

# BUDGET MEMORANDUM

2024-2025

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## Executive Summary

29 March 2024

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### EXECUTIVE SUMMARY

Our primarily export-oriented economy is expected to grow this year with a global forecast which has been revised upward to 3.1 percent for 2024.

In view of the receding global inflation rate and the shifting of the economic power base towards Asia, Mauritius can expand and diversify its trade through our Comprehensive Economic Cooperation and Partnership Agreement with India and Free Trade Agreement with China, while consolidating economic relations with Europe and the rest of the world. Mauritius can further harness the opportunities that are opening up under the Africa Continental Free Trade Area to build further on our role as a regional services hub.

**In this context, proposals have been made regarding national priorities, particularly sea and air connectivity, as well as digital connectivity, to ensure that Mauritius capitalises on these opportunities. The recommendations on coastal erosion included as a national priority are also relevant to ensure a sustainable tourism sector.**

According to estimates of Statistics Mauritius, all sectors of the economy except the sugarcane industry have registered positive growth rates in 2023.

- The contraction in the sugarcane industry (based on December 2023 estimates from National Accounts-Statistics Mauritius) for a fourth consecutive year is linked to a shrinking of the output.
- Following a strong growth performance of 9.1 percent in 2022, the manufacturing sector expanded by 1.4 percent in 2023 driven mostly by local manufacturing. The output of the Export Oriented Enterprises plummeted by 10.5 percent in 2023 compared to a positive growth of 11.8 percent in 2022.
- The construction sector grew at a higher rate of 28.6 percent in 2023 compared to 1.3 percent in 2022, driven by the implementation of several projects in the public and private sectors. However, this growth is skewed and local construction companies are facing operational difficulties, mainly shortage of labour and unfair competition with foreign counterparts.
- The tourism sector expanded by 31 percent in 2023 as tourist arrivals climbed to around 1,300,000 compared to 997,290 in 2022. Tourism earnings rose to a record level of MUR 85.9 billion in 2023. The earning per tourist in dollar terms stood at USD 1,476 in that year.
- The wholesale and retail trade sector grew by 3.6 percent in 2023, higher than the growth of 3.0 percent in 2022. In 2023, the ICT sector grew by 6.6 percent while the financial and insurance activities expanded by 4.8 percent.

**In view of the above, this memorandum lays out our proposals for the agricultural sector, through the energy and food security nexus, as well as the resilience of the construction and manufacturing sectors.**

In 2023, private sector investment increased by 16.2 percent in 2023, a significant rise from the 9.6 percent growth registered in 2022.

Recent CPI data show a continued downtrend in the inflation rate with the Bank of Mauritius projecting a further decline in the inflation rate to 4.0 percent in 2024, provided there are no significant global price shocks.

During the period 2020 to 2023 the pressures on the exchange rates have been substantial. As a result, the Mauritian Rupee has depreciated by 24 percent against the USD, 23 percent against the Euro, and 22 percent against the GBP over that 4-year period. The rupee has depreciated by 3.5 percent since the beginning of this year. The depreciation of the Mauritian Rupee vis-à-vis major currencies prompted several interventions by the Bank of Mauritius which intervened eight times on the forex market in 2023 through the sales of some USD 360 million.

The Bank of Mauritius has also responded to inflationary pressures by raising the policy rate which now stands at 4.5 percent. The Key Rate is anticipated to remain elevated, aligning with the inflation target range of 2 to 5 percent that has been set out in the New Monetary Policy Framework.

The high level of public debt at MUR 512 billion in December 2023, although decreasing as a percentage of GDP, is due mostly to the significant rise in 2020 resulting from strong government support to businesses and households amidst the COVID-19 outbreak and also from increased direct support to the population under the social security system.

With regards to our balance of payments, the external current account deficit narrowed significantly to MUR 8.3 billion in the third quarter of 2023 compared to MUR 17.1 billion for same period in 2022. The improvement in the current account deficit resulted from higher surpluses in the income and services accounts and a lower trade deficit.

A major concern is the continued trend towards an overall balance of payments deficit, which was MUR 1.9 billion in the third quarter of 2023 compared to MUR 5.6 billion during the same period in 2022. For the first 9 months of 2023, the overall balance of payments deficit reached MUR 53.6 billion, compared to MUR 27 billion for the corresponding period in 2022.

In this context, the recent increases in the national minimum wage and additional compensation have in fact further negatively affected the resilience of the export sector. These may be compounded if the proposed occupation-based reviews also come into play. To remedy the situation, it is vital that Mauritius puts more emphasis on policies to increase export of both goods and services while promoting import substitution activities.

Mauritius also needs to further promote FDI inflows into the country to improve its capital account. There should be a greater focus to attract FDI in emerging and new sectors.

With regard to the above, proposals are made on:

- **accelerating the growth of emerging sectors, namely energy, education, healthcare, circular economy and water sector.**
- **growth enablers to attract international investments, including business facilitation, innovation and sustainability as a business opportunity.**
- **climate-adaptation, which is fast becoming a key indicator for international investors.**

Furthermore, understanding the current account balance as the differential between exports and imports, and the balance on primary accounts and net current transfers, improvement in our current account can be achieved by the implementation of structural measures that increase the efficiency of the economy.

**Therefore, this budget memorandum provides recommendations pertaining to structural labour market reforms to improve employability and productivity. Also included is our proposal on métiers in order to transition the inactive labour force into the productive sector, while addressing the social issue of the unskilled long-term unemployed. Bringing more youth and women into the productive economy is necessary to support our growth objectives as well as a planned immigration policy to ensure the right skills mix for the high-value sectors.**

Overall, our budget memorandum has been constructed to highlight the key issues that are perceived by the business community in the particular context of an election year, and provide solutions that we believe will positively steer the economy with strong fundamentals as it recovers and grows from the pandemic.

Indeed, it is an opportune time for a national pact:

- on the **quality on investments**, where the public and private sector join hands to develop the emerging sectors of the future, while considering the availability of the technical skills for this development and providing long-term structural support to their development;
- on an **engaged and productive labour force** within a broader framework of work-life balance, understanding the need for a growing, productive and highly skilled labour force in the context of the jobs being required in existing and emerging sectors; and
- on a **strong governance ecosystem** where the considerations of exchange rate stability, of competitiveness and attractiveness of the economy and total factor productivity are enshrined through institutional reforms and a deeper private and public engagement.

We thank you for the opportunity provided to present our recommendations to the Ministry of Finance, Economic Planning and Development in the context of the National Budget 2024/25. Our team at Business Mauritius remains at your disposal for further discussions on the above mentioned subjects and any other areas on which we can assist.

## ANNEX

Below is a list of key recommendations by theme, extracted from the Business Mauritius Budget Memorandum 2024/2025, which is available upon request.

### 1. SEA AND AIR CONNECTIVITY

- (i) Immediate improvement of critical infrastructure by replacing the three older gantry cranes and repairing those that are not currently working, in order to allow two ships to operate simultaneously.
- (ii) Improve the management of the port operations and productivity of the port by partnering with a port consultant.
- (iii) Create a new structure for the port with three separate entities – regulatory, asset owner, port operator.
- (iv) Develop a national civil aviation policy to determine profitable Air Mauritius routes and frequencies, new markets such as South East Asia and Asia-Pacific regions, and adopting a hub approach to position as Air Mauritius as a key player in the regional and international aviation market.
- (v) Develop a passenger transit model for the airport and create incentives for the Airport Cargo hub.

### 2. FINANCIAL AND DIGITAL/AI CONNECTIVITY

- (i) Launch a national ‘AI-for-All’ campaign on the imperative of digital and AI technologies in the pursuit of the country’s vision for development. The proposed series of events will be a joint initiative of Business Mauritius and the Ministry of Information Technology, Communication and Innovation, through the Mauritius Emerging Technologies Council (METC), and in collaboration with the Ministry of Education and Human Resources, the Ministry of Industrial Development, SMEs and Cooperatives, SME Mauritius, the MRIC, amongst others.
- (ii) Set up a National AI Strategy that will positively revolutionise the national landscape while promoting local players in AI and creating an ecosystem to foster innovation and entrepreneurship in AI.
- (iii) Improve the regulatory landscape in favour of increased adoption of AI, including a framework for AI-enabled RegTech which will help in permit delivery across sectors: banking, securities, insurance, and others, covering a wide variety of activities such as identity verification, AML/CFT, fraud detection, risk management, stress testing.
- (iv) Develop digital stacks (similar to Indian model) to facilitate basic and useful functions for more inclusive service delivery and innovation across multiple sectors.

- (v) Improve our digital and data infrastructure while considering local infrastructure service providers as an effective catalyst.

### **3. COASTAL EROSION**

- (i) Develop a collaborative knowledge platform for all stakeholders, in particular those within public-private technical committees, to access the latest reports and data related to coastal erosion.
- (ii) Establish a new governance framework under which to jointly define a sediment cell management strategy.
- (iii) Establish an authority, within this new governance framework, that brings together entities such as the beach authority, tourism authority, and PMO to usher in a novel approach to coastal management in Mauritius. We recommend initiating pilot projects under this framework, supported by public-private collaboration.

### **4. MÉTIERS**

- (i) Establish an 'Empowerment & Skills Programme for the Youth' to facilitate the transition of young people to the world of work and enhance their employability, paying particular attention to gender mainstreaming.

### **5. LABOUR MARKET REFORMS**

- (i) Set up an 'Assises on the labour market' which will necessarily be informed by a detailed granular study to identify and understand the gaps in the labour market. This should include a review of methodologies used to estimate unemployment and active
- (ii) Recommendation for a Joint Committee on Employability.
- (iii) Allow businesses and employees to negotiate the terms of flexible working arrangement by making trade-offs in relation certain statutory and acquired benefits like payment of overtime, leave entitlements, refund of leave, travelling allowances, bonuses.
- (iv) Facilitate the recruitment of foreign workers through streamlining of processes.
- (v) Set up a centralised pay structure to provide for single coherent and efficient system to develop a sustainable remuneration policy conducive to the development of the economy, creation of employment and competitiveness of the country.

## 6. ENERGY

- (i) Extend support to impacted sectors such as Freeport, Commerce, Tourism, Construction, Agro-processing and cold store, following the increase in electricity tariff by proposing offset mechanism (similar to CNIS).
- (ii) Publish a roadmap for implementation of the National Biomass Framework and set up pricing committee to develop and implement a mechanism for indexation.
- (iii) Institutionalise agrivoltaics and fully integrate it in the legal framework, reduce legal barriers, and decrease uncertainties in the permission process. A challenge is to consider all concerning sectors such as agriculture, energy, and construction.
- (iv) Make thermal insulation of building's roof compulsory for all new construction projects (monitor through BLUP application process). Roofs represent nearly 70 percent of the heat input and therefore, good thermal insulation would significantly reduce the need for air conditioning. Hence, reducing energy demand.
- (v) Remove VAT on bio-sourced and recycled construction materials so that they may become more competitive with traditional building materials. Moreover, it is imperative to publish norms or guidelines for non-traditional yet eco-friendly materials to incentivize their adoption. For instance, materials like bamboo, hemp, recycled plastics, and bio-based composites could be included in these guidelines to promote their environmentally friendly usage across various industries.

## 7. EDUCATION

- (i) Develop a common vision of the education hub by private and public higher education representatives and stakeholders with a business friendly regulatory framework.
- (ii) Promote Mauritius as a study destination by developing a dedicated section on the Government platforms and consular websites that caters explicitly to prospective and current international students.
- (iii) Facilitate the processing of International Student Visa through a fast-track system for visa approval and renewal for Tier 1 bona fide institutions and members of the Association for Private Higher Education Institutions (APHEI).
- (iv) Allow post-secondary educational institutions registered with HEC to be zero-rated for VAT purposes. This exemption would allow these institutions to make considerable savings on expenses such as equipment, materials, services and rental of premises.
- (v) Extend the Mauritius Africa Scholarship Scheme to private institutions. The proposed extension of this scheme to private higher education institutions, which was announced in the National Budget 2022/23, is yet to be implemented. The earliest adoption would bring added leverage in support of creating our knowledge hub.

## **8. HEALTHCARE**

- (i) Reinforce the current Public Private Collaboration to reduce demand pressure on the government hospitals while increasing volume in private hospitals to reduce their cost of care and improve the quality of service.
- (ii) Introduce a financial assistance model to provides financial assistance for specific surgeries, capped per type, based on actual costs in public healthcare minus a predetermined percentage.
- (iii) Facilitate the short term or long term presence of doctors from reputable foreign institutions to enhance capacity building and knowledge sharing.
- (iv) Ensure transparency when contracts are awarded for the sake of efficient planning operations and costs reductions. It is also crucial that each tender for surgeries and treatments should be for provision of services on a longer term period or/and with a sufficient volume of patients being referred.
- (v) Amend Pharmacy Act to allow for the delivery of medicines, under strict determined conditions, to our elderly citizens with chronic diseases and cognitive decline, with reduced mobility which makes going to private or public pharmacies either impractical or hazardous to them.

## **9. CIRCULAR ECONOMY**

- (i) Proclaim the Waste Management and Resource Recovery Act.
- (ii) Implement the regulations and norms for major waste streams as they would elevate the perceived value of such 'wastes,' thereby encouraging operators to invest in and market secondary materials.
- (iii) Support private sector investment in recycling facilities and the related infrastructure needed to switch to eco-friendly packaging.
- (iv) Collaborate with industry stakeholders, environmental experts, and governmental agencies for recycling collectors and recyclers, in order to develop robust standards. These standards should encompass various aspects such as collection methods, sorting processes, material handling, and environmental impact mitigation.
- (v) Frame the Public-Private collaboration through the co-chairing of key committees, in order to accelerate the development and application of the Extended Producer Responsibility (EPR) regulations on waste segregation.



## 10. WATER SECTOR

- (i) Introduce mandatory Water Efficiency Labelling and Standards (WELS) to promote water efficiency in household appliances and fixtures that can drive innovation and promote the adoption of water-saving technologies. It would work similarly to the current regulation for energy efficiency appliances.
- (ii) Facilitate the development of new boreholes on private lands to increase access to water.
- (iii) Establish a national desalination plan, in light of the impacts of climate change. The current approach of small scale desalination operations for the hospitality sector only address water scarcity issues at a micro level.
- (iv) Make rainwater harvesting systems mandatory for large buildings as well as for new residential building construction (monitored through the BLUP application process).
- (v) Collaborate on the setting-up of an appropriate legal framework for the affermage system. The agreement should clearly outline the rights, obligations, tariffs, and responsibilities of both the public authority and the private entity. It should include provisions for the protection of private sector investments, mechanisms for dispute resolution, clarity on the duration and conditions of the concession and establishing clear guidelines for the allocation of risks (force majeure, revenue and/or cost fluctuations etc.) and responsibilities.

## 11. BUSINESS FACILITATION

- (i) Implement the Regulatory Impact Assessment (RIA). The RIA is a significant step forward in governing the regulatory landscape affecting businesses and citizens. It aims to enhance predictability, relevance, fairness, legitimacy, stakeholder involvement, and enforcement of regulatory changes, including fiscal ones. It is suggested to accelerate the passing of the RIA Act and the operation of the RIA Agency.
- (ii) Implement the Regulatory Review recommendations for trade and logistics, land use and construction, tourism and healthcare and life sciences.
- (iii) Create a clear roadmap to further increase the number of business permit modules being processed through the National E-Licensing System (NELS), which would lead to an overhaul in the speed and transparency of processing permits.
- (iv) Establish a joint public-private monitoring committee to review the KPIs of NELS on a quarterly basis. As more processes migrate onto NELS and the volume of applications increases, a number of recurring issues have started to appear, including processing delays and unusual conditions attached to permits.

## **12. INNOVATION**

- (i) Support the new venture modelled on the MIT Deshpande Center and SMART Center (Singapore-MIT Alliance for Research and Technology). The support ecosystem would be made up of MIT, Deshpande Foundation, Gopalakrishnan-Deshpande Centre for Innovation & Entrepreneurship, Mo Angels, Business Mauritius, CBBR, University of Mauritius.
- (ii) Include a line item on audited accounts to consolidate all R&D expenditure, so that businesses can correctly report their contribution to innovation performance.
- (iii) Promote research excellence and collaboration in Higher Education Institutions and increase R&D funding at HEIs so they can be channelled into multidisciplinary and multiyear programs.
- (iv) Empower young women entrepreneurs to develop projects in the areas of innovation and technology as well as those involved in the conduct of research work for the healthcare and life sciences industry.
- (v) Improve collaboration and R&D for innovation in the healthcare system by strengthening inter-sectoral coordination for R&D and PPP opportunities among health care sector stakeholders.

## **13. SUSTAINABILITY AS A BUSINESS OPPORTUNITY**

- (i) Establish an agile ESG framework, which is essential for local disclosure mandates to be adaptable enough to allow companies to align with both domestic laws and the requirements of their foreign clientele, without imposing duplicative burdens.
- (ii) Provide grants to cover 30 per cent of the costs incurred by companies that will begin mandatory reporting.
- (iii) Create a local tool with accessible emission factors, freely available to small and medium enterprises (SMEs), ensuring their active participation in the green transition. This tool would enable SMEs to calculate their Scope 1 and Scope 2 emissions, providing them with a foundational understanding of their carbon footprint. Additionally, the tool could incorporate some Scope 3 emissions, even if not fully comprehensive of the entire value chain.
- (iv) Support SMEs facing resource constraints in implementing best practices, due diligence, adapting their processes, or obtaining sustainable certifications. The Mauritius Standards Bureau, which has adopted ISO 26000 (but not limited to), as well as professional associations, could play a broader role in raising awareness and disseminating "sustainability" standards and in supporting sectors and businesses, especially SMEs and cooperatives.
- (v) Introduce a legal framework for social enterprises that would grant a legal recognition and provide a separate legal status. This would enable them to access funding and also

benefit from tax exemptions. The framework should include a clear definition of what constitutes a social enterprise, and recognise the unique characteristics and goals of these organisations. This would enable social enterprises to grow and expand their impact in the society and environment.

## **14. FOOD SECURITY**

- (i) Prepare jointly a Strategic Plan and implementation plan for the development of a sustainable food security agriculture in Mauritius. The last Strategic Plan for Food Crop, Livestock and Forestry was for the period 2016-2020.
- (ii) Improve our food sovereignty, by ensuring proper planning by the Agricultural Marketing Board for the production of vegetables by setting specific quantities and a calendar for local production for the year; and to import vegetables with strict guidelines and timelines only in period where local production for same vegetables are low.
- (iii) Decide on minimum guaranteed prices at which selected local products will be purchased by the AMB for a defined period of time. The guaranteed price scheme may be set for 2 to 3 years.
- (iv) Provide financing at concessionary rates to projects that will increase food production and food processing. Such financing facilities should span the entire supply chain from the purchase of seeds and fertilisers to transformation and marketing.
- (v) Promote the application of IoT and AI technologies to modernise agriculture and to produce healthier crops, control pests, monitor soil and growing conditions, and collect, organise and disseminate data to farmers, among others.

## **15. CLIMATE ADAPTATION**

- (i) Improve the communication process around heavy rainfall by putting in place a warning system that can reach in real time the business community and the population at large (e.g. SMS warning systems). Communications to the public and employers' associations should also be considered.
- (ii) Upgrade, simplify and target the NEOC alert systems, taking into account region-specific risks, associated risks (e.g. cyclone and flooding at the same time) and clearly defining the level of risk that we are ready to take at each NEOC level should be clearly defined.
- (iii) Improve the Operational Process in order to better control and manage risks; set up well-established evacuation plans for flood prone areas and regions; and define plans and logistics for release of all employees.
- (iv) Revise the action plan for the up-keeping of drains and identification of systemic issue points (e.g. M1 segment between Rogers House and Caudan which blocks the flow of water).

- (v) Set up as framework on the greening of Mauritius, which would lay out the parameters for the private sector to implement the greening of public spaces and in due course, hand over to the relevant authorities.

## **16. CONSTRUCTION SECTOR**

- (i) Set up of a fund, to be jointly managed by CIDB and BACECA, which will be used for training and communication campaigns promoting vocational careers within the construction sector.
- (ii) Introduce an additional marginal charge levied on foreign contractors to address an anomaly to the detriment of local contractors. Currently, local construction companies are subject to social charges which create an unfair competition in favour of foreign contractors who do not calculate pay in accordance to the Remuneration Orders.
- (iii) Include price fluctuation clauses for construction contracts, in including contracts for the social housing project by the NSLD. This would help mitigate the impact of the significant and unpredictable cost component increases (material, labour, currency, etc.).
- (iv) Appoint an international consultant to understand the market better, benchmark our offer against competing jurisdictions and define a strategy and roadmap for Mauritius Real Estate Sector. This exercise could be a joint exercise between Business Mauritius, EDB and the Ministry of Finance, Economic Planning, Development.
- (v) Set up a joint committee between EDB and Business Mauritius to devise and implement a strong marketing strategy for the Mauritian Real Estate Destination.

## **17. MANUFACTURING SECTOR**

- (i) Set up a Manufacturing Resilience Fund, in order to provide solutions for unforeseen situations such as unbudgeted freight increases. The funds would also be available to be used for:
  - o training within the industry
  - o transformation of the industry
  - o provide for grants on modernization as a blended facility to complement loans offered by the IFCM for SMEs and MMEs in the manufacturing sector
  - o short term technical assistance, to be better equipped for the industry to face competitive threats and align with global and regional standards and competition
- (ii) Introduce a Production Linked Incentive Scheme similar to what is being done in India. The objective of this scheme is to link incentives directly to performance, offering companies rewards for increased sales of domestically manufactured products.
- (iii) Implement a 40 percent margin of preference for local manufacturers with Made in Moris label. There is also a need to have visibility or have a “baromètre de l’achat local” for

monitoring purposes. Along the same line, government procurement process needs to be reviewed to include sourcing from local manufacturers.

- (iv) Set up an Advanced Manufacturing Training Academy aimed at providing comprehensive training for workers. The Academy should be industry driven focusing the evolution of advanced manufacturing training, identifying emerging skill requirements, facilitating the development of training courses and curricula. The trainings provided under the Academy to be refunded by the HRDC.
- (v) Establish a New Vision for Food Security, Sustainable Agriculture and Agro-Processing to reduce import dependency on food by identifying sustainable local alternatives as well as encourage exports.