

## **BUDGET SPEECH 2007/08**

### **CONSOLIDATING THE TRANSITION AND SECURING FULL EMPLOYMENT**

Mr Speaker, Sir,

I move that the Appropriation Bill 2007/2008 be read a second time.

2. Mr Speaker, Sir, last year I explained to the nation that we had come to the end of an economic cycle and that there was no alternative but to charter a new course and adopt a totally new paradigm to emerge from the mess we inherited.

3. Let me remind the House that we inherited an economy facing the triple shocks from loss of textile preferences, high oil prices and the impending cut in sugar prices. Growth was on a downward path heading for recession, unemployment was at the highest level in 20 years, purchasing power was falling, and investment was down. At the same time, public finances were spinning out of control with debt service the largest item of Government spending and public debt unsustainably high and growing.

4. Mr Speaker, Sir, to turn this situation around, the last Budget proposed 40 major reforms. I told the House that while the ends are noble, the means may be painful, especially for the first two to three years.

5. Now, only one year later, with the overwhelming majority of reforms implemented or on track, the evidence is there for all to see. The early positive results and outcomes are beyond our own expectations. The signs of economic renewal are vivid.

Growth is on a rising path. It is also a balanced growth.

There is regained dynamism in private investment.

Foreign direct investment is flowing in at an unprecedented rapid pace.

The textile industry is no more mired in deep depression.

Construction and tourism are booming.

The seafood and the ICT sectors are doing well.

There is a new wave of SMEs rising.

New sectors are firming up their roots to become additional pillars.

Jobs are being created at more than twice the rate prior to reforms.

The unemployment rate has edged downward for the first time in more than sixteen years, from 9.6 percent to 9.1 percent.

Foreign exchange reserves have reached a record level of Rs 83.3 billion, representing 8.5 months of imports.

6. We are also restoring discipline in the public finances. Not only did we inherit a high budget deficit and a large debt but unfortunately there were many liabilities that were hidden in the closet. We have had to deal with many of them at a very expensive price.

Mr Speaker, Sir, no provision was made for the pensions of DWC employees by the former Government. We have had to pay Rs 267 million to ensure that employees get their pensions.

No provision was made for employees transferred to the Mauritius Post. Retiring employees would not have received their pensions. We paid Rs 330 million.

No provision was made for the pension liabilities of MRA employees. I am making a provision of Rs 590 million for that purpose.

The Conference Centre at Pailles was not financially well structured and there were liabilities of Rs 310 million. We have paid the amount.

The BPML was in a financial mess when we came to power. The debt and losses are staggering. We have paid Rs 280 million and the situation is still alarming. This year we have made an additional provision of Rs 84 million to meet its outstanding debt obligation.

The MHC is in financial difficulties because of the bad investment in the Cyber Village. I am providing for Rs 150 million to get the MHC out of the mess.

The STC had not cleared its pre-Automatic Price Mechanism losses. We provided Rs 411 million to clear the debt of 2003.

We have removed the millstone placed on the Black River District Council by paying off its loan of Rs 95 million.

We have paid off Rs 200 million of loans taken by the Road Development Authority just before the 2005 elections.

We are clearing an advance of Rs 225 million made to State Land Development Company (SLDC) in 2004.

7. Mr Speaker, Sir, our achievements are remarkable, given the legacy left to us. We have reversed a declining economy and have cleared skeletons in the cupboard amounting to a staggering Rs 3 billion. Most of these skeletons were off-budget transactions.

### **THE ROAD MUST BE TRAVELED**

8. These early records of achievements tell us that we have blazed a new trail of successful development and that we are indeed moving in the right direction. The good results confirm that we must stay on the path of reforms. The goals are attainable: the road must be travelled all the way.

9. There is no doubt that it is a challenging journey that may prove to be more difficult for some than for others. But, as a compassionate Government, we pledge to stay sensitive to the voice of our population.

10. The positive results also tell us that full employment and rising purchasing power are within reach. The early harvest allows us to share some of the early gains, particularly with those who most need help. It also allows us to signal our determination to assure that all will share in the accelerating recovery.

### **CONSOLIDATING THE TRANSITION - SECURING FULL EMPLOYMENT**

11. That is why the main theme of this budget is to accelerate the transition to global competitiveness to secure full employment and improve the living standards for the whole nation. We will move on five major fronts to achieve our goals.

- First, build on our progress in opening the economy and facilitating business whilst promoting new ideas.
- Second, invest massively to maintain, rehabilitate and build up public infrastructure.
- Third, widen the circle of opportunities so that the recovery is shared by all.
- Fourth, ensure that solidarity for those who cannot help themselves is at the heart of our programme.
- And fifth, continue to restore order in public finances.

12. I will now review global, regional and domestic economic outlook and elaborate on our actions to consolidate the transition and achieve full employment.

## **REVIEW OF GLOBAL, REGIONAL AND DOMESTIC ECONOMY**

13. Mr Speaker, Sir, there are indications that the global economy will grow healthily at about 5 percent in 2007 and 2008. The trend to a multipolar world will accelerate with the emergence of China and India. This is bringing far more possibilities for South-South trade and FDI and creating new opportunities for Mauritius. Africa's economy is expanding at a 6.2 percent clip this year.

14. As part of an endeavour to sustain this dynamism, Mauritius is joining efforts with other countries in the region through COMESA (Common Market for Eastern and Southern Africa) and SADC (Southern Africa Development Community) to promote the agenda of Free Trade Areas (FTAs). Our aim is that there should be fully effective FTAs between sub-regional groups followed eventually by an FTA covering a majority of the geographical part of Africa. This can be the basis for an FTA with the EU in the context of EPA (Economic Partnerships Agreement) negotiations and eventually with the USA as a natural evolution of AGOA (Africa Growth Opportunity Act).

15. We are also continuing our efforts to get Aid for Trade operationalised after having successfully canvassed internationally to have the concept accepted. We are making good progress on Aid for Trade with development partners. That should be a major source of support to countries, which like Mauritius, have to face high social costs of transformation.

16. As regards the domestic economy, after four years of declining growth reaching 2.2 percent in 2005, it has grown by an estimated 5 percent in 2006 and is expected to grow at the same rate in 2007. Growth will accelerate from just under 5 percent in 2006/07 to almost five and a half percent in 2007/08.

17. This growth is broad based with most sectors of the economy performing well. The textile industry is out of its recession. Tourism, financial services and construction have led the growth momentum and emerging sectors like the seafood hub, ICT and real estate development have firmed up their base, poised to become new pillars. On the macroeconomic side, both consumption and investment are contributing to higher growth. Driven by household spending, aggregate consumption in 2006 increased by 5.5 percent and is expected to grow by 4.7 percent in 2007.

18. Total investment in 2006 increased by 18.2 percent compared to a decrease of 2.4 percent in the previous year. Private investment as a ratio of GDP is rising again after four years of below trend performance. In 2006, FDI inflows amounted to 7.2 billion rupees, exceeding the FDI inflows for the four previous years. These investments are more diversified flowing in most key sectors including tourism, financial services, ICT, manufacturing, logistics and

distribution, IRS and seafood. Moreover, the rush in FDI in 2006 is not an isolated episode. A rising trend is developing.

19. In the external sector, imports are expected to increase by 17.6 percent by the end of the current fiscal year and exports by only 10.2 percent. This would lead to a higher trade deficit of Rs 34 billion. The services sector would record a surplus of Rs 15 billion. The current account deficit, which is financed by the capital and financial account, would be Rs 17 billion.

20. Due to the significant increase in foreign direct investment inflows, the overall balance of payments would, however, show a surplus of Rs 5 billion in contrast to deficits of over Rs 4 billion in the previous two years. Net international reserves are projected to reach Rs 83.3 billion.

21. As regards the budget outturn 2006/07, we had set ourselves the very ambitious target of bringing down the budget deficit from 5.3 percent of GDP to 4 percent. Latest indications are that the deficit would finally be contained to around 4.3 percent—a one percentage point of GDP adjustment in a single year. We would have met the deficit target if we had not settled the Rs 590 million liability arising out of pension obligations from the transfer of public officers to the MRA, for which funds had not been provided, or if we had collected all revenues from measures announced in the 2006/07 budget.

22. Recurrent expenditure would be some Rs 600 million higher than budgeted, mainly on account of increases in health services, higher levels of transfers to PSSA and NPF and more social spending in the education sector.

23. Expenditure from the Capital Fund, on the other hand, would be Rs 100 million below the voted provision.

24. Total spending would thus exceed the Estimates by Rs 500 million.

25. On the revenue side, there would be a shortfall of Rs 480 million. Receipts from taxes are expected to be some Rs 100 million less, i.e., quite close to target. However, we will receive during the year only half of the foreign grants initially expected - a shortfall of Rs 370 million - due to disbursement delays.

26. Central Government debt would reach Rs 121.5 billion and will fall from 57.9 percent to 54.9 percent of GDP.

27. This year, the inflation rate has broken its trend and is significantly higher. The inflation rate for fiscal year 2006/07 is estimated at 10.7 percent compared to 5.1 percent for the preceding year. The inflation rate for calendar year 2006 reached 8.9 percent in contrast to 4.9 percent in the preceding year. Soaring oil prices, depreciation of the rupee, very high world demand for some

commodities, adverse climatic conditions and higher freight rates are among the main factors behind this spike in the CPI. Because many adjustments recorded in the CPI were one-off, inflation should head downwards.

28. The lowering of inflation will be assisted by the adoption of a significantly improved policy framework. The Monetary Policy Committee (MPC) was set up as part of an overall strategy to monitor closely price movements and to take prompt actions. To grant further independence to the Monetary Policy Committee, the Bank of Mauritius Act 2004 will be amended to give the MPC the power to take final decisions on interest rate levels at its meetings.

29. We recognize that monetary policy is not the only tool to combat inflation. Price hikes are very often caused by external factors beyond our control. Where there is a potential for abusive practices to the prejudice of consumers, Government will also act. The Competition legislation, to be enacted shortly, will be a powerful tool to prevent monopolistic pricing. In this Budget, I am providing funds for setting up the Competition Commission.

30. As we strengthen the regulatory framework to crack down on abusive practices, we will be able to move forward on our policy to liberalise prices and open the market to new entrants so that demand and supply forces can work to bolster competition, achieve lower prices and provide wider choice for consumers. That should also enable Government to review its role and the role of parastatal bodies like the STC, leaving more economic space, especially to the growing SME sector.

31. The labour legislation that will shortly be presented to the House will complement the Competition policy in making our markets more responsive to economic forces.

32. Mr Speaker, Sir, unlike a year ago, most indicators are now trending in the right direction. However, one year of rising growth is not enough to fully repair the damages compounded by four years of slack growth. We must persevere and sustain the efforts started last year to reap the full benefits.

## **BUSINESS FACILITATION**

33. Mr Speaker, Sir, the move from ex-ante authorization to ex-post verification is enticing investors both at home and from overseas. To further improve the process, we are investing in a system developed by UNCTAD that will provide investors with all the investment rules, regulations and administrative procedures in Mauritius. This system will help identify gaps, duplications and bottlenecks in guidelines, regulations and processes.

Resources will be provided to Ministries and regulatory bodies to tackle identified problems.

34. The Business Facilitation measures in place since the last Budget need to be reinforced. SEHDA and BOI will set up a mechanism for businesses to report difficulties. This could include SME Help Desks in existing business organisations, Citizens' Advice Bureau (CAB), local authorities and the Registrar of Companies to advise SMEs and channel complaints. They will pass on for action the complaints and suggestions to the Industry Monitoring Cell chaired by the Minister of Industry. Moreover, to institutionalize the movement to a better business environment, the terms of reference of the cell will be extended to focus on strategic, developmental and administrative problems that constrain the development of SMEs. To enhance its effectiveness, the Cell will co-opt representatives of private sector institutions including SMEs. It will develop a Doing Business Indicator for SMEs and monitor progress in dealing with major bottlenecks identified.

35. The Building and Land Use Permit (BLP) currently expires in 6 months from the date of issue. The delay is too short for developers to obtain bank loans and organize their work. We are extending the validity period from 6 months to 24 months.

36. Presently, an application for BLP has to be processed and determined within 2 weeks of the effective date. But there is no provision in the law to enforce this requirement. We are therefore amending the Local Government Act and the Business Facilitation Act to provide for silent agreement after 15 days from submission of the application. In case of rejection, the reason will need to be clearly stated and, where possible, with suggestions on remedial action to be taken that would lead to approval.

37. We are also providing a fast track mechanism to deal with appeals when the BLP is turned down. The Ministry of Local Government will set up a technical committee to review all cases of appeal. The aggrieved individual will have 21 days to write to the Permanent Secretary of the Ministry of Local Government asking for a review. The Committee will make a determination within 2 months of receipt of the request and will inform the aggrieved party within 5 working days of the decision.

38. Another main hurdle to doing business is the application and process for Land Conversion Permit. Currently, the land owner who wants to develop land that does not require a Land Conversion Permit, still requires a certificate to that effect from the Land Conversion Unit. This process is very time consuming. We are simplifying and accelerating this process. Owners of such land will only have to submit to the Land Conversion Unit a declaration to the effect that their land has not been planted under sugarcane, tea or tobacco for the past 10 years.

Upon verification, the Unit will provide the land owner with the required certification within 2 weeks.

39. With limited land and expected acceleration of FDI, we need to build higher while preserving the coastline landscape. We propose to remove restrictions on high rise buildings provided they are in pre-designated zones in inland areas.

40. I am providing Rs 150 million in this Budget to implement the Land Administration, Valuation and Information Management System. It will provide us with a cadastral map of all land and properties within the boundaries of the island of Mauritius. This will substantially facilitate the use of land for investment and other purposes while at the same time allow for optimal use of land resources.

41. The full system is expected to be operational in three to four years with valuation rolls ready in about two years. In the meantime, I am proposing Rs 25 million for a computerised system to manage and safeguard title deeds and reduce the time taken for registration and transcription of property transfer. I am also earmarking Rs 5 million for the Ministry of Housing and Lands to work out detailed planning schemes for at least one area in each district to facilitate investors in identifying suitable land.

42. Taxation and use of land is an extremely complex issue. It needs to be adapted to the exigencies of our new economic paradigm. Government is therefore setting up an Inter-Ministerial Committee to review the taxation of land, rationalize land use and simplify allocation for development.

43. To accelerate the process of approval for projects with complex Environmental Impact Assessments (EIA), Government is setting up a new mechanism. A unit in the Ministry of Environment will be given responsibility for establishing a Panel of Environmental experts drawing from the expertise of International Organisations. To mobilize these experts and ask them to provide an assessment within a short time frame, a fee will be charged to the project promoter according to a schedule to be established.

44. After over 20 years, the replacement of the National ID is long overdue. Its replacement provides an opportunity to introduce a multi-application Smart Card. Other possible uses include access to secured areas, payment of pensions and social security benefits, electronic purse, driving licence, health card and transport card. I am providing Rs 20 million for the design phase following which the full costs will be established.

## **OPENNESS OF THE ECONOMY**

45. Mr Speaker, Sir, last year I spoke of the upshot of our openness, business facilitation policies and economic restructuring as being more foreign direct investment. The Rs 7.2 billion of FDI realized in 2006 and the Rs 10 billion forecast for this year confirm that we have indeed underpinned our strategic aim to boost investment with the right policies. The competition is increasingly tough but the momentum is on our side.

46. Mr Speaker, Sir, Ireland, China and India's example makes it conventional wisdom that the nations that do best are those that open to the world, shun protectionism, embrace global competitiveness, welcome foreign investment, attract foreign talents and skills and run flexible labour markets.

47. We, in Mauritius, can take comfort that having started down this course, we are also beginning to reap the same rewards. This is why I am announcing a series of measures to consolidate and make further progress on opening up our country.

48. All foreigners who have been working in Mauritius for at least 3 years and with a minimum basic monthly salary of Rs 150,000 will be eligible for Permanent Residence Permit and will be allowed to purchase property. The Non-Citizens (Property Restriction) Act will be amended accordingly.

49. In line with standard international practice, the maximum number of days allowed for a business visa is being increased from 90 to 180 days.

50. To share their expertise and know-how, holders of Residence Permit under the IRS will be automatically eligible for an Occupation Permit.

51. A Short Term Residence Permit of up to 9 months will be given to foreigners who have to work in Mauritius for less than a year. The permit will be renewable once for a maximum period of three months.

52. To encourage development of the Knowledge Hub, Government is introducing a fast track process to issue a visa to foreign students pursuing full time studies.

53. In addition, we will amend legislation to accelerate approval for all training and educational institutions that undertake to comply with all regulations established by the appropriate regulatory authority or the prevailing norms as communicated by the regulatory agency on request. To this end, we are amending legislation to give the Tertiary Education Commission (TEC) full authority to allow foreign training and educational establishments in all fields to set up in Mauritius. TEC will provide a response to applicants within 6 weeks of receiving a complete application. In case of rejection, there will be clear

indication of which guidelines have not been met. To facilitate applications, the requirements for application and for operating in Mauritius will be posted on the BOI and TEC website.

54. To promote development of the pharmaceutical sector, we are coming forward with legislation to provide for the framework for pre-clinical and clinical trials, clinical research studies and bio-medical research in Mauritius.

55. In line with the report of the Law Reform Commission, we shall soon introduce legislation to amend the Law Practitioner's Act to allow the establishment of law firms or corporations by both Mauritians and foreigners. These corporations will be able to employ foreign lawyers.

56. We are also making it easier for appeals to the Privy Council. It is expected that by mid-2008, the Judicial Committee of the Privy Council would have its sittings in Mauritius.

## **INVESTMENT IN INFRASTRUCTURE**

57. Mr Speaker, Sir, our public infrastructure must reflect our ambition to build the modern Mauritius that our people deserve. Inadequate infrastructure can indeed be a serious bottleneck to development and severely strain the quality of life of our citizens. That is why this Budget is expanding spending on public infrastructure from Rs 6.1 billion in 2006/07 to Rs 7.5 billion, an increase of over 20 percent.

## **INVESTING FOR MORE FLUID TRAFFIC**

58. We will address the problem of land transport and traffic congestion as a priority. And we will act on three axes: expanding road infrastructure, demand management and road safety. In the next few years, Government will channel some Rs 3 billion in road development. In this Budget, we have earmarked Rs 752 million, to be invested in 13 road projects that will expand as well as improve the road network and allow for a more fluid movement of traffic. These projects include, the South Eastern Highway, access roads at Réduit Triangle and at Riche Terre, the Terre Rouge Verdun Link Road, the bus lane along M1, the signalisation of Caudan Roundabout, resurfacing of Motorway M1 and M2 and road maintenance. We are also providing Rs 107 million for the construction of the Macondé Bridge.

## **UPGRADING UTILITIES**

59. On electricity we are providing Rs 201 million over and above investment made by CEB. These government investments include Rs 145 million for supplying electricity to the Industrial Development at Riche

Terre and Rs 17 million for preliminary infrastructural work at La Tour Koenig Industrial Park.

60. Mr Speaker, Sir, Rs 280 million will be used to improve water supply to the economic and household sector. This spending will extend water supply to Riche Terre, improve water supply to Pointe aux Sables, Petit Verger and Vallée Pitot and develop additional water resources in the East and South west regions. We are also investing on water resource development and on design studies for Bagatelle Dam.

## **MODERNISING PORT AND AIR PORT INFRASTRUCTURE**

61. The significance of the Port to the development of our country has become even more crucial now. It has a dual role of handling our external trade and of supporting the development of our country into a hub for regional as well as for international traffic between Asia and USA. However, like all other sectors of our economy, the Port faces strong competition from other ports in the region, more specifically in Mozambique, Kenya, Madagascar and South Africa.

62. It is therefore essential that we review our strategy for the development of the Port to enhance its attractiveness to the growing traffic in our region. To this end, the Port will look for strategic partnership so that the necessary investment can be made and to benefit from the transfer of technology and know-how in port development and management.

63. The airport is equally important to our development. Its modernization and expansion will be crucial to the success of our policy to open air access and to accommodate 2 million tourists. Accordingly, our priority is to modernise and expand the Passenger Terminal which is estimated to cost Rs 4 billion. Works are expected to start by the end of 2007 and be completed by end 2009.

64. Mr Speaker, Sir, for the first time since Mahé de Labourdonnais, we will build an entirely new and totally planned city. There are already expressions of interests from private promoters to build this city in Highlands. When fully built on some 920 Hectares, this city will have the combined size of Quatre Bornes and Rose Hill. It will accommodate, inter alia, the Knowledge Hub and many Government buildings. We have made progress on this issue and I am providing for an initial contribution of Rs 25 million in the Budget to launch this project which will be carried out on a PPP basis.

## **ADDRESSING THE ORDEAL OF FLOOD**

65. During the torrential rain season and cyclones, thousands of families have to go through the ordeal of flooding. Many of them lose furniture and other belongings. They live in unhygienic conditions for days and sometimes weeks. There are some 326 flood prone areas across the island.

66. To address these problems, we have earmarked Rs 150 million for the execution of 180 projects across the island. Contractors for drain projects have already been appointed on a zone basis in some 30 areas covering both rural and urban regions.

## **PROTECTING OUR ENVIRONMENT AND ENHANCING QUALITY OF LIFE**

67. Mr Speaker, Sir, environmental issues are becoming paramount. Our development must be both sustained and sustainable. We are committed to meet the highest environmental standards and protect our lagoons, rivers and islets. For this reason, we are allowing the Tourism Fund to partner with civil society to implement projects aimed at protecting and rehabilitating our environment. The Ministry of Tourism, the Ministry of Environment and the Ministry of Agriculture will work jointly with NGOs, local authorities and the National Parks and Conservation Service to develop appropriate projects that can be financed from the National Parks and Conservation Fund.

68. The disposal of waste is a growing threat to our environment. We are investing massively to tackle this problem. The faster we build capacity in the area of waste management to protect fully our environment, the cleaner will be our environment and the sooner we can channel resources into other national priorities. And so Rs 1.8 billion, i.e. 18 percent of our capital budget, will be earmarked for the disposal of waste, including about Rs 1.5 billion for wastewater. Over Rs 1 billion will go to the Plaines Wilhems Sewerage Stage I project, which involves the construction of trunk sewers and reticulation network to provide connection to the wastewater system to 29,000 customers.

69. The other investments will be made in the improvement and refurbishment of existing wastewater system, operation and maintenance of treatment plants at St Martin and Grand Baie, free house connections to existing systems, Baie du Tombeau Project for house connection and treatment plant, the Environmental Sewerage and Sanitation Project and infrastructure Rehabilitation in CHA Estates.

70. As our economy grows, new waste streams will be created. The country generates about 1,200 tons of solid waste everyday which must be managed efficiently and with least damage to our environment and no risk to the health of

the population. To this end, I am more than doubling budgetary provision for the “Implementation of a Solid Waste Disposal Strategy” from Rs 117 million to Rs 288 million. This strategy comprises the construction and operation of a new cell at Mare Chicose Landfill site, the upgrading of existing transfer stations and the construction of a new transfer station at La Laura/Caroline and implementing a Hazardous Waste Facility at La Chaumière.

71. The relocation of the inhabitants of Mare Chicose is also a top priority for Government. Measures are being taken to speed up the relocation process and this is costing Government Rs 82 million which includes compensation of Rs 52 million to the inhabitants.

## **SECTORAL ANALYSIS**

72. Mr Speaker, Sir, I have mentioned inclusive and job creating growth so that we can advance on the route to full employment while at the same time securing greater social justice. To attain these goals, we must also stay on the frontline of global competitiveness.

73. Mr Speaker, Sir, the sugar industry is our mother industry. Besides the corporate sector, there are today some 26,000 small planters, 18,000 workers and 1,200 metayers who contribute to the industry. In addition, it has large indirect, multiplier and multifunctional effects. We owe it to the nation not to let up in the face of the severe impact of the 36 percent cut in the guaranteed price of sugar. Beyond the immediate price cuts, we also face a risk that our guaranteed market in the EU will be opened up in the medium term.

74. The only way for the sugar sector to survive is by lowering overall costs and diversifying its revenue base to be globally competitive. We have developed a viable plan that the EU is willing to finance to transform the sugar industry into a sugar cane industry producing higher value added sugar, energy, ethanol and other by-products. Our challenge is to implement this plan in a way that generates a win-win situation for all stakeholders in the sector and for the country as a whole.

75. We have invested a lot of political capital to mobilise our friends in the EU and the negotiations led by the Prime Minister have secured an increase in overall EU financing. Government has convinced the European Commission to increase the overall allocation provided to ACP Sugar Protocol countries whilst also raising the share of Mauritius from 15.5 percent to 19.4 percent. As a result, we have increased the EU commitment to support our sugar sector and overall economic restructuring programme.

76. Moreover, if we implement our reform programme and keep our undertakings with the EU, we should be able to continue securing an additional performance bonus. For 2006/07 we obtained an extra Euro 8.7 million, a little under Rs 400 million, for keeping our commitments.

77. We have already signed two complementary Financing Agreements for Sugar Accompanying Measures totalling €11 million available as sector budget support earlier this year. The challenge in the coming year will be to satisfy all the performance indicators, as set out in the Financing Agreement to obtain the grant.

78. The only way for this to happen and for the industry to survive is to reach a national consensus to create the conditions that will allow the industry to implement the restructuring plan. This national commitment requires creating opportunities for all stake holders to participate in the ownership of the new sugar cane sector. It also rests on a strong partnership to receive and develop land required to implement our economic restructuring and provide social housing and facilities.

79. We must all come together as a nation to navigate the rough seas ahead and make the transition successful. Mr Speaker, Sir, I am confident that this challenge facing the sugar industry can lead to a new era of meaningful cooperation and national solidarity. This partnership will define a new way of working together to take our country to greater heights of prosperity.

## **MANUFACTURING**

80. The manufacturing sector needs to move to global competitiveness. However, it needs some time to adjust. We are providing local manufacturers a one year respite on the way to a Duty Free Island. We are also providing direct support through a provision of Rs 40 million to Enterprise Mauritius to support

- (i) brand development;
- (ii) innovation;
- (iii) market development with an emphasis on the regional market including for services;
- (iv) capacity building;
- (v) product and quality improvement;
- (vi) productivity improvement including industrial re-engineering; and
- (vii) management and design capacity.

81. Enterprise Mauritius will continue to assist the food and agro-industry, textiles and clothing, jewellery and furniture sectors to encourage them to export. The plans to open trading houses are advancing and next year we should have operations in South Africa, Madagascar and Kenya.

82. Last year I announced the setting up of a second Equity Fund with a minimum of fifty percent participation of the private sector to encourage the development of the financial market and to facilitate the mobilization of private financing for restructuring. I am pleased to announce that the SIC has already identified the private partner and is setting up that fund. It will generate some Rs 500 million that will be available to support the re-engineering of firms.

## **TOURISM**

83. Mr Speaker, Sir, this year the tourism industry is on the way to register a double digit growth. This policy-induced performance reflects the emphasis on marketing and promotion and the reform of air access that we implemented since August 2005. And so when results are positive, we must maintain course. We will thus develop a Tourism Strategy by March 2008 with emphasis on developing coherent and effective strategies for sustainable development, capacity building, promotion and marketing, planning and monitoring, efficient land use and strategic environment assessment.

84. We are also setting up an Air Access Policy Committee which will be serviced by a unit staffed with experts on contract.

85. We also need to constantly market our destination with new products so that we can further diversify the source of tourists and attract and develop new types of tourism. National events have proven to be a major attraction in many countries. We need to have similar events in Mauritius as part of our broader strategy to attract 2 million visitors. To this end, Government is setting up "Events Mauritius Limited" which will organise special activities to enhance the image of Mauritius as a destination.

86. Government's contribution to MTPA for 2007/08 would be Rs 300 million. The high level of support for tourism promotion testifies our commitment to reach the 2 million tourist target by diversifying our sources of supply. The promotion also aims to increase occupancy rates by attracting visitors during our periods of relatively low demand.

87. Government will also invest in the upgrading and rehabilitation of La Citadelle, in a coastal walkway at Grand Baie and Trou D'eau Douce, in tourism signage and in zoning of lagoons.

88. Mr Speaker, Sir, marketing Mauritius, be it to entice more tourists, to sell our good and services or to attract foreign investors in existing and new sectors is an unending task. It is also an undertaking that must be done on increasingly more fronts as we diversify our economy and maintain our openness thrust. Our competitors are investing massively in projecting a unique image. Mauritius must also distinguish itself from the crowd.

89. We must shift from the fragmented and ad hoc approach to a permanent, coherent strategy while ensuring greater visibility of the Mauritian brand world wide. To achieve this objective, we are providing Rs 35 million for a branding exercise and subsequent visibility campaign. It will be spearheaded by the Ministry of Tourism in collaboration with the Board of Investment, the MTPA, Enterprise Mauritius and other private and public sector organizations.

90. As the growth of the tourism industry heads towards a new peak, we must ensure that the benefits flow down. The Tourist Villages that we had announced last year will be an effective way to secure inclusive growth in that sector. One site has already been identified at Belle Mare for implementing the first Tourist Village.

## **FINANCIAL SERVICES**

91. Mauritius financial sector has shown strong resilience to external shocks. But we must constantly adapt because the world of financial intermediation and services is a fast mover.

92. I will shortly invite the House to adopt a new Financial Services Bill, an Insurance (Amendment) Bill and a Securities (Amendment) Bill which will usher in a wide new legislative framework for the financial services sector. The Financial Services Bill will provide an enhanced integrated framework for both domestic and global business and pave the way for a revamped fee structure for all licensees.

93. The legislation proposes a comprehensive framework for Collective Investment Schemes which should encourage the setting up of more funds, both domestic and global, including Real Estate Investment Trusts and Foundations.

94. The appropriate legislation will be amended to allow for the development of Alternative Financial Services such as Islamic Financial Services which is a fast growing new activity with big export potential.

95. Government will urge and support any move on the part of the Stock Exchange of Mauritius to set up and develop derivatives market on underlying instruments traded in other markets and to start cross listings.

96. As part of its policy to develop the equity market and to widen and democratize share ownership, Government will encourage Mauritius Telecom and SICOM Ltd to be listed on the Stock Exchange of Mauritius. In the same vein, Government will sell some of its shares in other state owned companies.

97. Mr Speaker, Sir, the proceeds accruing to Government will be utilised to either reduce the stock of debt or finance high priority infrastructure but will not be used to finance recurrent expenditure.

## **NEW SECTORS**

### **SEAFOOD**

98. Mr Speaker, Sir, the seafood hub, one of the emerging pillars, is doing well. In 2006, investment in the Seafood Sector has risen by more than 44 percent and exports have gone up from around 4 to 7 billion rupees. The sector has generated some 2,150 direct jobs. We must put in more effort and give more support so that this sector can maintain its growth momentum. Mauritius must obtain EUR1 certification and cannot forever rely on special derogation for exporting fish and fish products to the EU. To this end, Government has hired international expertise and is providing the funding required for the accreditation of laboratories performing tests for export consignments.

99. To integrate our fishermen into the mainstream and allow them to increase their income, we are moving forward with the construction of a 'fish auction market' at a cost of Rs 25 million at Trou Fanfaron. We have also set up the Fishermen Investment Trust (FIT). The FIT provides an opportunity for artisanal fishermen and bank fishermen to participate in deep sea fishing. The FIT will be run in partnership with the private sector on commercial lines. Fishermen will be assisted in becoming shareholders by a Government grant and a loan. I have provided Rs 15 million to FIT to finance this exercise.

### **LAND-BASED OCEANIC INDUSTRY**

100. Last year, I announced the development of the Land-Based Oceanic Industry as one of the emerging pillars of our economy. We have gone a long way by taking this project from inception to a pre-implementation phase. Out of a short list of several locations, we have almost identified the site to house the project.

101. The State Investment Corporation, through a subsidiary company namely the Mauritius Land-Based Oceanic Park Co. Ltd, with the support of the Board of Investment, will launch expressions of interests to select a strategic/technology partner. The Mauritius Land-Based Oceanic Park Co. Ltd will be granted a 30 year concession contract to pump, desalinate and distribute

deep sea water and manage an Oceanic Park which will regroup all operators under the build, own, operate and maintain model.

102. We will also ensure that a business friendly framework exists to regulate and develop this new economic sector. In line with our policy of inclusive growth, we will encourage small and medium enterprises to also participate and invest in all downstream activities. I am providing for an initial contribution of Rs 25 million in this Budget for the Land Based Oceanic Industry.

## **CREATIVE ARTS INDUSTRY**

103. Mr Speaker, Sir, the global economy has changed dramatically. Today, the key stakeholders of the global economic landscape are those who are able to harness the intangibles like ideas and creativity to produce new value. The creative arts industry takes many forms: arts, culture, design and media. It is an industry where many of our young people are increasingly involved. The various musical shows and concerts have revealed that there is a considerable pool of talented young artists. Some of them have forged a solid reputation at the national level and are now even exploring the international scene. For many of our young people, music is increasingly becoming a vehicle not only for expressing one's talent and creativity but also for developing a career, often linked to the tourist industry where opportunities will abound. These artists deserve encouragement. I am removing completely duty on:

- (i) Microphones;
- (ii) Headphones and earphones;
- (iii) Loudspeakers;
- (iv) Amplifiers;
- (v) CD players;
- (vi) MP3; and
- (vii) Walkman.

104. There is also an entertainment tax of 10 percent on the admission fee for performing arts conducted in public entertainment places. To encourage performances by renowned artists, I am abolishing this tax as well. Government will make good the revenue lost by local authorities.

105. We are amending the Non-citizens (Employment Restriction) regulation 1973 so that a business visa can be extended to international artists instead of them applying for work permits.

## **REVIEW OF IRS SCHEME**

106. IRS promoters take risks upfront in the expectation of securing a reward down the road. However, the risks are very real as competition for luxury villas has also gone global, like most of our other exports.

107. Our taxation policy, therefore, has to be responsible to keep the sector competitive. At the same time, the benefits from the sector need to accrue to society as a whole. In this time of national restructuring and with a need to demonstrate solidarity, we are introducing regulations that should create a win-win partnership.

108. The new IRS regulations should produce significant financing that will be channelled directly from the promoter into social programmes. The rules require the following:

- (i) a social contribution of US\$ 6,000 per residential unit;
- (ii) contributions will be credited to a special account, jointly managed by the promoters and BOI;
- (iii) the contributions may be in the form of training facilities, social amenities, community development and cash to fund social projects;
- (iv) the social plan of the promoter will have to be approved by the BOI that will monitor the implementation to ensure maximum impact on inclusive development;
- (v) special efforts will be made to encourage outsourcing with local SMEs;
- (vi) IRS companies will be required to submit a progress report every semester to BOI on achievements in relation to their undertaking;
- (vii) to ensure that the purchase of IRS brings full benefits to the country in terms of financial flows, the IRS buyer will be allowed to borrow only in foreign currency;
- (viii) the IRS companies will be allowed to construct other types of residential property, besides villas;
- (ix) they will be allowed to sell non-residential components, including spa, restaurant, golf course and commercial space;
- (x) payments will be allowed in Euro and British Pound as well as US dollars;

- (xi) a company, trust or société acquiring an IRS property will be able to nominate one person to be eligible for residence permit.

109. The emphasis of these rules is on uplifting the communities where the IRS is implanted by developing close relations between the locality, the residents and the promoters. We have designed social obligations to achieve this. To maximise the impact of the actions of the promoters, the Empowerment Programme will join forces with them.

110. One particular area of focus will be to provide support to develop outsourcing with local fishermen, planters and micro-enterprises. We will ensure that a substantial part of the contributions will focus on creating opportunities for women, for youth and the long term unemployed.

111. A Committee comprising the promoters, BOI and the Empowerment Programme will be set up to oversee the use of funds devoted to social development and to ensure that the activities being promoted are in line with the region's social needs and priorities. Government will also encourage the meeting of social obligations by outsourcing from NGOs helping the handicapped produce artisanal products.

## **CONSOLIDATING PUBLIC FINANCE**

112. Mr Speaker, Sir, there is a deficit bias in our system.

113. In 2006/07 more than a quarter of recurrent expenditure has gone to service public debt with interest payments alone accounting for almost 19 percent. In addition, social spending on entitlement programmes such as pensions, social aid and other transfers accounts for 22 percent of recurrent spending. Wages and salaries take up 25 percent and transfers to parastatals, local governments and administrative bodies account for 18 percent. This leaves only 8 percent to finance the operating costs of Government.

114. Notwithstanding such constraints, our spending on health and education accounts for almost a quarter of recurrent expenditure. It is important to ensure that such large amounts of spending can be sustained and do actually deliver the expected results.

115. We are consolidating the reform of the budgetary process both to link spending more closely with results and to gradually create fiscal space to privilege development and public infrastructure over public consumption.

116. While these efforts will take several years to deliver the full results, we are already seeing an early harvest from our efforts to control spending. We have also begun to secure some savings from the control measures put in place, including the setting up of audit committees in ten Ministries.

117. Analysis by my Ministry confirms that these collective efforts have generated savings in the capital budget from a needs assessment of capital projects, a review of effectiveness of design, control of variations and monitoring of project implementation.

118. We are building on these early results to assist ministries to take ownership of their projects and to appoint, on a contract basis, a project manager for each one of the large projects. In this connection, my Ministry in collaboration with the Ministry of Public Infrastructure (MPI) and the Audit Monitoring Committee is developing a Capital Budget Process Manual. It will be a step-by-step guide to all implementing agencies for ensuring effective management of projects and clearly specify the role of MPI, MOFED and the line ministries in ensuring that capital projects are implemented on time and within budget.

119. As regards control over other recurrent expenditure, in line with our objectives set out in the last Budget, Government has managed to reduce expenditure on some expenses. For instance, overtime expenses and telephone charges paid by all ministries have come down in 2006/2007 compared with the previous financial year. However, as reducing overtime is a complex exercise, other avenues such as review of work methods and elimination of overlapping and duplication will need to be explored in consultation with staff and relevant stakeholders.

120. The 2007/08 budget proposes to improve the expenditure mix, despite a large increase in interest payments to reach Rs 12 billion. Spending on public infrastructure will increase for the first time in many years.

121. This year, we have extended the Medium Term Expenditure Framework (MTEF) to the whole budget. We are providing an indicative MTEF budget for the period 2007/08 to 2009/10 that sets the stage for a full movement to Programme Based Budgeting (PBB) in 2008/09. The PBB focuses on the outcomes to be achieved over the medium term and the outputs (the goods and services produced by Government) to achieve the outcomes. The inputs in the traditional line item budget will be closely linked to the outputs via performance indicators that ensure spending is effective and efficient.

## **DEBT MANAGEMENT**

122. Mr Speaker, Sir, while we are making good progress to contain expenditure and focus on priorities, debt remains one of the most worrying aspects of public finances. In 2000 central government debt amounted to Rs 57 billion, yet in 2005 when this Government took office, it had risen sharply to Rs 105 billion. On average about Rs 10 billion a year has been added

to our debt stock during the period 2001-2005. This enormous debt that we have inherited is severely constricting our fiscal space.

123. Debt must be put on a downward track. And the huge stock of debt that will be with us for a number of years must be managed efficiently.

124. Mr Speaker, Sir, public debt is not the only liability of Government. The debt of parastatals and other public sector bodies are our contingent liabilities, but are not fully captured in the current definition of public debt. In line with international practice, we are broadening the current definition to include the domestic debt of parastatal bodies that are guaranteed by Government and the domestic debt of parastatal bodies that receive financing through our budget.

125. On the other hand, the Consolidated Sinking Fund will be abolished with effect from 1st July 2007. Every year, Government contributes a percentage of its domestic debt issues with maturity of 5 years and longer to this Fund as a guarantee of its ability to meet its debt liabilities. With capital markets, such guarantees are not necessary anymore.

126. By closing the Consolidated Sinking Fund we will be able to cancel about Rs 6 billion of Government securities in which the Fund has invested, reducing total Central Government debt by an equivalent amount; however the level of public sector debt will rise with the inclusion of the domestic debt of public corporations of almost Rs 10 billion. Overall, according to the new definition, public sector debt is higher by Rs 4 billion at June 2007.

127. Using the previous definition of debt, public sector debt has gone down from 66 percent of GDP in June 2005 to 61 percent of GDP in June 2007. This reduction is similar to that registered in the new series. According to the new series, debt has fallen from almost 70 percent in June 2005 to less than 63 percent in June 2007.

128. Government will publish public sector debt data under both systems, including the five preceding years, so as to ensure transparency on the changes being made and to allow for consistency in the analysis of debt trends.

129. We are taking a number of steps to further reduce the debt burden to the EU benchmark of 60 percent in the medium term and improve debt management, including reviewing the mix of borrowing and lengthening the maturity.

130. To stimulate the development of the secondary market for government securities, as from 1 July 2007, retail issues of treasury bills and treasury notes will be traded directly to the public by the Bank of Mauritius.

## UPHAULING THE PARASTATAL SECTOR

131. Mr Speaker, Sir, it is not only the Government Budget that needs consolidation. We will also reengineer our parastatal sector to improve performance and reduce contingent liabilities.

132. Mr Speaker, Sir, we should not stand on the shoulders of our children. As a responsible Government, we want to be fair to present as well as to future generations. And so to clean the slate, we have paid for these contingent liabilities.

133. In 2005/06 and 2006/07, within the limited fiscal space available to us before we had relaunched growth and cut waste, we paid out Rs 3 billion to get rid of the skeletons left in the cupboard.

134. Mr Speaker, Sir, it would be an irony that Government pushes its efforts to the limit to narrow its deficit only to find out that these efforts are completely nullified by the need to bail out parastatal bodies. Such a risk is indeed high for there are more than 150 parastatal bodies. Moreover, these parastatals transact in billions of rupees every year, employ a significant share of public sector human resources and have a significant weight in GDP. It is therefore important that we strengthen that sector. In fact, Mr Speaker, Sir, we must align the management of our parastatals with our policy to eliminate waste in Government, to focus on output and outcomes rather than on inputs, and bring them in line with the new exigencies of our economy and society.

135. Therefore Mr Speaker, Sir, we will this year start a programme that will reengineer the parastatal sector:

- First, key performance indicators will be set including general indicators for all parastatals on financial performance
- Second, where it is deemed to be viable, public sector monopolies will be liberalized so as to increase competition. This has worked in the telecommunications sector. Consumers have been the biggest winners. It should give positive results in other sectors as well.
- Third, where possible, parastatals will outsource some activities, in particular to small and medium enterprises
- Fourth, where the need is identified, Government will support rationalizations and mergers and ensure that all resources of parastatals are productively employed

- Fifth, we will review the role and functions of those parastatals where there is still a business case for ongoing operations but no longer a need for government intervention.

136. To kick off that programme three working groups have been set up, one each for agriculture/agro-industry; public utilities, and commerce and industry. The programme will be implemented over the next five years.

## **OTHER MEASURES TO PURSUE REFORM**

### **SMES AS THE VEHICLE OF LONG TERM EMPLOYMENT**

137. To create employment opportunities for women and youth who need them the most, we will accelerate the momentum in the development of the SME sector. During the year, we have implemented a full range of measures and policies to promote entrepreneurship and the SME sector. The impact has been very positive. In the past twelve months, some 21,000 persons have called at SEHDA for information, around 5,400 SMEs have registered and 826 have been set up creating some 2,000 jobs. This trend confirms our conviction that the SME sector can be an effective vehicle for longer term job creation, for broadening the circle of opportunities, for poverty reduction and for lifting the economic, financial and social status of the unemployed and the working poor.

138. Thus, our policies are paying dividends on several fronts.

139. Mr Speaker, Sir, we must build on this success and continue to cultivate a business climate where these entrepreneurs can harness the power of their imagination and creativity to operate competitively and confidently look beyond our shores for markets.

140. Towards this end we are:

- First, increasing the maximum loan on the Booster loan from Rs 50,000 to Rs 75,000 so as to increase the number of projects that this scheme can finance.
- Second, we are extending its reach to cover existing SMEs as well and not only start ups.
- Third, the ceiling for the Quasi Equity Scheme is being raised from Rs 300,000 to Rs 400,000.
- Fourth, Mr Speaker, Sir, registration charges on loans contracted at the DBM for amounts up to Rs 50,000 used to require a payment of up to Rs 2,900. Henceforth, the payment will be Rs 550 for ALL DBM loans up to Rs 75,000.

- Fifth, businesses will be able to register by connecting to the central database of the Registrar of Businesses from the 9 local authorities and the 35 Citizen Advice Bureaus.
- Sixth, the SME Partnership Fund has constituted a pool of consultants to advise SMEs on their business plan. The service of these consultants will be extended to closely follow up and mentor SMEs. The cost of that extra support will be met by the Empowerment Programme with a contribution from the SME on successfully paying off its obligations.
- Seventh, as we develop the knowledge hub, and with more tertiary education institutions being set up in Mauritius, Government will encourage the setting up of University-SME Partnership Programme. The universities can establish consultancy arms to provide managerial, financial and technical advice to SMEs on demand.

## **EMPOWERING THE NATION THROUGH THE TRANSITION**

141. A critical component of our march towards full employment is to continue empowering our people. Our aim is clear. We want a transition to global competitiveness but every one of our citizens must know that Government will stand by them if they make the efforts to climb the social ladder. Last year we walked the talk by setting up an Empowerment Programme supported by an envelope of Rs 5 billion over five years.

142. It is an ambitious agenda. And we must be candid about it. One year is too short a period for such a programme to gain its cruising speed. However, it has made good progress and there are strong and clear indications that we have set the right objectives, formulated the right strategy and targeted the right segments of the population.

143. As we go forward, we are continuing to broaden and deepen the programme. We are adding activities related to agri-business and geared to the handicapped. We are also, extending training and reskilling to focus on women, youth and the low skilled long term unemployed, usually with little education.

144. As a result of these efforts, we expect spending on programmes to support Empowerment of our citizens to rise from less than Rs 700 million in 2005/06 to almost Rs 2 billion in 2007/08. The Empowerment Programme accounts for just over one third of the total with an appropriation of Rs 750.

145. A solid network of institutions and organizations has been created to support the programme. This congregating of organizations and institutions around that national endeavour is testimony of the kind of support, enthusiasm,

and conviction that this programme has generated. That network will grow and will further build on the inspiring outcomes that their efforts have delivered this year.

146. Let me list a few of them.

454 unskilled unemployed have been placed as trainees in 20 companies/organisations;

74 employers have requested a total of 3,600 trainees;

8 hotels in the north are participating in a pilot placement with training programme for 83 trainees;

170 trainees among skilled unemployed have been placed in 35 companies;

111 employers have requested for a total of 994 degree and diploma holders as trainees.

147. The job fair which was held in April was a success with some 24,000 visitors. 25 employers at the fair have registered a total of 23,000 applications. They have already placed 635 unemployed and job seekers. They expect to fill 2,300 jobs between now and next December. This success will now be replicated on a regional basis.

148. For the SMEs, 7 projects are being implemented to improve sourcing and marketing skills, to build capacity in product development and design, to develop colonial style furniture, to manufacture tourist oriented souvenir products, to promote product and market development in the jewellery sector, and to develop export potential. A total of Rs 52.5 million have been earmarked to support these projects.

149. Mr Speaker, Sir, there are 200 families, including 76 ex-squatters of Camp Levieux, who are living in dire poverty and who require immediate assistance. I am pleased to announce that we are giving assistance to each one these families to purchase a housing unit. This assistance is being provided under the Integrated Social Development Project (ISDP) run by the Empowerment Programme. The ISDP is a new activity in addition to the 7 critical activities announced last year. It is a good example of both deepening and broadening of the Programme. In addition to housing, the ISDP will provide these needy fellow citizens with the means to help themselves. It will provide training and employment opportunities, support them with the education of their children and constantly follow up on their progress by social workers and facilitators.

150. Mr Speaker, Sir, Rs 100 million has been earmarked to support this endeavour.

- ❖ In addition, Mr Speaker, Sir, the Empowerment Programme has been allocated Rs 275 million for Training and Reskilling;
- ❖ Rs 125 million have been provided for Tourist Villages;
- ❖ Rs 50 million will go to Agri-business networks and other new initiatives;
- ❖ Rs 50 million for Land and Serviced sites for social housing; and
- ❖ Rs 100 million for SME schemes.

151. Mr Speaker, Sir, we have done our part by mobilising the resources. We now look to NGOs and social organisations to come up with proposals on how to access these funds to develop programmes for women and the long term unemployed.

152. In all more than 25,000 men and women have been involved somehow in the Empowerment Programme; more than a hundred employers are participating, more than 2,000 persons have found either employment or training placements.

153. Mr Speaker, Sir, there are many sides to inclusive development. One is to ensure that the benefits of an activity flow downstream to the greatest number of men, women and families. This is the focus of the measures I have just announced. A second one is to secure the direct participation of our citizens upstream as investors, entrepreneurs or promoters. This is what our next measure seeks to achieve. The IRS as it is now enables only big land owners and very high net worth individuals to participate. We are extending the IRS scheme so that small landowners can participate.

154. Under this new extended scheme a project should be on less than 10 Ha and satisfy the following requirements. The small land owner:

- (i) should possess freehold land not exceeding 10 Ha that he has held for at least 5 consecutive years.
- (ii) should hold in aggregate not more than 10 Ha.
- (iii) could group his land with other qualifying landowners for a project.
- (iv) could give the responsibility for development to a company in which the small landowners will have an important equity stake.

155. In addition,

- (i) there will be no minimum selling price for the residential units;
- (ii) purchase by foreigners of property on such developments will NOT per se entitle them to residence or occupational permits. However, foreign purchasers can qualify for residence or occupational permits under other schemes.

156. To facilitate such developments, Government will exempt all projects from the Morcellement Act and the Morcellement Tax.

## **WOMEN AND YOUTH**

157. Mr Speaker, Sir, the problem of high unemployment is still with us. But I also spoke of full employment being within reach. Let me explain. Behind this simple figure lies a multifaceted reality with some reassuring trends as well as worrying facts.

First, the reassuring trends.

Job creation in 2006 was 8,700 compared to 3,400 in 2005. That is a 155 percent increase.

Data on registered unemployed show a continuous decrease from 30,700 in January 2006 to 25,800 in December same year.

Male unemployment is a mere 5.5 percent, which is around frictional unemployment and therefore close to full employment.

The rate of vacancies is very high. This explains why it is difficult to find takers for jobs created in activities where mostly male labour is required. For example, for an on-the-job training for construction advertised by the IVTB requiring 600 workers only 55 applied. That is a response rate of less than 10 percent.

Now the worrying facts.

The female unemployment rate is 15.5 percent.

Among both men and women, the youth bear the brunt of unemployment.

And, a high percentage of those without a job, especially the long term unemployed, have a low level of education and skills.

158. Notwithstanding these hard facts, we are confident that full employment is achievable. The strengthening of our economic fundamentals leads us to project a further acceleration in job creation in the coming years. We are expecting a strong wave of job creation in IRS, construction, tourism, textile

and clothing, seafood, medical and other emerging sectors. For example, Tianli will create some 2,500 direct jobs and a total of 7,500 jobs. There is greater optimism on our goal of 2 million visitors by 2015. For the three year period 2007-2009, AHRIM is expecting 4,480 additional rooms, creating a total of 11,200 direct jobs and 22,400 indirect jobs for a total of 33,600 jobs. At La Tour Koenig, some Rs 8 billion will be invested creating 12,000 jobs. Our project for developing a new city at Highlands will create a new Growth Pole. The SME sector is growing at a rapid pace taking many retrenched workers out of the list of unemployed and placing them in the ranks of new entrepreneurs.

159. Such confluence of opportunities gives us strong confidence that full employment is within reach. But as we take our economy to this new height we must first deal with today's unemployment problem at its roots.

### **CREATING OPPORTUNITIES FOR WOMEN**

160. We must create more opportunities for women and open greater space on the labour market for them. The higher female unemployment rate is a gender gap that we must urgently close, because it will worsen income disparities and create other gender inequalities. But to do so, Mr Speaker Sir, we must bring a revolution in our thinking on the role of women in the economy. We must revisit our production processes and employment policies to clean them of any gender bias. We must break the cultural barriers that keep women from taking jobs their sisters do overseas such as electricians, plumbers, tile layers, drivers, painters, metal working and gardeners. Employers also must end any prejudice against employing women in these activities.

161. To achieve this revolution we must first provide adequate possibilities for training women in those occupations that traditionally have gone to men only. That is why Mr Speaker, Sir, the Empowerment Programme with the support of the IVTB and the association of construction companies is launching a training programme for 1,000 women to learn the various trades in the construction sector. This will redefine our approach to development with equal opportunities for women to enter the world of work in any field they desire.

162. At the same time we will step up our efforts to open doors for women in more traditional activity. Women will be trained and grouped to develop networks to produce handicrafts, candles, embroidered products and handbags that can be sold to the IRS and tourists in the neighbourhood.

163. A dedicated Project Management Unit for the Special Programme for Unemployed/Retrenched Women has been set up with the assistance of the UNDP.

164. 500 women will participate in a capacity building training programme at IVTB, 125 in garment making, 125 in basic housekeeping operations, 125 in basic pastry operations, and 125 in basic food production. Of these 500 women 200 are retrenched from the textile industry.

165. 42 women in Mauritius prisons will be trained shortly by Association Kinouété.

166. 24 women will be trained for Chemin Sud Multipurpose Cooperative Society.

167. The National Women Entrepreneur Council in collaboration with the Empowerment Programme will carry out capacity building programme for women.

168. Mr Speaker, Sir, the Empowerment Programme has Rs 50 million for assisting unemployed women.

169. To foster entrepreneurship, Government will provide direct assistance, including financial support, management and technical advice to two business incubators for women at Phoenix and Triolet.

170. Government will reserve space for women in the Villages Touristiques, starting with the one at Belle Mare which is in the pipeline.

171. Trading houses will be set up in the tourist villages to facilitate marketing of products of women entrepreneurs and outsourcing of materials.

172. To make life easier for women, I am pleased to announce the removal of all duties on microwave ovens; ovens, cookers, grillers; dishwashers; kitchen hoods; coffee and tea makers; toasters and sandwich makers; other electro-thermic appliances such as food and plate warmers, electrical saucepans and yoghurt makers; and household electrical appliances such as hair dryers, hair clippers and hair-dressing apparatus.

## **GETTING OUR YOUTH PREPARED**

173. The second pillar of our rally to deal with the problem of unemployment at its roots concerns the youth.

174. We are partnering with a wide network of NGOs to address the problem of long term unemployment, especially among the young with low education and skills levels. Following discussions with social workers, facilitators and NGOs who are on the frontlines everyday, we have reached a consensus on the way forward.

175. Many of these young feel excluded and discouraged. Some of them are caught up in some serious social ills.

176. They need to be motivated to come out of this state of mind. Many of them need to acquire minimum literacy to go on training and reskilling programmes.

177. I have been told several times that it is not only a tough but an impossible task. However, such statements only add to my conviction that we must act decisively. As a society we cannot give up. Instead we must harness our collective energy and resources to meet our responsibility. These young men and women must be brought back into the mainstream. They must be given a second chance. And this second chance must happen now.

178. We already have an established partnership to train and place workers using the Empowerment Programme. We will leverage that partnership to bring the low skilled and long term unemployed into this system. An information campaign will be launched to reach out to these young people and motivate them. We will use the resources of the Empowerment Programme to sustain and nurture a network of facilitators to assist them.

179. The Empowerment Programme will partner with NGOs, private companies with strong Corporate Social Responsibility programmes and promoters of IRS to train and place the unemployed youth and long term unemployed or give them the necessary support to start a business. This partnership can create the necessary synergy to overcome the traditional barriers that have prevented these persons from becoming employable.

180. We must assist potential secondary school drop-outs who feel more inclined to non-academic training by giving them an opportunity for exposure to the world of work. The Human Resources Development Council (HRDC) in collaboration with the Ministry of Education & Human Resources will implement short period placements of around 2 to 3 weeks during school vacations. We are making funding available for placement of 5,000 under this programme.

181. Let me also announce to the young people of our country that Government, through the Empowerment Programme and in partnership with key players in the ICT industry will train and organize placements for some 5,000 SC and HSC holders for the ICT/BPO and Call Centre operations. This is an outstanding example of public private sector cooperation to address national issues.

## SOLIDARITY

182. Mr Speaker, Sir, last year I indicated to the House that we needed to rethink our social protection priorities so that we can increase support to those who need it most. I am pleased to share with the house that after only one year we are already in a position to share the benefits coming from the results of implementation of our reform programme. By cutting waste and controlling spending and by regenerating growth in the economy we have created some fiscal space to begin to focus more strongly on our neediest citizens.

183. Whilst Government will certainly do its share and we are committed to use our growing fiscal space to help the neediest, I am calling today for a new model. I would like to invite the private sector to forge a partnership with Government and NGOs to expand the reach and effectiveness of a national effort to assist those who cannot help themselves.

184. Most companies, though sensitive to the issue of Corporate Social Responsibility (CSR) do not have structured programmes of support. With the exception of a few companies, CSR is being carried out on an “ad hoc” basis and the areas for support are education and training, protection of the environment, sports and “cultural activities”.

185. Last year’s lowering of corporate tax has increased the after tax profit of many companies. While we will remain committed to moving to the single rate and low tax regime, it is our conviction that there should be a concrete show of solidarity with the weak, the vulnerable and the poor. To this end, a number of firms in the corporate sector have agreed to voluntarily contribute at least 1 percent of their profits to CSR activities run by them. I make an appeal to companies that can afford it to contribute more. Where they so desire, the impact of their actions can be magnified by the Empowerment Programme.

186. Government will also broaden its actions to more effectively reach the neediest.

187. I am pleased to propose a new initiative under Social Aid to assist the neediest children get a good start in life by encouraging their education.

188. Not everyone in our society can leverage the opportunities provided by free education to improve their conditions. I am especially referring to those children who are facing unfortunate personal circumstances. We must have a compassionate thought for these children. We must help these children use education as the key to a better future. In line with the policy I announced last year to increase support those who need it most, I am proposing several schemes to help needy children in full time education up to secondary level. I am also providing funding for other citizens who need our support including

handicapped and sick children, our ex-servicemen and women and children in distress.

189. First, double the monthly grant to all orphans by providing them with a special education grant of Rs 1,180 monthly.

190. Second, provide a new grant of Rs 300 per month to severely disabled children who are from families receiving social aid;

191. Third, give incontinent children in families receiving social aid a grant of Rs 300 per month.

192. Fourth, make a one off payment of Rs 400 at the start of the school year to all children in families receiving social aid to meet school related expenses.

193. Fifth, the Ministry of Social Security is also launching a programme to provide respite to parents of severely handicapped or sick children who require 24 hour surveillance.

194. Sixth, pay a grant of Rs 300 per month to all bedridden children in families receiving social aid.

195. In all I am allocating an additional Rs 25 million to finance these programmes that will benefit almost 16,000 of our needy compatriots

196. Seventh, I am maintaining the Primary School Supplementary Feeding Project at a cost of Rs 31 million until we find a more equitable way to focus on greater assistance to children who really deserve more.

197. Mr Speaker Sir, I would like to show our gratitude to those who risked their lives to defend the values of democracy and the country. For more than 25 years our Ex-Servicemen have been campaigning for an equalisation of benefits between those who served in wartime and those who served after the war.

198. Previous Ministers of Finance were unwilling to do this, perhaps because of the number of beneficiaries involved and its costs. However, with our policy of focusing assistance on the really needy, I am pleased to commit the required resources.

199. Eighth, I am making provision to honour our commitments to equalise the pension received by all ex-Servicemen. Around 4,000 senior citizens will receive a significantly higher pension from this measure.

200. Ninth, I am removing the discrimination against the widows of peace time ex-servicemen. They currently do not receive any pension. I am pleased to extend to them the same pension as received by widows of war time ex-servicemen. Around 10,000 women will benefit from this new scheme.

201. Tenth, I am providing the same grant for medical care to all ex-servicemen and to widows of ex-servicemen.

202. These new measures for ex-servicemen will require an additional allocation of Rs 13 million per year.

203. Our eleventh measure is to provide Rs 5 million to provide electricity supply to vulnerable group, namely for squatters in line with government policy to regularize some residential squatters settlement.

204. Twelfth, I am allocating another Rs 3 million to cater for hardship cases, where the cost cannot be met by individual customers, for the displacement of CEB existing networks of bare conductors in proximity of buildings to avoid risk of electrocution.

205. Thirteenth, we must have a compassionate thought for women and children who are victims of all forms of abuse and violence. With the various partnerships being created between NGOs, Government, the private sector and the Empowerment Programme some NGOs will be called upon to expand their role and reach out to more needy citizens. Government wants to support some of the NGOs which are deeply committed, especially to helping the women and children who are victims of abuse and violence. I am therefore creating a new item with a vote of Rs 25 million “Women and Children’s Solidarity Programme”. The specificity of the programme is that it must be project-based and involve at least two or three of the social partners. It must be a programme directly targeting the victims themselves but it can have a training component to empower volunteer field workers who will be engaging in grassroots social work. The allocations will be decided by a Committee including the Prime Minister’s Office, the Office of the Ombudsperson for Children, the Ministry of Women’s Rights, Child Development, Family Welfare and Consumer Protection; the Ministry of Social Security, National Solidarity and Senior Citizen Welfare and Reform Institutions; and the Ministry of Finance and Economic Development.

206. Good candidates for such collaboration include organisations that help women and children in distress, reach out to street children; educate the visually and hearing impaired; and assist children with debilitating diseases and serious ailments.

207. Fourteenth, there are many children who are at risk. Unfortunately all children do not get the same start in life. Some of our children are victims of abuse and neglect, others are driven on the wrong path. We must not leave them to their sufferings and anguish. I am providing for the construction of a new shelter for children at Bambous. It is designed to accommodate about 100

children and adolescents and 36 mothers with children who are victims of domestic violence. The project is expected to start in February/March 2008.

208. Fifteenth, we are providing for a residential drop-in-centre at GRNW. It will accommodate 20 Children at any one time and will provide counselling with a view to rehabilitating them and enabling their reinsertion in the mainstream society. The Centre makes provision for separate dormitories for children aged 9 to 14 and adolescents aged between 15 to 18. Apart from the administrative block and utilities, the building will house 6 workshops cum classrooms, a counselling room and dormitories for staff.

209. Sixteenth, too many countries have been complacent about HIV/AIDS until it was too late. We cannot afford to let this happen, especially at a time when we want to transform the country into an international showcase. Our fight against Chikungunya illustrates the effectiveness of a well coordinated national effort. We must combat HIV/AIDS with the same resolve to contain the level of contamination. Our biggest current danger comes from transmission via sharing contaminated needles.

210. To support the campaign against HIV/AIDS and against substance abuse by NGOs, I am providing the Ministry of Health a Vote of Rs 10 million for a new HIV/AIDS and Substance Abuse Programme. This programme will operate on similar demand driven principles as the “Women and Children’s Solidarity Programme”. An inter-ministerial committee will consider applications from NGOs. The two key areas of emphasis will be the development of a Needle Exchange Programme and a Public Awareness, Information and Communication campaign on HIV/AIDS.

211. Seventeenth, this year we have allowed about 20,000 families living as tenants in CHA houses to purchase these residences at a nominal value. We have also, through the “Un Toît Pour Toi” programme of the NHDC allowed another 1,713 families to become homeowners. We have also regularized the situation of 76 families living on state land in St Hilaire for more than 40 years. For next year, I am creating a special programme in the Empowerment Programme to expand the scheme to provide sites for serviced plots by leasing 241 plots in all at Glen Park, Ville Noire and Souillac for a nominal fee of Rs 3,000 per year.

212. Eighteenth, for the past two years, Rs 335 million have been granted to 6,800 families in Mauritius and Rodrigues under the assistance for casting of roof slabs scheme. This year I am increasing the grant under this scheme from Rs 55,000 to Rs 60,000. This will also apply to the construction of a second housing unit built under “droit de surélévation” for another eligible member of the household under the same scheme.

213. Nineteenth, for households earning a monthly income of up to Rs 5,000 receive a grant for the purchase of building materials for a house size of 50 m<sup>2</sup>. I am increasing this grant from Rs 35,000 to Rs 40,000.

214. Twentieth, Basic Retirement Pension and other social aid will increase by 8.7 percent. This is in line with the recommendations of the National Pay Council to award an 8.7 % increase to those in the low income bracket.

215. Twenty first, I am also providing for the construction of a new Centre for the elderly in Belle Mare at a project cost of Rs 80 million.

216. Twenty second, Mr Speaker, Sir, many parents have complained about the poor state of toilets in schools. I have to agree with them that the unhygienic conditions pose a serious threat to the welfare of our children in addition to causing major inconvenience. I am doubling the funds for construction and upgrading of toilets in state schools and primary aided schools across the country and allocating Rs 50 million.

217. The Trust Fund for the Social Integration of Vulnerable Groups has continued in its endeavour to help the most needy and vulnerable of our brothers and sisters. During the past two years,

about 800 families with monthly income of less than Rs 4,000 who would not have been able to secure any housing loans have been provided construction materials for basic but decent and secure housing units;

their children have been provided with school materials and uniforms;

young adults from these families have been trained by IVTB to increase their employability;

the Fund has also organised 44 educational projects with involvement of NGOs; and

242 micro-credit projects have provided an opportunity to families for self employment.

218. The twenty third measure on solidarity, is the provision of Rs 100 million, an increase of 30 percent. This allocation will enable the Trust Fund to continue its effective support to families that otherwise would be left to fend for themselves under very harsh conditions.

## **SOCIAL INFRASTRUCTURE AND SOCIAL DEVELOPMENT**

219. Mr Speaker, Sir, history is a part of who we were, who we are and also who we will be. We must identify, list, preserve and protect, for our future generations, the historical and cultural monuments that are an essential

component of our national heritage. Unfortunately, many of our national and cultural heritage monuments are in a state of decrepitude due to insufficient investment in maintenance. This cannot go on Mr, Speaker, Sir.

220. Efforts are underway to restore the Plaza in Rose Hill and the Cathédrale St Louis in Port Louis. Both are part of the inheritance of the nation. In particular, I have received many appeals from different quarters for Government to contribute to the restoration effort.

221. I strongly feel that this is a deserving cause. We cannot move forward to a bright future while neglecting our past. I have, therefore, decided that it is time to respond. We are, therefore, launching a ten year programme with a project value of Rs 750 million to maintain and rehabilitate listed National Heritage and Cultural Heritage sites. The programme will encourage private donations and public-private partnerships. To kick start this programme, Government has made matching grants of Rs 50 million for the Plaza and Rs 7 million for Cathédrale St Louis. Next year I am providing another Rs 75 million. As the economy rebounds and businesses thrive, I appeal to our private sector to follow our example and join hands with Government in preserving our “patrimoine”.

222. Mr Speaker, Sir, we need to preserve our buildings but we need to go beyond this. As we rehabilitate the Cathedral and the Citadelle in Port Louis we must take steps to make Port Louis a vibrant show case for tourists and a pleasant place to live. The expansion on the Caudan waterfront and High Rise developments set the stage for Port Louis to become a 24-hour city instead of largely closing down in the evening.

223. Keeping the country safe and crime low is an essential condition for the successful opening up of the country to foreign talent, businesses and visitors. We are, therefore, investing Rs 70 million for the installation of a state of the art CCTV street surveillance system. This type of system has proved to be effective in preventing crime. For the same reason, I am providing Rs 25 million for a new integrated police radio system to improve their response time.

224. We will also spend Rs 31 million to complete construction of St Aubin and Flacq Fire Stations and construct a new one at Tamarin.

## **HEALTH**

225. Mr Speaker, Sir, Government will also spend on health care and education as priorities. In this Budget we are giving greater prominence to improving the health care services.

226. The budget for health care is being raised substantially in several areas:

- For the pre-registration training scheme, it will grow from Rs 13.7 million to Rs 44.3 million, an increase of more than 200 percent.
- For apparatuses and supplies for laboratories, it will double to Rs 90 million to ensure that our hospitals have the ability to carry out tests to support an aggressive campaign on Non-communicable Diseases especially diabetes, renal impairment and prostate and breast cancer.
- For surgical dressings, disposables and minor equipment, it is being increased by 28 percent to Rs 232 million.
- For Renal Dialysis Services, it will be higher by 25 % from Rs 75 million to Rs 93 million.
- The grant to the Trust Fund for Specialised Medical Care will increase from Rs 82 million to Rs 102 million.
- Rs 50 million to purchase hi-tech equipment for our hospitals.
- Many of our hospitals need upgrading. Government will invest Rs 171 million for this purpose in our hospitals in Rose Belle, Port Louis, Candos, Flacq and Pamplémousses.

## **EDUCATION**

227. Mr Speaker, Sir, at the very outset of my first budget speech I highlighted the importance of education as a vehicle to shape our growth prospects. This is why we have increased the education budget from Rs 6.9 billion to Rs 7.4 billion.

228. Our vision is to transform Mauritius into a knowledge-based economy. We have, therefore, opened the country to international institutions of learning. Ramachandra Medical School and Eastern are part of the first wave that we plan to attract. Several institutions of high repute have expressed a keen interest to develop a campus in Mauritius. In addition to becoming a hub and attracting foreign students, the entry of tertiary institutions will broaden the opportunities for our children to have access to Tertiary Education.

229. To increase the supply of students who graduate at tertiary level, we must increase the pass rate. To do this, we are increasing support to low performing schools and addressing the problems of high school drop out rates. Moreover, the Zone d'Éducation Prioritaires Schools will be further consolidated in order to reduce disparity between high and low achieving schools.

230. As regard infrastructure facilities, the construction of State Secondary Schools (SSS) around the island is well underway and is nearing completion. This year again government will continue its efforts to invest heavily in the education sector. I am providing an amount of Rs 535 million for the extension of SSS and the construction of a new SSS in Quatre-Bornes. As for teaching staff, some 150 Education officers will be recruited to cope with the additional intake.

## **TAX POLICY AND BUDGET OUTLOOK**

231. Mr Speaker, Sir, last year, I took bold steps to reform our personal and corporate income tax system. Because of its numerous tax breaks and exemptions, the system had become very complex and offered vast opportunities for abuse and tax avoidance. It led to inequity and inefficiency and was biased against small enterprises. It was also hindering the emergence of a fully-integrated and competitive economy.

232. That is why we have overhauled most exemptions, consolidated the numerous deductions into new income exemption thresholds, reduced the number of tax bands; and set out to harmonise the tax rates and lower them significantly.

233. We now have a new system that is much fairer and transparent. I am pleased to report that with the significant increase in the exemption thresholds for all, 36,600 taxpayers, on PAYE, out of a total of 72,000, have been taken out of the tax net. And there are indications that of those who are still in the tax net, the vast majority are paying less than previously.

234. Mr Speaker, Sir, since the scope for tax planning has been severely curtailed and every income-earner is now subject to the same exemption thresholds, the overwhelming number of beneficiaries is clearly those in the lower and middle income groups.

235. We also have a system that is now geared towards rewarding effort and entrepreneurship.

236. Competition is tough to entice investment and we need tax rates that will be attractive internationally. Last year, we reduced the top corporate tax rate to 22.5 percent and passed legislation for the tax rate to be lowered to 20 percent next financial year, and to be reduced further so that by 1st July 2009, i.e., in two years' time, we would have a single corporate tax rate of 15 percent in this country.

237. I have given much thought to this plan of moving in yearly phases to the 15 percent rate. On the one hand, there has been very positive reaction from businesses, foreign investors and the international community to our income tax

reform plan and we are already seeing the results on investment and business development. On the other hand, our tight budget position, though improved during the year, suggests fiscal prudence.

238. I have however considered that the window of opportunity open to us to build robust competitive positions in the global arena is quite narrow. Timeliness is of the essence and we have to act decisively right now to boost investment and growth. I have therefore decided to accelerate the move to a 15 percent corporate tax rate.

239. Mr Speaker, Sir, I have the pleasure to announce that as from 1 July 2007, corporate tax will be at the flat rate of 15 percent. This will be two years earlier than planned.

### **SPECIAL LEVY ON BANKS**

240. Mr Speaker, Sir, as we reduce corporate tax, companies will retain more resources for reinvestment or investment in new ventures. In the process, some companies that were paying tax at 25 percent one year ago will realise significant tax savings.

241. The banking sector is known to be especially flourishing and profitable and has the capacity to pay. I am, therefore, introducing a Special Levy on banks. The levy will apply only to profitable banks. Computation of that special levy will be on the basis of turnover and of accounting profits. The rates will be set at 0.5 percent of the turnover and 1.7 percent of the profits made. However, for the first year of application of the levy i.e. in 2007/08 the amount payable will be 30 percent of the formula.

242. This measure is estimated to yield Rs 75 million in 2007/08 and Rs 260 million subsequently. I expect that most banks would still have a relatively lower tax liability even after payment of the levy. Appropriate safeguards will be laid down in the Finance Bill to ensure that this proposal does not unduly affect small banks.

243. I would like to recall that a levy of 0.85 percent of turnover was raised on profitable hotels last year. In addition, the hotel sector has agreed to make a voluntary contribution of Rs 75 million in the next financial year.

244. I wish to mention here that the forthcoming review of the licence fee structure on Global Business will also generate additional revenue to Government.

## **ADVANCE PAYMENT SYSTEM FOR CORPORATE BODIES**

245. Sir, now that we have reduced the corporate tax rate to 15 percent, we need also to move towards standardization of the tax payment period.

246. Presently, for an employee and worker, income tax is payable monthly under the Pay As You Earn (PAYE) system and it is automatically deducted when he receives his monthly salary. Similarly, a self-employed and sole business proprietor is required to effect, under the Current Payment System (CPS) provisional income tax payments quarterly in the same year his income is generated.

247. In both cases, appropriate adjustments for any additional tax liability or tax refund are made the following financial year when they submit their Income Tax Returns by end September.

248. However, if the same business is carried out through a company or corporate body, no payment for income tax is made in the year the profit is generated. The full amount of income tax due in respect of the profits generated in a year is paid only the following year at the time of filing of Returns, either in September or January. As a result, a company is given between 7 and 21 months after it generates profits to pay tax thereon. This is in stark contrast to a maximum period of less than one month allowed for an employee and 3 months for a self-employed.

249. In line with best international practice, I am proposing to introduce a new payment system that will bring the tax payments flow of a company closer to its profits flow. Under the new system, known as the Advance Payment System (APS), companies will be required to effect quarterly provisional tax payment on basis of the chargeable income of the preceding tax return. As in the case under CPS and PAYE, final reconciliation of tax liability will be done when the annual tax return for that year is submitted.

250. I am conscious that there may be an issue of double tax payment in the year of introduction when a company will have in the same year to start making quarterly tax payments as well as settle its tax liability in respect of the preceding year. To reduce cash-flow impact, we will allow payment of the tax due for the previous year to be spread over 3 years, in equal instalments.

251. Moreover, I am giving a one year respite to large taxpayers (i.e. companies with an annual turnover above Rs 100 million) for the coming into operation of the APS, and 2 years notice to smaller companies. Thus, the first quarterly payment will be required from large companies only as from financial year starting 1st July 2008, and for small and medium companies, as from 1st July 2009. Companies will thus have adequate time to prepare themselves for

the change in payment system. The full modalities of the APS will be laid down in the Finance Bill after consultation with stakeholders.

252. Mr Speaker, Sir, the grace period granted, the partial payment facility provided for the earlier year's tax liability, combined with the lowering of the tax rate should ensure a smooth transition to new system.

## **IMPROVING TAX COMPLIANCE AND COLLECTION**

253. We are also introducing this year two special schemes for facilitating settlement of tax disputes and for voluntary disclosure of under-declared or undeclared income. The objectives are two-fold: to collect tax dues for financing public infrastructure and social assistance programmes; and to enable funds to get back into the formal sector so that they can be put to more productive use in the economy.

254. The first Scheme is the Tax Arrears Payment Incentive Scheme (TAPIS). It aims at mopping up outstanding tax arrears and claims under litigation. The second one, the Voluntary Disclosure Incentive Scheme (VDIS) aims at encouraging disclosure of undeclared and under declared income/turnover.

255. The two schemes will have the same main features. They will cover Income Tax as well as VAT. I am exceptionally providing a 75 percent waiver of the penalty/interest element to those joining the scheme, bringing the interest on tax due to only 0.5 percent per month or 6 percent per annum instead of 24 percent per year. Those joining the Scheme will be provided immunity from prosecution under tax laws in respect of the tax so declared and settled. The two Schemes will be open to all taxpayers except those involved in drugs-trafficking, corruption, terrorism activities or money-laundering.

256. The Voluntary Disclosure Incentive Scheme will cover taxes in respect of the year ended 30 June 2006 and four earlier years. However, no question will be asked, nor will any query be made on taxes not paid on interest income derived before 1 July 2006.

257. The two schemes will operate for only 6 months and will be terminated on 31 December 2007. The penalty rebate will be a one-time concession that will not be repeated in future. Any request for waiving of penalty after expiry of the incentive period will not be entertained.

258. The MRA will come up with a comprehensive document on the modalities of the TAPIS and VDIS Schemes. After the six month amnesty window, the MRA will use all the tools and powers provided in law to recoup and uncover any tax due to Government.

## MISCELLANEOUS TAX MEASURES

259. I am proposing to bring through the Finance Bill and by way of Regulations a number of amendments to revenue and related laws to plug identified loopholes, improve tax compliance and administration and streamline certain provisions. I will mention here only the salient ones.

260. First, under Income Tax

Small sugar cane and tobacco growers will be exempted from submission of the quarterly CPS return. To facilitate tax compliance by those growers, MRA will come up with a presumptive method of taxation and the grower may opt for that simplified system of taxation.

Provision will be made for penalty in cases where an employer or a corporate body fails to submit to MRA the annual statement of the tax he has withheld in respect of PAYE and Tax Deduction at Source.

All companies with an annual turnover above Rs 30 million or more than 50 employees will be required to submit their income tax and VAT returns electronically.

Regarding Customs, Mauritius proposes to accede to the Revised Kyoto Convention on the Harmonization and Simplification of Customs Procedures. In this context, certain provisions of our Customs legislation will be amended to comply with new international standards on trade facilitation.

261. Furthermore, it is proposed to strengthen the powers of MRA officers at Customs in relation to entry of illegal drugs through the parcel post office.

262. Last year, I reduced the rate of registration duty on transfer of immovable property from 10 percent to 5 percent but no corresponding adjustment was made concerning lease of immovable property. This anomaly is being remedied. The rate of duty on such leases is being reduced to 1.25 percent of the rental value for the first ten years.

263. Transfer or lease of movable property will henceforth be subject to a fixed registration duty ranging from Rs 200 to Rs 200,000 instead of proportionate duty of 4 or 5 percent.

264. I am abolishing the duty leviable upon cancellation of a lease agreement.

265. At the same time, I am also introducing a time limit for registration of lease agreements

266. Purchase or lease of immovable property for the purpose of setting up or extending an educational or health institution will be exempted from registration duty.

267. Tax on the transfer of leasehold rights in State lands will no longer be applicable on the transfer of NHDC houses.

### **NATIONAL RESIDENTIAL PROPERTY TAX**

268. Mr Speaker Sir, I have stated earlier that Government pledges to stay sensitive to the voice of our population. I want to redeem that pledge in the case of the NRPT. We have listened to the concerns of the population. A committee of experts have revisited the incidence of that tax and the complexities in its application and we have weighed all these with the need to strike fairness in our tax system. We have thus made the following amendments:

First, NRPT will not apply on unbuilt or bare land.

Second, the NRPT will apply for taxpayers with a total income exceeding Rs 385,000 instead of Rs 215,000.

Third, the tax will be capped at 5 percent of total income inclusive of exempt income.

269. These arrangements are transitional until the valuation roll is ready.

270. It is estimated that with these changes the NRPT will yield around Rs 60 million.

271. Mr Speaker, Sir, to show our commitment to use these funds for social development, the totality of the revenue generated from the tax will be credited to the National Development Unit for infrastructure development. I have created a special item in the NDU Budget to receive these funds.

272. The projects to be financed will be undertaken jointly with local authorities and the private sector and may be implemented in the coming years. We are targeting market fairs in Rose Belle, Quatre Bornes, Centre de Flacq, Curepipe, Rose Hill and Riviere des Anguilles, a mini waterfront at GRSE estuary and a fish marketing facility in Grand Baie.

273. Appropriate amendments will be brought to reflect the changes.

274. The first payment of the National Residential Property Tax (NRPT) will be based on the amended provisions.

### **PERSONAL INCOME TAX**

275. Mr Speaker, Sir, I have one last measure concerning taxation.

276. Throughout this Budget I have shown the solidarity of this Government not only with those who cannot help themselves but equally with those who help themselves. Government wants to reward all who make efforts.

277. Last year I lowered the top marginal rate from 30 percent to 22.5 percent, a reduction of 25 percent. I also reduced the number of tax bands from 4 to 2. I widened the tax band to Rs 500,000. I also considerably raised the income exemption threshold to up to Rs 425,000. These four measures have resulted in removing more than half of taxpayers from the tax net and lowered the tax burden on the vast majority of tax payers.

278. Mr Speaker, Sir, we want to continue to reward effort, hard work and enterprise. I am very pleased to announce that I am eliminating the top rate of 22.5 percent.

279. This means that from 1 July 2007 all individual tax payers will face a flat rate of 15 percent.

280. We have, therefore, brought the reduction in tax rate forward by two years.

281. Mr Speaker, Sir, in just one year I have halved the top personal income tax rate from 30 percent to 15 percent.

## **BUDGET OUTLOOK**

282. I shall now sum up the Budget Estimates for 2007/08 and indicate the fiscal outlook.

283. The single most important factor determining next year's expenditure estimates is an expected 28 percent increase in interest payments. We have had to make provision for Rs 12 billion next year to meet this obligation.

284. In spite of this, we expect to contain current expenditure next year to Rs 50.5 billion or 20.3 percent of GDP, a 0.2 percentage point decrease.

285. This adjustment effort in current spending will enable us to channel much higher levels of resources to investment in economic and social infrastructure. Next year's Capital Estimates will, for the first time ever, exceed Rs 10 billion, representing a 22 percent increase over last year. Taking into account net lending, capital expenditure will be Rs 9.6 billion.

286. Total expenditure will thus be Rs 60.1 billion, or 24.2 percent of GDP.

287. On the revenue side, duties and taxes will bring in next year Rs 42.6 billion while non-tax recurrent revenue will be Rs 5 billion. Total recurrent revenue will thus amount to Rs 47.6 billion or 19.1 percent of GDP, showing a decrease of 0.5 percentage points over this year.

288. However, we expect an inflow of foreign grants totalling Rs 2.9 billion, representing 1.2 percent of GDP, to compensate this fall in domestic revenue. This will bring total revenue and grants to Rs 50.5 billion i.e., 20.3 percent in GDP terms.

289. I must here indicate that 95 percent of the grant money will come from the EU and that disbursement is subject to fulfilment of commitments taken in regard to pursuit of the economic restructuring programme and continued fiscal consolidation.

290. The overall deficit will thus be contained to Rs 9.6 billion, equivalent to 3.8 percent of GDP compared to 4.3 percent of GDP in 2006/07 and 5.3 percent of GDP in 2005/06.

291. Mr Speaker, Sir, before concluding I am going to announce two measures that I hold very close to my heart.

292. When introducing the legislation to protect borrowers, I had to face a cruel irony. The very people who have fought for the introduction of the law will not benefit from it because of legal and constitutional constraints. Future potential victims will be protected but, unfortunately, not past ones.

293. I was extremely disappointed not to find a legal solution.

294. Many families have been left destitute after losing their only residence through the sale by levy process. We feel it is the moral obligation of society to show compassion and greater solidarity to alleviate the suffering of these deserving families.

295. Mr Speaker, Sir, I am very pleased to announce the setting up of a Sale by Levy Solidarity Fund that will help deserving families who have lost their only residence. The Fund will make a contribution to help these families acquire a house by making a grant on a case to case basis. Financing will be made available from the National Solidarity Fund with a topping up from the Budget. This will be a closed end fund with a maximum amount of Rs 100 million.

296. Only cases reported before 31st December 2006 will be eligible for consideration. The Ministry of Social Security, the Attorney General's Office and the Ministry of Finance shall jointly examine eligible cases.

## **EQUITY FOR SMALL PLANTERS**

297. Mr Speaker, Sir, in 1994, as Minister of Finance, I negotiated and signed a landmark agreement with the sugar industry. This historic agreement for the first time made small sugar cane planters and employees owners of sugar milling companies to the tune of 20 percent of the capital.

298. I structured the deal with a combination of loans and grants to make it affordable to planters and employees to become shareholders. Many had doubts about that vision. Thirteen years later, most people have rallied to the concept of broadening share ownership and creating a partnership amongst stakeholders of the industry.

299. Today under the leadership of the Prime Minister, I am again given the opportunity to participate in negotiations to increase and broaden the direct ownership of small planters and workers in a restructured and globally competitive sugar cane sector.

300. We have not yet finalized this new partnership but we need to think how best to finance such an acquisition of shares by planters and workers. Part of the investment will be made by the prospective shareholders.

301. Mr Speaker, Sir, after discussion with the Prime Minister, I am pleased to announce that Government will offer support to small planters and workers through two channels.

302. First, we shall provide a loan to planters and workers that would be refunded from future dividends. Of course this requires that the activities and investments are both profitable and sustainable.

303. Second, we shall give a one off grant to small planters and employees to allow them to invest in all the activities of the sugar cane sector.

304. Mr Speaker, Sir, we do not have the exact quantum of the investment required overall nor how the investment will be spread over the years. However, to show our determination to move the country to this new partnership, I am creating an item in the Budget with a project value of Rs 300 m and an initial allocation of Rs 50 m in 2007/08. This fund will allow us to finance both the grants and the loans.

305. Mr Speaker, Sir, before concluding, I would like to express my appreciation to all those who have helped in the preparation of this budget, in particular the Non- governmental organizations and various organizations and professional groups that presented expert briefs and to citizens who have made suggestions. I would like also to thank my colleague Ministers and fellow parliamentarians who have provided their advice and insights.

306. As usual, the Prime Minister has given me very useful support and guidance in the preparation of this Budget, and I would like to express my sincere gratitude to him. Finally, let me thank the staff of my Ministry who have worked hard in view of the movement to Programme Budgeting.

## **CONCLUSION**

307. Mr Speaker, Sir, let me remind the nation once again where we started and where we are going.

308. We have moved the nation from decline to the beginning of a promising recovery. By maintaining course and completing the work we have started we will put the country back on the road to prosperity.

309. Last year we took a commitment to put the economy back on the right track and to restore public finances. We pledged to empower more people. We also promised to share the gains from recovery with all the population, especially the weakest. Mr Speaker, Sir, with this Budget we have created the conditions for sustainable growth and full employment, we have empowered a growing number of our people, we have displayed compassion and solidarity for the neediest and all this while also putting the public finances back on the right track. We are taming the twin beasts of budget deficit and public debt to create fiscal space for development. For the first time in many years, both are coming down as a share of GDP while capital expenditure has soared.

310. Mr Speaker, Sir, no sustainable reduction in poverty can be achieved without strong job creation. This is why this Budget is about creating the conditions for robust, sustained and inclusive growth whilst laying the foundations for reaching full employment in the medium term.

311. But this Budget is also, as Amartya Sen would put it, about enhancing and expanding human capabilities and giving everybody the possibility of being a respected participant in society. And it equally bolsters the spirit of solidarity with the poor, the vulnerable and the weak.

312. Mr Speaker, Sir, last year we braced ourselves to face the confluence of threats coming from everywhere. We have done it. Today we are harnessing the waves of opportunities. They are many. The future looks bright. But not if we stand still and wait. We must push forward. In nation building there are no roads without hurdles. We must continue our journey, push to new frontiers and open new horizons for our children. This Budget will take us to these goals.

313. Mr Speaker, Sir, I now commend the Bill to the House.