recorded last year, it results in a bunching of interest payments on maturity amounting to Rs 3.3 billion. We have just addressed this issue by allowing holders of these Notes to voluntarily refinance them with Treasury Notes of varying maturities on which interest is payable semi-annually.

49. Current spending during the year adds up to Rs 42.1 billion, that is Rs 1.7 billion higher than planned.

50. Capital expenditure and net lending turns out to be Rs 7.8 billion, that is Rs 51 million higher than estimated.

51. Total revenue, current plus capital, adds up to Rs 39.2 billion, that is Rs 555 million higher than estimated.

52. Thus, for 2005/06 the budget deficit amounts to Rs 10.7 billion. With an estimated GDP of Rs 196 billion, the deficit as a ratio of GDP turns out to be 5.5 percent as compared to 4.8 percent that was announced in the budget last year.

OUTWARD LOOKING AND GLOBAL IN PERSPECTIVE

53. Mr Speaker, Sir, I will now elaborate on the major reforms of this Budget. Our productivity – both of capital and labour – has been falling steadily since 2000. Exports of goods and services, adjusted for inflation, have stagnated for the last decade. Moreover, at a time when the world's fastest growing economies were increasing the role of trade in their economies, trade in the Mauritian economy has seen its share decline. Mauritius has failed to generate sufficient gains by not being fully open to foreign direct investment flows and trade. As a result, we have lost out on productivity growth and job creation.

54. In reversing this situation our three main objectives are to

1. Encourage private investment in new pillars;
2. Democratise growth to ensure that low-income workers and the unemployed participate fully in the recovery; and
3. Release growth by eliminating the high costs of regulations.

55. Achieving these outcomes rests on improving the ease of doing business and opening the economy.

EASE OF DOING BUSINESS

56. The present framework for doing business and its incentive system works against democratising the economy and competitiveness because tariff, tax and labour laws favour large firms over SMEs; encourage investment in capital over investment in people, discriminate against new entrants in favour of the established, and promote

investment to serve the limited domestic market over exports, thereby narrowing opportunities for enterprises to grow.

57. These policies have stifled growth of SMEs and resulted in 52,000 unemployed, of whom almost a quarter have not passed the CPE and close to two thirds are women. Eliminating these biases would open opportunities for the poorest Mauritians and give space to our existing SMEs to grow. It will also improve our ranking as an investment destination. This will attract foreign investors, know how and technology to develop new pillars and deliver jobs.

58. Mauritius ranks 23rd in the 2006 Doing Business Survey. We must do better to mobilise the 80 billion rupees of private investment required to restructure our economy, mobilise our own SMEs and encourage the unemployed and recycled labour to start their own business. We need to be in the top ten.

59. We will make sure new businesses can start immediately contributing to the economy instead of wasting time with income tax, customs, National Pension Fund, local authorities, health, police, fire and numerous departments and ministries. We have to put an end to suffocating bureaucracies that stifle enterprise. Henceforth, data will move and not people.

60. Today, we are freeing enterprises and new investors from bureaucracy. The new approach allows businesses to start operations on the basis of self adherence to comprehensive and clear guidelines rather than prior, long and complicated authorisations. The authorities will then use ex post control to check for compliance.

61. I am pleased to announce that we are sweeping away the obstacle course that needs to be traversed before starting a business.

62. Except for a limited number of regulated activities such as gambling and liquor sales, we are introducing new measures to allow our entrepreneurs, particularly micro-enterprises and SMEs, to start new activities within three working days compared to at least 46 days currently, and sometimes up to two years:

1. prior health, fire and police clearances for business are being abolished;
2. trade licences that take weeks and sometimes months to obtain will be transformed into a simple municipal fee that is paid after, instead of before operations start;
3. development and building permits will be merged into one permit within 6 months and meanwhile the development permit will be simplified within three clusters: services, commercial and industrial;
4. all incentive certificate schemes will be abolished except for the IRS and Freeport scheme;
5. commercial and industrial zones will be pre-designated to save investors long search delays and allow for plug-in operations;

6. with the promulgation of the Business Registration Act by September 2006, the Registrar of Companies will be the sole place for a business to register before starting operations;
 7. to make the system function we will introduce instruments for ex-post verification;
 8. departments responsible for health, fire prevention, protection of the environment will elaborate guidelines on standards to be respected by all businesses. These guidelines will be available on-line and through BOI, Enterprise Mauritius (EM) and SEHDA. The guidelines will be based on rules and thus eliminate discretionary powers of inspectors;
 9. separate agencies will be responsible for regulatory functions; ex-post control and enforcement; and dispute settlement. Legislation will be made more stringent in terms of penalties to ensure self compliance;
 10. in this new regime BOI will become a facilitator and promoter of investment instead of issuing approvals while EM and SEHDA will nurture existing firms and new entrants, respectively;
 11. rigidities in insolvency constitute another hurdle that needs to be removed for businesses. A New Insolvency Bill will address the limitations of the existing legislations and bring all insolvency matters, individual and corporate, within the ambit of a single legislation. The new Bill will also impact on the “Sale of Immovable Property Act 1868” which governs the “Sale by Levy” process;
 12. the labour laws and wage determination system will be revisited to remove the rigidities that create imperfections in the labour market and frustrate both investors and job seekers. I will announce the detail of these changes later.
63. These twelve measures taken together will radically transform the way business is carried out in our country. Where possible, the new system brings in automaticity and where action is required the implementation rules will emphasize silent agreement.

OPENING UP THE ECONOMY

64. Mr Speaker, Sir, as we give our outward looking strategy a global perspective we must open our country not only to investment but also to foreign talents, know how, ideas, and technology. The Doing Business reforms I have announced will improve the investment climate to world standards. While helping SMEs and job seekers these reforms will allow FDI to flow in more easily. However, money is not enough. We also need to attract the people who can contribute to our development by bringing ideas that germinate and flourish elsewhere.

65. We must allow the foreigners we need and the Mauritian diaspora to come in without hindrance.

- To this end, residence permits and work permits will be combined into an occupation permit for (i) investors generating more than Rs 3 million of

annual turnover; (ii) professionals offered employment paying more than Rs 30,000 a month; and (iii) self-employed generating an annual income of Rs 600,000 a year.

- Second, BOI will assist a qualifying foreign investor or a self-employed to secure an occupation permit for himself and residence permits for his spouse and dependents.
- Third, any firm can apply through BOI for an occupation permit for any foreign employee it pays more than Rs 30,000 a month and a residence permit for the spouse and children of that employee.
- Fourth, a non-citizen retiree providing evidence that he/she will bring in at least USD 40,000 annually can apply through BOI for a residence permit. However, he or she will have to provide a bank guarantee of USD 10,000. The same will apply to self-employed professionals. This measure is a building block to expand from our current model of short term tourism to an integrated hospitality and leisure industry. Growth in this sector is also essential for economic democratisation and absorbing low and semi-skilled labour from declining activity.
- Fifth, all foreigners applying for occupation or residence permits will be able to provide a health certificate issued by an accredited doctor in Mauritius instead of a health clearance from Government hospitals.
- Sixth, the occupation permits for investors and professionals and residence permits for their dependents will be issued within three working days. Within one working day BOI will forward the applications to the immigration department, which will provide a document acknowledging the date and time of application. If after two working days the immigration department has not raised any objection the document will become automatically an occupation and residence permit valid for three years from the stamped date, in line with the silent agreement principle.
- Seventh, the spouse of a holder of an occupation permit can take up any job paying more than Rs 30,000 a month, set up a business or work as a self-employed professional earning at least Rs 600,000 a year according to the same provisions as investors and skilled professionals.
- Eighth, the investor, excluding the self-employed will face no restriction to purchase real estate for activity registered with BOI.
- Ninth, after three years of activity in Mauritius, consistent with the terms of entry, the foreign national and spouse and dependents can apply for permanent residence. The Permanent Residence Permit will be valid for ten years and allow unrestricted work and residence as well as purchase of real estate. It will not, however, give the right to vote.
- Tenth, to bring in global players we are opening Mauritius to international law firms by amending the Law Practitioners' Act to allow the formation of law corporations.

- Eleventh, business and tourist visas are now given for a period not exceeding the return date on the travel ticket. Henceforth, such visas will be issued for a period of 60 days.
- Twelfth, changing a tourist visa into a business visa was only permitted outside Mauritius. Now visitors will be allowed to make this change in Mauritius as well.
- Thirteenth, we also want to encourage the Mauritian diaspora to invest and participate actively in our development. To this end, Government has recently decided to become a member of the International Organisation for Migration (IOM). This organisation will assist in attracting investment from the Mauritian diaspora as well as opening new avenues for Mauritians to save money and learn new skills abroad before returning home to start a business. To this end, we will seek IOM help to identify appropriate programmes. Our aim is to offer those who have a spirit of enterprise but few resources to take temporary employment abroad to acquire skills and capital to set up their own businesses in Mauritius when they come back.
- Fourteenth, we are simplifying and liberalising the rules allowing any returning Mauritian who has been resident outside Mauritius to bring one car free of duty. Currently the returning resident has to establish that he has spent at least 10 years abroad in the 12 year period preceding his return; different rules apply if the country he is from has left or right hand drive. The car must have been purchased and registered for 6 months prior to return. The new rules require foreign residency for five years only prior to return provided the car is purchased and shipped from abroad.

LABOUR MARKET REFORMS

66. Mr Speaker, Sir, to create jobs is not enough. We must also have a flexible labour market and a wage determination system that encourage productivity and efficiency at work. Yet for decades we have put up with a wage determination system and labour laws that have been biased on protecting jobs rather than protecting workers, on protecting the rights of the employed and overlooking the rights of the unemployed. And now we are having to live with the consequences, i.e. the paradox of high unemployment and high vacancy rates. Many of our citizens are left on the fringes of the labour market because of the serious rigidities and anachronisms in our labour laws.

67. We must have the wisdom to recognise these weaknesses and learn from the mistakes and achievements of other countries. Evidence shows that countries that have removed labour market rigidities are also those that create more jobs and have lower unemployment. In the best interest of the nation and particularly our job seekers, we must also have the courage to shift course.

WAGE DETERMINATION

68. There are too many organisations and too much incoherence in our wage determination system. We need only one organisation to determine wages. That is why we are abolishing the present Tripartite mechanism for wage compensation and setting up a National Wage Council. This new organisation will retain the spirit of

tripartism and will ensure that the level of wages and compensation are linked to productivity and to capacity to pay.

69. There will also be reforms to the labour laws and regulations in order to achieve the flexibility needed for creating demand for labour together with the security needed to protect the worker as he or she switches between jobs. Already this year we have seen the benefits of flexibility: many firms in both the private and public sector have paid, sometimes almost three times, more than the minimum recommended by Government. This, Mr Speaker Sir, is to the benefit of workers.

FLEXIBILITY, LOWERING COSTS IN RECYCLING LABOUR AND INCREASING PROTECTION FOR THE WORKER

70. Mr Speaker, Sir, wages are relevant only if you have a job. The priority of this Government and the purpose of all the reforms in this Budget is to create job opportunities while addressing the mismatch of skills that hinders the growth of promising sectors. Drawing on international experience, the cornerstone to create employment must be flexibility in employment regulations. The easier it is to recycle labour the more workers will be hired and the faster will be our return to high growth. If anyone has any doubts just look at the results of the policies of the last few years that is penalising over 50,000 jobless Mauritians by hanging on to a system that served us well in a world of preferences but is now increasingly outdated.

71. This Government will not, however, throw out the baby with the bath water. Flexibility does not mean insecurity for the worker. In a dynamic world where employers need to react quickly to changing world conditions, workers will shift increasingly rapidly between employers and between types of jobs.

72. We need to focus not just on protection of income but on providing opportunities to upgrade skills to make workers more versatile in switching jobs. Moreover, we must encourage and support an increasing number of Mauritians to benefit from the improved investment climate I described earlier and become entrepreneurs instead of relying on employment by others.

73. Government will soon introduce legislation to reform both the wage determining mechanism and the labour laws and regulations in order to achieve the flexibility needed for creating demand for labour together with the security needed to protect the worker as he or she switches between jobs.

74. The notice period for separation, the cost of separation, the security of workers when he/she is recycled from a job, the support offered to workers in terms of assistance to get a job, training and reskilling; and assistance to start a small business, are some of the important issues that are being addressed.

RESTRUCTURING THE ECONOMY:

EXISTING SECTORS

Sugar and manufacturing

75. Mr Speaker, Sir, I once again ask for the indulgence of the House in passing over the sectoral issues which I am leaving to my colleagues to address in the course

of this debate. I will, however, highlight major reforms across the economy to revitalise existing sectors and facilitate the emergence of new pillars.

76. The task at hand is a tremendous one. But adversity is the best test of a nation's resolve. And, Mr Speaker, Sir, we will pass that test. We will respond to the dismantling of the Multi Fibre Agreement and the implementation of the 36 percent cut in the price of sugar by a complete reengineering of the textile and clothing industries and of the sugar cane cluster. We will also reform, diversify and consolidate the tourism and financial sectors to put them on a yet more solid base for further development.

77. For the sugar sector, Government has submitted a Multi-Annual Adaptation Strategy to the European Union in view of negotiations for accompanying measures. The plan includes actions to reduce cost, increase revenue, optimise use of by-products, alleviate debt burden and adapting regulations.

78. The aim is to transform the industry into a cane cluster which includes different types of sugar; bagasse for electricity generation and molasses for production of ethanol and value added spirits.

79. Small planters will benefit from incentives and assistance to enable them to regroup into larger units so as to increase their yields and lower their cost of production. To this end, the Mauritius Sugar Authority has earmarked an amount of Rs 500 million for de-rocking, irrigation, improved cultural practices and better cane varieties. From this amount, Rs 276 million have been committed to acquisition of equipment for the Sugar Planters Mechanical Pool.

80. In the manufacturing sector, restructuring is most pressing for textile and clothing. But other EPZ firms as well as local manufacturers also have to face the dictates of an inexorable and relentless globalisation process. As trade barriers fall, so will the frontiers between local manufacturing and the export sector. This is a change that we must welcome rather than resist.

81. Therefore we are accelerating the integration of the EPZ and non-EPZ sectors.

82. We will eliminate the need for bonded warehouses to reduce the administrative burden related to flow of products from EPZ firms.

83. We will also eliminate customs duty on all inputs for the manufacturing sector as a whole. This measure will facilitate outsourcing and the integration of EPZ firms with enterprises serving the domestic economy, particularly SMEs.

84. The Industrial Expansion Act will be abrogated, since incentives will no longer be required as we move to a uniform tax regime. And as we are creating a single labour market, the labour provisions under the Act will not be needed. The CEB is working on a tariff structure that will equalise treatment between EPZ and non-EPZ firms. The standards required of domestic and imported products will be harmonised.

85. Enterprise Mauritius will work with both non-EPZ manufacturers affected by the reduction in customs duties and EPZ firms to facilitate restructuring. EM will also assist SMEs to supply the hotel and hospitality and leisure sectors and to export.

Specific sectors that will be most affected by tariff liberalization will be assisted via the Empowerment Programme that I will expand on later.

86. The restructuring of the manufacturing sector, for exports as well as for local production will require a significant amount of financial resources.

87. We are reviewing the use of the National Equity Fund. Half of the Rs 500 million available in the Fund will be accessed to provide equity and quasi-equity to assist re-engineering of firms under flexible terms. The remaining Rs 250 million will be used to set up a Second Equity Fund with a minimum fifty percent participation of the private sector. This source of fund will give enterprises that are reengineering access to some Rs 750 million of finance with improved ease of access. There is no limit on the private sector participation in the Second Equity Fund to leave the door open for more raising more funds. To encourage the development of the financial market and to facilitate the mobilization of private financing for restructuring, Equity Funds will remain exempt from tax.

Tourism

88. For the tourism sector, our goal of 2 million tourists by the year 2015 is achievable. Government will continue to open air access to increase carrying capacity, diversify the sources of visitors and bring down travel costs to Mauritius through greater competition.

89. In addition we will invest in capacity building to meet the demand for labour in the sector while recycling workers from agriculture, textiles and import substituting manufacturing.

90. Over the next ten years, the private sector will have to invest in the equivalent of over 25,000 rooms that will generate direct employment of about 50,000 and indirect employment about twice that. However, this will require training over 3,000 annually at three levels. Management trainees will be accommodated by expanding the Ecole Hotelière Gaetan Duval and opening other facilities at Pointe Jérôme and using existing facilities of IVTB, State Schools and industrial estates around the island.

91. To address the skills mismatch that is holding up growth in the sector, skilled and semi-skilled workers will be trained under our Empowerment Programme. Formal training will be supplemented by increasingly emphasising on-the-job training. This involves expanding the National Apprenticeship Scheme (NAS). We are particularly keen on recycling labour from declining activities to this sector where high end and longer stay visitors will generate an increasing demand for unskilled and semi-skilled labour. To have enough labour to support the expansion of the Hospitality and Leisure sector, including the IRS, we will encourage the private sector to set up within the NAS a Hospitality and Leisure Training Scheme.

92. But for all these investments to pay off, we need to succeed on the promotion front.

93. For yet another year, the Mauritius Tourism Promotion Authority will have Rs 300 million to finance a promotion campaign to expand and diversify our markets.

Emphasis will be on developing a recognisable image of Mauritius as a unique destination that combines leisure, business and shopping tourism.

Financial services

94. The financial services sector must also grow, modernise and diversify. The Securities Act which now provides for the setting up of Securities Exchanges only will be reviewed to empower the Financial Services Commission (FSC) to approve the setting up of other types of Exchanges.

95. Many medium size companies cannot be listed on our Stock Exchange because they do not satisfy all the criteria. This does not help our plan to democratise the economy. Therefore, the Over the Counter Market will be phased out and a Development and Enterprise Market with less stringent criteria than for official listings on the Stock Exchange of Mauritius will be set up to allow smaller companies to be listed as well.

96. The Global Business Sector is pre-eminently the corridor to the world economy. We are therefore acting on five fronts to give this activity a renewed fillip for progress.

- First, we are expanding the range of banking activities conducted from Mauritius by making amendment in the Banking Act to provide for private banking services.
- Second, we will review our commercial law to provide for a mode for notification in the case of assignment of debts and on the pledging of shares that will encourage the use of Mauritius in major cross border financial transactions.
- Third, I am proposing to extend with slight modifications the regime of the Gage Special presently existing in favour of banks to transactions involving global business companies.
- Fourth, the FSC will encourage the exchanges to create special boards for the listing of global business companies.
- And fifth, we are amending the regulatory framework to enable Management Companies in the global business sector to provide fund administration services to funds established in other recognised financial centres.

97. Mr Speaker, Sir, these four pillars alone cannot support an economy that will need to create a minimum of 50,000 jobs over the next five years and double per capita income to around USD 10,000 in a decade. Nor will these four traditional pillars be enough to reduce our vulnerability to external shocks. We need to set firm foundations for more economic pillars, some of which need to grow and some to be established.

ICT

98. To unlock the potential of the ICT sector to create well paid jobs, Government is formulating a National ICT Strategic Plan to spell out its strategy to transform Mauritius into a Cyber Island.

99. We need a high level of ICT literacy and a large enough pool of ICT professionals. Hence our decision to redirect budgetary resources to training at a level that opens job opportunities in ICT.

100. The cost of international bandwidth is still on the high side for global competitiveness. Last year we succeeded in bringing down the cost by 20 percent. I am pleased to announce that the cost of International Private Leased Circuits (IPLC) on SAFE will be reduced by at least 25 percent as from 1st July 2006. This should also trigger a reduction in the tariffs on services from internet providers including ADSL.

101. It will, Mr Speaker, Sir, help to democratize access to information technology and bridge the digital divide. In that context, DBM is to expand financing of computers to include laptops and software.

102. Furthermore, Government is pursuing efforts to be a party to the EaSSy project so as to considerably bring down the cost of international connectivity to operators.

Other Emerging Sectors

103. Mr Speaker, Sir, we are also encouraging the development of additional pillars including the seafood and aquaculture hub, property development, the land based ocean industry, the knowledge hub, the medical hub, the pharmaceutical cluster and the expansion of tourism to hospitality and leisure.

104. The seafood hub is one of the most promising new sectors and developing at a fast pace. We need to maintain its dynamism. We want to send a clear message to the international community that we will preserve and protect the integrity of the seafood sector. And so we will crack down on Illegal, Unreported and Unregulated (IUU) fishing including participation in the Regional Indian Ocean Commission Pilot Project to harmonise and update legislation of member states with respect to IUU fishing.

Integrated Resort Scheme

105. Regarding the Integrated Resort Scheme (IRS), we are making new regulations to enhance its attractiveness, make it more investor-friendly and define the social obligations of promoters. Thus, IRS projects will be able to offer any mix of residences, provided the minimum value criterion of USD 500,000 is met and make sale to any type of entities and sociétés. The new regulations will spell out the parameters for determining the level of contributions for the benefit of the local community, under the Planning Obligations mechanism. They will also ensure that only land-owners who participate in an IRS project and share in the project risks can avail themselves of the fiscal facilities on transfer of their property into an IRS company.

Duty-Free Shopping and Other Services

106. Mauritius has the potential to become a duty-free shopping centre for the Indian Ocean Region. The elimination of customs duties and the rationalization of the incentive regime together with the movement to a low tax platform set the stage for the development of this sector. The free entry of high net worth IRS owners, investors, skilled professionals and retirees and the family and friends likely to visit them offers a large pool of demand for high end shopping. On the supply side, the freeing of access to land for investment purposes and improvements in the framework for doing business, facilitates the setting up by flagship commercial operators of a base in Mauritius.

107. Mauritius can become a regional hub for companies serving the African and Indian Ocean Region as we reap the benefits of opening up the island. This development will be facilitated by our network of free trade arrangements, favourable tax regime and investment in infrastructure to reduce communications and transport costs.

Knowledge Hub

108. Offering quality education and work based education in Mauritius is the building block for a successful services platform and for serving as a Regional Multi-Disciplinary Centre of Excellence.

109. The roles of the Human Resource Development Council (HRDC) and the Tertiary Education Commission (TEC) are being adapted to support this policy. They will, respectively, define the policy framework and guidelines. The Ministry of Foreign Affairs will focus on obtaining international recognition of qualifications issued by institutions operating in Mauritius.

110. Training is a key component of the Empowerment Programme. We will offer a range of facilities going from formal courses to on the job training through the expansion of the Apprenticeship Scheme.

111. The two priority areas for skills development and upgrading are the tourism and hospitality sector and ICT. In particular, we need to emphasise language training, customer care and ICT proficiency.

112. Government will also support the upgrading and training of Personnel, Supervisors and Teachers, Trainers and high cadre who participate in programming, policy dialogue and development.

113. The curriculum for the primary and secondary sectors will be reviewed to emphasise languages, ICT critical thinking, creativity , and innovation.

Access To High Quality Health Care For All

114. Mr Speaker, Sir, to protect our social fabric we must respond to two threats to our health. Vector borne diseases are an immediate threat, while the spread of HIV/AIDS if not halted now risks undermining our society within a decade.

115. We must eradicate Chikungunya. We must also protect our country from outbreaks of other vector borne diseases. Intensive island-wide vector control will be carried out irrespective of whether cases of vector borne diseases are reported or not.

116. Vector control activities will be reorganised at the 13 Health Offices. The surveillance programme at the port and airport, and routine entomological surveillance will be reinforced.

117. In collaboration with stakeholders, Government will maintain its Emergency Preparedness Plan for Pandemic Influenza.

118. In the year 2000, only 2 percent of the new infected HIV/AIDS cases were among Injecting Drug Users. This has risen to 92 percent in 2005. We will not repeat other countries' mistakes and instead we will take early and vigorous actions to prevent AIDS from mushrooming. The Prime Minister and the Minister of Health have begun to alert the population to the growing threat of AIDS and are promoting preventive action. Government is expanding drugs substitution therapy and is also finalising the drafting of an HIV/AIDS Prevention Measures Bill.

119. The Prime Minister had announced that VAT will be removed on equipment for blood test for diabetics. In this Budget we are honouring that promise. There will be no tax of any kind on glucometers, on strips for glucometers and on lancets for blood tests used by diabetics. And we are doing more to make Mauritius a medical hub. We are exempting medical equipment from VAT. In the same vein we are rationalising the regime authorising private sector nursing schools and we have

secured assistance from India to define the framework for clinical training. This framework will open the way for investment by high tech medical schools. Already we have a major medical school that is in the process of setting up. In addition, we have a major international private hospital that has shown an interest to set up in Mauritius.

FISCALLY RESPONSIBLE GOVERNANCE

120. Mr Speaker, Sir, a country's public finance is a crucial indicator of macroeconomic stability and a determining factor in global competitiveness. Yet, our public finance is in an extremely parlous state. There are fundamental weaknesses in our tax and expenditure policies, in fiscal administration and expenditure procedures, and in debt management. There are also some serious institutional shortcomings among public sector corporations. All these must be addressed. But, the remedy is not in stop-go, disjointed and piecemeal actions. I am therefore announcing today deep-seated and comprehensive reforms in all these areas.

RESPONSIBLE STEWARDSHIP OF PUBLIC MONEY

121. First, on public expenditure.

122. Our objective is to achieve responsible stewardship of public money.

123. Last year, I set up an Expenditure Review Committee (ERC) to find ways to secure value for money, to reallocate expenditures from lower to higher priorities and to strengthen management, oversight and effective delivery of programmes and services. Five sub-Committees were set up to study various areas of public expenditure.

124. I am pleased to report that the sub-Committees have completed their work. But I must also report that, in some cases, their findings are very disturbing. There is an alarmingly high level of inefficiency in the way money is being spent in the public sector.

125. The most conspicuous examples of inefficient spending are on capital projects where the extent of cost overruns is simply mind-boggling. In one particular case, the cost overruns exceeded 50 percent of the initial cost.

126. Mr Speaker, Sir, it is clear that if we want responsible management of public money, we need to wage a war on inefficiency in public spending. And in this war we must battle on all fronts at the same time and we must win every battle to avoid burdening taxpayers.

127. We must win so as to implant a new culture of efficiency in the public sector and eliminate wastage. Every rupee of taxpayer money will be spent responsibly and judiciously or it will not be spent at all. And year in, year out we must abide by the golden rule of borrowing only for investment and to the sustainable rule of putting public debt on a downward track.

128. So, in this Budget we bring about sweeping reforms in the way taxpayer money is being allocated and spent.

129. First, we have marshalled the political will under the leadership of the Prime Minister and the understanding from all colleague Ministers to allocate the nation's budget on the basis of pre-set ceilings. I am pleased to announce that we have succeeded.

130. We have contained next year's expenditure within these ceilings. We have given due considerations to what the country can afford while at the same time we have safeguarded the delivery of essential services to the public. We have done this by pressing sector ministries to focus on the priorities of this Government while rethinking the affordability of programmes inherited from the past. In setting priorities and deciding on tradeoffs between competing demands for the limited financing available, we have focused on evaluating the consequences of not financing the various programmes.

131. Moreover, to ensure that we maintain spending discipline during the year, any proposal to accommodate additional spending not approved in the budget will need to make proposals for areas where spending could be cut to offset the spending.

132. Second, based on the reports of the sub Committees of the ERC we have been able to reprioritise and thus achieve a more optimal allocation of expenditure. These reports have also enabled us to identify areas of wastage. Thus we are taking actions to cut down on spending on travel, telephone bills, utilities bills, in particular electricity, on overtime through better work plans, on maintenance and running of vehicles, on equipment and furniture, amongst others. My Ministry will monitor these actions very closely to assess results and to entrench the culture of efficiency in the system.

133. Moreover, we want to lead by example. I have instituted the following measures in my Ministry:

- Reducing overtime by ten percent by reorganising the work plan and introducing a shift system;
- Assessing workloads and options for redeploying staff before filling vacancies;
- Placing a limit on the use of telephones including mobiles;
- Reducing electricity usage by 5 percent by encouraging switching off lights, computers and air conditioning; and
- Reducing vehicle costs by 5 percent.

134. Third, Civil Service reforms will give concrete expression to Government's commitment to optimise efficiency within the public sector and reducing administrative costs. There will be a permanent campaign against wastage. A Cut Waste Squad will be tasked with the responsibility for identifying waste centres so that actions can be taken to generate savings and release resources for priority front line services. A performance related reward system is being considered for all Government Departments. The Advisory Committee on Civil Service Reform will be replaced by a high level Public Sector Reform Implementation Unit under the responsibility of the Prime Minister. This Unit will be empowered to translate into

practice a wide array of reform initiatives already identified many years ago. Particular attention will be devoted to parastatal bodies.

135. Fourth, we have set up Audit Committees in five key ministries, including the Ministry of Finance. They should contribute to effective and efficient management through the review of the implementation of the recommendations of the Director of Audit. Ministries would be required to take appropriate measures to extend this practice to all parastatals under their responsibility.

136. Our fifth measure is aimed at putting a stop to flagrant abusive practices regarding the management of the vehicle fleet of all government departments/parastatals in particular the police. The official car pool in the custody of the police department includes scores of almost brand new cars in a derelict state costing Government millions for their maintenance whilst at the same time expensive new cars are being bought by parastatals on dubious grounds and against the declared policy of Government.

137. To this end, we are closing the Police Workshop and all repairs and maintenance works will be contracted out to registered private companies; the existing car pool will be sold by auction while the staff responsible for the Workshop will be transferred. Government will enforce the policy to ensure that no beneficiaries of duty free car facilities also make use of Government vehicles.

138. Sixth, the process for vehicle testing at the NTA will be improved, with the possibility of contracting out such services to accredited private operators as is the case in many European countries.

139. Seventh, as we cast the annual budgets in a Medium Term Expenditure Framework (MTEF), we are breaking away from the tradition of quasi automatic incremental increases based on inputs. The emphasis will now be on outputs and outcomes. We want to shift the debate from how much money each vote should get to how each vote contributes to development priorities. In this context, we have set up Sector Ministry Support Teams (SMST) that will assist the sector ministries with the formulation of Sector Policy, embedding these policies in a Medium Term Expenditure Framework consistent with MOFED's Macro-fiscal framework, and formulation of the Budget. The SMST will also monitor budget execution and work closely with the Audit Committee to ensure early action in dealing with wastage, either by addressing a fault in the system or a breakdown of the system due to lack of proper control or monitoring.

140. Eighth, we are building on the collaboration of the SMST and sector ministry counterparts on expenditure control and sector planning to improve the implementation of MTEF. Seven more ministries have adopted MTEF this year, as they have seen the benefit of strategic thinking in living within a reduced budget. As we assist them in developing a sector strategy coherent with the overall restructuring programme, we expect all Ministries would want our assistance to put MTEF in place.

141. Ninth, my Ministry will not allocate resources to projects unless proper appraisals have been carried out to prove their feasibility. Moreover, we are giving a year of notice to the sector ministries to prepare their capital budget so that line items on civil and construction works will be supported by a write-up with full project

details. The practice of token provisions will give way to contingency advances to be spent through the requisition to incur expenditure process.

142. Tenth, excessively high and unjustified cost overruns on capital projects will not be tolerated. We will look into ways to identify and bar dishonest contractors and suppliers from applying for government and public sector contracts. In the same vein, the grading of contractors should be reviewed annually instead of sporadically as now. We need to increase competition in bidding for Government contracts and expand opportunities for SMEs to benefit. The Empowerment Programme will build up the capacity of SMEs to participate and to raise their standards and grading over time, thus increasing the pool of eligible contractors.

143. Eleventh, we must end the incentive for consultants to tolerate or encourage cost overruns because their fees are a percentage of the total project cost. Henceforth, fees must be fixed either as a lump sum or as a fixed percentage of the initial project value and not the actual amount spent.

144. Mr Speaker Sir, there are more than 150 parastatal bodies. Their financial liabilities are contingent liabilities of Government. Every time they face difficulties Government has to commit financial resources to bail them out. It is therefore only right that their financial management, performances, roles and functions are monitored very closely.

145. We cannot continue to pour taxpayers' money in public corporations that have outlived their purpose or that are performing inefficiently. The recently announced closure of the DWC by the Prime Minister is an unambiguous message about the determination of Government to put order in this sector.

146. However, Government will take a humane approach.

147. In the case of DWC we will support the workers in many ways.

- First, Government will meet fully its obligation on the terms of contracts for the employees.
- Second, a special unit at the Ministry of Labour will assist the employees to shift to productive activity in line with our policy of protecting workers instead of jobs.
- Third, there will be redeployment of employees.
- Fourth, the workers with a pensionable age profile will be pensioned off.
- Fifth, assistance will be made available through the Empowerment Programme for training for those who can be recycled into other jobs.
- Sixth, in line with our policy to diversify the base of enterprises eligible for Government contracts, workers wishing to start a business and in particular to set up companies for construction will be given all necessary support.
- Seventh, those setting up such businesses may obtain the equipment of the DWC on favourable terms.

148. We will also seek to generate savings by reviewing the functions of public sector bodies and take steps to avoid duplication and reduce overhead. The actions include the following:

- The Financial Services Promotion Agency will be fused with the Board of Investment.
- In human resource development we are separating policy formulation, monitoring and evaluation from financing and execution. HRDC will be responsible for policy formulation monitoring and evaluation in collaboration with stakeholders. Execution will rely on IVTB and private sector institutions with on-the-job training heavily emphasised.
- The State Investment Corporation (SIC) will move out of all commercial activities and focus on strategic investment in line with economic restructuring plan.
- The Government will review its policy on casinos and casino management with the intention of finding a way to exit while maximizing the benefits.
- The DBM Ltd will be restructured to improve its performance.
- The Business Parks of Mauritius Ltd (BPML) will also be restructured.
- We will review the feasibility of converting the Central Statistics Office into an autonomous body.
- Special funds which have outlived their usefulness will be wound up to avoid unnecessary expenditure.
- And, surplus cash balances of special funds will be transferred to the Consolidated Fund to improve financial management since Government is borrowing at a higher rate than these deposits attract.

REORIENTING SUBSIDIES FOR BETTER SOCIAL PROTECTION

149. Mr Speaker, Sir, another area where we must rethink our priorities is social protection so that we can increase support to those who need it most. The social safety net today comprises unfocused programmes that provide generous benefits for many that do not need them, but fails to support many that do. A number of price subsidies permeate the economy and their distributional incidence is largely regressive.

150. Mr. Speaker, Sir, consider how dysfunctional, ineffectual and costly are some of our programmes supposedly aimed at our neediest compatriots. The objective of helping the vulnerable certainly is noble.

151. But, is it fair, Mr. Speaker, Sir, that the two thirds wealthiest Mauritians absorb over Rs 200 million, more than half the benefits of the rice and flour subsidy program that is meant for the needy? How could it be right that they also receive three quarters of the subsidy on SC and HSC examinations fees? Equally, why do we accept a primary school feeding programme known for its wastage and inequity?

152. Now is the time to stop this irrationality and spend taxpayers' money in a way that really achieves our noble objectives. Let us have the courage to reallocate these expenditures in ways that bring greater benefits to those who need government support the most, both in terms of welfare and workfare.

153. Mr. Speaker, Sir, we are reorienting the subsidies on rice and flour and the spending on the primary school feeding programme. From now on, the resources will go to the needy only. Part of the spending will be used to increase their purchasing power through an enhanced income support. The remainder will go to the Empowerment Programme.

154. The value of the subsidies, inclusive of the school feeding programme, to an average family with very modest means is about Rs 144 a month, which represents the difference between the market and the subsidised price. As there is already a Rs 50 per month food aid income support, we would need to compensate these families with a monthly payment of Rs 194. Since our objective is to increase assistance to those who really need it, as from 1st July we will provide them with a monthly income support payment of Rs 225, representing a 15 percent bonus.

155. We will deliver the payment through a rebate on the CEB bills of the 31,000 households paying the CEB at the "social rate", representing around 124,000 citizens. We are resorting to this proxy so as to avoid stigmatizing the needy.

156. We also want to avoid any anomaly with this new system of social support. There are 18,000 CEB customers paying less than Rs 225 a month. To compensate these households for the difference the Government will make a provision for additional Social Aid. On production of their CEB bill and ID card, the Ministry of Social Security will pay them to cover the difference between the compensation of Rs 225 and the amount rebated on the bill.

157. In addition, the scheme to pay half the SC and HSC exam fees will be discontinued except for needy students. Government will continue to pay the other half of the fees for these needy students. Henceforth, the fees of these students will be paid in full by the Ministry of Social Security.

158. After providing for improvement in our support to the most vulnerable families the money left, some Rs 350 million will be redirected towards the Empowerment Programme to address key social priorities.

SECURING BETTER PROTECTION FOR OUR PENSIONERS

159. Mr. Speaker, Sir, another area of concern is the financial sustainability of our various pension schemes. The number of persons of working age to support one pensioner will maintain its downward trend from 7 today to around 2 in some 40 years due to the ageing of the population. Clearly we are sitting on a time bomb. But we can defuse its adverse impact by acting on various fronts. We need to revisit the retirement age to secure the sustainability of the Basic Retirement Pension (BRP), the Public Sector Pension, the National Pension Fund (NPF) and the National Savings Fund (NSF) and the Private Sector Pension.

160. Many studies have been carried out over the last fifteen years. The solutions proposed are the same and mirror reform in other countries. What has been lacking is political will and courage. Again, now is the time to act.

- Therefore, in line with the recommendations of all the experts, Mr Speaker, Sir, the retirement age will gradually be raised from 60 to 65 years, both in the public and private sectors. This will be done by adding one month to the retirement age every two months, starting August 2008 and achieving the target in 2018. The relevant legislations will be amended accordingly.
- Our second reform is to secure the long-term sustainability of the BRP. Starting August 2008, the entitlement age to the BRP will also be raised by one month every two months to reach 65 years by 2018.
- Third, effective July 1, 2006, we are collapsing the current four bands to three by merging the first two bands, to return to the system as it existed prior to July 2004.
- Fourth, increases in BRP will be limited to no more than changes in the Consumer Price Index. And I am pleased to announce that for fiscal year, 2006/07 we will increase old age pensions by a full 5 percent.
- I am also raising the benefits payable to widows, orphans, disabled and inmates of charitable institutions by the full 5 percent.
- Fifth, the BRP will form part of chargeable income. This measure will only apply to pensioners in the top income brackets.
- Sixth, as regards Public Sector Pension, we are introducing a modified Defined Benefit (DB) Scheme similar in structure to the present scheme but simpler to administer. It will continue to be funded on a Pay-As-You-Go basis. The proposed contribution rate of 6 percent will be taken into account in the next PRB report due in 2008. The normal pension age will be 65 instead of 60. The computation of the amount of pension and the qualifying period to benefit for full pension will also be adjusted accordingly. This new scheme will be applied to all employees, with transitional measures to secure acquired rights.
- Seventh the NPF will align the age for pension eligibility to the other schemes.
- Eighth, in line with the reform of pension in the Public Sector, as from 1st July 2006 a Member of the National Assembly (MNA) will be required to contribute 6 percent instead of the present contribution of 4 percent of salary. Under the revised scheme, existing and previous members will keep their accrued retiring allowance. However, accruals as from the next legislature will be at the rate of 1/360 per month compared to 1/270 per month currently. New members will accumulate retiring allowance rights at the rate of 1/360 per month and their retiring allowance payment will be deferred until the age of 65 with provisions for discounted retiring allowance payment as from age 60. As a result of the reforms, it will now take an MNA more than 15 years and a new MNA 20 years to qualify for full retiring allowance representing

two thirds of salary. However, the two term retiring allowance eligibility criterion remains unchanged.

- Ninth, the composition of the Investment Committee of the National Pension Fund will be reviewed. There will be a mix of representation of workers, employers and government officials having professional skills in investment management, actuarial science, accountancy and economics.
- Tenth, as regards the regulatory framework for Private Pension Plans, the draft Private Occupational Pension Scheme Bill will be introduced in the National Assembly shortly.

TAX POLICY

161. Mr Speaker, Sir, turning to taxation, we cannot continue with a system that is administratively cumbersome, highly discretionary and provides tax incentives whose economic benefits are impossible to evaluate.

162. More seriously, given the need to widen the circle of opportunities, the tax system generally discriminates against small and even medium-sized firms. This is because these firms applying for investment incentives face hefty administrative costs and professional fees that require a large volume of business to support.

163. The complex, non-transparent system offers opportunities for evasion and avoidance, leading to inequity and inefficiency. Taxpayers with similar incomes pay vastly different shares of income tax and higher income households often pay a lower share of their income as tax than households with less income.

164. Government is therefore making fundamental changes to restore fairness and set low tax rates that allow us to do away with exemptions that pervert the tax regime. The new system is simple, transparent, easy to comply with and eliminates discretion. It rewards effort, innovation and entrepreneurship while granting tax incentives and concessions sparingly in a transparent manner to encourage investment and job creation, especially by SMEs.

165. Mr Speaker, Sir, I am relinquishing my discretionary power as Minister of Finance to remit duties and taxes and grant exemptions. There is now no justification for anyone not to pay his share of taxes to finance needed public services. We are, therefore, increasing penalties for non-compliance and reinforcing enforcement through the Mauritius Revenue Authority, being launched on July 1st. This will allow us to focus on obtaining payments from those who underpay and evade instead.

166. The Government is bringing about sweeping changes in personal income tax, corporate income tax, registration duty, customs duties, excise taxation, motor vehicle taxation and tax administration. These changes will give Mauritius an edge to make the transition from preferences to a globally competitive economy.

Personal Income Tax

167. Mr Speaker, Sir, I start with Personal Income Taxation. There are at present in our income tax law over 100 income items that are tax exempt and over 20 types of allowances and expenses that can be deducted from income to arrive at the chargeable

amount. These are often open invitations to abuse. By claiming such exemptions and deductions, a taxpayer can end up paying much less tax than a fellow citizen who earns half his income. Not surprisingly, the best tax planners are often among those who need the break least. By maximizing use of tax breaks, taxpayers with income exceeding Rs 500,000 a month may pay less than 5 percent of their total income as tax. In contrast, others with monthly income of Rs 40,000 typically pay 10 percent. And all this, legally. This, Mr Speaker, Sir, shows the lack of progressivity of our current tax system.

168. We have devoted much time and careful thought on how best to reform the system so that the different objectives are reconciled, while taking into account the severe fiscal constraints. Sir, I am announcing innovative and bold reform proposals for reshaping the whole personal income tax system.

169. These are built on four interwoven components:

- First, we are overhauling the complex system of exemptions;
- Second, we are consolidating the numerous reliefs, allowances and deductions into new income exemption thresholds,
- Third, we are reducing the number of tax bands; and
- Fourth, we are bringing down the tax rates.

170. Mr Speaker, Sir, we are removing all items of income exemptions, except those relating to dividends to avoid double taxation, the global business sector and non-profit institutions. Income is income, whether it is derived from salaries, interest, rental or from any specific activity.

171. Likewise, to achieve simplicity, transparency and absence of options that are subject to interpretation, we are consolidating into a general exemption threshold all reliefs, allowances and deductions linked with different sources of income or types of expenditure, except those relating to the family situation.

172. Henceforth, there will be four categories of taxpayers, each with a different threshold.

- Thus, Category A taxpayers, those who do not have any dependent, that is, no dependent spouse or child, will have an income exemption threshold of Rs 215,000;
- For Category B taxpayers, those who have one dependent only, the threshold is set at Rs 325,000;
- For Category C taxpayers, those who have two dependents, it will be Rs 385,000; and
- The threshold for Category D taxpayers, those with three dependents, will be set at Rs 425,000.

173. The benefits of this new personal income tax policy package are clear:

- A family with one dependent can earn up to Rs 25,000 a month, including end of year bonus and not pay any income tax.
- And it gets better. A family with two dependents can earn up to Rs 29,600 per month and not pay any income tax.
- And it's not all. A family with three dependents can earn up to Rs 32,500 and not pay any tax at all.

174. Mr Speaker Sir, this is a far better deal than what we promised to the population in our manifesto. This new policy is taking more than 40,000 persons, at the bottom of the income groups, out of the tax net. They will retain in their pockets up to Rs 12,000 a year.

175. The third component of the reform is a reduction in the number of bands from 4 to 2 immediately. We will simplify further. In three years, we will have a single flat rate.

176. The fourth element is a lowering of the personal income tax rates. We have a bold plan with clear milestones and targets. Our aim is to have, within three years, a flat tax rate of 15 percent applicable on all chargeable income. The poor state of public finances forces us to adopt a phased implementation. For next year, the flat 15 percent will be applied to the first Rs 500,000 of chargeable income. For non-interest related chargeable income above Rs 500,000 the rate will be 22.5 percent. However, chargeable income from interest will be taxed at 15 percent.

177. The 22.5 percent top rate will be lowered to 20 percent in 2007/2008, to 17.5 percent in 2008/2009 so that by 1st July 2009, there will be a single rate of 15 percent on all types of income.

178. Almost all taxpayers will gain. All those at the bottom, in the lower middle income and middle income groups will be better off. In addition, Mr Speaker, Sir, 40,000 income earners currently paying taxes will be removed from the tax net. Moreover,

- A young graduate earning Rs 15,000 monthly will now not pay any income tax and can gain about Rs 14,000.
- A public officer drawing monthly income of Rs 30,000 and having one dependent will pay about Rs 21,000 less tax than currently.
- An officer in a public sector body drawing Rs 50,000 monthly and having two dependents will pay about Rs 18,000 less.
- A manager in the private sector with three dependents and a monthly income of Rs 75,000 will gain Rs 15,000 in tax savings.

179. There will also be much greater fairness. A family of the same size and same income will now pay the same income tax amount.

180. We are satisfied that the new income tax system we are proposing will be conducive to both administrative efficiency and economic growth.

181. We are, however, equally conscious that the new system, although fairer than the current one, may not be as progressive as social solidarity would dictate. And we definitely need more social justice if we are all to pull together to turn the economy around. Those who have greater means must be willing to contribute more.

National Residential Property Tax

182. It is in this context that we are introducing a new tax that will weave in with the four components of the personal income tax reform, ensure that the overall tax incidence is fair and equitable and allow those with the ability to pay to do so.

183. In any case, Mr Speaker, Sir, we surely all agree that it is most unfair that well-to-do owners of residential property in many areas across the island do not have to pay any tax on their property while a modest worker has to do so on his small house located in another area. Some wealthy families do own arpents of residential land in posh areas near the seaside or farther inland where no property tax is applicable. I consider they should be called to make a contribution to the national adjustment efforts. They can afford to meet the extra financial implications, especially as we have lowered the top rates of income tax. That is why, Mr Speaker, Sir, we are introducing a National Residential Property Tax.

184. This tax will be raised on residential property including bare residential land. It will apply on any person whose total income, i.e. taxable income together with exempt income, exceeds the income exemption threshold of Rs 215,000. The tax base will be the total surface area of residential land he owns together with Campment Sites leased from Government. If the residence is located on a large extent of agricultural land, the taxable area will be limited to 5,275 square meters. For flats and apartments, the floor area will be taken as the tax base.

185. The National Property Tax will be on a self-assessment basis. Every liable person will have to submit in his Income Tax Return information on his property holdings, compute the tax and pay the tax together with any income tax payable. The tax will be applicable from 1st July 2006 but the first payment of the National Property Tax will be in September 2007, i.e., in 15 months' time when tax returns for income year 2006/07 need to be filed.

186. The rate will be Rs 10 per square meter of surface area of land for residential plots and Rs 30 per square meter of floor space for flats and apartments, from which any amount of rates paid on those properties to local authorities will be deductible. Thus, for a person having total income exceeding Rs 215,000 annually and a residence on a plot of land of 100 toises, the gross amount payable will be just below Rs 3,800 less Municipal Rates paid thereon.

Corporate Income Tax

187. Mr Speaker, Sir, the present system with dual tax rates, 15 and 25 percent, numerous tax incentives and generous tax breaks has outlived its purpose and reached its limits. It not only perverts economic decisions and distorts the investment climate

but also acts as a major constraint to the creation of a fully-integrated and competitive economy. And it does so, at heavy fiscal, administrative and economic costs.

188. Making simple tweaks and modifications to the existing system or adding yet another tax break will serve no other purpose than further complicate the system and its administration. Rather, our investment and growth objectives necessitate a complete overhaul of the system. We definitely need to move resolutely and quickly to a much simpler and neutral system based on low rate and broad base.

189. Mr Speaker, Sir, we have taken the decision to move to a single flat rate. Because of the tight budgetary constraints and the need to devote massive resources for financing Government's Empowerment Programme, we will have to achieve this objective in phases over a period of 3 years, starting with this Budget. In this first phase, we are lowering the 25 percent tax rate to 22.5 percent. Our plan is to bring that rate further down successively to 20 percent, 17.5 percent and finally to 15 percent on 1st July 2009. All sectors and activities in the economy, without exception, will then be subject to the same corporate tax rate of 15 percent, including the freeport sector.

190. We are also revamping our system of capital allowances.

- First, the basis of computation of Annual Allowances for depreciation of assets will be shifted from the current Straight Line to Declining Balance for all assets, except for non-hotel buildings. The rates will be 30 percent for hotels, 50 percent for electronic and computer equipment and 35 percent for other machinery and plant. This will substantially simplify bookkeeping requirements on assets.
- Second, to bolster development of the services industry, Annual Allowances will be extended to commercial premises including shops and shopping malls, offices, showrooms, restaurants and other entertainment places and clinics. The rate will be on a straight line basis and set at 5 percent.
- Third, the ceiling for an equipment or machinery to be fully expensed in the first year will be raised from Rs 10,000 to Rs 30,000.
- Fourth, we are abolishing the 25 percent Investment Allowance.

191. The above changes will be applicable to new capital expenditures. Transitional clauses will be introduced to enable investments approved by BOI still under implementation to opt for the existing capital allowances provisions. This transition will last for 3 years.

192. We are setting a time limit of 5 years on the carry forward of losses. However, tax losses arising from the new regime of capital allowances will continue to be carried forward indefinitely and without restriction.

193. Regarding tax losses accumulated as at 30 June 2006, legislation will be introduced so that any part thereof that remains unused after 5 years will be no longer available for carry forward.

194. We are removing all existing provisions relating to tax credits and tax holidays. Due provision will be made to grandfather these incentives for existing beneficiaries.

195. We are reviewing the Alternative Minimum Tax (AMT) and the rate will be raised from 5 percent to 7.5 percent.

Tax administration

196. On tax administration, our reforms will be as critical as in other areas of tax policy. The ultimate tests of fairness in a tax system are whether the due amounts of taxes are indeed declared and whether taxes that are owed are indeed paid. To this end, we are bringing important changes in tax enforcement and collection methods in order to secure greater compliance.

197. These tax enforcement proposals have been worked out together with the Management Team of the MRA which is already in place. Improved enforcement should no doubt be facilitated by the launching of the MRA on 1st July 2006.

- The first change concerns the Pay As You Earn system. This system of Deduction at Source of tax on salaries has been in operation for over a decade. Though it has proved to be an efficient method of tax collection, the system, as it is, results in some 80,000 refund cases each year. Their processing ties up huge resources in tax administration that could be reallocated to verification and enforcement. That is why we are moving during the year to a cumulative PAYE system, under which employers will cumulate the monthly emoluments before effecting the tax deduction. This reform has been made possible by the consolidation of allowances and deductions.
- Second, the Deduction at Source system will be extended to other types of income such as interests, royalties, fees for technical services, rental income and payments to contractors and sub-contractors. Concerning interest income, deduction at source will apply only in respect of accrued amounts exceeding Rs 120,000 in a year.
- Third, tax treatment of fringe benefits, including car benefits, housing benefits and passage benefits, will be reviewed and updated. Thus, the car benefit value that has stayed at Rs 12,000 a year since 1979, i.e., for 37 years now, will be adjusted to a range of Rs 48,000 to Rs 60,000. For transparency purposes, the new set of taxable fringe benefits and their values will be set down in Regulations. Also, the same values will apply to the public and private sectors.
- Fourth, to improve tax compliance, any individual who owns more than one residence or is owner of an immovable property with price at time of purchase exceeding Rs 2 million, will be required to file an income tax return, irrespective of whether their income is chargeable or not. The same will apply to individuals owning a car with an engine capacity exceeding 2,000 cc and to owners of a private pleasure craft.

- Fifth, the Current Payments Systems (CPS) returns that have to be submitted by self-employed will henceforth be on a quarterly basis instead of semi-annual.
- Sixth, all persons will be required to declare in their income tax returns the total income derived in the year, including exempt income such as dividends.

Registration Duties

198. I now turn to Registration Duty. This is another tax that has become extremely complex to administer and non transparent and where there is a lot of abuse and evasion. Again, because of the high rates, statutory concessions and administrative remissions have been proliferating over the years to the point that they have become unmanageable. There is urgent need to drastically simplify the system.

199. Registration duty on transfer of immovable property is currently 10 percent. It was 13.2 percent last year. Mr Speaker, Sir, we are now cutting it down to 5 percent.

200. It is common knowledge that, for most sales of immovable property, the price officially declared is grossly undervalued so as to escape full payment of duties and taxes. As we bring down the duty to a reasonable level, we will not tolerate undervaluation. We will bring appropriate legislative amendments to provide for heavier penalties in such cases.

201. Providing duty exemptions and concessions may have been justified in the past because of the very high rate. Now, with the much lower rate of duty, the case no longer holds for most of them and we are therefore removing them. To enhance transparency, the few duty concessions that will remain will be set in legislation, such as transfer between spouses, from ascendant to descendant and transfer without change in beneficial ownership as in the case of group restructuring or merger.

202. The next area of change relates to registration duty on loan agreements, including fixed and floating charges or mortgage. Though the normal rates are 2.25 percent or 1.25 percent of the loan amount, most companies, through duty concessions, end up paying a fixed duty of Rs 300 while most individuals are still subject to the much higher ad valorem rates. There are also different rates and amounts applicable to various credit institutions.

203. We are overhauling the whole structure. All registration duties relating to loans will now be of fixed amounts. There will be 5 bands, ranging from Rs 1,000 for any loan amount below Rs 300,000 to Rs 50,000 for loans over Rs 5 million.

204. Similarly, we are updating and consolidating other fixed duties, fees and charges under the Registration Duty Act, the Stamps Duty Act and the Transcription and Mortgage Act. They presently range from 15 to Rs 1,000 and most of them have remained unchanged for over 15 years. The range of such fees will now be from Rs 50 to Rs 2,000.

Campement Site Leases

205. Mr Speaker, Sir, an absurdity that has persisted for too long is the very poor returns on State Lands, in particular campement sites on Pas Géométriques. For some of the best beach front property in the World, Government is accepting a pittance. Because most of the lease agreements were made in the mid-sixties, the rental amount is completely out of tune with current prices. It can be as low as Rs 40 a month per arpent, rising to a still low of Rs 125 per month. The market price can be thousands of times higher, and the lessee can obtain a fortune in selling the leasehold rights without a single cent accruing to the State.

206. Mr Speaker, Sir, these are tough times and we cannot allow such an unfair arrangement to remain unchanged. However, we will be fair to all parties. The current lease agreement provides for very low rent and, accordingly, on expiry of the lease, the lessor can recover the land without any claim from the lessee for indemnity. This creates uncertainty for the lessee. We are, therefore, proposing a system that offers certainty and long term security of tenure in exchange for payment of market values.

207. Lessees of campement sites will be offered two options and they will be given 6 months starting July 1, 2006 to make their decision:

208. They can agree to terminate the current lease agreement and enter into a fresh one on new terms and conditions that would reflect the market value of the land.

209. Or, they can continue with the existing lease on the current terms and conditions but with no possibility of a new lease at its expiry, at which time Government will retrieve the land, as provided for in the lease agreement. Government will then auction it to the highest bidder.

210. The offer will, however, not be made in respect of sites that Government will require for enlarging or creating public beaches or for other development purposes.

211. The lessee who chooses to have a fresh agreement will have to pay upfront a premium that will range from Rs 2.5 million to Rs 5 million per arpent, depending on which of the 5 zones his campement site is located. The rental amount will be between Rs 125,000 to Rs 250,000 per arpent per year, adjustable every 3 years to reflect market evolution. Those amounts will be reduced by 25 percent for sites that do not have a sea frontage.

212. To assist in the transition, lessees will be exempted from registration duty on the new leases. As the transaction will be carried out at market rates, the campement site tax and campement tax will be phased out. Government will also allow, if needed, for the payment of the premium to be spread over five years with interest.

213. Government will also bring appropriate amendments to ensure that lessees of Pas Géométriques and State Lands seek and obtain prior approval from Government before transfer of their leasehold rights except for those who have renegotiated their lease at market conditions.

Customs Tariffs

214. We have to pursue the process of tariff liberalisation to transform Mauritius into a globally competitive economy and to move speedily to a Duty Free Island to serve the African and Indian Ocean region. The tariff cuts will be implemented in phases and we expect to complete it in 3 years. These cuts will bring down the prices on a large range of consumer products, thus making these more affordable, especially to the low income group.

215. This year, the tariff cuts will concern some sixty percent of tariff lines. We are bringing down the top tariff rates of 65, 55 and 40 percent to 30 percent. These will concern mainly school bags, cosmetics and make-up; soap and shampoo; biscuits, chocolate, sugar confectionery and honey; paints and motor vehicle spare parts including spark plugs, batteries and oil filters; table linen and furniture; “lessives” and detergents. Customs duty on alcoholic products and cigarettes is also being brought down to 30 percent but will be offset by an increase in excise rates.

216. To further simplify the tariff structure, we will have only 3 non-zero bands, compared to 7 now. They will be 10, 15 and 30 percent.

217. With a view to integrating the EPZ and non-EPZ manufacturing sector and levelling the playing field for SMEs, we are also removing duty altogether on 275 items that are used in industry and small businesses. They include lubricating oils and greases; industrial detergents; glucose and sugars; varnishes and other inputs in furniture and light engineering; and packing and packaging materials such as plastic sheets and films, cartons and boxes and plastic containers.

218. In addition, we are abolishing customs duty on electric switches and cables, on outboard motors and on air conditioners.

219. We are significantly reducing duty rates on some 270 tariff lines. For example:

Tiles, vinyl, carpets,	from 30/40 to 15;
Lamps	from 30/55 to 15
Sanitary wares,	from 30/40 to 15
Tables and chairs,	from 65 to 15
Cutlery, kitchen utensils, plates and glassware	from 40 to 15
Bedsheets, blankets and other bedding articles	from 40/65 to 15

220. We are also lowering customs duties on ovens, coffee makers, toasters, hair dyers, shavers as well as dried fruit to 15 percent.

221. By effecting such major tariff cuts, our aim is also to move a big step towards removing the various duty concession regimes granted administratively. Now that the rate of duty on virtually all items on which duty concessions are granted to the EPZ, hotel, restaurants, leisure and ICT sectors, has been brought to zero or considerably reduced, there will be no need to maintain those concessions. Accordingly, I am cancelling all standing duty remission for those sectors.

222. In the same spirit, we are also lowering the rate of customs duty on buses from 20 percent to 10 percent and removing all concessions relating to buses.

223. With these measures the Scheduled Lists of Exemptions managed by BOI and SEHDA are superfluous and the power of SEHDA to grant exemptions will be withdrawn.

224. In order to support SMEs in the footwear and clothing sectors, I am deferring the tariff cuts that are subject to specific duties in order to allow them some additional time to adjust. Meanwhile, Enterprise Mauritius will develop a package of accompanying measures under the Empowerment Programme to help them improve their competitiveness.

Excise Duties

225. Mr Speaker, Sir, we are confident that those major tax reforms, combined with the other reforms announced in such areas as investment and business facilitation and labour market, will have positive effects on economic efficiency and growth, and hence on government revenue. In the immediate, however, they will have significant financial costs. In view of the amount forgone from the measures I have announced and the imperative of containing public indebtedness, there is need to raise revenue by acting on other taxes.

226. I start with excise duties on alcoholic products. Besides the revenue-raising objective, our proposals have been so designed as to also encourage value addition and export in the sector, move towards international best practices and make the excise taxation system WTO-compliant. We have therefore adopted the following change principles:

- First, we are rationalising and simplifying categorization of alcoholic products;
- Second, we are removing existing tax biases against production of quality products from molasses and cane juice;
- Third, we are gradually phasing out the duty differential between bulk importation and importation of bottle;
- Fourth, for taxation of spirits, we are moving to an Absolute Alcohol Content basis (i.e. alcohol at 100 percent by volume) so that the higher the alcoholic content, the higher the duty amount; and
- Fifth, within any category of product, we are applying the same rate of duty on local production and on imports.

227. Accordingly, the new rates of excise duty, effective as from tomorrow, will be as follows:

Beer, stout and spirit cooler	Rs 19 a litre
Champagne	Rs 360 a litre
Wine and vermouth	Rs 75 a litre or, if in bulk, Rs 50 a litre
Country liquor	Rs 7 a litre
Rum, spirits and liquor produced from molasses and sugar cane derivatives	Rs 200 per litre Absolute Alcohol
Liqueurs and Cordials	Rs 200 per litre Absolute Alcohol
Other spirits (including whisky, brandy and cognac)	Rs 900 per litre Absolute Alcohol or, if imported in bulk, Rs 600.

228. Next, tobacco products. The excise taxation structure of cigarettes is already WTO-compliant and needs no further reform. Our proposal is to provide for a uniform 20 percent increase in the rates. As regards duty on cigars, it has to be modified to complete the reform on tobacco products. As from tomorrow, the new rate will be Rs 7,500 per kg instead of 270 percent.

229. Mr Speaker, Sir, we are also introducing excise taxation on plastic carry bag. The purpose is to discourage their use, encourage their reuse or a shift towards thicker reusable bags with a view to minimising their impact on the environment, especially as recent measures for increasing their bio-degradability have not yielded the expected results. The rate will be Rs 1 per bag.

230. On the same principle, excise taxation will be extended to PET bottles used in the soft drink industry. The tax rate will be Rs 1 per container.

231. The new excise duties on plastic carry bags and PET bottles will be effective as from 1st July 2006.

Motor vehicle taxation

232. Our next proposals relate to taxation of motor vehicles. This is another market that is heavily determined by tax policies. For long, we have been caught in a spiral of very heavy taxation triggering demands from all walks of life for duty concessions. In fact, we have an unhealthy situation where 30 percent of the car market depends on duty concessions. In some categories, rates are so high that very little revenue is collected as most of the cars benefit from exemptions. To complicate matters, our categorisation of motor cars has also not kept pace with the evolution in technology, environmental norms and global product mix, further distorting the market.

233. We need to take a dispassionate and clinical approach if we want to put some order while preserving government revenues. The way forward as in other taxes is to bring down the rates to reasonable levels, remove all concessions, thus simplifying the system. It is also clear that this cannot be achieved in a single year because of revenue implications.

234. As a first step, we are proposing this year to reduce the number of c.c. categories from 4 to 2. The demarcation line will be 1,600 c.c. Duty on motor cars of 1,600 c.c. or less will be 55 percent whereas those above that cylinder capacity will be subject to a duty of 100 percent.

235. To promote a car assembly project recently launched in Mauritius, a special rate of 15 percent will apply for cars below 550 c.c.

236. At the same time, we are adjusting upward the fees payable on registration of motor vehicles, by 25 percent for motorcars below 1,600c.c. and by 50 percent for those above.

237. As rates have come down significantly, we are reviewing our policy on duty concessions on motor vehicles.

238. The 80 percent exemption granted to a taxi-owner-driver will be maintained but it will be subject to payment of a minimum duty rate of 15 percent, as is the case for returning citizens.

239. In the wake of the duty reduction on motor cars, the rates for motor cycles are also being lowered as follows:

Motorcycles of 50 cc or less, from 20 percent to 15 percent

those between 51cc to 125 cc, from 40 percent to 30 percent

those exceeding 125cc from 55 percent to 45 percent

Temporary levy

240. We are introducing a temporary Solidarity Levy to contribute to the financing of the Empowerment Programme. It will be 0.85 percent of turnover and will apply to profitable hotels and Destination Management Companies/Tour Operators. The levy will apply for four years starting July 1, 2006. This is expected to raise Rs 150 to 175 million annually.

VAT

241. Mr Speaker, Sir, during the various consultations on the budget I stated clearly our options. I had ruled out an increase in expenditure financed by higher deficit leading to yet higher public debt. I have proposed bold reforms in order to restore growth to a higher trajectory, thus improving tax buoyancy. I also stated that resorting to either an increase in VAT rate or to a broadening of its base will depend to a large extent on the adjustment made in expenditure.

242. Let me now announce my VAT proposals. Mr Speaker, Sir, I am not increasing the rate of VAT this year. I will also not broaden the VAT base.

243. As I have regularly explained, our choice was to control spending or to raise VAT. As I mentioned earlier, thanks to the leadership of the Prime Minister and the collaboration of my colleagues, we have succeeded in controlling spending. Furthermore, the reorienting of spending on food subsidies has given us some of this fiscal space.

244. The dividend from such expenditure control and subsidy reorientation has made it possible to keep VAT unchanged. Therefore, the only measures on VAT this year are to deal with some anomalies, modify registration thresholds and simplify regimes. Thus, for administrative effectiveness and ensuring a level playing field, we are lowering the annual turnover threshold for compulsory VAT registration to Rs 2 million from Rs 3 million.

245. Likewise, the turnover figure below which a business has to submit VAT returns every quarter will be brought down from Rs 12 million to Rs 10 million.

246. With the lowering of the compulsory registration threshold to Rs 2 million, a number of businesses will be removed from the list of activities for which no registration threshold is applicable.

247. However, all jewellers, irrespective of their turnover, will be required to be VAT-registered and charge the tax on their sales so to put everyone in the sector on an equal footing.

248. The MRA will produce simplified VAT returns that would be more business friendly to small enterprises.

249. As we move to a consolidation of the various investment schemes and tax regimes and towards a fully-integrated economy, EPZ enterprises will be brought in under the normal VAT regime. To minimise incidence on cash-flow, main inputs such as yarn and fabrics will be zero-rated. Cotton and precious stones will be added in the schedule of exempt supplies.

Budget Estimates for 2006/07

250. To sum up, the expenditure and revenue policies I have just indicated show the stern commitment of Government to redress the state of our public finances. On the expenditure side, we have significantly reprioritised government spending and set the basis for achieving efficient use of public resources. On the revenue side, major initiatives have been taken to modernise and simplify our tax system to take care of growing savings and investment needs and to cater for environmental and social concerns while moving Mauritius to a low tax platform to attract investment and create jobs. The tax policies in this budget will no doubt relieve salary earners, investors and consumers who will enjoy a more favourable tax regime.

251. Total tax revenue for next year will amount to almost Rs 38.6 billion, which as a ratio to GDP, will remain at around 17.9 percent. Total derived revenue, including grants, will amount to Rs 43.1 billion, representing 20 percent of GDP.

252. Current expenditure will amount to Rs 44.1 billion, representing 20.5 percent of GDP. Out of this, 28 percent will be absorbed by wages and salaries, 21 percent by interest payments and 42 percent by subsidies and transfers.

253. Capital expenditure and net lending will amount to Rs 7.5 billion, representing about 3.5 percent of GDP. The overall budget deficit will thus be contained at around Rs 8.6 billion, equivalent to around 4 percent of GDP.

254. Mr Speaker, Sir, the application of the fiscal rules I described earlier is already bearing fruit. We have been able to contain overall spending below the rate of inflation by freezing current primary spending in nominal terms. This budget cuts real primary spending by 5 percent relative to the outturn for 2005/06, a sharp contrast to the average annual growth of about 5 percent over the last five years. As a result, this is the first budget in the last five years that delivers a primary surplus. Indeed, this budget takes us from a primary deficit of 1.7 percent of GDP to a surplus of 0.4 percent of GDP. This 2 percent of GDP adjustment is mirrored in the primary balance since the tax measures I announced are broadly revenue neutral when taken together with natural buoyancy of the tax system. This is Mr Speaker, Sir, the main reason that we have been able to keep VAT unchanged.

255. Large public debt results in a heavy interest burden with the consequence that the overall deficit on a cash basis only improves by Rs 2 billion to Rs 8.6 billion, representing 4 percent of GDP.

256. On the financing side, an amount of Rs 6 billion is expected to be mobilised from domestic sources. The bulk of this is expected to be from the non-bank sector. An amount of Rs 807 million will be remitted from special funds. This will go towards reducing public debt and not for meeting expenditure. This is in line with the prudent fiscal rules which I mentioned before.

257. Mr Speaker, Sir, we expect the international community to respond positively, rapidly and significantly to the strong efforts we have made to move from preferences to global competitiveness. The availability of concessional funding and external partner support will, to a large extent, determine the success of the major reform we are embarking upon. In particular, we are seeking external funding for the accompanying measures required to support our bold reform measures and the implementation of the Empowerment Programme over the next five years.

258. Specifically, for the 2006/07 budget we seek to mobilise about Rs 3 billion or US\$100 million of foreign financing as a blend of market and concessional financing including grants. We would aim at a larger amount of foreign financing in coming years, especially if we are to make the Empowerment Programme effective and unleash the energies of our emerging entrepreneurs, women, unemployed and SMEs.

259. For budget planning purposes, however, we have made provision to borrow domestically almost all the required financing of about Rs 9 billion. We have done so because the availability and timing of external assistance remains uncertain until we implement a bold reform programme.

260. Mr Speaker, Sir, if, with the support of this House and of the population we rapidly implement the measures I am proposing today, then we would be able to reduce domestic borrowing. The associated external financing package would be useful in financing our balance of payments deficit in the wake of the triple shocks from textiles, sugar and high petroleum prices. Moreover, its likely overall concessional nature would relieve the heavy interest burden we face from the debt overhang we have inherited.

261. As a means of mobilising the required external financing, we are urging our external partners to expedite the conceptualisation and operationalisation of Aid for Trade. We need these partners to do this quickly because Mauritius is a real case facing real problems in real time.

262. We are reacting positively to trade shocks with a strong reform programme that moves us from reliance on preferences to global competitiveness. However, the social costs are high and the required investment in infrastructure to ease supply side constraints is more than our budget can bear, especially given the shocks we are absorbing.

THE EMPOWERMENT PROGRAMME

263. Mr Speaker, Sir, this Government knows we must restructure but for the betterment of the people and not at their expense. Reform, opening up the economy and taking risks are necessary means but not objectives. Our objective remains the same as in the last election campaign: a Mauritius where everyone participates and chances are created for every citizen. Indeed, economic empowerment lies at the heart of our project to galvanise the economy by broadening the circle of opportunities to each Mauritian citizen.

264. This is why, Mr Speaker, Sir, we are setting up an Empowerment Programme that will unlock opportunities for the unemployed, for those recycled from their jobs, for women, for our young people entering the labour force and for small and medium entrepreneurs. The Programme will also facilitate the transition from sugar, textiles and other activities hit by shocks, into higher value added activities with better paying jobs.

265. We strongly believe that the new economic model can and will reconcile economic efficiency and social justice. Of course, Mr Speaker, Sir, we need to stimulate investment, attract a significant amount of foreign money. But we also need to promote self-employment and entrepreneurship from the smallest trader or artisan or mechanic or planter or fishermen to the small start ups in trade or manufacturing or agro industry or services.

266. There has been too much talk about helping these vulnerable people. However very often we have not walked the talk or the approach has been so fragmented that we have not made much progress. Mr Speaker, Sir, we need a new spirit, a new mindset characterized by a resolve to make things happen. Assistance for assistance sake will not solve the problem. We need a well-articulated workfare programme.

267. Mr Speaker, Sir, we are taking the bull by the horn with a very ambitious programme which will attain many objectives. It will have a life span of 5 years to see us through the transition. I am creating an item in the capital budget for the Empowerment Programme with a project value of Rs 5 billion. To show our commitment and determination and to put our money where our mouth is, I am very pleased to announce that I am allocating Rs 750 million for the next financial year to kick off the Programme.

268. Government will appoint an Implementation Team led by a high calibre individual and including Senior Government Officials and Entrepreneurs to concretise all the objectives of the Empowerment Programme.

269. The Empowerment Programme will undertake seven critical activities:

1. land for social housing;
2. land for small entrepreneurs;
3. a workfare programme emphasizing training and reskilling;
4. special programmes for unemployed women;
5. tourist villages;
6. assistance for outsourcing; and
7. support for development of new entrepreneurs and SMEs

Land for social housing

270. The Empowerment Programme will address the issue of housing for families with modest income. To this end, it will acquire around 2,000 to 3,000 Arpents of land across the country near existing agglomerations. Part of the land will be developed into serviced housing lots of 50 to 60 toises to be sold at affordable costs after infrastructure development. In this new scheme, landless families earning less than Rs 8,500 a month will become owners of these serviced lots on a cost recovery basis. MHC will provide a special loan at subsidised rates as in the Government Sponsored Loan scheme, for construction of a housing unit.

Land for small entrepreneurs

271. Land is a severe constraint for many small entrepreneurs. To allow them to grow and seize the business opportunities offered by the other components of the Empowerment Programme, some of the land acquired will be put at the disposal of small entrepreneurs on concessionary terms.

A workfare programme emphasizing training

272. We will invest massively in training and reskilling. The Empowerment Programme will finance an on-the-job training in the private sector for some 20,000 unemployed and recycled workers over the next five years. The annual intake in this workfare project will be 4,000 for up to a full year of training offering a monthly stipend of Rs 3,000 that will be equally shared between Government and the private sector.

273. Identification of training needs and potential employers to absorb trainees is being carried out by two Government/Private sector Committees focusing on Tourism and the ICT sector, respectively. These Committees are expected to report by July 15 with concrete proposals.

Special programmes for unemployed women

274. There will be a special focus on addressing the predicament of female unemployment. Women make up some 35 percent of the labour force but 61 percent of the unemployed. The unemployment rate among women is 16.5 percent compared to 5.8 percent for men. And the estimated earned income of women amount to less than 40 percent of men's earnings. From these data it is clear that one of the most pressing issues that we need to address is the earning capacity of women.

275. The significant job losses in the Textile and Clothing Sector where women accounted for more than 85 percent and the shedding of jobs in the sugar sector are examples of the vulnerability of women to the globalisation process. These underline the low ranking of Mauritius in the Gender Development Index of the UNDP in 2005, notwithstanding the good record on gender issues in education, health and other social areas.

276. To address these issues, the Empowerment Programme will offer training and reskilling activities geared to women while taking account of their need for more flexible working conditions and to have facilities for taking care of their children while they are acquiring new skills.

277. In addition to its training and reskilling component, the Programme will encourage entrepreneurship among women including a handicraft programme for women with the participation of experienced trainers from countries that have achieved excellence in that field.

278. We will assess the outcomes of all expenditure programmes including the Empowerment Programme on gender gaps and take remedial actions where necessary. The mainstreaming of gender issues will be a priority once the assessments are in.

279. The Equal Opportunities Bill, which will be introduced in this House soon, will be a powerful tool to democratise our economy and also combat discrimination against women and create a dynamism for gender equality.

Tourist Villages

280. The Programme will also support the setting up of five Villages Touristiques around the island. The sites will be chosen so as to optimise the opportunities for small operators. These villages will offer shopping outlets, restaurants and leisure facilities that will cater to tourists. Most of the spaces will be reserved to SMEs, and the promotion of Mauritian arts and crafts. These villages will thus be a powerful instrument to democratise the tourism industry.

Assistance for outsourcing

281. The Programme will include projects to give professional help to SMEs to improve the quality of their products so they can be reliable suppliers to hotels and other sectors.

Support for development of new entrepreneurs and SMEs

282. We are reviewing SME support and financing programmes to nurture businesses from birth to adulthood when they should be able to fend for themselves using commercial financing and tools.

283. At the outset a new entrepreneur needs every chance to succeed. This is why we will provide him or her with financing that does not bring a debt repayment burden until success. Once there is a track record of a few years, the entrepreneur is ready to expand and once again we will maximise his or her chances. We will offer equity participation through an Empowerment Fund that will be operational in July. The Empowerment Fund will provide equity of Rs 300,000 to Rs 3 million. By sharing risk not only do we empower the entrepreneur, but Government will improve the sustainability of the programme. This means that we will be able to help launch at least twice as many successful entrepreneurs as in past programmes.

284. The injection of equity will enable an SME to grow but it will still require working capital and other financing from commercial banks. However, these banks may not always be ready to provide such financing without collateral. This is why DBM will need to operate a special window until the SME has enough credibility to get commercial bank financing.

285. To implement this system that provides financing all the way along the chain to market financing, we need to restructure DBM. To sharpen its focus DBM needs to concentrate on its financial intermediation and transfer its industrial parks. All industrial parks owned by Government entities will be consolidated under one management. DBM will also separate its debt collection into a separate arm and create two financing windows. The first window will intervene on behalf of Government to offer below market financing and quasi-equity while the second window will offer loans at market rates but with flexible conditions. The second window will be regulated by the Bank of Mauritius.

286. Government will provide the required subsidies to operate the first window and closely monitor the effectiveness of the programmes. This window will offer micro-credit financing for loans of Rs 50,000 or less, quasi-equity to starting entrepreneurs for sums up to Rs 300,000. It may also offer some of the existing programmes after an evaluation of effectiveness that will result in consolidation of successful schemes.

287. Past experience suggests that providing financing is not sufficient for small entrepreneurs to succeed. The Small Enterprises and Handicraft Development Authority (SEHDA) will, therefore, work with newly registered entrepreneurs to provide them support services for the first few years. This will include preparing a business plan to secure financing from the first DBM window; assistance in filing statutory returns and complying with regulations for health, fire and environment; following up the implementation of the business plan; and offering advice to address problems. To achieve this objective about 200 participants in the Graduate Scheme will be trained in project evaluation, project implementation evaluation, and enterprise assessment. These Graduates will then operate as consultants to SEHDA to support entrepreneurs.

288. Enterprise Mauritius will adopt a similar model to support the expansion and restructuring of existing SMEs to enable them to mobilize equity from the Empowerment Fund. It will also work with larger firms on the same basis to prepare restructuring plans that can be financed through Equity Funds. EM will pay particular attention to the SMEs in furniture, footwear and clothing sectors that need restructuring in the wake of trade liberalisation.

289. Government will also initiate actions to set up Mauritius Trading Houses in the COMESA and SADC region. These Houses would provide a shop front, warehousing facilities, marketing services, selling bulk and breaking bulk and taking orders for Mauritian products. The State Investment Corporation will provide venture capital for that project. With these interventions we will build bridges to regional and global markets for the SMEs.

290. Nine low cost industrial estates will be set up to cater to SMEs. Three new estates, each with 20 units, will be built in Terre Rouge, La Tour Koenig and Highlands. In addition, BPML is converting six existing sites at Bel Air, Forest Side, Pamplemousses, Tyack, L'Escalier and Surinam to provide space for some 10 units in each.

291. We have launched an awareness campaign to inform the unemployed on the facilities we are providing to start their own business.

292. To show our commitment to the democratisation of the economy through the creation of new wealth by emerging entrepreneurs, we are introducing a special tax holiday scheme for small businesses. A tax holiday for a period of 4 years will be granted to small enterprises converted into companies and which register for the first time with Income Tax. The aim is to promote new start-ups and also encourage businesses to move out of the informal sector.

CONCLUSION

293. Before concluding, I would like to thank all our citizens and organisations who have shared with us their ideas and their views during pre-budget consultations. Let me also thank the staff of my Ministry who have helped me put together this Budget and who have been instrumental in assisting line ministries formulate spending proposals within the ceilings.

294. My colleague Ministers and my fellow Parliamentarians have also made valuable suggestions for which I wish to thank them.

295. I wish to say a very special thank you to the Honourable Prime Minister for his leadership, his courage and his determination to carry through the bold reforms. I also wish to express my appreciation to him for his guidance and friendship and his unflinching support throughout the preparation of this Budget.

296. Monsieur le Président, le temps des préférences commerciales est révolu. Un cycle économique tire à sa fin. S'ouvre devant nous un nouveau monde, celui de la concurrence globale et de la rationalité économique mais aussi celui des opportunités nouvelles, ouvertes aux plus audacieux et aux plus entreprenants.

297. A travers le Budget que je viens de présenter, le gouvernement a défini la voie de l'avenir et de l'espoir. Nous avons proposé un nouveau modèle de développement, axé sur l'ouverture, l'initiative et les risques calculés. Nous avons lancé une réforme en profondeur de notre économie, de nos institutions et de notre société pour que Maurice toute entière puisse se transformer et affronter les défis, présents et à venir, avec confiance.

298. Avec toutes ces réformes courageuses et innovatrices, nous jetons les bases d'une société caractérisée par

- L'ouverture et l'équité;
- Un service public plus efficient et accueillant;
- Une croissance économique plus robuste; et
- Une économie plus démocratique avec des perspectives de réussite plus importantes pour la présente génération et pour l'avenir.

299. Le temps des paroles est révolu. Il est temps d'agir.

300. Je voudrais, Monsieur le Président, avant de terminer, faire un appel à la nation.

301. Ayons l'audace de croire en nos capacités et en notre génie. Marchons ensemble sur les traces de tous ceux qui, avant nous, ont vu dans les défis une motivation supplémentaire de se dépasser, jamais un prétexte pour abandonner ou pour prendre la voie de la facilité.

302. Ouverture, Responsabilité, Efficience, Discipline et Solidarité: ce sont les maîtres mots qui doivent nous guider.

303. Monsieur le Président, un Budget national, c'est faire des choix, prendre des décisions; et avant tout, assumer ses responsabilités et accomplir son devoir. Je l'ai fait pleinement et en toute sérénité.

304. Mr Speaker, Sir, with these words, I commend the Bill to the House.