

Speech by H.E. Dr. Rama Sithanen, Vice Prime Minister, Minister of Finance and Economic Empowerment, Republic of Mauritius

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***Doing Business 2009* Top Performer for Africa: Mauritius**

Lessons and Impact of Reform

H.E. Dr. Rama Sithanen:

I have been requested to share our experience in Mauritius, and let me hasten to say that experience can be good and also bad. We have made progress, but we still have many challenges.

When we came back to power some time back--and all of you know that Mauritius is a very vibrant and a very robust democracy, and we change power very often, and obviously, this makes life difficult in terms of carrying out reforms, because not only must you make sure that reform works, but you must also make sure that the people are happy with the reform, because at the end of the political cycle, which is the five-year cycle in Mauritius, you must go back to the people and make sure that you are elected.

When we came back to power three years ago, the Mauritian economy had reached the end of its cycle--basically, our dependence on trade preferences. The EU sugar regime was being challenged by the WTO, and it was the end of the Multi-Fiber Agreement and for those of you who know about Mauritius, sugar was king, and textiles were equally king. So it was very tough for us. The price of sugar was coming down by about 36 percent, and we had lost our competitiveness to countries like China, India and other countries.

So we had no choice. And I keep telling people in Mauritius that we had reached the end of a journey, and we had to change stations. It was tough. At that time, growth was declining, unemployment was rising, investment as a share of GDP was coming down, and FDI had completely dried up.

We had to present a package of reform to the people so as to make sure that we sustained economic growth and addressed the problems that beset the economy at that time.

And again, I think one of the advantages of Mauritius is that we are a very pragmatic and a very practical people, and we are not very ideological when we have to choose policies that will address structural problems.

And let me make a confession here to our friends from the continent that when we started the reform, it wasn't my intention to look at the rank of Mauritius on the *Doing Business*. This was not my intention, and it is still not my intention, even though I was telling Michael Klein that when you are number one in Africa, the only direction you can go is, obviously, South. But the reason why we had to do it was because we strongly believed that it was the only way to return the economy to growth, to create jobs for our people, to bring down the level of poverty, and to sustain the pace of development in my country.

Let me also make another confession to all my friends who are here.

Obviously, improving the business climate, the investment climate, is important, but you need to do other things also at the same time--investment in education, investment in health, investment in agriculture, investment in infrastructure. I think these are extremely important.

The President of the World Bank mentioned about making sure that the rule of law functions, that property rights are respected, because stability and predictability of policies is also important. The reason why I am saying this is because very often--and I'm not very happy when people say "This is a miracle." Of course, it is not a miracle. I don't even buy lottery. You can't win the New York Lottery or even the euro lottery. So it is basically a response that Mauritius continuously makes whenever there are challenges that we face.

And what we decided to do is how do you find unique selling propositions to distinguish yourself from the rest, and especially a small island economy like Mauritius. We have the tyranny of geography. We are very far from our main trading partners. We don't have a lot of natural resources. I keep telling people the only natural resources we have are our people.

So I told my people, let's think of a matrix that will stand out and that will distinguish us from the rest, and that will also attract attention. This was when we decided to do five or six important thing.

The first one is to encourage people to do business. Very often--I am also responsible for promoting investment into Mauritius, so I travel across the world to try to convince people to do business with my country--and very often, people make the criticism that what you promise when you are on these trips and what you get when you go to these countries, there is a big difference. Very often, you are promised red carpet treatment, but when you go back to the country, you have to hop from one office to another office get the permission for water, for electricity, for waste water, for permits, whatever it is

So we said, look, let's twist the argument over its head and shift the onus from the businessman to the civil servant whilst we approve everything. So we introduced the concept of "silent agreement," and at the same time, we said that for all unregulated business--obviously, if you want to open a bank, we have to do the due diligence and make sure, because you are using public money, so this would probably take a longer period of time--but for all unregulated activities, we issue some guidelines. And I told our people that it's not your business to tell someone who wants to risk his money whether you should approve his business or not.

So we shifted from an ex ante, detailed investigation of the business to basically an ex post verification that they have complied with the guidelines that we have set up, and we took the promise that we would deliver the permit in three working days. And it is working, because we have issued many licenses to small businesses in three working days. And we went further, and we said that, look, in three working days, if you don't get a response from the authority, the receipt that acknowledges that you have filed for an authorization, that receipt itself becomes your permission to start your business.

So this is how we have shifted the onus from the businessman to basically the civil servant or the administrator.

This is the first thing that we have done in terms of making sure that people can start a business very fast, not only on paper. And even now, I am not very

happy about it. And it was quite tough, because I think we had to change 36 pieces of legislation. And you know how bureaucrats are, because this is their power. And it wasn't easy to convince them that you need to let go, and you need to let entrepreneurs get on with the business.

And we had to convince people that we are doing this not only to attract foreign direct investment but also to encourage small business in the country--SMEs. And there has been a surge in SMEs as a result of this new business climate that we have created.

The second thing that we have done, again quite tricky in a very small country, very sensitive, is attracting talent, skill, people who have know-how, to come and stay and live in our country--for them, for their spouse and for their children.

So here, also, we decided to innovate, and we introduced six ways for people to become a resident of Mauritius--either if you invest a given amount of money or you are a professional or you are an employee, you are a retiree, you are rich, and you want to spend some money in Mauritius and to spend some time, or you purchase a property in our country through an approved scheme.

And again, the same principle worked. If you satisfy some of the guidelines that are known to people, you become a resident of the country for an initial period of three years, for you, for your spouse, and for your children. And if you have behaved properly during these three years, you become a permanent resident of Mauritius, and you have the same rights and the same responsibilities as any Mauritian--the only exception is you don't have the right to vote. And here also, a result of this scheme-- will come back to what has happened since we introduced this scheme--there are many foreigners who have come from many countries in the world, because we have a shortage of skills, and it takes time in terms of investment in education, in training and in capacity-building, to bridge the gap between demand. So in the short term, we have opened up the country to allow people to come.

And again, the same principle here--if you don't get your permission in three working days, the receipt itself becomes your initial permit for a period of three years, and after that, you apply to become a permanent resident of Mauritius.

Third, again extremely difficult in a robust democracy like Mauritius where you have very strong trade unions, is flexibility in the labor market. And all of you will know that this will allow people to switch from sectors that are declining or sectors of low growth to sectors of high growth or to new sectors. But we have to combine flexibility with some sort of security in order to buy the support of the trade union movement.

The fourth one was taxation. We were colonized by the Brits, so it was an extremely complex and complicated tax regime--many tax bands, some high, and many carve-outs. There were a lot of carve-outs for such-and-such sector. You would give them some rebates, some additional allowances, some extra deductions.

We benefited from this for along time, because there were trade preferences, and I decided that if you want to graduate from trade preferences to global competitiveness, it is going to be extremely difficult for me to decide which sectors will work and which sectors will not work. So we decided to create a level playing field as far as taxation is concerned, and we also decided to go for one, single rate of taxation.

So we got rid of a very complex, very complicated--the only people who

were making money were the lawyers and the chartered accountants who were advising their clients on how to reduce their tax liability--we made it very simple. You can fill it out on one sheet of paper today.

So, a 15 percent corporate tax, 15 percent personal income tax--that was a tough decision--and 15 percent VAT.

And in fact, this is the single most important attraction--if you ask me the question, when I travel abroad, when I meet Americans, I meet Indians, I meet South Africans, I meet people, and if people ask me what has made the change, I will tell them a simplified rate of taxation, a single rate of taxation, which is quite attractive.

And I also walked the extra mile. We removed--I removed--all the discretionary power of the Minister of Finance. In many of our countries, there is much legislation that gives discretionary power to the minister of finance. I decided to remove it for a very simple reason--I think businessmen and investors need certainty, they need predictability, and they need stability. They don't want to know what the mood of the minister of finance is when the file comes on his desk--whether he has had a fight with his wife or his children, and whether he will get the concession will depend on his mood.

So it is very clear what the investors are entitled to, so the removal of discretionary power I think sent the right signal to the investor community.

So, if you look at these four things that we have done--first is making it easy for people to start a business. Second is flexibility in the labor market but coupled with security, because when people lose a job, before they get another job, they need our support either in terms of training or in terms of some financial support before they reenter the labor market. The third one is opening up the economy to talent, to skill, to know-how. And last but not least is basically simplifying the tax regime.

Then, at the same time--and again, this is my experience--basically, you need a buy-in from the different stakeholders. If there is no ownership, it is going to be extremely difficult. And it is not easy to have ownership, because there were some people who were not paying any tax at all. It was zero. And there are some people who have done some very complicated calculations to find out that they were going to lose.

In fact, in any democracy, those who are bright, those who are rich, have a disproportionate power on policymakers, so they are putting a lot of pressure. So we had to tweak the system a bit in order to reduce the resistance to some of the policies that we introduced.

At the same time, what we did was to have a program to help those who are not concerned with taxation. This is important, because if you are rich, you are paying 30 percent tax, we put 15 percent, and you are a winner. Now, if you are from a lower-income group or if you are poor, you don't get anything.

So what we did was to introduce an Empowerment Program to help the poor in terms of training, in terms of education, and in terms of easier access to credit so they can start a micro enterprise or they can start a small and medium business.

I think it is also important to make sure that you have some early harvests, that people don't wait for a long time. This is the result. If it is possible to combine early harvest with some low-lying fruit, so that the common man also benefits from it either in terms of employment or in terms of becoming an entrepreneur, obviously, it is easier to make it acceptable.

What has been the outcome? After two years of reform, growth is back. We have about 5.6 percent growth notwithstanding the challenges that we are facing from the international community. In fact, I keep people in Mauritius that we are resilient, but we are not immune.

The second thing that I keep telling people in Mauritius is that if we had not reformed the country, we would have been in dire straits today. It would have been extremely difficult. Growth would have been at about 2 percent, and FDI would have been low.

Today, growth has bounced back. The growth is very widespread. It's a very broad-based growth. And we have moved from an economy that relied on four sectors to today, about seven or eight pillars.

FDI as such, in fact, in two years of reform, we have had more FDI than we had in the preceding 30 years before reform.

Investment as a share of GDP has gone up, and we are creating more jobs. In fact, we are creating three times more jobs today than before reform, and we also have many, many more small enterprises that have started than we used to have in the past.

There are other things that we have done, and that's why I started by saying that it is important to do this, but I think we would fool ourselves to believe that this is sufficient. I think investment in infrastructure, in education, in health, in the qualitative sectors of the economy, are important.

We also remove all foreign exchange control. This is extremely important. There is no tax on dividends, and there is no capital gains tax.

Let me conclude--I see Michael telling me that there are only two minutes--let me conclude by telling you that this is a process, this is a journey. We still have many challenges in Mauritius, especially with what's happening in the global economy. We are very concerned about the second-round effect of what is happening on our economy, because Mauritius has a very open economy, and in fact, if anything, I keep telling people back home that we have to accelerate the reform of the economy.

The areas where we have not scored very well in the Doing Business survey, we have set up a committee on resolution of conflict, on registration of property, I think on access to credit--and again, we are doing this not to improve our ranking, we are doing it because it makes sense to do it. If people come to invest in our country, and they have a conflict, it makes sense to resolve that conflict speedily. The same thing for registration of property. We have set up a system where we are going to computerize the registration of property so that this can facilitate business.

So, this has been the experience of Mauritius and as I said, I think it is work in progress. We have been able to turn around the economy, but as I said, there are still some new challenges, and we will continue to work with the World Bank, with the Doing Business experts, and we will try to make sure that the business environment, the investment climate, in my country continues to improve so that we attract people, we attract capital, and we can continue on the path of robust and sustained socioeconomic development in Mauritius.

Thank you very much.

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