OECD

WORLD TRADE ORGANIZATION

PARTNER COUNTRY QUESTIONNAIRE ON AID FOR TRADE

- We advise you to read the Explanatory Notes starting on page 10 before answering the questionnaire.
- When completed, this form should be returned by 20 February 2009 via e-mail to aft.monitoring@oecd.org and aft.monitoring@wto.org.
- The questionnaire can be downloaded from the OECD website at http://www.oecd.org/dac/trade/aft or from the WTO Members' website at http://members.wto.org/members/.
- All the boxes in this form are expandable.

1 IS YOUR TRADE STRATEGY MAINSTREAMED?

Q1.1 Does your country have a national development plan or strategy*?*

☒ Yes ☐ No

If YES, does this development plan include trade as a lever for growth and poverty reduction? *(please tick the most accurate description below)*

☒ Trade is a key priority and the plan includes well developed trade-related priorities and implementation actions *(please attach)*.

☐ Trade is mentioned but the plan does not include operational objectives and action plans.

☐ No.

☐ Other, please describe:

If your Government does NOT have an articulated national development plan or strategy, or if trade is not strongly present in it, are there other separate strategies/plans addressing trade-related objectives? *(feel free to tick more than one box)*

☐ Government priority areas are not systematically subject to a documented strategy.

☐ In the annual government budget.

☐ In various sectoral strategies (e.g. one per relevant ministry, or per sector). Please describe and attach:

☐ In one single trade development/competitiveness strategy document encompassing all trade-related priorities across different government departments (*please attach*).

☐ Other, please describe:

For Least-Developed Countries participating in the Enhanced Integrated Framework (EIF), former Integrated Framework (IF):

Do the Diagnostic Trade Integration Study (DTIS) and Action Matrix reflect your Government trade strategy? *(please tick the most accurate description below)*

☐ The DTIS and accompanying action matrix reflect well my country's trade-related needs and my Government's priorities.

☐ The DTIS and accompanying action matrix partly reflect my Government's analysis of trade needs and priority areas.

☐ The DTIS and accompanying action matrix are not (or are no longer) a good indication of my country's trade-related needs and priorities.

☐ The DTIS and accompanying action matrix are not currently a good indication of my country's trade-related needs/priorities, but they are in the process of being updated.

☐ Other, please describe:

Q1.2 What are your Government's priority areas of intervention to improve your country's capacity to benefit from trade expansion and integration into the world economy?
(Below are listed the most common areas grouped according to broad aid category – please rank the top 3 priority areas among the 12 listed)

Trade Policy and Regulations	**Trade Policy Analysis, Negotiation and Implementation**	***Economic Infrastru-cture***	**Network infrastructure (power, water, telecom)**
	WTO Accession costs		**2 Other transport**
	Trade Facilitation		**Cross-border Infrastructure**
Building Productive Capacity	**1** Competitiveness	***Other***	**3** Adjustment costs
	Value Chains		Regional Integration
	Export Diversification		Other, please describe:

Q1.3 **Does your Government have an operational strategy (with action plans, timelines and budgets) for its priority areas?**

Priority 1: Competitiveness ☒ Yes ☐ Being formulated ☐ No

If Yes or Being formulated, please describe

Priority 2: Other transport ☒ Yes ☐ Being formulated ☐ No

If Yes or Being formulated, please describe

Priority 3: Adjustment costs ☒ Yes ☐ Being formulated ☐ No

If Yes or Being formulated, please describe

Q1.4 **Are the financing needs of these trade-related priorities included in your national dialogue with donors?**

☒ Yes ☐ No ☐ Not sure

If YES, which structures do you use to discuss the financing needs of your trade-related priorities with your donors? *(feel free to tick more than one box)*

☐ PRSP/CAS ☒ Bilateral dialogues ☒ Regional-wide dialogues ☐ Other, please describe:

Please describe the type of dialogue or alternative method, its level, its frequency, and its specificity to trade matters:

Dialogue revolve around stepping up competitiveness of the economy, product and market diversification from agriculture and industry to services and removal of trade and non-trade barriers.

If NO, do you have plans to include trade-related priorities in your dialogue with donors in the next two to three years?

☐ Yes ☐ No ☐ Not sure

- End of Section 1 -

Please feel free to provide additional information about your trade strategy

2 HOW IS YOUR TRADE STRATEGY FINANCED?

Q2.1 Does the attached CRS[1] profile accurately quantify the Aid for Trade you received in 2006 and 2007?

☐ Yes ☐ No ☒ Not sure/ NA

If NO, please provide details of the Aid for Trade you received in 2006 and 2007.
[Please describe with figures, and include any activities that may fall under 'other trade-related needs']

Please see adiitional information below. Donors have classified their interventions according to Recommendations of the AFT TAsk Force. But these are not AFT resources proper. Mauriitus, inspite of having a costed AFT compatible programme endorsed by IFI and other development partners, has not received AFT resources except normal lending instruments that it would have accessed even in the absence of AFT. The international Trade Division has indeed received AFT resources mainly for technical assistance and capacity building.

- End of Section 2 -

Please feel free to provide any additional information on aid-for-trade flows

Our understanding of AFT is that it provides ADDITIONAL resources to support a reform programme of a country where trade liberalisation, voluntary or otherwise, with the rest of the world or within a regional grouping or under a specific initiative such as EPAs is part of the programme.

Mauritius does have a costed AFT-compatible refrom programme that has the support of its development partners within their own intervention instruments which is not AFT. We would have accessed these resources even in the absence of AFT.

The IFIs, EU and AFD are providing us with Development policy loans and grants, as reported in 2007, within their normal programmes to support implmentation of the programme. We do not consider these resources to be AFT resources as understood above.

The CRS relabels ODA into various AFT categories and to the extent that these are not additional or would have been accessed even in the absence of AFT they cannot be considered as AFT resources. This may be true for countries that are eligible for AFT resources pledged by the international Community but it certainly does not

[1] The CRS profile summarises the commitments and disbursements reported by donors to the OECD Creditor Reporting System on the aid categories most closely associated with Aid for Trade as defined by the WTO Task Force, specifically support for trade policy and regulations, trade development, trade-related infrastructure, building productive capacity and trade-related adjustment (available from 2008 only).

apply to Mauriitus.....]

3 HOW DO YOU IMPLEMENT YOUR TRADE STRATEGY?

Ownership

Q3.1 Who is responsible for overseeing and coordinating the implementation of your trade strategies including activities funded by ODA?

- ☐ A national committee is responsible for coordination and implementation.
- ☒ The Trade Department has a coordinating role but implementation is overseen by each relevant department separately.
- ☐ The national aid agency has the main coordinating role but implementation is overseen by each relevant department separately.
- ☐ There is no central coordination department. Each relevant department is separately responsible for implementation.
- ☐ Other, please describe:

If you have (or are in the process of establishing) a national committee, please describe its main functions, its membership (e.g. ministries, private sector), frequency of its meetings and to whom the committee reports. *[Please describe and exemplify below.]*

The main purpose of the national committee, which is chaired by Minister, comprises of other Ministers as well as senior officials of government and private sector organisations. The Committee meets on a quarterly basis. The aim is to have a coordinated approach in trade matters. Sub-committees also meet on a daily or weekly basis to follow up on all trade issues. They report to the National Committee

Q3.2 Do you engage in dialogue with the private sector and other key domestic stakeholders about the formulation and implementation of your trade strategy?

☐ Nearly always ☒ Regularly ☐ Rarely ☐ Not sure/ NA

If you do, please describe your main stakeholders and the focus and frequency of your dialogue. *[Please describe and exemplify below.]*

Consultations on almost all trade issues are done on a daily or weekly basis, as required

For Least-Developed Countries participating in the Enhanced Integrated Framework (EIF):

Q3.3 Is your EIF focal point and committee responsible for overseeing and coordinating all your trade agenda?

☐ Yes ☐ No ☐ Not sure/ NA

If no, please describe the different arrangements:

Working with external partners: harmonisation and alignment

Q3.4 In your Aid for Trade programs, how often do donors co-ordinate and align through:

	Regularly	Sometimes	Rarely or Never	Not Sure
Joint needs assessments	☐	☐	☐	☐
Co-financing	☒	☐	☐	☐
Sector-wide approaches	☐	☐	☐	☐
Joint Implementation	☐	☐	☐	☐
Joint Monitoring and Evaluation	☒	☐	☐	☐
Other, please describe: Donors align their interventions to the Mauritius program but they are also called upon to assist in formulating/designing the right strategies/programmes.	☐	☐	☐	☐

Monitoring and evaluation

Q3.5 Do you monitor or evaluate your donor supported trade-related programmes?

☒ Nearly always ☐ Regularly ☐ Rarely or Never ☐ Not Sure

If you monitor and evaluate your donor supported trade-related programmes, do you use:

	Regularly	Sometimes	Rarely or Never	Not Sure
Donors' monitoring and evaluation results	☐	☐	☐	☐
Joint monitoring and evaluation arrangements	☐	☐	☐	☐
Own monitoring and evaluation arrangements	☐	☐	☐	☐

Own monitoring but joint/donor evaluation	☒	☐	☐	☐

If you use nearly always or frequently your own monitoring and/or evaluation arrangements, can you please provide examples of your methodology and results? *[Please describe and exemplify below.]*

Regular meetings like Annual Business meeting and Joint Country Program Review

Mutual Accountability

Q3.6 Have you established mechanisms/procedures to discuss with the relevant donors the outcome and impact of your trade-related programmes?

☒ Yes ☐ No ☐ Not sure/ NA

If yes, please can you describe and exemplify them?

Via key performance indicators, linked to disbursement of resources (loans from international financial institutions and grants from EU).

Priorities for improvement

Q3.7 What are your government's priorities to improve the implementation and effectiveness of the aid for trade it receives? Please rank the top three in order of importance.

Greater say in the design of aid for trade interventions:	☐
Stronger donor focus on capacity development:	☒
Better predictability of aid for trade funding:	☒
More extensive use of Budget Support (or Trade Sectoral Wide Approaches)	☒
More regular joint-donor implementation actions	☐
More harmonised reporting requirements	☐
More frequent joint donor-partner implementation efforts	☐
More systematic use of joint donor-partner monitoring and evaluation	☐
Other, please describe: Subject to additional information at question 2.1]	☐

Please, describe in detail the improvements needed in your top priority area

Sharing Knowledge

Q3.8 Please identify and rank three areas of interventions (see Question 1.2 for a list of examples) where aid for trade has been most effective at raising trade capacity in your country.
(*Please explain your choice*)

Area 1
Most of the normal grants/loans received have been through non AFT instruments and have been disbursed as GBS which supports a wide economic reform programme covering the following pillars:
fiscal consolidation and improving public sector's efficiency;
improve trade competitiveness;
improve investment climate; and
democratize the economy by promoting participation and social inclusion.
Specific reforms encompassed trade liberalization, investment facilitation, labour market reforms, immigration reforms to attract foreign talent, know-how, ideas, and technology, and social policies. .These reforms are being supported by restoring public finances which is regarded as a crucial indicator of macroeconomic stability and a determining factor in global competitiveness.

Area 2 not yet received

Area 3 not yet received

Q3.9 Are there any particular examples of your aid-for-trade processes, programmes or projects that have obtained good results that you think could contribute to the development of good practices?
[If so, please describe them below and attach any relevant documents.]

AFT processes - Reform policies are clearly defined for the four pillars stated above and specific performance indicators identified on an annual basis. The Government has also developed a Performance Assessment Framework -: Government Reform Matrix. Implementation of the reforms is closely monitored via regular dialogue with development partners including country missions, Annual Business Plan Meeting, Joint country program review (JPCR). The Annual Business Planwhich is held in February before the preparation of the Government Budget looks at financing requirements, the JCPR Meeting is a stocktaking exercise which enable Ministries and Development Partners to explore means and ways to better coordinate their actions for improved delivery of assistance.

Programmes or projects that have obtained good results extract-Mauritius—Assessment Letter for the World Bank December 15, 2008 http://www.imf.org/external/np/pp/eng/2008/121508.pdf

The authorities have made good headway in recent years in implementing reforms and easing fiscal pressures. The first-round impact of recent global financial market turmoil on Mauritius has been modest, but the international downturn poses a greater challenge for key sectors of the economy. Recent Economic Developments -Mauritius has seen good results from the wide-ranging reform program it launched in 2005/06 following the loss of trade preference in sugar and textiles. The reforms have targeted reductions in the fiscal deficit, enhancing public financial management, restoring economic competitiveness, and improving the investment climate. A bold tax reform, incorporating a flat tax on corporate and personal income and a new revenue authority, has significantly improved tax revenues. Combined with reductions in the cost of doing business and labor reforms, these policies have spurred foreign investment and growth. In the past three years, GDP growth has recovered and macroeconomic vulnerabilities have been reduced.

- End of Section 3 -

Please feel free to provide additional information on the implementation of your donor supported trade-related programmes and projects, *i.e.* aid for trade.

4 ADDRESSING TRADE CAPACITY CONSTRAINTS AT THE REGIONAL LEVEL

Q4.1 Do your trade strategies specifically address regional trade capacity challenges?

☒ Yes ☐ No ☐ Not sure/ NA

If YES, please describe them:

Common projects of regional dimensions to increase the flow if trade have been elaborated (ex. regional shipping line, regional warehouse, food security project

Q4.2 Do you participate in regional dialogues, programmes or activities aimed at promoting regional integration?

☒ Yes ☐ No ☐ Not sure/ NA

If YES, can you tell us in how many of these you participate in and describe the most important ones to you? *[Please describe below.]*

Issues are discussed on a regular basis both at the level of SADC and COMESA

Q4.3 Do you know if these regional dialogues, programs, and/or institutions receive aid for trade?

☐ Yes, they do ☒ No, they don't ☐ I don't know/ NA

If YES, are you an active participant in the regional dialogues, programs and/or institutions?

☐ Yes ☐ No ☐ Not sure/ NA

Q4.4 Do you participate in or benefit from aid-for-trade programmes implemented at the regional level?

☐ Yes ☒ No ☐ Not sure/ NA

If YES, please describe the main benefits. *[Please describe and quantify whenever possible.]*

- End of Section 4 -

Please feel free to provide any additional information concerning the regional dimension of your trade strategies:

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). ...]

-- Thank you --

ADDITIONAL STIMULUS PACKAGE

SHORING UP ECONOMIC PERFORMANCE

OUTLINE

A. Introduction: Origin of the Problem

B. Building resilience through structural reforms

C. Reforms have saved the economy

D. Being Pre-emptive: Expansionary Budget

(1) Stimulus package with special allocations of Rs 6 billion

(2) Implementing PRB in full: an additional Rs 1.5 billion

(3) Providing for Contingencies of Rs 1.8 billion

E. Nurturing resilience to stay ahead of the curve

(1) Coordinating with the Bank of Mauritius to ease monetary policy

(2) Amending the Automatic Price Mechanism

(3) Regular consultations and constant dialogue with stakeholders

(4) Two Ministerial Committees to help formulate an additional economic stimulus

F. Status of the Special Allocations of Rs 6 billion appropriated earlier this year

G. The focus of the additional stimulus:

(1) Fast-tracking and frontloading public infrastructure

(2) New investments in public infrastructure

(3) Supporting infrastructure development in local authorities

(4) Supporting infrastructure development in Rodrigues

(5) Upgrading public infrastructure in education, health, environment and sports,

(6) Accelerating private sector investment

(7) New private sector investment

(8) Further improving business facilitation

(9) Building human resources capacity

(10) Supporting vulnerable sectors

A. Introduction: Origin of the problem

For over fifteen months, the subprime mortgage crisis that started in the United States has been creating havoc in the major financial centres. It has pushed financial giants to breakdown points, creating an unprecedented credit crunch world-wide, sapping consumer and investor confidence, crashing equity markets, bringing down commodity prices and also driving advanced countries into recession and some economies to the brink of bankruptcy. The US, UK, Germany, Spain, Ireland, Singapore and Japan are some of the countries that have already slid into a recession. The Euro Zone is now in recession. Growth in China and India is decelerating while other countries including Hungary, Ukraine, Georgia, Seychelles, Iceland and Pakistan are near collapse. And now there is fear of deflation that can further pull down global growth.

B. Building resilience through structural reforms

Back in July 2005, the economy was in a precarious state with growth on a downward path, unemployment at its highest level in 20 years, job creation very low, budget deficits and debt in a parlous state, purchasing power falling, investment going down and FDI almost inexistent. These weak economic indicators were compounded by external shocks including the dismantling of the Multi Fibre Agreement, the cut in the price of sugar, soaring energy prices, rising interest rates worldwide soon to be followed by surging food prices. The economy was in dire straits and in a state of emergency.

We were not daunted and took up the challenge of bold and, at the time, criticised reforms. But these reforms have borne fruits and saved the economy from these negative shocks and returned it to a high and balanced growth path. Unemployment has declined. FDI has soared and private investment recovered fully from its worst performance in many years. The textile industry was no more mired in deep depression. Construction and tourism were booming. The seafood and the ICT sectors were doing well. A new wave of SMEs has been 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. And net international reserves have increased.

Investor confidence returned and we have been able to build the kind of economic resilience that has saved the economy in 2008 from the financial turmoil that has shaken other economies around the world.

C. **Reforms have saved the economy**

Our economy has indeed been resilient to the first round effects of the financial crisis. This year, we are expecting a growth rate of around 5.2 percent. Growth remains diversified with 3.2 percent in tourism, 5.5 percent in sugar, 7.5 percent in real estate and 11 percent in construction and 13 percent in banking. Moreover, the transport and communications sector continues to grow strongly at 7.1 percent, including 15 percent growth in ICT.

Investment as a ratio of GDP will rise for a third consecutive year to 25.4 percent, driven mostly by the private sector, including FDI which has reached Rs 7 billion at end October. Consumption by households will rise to 72.4 percent of GDP. The increases in consumption and investment, combined with soaring prices of imported energy, food and raw materials have caused the inflation rate to stay high and the deficit of the current account of the Balance of Payments to widen. Even so, we are expecting an overall Balance of Payments surplus for a second consecutive year after three years of deficits. At end October 2008 there were Rs 86.9 billion of net international reserves, good for 35.3 weeks of import cover. As a result of the rising investment and higher GDP growth this year, net employment creation will go up to over 10,000- in contrast to 8,400 last year, 8,000 in 2006 and 3,000 in 2005. As noted by the IMF in its latest Assessment letter, under the impact of the fiscal reforms, the overall deficit was lowered to 3.4 percent of GDP in 2007/08 from 5.4 percent in 2005/06 while public sector debt was reduced to about 60 percent of GDP in June 2008 from close to 70 percent in June 2005.

Two main reasons underline our economy's resilience to such an unprecedented external shock, which is deep in implications and broad in scope. The first, as noted by all experts, is the effectiveness of the reforms we have been implementing during the past three years. The second is the robustness of our financial system as recognised by the IMF.

Our reforms have opened the economy and made it more versatile. The strengthening of the emerging sectors to diversify the economic base has created good capacity to offset the negative effects of external shocks. At the same time, our reforms have given us the fiscal space required to deal with such a crisis. Had it not been for the comprehensive economic reforms undertaken by Government, the economy would have been in recession.

Reforms have allowed us to build resilience to cushion the adverse impact of the international financial and economic crisis.

Our financial system has not in any way been involved in sub-prime lending or any activity deriving directly or indirectly from that asset class. Our financial system is well regulated, solid and highly profitable. It has ample liquidity to meet the financing needs of the economy. As a result we have not had to intervene, as in many other countries, to bail out the banks. In fact, for the past 10 months of this year, commercial bank credit to the private sector has grown by a healthy 24 percent, total assets of banks have maintained a high expansion pace and the fundamentals of our banking institutions have improved significantly. The rest of the financial sector has also performed well. One exception is the stock market where normal corrections from record highs have been exacerbated by fear in major markets across the globe. However, net foreign portfolio outflows have been lower than in most emerging markets.

D. **Being Pre-emptive: Expansionary Budget**

But, although our financial system has come out unscathed and the economy has so far resisted the financial mayhem, we must recognise that no country is immune. Recently, the world has witnessed a marked deterioration in the outlook for economic activity - so much so that major countries, from developed to emerging, and their Monetary Policy Committees have become convinced that the balance of risk is now clearly on growth and not on inflation. The IMF has revised its growth forecast for advanced economies to negative 0.3 percent for 2009. The economies of our major trading partners will experience deeper contractions than originally estimated. However, the forecasts do not capture the policy changes and actions that would be implemented globally after the G20 meeting last November in Washington. But if the policy responses world-wide are not effective the global downturn can be deep and lasting. We have been on our guard for the last fifteen months of the financial mayhem. We have with foresight stepped up our reforms. We now have the greater fiscal space that three years of reforming have helped us create – giving us more capacity to cushion external shocks. With the rapidly deteriorating world economic outlook, we must now be prepared for the ripples of what may become one of the worst global economic downturns in many decades. As a consequence we should shore up the resilience that has kept us on a high growth path while other economies were going under.

We must recognise that the world is not facing a conventional business cycle. For the world economy to recover, it needs demand stimulus that can influence the future output trend and not merely the fluctuations around the present trend. At the IMF/World Bank meeting, last October, there was wide agreement on a global response that is speedy, comprehensive, flexible and coordinated. There is also consensus worldwide that central banks and governments need to cooperate to provide this stimulus, the more so that the inflation danger is now receding. The strategy is for expansionary fiscal policy supported by easing of monetary policy so that there is first of all an adequate flow of credit to finance consumption and investment expenditure and bring back consumer confidence.

As regards expansionary fiscal policy, Mauritius is ahead of the curve. In the June 2008 Budget Speech we mentioned:

"*Our reforms have made Mauritius resilient. But we are not immune. We are already feeling some of the anxieties that grip the world. We must have an effective handle on developments, globally and regionally. That is why, Mr Speaker, Sir, we must continue on the path of reforms with yet greater commitment and determination. Having restored high, robust and sustained growth; having put the country solidly on the path of openness, global competitiveness and full employment, we now need to give Mauritius a strong and vigorous impetus to run the next development lap and build the Mauritius of tomorrow.*" *(para 37, 38).*

And at the sectoral level, we were pre-emptive and stated at para 65 that

"*The tourism sector will need to weather the storm of weakening economic growth in Europe to maintain its rapid growth. We are therefore increasing the budget of the Mauritius Tourism Promotion Authority to Rs 340 million in 2008/09".*

In fact, while other countries waited to be officially in a recession to announce a stimulus package, we anticipated as far back as May 2008 the difficult global economic situation and adopted an expansionary fiscal policy in spite of economic growth being forecast at over 5.5% at that time.

(1) Stimulus package with special allocations of Rs 6 billion

First, we did so by using the larger fiscal space arising from the reforms to allocate Rs 6 billion to invest in airport expansion and modernisation and to create six funds. These funds will enable us to:

- realise the Maurice Ile Durable vision;
- build food security;
- boost education and knowledge to eradicate poverty and widen the circle of opportunities;
- improve local infrastructure;
- carry through our social housing commitments; and
- sharpen the competitiveness of domestic oriented industries and SMEs

(2) Implementing the PRB in full: an additional Rs 1.5 billion

Second, the implementation of the PRB in full in one year, rather than phased over two years as recommended and as previously done, has injected an extra one and a half billion rupees in the economy.

(3) Providing for Contingencies of Rs 1.8 billion

Third, we innovated by introducing in the 2008/09 Budget a provision for contingencies and allocated Rs 1.8 billion under this item precisely to deal with the kind of shocks that we now have to confront.

Taken together, the creation of the Funds, the full implementation of the PRB in June this year and the contingency of Rs 1.8 billion amount to a cushion of Rs 9.3 billion (over 3.4 percent of GDP) which is significantly higher than the 2 percent fiscal stimulus that the IMF and G20 are now calling for to boost aggregate demand. We are now ready because these actions were taken six months ago, over and above the programmes that make up government capital expenditure for the year, precisely in case the international crisis turned out to be worse than most analysts predicted at the time.

E. Nurturing Resilience to stay ahead of the curve

(1) Coordinating with the Bank of Mauritius to ease monetary policy

We kicked off the stimulus package last October, when the Ministry of Finance and the Monetary Policy Committee of the Bank of Mauritius coordinated policy responses ensuring that monetary policy is expansionary to support the fiscal stimulus. Since then the repo rate has been lowered by 150 basis points, bringing down the cost of credit significantly.

In the same vein, the Bank of Mauritius also lowered its cash reserve ratio from 6 to 5 percent, thus freeing some Rs 2.5 billion in the banking system for commercial banks to on-lend to productive sectors.

(2) Amending the Automatic Price Mechanism

To rapidly pass on to consumers the benefits of falling international petroleum prices we amended the regulations governing the Automatic Price Mechanism (APM). As a result, the prices of mogas, diesel and fuel oil have fallen in a range of 22.5 to 27.5 percent and provided relief to our enterprises, more specifically in manufacturing, construction and transport, as well as the population at large. This has slowed down the general increase in prices and mitigated the loss of purchasing power for consumers.

(3) Regular consultations and constant dialogue with stakeholders

It is worth recalling that in early 2008 most analysts projected a short and shallow recession with many believing it would not be broad due to decoupling of the rest of the world from the US economy. By mid-2008, sentiment changed to the realisation that the recession would be broad but expectations were for fast recovery from a mild recession. After the collapse of Lehman Brothers in mid-September, pessimism intensified with the view of a long, broad and prolonged recession. Since then, every month the forecasts have been increasingly grim. The IMF is continually revising downward its growth projections, including for emerging economies. The most recent view is that even China and India will be badly affected instead of just facing lower growth. Another growing concern is the threat of deflation with devastating consequences.

In the initial period our measures provided the necessary resilience to manage through the international crisis, as recognised in the recent Assessment Letter of the IMF. However, after the Lehman Brothers episode, as the world economic outlook deteriorated sharply, we realised we would need to use the fiscal ammunition that we had set aside in May and June 2008. Thus since October 2008 we started to articulate a strategy on how best to formulate the policy response. As part of that strategy we intensified discussions with economic operators and set up mechanisms in Government to formulate and implement the required additional stimulus.

Government has had intensive consultations with all sectors of the economy and with SMEs and set up a joint committee with the JEC to complement the one earlier instituted with the Chamber of Commerce and Industry. We also obtained inputs from the Association des Consommateurs de l'île Maurice (ACIM), Association of Inbound Operators Institute for Consumer Protection (ICP), Association of Trust and Management Companies (ATMC), AHRIM, Building and Civil Engineering Contractors Association (BACECA), the Chamber of Agriculture, Outsourcing and Telecommunications Association of Mauritius (OTAM), MBA, MEXA, Mauritius Manufacturers Association (MMA), the SME Federation and representatives of small and medium Planters. These consultations and the work of these Committees have been important elements in putting together this stimulus package within a short period of time. In fact, they have allowed us to go beyond the calls to deal with the problems of textiles and tourism to take a holistic approach that will further strengthen our resilience and better prepare us for the rebound.

(4) Two Ministerial Committees to help formulate an additional economic stimulus

The Prime Minister set up two Ministerial Committees in November. First, a Committee on 'Nurturing Resilience' headed by the Prime Minister and supported by a Technical Committee chaired by the Secretary to Cabinet. The second Committee, on 'Human Capacity, Solidarity and Physical Infrastructure' is presided by the Vice Prime Minister and Minister of Finance and its Technical Committee is chaired by the Financial Secretary.

Both Committees are removing a number of hurdles and clearing the way for accelerating projects that are crucial to investment, growth,

employment creation, infrastructure development and human capacity building.

The Committees also thrashed out both systemic and sector specific constraints to investment. The Vice Prime Minister and Minister of Finance has also consulted with stakeholders in all key sectors of the economy to have a good understanding of the scope and intensity of the challenges ahead so that remedial actions are properly formulated and targeted.

Thus, the main features of our additional stimulus package are:

First, it is targeted, flexible and temporary;

Second, it will be put in place between now and early 2009 and implemented over the two-year period between now and 31 December 2010;

Third, we are using the fiscal space we have created to significantly increase public sector investment;

Fourth, we will ensure that capital expenditure for the fiscal year 2008/09 is implemented as programmed;

Fifth, we are dealing with bottlenecks to boost private investment and where possible accelerate their projects;

Sixth, Government is speeding up the supply response we started in the 2008/09 Budget, particularly by fast tracking and front-loading infrastructure projects;

Seventh, support will be provided to businesses to continue operations so as to protect employment and workers;

Eighth, the National Empowerment Foundation will enhance its efforts on re-skilling, retraining and returning retrenched workers to productive employment; and

Ninth, Government is providing ample protection for the population during the period of the international crisis.

F. Status of the Special Allocations of Rs 6 billion appropriated earlier this year

Before elaborating on the new policies that form part of the stimulus package to shore up the resilience of our economy, it is important to consider the use to date of the Funds that were created in the Budget this year, because they are a central component of our policy to improve economic resilience. We are accelerating implementation over two years instead of the planned five.

First, the MID Fund. To the Rs 1 billion voted in the Supplementary Appropriation Act 2008, Rs 300 million are expected from the 2008/09 Budget. And of the Rs 1.3 billion available in that Fund, we have already committed some half a billion rupees on various initiatives including:

(i) the solar water heater scheme at the DBM which has already benefited over 2,000 households;

(ii) energy saving lamps that are benefiting about 100,000 households;

(iii) replacement of 16,000 street lighting lamps

(iv) strategic alliances to mobilise foreign expertise for sustainable development;

(v) support for a Wind Farm Project at Bigara under PPP;

(vi) financing for the waste disposal component in the Waste to Energy project;

These projects are taking us closer to the vision of a Green Mauritius and at the same time injecting significant income in the economy and stimulating economic activity.

Second, the Food Security Fund. Resources available in that Fund amount to Rs 1 billion. A draft three year strategic plan for Food Security has already been prepared.

The strategic plan proposes the mobilisation of an additional 1,973 arpents of land resources including in Rodrigues. These lands would be prepared and provided with irrigation facilities and leased to some 700 to 900 small farmers who would have to group themselves in order to benefit from economies of scale. In Mauritius 918 arpents would be devoted to food crop production and 319 arpents for meat and milk production. In Rodrigues, an additional 700 arpents of uncultivated/abandoned lands would be put under food production. The land resource mobilisation would result in the production of some 5,000 tonnes of additional food commodities between 2009 and 2011. Priority will be on strategic crops including potato, maize pulses, onions, vegetables and fruits. In the livestock sector, emphasis will be on schemes for beef, goat, sheep, poultry and fodder/pasture development. Institutions such as veterinary services, food technology laboratory, etc will be upgraded. Government has facilitated a major project for dairy farming for milk production which is expected to begin production next year.

A special programme under the National Empowerment Foundation is currently being implemented for investment in infrastructure to support the modernisation of the pig sector to the tune of about Rs 200 million including an expansion of the programme to improve Environmental aspects such as processing of waste. In addition, Government is lending to the pig breeders about Rs 160 million on concessional terms with a grant element of Rs 53 million.

In the fisheries sector, proposals have been made for the construction of four fibre-glass fishing boats, the setting up of a fish cage-culture, the construction of one semi-industrial fibre-glass fishing boat and the training of skippers and mechanics.

The implementation of measures contained in the Strategic Plan would necessitate funds to the tune of Rs 1 billion, Rs 813 million for Mauritius and Rs 187 million for Rodrigues. The Strategic Plan will be finalised so that the bulk of the plan is implemented in the next two years. Government will employ consultants to assist in the implementation of the Plan.

Third, the Human Resource, Knowledge and Arts Development Fund with available resource of Rs 1.05 billion. About Rs 300 million have already been committed for the following projects:

(i) Scholarships to needy students;

(ii) Student Loan Guarantee Scheme;

(iii) Infrastructure Development, including a new Campus for Tertiary Education; and

(iv) a Second Chance Programme for youth who are not in full-time education or employment to upgrade their skills.

Fourth, the Local Infrastructure Fund with total resources of Rs 305 million. Rs 250 million have already been committed on projects in a wide range of areas including multi-purpose complexes, fish landing stations, market fairs, waterfront, crematorium and tartan track. The construction of the Rose Belle market at a cost of Rs 85 million has started. We are accelerating projects to also commit the remaining Rs 55 million within the next few months

Fifth, the Social Housing Development Fund with total resources of Rs 500 million. Rs 300 million have been committed. This includes the rehabilitation of NHDC estates and infrastructure for Social Housing and support for affordable housing to bring down the cost of mortgages.

Sixth, out of the Rs 500 million that was allocated to the Manufacturing Adjustment and SME Development Fund, Rs 400 million have been committed to finance some 51 projects under programmes managed by Enterprise Mauritius, SEHDA and the National Women Entrepreneur Council. SME's also will benefit from this facility.

Seventh, funds allocated to Airports of Mauritius and Airport of Rodrigues, Rs 1 billion and Rs 75 million respectively, have been fully committed. Work on both airports should start in the coming months, especially now that we have just secured confirmation from China that it will provide the required financing on concessional terms.

And eighth, the full Rs 250 million allocated to the Productivity Improvement Programme have been fully committed and should improve productivity of Government in the coming years through enhanced use of ICT and the provision of the latest software to the whole Public Service.

Of the Rs 6 billion of resources available, we are frontloading spending and almost half will be committed by June 2009. There is thus accelerated implementation, especially since some of these funds were meant to be spent over a period of five years and more. These will generate a significant amount

of new income in the economy, both directly and indirectly, through the multiplier effect and should give us a better cushion against the adverse impact of the global recession.

But we must do the maximum to ward off the negative consequences of the global economic downturn. That is why, Government is presenting today, in addition to the creation of the six Funds, the expansionary budgetary measures taken earlier this year, the easing of monetary policy and the pass through from falling international petroleum prices, a strong additional stimulus package to shore up resilience and position Mauritius to ride the crest of the world economic recovery when it happens.

G. The focus of the additional stimulus:

(1) Fast-tracking and frontloading public infrastructure

The biggest boost that Government can give to the economy over the next two years is in the area of public expenditure on infrastructure. Government spending on infrastructure can have powerful stimulating effects in the short term as it will create jobs, generate more income, boost investment and in the medium to long term, it will enhance the attractiveness of Mauritius as an investment destination, improve the doing business environment and expand productive capacity. The two Committees set up by Government will therefore address the weaknesses in public project implementation, on all fronts and at their sources, so that we can speed up, bring forward and reprioritise public spending on infrastructure.

Government is selecting a mix of projects that consist of large ones of national importance, some medium sized ones that may require preparation time and will be implemented in the coming year and small projects that can be immediately undertaken. Government is also ensuring that small and medium sized contractors get a fair share of the projects. In addition to roads, the projects include building up local infrastructure in all regions of Mauritius and Rodrigues. Government will also invest to upgrade schools, hospitals and sports facilities and protect the environment. Government will also invest in a mini hydro project at La Nicolière, finalise the agreements in the energy sector; accelerate the tender via a PPP for a second power plant to meet energy demand, move ahead with Highlands and facilitate Tianli's investment. We are thus increasing spending on public infrastructure by an additional Rs 2.5 billion in 2008/09. This is over and above the Rs 7.2 billion

provided for in the 2008/09 budget. For the two-year period January 2009 to December 2010, the value of spending on this programme is expected to be Rs 3.8. billion.

To support the process, Government is setting up mechanisms to improve implementation capacity that include:

(i) mobilising support from development partners to finance the Public Sector Investment Programme (PSIP);

(ii) setting up systems that can lead to major improvements in the pace of project implementation whilst ensuring value for money and mobilising resources to finance the maintenance and operation;

(iii) reviewing the role of the Technical Division at the Ministry of Public Infrastructure to give it the overall responsibility for coordination through a Programme Coordinating Committee (PCC);

(iv) using the Design and Build Procurement method which in other countries has successfully reduced the implementation time and also cut costs;

(v) facilitating the provision of infrastructure to leased sites. Government will automatically call back, after a fixed deadline, all non-performing leases which will be reallocated to productive uses;

(vi) reviewing procedures to streamline and accelerate the process for land acquisition; and

(vii) facilitating the implementation of projects through the advanced purchase of land required for the Public Sector Investment Programme (PSIP).

Improving the implementation process will contribute to Government's effort to accelerate investments with a total value of Rs 8.7 billion, out of which we expect to spend Rs 1.2 billion during 2009 and 2010.

Government has approved the Airport Master Plan. The design work has been completed and AML is in the process of launching the tender for extending the airport terminal with an estimated cost of about Rs 2 billion. We are also seeking financial support from our development partners for a second runway and conducting a feasibility study for its implementation.

The project to upgrade the airport at Rodrigues to international security norms is underway and will be completed next year.

In addition, a feasibility study is being carried out for a longer runway to allow bigger aircraft to land in Rodrigues.

Government is moving ahead with investment in Dr Jeetoo Hospital on which work will start next year with a project value of Rs 1.8 billion.

The Road Development Authority is accelerating, with World Bank institutional and financial support, the implementation of its road maintenance programme and is projected to spend an additional Rs 200 million in 2008/2009.

The construction of the Bus Way will be initiated with a projected expenditure over 2009 and 2010 of Rs 300 million.

Work on the Bus Lane on the M1 Motorway is expected to start in mid-2009 with an investment of Rs 200 million.

(2) New investments in public infrastructure

Government has also decided to make substantial new investments in public infrastructure to firm up the stimulus package and support the construction industry. Accordingly, an additional Rs 2.6 billion is being provided for public infrastructure, including Rs 1.8 billion for the road network. This is over and above what has been appropriated in the 2008/09 budget to finance new infrastructure over the period January 2009 to December 2010.

Government will improve the process for the acquisition of land required for public infrastructure projects, particularly roads. Instead of waiting for final project approval to acquire land, Government will henceforth begin the process as soon as a project is accepted in the PSIP. This will

reduce implementation delays. We are committing Rs 2 billion to this programme over 2009 to 2010.

Rs 700 million will be invested to expand the single carriage way connecting Pamplemousses to Grand Baie into a dual carriage way. Work will start next year.

Rs 315 million will be spent to upgrade the Wooton/Quartier Militaire road and a feasibility study will be launched to decide the timing for its extension to Flacq as a dual carriageway.

Rs 235 million will be invested to build the Triolet bypass ; and

Rs 200 million will be invested on the Goodlands bypass.

A focus of our efforts is to upgrade the road network to make Mauritius an attractive service centre by linking Highlands to the coast whilst bypassing population centres, developing a ring road network and constructing an East-West link.

(3) Supporting infrastructure development in local authorities

Government is injecting another Rs 487 million in the economy for infrastructure development in local authorities across the country. Each municipality and district council will be allocated Rs 50 million.

As mentioned in the 2007/08 Budget Speech, 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. In this context we launched a programme that started with the restoration of the Plaza. However, despite their best efforts the Town Council of Beau Bassin/Rose Hill has been unable to raise sufficient funds to complete the project. As part of this additional stimulus package, we are allocating an extra Rs 30 million to complete the renovation works on the Plaza.

In the same spirit, Rs 7 million will be allocated to complete restoration work on the Cathedral St Louis.

Government will make sure that these Rs 487 million worth of contracts are awarded in priority to small and medium sized contractors.

(4) Supporting infrastructure development in Rodrigues

Rodrigues will be provided Rs 50 million of additional funding to be used for a new market in Port Mathurin, the construction of the Winston Churchill Bridge and the upgrading of roads. This is in addition to the sums provided for the feasibility study on the new runway and for upgrading the airport.

(5) Upgrading public infrastructure in Education, Health, Environment and Sports

An additional Rs 500 million is being provided for projects that can be contracted out to local construction firms. It is expected that the work will go to small and medium sized contractors on a decentralised basis. The focus is to upgrade schools, hospitals, sports facilities and to protect the environment.

First, Rs 150 m will be used for Education to improve and upgrade schools.

Second, we are providing Rs 150 m to renovate hospitals.

Third, Rs 150 m for Environment and NDU will be used to protect the environment and improve drainage.

Fourth, Rs 50 million will be allocated for upgrading Sports facilities.

(6) Accelerating private sector investment

Besides public investment, a second offset to the slowdown in some traditional sectors will come from private investment including FDI. To this end, we are adopting the necessary legal and regulatory framework and accelerating the decision-making process. The next session of the National Assembly will be presented with a bill for regulating clinical trials. We have also proclaimed the Law Practitioners Amendment Act and passed the International Arbitration legislation which will allow us to expand the range of Business Process and Knowledge Process Outsourcing Services offered

from our country. This legislation provides a framework to attract international law firms that will bring skills we need to export legal outsourcing services.

The BOI has approved some 15 private sector projects in the manufacturing sector where some Rs 1.7 billion will be invested, of which Rs 1 billion are FDIs, creating some 800 jobs. These projects include, amongst others, the building sector, a Commodity Exchange, a Diamond Exchange and a Paper recycling plant.

(7) New private sector investment

Government is giving the necessary clearance for the setting up of the Air Cargo Logistics Centre. It will also support a project to set up an airport hotel and business cum commercial centre. This will clear the way for the implementation of 4 major projects in the Air Cargo Logistics Centre for an estimated investment of Rs 1 billion.

Legal process outsourcing and Business process outsourcing offer potential for new business as firms in industrialised countries are under pressure to further cut costs. Moreover, we can benefit from investment in clinical trials and develop the education hub including medical training.

To attract FDI in these specific areas we are providing the Board of Investment with an additional Rs 25 million for marketing and promotion.

(8) Further improving business facilitation

In the area of business facilitation which is crucial to investment and to attract foreign businesses, Government is finalising the Guidelines for permanent residence to be issued to eligible investors, professionals as provided in the Finance Act 2008. These regulations will be in force by end January 2009.

Government is also giving permanent resident status to purchasers in Real Estate Scheme (RES) developments provided they buy a property worth at least US$ 500,000.

We will maintain our momentum to further improve on the progress made in the World Bank Ease of Doing Business Survey moving up from 32nd in 2006 to 24th this year. We are continuing to streamline regulations and have mobilised expertise to draw on international best practices to modernise licensing procedures in four ministries, namely Agro-Industry, Finance, Health and Tourism which collectively issue some 440 different licenses.

(9) Building human resources capacity

The next area to which we will allocate resources in the medium and long-term is building human capacity. In both the public and private sectors, there is a dearth of skills and expertise that hinders project implementation, undermines the country's competitiveness and constrains growth potential. We have already introduced reforms to make the labour market more flexible. These reforms are vital but not enough. Government recognises the need to act on human capacity as well.

To this end, the framework for autonomous campuses has been approved and the guidelines posted on the website of the Ministry of Education. This has the multiple objectives of opening greater access to tertiary education for students, create jobs for graduates and researchers, attract expertise from other countries and make of Mauritius a centre of excellence for the region. It will also open the way to an investment potential of Rs 1.2 billion over the next two years.

To encourage the building of knowledge and human capital, Government is exempting loans contracted by an individual for educational purposes from payment of registration duty on registration of the loan agreement.

We are also approving the clinical training framework that the Tertiary Education Commission has worked out for medical, dental and nursing colleges.

And Government will approve the allocation of public hospitals to medical schools for training. These policy measures will facilitate the setting up of 3 medical colleges, representing investment exceeding Rs 1 billion.

(10) Supporting vulnerable sectors

As an open economy, we are directly dependent on developments in the rest of the World. Moreover, as a small player in the international market we have to adapt to changing circumstances. Our Export Oriented sectors, particularly textiles and tourism are the most severely hit by falling demand. This can be compounded by adverse and volatile cross-currency movements over which we have no control.

Domestic Oriented Industries are also vulnerable. As international prices fall, they may find it harder to be competitive on the domestic market. In addition, a weakening export sector will adversely impact these enterprises.

SMEs may face particular difficulties in responding to the adverse environment due to their size and lack of expertise.

As firms of all sizes across the entire economy are affected, Government response will be equally wide in scope but well targeted to those in need.

(11) Manufacturing and Export Sector

First, for export oriented firms, we will give assistance to make up for falling demand in Europe. We will set up a representation unit to provide marketing back-up and marketing intelligence to support companies in the US market to take full advantage of AGOA including the derogation under AGOA for textile and apparel firms.

Second, we will put in place a package tailored to the needs of tourism as outlined below.

Third, to give a breathing space to the domestic oriented industries serving consumers, Government will, in 2009 and 2010, freeze its plan to lower import duty to make of Mauritius a duty-free island. However, this suspension will not apply to inputs needed by the productive sector such as construction.

Fourth, the Bank of Mauritius will introduce a foreign currency line of credit for banks to enable them to cope with demand in case the normal sources of supply dry up.

Fifth, Government is accelerating the implementation of the Manufacturing Adjustment and SME Development Fund. Rs 400 million have already been committed out of Rs 500 million towards the widest possible range of support benefiting some 51 projects, mainly SMEs including women entrepreneurs. These include

- upgrading of Standards, Quality and Packaging for export readiness;
- Productivity and Competitiveness Improvement;
- Market Intelligence and Export Promotion;
- Equipment Modernisation Scheme
- Market Development and Marketing,
- Market Diversification
- product development.

Sixth, the remaining Rs 100 million will be used to provide direct support to SMEs that require assistance with liquidity or to restructure. Enterprise Mauritius will assist SMEs to develop a plan that can qualify for financing to meet the challenges arising from the crisis.

Seventh, Government will help firms on three main fronts:

- to reengineer to become more competitive and to ensure their long term survival;
- to improve access to financing, in particular working capital, at concessionary interest rates; and
- to restructure their debt

The Manufacturing Adjustment and SME Development Fund will have its mandate broadened to include support for the export of services. Government will raise its contribution to Rs 1 billion by injecting an additional Rs 500 million. In parallel, Commercial Banks will provide additional facilities worth at least Rs 500 million. In all there will be at least Rs 1 billion of new financial resources to support the Manufacturing sector and tourism. These facilities will be made available on a temporary and targeted basis for the period 1 January 2009 to 31 December 2010. This fresh financing will be used to implement a Mechanism for Transitional Support to the Manufacturing Sector including textiles with three components:

- Equity Support
- Liquidity/Working Capital including guarantee for bank support
- Asset purchase, swap or lease back for asset rich but cash poor enterprises

Those firms that need to restructure to face the intensifying global competition and the difficult time ahead will be given support through direct equity participation by Government.

Firms seeking assistance will have to prepare a credible reengineering plan that ensures the return to profitability once the international crisis is over. In the case of SMEs, Enterprise Mauritius will assist in the preparation of such a plan. The plan will be submitted to a consortium of the creditor banks with the most important creditor acting as the lead bank.

We have already launched the first restructuring efforts with burden sharing via an equity stake to enable the takeover of an enterprise that faced closure. Also, we have worked with the banks to ensure that a firm facing liquidity problems can meet its payroll. We are also designing a package that would allow Government to assist an asset rich but cash poor firm.

Banks will provide financing for restructuring the balance sheet of firms, including injection of additional liquidity when required. The additional financing will be provided at a concessionary rate not exceeding the savings rate, currently about 5.5 percent. Depending on the circumstances the rate could be well below the savings rate. To accommodate these

operations, the Bank of Mauritius will if necessary relax the rules relating to impaired assets for these targeted firms for the crisis period.

Government will either match the additional financing provided by the banks and the shareholder in the form of redeemable and convertible preference shares remunerated at 5 percent annually or provide a guarantee for 50 percent of the additional financing given by the banks.

The Bank of Mauritius will lower its required reserve ratio by another percentage point, from 5 to 4 percent in stages. This should eventually inject another Rs 2.5 billion in the banking system. We expect the liquidity released to contribute to the operation of the special lending facility.

For asset-rich but cash-poor enterprises in the manufacturing and tourism sectors, Government is creating a Special Purpose Vehicle to acquire and hold assets in those enterprises. This sale and lease back mechanism will enable them to make use of their assets to raise finance. These enterprises will be given the opportunity to buy back their assets in the future. We are launching the scheme with an injection of Rs 500 million for this purpose.

To oversee the system the Ministry of Finance will chair a Committee comprising the Bank of Mauritius, the Ministry of Industry, the JEC and the MBA.

(12) A social contract: Government expectations

The plan formulated by these enterprises and presented to Government for financing by the lead bank must include several critical elements.

First, an effort is required by the shareholders and management in the form of any combination of equity injection, asset sales and cuts in operating costs, particularly management pay, benefits and perks.

Second, there must also be a commitment to preserve employment either within the firm or by redeployment.

Third, there can be no dividend payments until all preference shares held by Government are redeemed.

Fourth, the preference shares still held by Government after five years will be automatically converted into ordinary shares.

Fifth, Government may appoint a representative to the Board where it deems this helpful to ensure that the restructuring funds are well spent.

Sixth, there will also be an obligation for regular reporting to the Committee overseeing the system.

(13) Enhanced role of Empowerment Programme

To give maximum protection to workers in that sector, MEXA and the National Empowerment Foundation (NEF) will establish a programme to reskill textile and apparel workers who could lose their jobs for placement in other sectors. In parallel, the Ministry of Labour will work with the National Empowerment Foundation and the JEC to set up a mechanism to generate early warning of possible redundancies so that the NEF can come up with an appropriate response plan.

The NEF is working with the Ministry of Labour to kick start a Cité des Métiers that will improve the capacity to match labour demand to supply. The Cité will offer enhanced counselling to orient first time job seekers and those being reskilled to employment opportunities. NEF will then assist with finding the appropriate job placement and work with training institutions and employers to build up the required skills.

(14) Tourism

Tourism is another sector which is vulnerable to the global economic downturn. The airlines, hotels and tour operators will be affected. There is already evidence of lower growth in tourist arrivals which, combined with falling prices constitute a challenging situation. Government's concern is not only about the lower income that will be generated in that sector but most importantly about protecting employment. As explained above, Government will support enterprises in the tourism sector that are in difficulty, provided employment is protected. Government will implement the following measures:

First, starting 1 January 2009 and until 31 December 2010, hotels will pay the Environment Protection Fee only if they show a profit at the end of their financial year. Currently, this fee is applied on turnover irrespective of profitability.

Second, the Temporary Solidarity Levy will be suspended from 1 January 2009 to 31 December 2010.

Third, to ease the liquidity for companies subject to the Environment Protection Fee, payment will be effected at the end of the financial year instead of every month.

Fourth, tour operators will be allowed to sell their duty free vehicles within the first four years of purchase and pay duty on a pro rata basis rather than reimburse the full amount of duty.

Fifth, Government is increasing the promotion budget of the Mauritius Tourism Promotion Authority by Rs 100 million. The additional fund will be used to finance promotion to raise our visibility in existing markets such as South Africa and other short and medium haul destinations. The funding will also be used to attract visitors from the upper market segments of India and to carry out intensive marketing campaigns in markets with great potential, including Russia, China, Nordic countries and the East European nations.

Sixth, Government is organising special promotion campaigns at the thirty five points now served by Air Mauritius under code sharing agreements with Air France and in China for the code share agreement with Malaysian Airlines.

Seventh, MTPA is also appointing Public Relations/marketing representatives in some new markets which have potential to diversify our tourism base.

Eighth, all airlines will be exempted from the contribution to the MID Fund from 1 January 2009 to 31 December 2010.

Ninth, as part of the social contract with the Tourism Sector, AHRIM and the Empowerment Foundation will work together on a training programme to avoid layoffs in particular, among the 70 percent of

employees of hotels that are below managerial ranks. There will be no layoffs without prior consultations with the Government and a plan for retraining.

(15) Sugar

The sugar industry will during the coming year have to face a further cut of 21 percent in the price of sugar, resulting in a cumulative decrease of 36 percent. The industry faces further pressure from the phasing out of the Sugar Protocol. The 21 percent reduction amounts to some Euros 140 per ton of sugar. In these circumstances the reform of the industry must be accelerated.

First, Government is developing a programme to be announced early next year for maintaining the financial equilibrium within the Cess financed institutions following the cut in revenue from sugar. This measure will benefit planters.

Second, Government is formulating a scheme to redeploy surplus labour from Cess financed institutions to fill vacancies in Central Government and para-statal bodies for funded positions.

Third, to accelerate fine de-rocking, mechanization and transport, Government is developing a programme to encourage participation of small and medium enterprises. The scheme will ensure that these SMEs are awarded contracts which will enable financing from the banking system, leasing companies and the SME Partnership Fund. It will also entail a performance bonus. The project value of works to be outsourced is estimated at Rs 200 million for 2009 and 2010.

Fourth, to increase the income of planters, sugar will no more be a controlled item for the purposes of the Consumer Protection (Price and Supplies Control) Act.

Fifth, the present system of land conversion does not allow for relocation of projects on different sites than initially approved. Henceforth, applications for relocation of new projects will be entertained. The process for obtaining the land conversion permit will remain unchanged.

Sixth, the current system of land valuation for conversion purposes is time consuming and imposes an undue administrative burden as it requires the valuation of each and every plot. Henceforth, Government is introducing a simple, transparent and rule-based method through the determination of an average net realisable value.

(16) Construction

As a result of work carried out by the Committee on Resilience, impediments have been removed to allow hotel construction and IRS and RES projects. This will mitigate the impact of the crisis on construction. Major IRS projects that will now be implemented in the course of 2009 and 2010 include River Club, Corniche Bay, Barachois villas, Matala property, Bouigue Development and Dolphin Coast Marina Estate. Together they involve investments of some Rs 15 billion over the next two years and the construction of 750 residential units and other facilities.

The Board of Investment has also given a spur to investment under the Real Estate Scheme where 10 projects worth Rs 4.8 billion and constructing 1,900 residential units and ancillary facilities such as commercial space, restaurants, fitness centres and club will start in 2009 and 2010.

To give a further stimulus to that sector we are removing the requirement that land should have been purchased 5 years in advance before being used for development under the RES. Henceforth there will be no such ownership requirement.

Acquisition of a residential property under the Integrated Resort Scheme (IRS) and the Real Estate Scheme (RES) can henceforth be made in any hard convertible currency, including the South African Rand. Currently, payment may be made in US Dollars, Euro or GB Pounds Sterling.

Moreover, for the period up to 31 December 2010, all IRS villas will pay the minimum duty of USD 70,000.

The construction industry should get another major boost as work starts on the Tianli Project. The promoters should begin construction early next year after finalising their financial documentations. Government, on its part, has initiated construction of the access road that will link the Mauritius Tianli

Economic & Trade Cooperation Zone to the motorway. Offsite utilities infrastructure are also due to start as from April 2009.

The Highlands project constitutes a further big potential for the construction industry. Following road shows in India, South Africa, Middle-East and Europe, requests for qualifications have been sent to 65 potential developers with a deadline for submission set at 16 January 2009. So far, seven developers have confirmed their intention to submit the request for qualification documents by the deadline. As soon as this phase of the process is completed, Government will expedite the procedures and its implementation.

To give additional support to the construction industry, duty on iron bars in coils imported by registered contractors will be reduced from 15% to 7.5% from 1 January 2009.

As an exceptional measure to help the construction industry, the land transfer tax and registration duty will be suspended for the period 1 January 2009 to 31 December 2010 for approved projects undertaken by developers to be registered with the MRA in respect of land for a development project, provided at least Rs 50 million of construction works are completed before 30 June 2011. This measure will not apply to IRS projects.

Land transfer tax will be allowed as a deduction for income tax purposes.

For all public sector construction projects, a higher preference margin will be given to local and foreign companies employing Mauritian workers. The Ministry of Labour will establish guidelines and closely monitor the situation. We urge the private sector to adopt a similar approach over the coming two year period.

We also expect the construction industry to pass on the benefits of this package of measures and the lower cost of materials, including diesel and iron bars, to consumers.

(17) Financial Services

The Global Business Sector is also vulnerable to the international crisis. The financial institutions which operate in our jurisdiction may be hit by the problems faced by the failures in the finance sector across the world. Moreover, the volume of business could be affected by the credit crunch, by the fall in FDI flows to emerging markets that are served from Mauritius and by the reduction in the value of wealth.

At the same time, there may be opportunities to mobilise new business if we reinforce the sector and provide credibility to our jurisdiction. The FSC is working with stakeholders in this direction. They plan to come up with recommendations to enhance the competitiveness of the Mauritius Financial Services Centre.

However, we also need to ensure that we preserve the reputation of Mauritius as a well-regulated financial centre. Some OECD countries are holding the offshore centres as being partly responsible for the financial crisis. This could result in a new list of countries that are classified as tax havens. Government is taking several initiatives to keep Mauritius off such a list. The Vice Prime Minister and Minister of Finance has recently held talks with the OECD, France and Germany to confirm that Mauritius is a well-regulated and transparent jurisdiction in addition to being cooperative in effective exchange of information. Mauritius also ensures that substance and value added is generated from the Global Business Sector.

Mauritius is actively participating in the relevant subgroup of the OECD to create a level playing field with regards to transparency and exchange of information. We are sustaining this campaign.

Government has also introduced a new Insolvency Bill that incorporates provisions to facilitate the deployment of new financial instruments. The enactment of the Bill will attract international business by modernising the process for restructuring firms and dealing with insolvency.

(18) Freeport

We are working with the stakeholders to find ways to reduce costs with a focus on improving port infrastructure and logistics. Acceleration of the

implementation of the Port Masterplan will have the added benefit of supporting economic activity. In addition, we expect to secure efficiency gains from the selection of a strategic partner for the Cargo Handling Corporation (CHC). The International Finance Corporation (IFC) has started its due diligence process and submitted an inception report. This should provide the basis for the CHC to launch a request for proposals to identify a strategic partner.

The transitional provision for income tax exemption for Freeport Operators will be extended by two years.

(19) Seafood

The Seafood Hub is an important source of growth and offers good potential for further diversifying exports. However, it may also need support during the challenging times ahead. To assist the sector we are implementing 3 measures.

First, the competent authority for issuing health certificates to the EU will be properly equipped, including the food laboratory. It will be led by an efficient team.

Second, the auction market for the sale of fish will be set up in 2009.

Third, to protect market access for our tuna, we are working to finalise the Mauritius-EU Fishing Agreement.

(20) ICT

The ICT sector is proving to be more resilient than most other sectors. The global economic downturn has increased outsourcing to Mauritius. As a result firms operating in that sector, in particular the ITES/BPO enterprises are increasing employment and looking to a strong growth performance in the coming year. Our strategy therefore is to support that industry as it takes advantage of the more favourable market conditions so as to maximise offsets to the adverse impact in other sectors. To this end, we are setting up the Data Protection Commissioner's Office. The Data Protection Act will be amended at the first opportunity in the next session of the National Assembly to

conform with EU rules to make Mauritius a recognised jurisdiction. This will open opportunities for more upscale investment in the sector.

All issues standing in the way of the utilization of our Satellite Orbital Slot have been addressed. ICTA will start a coordination exercise with the International Telecommunications Union and a call for Expression of Interest will be launched for Commercial exploitation of our Satellite Orbital Slot.

In line with Government policy, the ICT Authority has determined a reduction in the wholesale bilateral half-circuit tariffs for International Private Leased Circuit (IPLC) of the order of 35%, on average to be implemented on 1 January 2009. This is primarily intended for the Information Technology Enabled Services (ITES) sector which includes the BPO and Call Centre operations. It will reduce the cost of operation of companies operating in the ITES to enhance their competitiveness.

On the basis of the lower IPLC price, Internet Service Providers (ISP) will be able to offer consumers lower prices on ADSL. Their proposals should be rapidly processed by ICTA. In parallel, MT is investing in upgrading the internet infrastructure to provide a better internet experience to users including higher access speeds. We expect lower prices to be offered to consumers by March 2009, associated also with an improvement in the service.

H. Protecting the population

The surest way to protect the population in these uncertain economic times is to preserve its purchasing power. The stimulus package will achieve this by protecting employment and putting more people in jobs. In fact, in 2008 net employment creation has reached a record 10,000 as opposed to around 8,000 in the previous two years and 3,000 in 2005. This is a sign that the benefits of economic resilience is flowing to the entire population. The centrepiece of the additional stimulus package for 2009 and 2010 is a social contract to keep jobs and maintain family income. The other focus of our approach is to bring down prices. In fact, both employment protection and lowering of prices are objectives that Government is asking enterprises to deliver in exchange for benefitting from public support.

Concerning prices, Government has requested the trading community and the MCCI to ensure that declines in the prices of food and other commodities are passed on to consumers. In this regard, we should recall that last year the price of flour reached record levels due to poor harvests and high worldwide demand. If we had not intervened as a caring Government, the price would have risen to Rs 10.20 per half kg. As a result of a cross subsidy operated by STC, Government kept the price of flour to Rs 6.90 per half kg. The subsidy amounted to Rs 683 million.

Similarly, without a subsidy, the price of LPG would have been around Rs 550 per 12 kg cylinder. The price to the consumer has been kept at Rs 315 because of a subsidy of Rs 614 million.

In spite of huge accumulated losses by the STC due to the high level of cross subsidies on flour and cooking gas, Government is taking steps to ensure that the population benefits from falling international prices. The following prices will be effective as from Monday 22 December 2008.

i) First, the price of flour will fall by 15 percent from Rs 6.90 to Rs 5.85 per half kg;

ii) Second, the price of Bread 100 gram will be reduced by 5.67 % from Rs 2.65 to Rs 2.50;

iii) Third, the price of LPG will drop by 5 % from Rs 315 to Rs 300 for a 12 kg cylinder;

The above prices will still require subsidies in excess of Rs 350 million based on current international prices and the parity of the US$.

We expect the prices of goods that use flour as ingredient to fall as a result of the 15 % decrease in the price of flour

I. Financing the package

The package will be financed by a combination of measures.

First, we are shifting resources from lower priority items to meet the needs of sectors under pressure.

Second, we are also tapping into the Rs 1.8 billion of contingency already appropriated in the 2008/09 budget by the National Assembly as part of our precautionary actions in June.

Third, we are mobilising resources from the 6 Funds by accelerating commitments over 2 instead of 5 years.

Fourth, we are benefitting from the reduction in public debt service as a result of lower interest rates. We are projecting savings of Rs 400 million on this item for 2008/09.

Fifth, we will also appropriate additional funds as required in the context of the two budgets programmed in June and November 2009.

Sixth, if required, we will request the National Assembly to appropriate the necessary funding under a Supplementary Appropriation Bill.

Seventh, Government will closely monitor the outturns on expenditure and revenue and keep track of the outputs and outcomes from the interventions under the additional stimulus package.

J. Conclusion

In a world that is changing very fast, we need to diversify and be versatile. Our new development model has achieved this. It has built resilience into our economy but not immunity. In times of severe external shocks, as we are seeing now, no country can have immunity. We are in fact experiencing the black swan phenomenon. We have seen, in these past fifteen months, that the perceived impossibility can actually come to pass. We have been witnessing negative events with low probability but with amazingly large impact. The mere scope and magnitude of the financial crisis and downturn in the global economy are beyond the realm of normal expectations. The biggest banks and insurance companies in the world can go under and all at about the same time. Only a year ago analysts were talking of a decoupling of the world economy from the US economy. Today, it is clear that this is not true. The US is resorting to state interventionism on a scale never thought possible. In such a world, Mauritius needs to be doubly vigilant and ever prepared to respond positively to the unexpected.

Government is stepping out of the box to support enterprises and the population through these very turbulent and uncertain times. The additional economic stimulus package offers a social contract that is fair and well balanced. It is designed to mitigate the impact of one of the worst global economic decline in decades, the depth of which we have not yet experienced and the duration may be long. But at the same time, the extra efforts being made by Government should not be construed as a give-away to ailing businesses. There must be an equal commitment by the enterprises to restructure, to become more efficient, to maintain employment, to bring down costs and pass on some of the efficiency gains arising from Government stimulus package and policies to the population.

Taken together, the various actions amount to an additional stimulus of some Rs 10.4 billion, equivalent to about 3.8 per cent of GDP. We expect the package to unlock an extra 1 to 1½ percent growth annually.

However, we must recognise that while we are standing prepared, the ultimate solutions to the global economic downturn lie in the ability of the economic powers of the world to restore confidence and boost consumer spending. The G20 makes up 85 percent of the world economy. It has come up with a road map to recovery that calls for collective, comprehensive and concerted actions. We hope that they will implement their decisions and that they will be able to face down the credit crunch, restore consumer and investor confidence and get the world economy back to a growth path.

We are confident that our additional stimulus package is comprehensive, pragmatic and realistic enough to lead our people and our economy safely through that difficult and challenging period. Our response is decisive enough to ensure that Mauritius shores up its economic resilience.

Reform Strategy of Government 2006 - 2015

1. This Reform Strategy (RS) is being developed at a time when Mauritius is undertaking bold reforms to meet the challenges posed by the imminent dismantling of long held trade preferences. At stake are the sugar and textile sectors, which together account for 12-14 percent of GDP, 20-25 percent of employment and 40-50 percent of foreign exchange earnings. The RS spells out the reform program, which would facilitate integration of Mauritius into the world economy. The RS has four pillars: (i) addressing fiscal vulnerabilities and modernizing the public sector and reforming social assistance to promote workfare and social inclusion; (ii) improving the investment climate; (iii) mobilising foreign direct investment, and (iv) introducing structural reforms to support sustainable growth.

2. The RS takes cognizance of the crisis symptoms that are omnipresent. Growth has slowed down and so has its job-creating stimulus; unemployment has risen appreciably; net FDI has reached marginal levels; external current account deficits have emerged; and debt has reached unsustainable levels. Yet, Mauritius sees these symptoms as an opportunity to push forward a reform programme, supported by the resilience the economy has acquired from its previous achievements. The eventual objective of the reform programme is to make Mauritius a duty free island; open to investment; technology; ideas; and skilled expatriate workers. Simultaneously, the reform programme aims at minimising Government control; liberalizing labour, tax and investment regime and competing more freely on the international market together with seeking new opportunities from trade.

3. The policy framework underpinning the reform programme aims at, inter alia, fostering macroeconomic stability; reducing unemployment; consolidating existing sectors; identifying new areas of activity; lifting impediments (such as infrastructure constraints) on trade; promoting and facilitating domestic and foreign investment; and providing opportunities to all (i.e. democratizing the economy). The fiscal component of the policy framework is elucidated in the 2006/07 Budget Speech and observes adherence to three fiscal rules, namely the golden rule whereby government will only borrow to finance investment; the sustainable investment rule that requires that the net public debt ratio to GDP is on a downward track; and the constant expenditure rule that requires that total expenditure remains constant after adjusting for inflation. The debt overhang considerably limits the ability of the Government to meet the costs of urgently needed trade-related infrastructural development. Interest payments alone in 2006/07 are larger than the capital budget.

4. Fiscal risks to macroeconomic stability are also being addressed and closely monitored under the policy framework. Maintaining financial discipline, sustaining energy sector restructuring, reforming the social security system, and efficiently managing the substantial costs of upgrading infrastructure and environmental standards are major agenda items to reducing fiscal vulnerabilities. In addition, allocation efficiency of public spending and reform of the expenditure planning and management systems are being implemented. Finally, efforts are being channeled to mobilize revenues by broadening the tax base without having to resort to tax increases.

5. The key sectors that urgently require integration with reform programme include ICT, Training, Education, Health, and Transport (including Ports, Airports and Congestion Management). In addition, the reform program calls for increasing productivity in the agriculture sector and improving business environment through increasing labour market flexibility, simplifying investment procedures, providing market based access to land and eliminating disincentives to Small and Medium Enterprises (SMEs) and foreign investors. Moreover, a reorientation of the educational system and significant retraining/reskilling programmes are also being proposed to enable a greater match of available skills with market needs.

6. Accordingly and as a critical component of the overall reform programme, the 2006/07 Budget Speech has announced setting up of an Empowerment Programme (EP). The EP is expected to finance seven critical activities, namely land for social housing and for small entrepreneurs, a workfare program emphasizing training and reskilling, a special program for unemployed women, tourist villages, assistance for outsourcing and support for development of new entrepreneurs and SMEs. The EP will have a project value of Rs 5 billion and a life span of 5 years to see Mauritius through the transition period. Further, an amount of Rs 750 million has been provided in the budget for 2006/07 to kick-start the EP. The remaining amount is expected to become available as budget support from development partners, including the World Bank.

7. Another component of the reform programme will be the reduction of poverty. While some progress in poverty reduction has been achieved, benefits are poorly targeted to the most needy. Thus the coverage of social assistance programs is being improved and targeted measures are being designed to ensure sustainability and impact. Further, the restructuring of the agriculture sector, mainly sugar, which is likely to discharge a sizeable labour force, will be accompanied by measures to mitigate the adverse social impact at a cost that is socially affordable and commensurate with the benefits provided in other sectors. Sustainable policies and programs supporting rural development will also be designed.

8. The financing of the reform programme in Mauritius over the period 2006-15 will have two components, the public and the private sector. The private sector financing needs will be based on the projects posed by the private sector in consonance with the reform strategy formulated by the Government. The public sector's list of projects will be outside the capital budget 2006-07, which could not be included in the budget for want of assured funding. The private sector project can be funded through concessional lending channelled through various financial intermediaries. The public sector projects however need to be funded by outright grants. Loan based funding will come in way of setting the debt to GDP ratio on a downward track. At most loans based funding available on concessional terms can be used to replace traditional sources of government borrowings for bringing down the debt servicing burden. The Government of Mauritius will be able to assure the development partners of its ability to put the funds to efficient use through macro economic and project specific indicators and greater involvement of skilled personnel mobilized domestically as well as abroad.

9. The reform program will be implemented over the ten year period 2006-2010 costing about US$ 3.2 billion, half of which is expected to be sourced from the Government, the domestic private sector and FDI. (See the table on overall financing requirements below). Thus there remains an unmet financing gap of about US$ 1.6 billion. A flexible lending program of $200 to $400 million per year is proposed to support the strategic objectives of the Reform Strategy. Base case lending will be investment projects, which are subject to pre-conditions of appropriate policy and acceptable medium term expenditure framework. High case lending will be a combination of investment and development policy lending following the maintenance of an appropriate macroeconomic framework. The global package of concessional assistance with grants will be mainly obtained from the EU and other development partners, including under the Aid for Trade initiative and bilateral arrangements.

Summary of Financing Requirements by Sector

Rs m

Sector	Total cost	FY 2006/2007	FY 2007/2008	FY 2008/2009	FY 2009/2010	FY 2010/2011	FY 2011/2012 - 2015
Economic Empowerment Programme (including private)	7,000	1,150	1,600	1,600	1,600	1,050	
Sugar	25,000	840	3,808	5,049	4,770	4,439	2,753
Non Sugar	935	40	11	246	241	236	53
Fisheries	2,970	10	885	645	825	250	355
Land Based Oceanic Industry	210	150	60	-	-		
Tourism, excluding Hotels and IRS	5,000	*300*	*300*	*400*	*500*	*500*	*3,000*
Manufacturing	7,790	3,755	2,337	1,558	140	-	-
Water	250	-	250	-	-	-	
Waster Water	4,000	-	-	-	-	-	4,000
Solid Waste Management	765	125	380	175	25	60	-
Energy	10,000	100	200	1,700	200	1,700	6,100
Inland Transport	22,655	600	675	2,275	3,550	3,625	11,930
Port	16,565	-	160	1,330	5,075	5,000	5,000
Airport	6,000		1,500	2,500	2,000	-	-
Environment	400	-	110	100	120	70	-
Housing	5,740	490	490	490	610	610	3,050
Land administration and Management	300	28	88	82	50	53	-
Improving Land Use Planning	146	36	48	33	25	5	-
Education and Training	8,150	1,550	630	1,150	1,350	1,400	1,570
Information Communication	8,700	200	200	3,500	3,400	1,400	-

Technology							
Health	4,050	50	700	1,250	1,010	955	85
Others	2,000	100	200	200	200	300	1,000
Total	**136,626**	**9,424**	**14,431**	**24,083**	**25,491**	**21,352**	**37,896**
Total (in US $ m)	*4,621*	*317*	*488*	*809*	*856*	*722*	*1297*
Total (n Euro m)	*3,555*	*244*	*375*	*623*	*659*	*555*	*997*

SECURING THE TRANSITION:

FROM TRADE PREFERENCES TO GLOBAL COMPETITION

Mr Speaker,

Sir,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment Facilitation

17. On investment facilitation, we will

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

2. facilitate access to existing business premises by doing away with the need for a development permit;

3. rationalise the 40 activities covered by development permits into three clusters: services, industrial and commercial;

4. work towards pre-designated development areas where the development permit would not be necessary and would be integrated into the building permit;

5. facilitate foreign investment by establishing clear guidelines that allow starting up without government clearance;

6. integrate the EPZ and non-EPZ sectors and do away with all investment certificates except for the Integrated Resort Scheme (IRS) and the Freeport;

7. do away with the discretion and powers of remission of the Minister of Finance and have clear rules and regulations that will be enforced uniformly.

Opening up the economy

18. To open the economy we will

8. attract foreign talent, know how, ideas, technology and money to absorb the unemployed, upgrade skills and raise earnings of our workers;

9. encourage the Diaspora to participate in our development by taxing Mauritians on income remitted instead of world-wide income and facilitate their return with a concessionary duty for a car;

Labour market reform

19. On labour market reform we will

10. link wages to productivity so that firms can maximize the number they employ and raise average wages while workers have an incentive to improve their efficiency;

11. reduce the cost to employers of releasing labour to promote hiring of the many excluded today, especially the young, the long-term unemployed and those who lose their job;

12. shift protection from jobs to workers and increase their security so that they do not lose out while shifting employment and have opportunities for improving their skills or starting a business;

13. integrate the various labour markets into one regime with the same rules and procedures for all;

Social Policies

20. On social policies we will

14. rationalise the fragmented social assistance schemes to make social insurance fiscally sustainable and equitable;

15. streamline transfers and subsidies while better protecting the poor;

16. consolidate our social policies against the backdrop of an aging population;

17. save the pension system by taking account of changes in life expectancy and a decline in the number of workers supporting those who are retired;

Controlling wastage and securing efficiency gains in the public sector

21. To control wastage and improve efficiency in the public sector we will

18. rationalise programmes, institutions and financing, combat abuse, clamp down on wastage and improve service delivery;

19. close down the DWC and the Police Garage and review Government involvement in casinos;

20. control spending by insisting on value for money, improving work planning, investigating cost overruns, introducing performance indicators and accountability;

21. reduce transfers to parastatals and provide the context for productivity gains in service delivery;

Fiscal consolidation and discipline

22. To achieve fiscal consolidation and restore discipline we will

22. enforce the following fiscal rules:

- first, the golden rule that limits government borrowing to the financing of investment;

- second, the sustainable investment rule that requires that the net public debt ratio to GDP is on a downward track; and

- third, the constant expenditure rule that requires that total expenditure remains constant after adjusting for inflation;

Tax reform

23. In the area of taxation we will

23. reform the tax system to make it simple and fair;

24. unify in steps the Corporate Income Tax to a single rate;

25. review capital allowances to end the bias against investment in people;

26. make all those with similar incomes pay the same taxes and those with more income pay more taxes;

27. introduce a National Residential Property Tax;

28. meet the pledge in our election manifesto to remove lower income taxpayers from the tax roll;

29. cut customs duties to move to a low tax platform, increase the purchasing power of consumers, eliminate the need for exemptions and move faster towards a duty free island;

30. review VAT;

31. rationalise excise duties to comply with the WTO and harmonise taxation rates across products;

32. review taxes on cars to make ownership more affordable;

33. lower registration duty to promote economic activity and increase penalties to encourage compliance;

34. introduce new taxes to protect the environment;

35. levy temporary solidarity charges to assist the most vulnerable; and

36. ensure taxpayer compliance and step up enforcement;

Broadening the circle of opportunities

24. To broaden the circle of opportunities we will

37. set up an innovative and comprehensive Economic Empowerment Programme;

38. tackle high female unemployment and low earnings of women;

39. radically improve the support framework for new entrepreneurs and SMEs;

40. expand the range of financing instruments for micro enterprises and SMEs.

25. We, in Government are the first to realise that while the ends are noble the means may be painful, especially for the next two to three years. Not only is change hard but, due to past inaction and the economic legacy, we now need to take many measures all at once. Worse, we have to do this at a time when we are hit by external shocks equivalent to three very strong cyclones simultaneously: lower price of sugar, soaring energy costs and erosion of our textile markets.

26. We cannot take away the pain from so much change in such adverse circumstances but we can lead with example. This is why, Mr Speaker, Sir, all the members of this Government are giving up some of our privileges and we are asking all Members of the National Assembly to follow suit.

1. We propose a 3.5 percent pay cut effective 1st July 2006;

2. we will forgo the salary compensation for next year;

3. we are increasing the renewal period for duty free cars for MNAs from 3 to 4 years; and

4. we will change their retiring allowance system.

27. Implementing the reforms will also involve high costs in monetary terms.

28. As a nation we will need to spend around Rs 150 billion over the next ten years, most of which will be frontloaded in the first three to five years. We cannot mobilise such sums on our own. We need both foreign investment and support from our external partners to make it possible to move from a four pillar economy dependent on sugar, textiles, tourism and financial services to a diversified economy that is resilient to shocks. To unlock such support, we need to be bold, to show resolve and above all to overcome our resistance to competition from outsiders and instead swing our doors wide open. It is time to be fully open.

29. Finally, as the reform package delivers higher growth, the policies we put in place now will ensure that rising incomes would be shared more with the low-income workers, the unemployed, and other disadvantaged groups that are making the biggest sacrifices.

30. As we embrace change to make the future work for our children, let us remember that if we do nothing, what is now a precarious but rectifiable situation could degenerate into a severe crisis and become unmanageable. Economic adjustment will then be forced upon us from outside and the conditionalities for foreign assistance will be sour pills for the population. They will be difficult to endure.

31. Mr Speaker, Sir, it is in the best interest of the nation that we act - and that we act decisively. Now is the time.

32. This is a time to challenge our ingenuity and resolve as a nation. This is a time for radical novelty.

33. Therefore, Mr Speaker, Sir, the single over-riding purpose of this year's Budget is to create jobs, promote employment and return to growth by securing the transition from a preference dependent to a globally competitive economy.

34. Before elaborating on the reasons for and the nature of our reforms, I will review the economic situation this year and outline prospects for next year.

ECONOMIC REVIEW

35. The outlook for world GDP is continued robust growth in 2006 and 2007 of around 5 percent supporting an expansion in world trade of around 8 percent.

36. Regional growth also remains solid at about 5 percent in SADC and 6 percent in COMESA.

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

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

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

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

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

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

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

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

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

Budget Outturn 2005/06

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

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

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

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

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

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

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

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

OUTWARD LOOKING AND GLOBAL IN PERSPECTIVE

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

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

1. Encourage private investment in new pillars;

2. Democratise growth to ensure that low-income workers and the unemployed participate fully in the recovery; and

3. Release growth by eliminating the high costs of regulations.

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

EASE OF DOING BUSINESS

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

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

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

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

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

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

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

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

1. prior health, fire and police clearances for business are being abolished;

2. trade licences that take weeks and sometimes months to obtain will be transformed into a simple municipal fee that is paid after, instead of before operations start;

3. development and building permits will be merged into one permit within 6 months and meanwhile the development permit will be simplified within three clusters: services, commercial and industrial;

4. all incentive certificate schemes will be abolished except for the IRS and Freeport scheme;

5. commercial and industrial zones will be predesignated to save investors long search delays and allow for plug-in operations;

6. with the promulgation of the Business Registration Act by September 2006, the Registrar of Companies will be the sole place for a business to register before starting operations;

7. to make the system function we will introduce instruments for ex-post verification;

8. departments responsible for health, fire prevention, protection of the environment will elaborate guidelines on standards to be respected by all businesses. These guidelines will be available on-line and through BOI, Enterprise Mauritius (EM) and SEHDA. The guidelines will be based on rules and thus eliminate discretionary powers of inspectors;

9. separate agencies will be responsible for regulatory functions; ex-post control and enforcement; and dispute settlement. Legislation will be made more stringent in terms of penalties to ensure self compliance;

10. in this new regime BOI will become a facilitator and promoter of investment instead of issuing approvals while EM and SEHDA will nurture existing firms and new entrants, respectively;

11. rigidities in insolvency constitute another hurdle that needs to be removed for businesses. A New Insolvency Bill will address the limitations of the existing legislations and bring all insolvency matters, individual and corporate, within the ambit of a single legislation. The new Bill will also impact on the "Sale of Immovable Property Act 1868" which governs the "Sale by Levy" process;

12. the labour laws and wage determination system will be revisited to remove the rigidities that create imperfections in the labour market and frustrate both investors and job seekers. I will announce the detail of these changes later.

63. These twelve measures taken together will radically transform the way business is carried out in our country. Where possible, the new system brings in automaticity and where action is required the implementation rules will emphasize silent agreement.

OPENING UP THE ECONOMY

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

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

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

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

- Second, BOI will assist a qualifying foreign investor or a self-employed to secure an occupation permit for himself and residence permits for his spouse and dependents.

- Third, any firm can apply through BOI for an occupation permit for any foreign employee it pays more than Rs 30,000 a month and a residence permit for the spouse and children of that employee.

- Fourth, a non-citizen retiree providing evidence that he/she will bring in at least USD 40,000 annually can apply through BOI for a residence permit. However, he or she will have to provide a bank guarantee of USD 10,000. The same will apply to self-employed professionals. This measure is a building block to expand from our current model of short term tourism to an integrated hospitality and leisure industry. Growth in this sector is also essential for economic democratisation and absorbing low and semi-skilled labour from declining activity.

- Fifth, all foreigners applying for occupation or residence permits will be able to provide a health certificate issued by an accredited doctor in Mauritius instead of a health clearance from Government hospitals.

- Sixth, the occupation permits for investors and professionals and residence permits for their dependents will be issued within three working days. Within one working day BOI will forward the applications to the immigration department, which will provide a document acknowledging the date and time of application. If after two working days the immigration department has not raised any objection the document will become automatically an occupation and residence permit valid for three years from the stamped date, in line with the silent agreement principle.

- Seventh, the spouse of a holder of an occupation permit can take up any job paying more than Rs 30,000 a month, set up a business or work as a self-employed professional earning at least Rs 600,000 a year according to the same provisions as investors and skilled professionals.

- Eighth, the investor, excluding the self-employed will face no restriction to purchase real estate for activity registered with BOI.

- Ninth, after three years of activity in Mauritius, consistent with the terms of entry, the foreign national and spouse and dependents can apply for permanent residence. The Permanent Residence Permit will be valid for ten years and allow unrestricted work and residence as well as purchase of real estate. It will not, however, give the right to vote.

- Tenth, to bring in global players we are opening Mauritius to international law firms by amending the Law Practitioners' Act to allow the formation of law corporations.

- Eleventh, business and tourist visas are now given for a period not exceeding the return date on the travel ticket. Henceforth, such visas will be issued for a period of 60 days.

- Twelfth, changing a tourist visa into a business visa was only permitted outside Mauritius. Now visitors will be allowed to make this change in Mauritius as well.

- Thirteenth, we also want to encourage the Mauritian diaspora to invest and participate actively in our development. To this end, Government has recently decided to become a member of the International Organisation for Migration (IOM). This organisation will assist in attracting investment from the Mauritian diaspora as well as opening new avenues for Mauritians to save money and learn new skills abroad before returning home to start a business. To this end, we will seek IOM help to identify appropriate programmes. Our aim is to offer those who have a spirit of enterprise but few resources to take temporary employment abroad to acquire skills and capital to set up their own businesses in Mauritius when they come back.

- Fourteenth, we are simplifying and liberalising the rules allowing any returning Mauritian who has been resident outside Mauritius to bring one car free of duty. Currently the returning resident has to establish that he has spent at least 10 years abroad in the 12 year period preceding his return; different rules apply if the country he is from has left or right hand drive. The car must have been purchased and registered for 6 months prior to return. The new rules require foreign residency for five years only prior to return provided the car is purchased and shipped from abroad.

LABOUR MARKET REFORMS

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

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

WAGE DETERMINATION

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

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

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

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

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

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

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

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

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

RESTRUCTURING THE ECONOMY:

EXISTING SECTORS

Sugar and manufacturing

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Tourism

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

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

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

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

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

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

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

Financial services

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

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

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

- First, we are expanding the range of banking activities conducted from Mauritius by making amendment in the Banking Act to provide for private banking services.

- Second, we will review our commercial law to provide for a mode for notification in the case of assignment of debts and on the pledging of shares that will encourage the use of Mauritius in major cross border financial transactions.

- Third, I am proposing to extend with slight modifications the regime of the Gage Special presently existing in favour of banks to transactions involving global business companies.

- Fourth, the FSC will encourage the exchanges to create special boards for the listing of global business companies.

- And fifth, we are amending the regulatory framework to enable Management Companies in the global business sector to provide fund administration services to funds established in other recognised financial centres.

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

ICT

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

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

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

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

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

Other Emerging Sectors

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

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

Integrated Resort Scheme

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

Duty-Free Shopping and Other Services

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

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

Knowledge Hub

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

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

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

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

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

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

Access To High Quality Health Care For All

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

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

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

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

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

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

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

FISCALLY RESPONSIBLE GOVERNANCE

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

RESPONSIBLE STEWARDSHIP OF PUBLIC MONEY

121. First, on public expenditure.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

146. However, Government will take a humane approach.

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

- First, Government will meet fully its obligation on the terms of contracts for the employees.

- Second, a special unit at the Ministry of Labour will assist the employees to shift to productive activity in line with our policy of protecting workers instead of jobs.

- Third, there will be redeployment of employees.

- Fourth, the workers with a pensionable age profile will be pensioned off.

- Fifth, assistance will be made available through the Empowerment Programme for training for those who can be recycled into other jobs.

- Sixth, in line with our policy to diversify the base of enterprises eligible for Government contracts, workers wishing to start a business and in particular to set up companies for construction will be given all necessary support.

- Seventh, those setting up such businesses may obtain the equipment of the DWC on favourable terms.

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

- The Financial Services Promotion Agency will be fused with the Board of Investment.

- In human resource development we are separating policy formulation, monitoring and evaluation from financing and execution. HRDC will be responsible for policy formulation monitoring and evaluation in collaboration with stakeholders. Execution will rely on IVTB and private sector institutions with on-the-job training heavily emphasised.

- The State Investment Corporation (SIC) will move out of all commercial activities and focus on strategic investment in line with economic restructuring plan.

- The Government will review its policy on casinos and casino management with the intention of finding a way to exit while maximizing the benefits.

- The DBM Ltd will be restructured to improve its performance.

- The Business Parks of Mauritius Ltd (BPML) will also be restructured.

- We will review the feasibility of converting the Central Statistics Office into an autonomous body.

- Special funds which have outlived their usefulness will be wound up to avoid unnecessary expenditure.

- And, surplus cash balances of special funds will be transferred to the Consolidated Fund to improve financial management since Government is borrowing at a higher rate than these deposits attract.

REORIENTING SUBSIDIES FOR BETTER SOCIAL PROTECTION

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

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

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

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

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

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

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

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

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

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

SECURING BETTER PROTECTION FOR OUR PENSIONERS

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

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

- Therefore, in line with the recommendations of all the experts, Mr Speaker, Sir, the retirement age will gradually be raised from 60 to 65 years, both in the public and private sectors. This will be done by adding one month to the retirement age every two months, starting August 2008 and achieving the target in 2018. The relevant legislations will be amended accordingly.

- Our second reform is to secure the long-term sustainability of the BRP. Starting August 2008, the entitlement age to the BRP will also be raised by one month every two months to reach 65 years by 2018.

- Third, effective July 1, 2006, we are collapsing the current four bands to three by merging the first two bands, to return to the system as it existed prior to July 2004.

- Fourth, increases in BRP will be limited to no more than changes in the Consumer Price Index. And I am pleased to announce that for fiscal year, 2006/07 we will increase old age pensions by a full 5 percent.

- I am also raising the benefits payable to widows, orphans, disabled and inmates of charitable institutions by the full 5 percent.

- Fifth, the BRP will form part of chargeable income. This measure will only apply to pensioners in the top income brackets.

- Sixth, as regards Public Sector Pension, we are introducing a modified Defined Benefit (DB) Scheme similar in structure to the present scheme but simpler to administer. It will continue to be funded on a Pay-As-You-Go basis. The proposed contribution rate of 6 percent will be taken into account in the next PRB report due in 2008. The normal pension age will be 65 instead of 60. The computation of the amount of pension and the qualifying period to benefit for full pension will also be adjusted accordingly. This new scheme will be applied to all employees, with transitional measures to secure acquired rights.

- Seventh the NPF will align the age for pension eligibility to the other schemes.

- Eighth, in line with the reform of pension in the Public Sector, as from 1st July 2006 a Member of the National Assembly (MNA) will be required to contribute 6 percent instead of the present contribution of 4 percent of salary. Under the revised scheme, existing and previous members will keep their accrued retiring allowance. However, accruals as from the next legislature will be at the rate of 1/360 per month compared to 1/270 per month currently. New members will accumulate retiring allowance rights at the rate of 1/360 per month and their retiring allowance payment will be deferred until the age of 65 with provisions for discounted retiring allowance payment as from age 60. As a result of the reforms, it will now take an MNA more than 15 years and a new MNA 20 years to qualify for full retiring allowance representing

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

- Ninth, the composition of the Investment Committee of the National Pension Fund will be reviewed. There will be a mix of representation of workers, employers and government officials having professional skills in investment management, actuarial science, accountancy and economics.

- Tenth, as regards the regulatory framework for Private Pension Plans, the draft Private Occupational Pension Scheme Bill will be introduced in the National Assembly shortly.

TAX POLICY

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

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

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

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

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

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

Personal Income Tax

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

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

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

169. These are built on four interwoven components:

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

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

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

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

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

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

- A family with one dependent can earn up to Rs 25,000 a month, including end of year bonus and not pay any income tax.

- And it gets better. A family with two dependents can earn up to Rs 29,600 per month and not pay any income tax.

- And it's not all. A family with three dependents can earn up to Rs 32,500 and not pay any tax at all.

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

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

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

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

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

- A young graduate earning Rs 15,000 monthly will now not pay any income tax and can gain about Rs 14,000.

- A public officer drawing monthly income of Rs 30,000 and having one dependent will pay about Rs 21,000 less tax than currently.

- An officer in a public sector body drawing Rs 50,000 monthly and having two dependents will pay about Rs 18,000 less.

- A manager in the private sector with three dependents and a monthly income of Rs 75,000 will gain Rs 15,000 in tax savings.

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

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

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

National Residential Property Tax

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

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

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

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

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

Corporate Income Tax

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

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

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

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

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

- First, the basis of computation of Annual Allowances for depreciation of assets will be shifted from the current Straight Line to Declining Balance for all assets, except for non-hotel buildings. The rates will be 30 percent for hotels, 50 percent for electronic and computer equipment and 35 percent for other machinery and plant. This will substantially simplify bookkeeping requirements on assets.

- Second, to bolster development of the services industry, Annual Allowances will be extended to commercial premises including shops and shopping malls, offices, showrooms, restaurants and other entertainment places and clinics. The rate will be on a straight line basis and set at 5 percent.

- Third, the ceiling for an equipment or machinery to be fully expensed in the first year will be raised from Rs 10,000 to Rs 30,000.

- Fourth, we are abolishing the 25 percent Investment Allowance.

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

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

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

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

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

Tax administration

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

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

- The first change concerns the Pay As You Earn system. This system of Deduction at Source of tax on salaries has been in operation for over a decade. Though it has proved to be an efficient method of tax collection, the system, as it is, results in some 80,000 refund cases each year. Their processing ties up huge resources in tax administration that could be reallocated to verification and enforcement. That is why we are moving during the year to a cumulative PAYE system, under which employers will cumulate the monthly emoluments before effecting the tax deduction. This reform has been made possible by the consolidation of allowances and deductions.

- Second, the Deduction at Source system will be extended to other types of income such as interests, royalties, fees for technical services, rental income and payments to contractors and sub-contractors. Concerning interest income, deduction at source will apply only in respect of accrued amounts exceeding Rs 120,000 in a year.

- Third, tax treatment of fringe benefits, including car benefits, housing benefits and passage benefits, will be reviewed and updated. Thus, the car benefit value that has stayed at Rs 12,000 a year since 1979, i.e., for 37 years now, will be adjusted to a range of Rs 48,000 to Rs 60,000. For transparency purposes, the new set of taxable fringe benefits and their values will be set down in Regulations. Also, the same values will apply to the public and private sectors.

- Fourth, to improve tax compliance, any individual who owns more than one residence or is owner of an immovable property with price at time of purchase exceeding Rs 2 million, will be required to file an income tax return, irrespective of whether their income is chargeable or not. The same will apply to individuals owning a car with an engine capacity exceeding 2,000 cc and to owners of a private pleasure craft.

- Fifth, the Current Payments Systems (CPS) returns that have to be submitted by self-employed will henceforth be on a quarterly basis instead of semi-annual.

- Sixth, all persons will be required to declare in their income tax returns the total income derived in the year, including exempt income such as dividends.

Registration Duties

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

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

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

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

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

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

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

Campement Site Leases

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

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

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

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

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

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

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

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

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

Customs Tariffs

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

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

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

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

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

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

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

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

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

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

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

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

Excise Duties

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

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

- First, we are rationalising and simplifying categorization of alcoholic products;

- Second, we are removing existing tax biases against production of quality products from molasses and cane juice;

- Third, we are gradually phasing out the duty differential between bulk importation and importation of bottle;

- Fourth, for taxation of spirits, we are moving to an Absolute Alcohol Content basis (i.e. alcohol at 100 percent by volume) so that the higher the alcoholic content, the higher the duty amount; and

- Fifth, within any category of product, we are applying the same rate of duty on local production and on imports.

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

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

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

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

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

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

Motor vehicle taxation

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

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

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

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

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

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

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

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

Motorcycles of 50 cc or less,	from 20 percent to 15 percent
those between 51cc to 125 cc,	from 40 percent to 30 percent
those exceeding 125cc	from 55 percent to 45 percent

Temporary levy

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

VAT

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

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

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

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

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

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

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

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

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

Budget Estimates for 2006/07

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

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

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

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

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

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

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

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

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

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

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

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

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

THE EMPOWERMENT PROGRAMME

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

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

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

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

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

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

269. The Empowerment Programme will undertake seven critical activities:

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

Land for social housing

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

Land for small entrepreneurs

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

A workfare programme emphasizing training

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

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

Special programmes for unemployed women

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

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

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

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

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

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

Tourist Villages

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

Assistance for outsourcing

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

Support for development of new entrepreneurs and SMEs

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

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

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

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

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

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

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

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

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

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

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

CONCLUSION

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

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

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

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

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

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

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

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

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

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

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

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

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

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 m2. 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 INFRASTUCTURE 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 Pamplemousses.

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'Education 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 million 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.

BUILDING AN ATTRACTIVE, MODERN, INCLUSIVE, GREEN, OPEN MAURITIUS

Mr Speaker,

Sir,

I move that the Appropriation Bill 2008/2009 be read a second time.

2. Mr Speaker, Sir, I stand before this House to present the Budget in a year when we are celebrating the 40th anniversary of Independence. Forty years is a blink in time, but for our nation it has been a long and proud chronicle of striving and achieving against all odds. Every man and woman before us have toiled so that each succeeding generation can live a better life. This should inspire fortitude and diligence in every one of us.

3. Mr Speaker Sir, it was in that spirit of serving the nation and securing a more prosperous country for our children that three years ago, when the economy was stumbling into a self reinforcing decline, we set out to turn it around. We also pledged to implement a development strategy that shares the fruits of economic growth more widely and more equally. We set the ball rolling on these two endeavours back in August 2005 with the Statement, in this House, on "Setting the Stage for Robust Growth". This was followed by the reforming budgets in 2006 and 2007. I am pleased to report that our country has made impressive progress on both objectives. With foresight we saw the threats and changed development course. Now with hindsight, everyone knows that we chose the right path.

4. In the Budget Speech last year, I spoke about the early fruits of reforms and about vivid signs of economic revival. Today, I will list concrete outcomes.

5. Our reforms have successfully taken GDP growth from a 2 percent and declining trend to a robust, resilient, balanced 6 percent and rising growth path. For 2008/09 we are forecasting a growth rate of 6.2 percent, up from 5.5 percent in 2007/08 and 5.1 percent in 2006/07. We are also projecting a 6 percent growth rate for 2008 rising from 5.4 percent in 2007 and from 5 percent in 2006.

6. Growth is also more balanced with all sectors doing well, some of them booming and emerging sectors expanding into new pillars.

7. Per capita income which was US$ 5,000 in July 2005, will reach US$ 7,000 by end 2008.

8. Our most prominent achievement has been on the employment front. We have stopped the 15-year rising unemployment rate. It has fallen from a peak of 9.6 percent in 2005 to 8.5 percent today. Annual employment creation has more than doubled since 2005. And the prospects for job creation in the coming years are exceptionally positive as the Tianli and other major projects are expected to create some 60,000 jobs.

9. The other outstanding achievement is on foreign direct investment. In three years, since July 2005, Mauritius has received Rs 20 billion of FDI. This is more than the FDI inflows of the preceding 20 years put together. This unprecedented rush is not happening by chance. It is an outcome of our openness, tax reforms and business facilitation policies. Indeed, FDI is forecast to accelerate to Rs 15 billion this year.

10. Total private investment as a percentage of GDP has risen from 15 percent in 2005 to reach 20 percent in 2007. It is expected to further rise to 21 percent in 2008 – its highest level ever. Total investment as a share of GDP increased from 21 percent in 2005 to 25 percent in 2007 and is projected to rise to 26 percent in 2008.

11. The savings rate, which fell to its lowest in decades, is now rising again, going above 20 percent of GDP from 17 percent in 2005.

12. I am pleased to announce that for the third consecutive year, both the budget deficit and debt to GDP ratios will fall as we continue to tame these twin beasts.

13. The Balance of Payments was in the red in 2005. It is showing a healthy surplus of Rs 13.8 billion at December 2007. Net international reserves were Rs 54 billion in July 2005 and now stand at Rs 81 billion, representing an improvement in import cover from 33 to 36 weeks.

14. This improvement has happened despite global food prices having risen by 30 percent. However, our policies have limited food price inflation in Mauritius to 15.1 percent in 2007. Our reforms have strengthened the rupee and given us the fiscal space to provide higher food subsidies. We have unlocked rising per-capita income and increased employment substantially. Together with tax cuts and more support to the low income groups, the impact of global inflation has been mitigated. Overall domestic inflation is down from its peak of 10.7 percent in 2006/07 to 8.8 percent for 2007/08. Notwithstanding that high inflation is largely imported, it nonetheless is a blip on our strong economic record.

15. Despite limiting the loss of purchasing power better than most countries we will need to do more to restore real income. We will also

address the further threats coming our way. Food prices, food security and energy self sufficiency will be dealt with decisively in this Budget.

16. The sugar and textile industries were shaken by preference erosion. Output in the sugar industry went down by 12.8 percent in 2005 but recovered with a 2.9 percent growth rate in 2006 and will expand by 19.3 percent in 2008. The textile sector has pulled through its four year recession phase - increasing output by 2.9 percent in 2006 and by 10 percent in 2007. It is forecast to grow by 4.6 percent this year.

17. Overall, the manufacturing sector recovered from a negative 5.5 percent growth in 2005 to a 4 and 3.5 percent growth, respectively in 2006 and 2007.

18. The tourism sector was showing signs of weakening in 2005. It has regained dynamism, with 15 percent growth in arrivals in 2007 and achieving a high 7.5 percent growth path in 2008.

19. The construction industry had a difficult year in 2005 with a negative growth rate. It is now the fastest growing sector, expanding by 15 percent in 2007 and by a further 7 percent in 2008. With the Tianli project starting construction next month, the luxury villas and Highlands project, this industry should go through one of the most dynamic phases in its history over the next decade.

20. The number of establishments in the ITES/BPO sector has increased from 85 in 2005 to 200 at April 2007. It has also more than doubled employment to 8,000.

21. Adding to this new dynamism is a thriving cluster of emerging sectors, each one poised to become new pillars. They include seafood, real estate, aquaculture, knowledge, medical tourism, professional services and logistics.

22. Mr Speaker, Sir, there can be no doubt that strong dynamics are at play in our economy, bearing the promise of more resilience, an even higher growth path, more rapid rise in the standard of living and more solidarity.

MID-TERM REVIEW OF SOCIAL DEVELOPMENT

23. We stated in our first budget that while growing income and wealth is absolutely necessary, social development and solidarity must follow at the same pace. And we have put inclusive growth and full employment at the heart of our new development paradigm.

24. We have implemented a new social policy centered on empowerment and on broadening the circle of opportunities. This is supported by a partnership bringing together civil society, the corporate sector, Government and development partners.

25. Never before has Government reached out to the poor in such compassionate and practical ways. We have measured the extent and depth of the poverty problem, identified the poorest of the poor and given them more support and opportunities.

26. We have assessed the needs of the orphans and disabled, of women and children in distress and of our senior citizens and provided adequate support.

27. We have appraised the plight of those families without a decent dwelling so we can tailor our response to their specific needs and affordability.

28. We have almost doubled the subsidy on rice, flour and cooking gas at a total cost of Rs 1.3 billion. The subsidy on rice and flour has increased by 75 percent from Rs 400 million to Rs 700 million and that on gas from Rs 300 million to Rs 600 million. And we have given income support to close to 100,000 beneficiaries. We have restored universal old age pension to undo the onerous administrative verification imposed on pensioners previously.

29. Our tax reforms have taken 36,000 individual income earners out of the tax net, lowered the tax burden of close to 25,000 persons, slashed corporate tax rates and reduced maximum personal income from 30 percent to a flat 15 percent and significantly improved the fairness and efficiency of the tax system. Only 7 per cent of employees pay tax in our country. And the tax rate is one of the lowest in the world.

30. Government is paying in full the SC and HSC examination fees of 9,000 students from families with modest income in contrast to 1,600 under the previous system. All students and old aged pensioners benefit from free transportation and 6,600 needy students are today provided free school materials. Since July 2005, the Trust Fund for Vulnerable Groups has provided loans to 132 needy students following courses at the University of Mauritius.

31. The Empowerment Programme has trained some 4,000 mostly retrenched workers to improve their chance of a job. It has put more than 3,000 in employment.

32. Rs 494 million have been disbursed for de-rocking, irrigation, and land preparation to help small planters meet the challenge of the EU sugar reforms.

33. We have given financial support of Rs 125 million to help pig breeders recover from the swine fever epidemic that has devastated their stock.

34. We have provided Rs 15 million to set up the Fishermen Investment Trust (FIT). 4,461 fishers have been given 300 shares each in the Trust.

35. We have lent an attentive and compassionate ear to the genuine cases of sale-by-levy victims. Government is supporting them to regain a home. We have also allowed about 20,000 families living as tenants in CHA houses to purchase their residence at a nominal value.

THE AMIGO PLAN

BUILDING AN

ATTRACTIVE, MODERN, INCLUSIVE, GREEN, OPEN MAURITIUS

36. Mr Speaker Sir, in three years we have come a long way. There are ample reasons for buoyant optimism. Yet, we must not let success lead to complacency. There are still higher rankings to reach on the ease of doing business and on human development index. There are still more rungs to climb on the income ladder. The backdrop to future growth and development keeps getting more challenging. Now, we face the prospects of the US sliding into a recession, uncertain about its duration and depth and its knock on effects on Europe.

37. Mr Speaker Sir, our reforms have made Mauritius resilient. But we are not immune. We are already feeling some of the anxieties that grip the world. We must have an effective handle on developments, globally and regionally. That is why, Mr Speaker, Sir, we must continue on the path of reforms with yet greater commitment and determination.

38. Having restored high, robust and sustained growth; having put the country solidly on the path of openness, global competitiveness and full employment, we now need to give Mauritius a strong and vigorous impetus to run the next development lap and build the Mauritius of tomorrow.

39. Indeed, Mr Speaker, Sir, the 2008/2009 Budget is structured around strategic themes that are crucial to the future of our nation, namely building An Attractive, Modern, Inclusive, Green and Open economy.

40. We will continue our policy to further open the economy to the rest of the world, through more improvement in the ease of doing business, consolidation of our productive sectors and constructing new pillars.

41. We will build Modern Mauritius with new and world class physical infrastructure, new cities and first-rate facilities.

42. We will build a Green future for Mauritius through the Maurice Ile Durable vision of the Prime Minister, and shift to local renewable sources of energy away from imported fossil fuel.

43. We will build Inclusive Mauritius by integrating the families who are at the margin of development, by eradicating absolute poverty, by providing pre-primary education to kids who are deprived such access today, by further broadening the circle of opportunities and addressing the food security issue.

44. I will start with our plan to build an Open Mauritius.

Building an Open Mauritius

45. The pursuit of a place among the top ten economies in the world on the ease of doing business must go on. The latest World Bank survey has revealed a number of areas where Mauritius should improve to progress towards this goal.

46. First, there are 474 business licenses in Mauritius. This is 7 times more than in, for example, Singapore. The Board of Investment, with the assistance of the World Bank will streamline and simplify the system of business licensing to make compliance easier, less time consuming and less costly.

47. Second, effective October 2006, investors whose business in Mauritius would have an annual turnover exceeding Rs 15 million for three consecutive years are allowed to apply for Permanent Residence. This facility is being extended to those who have been investing in Mauritius prior to that date.

48. Third, we want to cut the time it takes to settle commercial disputes from 2 years to 7 months which is international best practice. To this end a Commercial Division will be set up in the Supreme Court. I am increasing

the Budget for the judiciary by more than 50 percent to Rs 307 million including provision for 7 additional posts of Judge, 15 additional magistrates and appropriate facilities including renovation of courts.

49. Fourth, it can take 210 days to register a property in Mauritius. We want to reduce this to 15 working days and are making the necessary legislative amendments. These amendments, together with the Land Administration, Valuation and Information Management Systems should make this possible.

50. Fifth, the Doing Business Report also highlights that we need to improve on access to credit. We are amending the Bank of Mauritius Act to allow the Mauritius Credit Information Bureau to cover non-Bank financial institutions and utility companies in its data base and to provide information to regulated service providers. The Banking Act will also be amended to allow for the setting up of private credit information bureaus.

51. Sixth, we also want to significantly simplify the processes for exports and imports where bureaucracy can be unnecessarily exasperating in many cases. Our aim is to reduce the number of permits relating to imports and exports to the essential minimum, by 1st July 2009. Provisions will therefore be made under the Customs Act to suspend as from 1 July 2009 all permits relating to imports and exports, except those that are considered essential. All permit authorities will have until end December 2008 to submit to a Committee chaired by the Ministry of Commerce, any justifications for maintaining the permits they issue. Furthermore, the Committee will recommend measures to lower compliance costs.

52. Seventh, owners of business vehicles will be able to renew their licenses at post offices as well, and the number of pay points for renewal of motor vehicle licenses will be increased from 33 to 50 by June 2009.

53. Eighth, we are amending Section 8 of the Morcellement Act 1990 so as to allow all developers to take reservations and deposits equivalent to the cost of infrastructural works by providing a bank guarantee equivalent to the amount of such works, including offsite works.

54. Building Open Mauritius is also about creating the space for investment and the opportunities for turning ideas and innovation into value added. It is about building an economy supported by eight to ten pillars instead of four. And so in this Budget, we want to focus on consolidating the dynamism in the booming industries, giving a spur to

emerging activities and providing support to sectors that need to reengineer.

FINANCIAL SERVICES

55. The financial services industry has stood out in the past two years in terms of development. Banking, in particular, has outpaced most other sectors in terms of global integration and openness. We want this sector to maintain that vibrant dynamism.

56. To this end, legislation will be passed to encourage our financial institutions to carry out cross border transactions in securities, swaps, options and other derivatives that would improve efficiency and spread risk more thinly in the economy. The legislation will also facilitate hedging which businesses can use to reduce currency exchange risks.

57. We will also amend the Banking Act to

- reduce the retention period of cheques and other documents from up to 30 years to 7 years;
- allow banks to send statement of accounts to both borrowers and guarantors on all loans, and not simply on loans granted after the coming into force of the Borrower Protection Act; and
- allow banks to transact business on more flexible terms - outside the normal hours of business as well as on public holidays.

58. Appropriate amendments will be made to the Banking Act, the Financial Reporting Council Act, the Companies Act and other relevant legislations to improve compliance and the reputation of our financial services system.

59. Presently the financial leasing activities of commercial banks are regulated by the Bank of Mauritius as well as by the Financial Services Commission. To avoid duplication these activities will henceforth be regulated by the Bank of Mauritius only.

60. We will also set the regulatory framework for leasing companies to market products which are shariah compliant.

61. As we expect demand for office space and commercial buildings to rise significantly, especially with the World Class City at Highlands, we will also encourage property leasing with appropriate amendment to the

Registration Duty Act and the Land (Duties and Taxes) Act to avoid double payment of registration dues.

62. And to level the playing field appropriate amendments will be made to the legislation to make normal banking and Islamic banking tax neutral.

63. Government will come up in the coming fiscal year with the appropriate regulatory framework to underpin the setting up and regulation of the activities of Real Estate Investment Trusts in Mauritius.

64. The construction industry is bustling with activities. To this end, the new Construction Industry Development Board Bill will be introduced to provide for accountability of contractors to clients and to ensure compliance established standards and guidelines.

TOURISM

65. The tourism sector will need to weather the storm of weakening economic growth in Europe to maintain its rapid growth. We are therefore increasing the budget of the Mauritius Tourism Promotion Authority to Rs 340 million in 2008/09. We are also moving forward with the branding of Mauritius exercise. This should allow us to develop a strong, unique and favourably perceived brand, marketing Mauritius to visitors, buyers of our exports and investors as an attractive destination.

66. The Freeport is the other sector that stands to play a crucial role as Mauritius focuses on its regional integration thrust and becomes a business bridge to Africa. In this context a study will be commissioned by BOI to evaluate the challenges that the Freeport will have to meet, in particular in the area of logistics and make recommendations.

DOMESTIC ORIENTED INDUSTRIES

67. In our endeavour to open the economy we have maintained the momentum on import liberalization. But we also want to ensure fair competition for the domestic oriented industries. To this end, the Anti-dumping and Countervailing Measures Bill will be introduced in the House soon. Amendments will also be made to the Legal Metrology Act, the Food Act and the Dangerous Chemicals Act to ensure that legislation that regulates local manufacturing is also applied to imports.

68. Government will set up a Manufacturing Adjustment and SME Development Fund to sharpen the competitiveness of Domestic Oriented Industry and SMEs adversely affected by the reduction in import tariffs as we move to a duty free island. The Fund will also support Export

Industries to meet the challenges of global competition. I am providing an initial contribution of Rs 500 million to launch the Fund.

69. Inclusive Mauritius is also about widening the economic space for micro and small and medium enterprises. To improve the system of support to SMEs, we are broadening the availability of finance and facilitating access, in particular for those enterprises that have viable projects but are short of equity. Government is setting up a scheme with the participation of commercial banks for an SME with less than Rs 50 million turnover to qualify for a loan with limited equity. The participating financial institutions and Government will share the risk equally. An SME will be able to obtain a loan from commercial banks with no more than 10 percent equity compared to at least 40 percent presently. For start-ups, defined as new entrepreneurs, Government will guarantee up to 75 percent of the loans provided the SME mobilizes at least 5 percent equity.

70. Second, participating financial institutions should have a dedicated SME department so as to demonstrate a commitment to inclusive banking. The scheme will only be open to banks that increase their lending to SMEs relative to a baseline in 2008.

71. Third, these banks should have an elaborate plan for giving non-financial support as well. This will ensure that the scheme is in line with our philosophy of supporting SMEs from business inception to maturity.

72. Also, the SME Partnership Fund will raise its equity participation in SMEs from Rs 3 million Rs 10 million. This will target mostly business start-ups, thus ensuring that there are no financing gaps in our system. Moreover to ensure effective delivery of services, the management of the SME Partnership Fund will be revisited.

73. Mr Speaker, Sir, as we increase the flow of finance so must we increase the flow of business to the SMEs. I am pleased to announce that for its procurement, Government will give a preference of 15 percent on price for small domestic enterprises with less than Rs 50 million turnover and a 10 percent preference for small domestic building contractors with less than Rs 50 million turnover. The same benefits will be extended on a temporary basis until December 2010 to domestic manufacturing, regardless of turnover, to assist them in the transition to global competitiveness.

74. DBM is raising the ceiling for loans under the quasi-equity scheme from Rs 400,000 to Rs 500,000. It is also increasing the limit on the booster loan scheme from Rs 75,000 to Rs 100,000.

PENSION

75. As we build Open Mauritius we must have an economic system where workers rights are fully protected and where the interests of workers converge rather than diverge. Pension is one area where workers' rights must be strongly protected. First, we are enhancing worker mobility by amending regulations to allow portability of pension as from 2 years of full time employment.

76. Second, a new pension legislation will provide, for the first time ever, a comprehensive regulatory framework for private occupational pension schemes. This will encourage employers to set up schemes to safeguard the interest of employees and other beneficiaries. It will also provide for indexation of pensions to fully protect purchasing power.

77. Third, the governance and operational structure of the National Pension Fund and National Savings Fund will be strengthened to improve its efficiency.

78. Fourth, the National Pension Act will be amended to align retirement age in the private and public sectors and to be gradually increased to 65.

TERTIARY EDUCATION

79. Mr Speaker, Sir, to sustain the high growth that our reforms have unlocked we must invest massively in our people and our public infrastructure. It is critical that Mauritius shores up its capacity in Tertiary Education, in Science, Technology and Innovation (STI) and in human resources generally. Despite efforts in the past, only around 26 percent of children entering primary schools make it to tertiary education. As a result, the Gross Enrolment Ratio at tertiary level, that is the proportion of population of the relevant age in tertiary education, is only 36 percent. This is low by international standards and is out of phase with our ambition to be a globally competitive nation. And, it is also not fair that so many of our children do not make it all the way to HSC and post secondary education. Some children work hard to make it through secondary education only to be barred from tertiary education because of insufficient seats or for lack of funds.

80. Therefore, Mr Speaker, Sir, we are starting today a comprehensive and effective action plan to increase enrolment ratio at tertiary level. We will begin by enabling all students who are qualified and willing to pursue further studies to secure access to tertiary education. These short term actions will be accompanied by a medium term strategy to significantly

increase the share of each cohort of primary students going to HSC and to tertiary education so as to double the enrolment ratio by 2015. And we will give all the support required to students who want to pursue tertiary studies but cannot afford it.

81. Therefore, Mr Speaker, Sir, I am providing Rs 1 billion for a Human Resource Development, Knowledge and Arts Fund under the Ministry of Education and Human Resource Development. This Fund will finance

- physical infrastructure for tertiary education such as buildings, equipment and various facilities;
- projects to equip individuals with access to information, knowledge, technology, training and skills;
- student loan schemes and scholarships;
- schemes to encourage and support local artists; and
- initiatives to foster the arts and creativity.

82. Even if education is free, many are unable to avail of the opportunities offered. Above all we want to ensure accessibility by ensuring that no one is turned away from tertiary education through lack of funds. We are, therefore, launching a Government guaranteed student loan scheme of up to Rs 150,000 per year to allow commercial banks to make loans to all students with an offer from a TEC recognized tertiary institution in Mauritius. The guarantee is aimed at students whose family does not have the means to secure such a loan.

83. These students will service the loan, capital and interest, only after securing a job at the end of their studies and at prevailing interest rates. During the time when the student is studying, the interest on the loans will be capitalized. Mr Speaker, Sir, this is a measure with multiple benefits. The students, their parents and the country will gain significantly. It will make the student feel more independent and more responsible. It will give significant financial relief to students who come from families with modest income.

84. To meet the higher demand that this measure should generate, the University of Mauritius and University of Technology Mauritius will increase their intake in the next academic year so that all students who qualify for university studies can be admitted.

85. SLDC will construct facilities on land at Cote d'Or for lease to University of Technology Mauritius and the University of Mauritius.

86. In addition, to promote flexible learning and accommodate those who are unable to follow a normal curriculum during the day, our two Universities are developing proposals for expanding intake in evening courses. The University of Technology Mauritius will introduce the concept of flexi-learning, where there is no time limit for completing a course. This will give students more flexibility in the allocation of their time between studies and work or other priorities.

87. Our tertiary education institutions and the private sector will work together to offer sandwich courses. These courses combine theory and practice, class room lectures and work experience. They will give our students the best start possible into the world of work and create that crucial bridge between university and industry. This programme will also make tertiary education more affordable.

88. We will also start working to increase the cohort of students upstream to SC and HSC, so that more students qualify for tertiary education in the medium term. There are also students who cannot make it to university studies because they do not have the academic aptitude. These students should not be left out of the education system, instead we must allow them to choose, early enough, an alternative education path so that they stand the same chance as all other students to develop fully their talents and become as employable as those who go on to higher academic studies. At the end of Form IV a pathway will be introduced to help students opt either for tertiary vocational education or for tertiary academic studies.

89. The Ministry of Education, in collaboration with other Government Departments, the IVTB, the Empowerment Programme and NGOs, will develop a Second Chance Programme by January 2009 for all young people under 21 who are not in full time education or full time employment. This programme aims to provide basic numeracy and language skills to those who have dropped out of school and orient these young people to a vocational programme. The programme will include a strong emphasis on life training skills and provide psychological and social back up. The Human Resource Development, Knowledge and Arts Fund will provide the necessary financing.

90. The vocational programme for those streamed at Form IV and in the Second Chance Programme will focus on skills which could facilitate

selection by the Circular Migration programmes we are setting up with Canada and France and pursuing with other countries.

91. This new policy will increase the number of students who will pursue further education. To accommodate them, we will expand infrastructure capacity for both university and vocational education as well as adopt modern systems of delivery of education.

92. IVTB will considerably expand its courses and intake by opening a campus at a newly acquired building at Nicolay Road in Port-Louis. This building will also accommodate a Job Fair Centre to guide young people on career choices and training that would enhance their employability. IVTB will also set up a new polytechnic in the southern region of the island through the reconversion of la Gaulette SSS.

DELIVERING EDUCATION AT A CLICK OF A MOUSE

93. While brick and mortar institutions in the educational system will always be there, we must acknowledge the tremendous advantages to using online learning as a means to deliver education to the greatest possible number of students. Worldwide there are more than 4,000 education and degree courses offered on line with more than 4 million students registered, growing at a pace of around 30 percent a year. Mauritius should also make the maximum use of ICT to deliver education at the click of a mouse, anytime and from anywhere. This will give students greater flexibility, especially those who are working, those who have families and children to care for. It also saves traveling time and costs to class rooms. There will also be saving on physical infrastructure and the cost of providing education should go down significantly, while at the same time allowing more students to be registered in education courses and degrees.

94. To this end, the Ministry of Education will formulate a strategy to implement the development of distance education in Mauritius.

95. The cost of laptops and internet access for these students will be covered by the Government loan guarantee scheme. In addition, needy students will be provided a scholarship to buy a laptop and pay for the costs of internet access for the duration of their distance learning studies.

Building Modern Mauritius

96. Mr Speaker, Sir, infrastructure is the second area where we must invest massively to sustain high growth. Bottlenecks in ports, airport, energy, roads, water and sanitation can be the biggest threats to continued improvements in living standards. We must modernize our public infrastructure to provide world class facilities.

97. The challenge is enormous. The supply side response to public infrastructure will need an investment estimated at Rs 125 billion over the next decade. Public resources alone will not be enough; we will also need substantial private investment.

98. To this end, we are reviving the Public Sector Investment Programme (PSIP). The Public Private Partnership (PPP) Unit will be strengthened to prepare a Ten Year Infrastructure Development Plan. It will identify and cost the infrastructure needs of the country and chart the best and most efficient implementation path.

99. We are also amending the Public Private Partnership Act 2004 to clarify the process for unsolicited proposals. This should attract more private capital in public sector projects.

100. For the coming financial year, some Rs 2.7 billion will be earmarked for programmes to improve infrastructure. The project value of these programmes amounts to Rs 42 billion of which Rs 21 billion will be invested in the next three years.

101. Regarding road network the focus will be on traffic decongestion. Government will invest in new roads and bridges, maintenance, upgrading and rehabilitation of existing networks. These include, the Terre Rouge Verdun Trianon Link Roads, the new access road to Réduit Triangle, access road to Tianli, the Sorèze Guibies road, resurfacing of M1 and M2 motorways, rehabilitation of steel bridges at Souillac, Rivière des Galets, and Tamarin, the Macondé Bridge, and the Phoenix Beau Songes Link Road.

102. Thus, Mr Speaker, Sir, in the next three years some Rs 12.6 billion will be spent on this programme. We are doubling the road budget from 554 million in 2007/08 to Rs 1.1 billion in 2008/09.

103. A 12 kilometer Port-Louis Ring Road will be constructed on a PPP basis from Sorèze to Quay D roundabout including a tunnel of 775 metres through Quoin Bluff.

104. The Harbour Bridge will also be a PPP project. It will connect Port-Louis at Royal College to Roche-Bois roundabout. The bridge should divert traffic going through Port Louis, thus, together with the ring road significantly reducing traffic congestion at peak hours. Construction works on both ring road and harbour bridge projects are expected to start in July 2009.

105. To further reduce traffic congestion, reduce delays, waiting and traveling time for commuters, Government is formulating a Bus Modernisation Programme at an estimated cost of Rs 4 billion. That programme includes

- a 25 km bus-way corridor between Curepipe and Port Louis;
- a 12 km bus-only lane along the existing motorway M1; and
- redesigning the overall bus routes.

106. Government is setting up a Land Transport Authority (LTA) to ensure implementation capacity, and a holistic and cost effective approach to this planned Rs 31.5 billion public investment to improve roads and public transport. An LTA Bill will be introduced to the National Assembly by December this year.

107. To build an Attractive and Modern Mauritius we will also expand and upgrade air and sea transport infrastructure.

108. We are injecting Rs 1 billion of equity in Airports of Mauritius Ltd (AML) to support airport expansion. By end 2010, the air passenger terminal development phase two will be completed. This will be good for up to 4 million passengers per year.

109. AML is undertaking a review of the Master Plan Update 2004 to cater for new projects such as cargo and freeport zone, general aviation expansion, new passenger terminal and airport city with commercial areas and hotels.

110. The Cargo Handling Corporation will invest some Rs 400 million in modern equipment to cater for the increase in container traffic. Its search for a strategic partner is ongoing with assistance from the International Finance Corporation.

111. The Mauritius Ports Authority plans to invest Rs 750 million for the implementation of major infrastructural projects such as the Cruise Terminal and the development of the seafood hub activities.

112. To build Attractive and Modern Mauritius, we also need world class cities. The construction of the city at Highlands will require an investment of some Rs 100 billion. A financial advisor is working to validate the initial feasibility study and to prepare bidding documents for the selection of a master developer to implement the project. The project will include a state-of-the-art office complex, world class residential and social development, an inland waterfront, space for leisure activities and nature tourism, hotels and resorts, and Government buildings. The new city will be a hub for knowledge services based industries, comprising tertiary education centers and catering to financial services, IT/ITES, BPO, and healthcare.

113. The Tianli project for a new modern trading city, with an investment of Rs 20 billion, will integrate Mauritius and Africa and will bustle with activities as some 40,000 persons will be involved.

114. Work on developing the La Tour Koenig project will continue. Two years ago, I announced the importance and impact of that project. Today, I can report that the project is near completion. It has generated some Rs 6 billion of investment and created close to 6,000 jobs. This year we expect 1,000 more jobs in that zone.

115. Mr Speaker, Sir, as we modernize the look of Mauritius, we must also bring the utilities to world standard and provide uninterrupted services to our citizens.

116. Thus, Government is investing judiciously in water supply, waste water management, solid waste management and electricity. A pilot project involving six zones and around 40,000 CWA customers to reduce lost water is giving encouraging results. The project is therefore being extended to the whole island so as to bring the lost water from the present level of 48 percent to 25 percent by 2015.

117. There will be increasing demand for water in the North due to the expanding tourism sector, the need to transfer potable water to part of Port Louis during the dry season and requirements at the Tianli Complex in Riche Terre. To meet these needs, the treatment capacity of La Nicolière Water Treatment Plant will be extended to 100,000 m^3 of water daily from 66,000 m^3 at a cost of Rs 350 million.

118. The construction of Bagatelle Dam will supply the Port Louis regions during the dry season whilst also adding to water supply for the lower Plaines Wilhems.

Waste Water Sector

119. As regards waste water, the Plaines Wilhems Sewerage Project will extend the network to around 32,000 households at an estimated cost of Rs 6.6 billion.

120. To provide sanitation facilities to the poorer segment of our society, the WMA will continue implementation of its sewerage programme in the CHA and the low cost housing estates. The CHA – Phase IV, concerning 27 low cost housing estates will be implemented over the period 2009 to 2011.

121. We are well on the way of connecting 50 percent of the population to the public sewerage system by the year 2011.

122. Building Modern Mauritius is a challenging task that must bring together all the institutional capacity we can harness. Local governments can play a role in this endeavour if they access the required financial resources. We will therefore work toward giving them the means to raise their own finance through the issue of securities. As a first step, we are creating a Local Infrastructure Fund to finance some key infrastructure projects of Local Authorities. Revenue from the National Residential Property Tax (NRPT) will be credited to that Fund. The Fund will be allocated on the same performance-based principle applied to the national budget.

123. Projects to be financed from this year and next year's NRPT include market fairs at Rose Belle, Quatre Bornes, Centre de Flacq, Briquetterie, Rivière des Anguilles, Chemin Grenier and Plaine Magnien; multi-purpose projects at Rivière du Rempart, Plaine Verte, Vacoas, a swimming pool at Quartier Militaire, a fish landing station with marketing facility at Grand Baie, a crematorium in Beau Bassin and tartan tracks at Sir Gaetan Duval Stadium in Rose Hill; and a water front at Grande Rivière Sud Ouest.

124. We must also improve connectivity on the digital highway. Currently only about 70 percent of the island has access to high speed internet at 128 kbs compared to at least 512 kbs in Europe and even higher speeds in Asia. Our aim is to provide almost everyone with 512 kbs within the next few years. To achieve this, we are working with our partners in the Indian Ocean Commission and COMESA to develop an inter-island high speed cable connection that would link up to other cable projects between Africa and Asia. In addition Mauritius Telecom will purchase additional capacity on SAFE and develop the local backbone at a cost of around Rs 2 billion over the next few years.

MODERNISING GOVERNMENT

125. Mr Speaker, Sir, Government's efficiency, effectiveness and responsiveness must be equal to this challenging task of building an Attractive, Open, Inclusive, Modern and Green country. We need top quality human resources, processes and institutions in the public sector.

126. For this purpose, we have introduced Programme Based Budgeting in a Medium Term Expenditure Framework, so that resources are channeled to where they give the best outcomes. This modern approach to budgeting is about more judicious use of public money and about greater fiscal responsibility.

127. Government is therefore setting up a Capacity Building Programme (CBP) to be jointly managed by a Government-UNDP team. This programme would efficiently support the Government reforms and development objectives by identifying international and domestic experts to help implement the various strategies.

128. In line with this belief in the importance of Capacity Building, Government has already created a "SERVICE TO MAURITIUS PROGRAMME" to attract the brightest young people, both Mauritians and international, to serve in Government for periods of between 1 month and 2 years. Non-citizens coming to service the public sector for a maximum period of three years will be exempted from work and residence permits.

BUILDING GREEN MAURITIUS:

"MAURICE ILE DURABLE (MID)"

129. Mr Speaker, Sir, I will now turn to a global change that could put at risk the renewed dynamism of the past two years. The price of oil has gone up from around $40 a barrel some three years ago to $136. Our petroleum import bill has risen from Rs 6.5 billion in 2000 to Rs 22.3 billion in 2007. The share of petroleum in the total import bill has gone up from 12 percent to 18 percent over the same period and keeps on rising. It is clear, the world has entered an era of expensive energy. As a country that relies on around 80 percent of its energy on imports, we are extremely vulnerable.

130. It is a situation that calls for a fundamental review of the assumptions on which we have planned our economic development. We have to reduce our reliance on fossil fuel. The nation must come together because we are all part of the solutions. Our actions must be comprehensive and must exhaust all possibilities.

131. As we build energy security, our strategy is to replace imported fossil fuel by local renewable sources and to better manage demand. We plan to double the share of renewable sources of energy to produce electricity to around 40 percent within the next decade. This is achievable by increasing the megawatts from renewable sources and the negawatts from energy savings.

132. We are revamping the National Energy Fund into a Maurice Ile Durable (MID) Fund. I am providing Rs 1.3 billion to kick start the Fund which will support efforts to protect the environment through recycling, to encourage more efficient use of energy and to increase reliance on renewable energy. This will build our energy independence whilst allowing us to do our share in the fight against global warming. The Fund will mobilize resources from taxes, Government subsidies, development partners, carbon credits, and the private sector including airlines offsetting their carbon footprints.

133. The Fund, under the aegis of the Ministry of Public Utilities, will support action in four crucial areas.

134. First, on the supply side. We will explore all potential for local sources of renewable energy and make use of them to replace imports. Mauritius has renewable sources of energy on land, in the air and in the sea. We must harness fully these potentials.

135. We are launching a PPP project at Bigara for 25 to 40 megawatts (MW) of wind energy. This is expected to cost about Rs 1 billion and should yield 50 to 60 million kilowatt hours (KWh) representing 3 percent of electricity consumption.

136. The CEB is already operating a 275 KW wind generator in Rodrigues. To improve capacity in Rodrigues, we are exploring further application of this technology on a PPP basis.

137. The CEB will set up two new hydro units at Midlands Dam and La Nicoliere to produce electricity.

138. Another potential source of renewable energy will be the Land Based Oceanic Industries (LBOI) project that proposes to use cold sea water for air conditioning. To facilitate implementation of the LBOI project, appropriate legislation will be passed.

139. Burning solid waste could also provide renewable energy. A project which is being considered has the double advantage of savings on solid

waste disposal and producing electricity. We expect this project to become a reality soon.

140. Landfills produce gas that can also be tapped to generate electricity. Government is embarking on a project for developing the Landfill Gas potential at Mare Chicose with a view to using the gas for power generation. This project is expected to reduce greenhouse gases which would enable it to derive carbon credits as provided for under the Clean Development Mechanism of the Kyoto Protocol.

141. We will also fully explore the use of cane field residues mixed with bagasse as boiler fuel to reduce the use of coal.. This has the potential of contributing up to 8 percent to electricity production and would amount to about half the electricity currently supplied by bagasse. MSIRI is working with the Mauritius Sugar Authority and power producers to optimise the use of this material. The use of higher pressure boilers is also being explored to optimize the use of bagasse and other biomass.

142. Second, on the demand side. We will act to reduce consumption of fossil fuels, achieve greater efficiency in the use of energy in our enterprises, our offices, our homes, in the public sector, in the transportation sector and in our hotels.

143. We will establish an "Observatoire de l'Énergie" to collect and provide information on fuel efficiency in commerce, tourism, industry and households. The Observatoire will also conduct information campaigns and undertake actions to promote the notion of "Maitrise de l'énergie", sustainable development and climate change.

144. We aim to double the number of solar water heaters by December 2009. Currently less than 10 percent of households in Mauritius use solar water heaters in contrast to up to 92 percent in countries with similar climate. To achieve our target a new solar water heater loan scheme will be offered by the DBM. The MID Fund will provide an outright grant of Rs 10,000 for every solar water heater purchased through that loan scheme. This offer will be time bound until 31st December 2009.

145. To further boost the use of solar water heaters, I am removing the 15 percent import duty on solar water heaters and all duties on their spare parts.

146. Mr Speaker, Sir, after carefully assessing the threats of the pending energy crisis, with the price of petrol expected by some analysts to go up to US$ 200, - having measured the potential adverse impact on prices of consumer goods, on the competitiveness of our businesses and our country,

on our Balance of Payments, we are making today the decision to adopt Summer Time in Mauritius and move the clock forward one hour from 1st November 2008 to 31st March 2009. Countries, from Pakistan to Namibia, from Iraq to New Zealand and Tunisia to Australia as well as most industrialized countries, that do so, make significant savings in energy consumption. The gains to the country and to reducing global carbon emissions can be significant. The extra one hour of sunshine will generate substantial savings in terms of energy consumption and production. In fact, it is equivalent to replacing one hour of expensive and highly polluting fossil fuel source of energy every day, during the summer, with totally free renewable solar energy. The savings are expected to be around 15 Megawatts, equivalent to the output of a small power station. In addition it will lower peak demand requirements. However, the Summer Time will be introduced on a pilot basis and will become an annual feature if it proves to be successful and brings about the benefits expected not only in terms of energy savings but equally in terms of having more sunshine for sports, leisure, shopping and other activities. The Ministry of Public Utilities will set up a Committee of stakeholders to prepare for the pilot.

147. Government will come up with an energy efficiency bill to set standards on the use of energy and on the tools and equipments through which energy is consumed. That will range from setting standards on energy efficiency of electrical appliances, of buildings, and of transportation vehicles.

148. The Highlands World Class City project will have to be as energy efficient, as energy self-sufficient and as energy clean as possible, with emphasis on renewable energy. The same requirements will also apply to all IRS projects. All new collective housing and morcellement projects will have to include an energy efficiency plan before approval.

149. The public sector will also play its part in demand management. All future purchases of water heaters will be solar except where this is not practical. All future purchases of light bulbs will be of the energy saving type. The Ministry of Public Utilities will also work with all government departments to develop an energy saving plan by end-June 2009.

150. All sodium vapour lamps used for street lighting will be replaced over the next 5 years by energy efficient lamps and the use of LED lamps will be explored.

151. CEB will put on the market at half of their cost price one million Compact Fluorescent Lamps (CFL) in 2 phases starting with 200,000 lamps. This project will be implemented by the CEB in association with Pioneer Carbon that will contribute 50 percent of the cost from Carbon Credits. The MID Fund will support the project with an initial grant of up to Rs 20 million. The total cost of the subsidy is estimated at Rs 40 million. As one CFL consumes 60 percent less electricity, there will be considerable savings for households and for the country, again reducing the dependence on fossil fuel.

152. We are also introducing a token MID levy, to be paid into the MID Fund, of 15 cents per litre on all petroleum products, 15 cents per kilo on LPG and 15 cents per kilo of coal. This levy will be used to partially finance the various grants to be provided by the MID Fund.

153. Third, on institutional framework. Government will encourage innovation by households as well as businesses to produce electricity with emerging technologies for renewable energy. This requires a new grid code to clarify the framework for IPPs to supply renewable energy and to allow Small Independent Power Producers (SIPPs) with capacity below 400 KW to feed into the grid of the CEB. To this end a study will be conducted by the Ministry of Public Utilities to chart out a new grid code. The new code will guarantee all SIPPs that CEB will buy their renewable energy at a premium.

154. The operation of an electricity market requires an independent Utility Regulatory Authority to be set up. The relevant legislation will be proclaimed by the end of September 2008 to set up an independent regulator that is autonomous from all producers.

155. Mr Speaker, Sir, World Environment Day, celebrated yesterday, is a reminder of the need for action to protect our island. Maurice Ile Durable is also about preserving the environment. We are working with the bottling industry and importers to put in place a solid waste recycling programme to increase the share of recycled plastic bottles over the coming three years from about 22 percent currently to the best ratios in the world, about 80 percent. The programme, which will also include recycling of aluminum cans and other plastic containers, will encourage SMEs to enter this domain. This programme should go into effect before the end of the year.

156. I am also reducing by half the taxes on hybrid vehicles. Excise duties, road tax and registration fees will all be halved for such vehicles

starting on 1st July 2008. I am also eliminating customs duty on all tyres with energy saving and emission reducing certification.

157. We are launching a Bus Modernization Programme which will enable all bus operators to renew their fleet, at no extra cost, with new generation buses which are:

(i) environmentally friendly with reduced emissions;

(ii) more comfortable; and

(iii) with low floors to speed and facilitate boarding, especially for the elderly and handicapped.

158. The programme will reduce harmful emissions by almost 11,000 tons a year and will also support our efforts to encourage greater use of public transport. It will provide a subsidy to be financed by a grant from the MID Fund and the proceeds from an increase in the Road Tax. The whole bus fleet of 600 could be renewed within three years at a total estimated subsidy of around Rs 250 million. It may also be possible to obtain Carbon Credits from the Clean Development Mechanism.

159. The increase in Road Tax will be based on both the polluters pay and the ability to pay principles. It will therefore be graduated. For motor cars and dual purpose vehicles above 2,250 cc the increase in Road Tax, payable as from 1st July 2008, will be Rs 5,000 per year; between 1,850 and 2,250 cc it will be Rs 2,500; between 1,250 cc and 1,850 cc it will be Rs 500. There will be no increase in Road Tax for cars below 1,250 cc and for taxis.

160. Maurice Ile Durable is a national endeavour that requires tremendous collective efforts. We need to understand the new technologies, the ways to use them and the importance of changing our habits and shifting to renewable energy for our own future, for the future of our country and for future generations. The Ministry of Public Utilities, together with all institutions concerned, will carry out a sustained national sensitization campaign starting by October 2008.

BUILDING INCLUSIVE MAURITIUS THROUGH FOOD SECURITY

161. Mr Speaker, Sir, the global food and feed crunch is another threat that is testing the resilience of Mauritius. We must recognize that our country is particularly vulnerable because we have very low self sufficiency in food.

162. In the face of these realities Mauritius cannot forever rely on foreign markets to fill any gap between domestic demand and supply. We must imperatively produce more of our own food and become as self sufficient as we possibly can. But our limited land area means that to produce in Mauritius alone will not be enough. We need to partner with other countries in the region.

163. We therefore have a five-pronged strategy for food self-sufficiency:

First, we will mobilize land, human resources, technology and financial resources to produce as much food as is practical domestically.

Second, we want to encourage surpluses in food production for exports so as to capture the maximum gains from economies of scale that can benefit local consumers and generate the income for foods we cannot produce.

Third, Mauritius will partner with countries in the region, starting with Madagascar, Mozambique, Tanzania and other countries where opportunities arise to produce food-crops, livestock and marine products for domestic consumption as well as for the regional markets.

Fourth, Mauritius will seek the support of regional blocs and development partners and promote joint ventures, both public and private, and with countries including India and China.

The fifth leg of that strategy is to run a sensitization campaign to promote healthy eating.

164. Mr Speaker, Sir, I will now outline the specifics of these strategies which also broaden the circle of opportunities for small and medium planters.

165. First, our top priority on food security is to increase self sufficiency in potatoes from the current level of 50 percent to full self sufficiency. To this end, we are adopting a multi-faceted plan to produce 80 percent of our needs at home and the balance of 20 percent in the region.

166. To ensure that the amount of potato seeds is available in the amount required to expand output, special emphasis will be placed on seed procurement through the production of some 500 tonnes, under the aegis of the MSIRI and on timely ordering by operators.

167. With support from the Project Implementation Committee (PIC) of the Mauritius Sugar Authority, sugar cane growers will make maximum use of interline and rotational plantation for the production of potatoes. In addition, more land will be earmarked and prepared for the production of potatoes. The PIC is carrying out derocking, regrouping and irrigation projects for small and medium sugar cane planters. This will prepare large expanses of land for complete mechanization and small planters will also be able to move into potato production and other crops. However, it is important to stress that incentives including derocking and irrigation will be conditional on small and medium planters regrouping themselves into managerial units. The regrouping mechanism adopted in the case of sugar cane will serve as a model.

168. Four sugar estates in the south are joining the national efforts. Bel Air St Félix, Union, Riche en Eau and Britannia plan to double their production of potatoes and undertake post harvest processing.

169. Warehousing capacity will be expanded to meet future demand, as we must also create capacity to meet the fast increase in demand that one million more tourists annually will generate.

170. All these actions will meet up to 80 percent of our needs in potatoes. Our plan is to have arrangements with Madagascar to make up for the remaining 20 percent of total supply.

171. Second, we will go a similar route as planned for potatoes to achieve full self-sufficiency in onions by 2015. Rs 10 million will be provided to MSIRI and AREU for developing new higher yielding varieties of potatoes, onions and tomatoes.

172. Third, regarding other vegetables, there is adequate capacity for self sufficiency. However, to promote healthy eating, we want to ensure supply of the widest possible varieties throughout the year, including new ones. We need to do the same for fruits. To this end, experimentation will be carried out on new protein crops, including pulses, beans and soya bean. Government will work together with the private sector to investigate the possibilities of producing specified fruits. We expect a report by December this year to chart the way forward.

173. We are also responding positively to requests from the planting community. Between 2009 and 2013, the Project Implementation Committee will prepare up to 1,000 hectares of land for small planters to meet increasing future need for vegetables. This will include 50 ha in the

north for complete mechanization and with efficient and cost effective irrigation systems.

174. Mr Speaker, Sir as part of the historic deal the Prime Minister has secured with the Mauritius Sugar Planters' Association, small planters and employees will join the shareholding of all new ventures under the sugar sector reform plan with a 35 percent share. In parallel, Government will benefit from 2,000 arpents of land.

175. Regarding the financing for the acquisition of shares by planters, labourers, artisans and other employees, I am providing Rs 125 million this year as grant and soft loan. The investment will be made via a trust or other suitable mechanism.

176. Concerning the 2,000 arpents, Government is reserving 1,000 arpents for food crop production. Government will seek large tracts of 50 to 100 arpents to be leased to food production companies consisting of regrouped small and medium planters. Mr. Speaker, Sir, this is yet another of our electoral promises kept, as we widen the circle of opportunities.

177. The PIC will assist small and medium planters to come together to set up these companies which will be run on a commercial basis.

178. The PIC will also provide support to these companies to facilitate marketing and to ensure that they focus on what the market wants. Government will finance schemes to de-rock the regrouped plots, provide irrigation, assist with mechanized preparation and harvest, conditioning, packaging, marketing, technical assistance, training and research as well as other measures to meet international standards.

179. The planting community will be encouraged to set up a commercial National Auction Market. This will enable the food production companies and other planters to maximize returns from their output, reduce wastage and improve the environment for trading. The PIC will set up a loan guarantee scheme to be operated by commercial banks to provide a revolving line of credit of Rs 100 million for the purchase of farm vehicles and equipment. I am removing all remaining import duties on these equipments and their spare parts.

180. The PIC will also encourage small and medium planters having adjacent plots in a given region to regroup. This will allow them to secure economies of scale whilst retaining individual ownership of their respective plots. Regrouping is crucial for small planters to be as efficient as large growers and to benefit from all the facilities being offered to the food production companies.

181. To facilitate sale of agricultural land by the sugar corporates to métayers, we are waiving land transfer tax and registration duty on such transfers. This will encourage the métayers to become more productive and will further widen the circle of opportunities. We are also waiving registration charges on new métayer lease contracts.

182. There is no VAT on fertilizers. However, certain soluble chemicals, which are used as nutrients in specialized cultures like hydroponics are subject to VAT. In our drive to encourage large production of agricultural goods for food security purposes, I am removing VAT on potassium nitrate, mono potassium phosphate and magnesium sulphate. Necessary amendments will be made to the VAT Act in the Finance Bill.

183. Hydroponics is making its way and can contribute substantially to food security with greater involvement of small growers. We need to build greater capacity in that area. To this end, AREU, the Empowerment Programme, SEHDA and the Regional Training Centre will pool their resources to provide training facilities as well as mentoring to SMES. It is expected that the hotel industry and the major distributors will also participate.

184. Agricultural and related activities will be part of the vocational training curriculum. Research and extension will focus on food security and biomass.

185. Fourth, fish and other marine products are also an important part of our diet. Our aim is to build both local and regional self sufficiency in that area as well. An Aquaculture Master Plan has been prepared to increase fish production to 40,000 tonnes. Towards this end, the new Fisheries and Marine Resources Act will be amended and proclaimed shortly.

186. We will also leverage our relationship with development partners and friendly countries to optimize aquatic production and develop the fishing industry.

187. Fifth, milk production is an area where Mauritius has for many years been totally dependent on imports. We produce only 2 percent of the milk we consume. A major project to produce some 20,000 litres of milk daily is being proposed by the private sector in Salazie. There is also renewed interest among some sugar companies on milk and livestock that could increase milk production to about 10 percent of our needs. This is the most that we can realistically aim at in the medium term.

188. Sixth, we need to achieve a higher level of self sufficiency in meat. While it is relatively easy to achieve full self sufficiency in poultry, in

goat, pork and also in venison, reducing dependence on imported beef is more complex and should be seen as a longer term objective. Our main concern is, however, to preserve self sufficiency in poultry, against the backdrop of both food and feed crunch globally. Recently we have seen not only a surge in the price of maize and oil cake but also an embargo on exports by some countries. To avert these risks, which threaten the self sufficiency we have built in poultry and egg, we are including maize as one of the priority products in our negotiations for regional partnership in food production.

189. I will now turn to the regional component of our food security strategy.

190. Government is negotiating a partnership with Madagascar to produce rice, maize, soya beans and potatoes. In the same perspective, Government will take its negotiations with Mozambique further so as to finalise a partnership on regional food security.

191. The benefits in this are many. In addition to cost reduction, it will significantly reduce the risk of supply associated with rising export taxes and export prohibition in some countries. The process leading to full operationalisation of such partnerships is complex. To put the process on firm footing a delegation of government and public and private sector organizations and private investors, will go to Madagascar and Mozambique to work out the details of this partnership, to finalise the projects and to prepare for implementation.

192. The major practical challenge is mobilising the financing for infrastructure development including road and rail networks, warehousing, storage, irrigation, and other logistics including upgrading port facilities.

193. As Chair of the COMESA Fund, Mauritius is also spearheading efforts to set up a COMESA Infrastructure Facility (CIF) that could mobilize market finance and concessional financing to put in place the required infrastructure. My discussions on these issues with the President of the World Bank, the President of African Development Bank and the European Commissioner for Development have been promising. They have expressed appreciation for the leadership Mauritius is displaying on an issue of great concern to all of them.

194. Mr Speaker, Sir, to make best use of opportunities in the region and to achieve our goal of food security, would require a well-structured organization that will promote investments by entrepreneurs local and foreign. To this end, a Regional Food Security Company will be set up to

negotiate for land which would be vested with it and to lease land for cultivation. It would engage in discussions with the COMESA Clearing House to ensure that payments are effected smoothly; it would also help to provide infrastructural works by negotiating with development partners. The shareholding of the company would be open to Government entities, international and local financial institutions and individual and corporate investors including small and medium planters.

195. Mr Speaker, Sir, given the imperative of building food self-sufficiency for our population, I am providing Rs 1 billion for a Food Security Fund to finance the actions I have mentioned on these five strategies.

BUILDING INCLUSIVE MAURITIUS.

Building an e-Inclusive Mauritius

196. Mr Speaker, Sir, Information and Communication Technologies (ICTs) are becoming key enablers of modern life. They are used at work, in trade and commerce, in providing and acquiring services as well as in culture, entertainment and leisure. But it is not accessible to all. There is still a prominent digital divide. Government wants to bridge that divide. We want to build a Mauritius where there is social inclusion in a knowledge society.

197. As a first step to achieve this, a National e-inclusion Foundation will be set up to (i) facilitate access to ICT tools, (ii) train the trainers and users to make them easier for everyone to use, (iii) work with the close collaboration of NGO's so as to reach the poor and those at the margin of the digital society, and (iv) encourage people to use them by raising awareness of their economic and social benefits.

198. The National e-Inclusion Foundation will be a joint public private partnership, initially bringing together Government, State Informatics Ltd, Microsoft IOI and private companies.

199. The actions of the Foundation will include:

(i) Donation of refurbished PCs pre-installed with Microsoft free licences to 20,000 poor families within the next 5 years;

(ii) Donation to NGOs of 10,000 PCs refurbished with Microsoft licences to set up IT classes for the poor in conjunction with the Empowerment Programme; and

(iii) Operation of an NGO IT Academy with the help of Microsoft, where free classes in IT shall be delivered specifically to IT teachers willing to acquire more precise knowledge and also to NGO's staffs and trainers.

200. The Human Resource Development, Knowledge and Arts Fund will finance the full cost of internet access for the poor families who will be participating in the programme.

201. For the population at large, we are continuing to bring down the price of telecommunications. Since 2005, the cost has fallen as follows:

(i) for international bandwidth by 52 percent for 2 Megabite per second;

(ii) for ADSL internet access at 128 kbs by around 24 percent;

(iii) for mobile calls to fixed lines by 20 percent;

(iv) for international calls from fixed line telephones by 84.8 percent.

202. The DBM computer loan scheme will be extended to Net PCs being launched by Mauritius Telecom to offer inexpensive computers costing Rs 7,000. The Net PC will be connected to a central server and, except for absence of a hard disk, will have the same capability as a standard PC. At the same time, the Net PC will be connected to the internet via the server. To finance the Net PC, the DBM will provide concessionary loans over 5 years for the full cost of the equipment and three year's worth of internet access.

203. The Ministry of Education will also work with Mauritius Telecom to develop hotspots for educational institutions and public places. In addition, they will jointly expand the school IT programme.

SUPPORTING THE ARTS

204. Mr Speaker, Sir, an inclusive society is also about opportunities for everyone to develop their artistic talents. Art can change the world and our lives. Our Arts come from the five continents, they fire our imagination, promote social inclusion and celebrate our cultural diversity. Last year, I announced a number of measures to promote Art and Culture and foster the growth of a Creative Arts Industry. This year we will continue on that path with significantly more resources as the Human Resource

Development, Knowledge and Arts Fund will also fund projects and programmes to stimulate the growth of the creative arts industry. The Fund will institute national competitions to provide cash prizes and opportunities for international exposure to our local artists.

205. We are continuing our programme to preserve our National Heritage. This year we are providing a matching grant of Rs 50 million for the renovation of Theatre de Port-Louis. We are also extending the programme to cover public buildings of historical importance. Rs 30 million is provided for restoring and renovating Government House.

WOMEN

206. Mr Speaker, Sir, our reforms have generated rapid job creation that has put many of our citizens in full time employment. It has also improved the lives of many families where there are now more than one income earner. For some of these families income has even doubled. One way to accentuate the trend for two income earners per family is to enable more women to take up full time employment. We want to address the problem of female unemployment as it can be a serious barrier to our goal of an Inclusive Mauritius where women should have equal opportunities. Breaking cultural barriers that have kept women out of jobs, is as hard as we expected it to be. But we will not relent because this Government feels strongly about gender equality and will act on it.

207. We will continue to encourage the employment of more women under the Training Placement Programme. The Empowerment Programme will contribute 75 percent of the wages paid to women above 45 years as opposed to 50 percent for men.

208. The Empowerment Programme Sub-Committee for unemployed Women is expanding its activities to address the impediments for Unemployed Women above 40 years old to take up the jobs being created.

209. Government is creating a new micro-credit scheme that would meet 100 percent of the financing requirement of projects implemented by women. DBM will act as wholesaler and provide the necessary finance to cooperative credit unions to implement the scheme.

210. Some entrepreneurs, predominantly women, cannot get access to finance because of legal problems related to their marital status or to changes in their marital status. To resolve this problem, the Manufacturing Adjustment and SME Development Fund will finance a scheme to provide for loans of up to Rs 100,000 to borrowers without any collateral.

EMPOWERMENT PROGRAMME

211. Mr Speaker, Sir, the reforming budget of 2006 aimed at higher and inclusive growth. So we established a five year Rs 5 billion Empowerment Programme. It has become today an important tool in our efforts to reskill those who have lost jobs in declining sectors, to reintegrate those who are left behind and to prevent those on the periphery from sliding into poverty.

212. The Empowerment Programme has placed and trained more than 4,000 unemployed, given technical support to some 100 SMEs from various sectors, trained some 500 retrenched women, assisted 4,160 planters overcome damage caused by cyclone Gamede, helped 493 pig breeders recover from devastation due to the swine fever epidemic and given access to finance to more than 480 entrepreneurs through the booster and quasi equity loan schemes. It has also come up with a financing scheme to allow over 1,000 in-lagoon fishers in Rodrigues to move to alternative sustainable economic activities.

213. Mr Speaker, Sir, this positive momentum must be maintained. The Empowerment Programme must now expand its reach to cover the broadest possible areas of socio-economic inclusion. It will be an enormous but crucial task. It is clear that we must now move beyond the first phase of the Programme driven by a Committee of volunteers. The task is too important and the burden now too heavy. As the Programme continues to be scaled up, it requires more professionalization and a more permanent administrative structure. This evolution is also essential for the closer and more systematic monitoring of outputs and outcomes that is necessary to ensure effective delivery.

214. To this end, the Empowerment Programme will henceforth be run by the National Empowerment Foundation, a state-owned, not-for-profit company. To continue to benefit fully from the public private partnership that has made the programme effective, the Steering Committee will be converted into a Board of Directors.

ERADICATING ABSOLUTE POVERTY:

215. Mr Speaker, Sir, I spoke earlier of the unrelenting drive of this government to combat poverty in all its forms and wherever it exists. We have sought to find out who are the poor, where they live, why they are poor and why many of them remain poor. We wanted to know about their plights and predicaments so we can tailor our actions to their needs and to reach them more effectively.

216. There are 7,157 families living in extreme poverty in 229 deprived regions and this measure goes beyond income poverty to consider the conditions in which they live, and how far they are from the mainstream. Most of them are poor because they do not have the education and skills to take on well paid jobs, because they have been driven into poverty by family circumstances and did not get the helping hand required to take them out. There are also those who are in poverty because they have been caught in social ills that have disturbed their lives. For some, poverty has become a way of life, a sad legacy passed on from one generation to another.

217. The challenge is tough but this Government will not shirk its responsibility. We will combat poverty in all its aspects. We will focus on cases where poverty breeds poverty, and where children, men and women can get trapped in a vicious circle forever. We will give a strong hand to pull them out. We will focus on education, training, empowerment and reintegration by building an inclusive Mauritius where no one will be left out.

218. Mr Speaker, Sir, we have been concerned that those who are in extreme poverty have not been able to participate fully in the Empowerment Programme. Analysis of the reasons has revealed that multiple activities are in fact needed to bring them out of poverty. If we want to get tangible results there is a dire need to tackle all the activities on several fronts at the same time. Accordingly this year, we are intensifying our efforts directed at socio- economic empowerment.

219. I have created a special item of expenditure which will focus on the 229 pockets of absolute poverty. This item of expenditure which will be known as Eradication of Absolute Poverty (EAP) Programme will be an integrated development project within identified pockets of poverty. I am providing Rs 395 million for this item of expenditure for 2008/09. This amount is to ensure that

(i) all poor children of pre primary school-going age attend school,

(ii) these children are provided with a decent lunch,

(iii) parents are trained to get a decent job with sustainable income,

(iv) social problems are dealt with,

(v) there is training in life skills management for parents and children, and

(vi) adequate infrastructure to those needing it.

220. The EAP Programme will be implemented in partnership with the private sector that has agreed to cover 30 percent of the cost as part of their CSR programme.

PRE-PRIMARY SCHOOLS

221. I will start with our action plan on a clear example of how poverty breeds poverty. Despite all facilities and support, including free access to education spanning pre-primary to university, 15 percent of children of pre-primary age do not attend schools. These three and four year old children number around 5,000. Absolute poverty is the main reason. Most of the families involved live in the pockets of poverty in both urban and rural areas. For these 5,000 children, not going to school is, today, a result of poverty, and, tomorrow, it will be the cause of their poverty.

222. That is why, in this Budget, we will act on our resolve to eradicate absolute poverty. We will start by ensuring that no child of school age is left out of school. It is a complex and multifaceted issue that requires not only financial resources, more seats in classrooms, more teachers, but an entire range of social support. In fact, to face down that problem, Government is joining into a five track partnership, bringing together the entire range of social partners, including, socio-cultural organizations, NGOs, the corporate sector, development partners and the various levels of government.

223. Our actions will include:

(i) Identifying space in existing schools, both private and public to register these children;

(ii) Provide free transportation facilities to and from school, with maximum security and safety for the children;

(iii) Provide free food pack for the day;

(iv) Give free school materials for the year;

(v) Provide free clothing;

(vi) With the help of NGOs provide counseling to parents;

(vii) Provide accompagnement scolaire to ensure that the children are in school; and

(viii) Provide free medical check-ups and eye glasses, and hearing aids to those in need.

224. These actions will be applied in rural as well as in urban areas and will target every child who should be but is not attending pre-primary school because of poverty.

225. Our second programme on Eradication of Absolute Poverty is aimed at the 7,157 families living in the 229 pockets of poverty across the island. Our strategy to combat poverty in these areas include

(i) A similar five track partnership I just mentioned with relevant organizations;

(ii) Dividing the country into 10 to 20 regions according to the sponsorships we unlock from, NGOs and other civil society organizations;

(iii) EAP Action Forces, consisting of the 5 track partnership, will be responsible for each of the regions;

(iv) Each Action Force will mobilize financial and human resources to implement both generic and tailor made programmes based on the needs of each family and each family member in the pockets of poverty. Each Action Force will map these needs to specific NGOs that will be responsible for individual issues and for specific families.

SOCIAL HOUSING

226. Poor families also have difficulties to meet their housing needs. And in the realm of housing, middle income families also need Government support.

227. Last year, for the first time in Mauritius social programs, such as training, empowerment, employment, education and circular migration were included in our housing policy. We have started with the integrated housing project at Bambous that will benefit some 200 families. But we want yet more low income families to benefit. To this end, we are working with NGOs and the private sector to expand the scheme to Cité Lumière and other pockets of poverty.

228. In parallel, we are moving ahead and strengthening more traditional housing programmes. Some 1,582 Firinga units have been delivered during the last 3 years. A batch of 533 housing units, constructed on 6 sites across the island - Chebel, Bambous, Henrietta, Rose Belle, Ville Noire and Rivière des Anguilles - are expected to be allocated by November 2008.

229. This year, we are allocating Rs 170 million towards infrastructure for the construction of 774 Firinga houses on 10 sites across the island for very low income families.

230. Since July 2005, the Trust Fund for Vulnerable Groups has provided assistance for the construction of 2,041 housing units at a total cost of Rs 108 million. The Fund will finance the construction of an additional 1,100 units in 229 pockets of poverty as from July 2008.

231. The State Land Act has been amended to empower the Minister of Housing & Lands to sell portions of State Land on which stand ex-CHA houses at a nominal price of Rs 2,000. Some 19,300 families are benefitting. As to-date some 5,000 letters of intent have been issued and some 900 title deeds finalised.

232. For the lower middle income families, Government is leasing plots of State Lands of an extent of 50 – 55 toises with all necessary infrastructure at an annual rate of Rs 3,000. 309 plots are being processed for delivery within the next financial year in Ville Noire, Souillac, Glen Park and La Cure. Since July 2005 we have financed the casting of slabs for 11,205 families at a cost of Rs 535 million.

233. Whilst these efforts are significant, we need to develop a new model that will meet the housing needs of all income segments of our population. This is why Government is allocating the other half of the 2,000 arpents from the Government/MSPA deal for social housing programmes.

234. We are revamping, consolidating and strengthening our social housing schemes. To begin implementation, I am providing Rs 500 million to finance a Social Housing Fund to be managed by the Ministry of Housing and Lands.

235. This Fund will receive and manage the 1,000 arpents and improve financing for housing by developing and overseeing a new and ambitious programme to build new mixed housing communities, on a PPP basis.

236. On the 1,000 arpents of land, as part of PPP projects, we plan to build about 10 mixed-income communities. Each community will be built

as an attractive village to the new energy savings and environmentally friendly standards. It will also include cycle tracks, pavements for pedestrians, large inner roads and adequate green spaces and common areas. In each development, we aim to set aside space for about 200 affordable housing units to be expanded by the owner and 100 serviced plots for sale. The developer would build housing for the middle class and commercial use on the remaining land. The Fund would offer a new housing loan to assist in purchase of land and building. During 2008/09 a first mixed community housing project will be launched on a pilot basis.

237. Two new housing loan schemes will be developed by October 2008. The first scheme will facilitate owners of affordable housing units to gradually expand their home. To ensure that the incomes of these residents grow sufficiently to take advantage of this new scheme, the Empowerment Programme will assist them to upgrade their skills and find placements.

238. The second scheme is aimed at middle income working couples who are first time home owners. The programme will rely on commercial banks to provide a mortgage. To make the payments affordable, the mortgage will be stretched over a period of up to 35 years and the Social Housing Fund will subsidise the initial monthly payments so that the couple does not pay more than 35 percent of their total monthly income.

RODRIGUES

239. Mr Speaker, Sir, Rodrigues must share in the fruits of reform and contribute to the national development effort.

240. Rodrigues will also actively participate in our new initiatives for MID, food security, education, housing, SME's and the eradication of poverty. We particularly look to Rodrigues to expand its agricultural production as part of our national efforts for food security and welcome the bumper harvest in maize this year.

241. Government is working closely with the Rodrigues Regional Assembly (RRA) to invest heavily in infrastructure. In 2007/08 we have provided an amount of Rs 100 million in addition to the initial allocation of Rs 275 million for road projects, desalination projects, desilting and dredging works.

242. This year we have provided Rs 300 million for capital projects.

243. Government is mobilizing assistance from the Agence Francaise de Developpement (AFD) to look into the various alternatives for addressing

the acute problem of water shortage in Rodrigues, including the Pistache Dam.

244. We are also working with the RRA to provide the same digital TV service to Rodrigues as is available in Mauritius.

245. A committee comprising the RRA and relevant ministries will look at means of maximizing tourism to Rodrigues including the feasibility and financing for extending the runway for bigger aircrafts to land. Meanwhile, we are injecting Rs 75 million in the share capital of Airport of Rodrigues Limited to enable it to meet international safety standards.

246. We are also investing in upgrading skills. The Empowerment Programme is encouraging small farmers and former fishers in Rodrigues to expand production of goats and pigs. Following the swine fever epidemic in Mauritius, expanded pig supply from Rodrigues is contributing to the rehabilitation of the sector in Mauritius.

BUDGET OUTTURN AND OUTLOOK

247. Mr Speaker, Sir, I will now sum up the Budget Outturn for 2007/08 and the Estimates for 2008/09 and indicate the fiscal outlook.

248. As announced last year, we are consolidating our fiscal accounts on the basis of the Government Finance Statistics 2001. In line with this classification, the operating expenditure for 2007/08 is estimated at Rs 55.1 billion or 22.3 percent of GDP. Capital spending in the old definition amounts to Rs 11 billion.

249. As regards revenue, we expect an amount of Rs 46.4 billion from taxes, only Rs 673 million from grants and Rs 5.1 billion from other non-tax revenue. Total revenue will thus amount to Rs 52.2 billion or 21.1 percent of GDP.

250. As regards the Estimates for 2008/09, the operating expenditure is estimated at Rs 63.5 billion next year or 22.6 percent of GDP. Expenditure on acquisition of non-financial assets estimated at Rs 7.1 billion, representing 2.5 percent of GDP. Capital expenditure in the old definition is Rs 12.1 billion.

251. As regards revenue, we expect an amount of Rs 50.7 billion from taxes, Rs 4.0 billion from grants and Rs 6.9 billion from other non-tax revenue. Total revenue will thus amount to Rs 61.6 billion or 21.9 percent of GDP.

252. The gross operating balance is estimated at negative Rs 1.9 billion, equivalent to negative 0.7 percent of GDP. The net borrowing requirements of Government will be Rs 9.3 billion, representing 3.3 percent of GDP.

253. In terms of the previous framework, the overall deficit for 2007/08 will be contained to the budgeted 3.8 percent of GDP. The deficit is estimated to continue its downward path as it is projected to reach 3.3 percent of GDP in 2008/2009.

254. As a result, Government Debt continues on a downward trajectory to an expected 50.7 percent of GDP at end June 2008 from 52.9 percent of GDP at end June 2007. Similarly, Public Sector Debt has fallen by 3.9 percent of GDP over the last year.

TAX POLICY

255. Mr Speaker, Sir, over the last two years, our bold reforms have overhauled our tax system and so this year we will continue on the path of making the tax system, simple, fair, transparent and rules based. This will further open the fiscal space required to restructure our economy and finance the programmes I have announced today. Moreover, our continuing tax reforms will facilitate the emergence of a fully-integrated and competitive economy.

Excise Duties

256. I am making technical adjustments to improve WTO compliance. I am shifting several items from customs duty to Excise at the same rate. This should have no incidence on price or revenue.

257. I am also reviewing excise duty on cigarettes and alcoholic beverages as follows. I am eliminating the different excise categories and replacing them by a single excise duty rate of Rs 2,200 per thousand cigarettes. The proposed rate incorporates the customs duty element which is being abolished on cigarettes.

258. For alcoholic beverages the technical adjustment only marginally affects prices, with some going up and others lowered by small amounts. The overall impact on Government revenue will be neutral with the reduction in tariffs offset by an increase in excise duty.

GAMBLING TAX

259. The taxation system on Casinos and Gaming Houses is being reviewed to support the development of a leisure, hospitality and entertainment industry. We will develop a global and holistic approach that will also tackle the issue of proliferation of gaming activities.

REGISTRATION DUTY ON IRS AND LAND TRANSFER TAX

260. I am reviewing the rate of registration duty payable on acquisition of an IRS residence to a rate of 5 percent on the value of the property or US$ 70,000, whichever is higher.

261. I am closing a loophole to make transfer of shares in companies holding immovable property subject to land transfer tax.

262. I am introducing new rates of land transfer tax for large transactions where the value of the land exceeds Rs 50 million. The new rates will be 15 percent where the transfer is made within five years from the date of acquisition and 10 percent in other cases.

VAT

263. I am zero rating pharmaceutical products for VAT purposes.

MISCELLANEOUS MEASURES

264. 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. We are also taking action to close loopholes related to property transactions, valuation and registration. I will mention here only the salient ones.

265. To correct an anomaly, as from 1 July 2008, excise will be due for both locally manufactured and imported products upon the validation of the declaration at customs.

266. We are allowing the MRA to provide aggregated statistical data to the CSO whilst fully protecting confidentiality and from the MRA to BOI in cases of fraudulent declarations by non-citizens applying for occupation permits.

267. We are aligning policy on industrial sites and campement leases.

ESTIMATE OF SUPPLEMENTARY EXPENDITURE

268. To meet our objectives and rise to the many challenges I have spoken of, clearly requires a large amount of investment. Taking account of the constraints imposed by the PRB in the 2008/09 budget, it would not be possible to undertake these expenditures without losing large amounts of grants from our development partners. In the face of this dilemma our options were as follows:

(i) Postponing much needed investment in our people and public infrastructure;

(ii) Sharply raising taxes including VAT, as was done in the past;

(iii) Cutting spending across the board including on social welfare;

(iv) Raising the deficit and accumulating more debt with the result of higher inflation and rising interest rates;

(v) Using the fiscal space our reforms have earned us this year to request this House to appropriate supplementary funds this year to finance our medium term programme.

269. This year, our tax policies and reforms have generated about Rs 4 billion of revenue more than estimated. Moreover, lower debt service has resulted in a savings of Rs 1.3 billion. These positive results have been partially offset by a reduction in grants from our Development partners, essentially the EU, to the tune of Rs 2.3 billion reflecting the postponement of the date at which the EU evaluated our reform programme.

270. Mr Speaker, Sir, I am, therefore, shortly submitting to this House an Estimate of Supplementary Expenditure (ESE) to appropriate about Rs 4.5 billion for 2007/08. After taking into account this ESE, the deficit for this year would be contained to the programmed 3.8 percent of GDP. We shall, thus, be able to honour our pledge to our children whilst respecting our commitments to our development partners and continue to benefit from the considerable external support our reform programme has generated.

271. The Rs 4.5 billion are essentially intended for the following:

(i) Rs 1 billion for equity to modernize and expand the airport;

(ii) Rs 1 billion for the MID Fund;

(iii) Rs 1 billion for the Human Resource, Knowledge and Arts Fund; and

(iv) Rs 1 billion for the Food Security Fund;

(v) Rs 250 million for Productivity Improvement Programme;

(vi) Rs 120 million for the Local Infrastructure Fund; and

(vii) Rs 75 million for equity in Airport of Rodrigues.

272. Mr Speaker, Sir, this is indeed a very judicious use of the available fiscal space unlocked by our reforms to secure the future of the nation. It will allow us to upgrade the capacity of our people and our physical infrastructure.

PURCHASING POWER

273. Mr Speaker, Sir, we have implemented bold reforms to build the economic and financial muscles to face all kind of adversity and to be able to better protect the most vulnerable against the various shocks that keep coming our way. Now that we have built the fiscal space, it is our responsibility to share with those at the lower rungs so that they can face the future with more serenity and confidence. We also need to give more support to those who are making efforts to provide for their family and yet facing difficulties to make ends meet. And Government will also walk the extra mile to give greater protection to the purchasing power of our consumers.

274. Mr Speaker, Sir, I am announcing a series of measures destined to improve the living standards of the population, to protect purchasing power and to give some relief to those with special needs.

275. First, the Sale by Levy Solidarity Fund will be extended to cover cases of families with household income less than Rs 7,500 per month who face difficulties to service their mortgage following the death or serious incapacity of a wage earner.

276. Second, the Human Resource Development, Knowledge and Arts Fund will provide a full scholarship for all students attending or admitted in courses at tertiary institutions in Mauritius, with household income not exceeding Rs 7,500 per month who face severe hardship following the death or serious incapacity of a wage earner.

277. Third, I am providing a sum of Rs 1.5 million to the Shelter for Women and Children in distress.

278. Fourth, I am increasing the provision for the “Protection against Child Exploitation” to cater for an increase in the daily capitation grant

payable to charitable institutions by 20 percent and to pay for an increase in the number of children placed in charitable institutions from 122 to 186.

279. Fifth, we will encourage single mothers who are recipients of social aid and have dependent children to seek employment. A special allowance will be provided to enable them to place the children in a day care centre. They will continue to benefit from social aid as long as the total income and social aid payment do not exceed Rs 7,500 per month.

280. Sixth, I am doubling the provision for "Women and Children's Solidarity Programme" to Rs 50 million. In addition to the items covered last year, the programme will cover support for kids with a parent serving a sentence in prison.

281. Seventh, Government wants to help NGOs assisting patients afflicted by cancer and Alzheimer. I am providing Rs 500,000 each to Link to Life and the Alzheimer Association.

282. Eighth, I am increasing the provision to NGO schools and day care centres for disabled children with special education needs, like APEIM, APDA and CEDEM, by 20 percent.

283. Ninth, I am also providing fund to the Ministry of Social Security for a 20 percent increase in the capitation fee for elderly persons in charitable institutions.

284. Tenth, Government is concerned about the growing threat from HIV/AIDS. We are working in close collaboration with NGOs and with support from UNAIDS and the World Bank to implement the National Multi-Sectoral HIV and AIDS Strategic Framework. I am increasing the overall spending on this item by 50 percent from Rs 32 million to Rs 48 million. Within this amount, I am providing funds to allow NGOs on the frontline to expand their reach. PILS will receive Rs 1.5 million, Chrysalide Rs 1.2 million and Idriss Goomany Centre Rs 1 million. In addition the HIV/AIDS and Substance Abuse Programme, available to support NGOs campaigns, is being expanded from Rs 10 million to Rs 15 million. The additional funding should

(i) increase the number on anti-retro-viral treatment to 500 from 300 last year;

(ii) allow 2,000 users to benefit from needle exchange compared with 700 last year; and

(iii) place 2,500 on Methadone substitution therapy compared with 700 last year.

285. Eleventh, I am providing a one off capital grant of Rs 2 million each for the construction of Cultural Centers. We are also increasing funding for the Aapravasi Ghat Trust Fund and the Le Morne Heritage Trust Fund.

286. Twelfth, in view of the pressure on purchasing power of pensioners due to food inflation, Government will not align Basic Retirement Pension with retirement age and will continue to pay this to those aged 60 and above.

287. Thirteenth, we are giving a 9 percent increase, more than the full compensation for inflation, to all beneficiaries of Basic Retirement Pension, Basic Widows Pensions, Basic Invalidity and other pensions and social aid programmes. I am providing Rs 8.1 billion to cover the cost of these items.

288. Fourteenth, I am making a special effort for fishermen by raising the bad weather allowance to Rs 200, that is, an increase of almost 20 percent. I am also increasing the support to the FIT by an additional Rs 15 million to assist it to undertake sea food related projects on commercial lines in partnership with the private sector.

Customs tariff

289. Mr Speaker, Sir, I come to the fifteenth measure. Last year, I indicated that our local manufacturers needed more time to restructure to be globally competitive. In addition to a one year respite I provided financial resources to assist firms and this year Government is expanding assistance through the Manufacturing Adjustment and SME Fund.

290. This sets the stage for me to support the purchasing power of the population by cutting tariffs.

291. I am abolishing customs duty on almost all foodstuffs including

- Canned tomatoes, peas, sweet corn, mushrooms and other vegetables
- Chicken burger and nuggets
- Noodles
- Sausages, salami , ham

- Chicken
- Eggs
- Yogurt, Buttermilk, Curdled milk
- Peanut butter, salted nuts and ground nuts
- Fresh, dried and canned fruits
- Fruit juice
- Fruit jams, jellies and marmelade
- Tomato ketchup
- Soya sauce, oyster sauce, fish sauce, chilli sauce
- Mustard flour, Soups
- Snacks, cheese cakes and pastry
- Sugar confectionery
- Biscuits and wafers
- Rusks and toasted bread

292. Sixteenth, I am lowering customs duty on articles commonly used by households,

- from 30 per cent to 15 per cent for primary cells and batteries and washing products such as detergents, soap and washing powders; and
- from 15 per cent to zero per cent for blankets.

293. Seventeenth, I am bringing down duty on articles of toiletry and personal care as follows:-

- from 30 per cent to zero per cent on hair dyes;
- from 30 per cent to 15 per cent on powders; Lip and eye make-up preparations; Manicure and pedicure such as nail varnish; Soaps and Shampoos; Deodorants and antiperspirants, after shave lotions; Body and skin lotions and oils.

294. Eighteenth, the rate of customs duty on envelopes, letter cards, box files, letter trays, exercise book, registers, account books, scratch cards, greeting cards is being halved to 15 percent.

295. Nineteenth, in our efforts to protect our citizens from the high price increases on a number of items commonly used in the construction of their house, I am lowering duty on the following:-

- from 30 per cent to 15 per cent on doors, windows, blinds, paints, laminated glass and glass mirror.
- from 15 per cent to zero per cent on ceramic tiles, carpets, laminated flooring of wood; plugs, sockets and electrical fittings.

296. Twentieth, I am extending the tariff cuts to zero on spare parts and accessories for motor vehicles and eliminating tariffs on renewable energy related spare parts and items related to photo voltaic cells.

297. Twenty first, I am also removing customs duty on double space cabin vehicles without rear bed-caisson and all single space cabin vehicles for

- small sugar cane planters;
- vegetable growers;
- flower growers;
- fruit growers;
- fishermen's cooperatives;
- poultry farmers;
- pig breeders;
- cattle breeders; and
- SMEs registered with SEHDA with turnover of at least Rs 3 million that have been in operation for at least two years in
    a. furniture making,
    b. light engineering or

c. footwear manufacturing.

298. These reductions in customs duties will increase purchasing power of the population by Rs 1.8 billion, equivalent to a reduction of VAT of one and a half percentage points.

299. The recent PRB report will further inject Rs 5.3 billion into the economy once fully implemented, thus considerably increasing liquidity at a time when the economy already faces imported inflationary pressures. To mitigate the pressure on prices and to encourage savings, Government is issuing new inflation indexed savings instruments with maturity of 3, 4 and 5 years.

300. Mr Speaker, Sir, there have been many appeals to raise the income tax thresholds in the wake of the PRB report. I must highlight that the PRB report always imposes a heavy burden on public finances making such adjustments difficult. Indeed, the last PRB report was NOT accompanied by any adjustment in tax thresholds. Moreover, this PRB report has been significantly more generous than the previous one. The previous report cost 1.4 percent of GDP and this one 2 percent of GDP. Nevertheless, despite the fiscal costs, I have decided to act.

301. Therefore, Mr Speaker, Sir, my twenty second measure is to adjust the income tax threshold to help compensate for the loss of purchasing power of all taxpayers. I am increasing the exemption threshold by Rs 25,000 in respect of all four previous categories of tax payers.

302. Furthermore, Mr Speaker, Sir, I have not forgotten my commitment to review cases of a small percentage of genuine PAYE taxpayers who may have become worse off with the new system. Some categories of pensioners have been found to be liable to tax or have a higher tax bill under the new system, following the restoration of the BRP to all pensioners.

303. My twenty third measure, accordingly, is to correct this situation by introducing two special income exemption thresholds for retired persons who have reached the statutory retirement age and stopped working.

304. For the new Category E taxpayers, that is retired persons who do not have any dependent, the threshold will be raised from Rs 215,000 to Rs 285,000.

305. The threshold for the new Category E taxpayers, retired persons with one dependent, I am raising the threshold from Rs 325,000 to Rs 395,000.

306. Twenty fourth, we currently provide food aid at Rs 85 per head to some 40,000 beneficiaries and income support at Rs 40 to some 60,000. We are raising this assistance to Rs 100 per month for all 100,000 beneficiaries. A large majority of these beneficiaries will, thus, receive an increase of 150 percent.

307. Twenty fifth, DBM is introducing a one off, time bound for one year, special scheme to facilitate settlement of arrears. This scheme covers artists, tailors, fishers, small sugar cane planters, tea planters, vegetable planters, fruit growers, potato and onion planters, cattle breeders, dairy farmers, pig breeders, furniture makers, small traders, hawkers, small shop owners and other micro business owners in Mauritius and Rodrigues. It is limited to those who have contracted loans of up to Rs 200,000 before April 2003 and whose accounts have been in arrears for at least five years. The scheme will remove a millstone on those whom circumstances trapped in a position where they can no longer have access to finance. Removing this burden will give them a second chance.

308. The DBM is exceptionally providing a full waiver of the penalty.

309. The DBM is also fully waiving the interest accumulated.

310. For those with initial loan amounts of less than Rs 50,000, half of the capital left will also be written off.

311. For those with initial loans between Rs 50,000 and Rs 200,000, the DBM will reschedule the payment of capital over one year with a moratorium on interest.

312. On average the benefit for those with loans below Rs 50,000 is equivalent to 85 percent of total liabilities and for the others about half. The amount being written off is about Rs 550 million. This is a one off. There is no reason for such debts to accumulate in the future or to be forgiven again given the provisions of the Protection of Borrowers Act and a computerized data base together with a shift to a performance culture in the Public Sector as ushered in by the recent PRB report.

313. In the spirit of protecting purchasing power, I would like to use the opportunity provided by the PRB report to assist the 106,000 individuals and about 300,000 citizens covered by the report. Government has accepted the recommendations of the PRB report in toto. This calls for 75 percent to be paid this year and the remaining 25 percent next year.

314. Mr. Speaker, Sir, I would like to inform the House that granting the 75 percent tranche for this year as recommended by the PRB would cost us

1.4 percent of GDP, as much as the full report last time, which was phased in over two years and accompanied by an increase in VAT.

315. Mr. Speaker, Sir, I am delighted, however, to have been able to find the fiscal space, without any increase in VAT, to fulfill the Prime Minister's wish to implement 100 percent of the PRB report on 1 July 2008.

316. Mr Speaker Sir, to sum up, the larger fiscal space we have created through the reforms are allowing us today to spend

- Rs 1 billion on our airport
- Rs 1 billion on the Maurice Ile Durable endeavour
- Rs 1 billion on building food security
- Rs 1 billion on education and knowledge
- Rs 1 billion on Eradication of poverty and widening the circle of opportunities.
- Rs 500 million on industry to boost manufacturing and further develop the SME sector, and
- Rs 500 million on housing for the poor and low and middle income.

317. Our reforms are also enabling us today to make good our promise to the population to put the economy back on the right track, restore public finances and share the gains from the recovery with all the population, especially the weakest.

318. Mr Speaker, Sir, implementing the full PRB in one year without increasing VAT and while reducing the deficit is immediately increasing the purchasing power and improving the quality of life of more than 100,000 employees and around 300,000 of our fellow citizens.

319. The increase in food aid to Rs 100 reaches out to around 100,000 of our beneficiaries.

320. The writing off of the old non-performing loans at the DBM is a measure that releases 8,000 in Mauritius and 1,300 in Rodrigues from the trappings of debt. These families can now take full advantage of the new economic dynamism to start afresh.

321. Our tax reforms have taken 36,000 individual income earners out of the tax net, lowered the tax burden of close to 25,000 persons.

322. Mr Speaker, Sir, before concluding, I would like to express my appreciation to all those who have positively responded to our requests for views and suggestions, in particular the NGOs, various organizations and professional groups and many of our citizens. I would like also to thank my colleague Ministers and fellow parliamentarians who have provided their advice and insights.

323. I would like to express my sincere gratitude to the Prime Minister who has given me very useful support and guidance in the preparation of this Budget. Finally, let me thank the staff of my Ministry for their hard work and diligence.

CONCLUSION

324. Mr Speaker, Sir, we have gone through three years of socio-economic statecraft – reforming for prosperity and social upliftment for all.

325. Without reforms our economy would have suffered the full blast of preference erosion and continued its decline to lower GDP growth, lower income, higher unemployment, and rising debt and deficit. We would be today continuing to write all the indicators with red ink.

326. Our reforms have saved our economy, our country and our population from these bleak odds. We were criticized when we introduced reforms and changed development course. But we stood our ground, with the firm conviction that if we did not we would be in dire straits. Looking at the future of our children and their children, we shunned cheap politics, reckless demagogy and irresponsible populism. We stayed firmly on the path of reforms. Today we are vindicated by the results.

327. Last year we had an early harvest. This year we are seeing a bumper crop. Under the old development model, the PRB award amounted to 1.4 percent of GDP, to Rs 2.3 billion paid over two years. In our new paradigm, we can afford a PRB award of 2 percent of GDP, costing Government Rs 5.2 billion implemented in full in one year, without raising VAT and without increasing the budget deficit. In fact we did all this whilst reducing taxes equivalent to a one and a half percentage points of VAT.

328. Our reforms have also created fiscal space to do more to eradicate absolute poverty, to improve access to education and empower our men, women, and youth, to provide higher quality health care, give more

protection and support to the vulnerable and to our elderly, increase disposable income, and broaden opportunities for small entrepreneurs.

329. Mr Speaker, Sir, our reforms are indeed as sweeping in scope as they are balanced in approach. The results we are seeing affirm our conviction that prosperity is found where everyone dares and where everyone does his best. This fundamental value is what should be at the root of all we do.

330. Together, let us continue on the path of reforms, so we can build an AMIGO Mauritius that is Attractive, Modern, Inclusive, Green and Open.

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