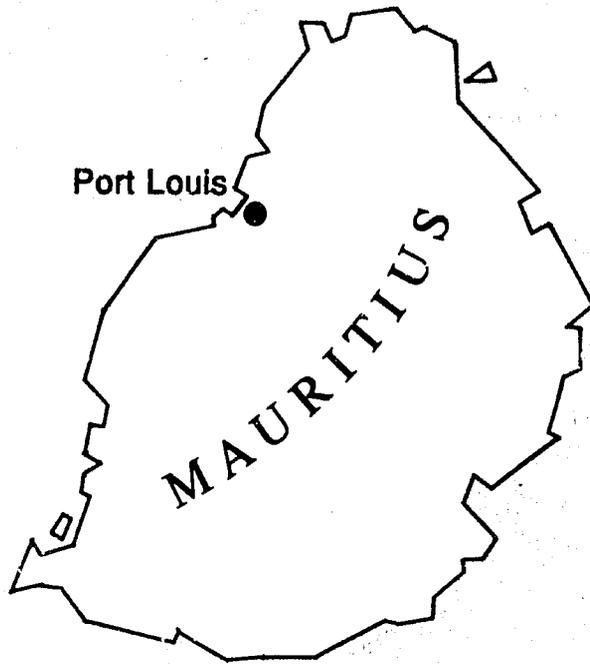




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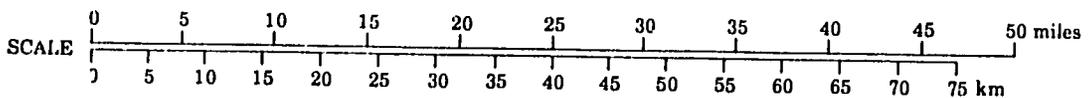
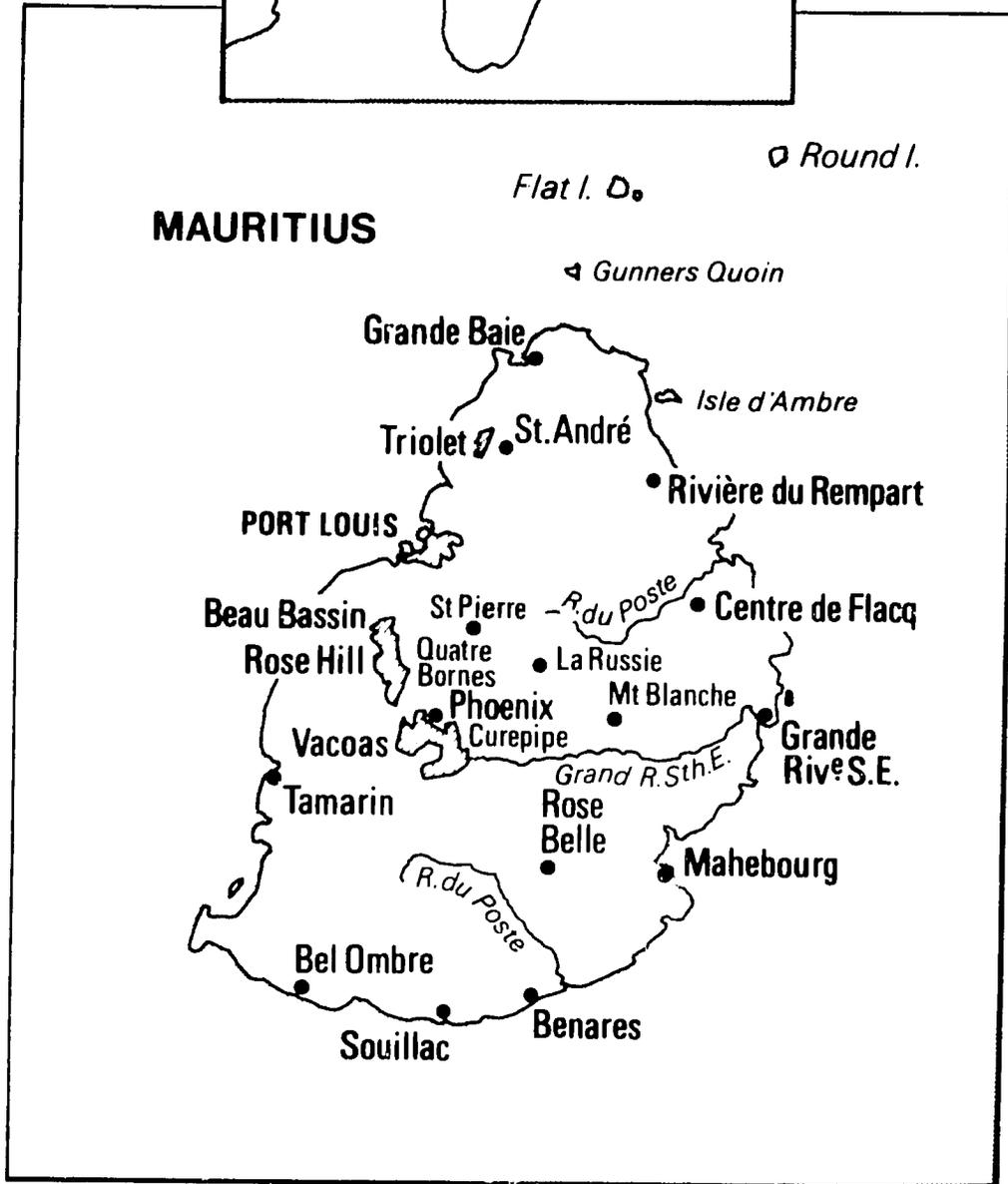
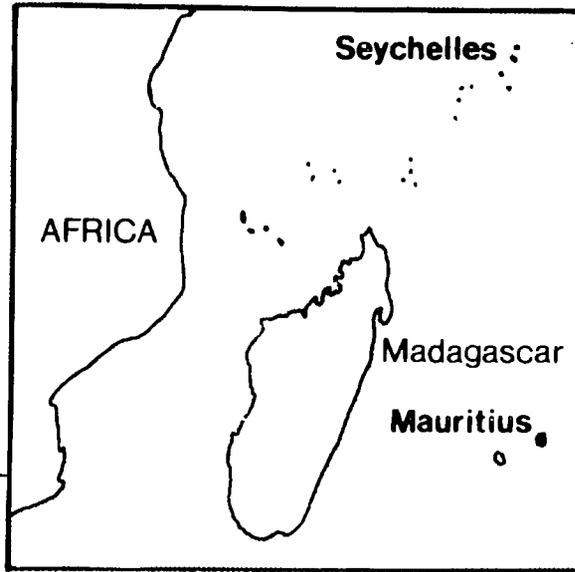
THE AGENCY FOR INTERNATIONAL DEVELOPMENT
PRESENTS

Critical Issues For American Investors in Mauritius

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BASIC DATA: MAURITIUS

Land Area: 1,860 km²

Population: 1.06 mn
(1988)

Main Towns:	Port Louis	140,000	Curepipe	65,000
	Beau-Bassin/Rose Hill	94,000	Vacoas	56,000
	Quatre Bornes	66,000		

Climate: Sub-tropical

Weather at Port Louis (altitude 55 m):

hottest month, January, 23-30°C, coldest, July/August, 17-24°C. Driest month, September, 36 mm average rainfall, wettest, March 221 mm

Languages: English, French, Creole, Hindi, Bhojpuri

Measures: Metric system for most weights and measures. Land area is measured in arpents (1 arpent = 0.4221 ha)

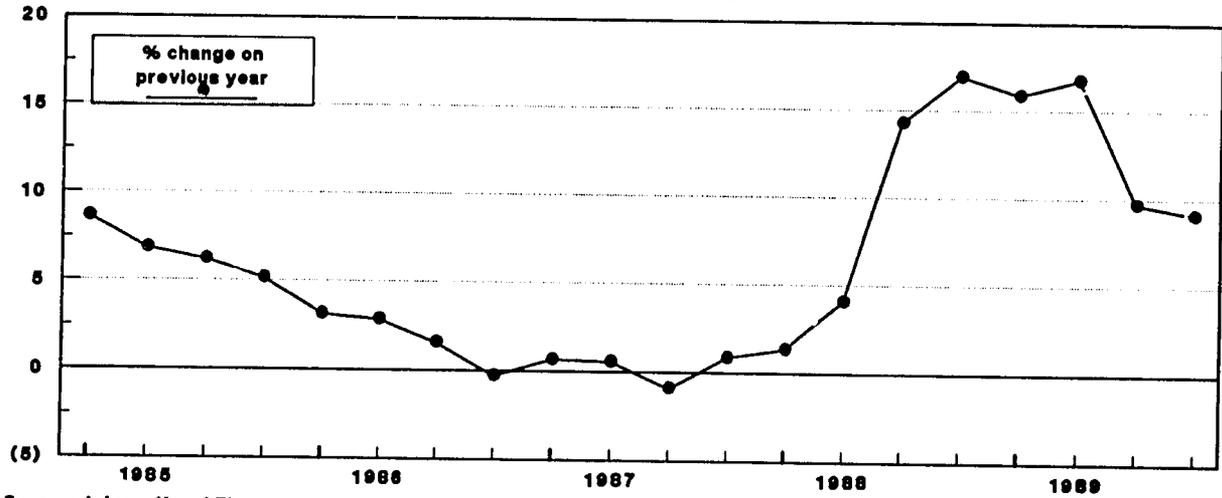
Currency: Mauritian rupee (MRs) = 100 cents.
Average exchange rate, 1989 MRs 15.25 = \$1

Time: 4 hours ahead of GMT

Public Holidays: January 1, 2, 22, February 6, March 6, 12, April 6, May 1, 7, September 5, October 29, November 1 and December 25

Key Economic Indicators

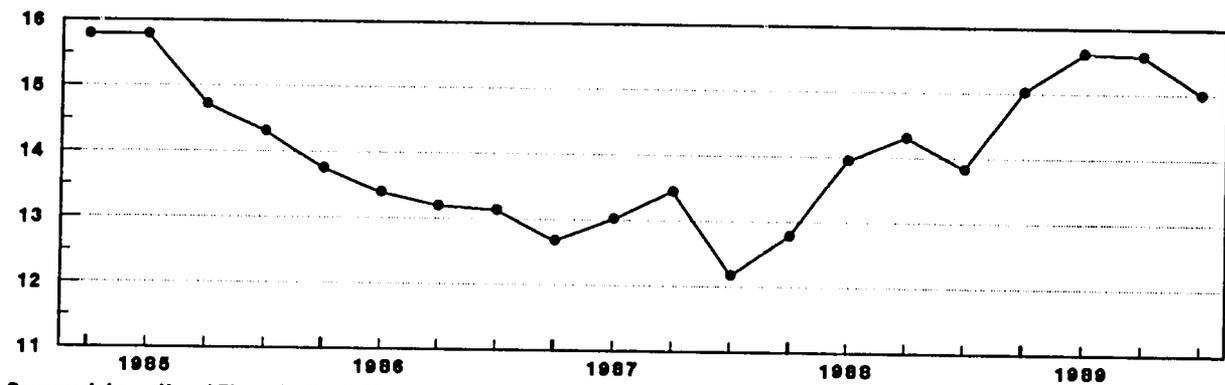
Consumer Prices



Exchange Rate

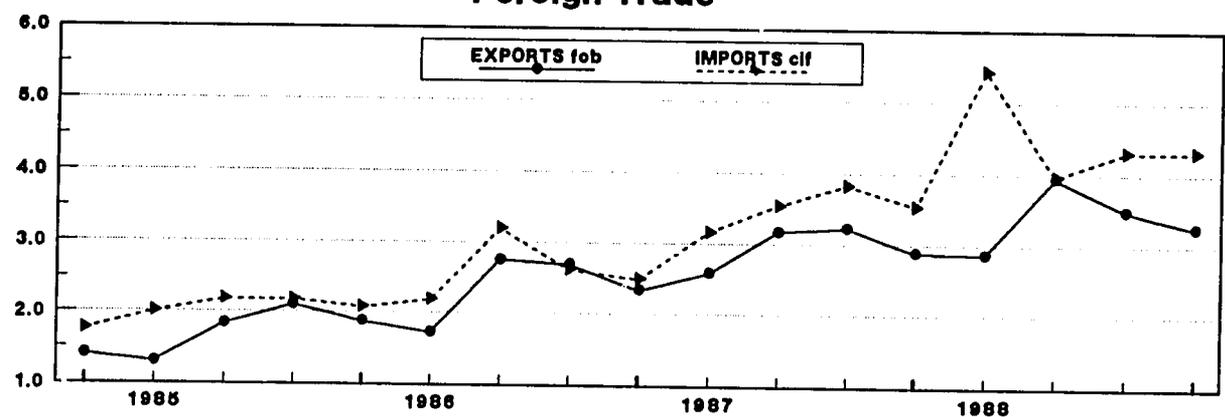
Rupees/US\$

(End of Period)



Foreign Trade

Rupees billion



Contents

	Introduction	1
Chapter 1	Economic profile	5
Chapter 2	Trade	10
Chapter 3	Labor	23
Chapter 4	Infrastructure	30
Chapter 5	Political background	33
Chapter 6	The state in industry	37
Chapter 7	The governance of foreign investment	46
Chapter 8	Investment incentive schemes	70
Chapter 9	Capital sources	79
Chapter 10	Foreign exchange control	85
Chapter 11	Debt	94
Chapter 12	Price control	96
Chapter 13	Licensing and intellectual property	98
Chapter 14	Corporate taxation	100
Chapter 15	Personal taxation	104
	Appendices	107
One	Managing Success: The World Bank	
Two	Export Processing Zone Act 1970	
Three	Export Services Zone Act 1981	
Four	Treaty concerning reciprocal encouragement and protection of investment with the USA	
Five	Brief on the establishment of an offshore bank in Mauritius	
Six	Main economic indicators	
Seven	Aid projects	
Eight	Acronyms	

Introduction

Mauritius has been one of the most striking success stories of the 1980s. With a thriving manufacturing and tourist sector, the island now enjoys the greatest growth and highest standards of living in the Indian Ocean and African regions. However, the Mauritian government is keenly aware that it needs to attract new and appropriate industrial investment in order to cope with changing internal economic conditions.

Mauritius will continue to offer very profitable business opportunities throughout the 1990's to the next generation of US investor. On the one hand, the government remains firmly committed to maintaining this small Indian Ocean island's very attractive investment climate. All the key operating issues are conducive to relatively easy and profitable commercial activity.

On the other hand, the markets that can be competitively accessed from this small Indian Ocean island -- notably the European Community and Eastern and Southern Africa -- will prove even more attractive to US companies over the coming decade than they have in the 1980's, as single market policies in these two regions make exports from the US less competitive.

The report also clearly shows that the next generation of US investor in Mauritius will increase the local value added of his manufacturing and will use higher levels of technology. Only these types of technology will withstand Mauritius' mounting labor and factor costs. For example, Mauritian labor is now about twice as expensive as that of Sri Lanka or Madagascar.

The report analyses each of the various factors which determine a market's level of attractiveness for foreign business: its investment code, its potential markets overseas, its labor resources, ease of access for expatriates, the government's treatment of foreign investments and of the private sector in general, its foreign exchange controls, its tax system and its trading environment.

The report concludes quite emphatically that Mauritius continues to offer a very rare opportunity in the African and Middle Eastern region for companies looking to produce cheaply for export. Its nearest competitors are Sri Lanka and the Far Eastern markets but Mauritius boasts three marketing advantages over its competitors which will prove the

deciding factor for many US companies looking to invest overseas:

1. tariff free and quota free entry of Mauritian manufactured exports into the European Community *, and the potential entrepot activities for re-export into the newly opened Eastern bloc markets of Hungary, Poland, East Germany, Czechoslovakia and Romania. US companies are well aware that 1992 will make accessing the EC markets harder than ever before. However it is less well known that a US investor -- even with a majority shareholding -- can access the EC markets through a subsidiary in Mauritius without being subject to quotas or tariffs. The EC's 321 million people now have a total GDP of \$4.8 trillion and might overtake even the US' \$5.2 trillion within five years.

2. a range of very favorable trade facilities for exports into the East and Southern African regions, including the absence of quotas and tariffs *. And perhaps more importantly for companies looking for the easiest way to boost their sales into this cash strapped region, buyers in the Preferential Trading Area (PTA) who order from Mauritian exporters get eased access to import licenses and to foreign exchange.

3. no quota restrictions -- and even some tariff reductions -- on certain products into the US market. However, a growing number of basic textile manufactures are being subjected to quotas.

* Obtaining tariff exemptions is dependent on the level of local shareholding in the manufacturing company in Mauritius. In both cases of the EC and PTA, companies can only obtain tariff free or tariff reduced entry for their produce if their companies have a majority local shareholding.

Other key attractions of Mauritius for the US investor

The following features of the Mauritian economy, beyond its advantageous positioning for export into the EC and PTA, are the key attractions that are likely to persuade the US investor to set up in Mauritius:

■ the government's determination, initiative and sound management, both of the economy in general and of the investment environment in particular, and the wide range of highly attractive investment incentive and guarantee schemes.

■ relatively fast and easy procedures for exporting, importing and foreign exchange remittances, thanks largely to the government's minimalist policies.

■ a very high degree of political stability. While not on a par with Europe -- Mauritius is not immune to acts of violence -- any potential instability in the political system has proved itself massively offset by the potential for profit. Mauritius is now without doubt more stable than South Korea, Malaysia, the Philippines, Indonesia or any South Asian

producer. Importantly, none of the political instability experienced in Mauritius has ever spilled over into the Export Processing Zone (EPZ) where most foreign investment is located.

- the country's highly educated, profit orientated and friendly people, - a labor pool which offers suitably dynamic joint venture partners as well as good quality lower level workers.
- the existence of a long established and dynamic private sector.
- the availability and quality of professional services, with the prospect of expansion of such services into off-shore banking and stock exchange.
- the availability and quality of infrastructure, communication and telecommunication facilities, with the prospect of expansion into electronic communications. While communications and freight rates are relatively cheap when dealing with Europe and Africa, they are quite expensive to the US, a factor which will more than likely prove a critical disadvantage for most US investors looking to reexport to the US (see below and chapter 4).

The problems investors face

The report identifies a number of worrying issues which can cause problems for companies operating in Mauritius but they should not affect profitability excessively if they are tackled effectively from the outset.

The main problem area eroding the profitability of Mauritian operations is the mounting cost of production, especially the costs of labor, real estate and amenities, such as electricity and telecommunications.

For US investors looking to reexport to the US, the cost of international freight and telecommunications will also prove a great disadvantage to investing in Mauritius. For this reason, Mauritius will always be far more attractive to US companies looking to access the EC or Africa where prohibitive freight rates from the US makes their position less competitive. Few US investors will be looking to send products back into the US. Mauritius will find it very hard to beat Jamaica or the new free trade area on the Mexican border (see also chapter 4).

Returning to the issue of labor, the most frequently quoted problems for existing investors in Mauritius, are:

- finding suitably priced labor; the market is so near to full employment that finding labor is very difficult. One new investor in the textile sector had advertisements in the media for over one month offering jobs at over twice the minimum wage and has had

no applicants whatsoever.

■ finding capable low and middle level managers; Mauritius has long neglected this area of labor training and, while being addressed now, investors will continue to experience considerable problems in this field over the next two to four years.

■ incentivising your labor force; employers' problems do not stop once they have secured their labor. Because all employees are so in demand, employers have to use very comprehensive and complex incentive schemes to ensure that their labor turns up for work and that it works at acceptable levels of productivity. Steve Denton, a US investor in the diamond cutting business, has over 16 different schemes to ensure that his employees are incentivised and productive. Alternatively, Daniel Giraud, MD of Floreal Knitwear, Mauritius' largest textile manufacturer, estimates that his labor force is operating at about half of its productive capacity (see chapter 3).

The report also identifies a trend towards greater rather than lesser levels of government intervention in commerce, but this affects companies in the internal economy and does not directly constrain manufacturers producing for export in the EPZ. Companies can be assured that past policy of scrupulously and jealously protecting the attractive investment climate of the EPZ will continue in the 1990's. Indirect effects on EPZ manufacturers of government policies are increased labor settlements and running costs, as well as some areas of continuing excessive red tape.

Investors looking to the internal market -- which will be few given the island's paltry 1 million internal market -- must however face the fact that government has shown itself quite ready to intervene directly in commercial operations, most notably with price controls.

Some observers question whether Mauritius can take the next step in its development process -- namely, making the leap from basic textile manufacture to intermediate level industries -- with as much speed and success as it tackled the first.

As Mauritius stands now, any comparison with the likes of Singapore would be inappropriate. From every aspect of its economy and politics, but especially in its bureaucracy, Mauritius lags behind the levels of efficiency enjoyed by business in such markets of the newly industrialised Far East. However, such blanket judgements ignore the speed of change that Mauritius has shown itself capable of over the last ten years. The country has set in motion a powerful dynamic of its own which has been nurtured over the last decade to such a degree that it will not now allow itself to be smothered by recession or what currently amounts to only mildly inappropriate government policy.

Chapter 1

Economic profile.

1.1 Sources of Economic Growth

Mauritius' economic wealth comes from three sources: agriculture, tourism and the EPZ. An understanding of the basic dynamics dictating developments in these three sectors is critical if a prospective investment is to be fully understood. As such, this section will look at the issues facing these three sectors and what their likely developments will be over the coming few years.

Prospective investors seeking a full economic profile of the country should read this section in conjunction with Chapters 2, 5, 11.

1.2 Agriculture: diversification away from sugar

Despite massive growth within the EPZ and tourist sectors, agriculture still accounts for over one third of all Mauritius' export earnings. And within this sector, sugar cultivation and processing clearly dominates all other crops. This overreliance on one crop and the sector's weaknesses overall, especially in labour availability, are only now beginning to be addressed by government.

Sugar's importance stretches through the spectrum of the entire economy, accounting for:

- over 13% of GDP.
- over 15% of total employment.
- 11% of government revenues, as duty on exports.
- 87% of the island's arable land is under sugar.

One stark conclusion emerges from the above: if one year's sugar crop collapses, the entire economy feels the effect. Sugar is vulnerable in two ways: through cyclone and through market price movements.

Last year's sugar crop was severely damaged by cyclones and, although less so than was originally feared, amply demonstrates the dangers to the overall economy of as unpredictable a factor as the weather. The importance of weather is mirrored in the recent World Bank report on Mauritius in which all growth forecasts had two scenarios: one with cyclone damage to the sugar crop and one without. The issue is that basic to the

economy's well being.

This objection to sugar is something of a red herring, however, as any agricultural produce would be subject to cyclone damage. In fact, sugar is one of the more resilient crops. As such, the best that can be said is that Mauritius' dubious honour of being on the cyclone path will always leave its agricultural sector vulnerable to storm damage.

At present, Mauritius is not as open to the vagaries of price on the free market as are other sugar producers, such as Cuba, thanks to the guaranteed prices that it enjoys from the EC under the Lome Convention. The EC currently buys over 80% of Mauritius' sugar production at prices two to three times higher than those on the free market.

Undoubtedly, this deal with the EC is protecting the sugar industry from the vagaries of world market prices. In fact, the EC deal is probably preventing the entire collapse of the Mauritian sugar industry, given the slump in the market at present and the inefficiencies of the sector within Mauritius.

But that artificial subsidy is also holding the industry back, stultifying almost all efforts - and, until last year, most government desire -- to mechanise sugar production and to diversify into more lucrative and stable agricultural produce.

Given the fact that farmers and plantations require a long lead-in time to switch to other crops, this over reliance on artificial subsidy -- which is on the way out given the planned reforms and eventual removal of the EC's Common Agricultural Policy against which Mauritius' prices are fixed -- may well be the sector's downfall. What is certain is that Mauritius is risking a massive economic set back while it maintains and perpetuates its reliance on an inefficient sugar sector.

The problems are not all external, however. Ironically, Mauritian sugar producers are not having an easy time of it, making products in an economy where labour costs are escalating and where available labour is dwindling. Unfortunately, but inevitably, labour is not keen to work in an unmechanised agricultural sector. The first choice of the young school leaver is to seek work in the less gruelling EPZ and tourist sectors. This has left the sugar industry with a rapidly ageing and less productive work force.

It was this realisation that led government to release two packages of incentives in 1989 to promote efforts to mechanise sugar production and to diversify into new areas. The government quite rightly believes that it cannot diversify wholly out of sugar, nor would it want to given the preferential prices -- and thus comparative advantage -- it enjoys at present.

Its agricultural development policy for the 1990's can therefore be seen as, on the one hand, promoting developments such as mechanisation aimed at improving the efficiency

of the sugar sector, while, on the other hand, promoting diversification into other areas through fiscal and financial incentives.

The 1989 budget saw the removal of all customs duties and stamp duties on agricultural equipment, including spare parts. The Finance Minister then followed this up in December with the Sugar Industry Efficiency Act which introduced a wide range of incentives for both plantation producers and small farmers:

- * export duty is now rationalised by establishing a uniform tax rate of 18.75%, and setting the exemption limit at 3000 tons of sugar.
- * the small farmer's apportionment ratio -- the proportion of sugar held by the factories - is increased from 74:26 to 76:24.
- * export duties on molasses were abolished.
- * planters were exempted from income tax.
- * the level of capital allowance against tax was raised to encourage investment.
- * rebates on export duties paid by millers were offered, these rebates will increase according to the efficiency of the factory in extracting sugar from the cane.
- * incentives and projects to encourage the use of bagasse -- the cane waste -- as a fuel for electricity production.

The effects of these measures are very wide reaching. The director of an association representing 870 small holders in the north of the country estimated that the tax breaks now mean that 90% of his members no longer pay income tax. However, he also pointed out the many other problem areas which will take the industry far longer to solve. For example, the shortage of labour in the sector will push labour costs up two fold during the next picking season, a problem that can only be solved by mechanisation.

The government has not targeted agriculture as a priority area for foreign investment. Obviously the major world players in sugar, such as Tate and Lyle, are already in Mauritius in force. And a well developed indigenous plantation sector is well geared and structured to handle modernisations in sugar. However, the lack of government drive in this direction needs to be corrected, if the goal of diversification which will have to pull on foreign investment to a degree is ever to be realised.

This lack of government priority is reflected in the views of two prospective agricultural investors. One had come to Mauritius to investigate the prospect for tropical fruit production for the European market and the other was interested in sugar production

and processing. Both reported that the government lacked any enthusiasm for the proposed projects. They felt that the government was well suited to handling investments in the EFZ and tourism, but were ill equipped and simply not switched on when it came to investor proposals in agriculture.

1.3 Tourism: sector nears saturation

The tourist sector in Mauritius has boomed over the past decade. 108,000 visitors in 1978 increased to 245,000 in 1988. These tourists were worth \$175 million to Mauritius and supported 6000 jobs. 1989 looks like another record year (see table).

Another success story, without doubt, but also one which has produced its own set of problems which the government must sort out, if the island is to enjoy a further decade of flourishing growth in tourism.

The issues that most urgently need addressing are:

- **pollution:** pollution is a very real problem in the island and it will very quickly affect the beaches and coral that are the very essence of the island's image abroad as an "unspoilt tropical paradise". Can the government solve this problem before its image is tarnished?
- **the possible loss of exclusivity:** the basic contradiction between the number of hotels being built -- to accommodate 325,000 by 1992 and 400,000 by 1990 -- and the maintenance of the island's strategy of catering to the exclusive end of the market to whom exclusivity, quite fairly, does not mean overcrowding.
- **a very weak Tourism White Paper:** the government released a White Paper on Tourism in 1989 which appeared at times to be almost amateur in its construction and certainly weak in specifics on how the industry will continue to blossom to the turn of the century. Flaunting inputs from "world famous" Bulgarian tourist consultant, P Evrev, and quoting from the Thoughts of Lao, China's ancient philosopher, the paper came in for considerable ridicule abroad when it was released. Unfortunately, this ridicule seems quite fair given the fact that the paper failed to back its proposals, however sound they may be, with concrete and feasible implementation plans.

The main thrusts of the report are sound, namely that new markets must be found in the Far East and the Middle East, away from its traditional European markets, future hotel expansion should be controlled, the environment must be protected, a wider range of tourist activities must be developed and hotels should be limited in size to 200 rooms.

Table 1.1

Evolution of the tourism industry					
	1986	1987	1988	1989 ^a	% change
Tourist nights (mn)	1.88	2.37	2.74	2.20	4.8
Gross tourism earnings (MRs mn)	1,190	1,786	2,374	2,027	16.4
Expenditure per tourist (MRs)	7,200	8,604	9,921	10,804	5.8
Room occupancy rate ^b %	71.0	80.7	82.9	75.7	-6.0 ^c
Bed occupancy rate ^b %	61.4	71.6	74.1	67.4	-5.2 ^c
Tourist arrivals ('000)	165.3	207.6	239.3	187.6	10.0
of which from % ^d					
Reunion	24.7	23.1	23.8	27.2	17.7
France	19.6	21.3	21.0	19.2	7.9
South Africa	16.1	14.9	15.0	14.6	5.7
West Germany	5.5	6.6	6.3	6.6	17.5
Italy	5.5	5.9	6.3	6.1	5.0
UK	5.1	5.7	5.8	5.7	15.8

a:provisional, b:large hotels, c:percentage points, d:% change in absolute terms
Source: EIU

The Ministry of Tourism has a new head, Mr Michael Glover, who is certainly unlikely to hire any more Bulgarian consultants and who has a drive and dynamism which the industry certainly requires at this point in its development. His anxiety over the effect on the island's reputation of cheap holiday makers crossing from Reunion to Mauritius is an indication that things are moving in the right direction.

But no new minister, however forceful and energetic, can overcome the problems associated with surplus hotel capacity that is bound to result from the boom in hotel construction. One Japanese hotel and two hotels based around golf courses, one of which is in the balance as Hilton waivers over its feasibility, are almost sure to induce a price war in the sector and diminish the island's reputation as an exclusive resort. Already in 1989, the number of hotels expanded by 6.3% to reach 67, while the number of bed-places rose by 11.4%.

Perhaps the most important point for investors interested in this sector came from a Chief Secretary in the Ministry of Tourism: "We need a lot of things in the tourist sector right now, but one thing we do not need is any more hotels."

1.4 Manufacturing in the Export Processing Zone

Issues affecting the EPZ are covered in depth in chapter 7.

Chapter 2

Trade

2.1 Marketing

The two attractions that Mauritius offers which dominate all others are the attractive business climate and the easy and tariff reduced access to two key markets: the 340 million people of the EC and the 200 million people of Eastern and Southern Africa.

2.2 The attractions of accessing the European Community from Mauritius

For certain US companies, accessing the European Community (EC) from the US will become very problematic after 1992, either because their products will be subject to quotas or the tariff free status of their European competitors will make the US imports too uncompetitive on price. Equally, EC products will probably be given tariff free entry into the Eastern Bloc countries of Hungary, Poland, East Germany, Czechoslovakia and Romania after 1993, a feature probably unavailable to US imports at that time.

One answer to this problem is to locate your manufacturing operation in a Lome signatory country, such as Mauritius, which enjoys tariff and quota free access to all the EC markets, as well as lower labor rates and taxes than any other location in the EC.

What specific attractions would a US company enjoy regarding trade with the EC by locating in Mauritius which it would not get by staying in the United States?

1. Freedom from any quotas on production. Currently, only three sectors are being subject to quotas from the US: textiles, cars and defence. For US companies in these sectors, operating out of Mauritius holds obvious benefits. However, for other sectors, quotas may well become an issue in future and US companies in these new areas, such as in the basic electrical field, must begin to adapt their production strategies now if they want to retain their EC market shares in future.

2. Access to public procurement contracts of any EC government; contracts which you would be wholly excluded from if you produce in the US. This market is worth over \$75 billion each year. The products procured cover the entire range of manufactured goods - - from cars through computers and telephones to entire bridges and rail stock -- and US companies in Mauritius would not only be able to access these contracts but will probably also enjoy the current legislative concession of a 10-15% price subsidy on their bids given to developing country producers.

3. Exemption from any tariff payments. Such tariff barriers -- already down for intra-EC trade -- can be important for certain manufacturing sectors either because they are subject to high levels of tariff being luxury or some other penalised type of import or because the margins in that particular market place are so narrow that the extra cost of tariff payments makes the difference between price competitiveness and uncompetitiveness.
4. Tariff free access to Eastern Europe: this is crystal ball gazing at the moment but politicians in Europe are now assuming that the EC will work out some deal with the Eastern Bloc markets which will allow tariff free access for EC exports. The US may well work out a similar deal for its own companies but it is far less certain.
5. Cheaper freight costs and labor costs; Mauritius will enjoy cheaper freight and labor costs than any US operation could hope for.
6. Tax and commercial financing benefits; tax benefits will be offered to Mauritian companies accessing the EC market place which will not be offered to US companies. The manufacturer in Mauritius will be able to access cheaper and readier commercial insurance and trading finance than the US exporter when trading with Europe.
7. Reduced currency risk; insurance against exchange rate loss will always be more competitive in the US than in Mauritius. However, the likely tying of the Mauritian currency to the European Monetary System (EMS) will ensure that trading transactions between the two will not be subject to any exchange rate loss.

The above seven unique attractions open to US companies which locate in Mauritius rather than staying in the US, as regards accessing the EC, may well prove decisive in any investment decision. And there is an eighth reason which US companies should consider: "fortress Europe" will become more protectionist rather than less so. The first area where this will occur will be additions to the list of imported products subjected to quota. But it may well continue into other areas. All US companies must make a strategic choice on this and perhaps change their entire idea of manufacturing: namely, that they must have an additional overseas manufacturing base if they wish to access the EC market in the long-term future.

The following paragraphs detail those products which eligible to preferential tariff rates, as well as detailing the EC's method for classification of companies as local or foreign.

The following products shall be considered as products originating in an ACP State, and be eligible for reduced or tariff free entry.

- (a) products wholly obtained in one or more ACP States;
- (b) products obtained in one or more ACP States in the manufacture of which

products other than those referred to in (a) are used, provided that the said products have undergone sufficient working or processing.

"Sufficient working or processing" means that the goods obtained receive a classification under a different tariff heading from that covering each of the products worked or processed. The incorporation of non-originating materials and parts in a given product obtained shall only make such products lose their originating status if the value of the said materials and parts incorporated exceeds 5% of the value of the finished product.

When products wholly obtained in the community (EC) or in their overseas territories or ACP States undergo working or processing in one or more ACP States, they shall be considered as having been wholly produced in that or those ACP States, provided that the products have been transported directly - direct consignment rule.

Eligible products shall be accompanied by evidence of originating status, the movement certificate EURI.

However, products which fall under a common organisation of the treaty establishing the European Communities or are subject on import into the community, to specific rules introduced as a result of the implementation of the Common Agricultural Policy (CAP) may be excluded or subject to quantitative restrictions or the safeguard clause.

The following products shall be considered as wholly obtained either in one or more ACP States or in the community.

- (a) Mineral products extracted from their soil or from their seabed;
- (b) Vegetable products harvested therein;
- (c) live animals born and raised therein;
- (d) products from live animals raised therein;
- (e) products obtained by hunting or fishing conducted therein;
- (f) products of sea fishing and other products taken from the sea by their vessels;
- (g) products made abroad their factory ships exclusively from products referred to in subparagraph (f);
- (h) used articles collected there fit only for the recovery of raw materials;
- (i) waste and scrap resulting from manufacturing operations conducted therein;

- (j) goods produced there exclusively from the products specified in subparagraphs (a) to (i).

For the purpose of para.2(b) the following shall always be considered as insufficient working or processing, whether or not there is a change of tariff heading:

- (a) operations to ensure the preservation of merchandise in good condition during transport and storage;
- (b) simple operations consisting of removal of dust, sifting or screening, sorting, classifying, matching, washing, painting cutting-up;
- (c) (i) changes of packaging and breaking up and assembly of consignments;
- (d) (ii) simple placing of bottles, flasks, bags cases, boxes, fixing on cards or boards. affixing marks, labels and other like distinguishing signs on products or their packaging;
- (e) (i) simple mixing of products of the same kind where one or more components of the mixture do not meet the conditions as a originating product;
- (ii) simple mixing of products of different kinds unless one or more components of the mixture do not meet the conditions as a originating product;
- (f) simple assembly of parts of articles to constitute a complete article;
- (g) a combination of two or more operations specified in subparagraph (a) to (f)
- (h) slaughter of animals.

In defining the concept of originating products, Protocol I of the Lome III Convention gives a list of working or processing operations carried out on non-originating materials which result in a change of tariff heading without conferring the status of "originating products" on the products resulting from such operations.

2.3 Accessing the Preferential Trade Area from Mauritius

The Preferential Trade Area (PTA) is an economic cooperation arrangement amongst the countries of Eastern and Southern Africa. It is a sub-regional grouping which provides

for cooperation in all major sectors embracing trade, industrial cooperation, transport, communications, agriculture financial and other arrangements.

The organisation comprises fifteen member countries: Burundi, Comoro Islands, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Rwanda, Somalia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. There are four potential member countries which are yet to accede to the Treaty to become members. These are: Angola, Botswana, Madagascar, and Seychelles.

Company sales into these markets tend to be limited not by demand -- which is generally massive and largely unmet -- but by a chronic and very severe lack of foreign exchange to pay for the imports. The PTA gives exporters a marked advantage in this regard. Exporters from a PTA member country such as Mauritius can make use of the PTA clearing house system which more readily grants foreign exchange to that Mauritian company's buyer on the African mainland than if he were to sell conventionally. As such, harnessing the clearing and trading arrangements in the PTA can prove very effective source of profit for Mauritian exporters.

Mauritian EPZ manufacturers that have accessed the PTA in this way include:

- Mauritius Chemical and Fertiliser Industry (fertilizer to Burundi and Uganda)
- Salex Ltd (light bulbs to Zimbabwe)
- Plastic Bags Ltd
- Plasmol Ltd (plugs and sockets)

Each company has remarked upon the eased conditions of trading into the PTA region once they have routed their exports through the clearing house mechanism. Not only, as noted above, is foreign exchange availability greatly eased, but the actual logistics of trading are quite simple: the Mauritian exporter deals only with the commercial banks, and does not have to contact the clearing house or the central bank directly at all.

With Sudan and Zaire about to join the PTA, Mauritian exporters can now access all of Africa's major markets through the PTA with the one exception of Nigeria.

MEDIA has again been pivotal in boosting Mauritian exporters' performance through the PTA, largely through lobbying the PTA and through trade fairs in other cities in the region.

There is one black cloud on the horizon, however, concerning the rules of origin question. Very stringent rules at the outset of the PTA were watered down by derogations for Mauritius, Kenya and Zimbabwe which meant that foreign investors were more readily classified as local producers, and thus eligible for tariff reductions. But these derogations run out at the end of 1990 and, while they may well be rolled over for a further two to

three years, companies could as easily find themselves reclassified as non-local companies which would mean they would no longer be eligible for the tariff reductions.

Senior MEDIA officials question just how important these tariff reductions have been for Mauritius exporters operating in the PTA. The key attraction, they point out, has always been the eased access to foreign exchange -- as scarcity in these markets has demand generally price inelastic. And, claim MEDIA, this attraction may well remain after negotiations are complete. However, PTA sources have indicated that exporters reclassified as foreign controlled would not receive as preferential treatment in the allocations of foreign exchange, merely because they are based in another PTA country.

The PTA probably has a great future: strong support from aid donors, a large and committed membership, the prospect of South Africa joining at some point in the future and an efficient trading mechanism. Many exporters in Mauritius have already used the PTA profitably and future investors would be irresponsible not to consider the profit potential of this marketing strategy.

The following sections take the prospective investor through the PTA organisation, detailing the legislation and the trading procedures.

OBJECTIVE

The PTA's ultimate objective is to become a common market and eventually an economic community by the turn of the century. The objectives of the PTA as set out in Article 3 and 28 of the Treaty are as follows:-

- (a) To promote cooperation in the fields of trade, customs, industry, transport, communications, agriculture, natural resources and monetary affairs.
- (b) To promote the establishment of inter alia appropriate machinery for the exchange of agricultural products, minerals, metals, manufactures and semi-manufactures as well as the establishment of common training programs and institutions in various fields which would assist in the development of the manpower required by the PTA Member States.

In particular where trade is concerned the PTA aims at:

- (a) The gradual reduction and ultimate elimination of customs duties in respect of imports of commodities produced within the PTA.
- (b) Establishment of common rules of origin with respect to products that shall be eligible for preferential treatment.

- (c) Establishment of appropriate payment and clearing arrangements that would facilitate trade in goods and services.
- (d) Fostering cooperation in the fields of transport and communications with a view of facilitating trade in goods and services.
- (e) Establishment of conditions regulating the re-export of products within the PTA.
- (f) Promulgation of regulations for facilitating transit trade within the PTA.
- (g) Simplification and harmonization of trade documents and procedures.
- (h) Cooperation in customs matters.
- (i) Standardization of the manufactures and quality of goods produced and traded within the PTA.
- (j) Relaxation or abolition of quantitative and administrative restrictions on trade among members.
- (k) Promoting the establishment of direct contacts between and regulating the exchange of information among their commercial organizations such as Chambers of Commerce, association of businessmen and trade information and publicly centres.
- (l) Ensuring the application of the Most Favoured Nation Clause to each other.
- (m) Progressively adapting the members' commercial policies in accordance with the provisions of the PTA Treaty.

PTA COMMON LIST

The PTA Common List comprises a list of selected commodities and products which are to be granted lower customs duties and equivalent charges when traded amongst the member states. These are commodities and products of import and export interest to member states. The list is revised periodically to include more goods of import and export interest to the member countries. Revisions are undertaken every two years. The last revision was done in June 1987.

The list is in six categories and the initial reductions in tariffs are as follows: _

GROUP	DESCRIPTION	INITIAL PERCENTAGE
I.	Food items (excl. luxury items)	30%
II.	Raw materials: A. agricultural	50%
	B. non-agricultural	60%
III.	Intermediate goods	65%
IV.	Manufactured consumer goods (excl. luxury items):	
	A. Durable consumer goods (excl. (IVC) and (IVD))	40%
	B. Non-durable consumer goods (excl. (IVC) and (IVD))	35%
	C. Highly Competing Consumer goods	30%
	D. Consumer goods of particular importance to economic development	70%
V.	Capital goods (including transport equipment)	70%
VI.	Luxury goods	10%

At its 10th Meeting the Council of Ministers approved the formula for further lowering of tariff and non-tariff barriers to intra PTA trade according to the provisions of the Treaty. The target year for reducing customs duties was extended from 1992 to 1996. In this respect, 5 rounds of tariff reductions at a discount rate of 10 per cent each time will be effected in 1988, 1990, 1992, 1994 and 1996. This is to allow member states sufficient time to carry out the necessary structural adjustment to strengthen their economies, and to spread their revenue losses. Subject to review of the entire situation in 1996 the remaining 50 per cent may be eliminated in two steps.

ELIGIBILITY REQUIREMENTS FOR PREFERENTIAL TREATMENT.

Goods traded amongst the member states will only receive preferential treatment if they meet the following requirements:-

- (i) Qualify under or satisfy the PTA Rules of Origin.

- (ii) The products or goods should be in the PTA Common List which comprises commodities and products of import and export interest to member states.
- (iii) Local content of 45% i.e. the local value added resulting from the process of production should account for at least 45% of the ex-factory cost.

P.T.A. RULES OF ORIGIN:

The requirements of the Rules of Origin state that

- (i) goods must be consigned directly from a member state to a consignee in another member state.
- (ii) must be produced by enterprises in the member countries 51% owned by nationals of member states, their government institutions, agencies or corporations. Besides the above two, they must satisfy any one of the following requirements to qualify as originating in a PTA Member State;
 - (a) The products must have been produced in a member state and the value of materials imported from outside PTA and used at any one stage of production should not exceed 60% of the total cost of materials used in production of goods.

OR

- (b) They are produced in a member state and CIF value added resulting from the process of production accounts for at least 45% of the ex-factory cost.
- (c) They have, through a process of production been substantially transformed out of material imported from NON-PTA countries.

In May 1986 the PTA Authority meeting in Burundi suspended the PTA Rules of Origin (Rule 2-1 (a) for five years. The application of it was found too restrictive and therefore a stumbling block to trade amongst the member countries. During this period the following sliding scale preferential formula applies.

- (i) Goods from enterprises 51% and above owned by nationals will enjoy 100% preferential treatment.
- (ii) Goods from enterprises 41% up to 50% owned by nationals will enjoy 60% preferential treatment.
- (iii) Goods from enterprises 30% up to 40% owned by nationals will enjoy 30% preferential treatment.

In respect of countries that are already enjoying derogations under the Treaty, it was decided that the sliding scale preferential treatment formula would apply on a pro-rata basis. In the case of the BLS countries the sliding scale is as follows:

- (i) Enterprises with 30% and above ownership by nationals from or nationals from PTA member states will enjoy 100% preferential treatment.
- (ii) Above 24% and below 30% ownership by nationals will enjoy 60% preferential treatment.
- (iii) 18% up to 24% ownership by nationals will enjoy 30% preferential treatment.

As per the BLS Protocol the derogation i.e. that of reducing the 51% equity holding to 30%, was for a period of five years as from 30th September, 1982, after which the percentage is to be reconsidered. This process is now under way.

CLEARING HOUSE PAYMENT ARRANGEMENT

The PTA Multilateral Clearing House was established under the PTA Treaty mainly to facilitate and promote easy flow of traded goods and services under an agreed payment scheme. The member states are allowed to use their national currencies as a means of settling their day to day payments. A Committee on Clearing and Payments Arrangement was established under the Protocol on Clearing and Payments. This Committee consist of Governors of monetary authorities or central banks of signatory countries. It is charged with the responsibility of promoting trade in goods and services within the PTA by:

- (i) encouraging the use of national currencies in the settlement of transactions between member countries;
- (ii) establishing adequate machinery for the settlement of payments amongst themselves;
- (iii) reducing as much as possible the use of foreign exchange by member states in intra-regional settlements;

It is this Committee which adopted rules and regulations for the establishment of the CLEARING HOUSE which is based in Harare, Zimbabwe.

The Committee has adopted the unit of account of PTA (UAPTA) as its currency and is currently pegged to the International Monetary Fund (IMF) "Special Drawing Right" (SDR). Payments are settled at the exchange rate of the day of payment. The basic objective is to facilitate and encourage the use of national currencies in settlement and

payment of intra-PTA trade transactions and other services, and in the process reduce the use of convertible foreign exchange. With the introduction of the PTA Clearing House all trade transactions in the sub-region could be effected through the account of the member country at the Clearing House. There is an established transaction period of two calendar months after which net balances are settled in convertible currency between Central Banks. The balance in such an account at the end of a transaction period is in effect therefore the net trade balance with the member countries for the trade and other payments routed through the account. It means that during a transaction period export proceeds from other members are automatically applied to pay for imports from other member states. This is an advantage over other payment arrangements as it reduces settlements in convertible currencies to only once after each transaction period for trade among the members. During this two calendar months transaction period members are not charged interest on any debit balances. Thus a free credit is given to them during the two months transaction period.

OPERATIONS OF THE CLEARING HOUSE

Operations may be divided into two transactions.

1. The transactions between the exporter, importer and their commercial bankers.
2. The transactions between the member countries central banks and the Clearing House.

Each of the PTA Member Central Bank operates an UAPTA account with the Clearing House and these monetary authorities are also required to operate reciprocal accounts among themselves. The same is required of the Commercial banks. A trader's Commercial Bank in Mauritius should have necessarily established correspondent arrangements with one of the commercial banks in the other member country with which it is intended to do business. When an importer requires the currency of another member country he would go to his commercial bank which in turn would go its Central Bank. The Central Bank will purchase the required currency from the Central Bank of the exporting member country in exchange for UAPTA. The Clearing House would then debit the importer's Central bank and credit the exporter's Central Bank with the UAPTA equivalent. The currency bought is then paid to the account of the exporter's bank in the exporter's country and the exporter is the paid in local currency. The Clearing House can be used for payments of all trade transactions and services.

The introduction of the Clearing House payment arrangement has not resulted in any variations or upsets to the already existing settlement procedures. As already stated the PTA Clearing House Payments System provides a mechanism for minimizing the use of foreign exchange in the settlement of intra PTA trade and other transactions.

The role of commercial banks in the system is secondary to that of central banks which are directly involved in the PTA payments and settlement framework. Commercial banks do however have a very important function in the PTA payment arrangements. They make it possible for the business community to pay in local currencies for imports and to receive export proceeds through the correspondent accounts or agency relationship with their counterparts in PTA member countries. Participation by commercial banks in the system commences only after the exporter and the importer in the member countries have entered into a valid contract, placed firm orders based on authorized imports with each other and clearly defined the method of payment.

CERTAIN POPULAR MISCONCEPTIONS REGARDING PTA ARRANGEMENTS

- (a) The PTA is only for trade in products and commodities in common list.

This impression is incorrect. The member states of the PTA can exchange any commodity/product produced in their countries within the normal tariff structure and the existing rules and procedures governing trade. If preferential tariffs under the PTA Treaty are required to be availed of, the commodities to be bought or sold should be in the common list and conform to the rules of origin requirements.

- (b) The PTA Clearing House Payment Mechanism can only be used for trading in commodities in the Common List.

This is also erroneous. The Clearing House Payment Mechanism is open for use for trade in commodities and services produced in member countries. Such commodities do not have to be in the Common List or even to conform to the rules of origin requirements. Services can also be paid for through the Clearing House.

2.4 Logistics and stages of importing and exporting

The trading process -- exporting and importing -- is handled in three stages:

1. an Export Permit or an Import Permit obtained from the Ministry of Trade and Central Bank permits the company to export and import;
2. the Bill of Export or Bill of Import certificate then allows the company to export or import specific shipments;
3. the invoices and bills, presented to a commercial bank, then allows for the transfer of foreign exchange. The bank does not need the prior approval of the Bank of Mauritius to transfer funds, it merely alerts the central bank one week late.

The detailed logistics of the foreign exchange side of trading is given in Chapter 10.

The following sections outline the specific stages of the trading process, allowing investors to get a clear idea of how the system works.

Importation

1. invoice is obtained from the seller overseas
2. this is taken to the Ministry of Trade to obtain the Import Permit
3. the Bill of Entry is then made available by the Customs
4. the product can be shipped by the seller
5. the Freight Forwarder will then alert the importer that the shipment has arrived
6. the importer will then go to the point of importation and take the product through customs, hoping that the invoice has been filled out with care and matches the shipment's contents item by item, so it is not delayed by the ever alert customs department. With no hitches, the product can be cleared in 1 to 2 days. However, if it is delayed, the product can be put in a bonded warehouse and getting it out takes time, especially as all documents are then sent by second class post.

Exportation

The exportation process is identical to the importation process, just in reverse.

1. an invoice is made up
2. an Export Permit is then obtained, using the invoice as proof of export
3. a Bill of Export is then available from Customs
4. the product can then be shipped.

2.5 Other trading information

Mauritius is a member of the Preferential Trading Area and is a signatory to the Lome Convention, allowing it trade concessions with the EC.

Mauritius is a member of GATT and has not broken any of its regulations.

Company complaints about the trading process concentrate on delays in processing the bills and also excessive and unnecessary attention to detail over invoices.

Chapter 3

Labor

3.1 Overview and unemployment

Labor is perhaps the one critical constraint commented on by all businessmen at present. It is becoming more costly, often unavailable and increasingly found to be untrained in the specific skills needed:

- finding suitably priced labor; the economy is so near to full employment that finding labor is very difficult. One new investor in the textile sector has had advertisements in the media for over one month offering jobs at over twice the minimum wage and had no applicants whatsoever.
- finding capable low and middle level managers; Mauritius has long neglected this area of labor training and, while being addressed now with great energy, investors over the next two years will experience considerable problems, securing good middle level managers.
- incentivising your labor force. Employers' problems do not stop once they have secured their labor: because all employees are so in demand, employers have to use very comprehensive and complex incentive schemes to ensure that their labor turns up for work and that it works at acceptable levels of productivity. Steve Denton, a US investor in the diamond cutting business, has over 16 different schemes to ensure that his employees are incentivised and productive. For example, overtime for the week is paid on the following Monday morning. If the worker is not there to receive it, he must wait four weeks before receiving it. Alternatively, the attendance bonus is not paid annually anymore as it is hard to maintain an absentee free record all year and, once the worker has blotted his copy-book, there is no incentive to keep up time for the rest of the year. In response, Mr Denton now pays the bonuses quarterly. The result of these and other incentive schemes is that the level of absenteeism in his factory is down to 5-6%.

Alternatively, Daniel Giraud, MD of Floreal Knitwear, a textile manufacturer, estimates that his labor force is operating at about half of productive capacity.

Tables 3.1 and 3.2 show that labor is far more expensive than MEDIA would lead investors to believe -- around two to three times the basic minimum wage. By the time employers have included all their incentive schemes and government insurance, they find that labor per capita is now costing between MR2,500 and MR3,000 per month. The range of fringe benefits given to employees under the Labor Legislation are extraordinarily developed for a developing country.

Table 3.3 shows conclusively that the problem facing Mauritian investors is one of overemployment, not unemployment. Most local industrialists believe that the government unemployment figure of 7% reflects unemployable persons and thus tends to hide the real severity of the overemployment picture.

A commonly quoted figure states that the labor force is expanding by 15,000 per year, most of which are school leavers. These, it is claimed, will soon soak up any overemployment problems being experienced in the economy. However, Table 11.4 would indicate a far slower expansion in the labor force. In the six year period 1990-95, the government's own statistical office forecasts a total expansion in the labor force (ie. people aged 15-64) of 42,800 -- giving an average annual expansion rate of only 7,150, less than half the generally accepted figure.

Even if we accept that the reality will be somewhere between the two forecasts, it is still obvious that employers will experience severe problems over the labor issue for at least the next two to three years. Companies should expect to pay in the range of MR 2,500-Mr3,000 (at current cost) for their labor until 1993 or beyond.

Table 3.1

**AVERAGE MONTHLY EARNINGS IN LARGE ESTABLISHMENTS FOR EMPLOYEES
ON MONTHLY RATES OF PAY (March figures in rupees)**

Industrial Group	1982	1984	1986	1987	1988	1989
Agriculture and fishing	1,080	1,343	1,441	1,551	1,869	2,241
Sugar #	1,065	1,323	1,419	1,524	1,824	2,185
Tea *	1,159	1,527	1,575	1,727	2,319	2,901
Other	1,955	1,951	2,327	2,379	2,881	3,210
Mining and Quarrying	1,935	2,242	2,484	2,606	3,288	3,210
Manufacturing	1,498	1,714	1,941	2,059	2,435	2,799
Electricity and water	2,027	2,409	2,996	3,177	4,061	5,775
Construction	1,813	2,030	2,063	2,185	2,956	3,732
Wholesale, retail trade, restaurants and hotels	1,770	1,980	2,324	2,445	2,834	3,163
Transport, storage and communication	2,252	2,599	3,170	3,117	3,900	4,405
Financing, insurance, real estate and business services	2,719	3,076	3,412	3,589	4,126	4,688
Community, social and personal services	1,788	2,074	2,234	2,357	3,155	3,653
Government:						
(a) Central	1,784	2,077	2,226	2,348	3,186	3,766
(b) Local @	1,507	1,714	1,884	2,028	2,821	3,495
Other	1,991	2,285	2,503	2,609	3,164	3,737
Activities not elsewhere spec'd	1,379	1,602	1,587	1,659	2,147	2,625
All Sectors	1,609	1,884	2,087	2,215	2,815	3,335

#)including factories, *)including factories and Tea Development Authority, @)municipalities and district councils

Source: MEPD

Table 3.2

AVERAGE MONTHLY EARNINGS IN EPZ BY INDUSTRIAL GROUP FOR EMPLOYEES ON MONTHLY RATES OF PAY (Rupees)

Industrial Group	September			March		
	1986	1987	1988	1987	1988	1989
Manufacturing	1,819	2,074	2,357	1,859	2,210	2,628
of which:						
Textiles	1,909	2,384	2,658	2,062	2,396	2,813
Clothing (except footwear)	1,810	2,050	2,298	1,834	2,196	2,625
Wood and furniture	1,153	1,500	1,741	1,193	1,692	1,867
Jewellery and related articles	2,028	2,517	2,897	2,131	2,825	3,098
Other	1,847	1,891	2,316	1,839	2,017	2,393
Other non-manuf	1,925	2,094	2,303	1,837	2,045	2,541
All Sectors	1,820	2,077	2,357	1,859	2,210	2,627

Table 11.3

EMPLOYMENT BY TYPE OF ESTABLISHMENT (thousands) (* census)

Years	Population	Labor Force	Large Companies	Other Companies	Total	Unemp't
1972*	826	255	145	68	213	42
1974	857	270	162	73	235	35
1976	879	285	181	76	257	28
1978	908	305	197	84	281	24
1980	938	328	197	96	293	35
1982	961	345	194	100	294	51
1983*	969	350	191	91	282	68
1984	977	368	197	108	305	63
1985	985	394	210	128	338	56
1986	994	417	231	146	377	40
1987	1,004	427	252	154	406	21
1988	1,107	437	268	156	424	13

Source: MEPD

Table 3.4
ESTIMATED LABOR FORCE FOR 1988 AND PROJECTIONS FOR 1990, 1993 AND 1995
 (by age and sex)

AGE GROUP	MALE				FEMALE			
	1988	1990	1993	1995	1988	1990	1993	1995
15-19	25,300	25,000	24,500	25,800	15,000	15,500	16,400	17,900
20-24	51,200	47,200	43,800	43,100	29,900	28,200	27,300	27,900
25-29	49,200	50,500	50,300	46,900	25,800	27,700	28,300	26,800
30-34	43,900	45,500	47,900	49,500	22,500	24,200	25,900	27,000
35-39	37,900	39,600	43,000	44,600	19,900	21,500	23,700	25,100
40-44	24,900	29,700	35,700	38,200	12,700	16,500	19,900	21,600
45-49	18,000	20,200	23,800	28,100	8,300	9,400	11,500	13,800
50-54	16,600	16,400	17,000	18,300	7,100	7,300	8,100	8,900
55-59	12,200	13,300	14,000	14,000	4,600	5,400	5,800	5,800
60-64	4,800	4,400	4,600	4,900	1,700	1,700	1,800	1,900
65&over	2,900	3,200	3,900	4,000	1,500	1,600	1,700	1,800
Total	286,900	295,000	308,500	317,400	150,000	159,000	170,400	178,500

Source: MEPD and CSO

Table 3.5

STRUCTURAL CHANGES IN THE ECONOMY
 (% Shares)

Sector	Value-Added			Employment		
	1976	1986	1987	1976	1986	1987
Agriculture	28.2	15.3	14.8	34.8	21.0	18.9
Industry	26.2	31.4	32.3	21.6	38.3	42.6
Services	45.6	53.3	52.9	43.6	40.7	38.5
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

Source: CSO and MEPD

Government policy: Mr V. Lutchmeenaraidoo, Minister of Finance

Many companies feel training by Government is inadequate and think they must train up local Mauritian themselves. Is this the Government's own view?

It is acknowledged that the training provided both by Government and the private sector is inadequate to meet the economic needs of the country. This explains the creation of the Industrial and Vocational Training Board which is a joint public/private sector organization. It is operating a levy/grant system to finance the training of workers either on site of work or in training institutions. Furthermore, the resources available for training are inadequate. An attempt will be made to raise external funds through a donors' meeting next month.

3.2 Labor legislation

Labor legislation in Mauritius is very highly developed, and accounts, in the case of most enterprises, for the overall high cost of labor, twice the pay received on average in Sri Lanka.

The normal working week consists of 45 hours work, excluding the daily time allotted for meals (1hr) and tea breaks (2 times 10 mn).

Workers can do up to 10 hours overtime per week. Work on public holiday is paid at twice the basic rate for the first eight hours and thereafter at three times the basic rate. During weekdays, extra work is remunerated at 1.5 times the basic rate.

After one year of service, the annual leave on full pay is:

14 days for a worker employed on a 6 day week

12 days for a worker employed on a 5 day week

After one year of service, a worker employed on a 6 day week is entitled to 21 days sick leave on full pay and a further period of 14 days for prolonged illness.

A female worker who has been in employment for one year is entitled to 3 months maternity leave and an allowance of Rs300 payable within 7 days of confinement.

Where a worker has remained in continuous employment for a year, he is entitled to a

normal day's wage in respect of every public holiday other than a Sunday.

All workers are entitled to free transport or be paid the return bus fare if he or she resides at more than 3.2km.

Every worker who has stayed in continuous employment for a year is entitled to a bonus equivalent to 1/12 of his earnings for that year.

3.3 Status of unions

Unions play a prominent role in Mauritian industry, having played a pivotal role in the island's politics during the 1970's. There are 300 Trade Unions affiliated to a few Federations. While it is not compulsory to join a Trade Union, most employers will have either a trade union or at least a workers' council in their plants and will have to deal with it regularly to settle differences.

The Industrial Relations Act of 1974 regulates strike action and is relatively favorable to the employer. However, unions can prove quite militant and companies should be ready for quite tough negotiations, especially in a market where labor is so scarce. Labor relations are undoubtedly the area where greatest care and maturity of management has to be practised.

3.4 Limitations on foreign nationals

There are no limitations on foreign nationals. Any expatriate can be brought into the country, if he is deemed necessary by the Ministry of Employment and Civil Service. The general rules governing the allocation of work permits are that they will be granted to foreigners whose skills are not available locally and to foreigners representing the interests of an overseas investor in Mauritius.

Obtaining work permits is one of the most commonly quoted problem areas for foreign investors. While most problems can be sorted out with perseverance, companies generally report that they have to wait anything between 3 and 12 months for approvals. However, investors should remember that there will be no interference from the authorities if they bring in the expatriate while his work permit application is pending.

Chapter 4

Infrastructure

For US investors seeking to export to the US market, the cost of international freight and telecommunications will prove a great disadvantage to investing in Mauritius over investing in the Caribbean or Mexico, for example. For this reason, Mauritius will always be far more attractive to US companies looking to access the EC or Africa where prohibitive freight rates from the US makes their position less competitive. Few US investors will be looking to send products back into the US. In that market Mauritius will find it very hard to beat Jamaica or the new free trade area on the Mexican border.

The findings of a recent investment feasibility study on the electronics and informatics field amply demonstrates this comparative advantage problem faced by Mauritius when trying to attract US investors whose operations will involve some form of reexport into the US market:

"Because of extremely high telecommunications costs, the US enjoys a 124% cost savings over Mauritius in voice centre operations. When compared to other low-wage offshore informatics locations, Mauritius is more expensive in four out of the five sectors reviewed."

4.1 Road transport

Mauritius has developed an extensive network of some 1,880km of bitumenized roads. The vehicle stock increased fairly slowly from 69,847 vehicles in 1981 to 78,229 in 1986; this slow rate of growth was largely due to the heavy import duty on vehicles. In order to encourage the renewal of the country's vehicle stock, the government substantially reduced the import duty on new vehicles and spare parts during the past three years. The stock thus rose by 9.5 per cent and 6.3 per cent in 1987 and 1988 respectively, while the total is expected to reach 96,820 vehicles in 1989. There is no railway system.

4.2 Maritime transport

The main harbor, Port Louis, which is the only commercial port, has been modernized and expanded with a \$10 mm loan from the World Bank. Further expansion and improvement of the harbor, a total investment of some MRs314mn, is planned for the next three years. Cargo handling services have been rationalized with the creation of the Cargo Handling Corporation in 1983. A total of about 2.4 mn tons of cargo was handled in 1988, with some 70 per cent of that being containerized.

Government policy: Mr V. Lutchmeenaraidoo, Minister of Finance

What are your precise plans and deadlines for the establishment of the "Free Port"? And surely the only additional services to the EPZ and OBS would be the facility to 'entrepot' goods (repackage and re-export) through Mauritius?

The modernization of Port Louis harbour is a pre-requisite for the establishment of a free port. All efforts are presently being directed to this. 1992 is the target date for the setting up of the free port.

It is the intention to make of Port Louis an 'entrepot' where goods can be stored and transformed. Activities such as packing, labelling etc, will be carried out. A major growth in transshipment activities is also expected.

4.3 Air transport

The government owns and operates the Sir Seewoosagur Ramgoolam International Airport, on the south east coast, about 30 miles from Port Louis, which is served by some 15 international airlines and has over 144 flights a week. In 1987 601,838 passengers and about 19,000 tons of freight were handled. A new airport was to be built in the north of the island with Chinese aid, but following a World Bank study the existing airport has been modernized and expanded instead. Mauritius enjoys excellent air links with the rest of the world, with the national airline, Air Mauritius, providing an increasing proportion of the international services. Air Mauritius carried over 35 per cent of total passenger traffic in 1988. The airline has extended its international air network during the past three years by operating on new routes to Europe and the Far East and has acquired three new aircraft during that period.

4.4 Telecommunications and mass media

Mauritius has an adequate postal and telex service and an extensive telephone network, with about 61,621 lines in 1987. Some factories are not connected, an obvious inadequacy. International data and voice telecommunications, handled by the state owned Overseas Telecommunications Services, are often criticised. The Mauritius Broadcasting Corporation, with one television and two radio channels, broadcasts in English, French, Creole, Hindi, Urdu and Chinese. There are at least seven daily newspapers and about 30 periodicals published in French, English, Hindi, Urdu and Chinese.

4.5 Living conditions for expatriates

One of the key attractions that Mauritius offers investors is an exquisite living environment. All the key areas which dictate the quality of life for expatriates are favorable for location in Mauritius. Mauritius boasts an agreeable climate, the friendliness of the people, the quality of social and health amenities, the quality of services and considerable ease of transportation and communication overseas. Mauritius has one drawback: it is no longer cheap.

Chapter 5

Political background

Politics and business: a forecast

While there have been a number of political intrigues in recent years, they have stemmed mostly from drug and corruption scandals and do not indicate any marked degree of political volatility of which businesses should be wary. The EPZ has never been touched by domestic political strife, nor by economic recession.

The entrepreneurial spirit that is the very dynamic of the Mauritian success story has always been actively and assiduously propagated by government. In fact, companies operating in the EPZ can expect to enjoy greater rather than lesser commercial freedoms, notably through the freeing up of the remaining foreign exchange regulations.

Just as important as the current administration's stance; none of the political opposition parties -- potential governments in the future -- would reverse the favourable EPZ climate. The principal opposition -- the Mouvement Militant Mauricien (MMM) -- has promised that it would not change the investment climate if it got into office.

US companies will be pleased to note that the level of corruption on the island is low, according to foreign companies already operating in Mauritius.

However, all is not sunshine and light. And the potential for political unrest -- or at least greater instability -- is present in Mauritius and must be acknowledged.

The principal line of weakness along which tension could mount is the racial delineation of political power: most importantly, the dominance of the Hindu population, at the expense of the Muslim and Creole populations. Mauritius's other two principal ethnic groups -- those of Chinese and European extract -- are of less importance in this equation. The current administration may at times have aggravated the situation, although it is now actively seeking to heal any rifts.

The concentration of political power in the hands of the upper caste Hindu population has continued steadily since independence. This is partly explained by the Hindu group being the most numerous on the island and, it is important to note, any prominence has been fairly won through democratic election. But this relative concentration of power could cause greater rather than less volatility, if an economic recession erodes some of the wealth that the country currently enjoys.

While this line of weakness in the political fabric of the country must be recognised, it

should not be overstated. Even if the country were to experience an economic recession, there is very little likelihood of any reversion to the prohibitive economic laws or marxist political dogma of the years immediately after independence.

Investors already have an historical precedent guaranteeing the sanctity of the EPZ and the laws that govern it. The EPZ set up in 1971 has been in operation during some of Mauritius' most politically volatile years, and the government never once reneged on its promise to allow it to operate freely, never impeding dividend flows or imports. And the population clearly favors free market policies and the "capitalist road". They universally believe that the boom of the 1980's -- under which all groups have benefitted -- was created by the supply side economics of the IMF adjustment program implemented in the late 1970's: a belief that explains P.M. Jugnauth's continuing popularity despite the drug and corruption scandals of recent years.

The key political issues that will directly affect investors are the cleaning up of industrial pollution and the training of labor -- the cost of which investors must expect to bear themselves.

A political background

The election in 1967, just before independence, was narrowly won with 56 per cent of the votes by a pro-independence alliance of Sir Seewoosagur Ramgoolam's Labour Party and two smaller groups, the Independent Forward Bloc (IFB) and the Muslim Action Committee (CAM). Fearing Indian domination, most of the Creoles joined the Franco-Mauritian elite in voting for the anti-independence Parti Mauricien Social Democrate (PMSD), led by Sir Gaetan Duval. Communal riots broke out between Creoles and Muslims in 1968, prompting Ramgoolam to form a broad coalition government, involving the Labour Party, the PMSD and the CAM, in 1969. The broad coalition left a political vacuum which was filled by a new left wing party the same year. This was the Mouvement Militant Mauricien (MMM), led by Paul Berenger, which rapidly won widespread support among the island's youth and built up a series of militant trade unions, which grouped together to form the General Workers' Federation (GWF). Alarmed by the growing strength of the MMM and by a wave of strikes led by its unions, the government refused to allow the general elections due in 1972. A state of emergency was declared in December 1971. The government banned public meetings and took powers of press censorship; MMM and union leaders went to prison and the strikes ended. Elections were not held until 1976.

The coalition with the PMSD ended at the beginning of 1974. The break came largely over tax issues and Duval's pro-French and pro-South African policies. Sir Seewoosagur looked more towards the UK, India and black Africa and was anxious to pursue a non-aligned policy. However, in the December 1976 election the MMM won 34 seats to Labour's 28, forcing Labour to form a new coalition with the much weakened PMSD,

which won only eight seats. Labour had a rough time in Parliament with a majority of two seats only, but Sir Seewoosagur's complicated political maneuvering enabled the party to complete its full term in office. In the election of June 1982 the MMM, in alliance with the Parti Socialiste Mauricien (PSM), a breakaway from Labour led by Harish Boodhoo, won all the elected seats in the Legislative Assembly. The allied Organisation du Peuple Rodriguais (OPR) won the two seats in Rodrigues. The opposition was reduced to four appointed "best loser" members. Aneerood Jugnauth, the MMM president, became prime minister and Paul Berenger finance minister. The new government's policy was that of the IMF and World Bank; it aimed at modest measures of nationalization, the encouragement of private investment with a view to a job creation, and a drive against corruption and tax evasion. Regional cooperation, the Indian Ocean's demilitarization and the return of the Chagos archipelago (see below) constituted the main planks of foreign policy.

Election results, 1967-87

	1967	1976	1982	1983	1987
Independent Forward Bloc (IFB)	12	-	-	-	-
Muslim Action Committee (CAM)	5	-	-	-	-
Labour Party (LP)	26	28	2	14	9
Parti Mauricien Social Democrate (PMSD)	27	8	2	5	6
Mouvement Socialiste Militant (MSM)	-	-	-	27	29a
Parti Socialiste Militant (PSM)	-	-	18	-	-
Mouvement Militant Mauricien (MMM)	-	34	42	22	24
Organisation du Peuple Rodriguais (OPR)	-	-	2	2	2
Total seats in Legislative Assembly	70	70	66b	70	70

a Figure includes three RTM deputies who have since joined the MSM. b Only four "best losers" were allocated in 1982.

After less than a year, however, the MMM and PSM leaders quarrelled; Mr Berenger resigned and left the MMM in opposition. Mr Jugnauth continued as prime minister, founding with his MMM and PSM supporters a new party, the Mouvement Socialiste Militant (MSM). In June 1983 he found himself unable to command a parliamentary majority and called a new general election for August 21. In the campaign the MSM allied with the Labour Party on the basis of hostility to the MMM rather than agreement of policy, and also reached an electoral pact with the PMSD. The alliance won the election comfortably, with 41 of the 62 seats. The OPR, which again won the two seats

in Rodrigues, joined the new government.

Up until the end of 1985 the coalition government held together much better than predicted. It nevertheless lost members, most significantly among the Labour Party leadership, which was dismissed from the government in 1984. The result was a split in the Labour Party, with those members who continued to support the government forming their own party, the Rassemblement des Travailleurs Mauriciens (RTM). Political events took a drastic turn in 1985; the alliance suffered defeat at the hands of the MMM in urban municipal elections held on December 8. This was followed one week later by the death of the governor general, Sir Seewoosagur Ramgoolam, a close adviser to Mr Jugnauth and a major unifying force in Mauritian politics. A fortnight later a heroin scandal broke, following the arrest of four alliance deputies at Amsterdam airport on December 28. There followed 20 months of political tumult. Cabinet resignations (related to the heroin affair) and defections by "dissident" alliance deputies obliged the prime minister to form new governments in January and August 1986. In November of that year he prorogued Parliament in order to avoid a no confidence motion. Subsequent events renewed the crisis and, by the beginning of June 1987, Mr Jugnauth felt he had no option but to call an early election for August 30.

To the surprise of most political observers, the MSM/LP/PMSD/RTM alliance was returned to power with a comfortable majority, winning 39 of the 60 directly elected seats on the island, while the MMM under its new leader, Dr Prem Nababsingh, won the remaining 21 seats. Mr Jugnauth's impressive record in handling the economy clearly outweighed opposition attacks on the alliance's involvement in the drugs scandal. Mr Jugnauth appointed a carefully chosen cabinet, in the hope of ensuring solid and continuous support from all parties of the alliance, but by 1988 relations between the MSM and the PMSD turned sour over a variety of issues. Despite attempts to avoid a split in the alliance, the PMSD left the government in August 1988, reducing Sir Anerood's parliamentary majority to ten seats. The alliance subsequently lost its chief whip, Raj Virahsawmy, but gained the support of one of the PMSD deputies. In early 1989 the allegations of corruption and drug trafficking continued to dominate the political agenda, thus providing the opposition parties with plenty of opportunities to discredit the government. In November 1988 and again in early March 1989 the prime minister survived apparent attempts on his life. On both occasions his would be assassin was quickly overpowered. The first attack was dismissed as motiveless; in the aftermath of the second it was suggested that the attempt was somehow related to the re-emergence of drug and corruption scandals.

Chapter 6

The State in Industry

6.1 Role in industry

The government has some limited holdings in the internal economy. Excluding the usual parastatals, such as the State Trading Corporation, the government restricts its direct presence in industry to rescue packages for strategic industries in trouble, taking up equity stakes in companies through the State Investment Corporation (SIC) and the Development Bank of Mauritius. Mauritian Jute Industries is one example of SIC takeover. Close to bankruptcy, the SIC moved in and, with a major fillip of new equity, put the company back on its feet with an entirely new product line. The takeover of Rose Belle Sugar Estates was an example of an industry which the government felt forced to rescue for its strategic and pivotal role in the Mauritian sugar industry. The overall picture is one of minimal and, when it does occur, quite effective and beneficial intervention.

The government has no record of forced intervention in the EPZ and certainly no nationalization or intervention policy. Hence the government also has no divestment policy. Instead, it guarantees companies against nationalization, against mandatory memberships of organisations, against mandatory levels of local participation, and so on.

6.2 Attitude to reform and divestment

The government has no set policy of divestment in those organisations that it either owns fully or has an equity stake. However, the SIC has been known to sell its stake when the company gets back on its feet.

6.3 Attitude to foreign investment

Mauritius has based its entire success upon maintaining a favourable investment climate for export based industries, and will continue to do so in the future, having neither a raw material base nor an internal market sufficient to attract substantial foreign investment on their own.

The success of these policies is shown by the rapid expansion in foreign investment in the island, climbing by more than 300% over the last three years alone. This favourable climate will continue under future governments, whether they be led by current Prime Minister Jugnauth or opposition leaders.

There are areas of this report which are critical of the government, notably over the issue of price control. However, it should be remembered that any major policy constraints

imposed by government mostly affect the internal economy, touching EPZ companies only indirectly. Also, such policies are generally political expedients and aberrations that will pass once the forces that created them dissipate, such as inflation and price control.

6.4 Attitude towards free enterprise

The government of Mauritius has a very robust and healthy attitude towards free enterprise, giving it almost totally free rein within both the EPZ and the domestic economy. The entire Mauritian miracle has been based upon harnessing free enterprise and the future development of the country, both in the EPZ and in the Mauritian economy proper, is recognised to hinge upon the continued free and unhindered working of market forces and private enterprise.

There are elements within the Mauritian political structure which would like to introduce some restrictions on the current openness of government commercial policy. However, even at their most virulent, such views represent more a socialist desire for wealth redistribution and security than a desire to restrict free enterprise.

Certain political pundits look to the two assassination attempts on Mr Jugnauth's life as indicative of a country wanting to reject the entire current political status quo, including its attitude towards free enterprise. However, the election of August 1987 gave a clear and almost unqualified indication to the contrary. Mr Jugnauth had been forced to call the election in 1987 following drug scandals and the depletion of his coalition by defections of his Alliance deputies. To the surprise of many observers, the Alliance headed by Mr Jugnauth was returned with a healthy majority. Mr Jugnauth's expert handling of the economy and the Mauritians' desire to see these policies continue clearly outweighed opposition attacks on the Alliance's alleged involvement in the drugs scandal.

6.5 Existing investments

The bulk of foreign investment is in the EPZ sector. The EPZ has grown at very high rates since the early 1980's. The number of enterprises opening has more than quadrupled and their cumulative turnover has risen more than six-fold (see Table and Graph below).

The following are the key characteristics of current investment:

- foreign investment comes mostly from Hong Kong, China, Bermuda, France and the UK (see Table 1.1).
- the principal markets for EPZ manufactures are France, US, Germany, UK, Italy and Belgium. The EC clearly emerges as the EPZ main export market. MR6025 million -- or over 70% -- of EPZ exports go to the region, predominantly to France, Germany, UK, Italy, Belgium and the Netherlands (see Table 1.2).

■ the largest sector within the EPZ is textiles, accounting for over 78% of total EPZ company turnover (see Table 1.3). The next largest sectors of investment are watches, clocks and jewellery but are nowhere near as important, representing only 8% of total EPZ company turnover.

■ EPZ growth showed its first signs of slowing down in 1989. This trend will continue, with active decreases in EPZ expansion over the coming five years.

Table 6.1

SOURCES OF FOREIGN INVESTMENTS IN EPZ
(Rupees)

Sources	1986	1987	1988
Australia	-	6,505,275	1,000,000
France	4,358,935	7,572,200	13,232,150
Germany	3,464,000	500,000	1,785,000
Hong Kong	23,938,665	10,295,300	119,949,410
India	100,000	1,015,000	1,495,000
Italy	697,800	-	-
Singapore	-	400,000	1,000,000
South Africa	7,580,000	2,420,000	360,000
Taiwan	1,400,000	12,570,700	1,825,000
United Kingdom	3,140,805	6,465,900	12,387,000
USA	550,000	15,174,900	-
Others*	28,174,336	126,283,965	82,831,000
Total	73,404,541	183,203,340	235,864,560

* Others include:

Bermuda	16,999,990	Isle of Man	6,000,000
Macau	10,639,500	China	20,469,500
Sweden	4,000,000	Madagascar	4,000,000
Seychelles	2,000,000		

Source:MEPZ

Export Processing Zone

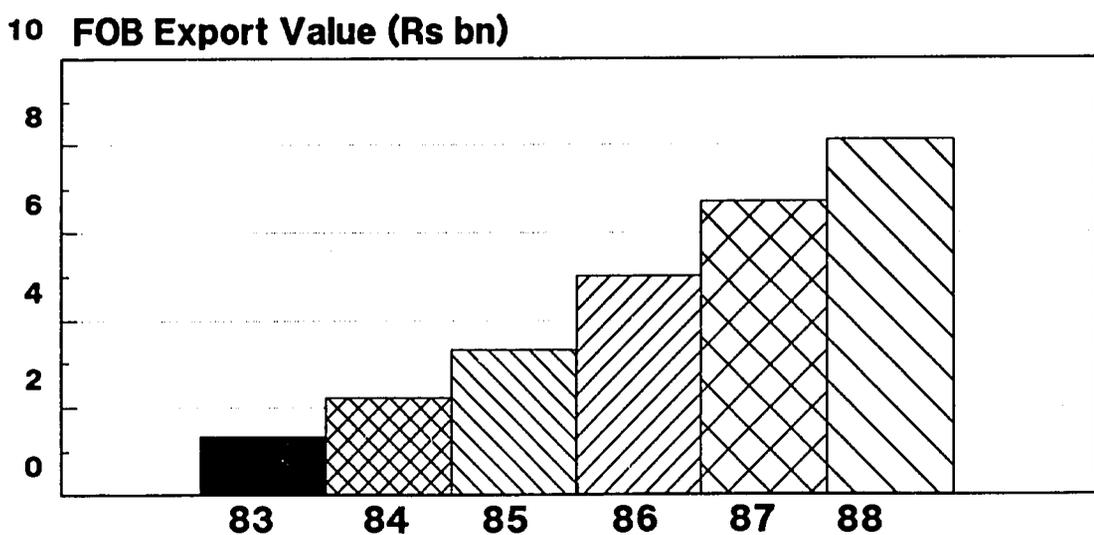
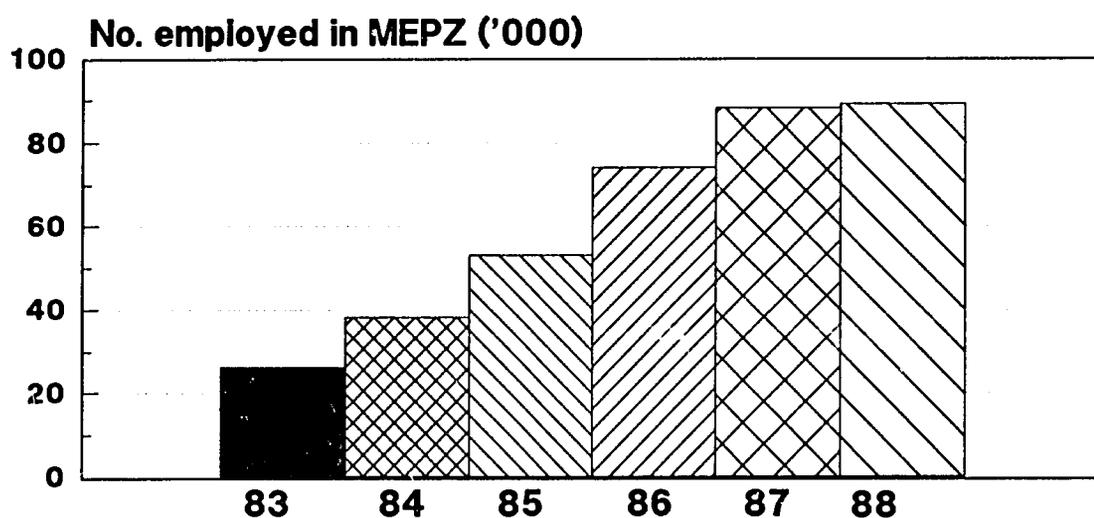
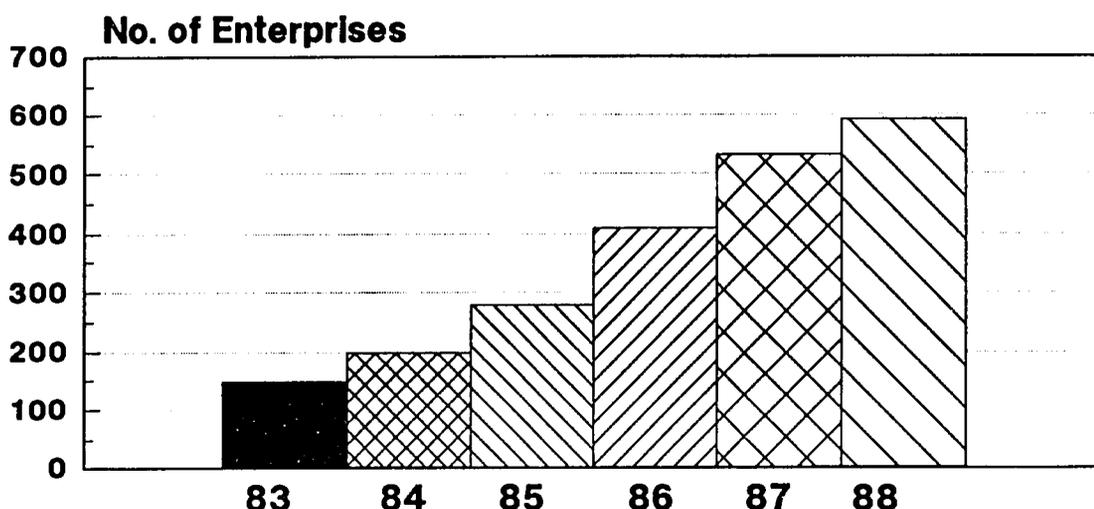


Table 6.2

MEPZ EXPORTS BY COUNTRY OF DESTINATION
(million rupees)

Country of Destination	1986	1987	1988
Australia	26.4	18.3	14
Belgium	164.9	172.0	283
Canada	92.8	100.9	72
Denmark	65.6	73.4	77
France (including Reunion Island)	1,689.1	2,597.9	2919
Germany	650.7	890.6	1238
Hong Kong	49.6	17.8	32
Italy	198.6	244.4	438
Netherlands	94.8	125.4	129
South Africa	12.3	9.8	16
Switzerland	33.7	46.1	74
United Kingdom	511.9	698.3	1018
USA	1,338.4	1,620.2	1673
Other	30.8	84.8	193
Total	4,959.6	6,700.0	8176

Source: MEDIA

6.6 Foreign investments and levels of profitability

Figures on the profitability of foreign investment overall in Mauritius do not exist.

However, one can make some general observations:

- for those companies making a profit in the EPZ, profitability usually sits around 10% return on turnover. This range may appear low, but reflects the heavy preponderance of basic textile companies which work to very narrow margins.
- the profitability of overall foreign investment ranges usually between 50% and 100% on equity invested.
- there is a very wide margin between money makers and loss makers. There seems very

little happy middle ground.

■ profitability swings violently between companies and in cycles, reflecting the economic situation in Europe and the US and, interestingly, the quality of the company's marketing department. One textile company did not declare a dividend for the five years between 1981 and 1985, but by 1987 declared a dividend of over 1000%. The company in this example blamed its poor performance and sudden turnaround on firing their old marketing manager and bringing in a new one with marketing experience in the EC.

The table below gives an idea of the scale of turnover, size of company and an estimate of the capital involved in each of the main areas of investment in the EPZ. The table does not however attempt any estimate of profitability for the different sectors. While this is a drawback, the usefulness of such figures is doubtful. Once the would-be investor has understood that profits can be made in Mauritius and that they are often huge, he should concentrate on what makes a good and a bad investment, to ensure that he will fit into the high profitability bracket (see section 6.7).

Table 6.3**MAIN ACTIVITIES OF THE EXPORT PROCESSING ZONE
(Estimate for 1988)**

ACTIVITY	ENTERPRISES	EMPLOYED	TURNOVER CAPITAL (est)	
			(Rs m)	(Rs m)
Food	11	749	173	139
Flowers	28	358	20	30
Yarn and Thread	27	3810	180	2150
Clothing	408	77233	6446	
(a) Pullovers	64	31632		
(b) Gloves	5	600		
(c) Other clothings	339	45001		
Leather and Shoes	12	1105	40	72
Wood and Paper	15	520	30	44
Optical goods	4	577	88	40
Watch and clock	6	872	563	130
Jewellery	14	1504	371	100
Fishing tackle	3	169	15	15
Toys and carnival masks	7	774	85	54
Other activities	56	1409	165	26
<hr/>				
TOTAL	591	89 080	8 176	2 800

Source: MEDIA

6.7 What makes a good and a bad investment?

The following check list pulls on the experience of businessmen in Mauritius. It tries to identify those key characteristics which differentiate good investments from bad investments.

■ careful planning; many investments have floundered because costs and strategies have not been properly investigated and planned. Costs which companies must consider most carefully are labor, pollution control and marketing.

■ imaginative labor policy; finding labor, training it and keeping it is a veritable art form in the Mauritian business community. Companies which do not develop it will suffer,

especially as regards absenteeism which, while averaging 5%, climbs to as high as 20% in the textile sector.

- securing effective middle level managers; this is an area in which Mauritius is particularly weak. Good upper level managers and a good factory floor workforce are common throughout the Mauritian commercial sector. But they often experience great difficulties in communicating with each other thanks to the paucity of middle managers to bridge the gap.
- marketing is extremely important; all future investments will rely increasingly on a rapid assimilation -- and reaction to -- market demand. Only high quality and experienced marketing personnel will be able to provide this all important communication. Companies which import the necessary marketing skills, especially if they are accessing new niche markets, will put themselves ahead of the game.
- a well connected and effective local partner; all failed Mauritian investments seem to share one key trait: a poor Mauritian partner or soured relations between the local partner and the investor.
- higher levels of local value added; future success stories will be those which can soak up higher local factor costs, especially in the labor field. D Giraud, MD for Floreal Knitwear, commented "If the investor is coming with the intention of employing a lot of people, or paying them cheaply, he will fail."
- mature managerial policy; Mauritian industry is now reaching quite high levels of maturity and the techniques needed to operate in such an environment must be correspondingly sophisticated. Companies coming to Mauritius and failing to treat their operations in this way will hit difficulties.
- good government contacts and government commitment; all investors experience problems with the government, most commonly over obtaining the various permits and certificates in the initial investment process. Good contacts in government and a government commitment to your investment will greatly assist in easing such bureaucratic pitfalls and delays. Good relations with the Mauritius Export Development and Investment Authority (MEDIA) are especially important in this regard.
- careful construction of the original investment agreement, especially over the clauses concerning technical fees and royalties; the Mauritian government scrupulously honours the original investment contract but seems to experience difficulties in accepting demands not in the original contract. Companies must exercise great foresight in forecasting all their likely future demands right from the outset.

This list is not exhaustive and companies must study the market carefully to find out

those problems unique to their own sector.

Companies should also realise that Mauritius has ironed out most of the potential glitches for investment in basic manufacturing or, at least, has the structure to solve what problems come up. But its investment code and bureaucracy are not necessarily as well prepared for the demands and idiosyncrasies that new higher technology investments will bring, especially when they are based on manufacturing under license in the EPZ. The key problem areas that companies must be most wary of are securing the right local partner, obtaining and keeping labor (see chapter 3), getting through the initial investment process unmolested (see chapters 7 and 8), trading effectively (see chapter 2) and accessing the right markets (see introduction and chapter 2).

Chapter 7

The Governance of Foreign Investment

Without doubt, the attractiveness and liberality of the laws and regulations governing foreign investment will continue to be one of the key factors influencing foreign investors. And those liberal laws do not stop at the investment code but are found throughout the business sector, greatly easing the job of managing an export business.

The principal attractions found in the government's regulations of foreign investment are:

- a very liberal investment code, offering very attractive tax concessions (eg. corporate tax rates for EPZ investors of as little as 15%) and tariff and import duty exemptions;
- guarantees against nationalization and guarantees that foreign exchange remittances will be honoured;
- easy import and export procedures, with a low level of government bureaucratic involvement;
- liberal foreign exchange regulations, and simple procedures which are set to be further reduced and simplified over the next year.

The one real complaint that companies frequently and legitimately make is that bureaucracy could be cut back still further, with no detrimental effects on the efficient running of the Mauritian economy. The Prime Minister and the Finance Minister undoubtedly agree with many of these complaints, as reflected in their support for the One Stop Shop (OSS) -- a national investment coordinating and approval centre -- and for further liberalizations in the foreign exchange regulations. However, a notable dragging of the feet by other key ministries are hindering some of their efforts. For example, the One Stop Shop -- which aims to reduce the stages involved in setting up investments from 35 to 18 -- is being resisted by some ministries. The Finance Minister's plans for foreign exchange liberalisations -- effectively a total removal of controls -- are likely to be more successful, because they are largely under his and the PM's control.

A report commissioned by the Minister of Finance concluded that the One Stop Shop could speed the investment process from initial application to physically setting up operations from two to six months to one to two months.

While complaints over the number of stages in the investment process, and the sluggishness of processing by some of the players involved, are quite clearly justified,

companies complaints about the procedures governing export, import and foreign exchange remittances seem less justified in most cases. If the paperwork on bills and invoices is correct and properly presented, and if the company manages the procedure with enough due and close attention, processing and approval can be completed within a few days on all these transactions. One week is ground for complaint, and not uncommon, but ten days was the longest trading delay identified. Noting that foreign exchange controls will be further liberalised, procedural delays in this field should be further reduced.

Box 7.1

Principal Complaints from Business

A survey was conducted among businessmen to identify their areas of most severe complaint. Their main complaints revolve around delays in processing:

- work permits, with delays of 3-12 months
- residence permits, with delays of 7-12 months
- Export Processing Zone Status, with delays of 3-4 months
- authority for non-citizens to invest, with delays of 2-3 months
- Bank of Mauritius Approved Status, with delays of 3-4 months
- Development Permits, taking four months on average

However, companies also complained that:

- civil servants often are not equipped to analyze the information given them
- information has to be given several times because officials had misplaced it
- information is asked for which is irrelevant and unnecessary
- the ministries close far too early, forcing managers to spend too much of their time at the ministry

- while issued within two days, import and export permits are required repeatedly
- delays at customs are excessive, aggravated by the fact that any inter-ministerial communication is always sent by second class post, whatever the level of urgency
- officials give excessive attention to detail, especially over invoices at customs. For example, a calendar was included on one shipment as a gift but not mentioned on the invoice, resulting in the entire shipment being delayed
- many procedures are duplicated, such as the list of equipment and raw materials evaluated by both Customs and the Ministry of Industry
- there is a lack of consistency in evaluating applications, such as work permits and there is insufficient delegation of tasks, such as the Bank of Mauritius having to refer all cases to the Ministry of Finance

The questionnaire concludes: "Government procedures are seen as too long, unnecessary, cumbersome and bureaucratic. The delays caused by such procedures (12 months on average) have led foreign owned companies to question their initial decision to invest in Mauritius while other are known to have given up."

This conclusion is probably too pessimistic. Few businessmen would go so far as to say they would not have invested in Mauritius had they known of the bureaucratic delays involved. However the main thrust of the conclusion -- that there is a problem that has yet to be resolved -- is very fair and should be of concern to would-be investors.

We should end this section on an optimistic note: businessmen already operating in Mauritius note that it is relatively easy to have one's problems sorted out because, given the island's small size and closely knitted society, all leaders are relatively accessible. The various key offices which can solve any problems, including the Prime Minister's Office, are remarkably accessible. While obviously harder for small investors, companies can generally get a legitimate complaint and problem sorted out quickly, if they reach the right people early on.

Problems in the initial investment process over permits should be taken to MEDIA who

are willing, for most investors, to put pressure on the offending office. They have a very impressive track record of problem solving in this initial stage.

US companies often fear the entire task of lobbying and seldom find it useful. But the situation is far more open and productive in so small a country as Mauritius.

A specific case study will demonstrate how a common problem should be approached and solved. A French company found problems obtaining two work permits. They first approached MEDIA who established that their files were sitting unprocessed in the Office of the Solicitor General, awaiting their turn. The Solicitor General refused to process the files out of turn. So MEDIA, fearful that the entire investment was being put in jeopardy, went over the Solicitor General's head and pleaded its case direct to the PM's Office. The PM's Office then effectively ordered the Solicitor General to process the permits immediately which were then approved within the week.

Equally, US companies will be pleased to find that the system is quite open to a pragmatic bending of the rules. For example, new or replacement work permits often fail to be issued on time. But most companies simply bring the expatriates in, or let them continue working, while the permits are still being processed, giving them advances from the company in the interim to overcome the law which forbids the giving of a salary to an employee who does not have a valid working permit.

7.2 General procedures for new foreign investments

A recently commissioned study by Price Waterhouse on the investment process in Mauritius identified 35 steps that the would-be investor has to pass through, requiring 20 individual permits or certificates and involving 26 governmental or quasi-governmental bodies.

The report concluded that the process is unwieldy and inefficient, generally taking between two and six months to complete, and should be drastically reformed. The cornerstone of these reforms would be the creation of the One Stop Shop (OSS) which would both simplify and greatly accelerate the whole process, hopefully down to 1-2 months. The OSS would cut the number of different approvals required to 15-18 and the number of different organisations and ministries to be dealt with to 11.

The OSS is not a new concept, having been bandied around for many years. While it does seem to be closer to being set up now than at any time in the past, many industry figures believe that the various ministries involved will always resist the OSS as they fear losing the political power that the current approval system gives them. Unfortunately setting up the OSS does not seem to be as straightforward as it first appears, so, many business' complaints (see box below) will probably not be solved in the short term.

Government policy: Mr V. Lutchmeenaraidoo, Minister of Finance

Much has been made of "One-Stop Investment Center" but no deadline has been given. When will it be implemented?

The principle of setting up a "One-Stop-Shop" under the aegis of the Ministry of Industry has been accepted. Consultations with the relevant Ministries are taking place with a view to overcoming the practical difficulties. It is expected that the One-Stop-Shop will become operational within the next few months.

Table 7.1 below identifies the 25 principal certificates and permits that the investor needs to operate in Mauritius. To cover both eventualities, the table lists the offices companies have to visit for each of these steps both under the current system and under the proposed OSS. Table 2.1 outlines the 25 investment steps in more depth, giving specific contacts and addresses. Companies should note that MEDIA will remain the key organisation for the next five years, boasting very capable and willing personnel.

The reforms would not put all the investment stages under the OSS, but it would ease the processing dramatically:

- 11 of the 25 steps would be handled by the OSS
- 3 more would be abolished
- the abolition of two more -- the export and import permits -- is currently being debated
- 11 steps would remain as they are, involving the company having to get permits and certificates from the Ministry of Works, of Labour, of Social Security and of Trade, the Bank of Mauritius, Customs and Excise, the Registrar of Companies, local authorities and the Government Fire Services.

The OSS will act as the Approvals Committee with authority to grant the various clearances, and also as a complaint's body which investors can turn to when they experience problems obtaining the 11 clearances and permits from bodies outside of the OSS's specific area of concern.

The OSS Committee will be chaired by the Ministry of Industry and will include members from the Ministry of Industry, the Ministry of Employment, the Bank of Mauritius, the Prime Minister's Office, the Central Water Authority, the Central Electricity Board, the

Mauritius Telecommunications Services, the Overseas Telecommunications Services, the Ministry of Housing, Lands and Environment, the Local Authorities, the Ministry of Works and the Ministry of Health.

Table 7.1

Procedures for investment: the old and proposed new system

Procedure	Current system	New System
1. Export Enterprise Certificate	Min of Industry	
2. Formation of a company	Reg. of Companies	Registrar of Companies
3. Authorization to invest in Mauritius by a foreign investor	PM's Office	
4. Application for 'Approved Status'	Bank of Mauritius	Bank of Mauritius
5. Scheduled list of machinery/equip't/ raw materials	Min of Ind/Customs	Min of Ind/Customs
6. Work Permit	Min of Employment	
7. Residence Permits	PM's Office	
8. Location of factory premises	Media/Min Works/ local authorities	MEDIA/Min Works local authorities
9. Application for water supply	Central Water Authority	
10. Application for electricity supply	Central Elect. Board	
11. Application for telephone	Mauritius Telecom.	
12. Application for telex and telefax.	Overseas Telecom.	
13. Development Permit	local authority	
14. Manufacturing License	local police	[abolished]
15. Electric Motor Permit	local authority	[abolished]
16. Clearance from the Factory Inspectorate Service	Min of Labour	Min of Labour
17. Clearance from the Police Dept.	local police	[abolished]
18. Sanitation and Hygiene	Env. Health Unit	
19. Fire Prevention	Gov't. Fire Services	Gov't. Fire Services
20. Registration of Trade Marks	Customs	Customs
21. Registration of Patents	Min of Trade	Min of Trade
22. Registration as an employer	Min of Social Security	Min of Social Security
23. Import Permit	Min of Trade *	Min of Trade
24. Export Permit	Min of Trade *	Min of Trade
25. EUR 1 Certificate	Min of Trade	Min of Trade

* may be abolished

7.2a Specific Procedures in the Investment Process

The following chart shows the various stages of the investment approval process as it stands now with the precise procedures companies must follow, as well as the specific

contact addresses where companies will have to go.

Table 7.2

FORMALITIES FOR SETTING UP AN ENTERPRISE IN THE MAURITIUS EXPORT PROCESSING ZONE

Any investor wishing to set up an enterprise in the Mauritius Export Processing Zone should obtain various permits, licences, and certificates by fulfilling the formalities mentioned below. The Industrial Co-ordination Unit of the Ministry as well as The Mauritius Export Development and Investment Authority is quite prepared to help and guide industrialists to establish the necessary contacts for the completion of the formalities.

	PROCEDURE	AUTHORITY/AGENCY CONCERNED
1. Export Enterprise Certificate Any investor wishing to operate a manufacturing unit in the Mauritius Export Processing Zone should obtain an Export Enterprise Certificate.	The promoter should remit his application in 3 copies on the prescribed form obtainable either from the Ministry of Industry or MEDIA, together with documentary evidence of export markets. It is recommended that a feasibility study or detailed information on the project be submitted together with the application.	Ministry of Industry 7th Floor New Government Centre PORT LOUIS Tel:01-1068
2. Formation of Company After the project has been approved by the Ministry of Industry, the company will have to be incorporated in Mauritius.	The industrialist should contact a notary for the incorporation of his company.	Registrar of Companies Emmanuel Anquetil Bldg PORT LOUIS Tel:01-1748/9

3. Authorization to invest in Mauritius by a foreign investor

All foreign investors wishing to invest in an Export Enterprise Company should get prior authorization from the Prime Minister's Office.

The foreign investor should submit an application in two copies to the Prime Minister's Office on the appropriate forms which can be obtained from the Prime Minister's Office or the Ministry of Industry. It is advisable that the investor also submits a copy of his application to the Ministry of Industry to ensure prompt action.

Prime Minister's Office
6th Floor
New Government Centre
PORT LOUIS
Tel:01-1018

4. Application for 'Approved Status'

It is essential for the foreign investor to obtain an 'Approved Status' for the eventual free repatriation of his paid-up capital and dividends.

After the necessary clearance has been obtained from the Prime Minister's Office in accordance with "3" above and the Export Enterprise Certificate granted, an application should be made to the Bank of Mauritius for Approved Status. This formality is normally completed by the industrialist's banker.

Bank of Mauritius
Sir William Newton St.
PORT LOUIS
Tel:08-4164

5. Scheduled list of machinery, equipment and raw materials

Prior to the import of machinery, equipment and raw materials to be used in the factory, an authorization should be obtained for the purpose of duty free entry of same to Mauritius.

A complete list of productive machinery, equipment and raw materials to be used in the factory should be submitted to the Ministry of Industry who will transmit it the Customs Authorities for approval.

Minister of Industry
7th Floor
New Government Centre
PORT LOUIS
Tel:01-1068

The Comptroller of Customs
Customs & Excise Department
Trou Fanfaron

- This list must be submitted together with a copy of the Certificate of Incorporation of the company.
- PORT LOUIS**
Tel:08-9702
- 6. Work Permit**
Companies wishing to employ expatriates whose skills are not available locally should obtain a work permit for each foreign employee. A foreigner designated to represent the interests of a foreign investor in Mauritius is also required to obtain a work permit.
- Application on the prescribed form should be made to the Ministry of Employment and Civil Service at least two months prior to the projected date of employment. Forms are available and Civil Service and the Ministry of Industry.
- Fees applicable:
1st & 2nd Yr Rs1,000
3rd & 4th Yr Rs8,000
5th Yr and thereafter Rs15,000
- Ministry of Employment & Civil Service**
Emmanuel Anquetil Building
PORT LOUIS
Tel:01-1987
- 7. Residence Permits**
Any foreign investor or technician wishing to reside in Mauritius must obtain a residence permit.
- Application should be sent to the Prime Minister's Office. One copy of the application must also be submitted to the Ministry of Industry to ensure prompt action.
- Prime Minister's Office**
6th Floor
New Government Centre
PORT LOUIS
Tel:01-1018
- 8. Location of factory premises**
EPZ companies can be located anywhere on the island provided that permission is obtained from the appropriate authorities
- The company can either rent or construct its own factory building. Buildings for rental can be obtained either from MEDIA or the private sector. If the factory building is to be erected in an urban area, Development and Building Permits should be obtained from the Municipality concerned. If it is to be located in a
- MEDIA**
2nd Floor
Old Council St.
PORT LOUIS
Tel:08-7750
- The Town Clerk of the Municipality concerned
- The Secretary, District Council of the Area concerned

- | | | |
|-----|---|--|
| | rural area, the Development Permit should be obtained from the District Council concerned and the Building Permit from the Ministry of Works. | The Administrative Officer
Ministry of Works, or
The Office of the Ministry of Works in the locality concerned. |
| 9. | Application for Water Supply | Companies needing water in excess of 30 litres/min Or 20,000litres/day should apply to the Chief Engineer (Operations), Central Water Authority. For domestic purposes the application should be made to the CWA Office of the locality concerned. |
| | | Chief Engineer
Central Water Authority
Technical Office
St.Paul
PHOENIX
Tel:86-5071 |
| 10. | Application for Electricity Supply | Application must be submitted to the General Manager, Central Electricity Board. The total load requirements and, if possible the expected maximum demand (KVA) and monthly consumption in Kwh should be indicated. The CEB will deliver a permit only after authorization to operate a factory in the locality has been obtained from the Municipality or District Council concerned. |
| | | The General Manager
Central Electricity Board
(Head Office)
Royal Road
CUREPIPE
Tel:86-5010 |
| 11. | Application for telephone | Application should be made to the Mauritius Telecommunications Services Ltd. |
| | | The Director
Mauritius Telecommunications Services Ltd.
Fon Sing Bldg
PORT LOUIS
Tel:08-2001 |
| 12. | Application for telex and telefax services | Application should be made to the Overseas Telecommunications |
| | | The Director
Overseas Telecommunications |

	Services Co. Ltd.	Services Co. Ltd. 43, Sir William Newton St. PORT LOUIS Tel:08-3829
13. Development Permit Prior to the start of operation, the company requires a Development Permit.	Application should be either be made to the Municipality concerned	The Town Clerk, Municipality concerned
14. Manufacturing Licence A Manufacturing Licence should also be obtained by the company before starting its operation. This licence is delivered only after the police and other departments concerned (e.g., Ministry of Health) have given their clearances.	The promoter of the project must contact the nearest police station who will submit his report to the Accountant General's Division. Once the application has been approved, the company will have to pay a quarterly fee in order to operate his factory.	Nearest Police Station Licences Section Accountant General's Division Chaussee PORT LOUIS Tel:01-1172
15. Electric Motor Permit If the company needs to operate one or more power motors, an Electric Motor Permit should be obtained.	The application must either be made to the Municipality concerned if the industry will be located in an urban area or to the District Council if it will be located in a rural area. The applicant should also publish a notice in 2 daily newspapers, giving a delay of 15 days, from the date of publication of the notice for anyone who wishes to object to the installation to do so.	The Town Clerk, Municipality concerned The Secretary, District Council concerned
16. Clearance from the Factory Inspectorate Services The purpose of this Clearance is to ensure safety, health and welfare of all employees.	The company must register with the Factory Inspectorate Section of the Ministry of Labour & Industrial Relations and obtain the necessary clearance.	Chief Factory Inspector Factory Inspectorate Ministry of Labour & Industrial Relations, Women's Rights & Family Affairs. 2nd Floor Government House PORT LOUIS Tel:01-2505

- | | | | |
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| 17. | <p>Clearance from the Police Department
 The Police Department must be satisfied that on the proposed factory premises:-
 -parking facilities are provided
 -storage facilities are adequate
 -the environment is not adversely affected.</p> | <p>Contact the Police Station in the area where the factory is to be located</p> | <p>Police Station in the area concerned</p> |
| 18. | <p>Sanitation and Hygiene
 Clearance must be obtained from the Ministry of Health which has to ensure that workers are not subjected to health hazards and that the production processes used and the effluents discharged do not cause serious adverse effects on the environment.</p> | <p>The Ministry of Health must be provided with the following:-
 -detailed layout plan of the factory
 -Site plan
 -Description of the process to be used
 -List of chemicals to be used
 -Means of disposal of wastes
 -Sanitary and hygienic conditions for workers.
 Once satisfied that the sanitation requirements are met, the Ministry of Health will communicate the authorization to the Municipality or other authorities concerned.</p> | <p>The Sanitary Engineer,
 Environment Health Unit
 Emmanuel Anquetil Bldg
 PORT LOUIS
 Tel:08-0957</p> |
| 19. | <p>Fire Prevention
 The Fire Services operated by the Ministry of Local Government have to ensure that all fire precautions are included in the building plan and that the premises are adequately safe against fire before clearance is given.</p> | <p>Authorities concerned should be contacted.</p> | <p>The Controller
 Govt. Fire Services
 Cnr. Poivre St &
 St. Georges St
 PORT LOUIS
 Tel:2-0214/5;2-4726</p> <p>The Chief Officer
 Fire Brigade
 Municipal Fire Section
 Maillard St
 PORT LOUIS
 Tel:2-0221/2</p> |
| 20. | <p>Registration of Trade Marks
 An enterprise wishing to</p> | <p>Application for the</p> | <p>The Comptroller of Customs</p> |

produce under a Trade Mark must enquire Whether the chosen Trade Mark is not already registered and check whether it conforms to legislation.

registration of the Trade Mark should be made in 2 copies to the Comptroller of Customs. When the application has been accepted, the applicant should arrange for the publication of a notice in the Government Gazette and in 2 daily newspapers not later than 2 months after the acceptance date. If there is no objection within 3 months from the date of the last publication, a Certificate of Registration will be awarded.

Customs & Excise Dept.
IKS Bldg.
Trou Fanfaron
PORT LOUIS
Tel:08-9702

21. Registration of Patents
According to the Patents Act every inventor of any manufacture shall be entitled under the conditions and restrictions enacted, to the sole exclusive right of this new invention (Section 2 of Act).

A petition should be lodged in the office of the Ministry of Trade and Shipping along with a specification describing and ascertaining the nature of the invention. Once the petition is approved by the Attorney-General, a certificate for interim protection shall be issued. Fees have to be paid when applying for a patent.

The Permanent Secretary
Ministry of Trade & Shipping
New Government Centre
PORT LOUIS
Tel:01-1073

22. Registration as an Employer
Any Export Enterprise Ministry of Social should register to the National Pension Scheme operated by the Ministry of Social Security.

The Ministry of Social Security should be contacted and appropriate forms filled in.

Ministry of Social Security
National Pension
Astor Court Bldg
L. Geoffroy Street
PORT LOUIS
Tel:01-1327

23. Import Permit
Before importing any goods to Mauritius, a company should ensure that a proper import permit has been granted. Import permits are granted for each and every import made by the company.

The company should contact the Import Permit Division of the Ministry of Trade and Shipping and fill in the appropriate form. Goods that are intended to be imported duty free should appear on the scheduled list approved by the Comptroller

Ministry of Trade & Shipping
Import Division
Jade House
Jummah Mosque St
PORT LOUIS
Tel:08-7961

of Customs.

- | | | |
|--|---|--|
| 24. Export Permit
Once the company is operational, it should obtain an export permit for each and every shipment. | The company should contact the Foreign Trade Division of the Ministry of Trade and shipping | Ministry of Trade & Shipping
Foreign Trade Division
4th Floor
Anglo-Mauritius House
PORT LOUIS
Tel: 01-1073 |
| 25. EUR 1 Certificate
EUR 1 Certificates are granted for the export of goods qualified as originating in Mauritius and being exported to an EEC country. | The company whose goods are qualified as originating goods should contact the Foreign Trade and Shipping for appropriate formalities. | Ministry of Trade & Shipping
Foreign Trade Division
4th Floor
Anglo-Mauritius House
PORT LOUIS
Tel:01-1073 |

Source: MEDIA

7.3 Industries and Activities closed to foreign investment

There are, officially, no areas in which foreign investment is forbidden. However, companies should accept that the conventionally forbidden areas are observed in Mauritius as elsewhere, such as military equipment manufacture.

As is so often the case in Mauritius, any decision about what may be open or closed to investors is decided by the Prime Minister's Office, on an ad hoc basis.

There are however other potential pitfalls of which investors should be aware, as they have hindered past investment applications:

- pressure and lobbying on government from existing manufacturers against a new investment: A pharmaceutical manufacturer applied to invest for both the internal market and for export. It made clear to government that it was not intending to manufacture products which would compete with the then only other pharmaceutical manufacturer in Mauritius. However, the existing pharmaceutical company took fright at the mere thought of potential competition, lobbied government and managed to have the application rejected.

- investments deemed unattractive or prohibited on strategic grounds: a French company applied to manufacture micro-lyte aircraft for the internal and export market. The application was rejected because the PM's Office felt that the aircraft could be used by drug smugglers.

A common theme that runs through both of these case studies is that both investors wanted access to the internal market and hence hit choppy waters than if they had stuck to simple manufacture for export in the EPZ. The only applications that would be turned down in the EPZ would be those obviously too politically volatile to be allowed, such as in the case of a firearms manufacturer two years ago.

7.4 Limitations on Foreign Equity

There are no limitations on the level of foreign equity an investor can take -- it can be 100% foreign owned or simply a local investment manufacturing under the license and franchise of a foreign company, such as in the case of Coca Cola.

However, foreign investors are advised unofficially to take at least some local equity. On the one hand, taking on local equity and a local partner greatly assists operating in Mauritius, thanks to the contacts the partner brings with him, the greater speed the investor will enjoy when learning how to operate in the country and a marked increase in his ability to solve operational problems. On the other hand, unofficially the government does try to persuade foreign investors to take some local equity, in an effort to boost the local industrial base. The government is happy with 30% local participation but the company will not be victimised if it takes less or no local equity.

Identifying local partners in such a small community as Mauritius is not difficult and MEDIA and the various chambers of industry* have a good track record of putting investors in touch with the right people.

7.5 Acquisition of Real Estate and the Government's Pollution Policy

Obtaining suitable commercial real estate is a pressing problem for manufacturers in Mauritius. Not only is it increasingly costly, thanks to mounting demand and even more rapidly climbing prices for building material, but it is very difficult to find in areas where labor is available. Lastly, the quality of buildings varies widely. Investors are advised to investigate this issue thoroughly before signing any agreements.

Investors should also consider building their own units. Often the financial incentives offered by the government's Industrial Buildings Incentives Act outweigh the additional costs of building new (see below).

Without doubt, the best commercial real estate in terms of price and quality belongs to MEDIA. Companies should first try this organisation, perhaps trying to tie the rental or purchase use of their buildings into the original investment agreement. Although there is no law forcing MEDIA to agree to such conditions, they are very approachable. MEDIA real estate and factories are sold or rented at or just below commercial rates. For example, one factory was let last year at MR 45 per sq. ft., MR9 below the national

average.

* Mauritius Export Processing Zone Association (MEPZA), Mauritius Chamber of Commerce and Industry (MCCI) and the Mauritius Employer's Federation (MEF)

Two further potential pitfalls in the real estate sector that companies should cater for are pollution control and the obtaining of building permits. Problems in the latter area can be solved in the same way as work permits, by lobbying government through MEDIA or directly to the relevant ministry or the PM's Office. The pollution question is more problematic, potentially involving considerable cost to the investor. The current policy requires pollutant industries to process their effluent on site at their factories: the most expensive method of waste treatment possible. While many existing producers are dragging their feet, and seemingly getting away with it, new investors in a pollutant industry can be quite sure that the new pollution controls will be imposed on their operations more rigorously. As such, the pollution issue has very substantial cost implications for factory location.

These controls are quite severe. One managing director of a new textile dyeing commented: "While the standards being adopted are based on the complex UK system, the controls are most easily explained as forcing the manufacturer to process its effluent at its own plant until it is almost drinking water quality."

The government's problem is that the industrial development of Mauritius has been very dispersed -- gravitating generally to places of labor availability -- and has not been concentrated in industrial estates where pollution control would have been far easier and far cheaper. In view of this, the existing policy is more an ad hoc reaction to a mounting problem than a sensible realistic and workable policy. This view is supported by industries' continued refusal to comply with regulations, on the grounds of excessive cost.

The government has the right -- and has exercised it in several cases -- to stop the offending plant from producing, until its effluent is properly treated and to fine the offending company MR500,000 for its breach of regulations.

There are two potential life-lines for industry: the discussion of a more cost effective pollution policy and MEDIA plans to build an industrial estate for pollutant industries.

A recent government report recommends that waste should be trucked from the factory to one or more central waste processing plants. This would be a far more cost effective method of pollution control than asking each affected producer to process its own effluent on site. This solution is unlikely to cover hotels which will continue to be required to treat their own sewage in situ. If it is taken on board, this new policy would obviously heavily penalize those companies which had set up their own treatment plants on site.

MEDIA may again come to the rescue of affected investors with its plan to develop an industrial park for water-intensive and polluting industries. This area will be equipped with a proper treatment infrastructure to ensure protection of the environment. Companies in pollutant industries should find out when it will be built and whether they can locate in it.

Investors who are affected should discuss this issue in depth with both MEDIA and the Ministry of Housing, Lands and Environment. From now on, a department within this ministry will handle all pollution issues, instead of each separate ministry handling its own niche pollution problems.

One case study amply shows the infancy and illogicality of current pollution control policy, as well as highlighting the potentially punitive effects the policy can have on new investors. One investor in the textile dyeing sector was forced to clean his own effluent on site until it was near to drinking water quality. The investor balked at simply pouring it back into the local stream where it would be quickly recontaminated. Instead he asked to reuse it in his plant. The water authority agreed but then astonished the industrialist by demanding that he pay again for the water. Now paying twice for the same water, the industrialist feels rightly that he is being penalized for having dutifully obeyed government policy.

7.6 Real Estate: the Logistics

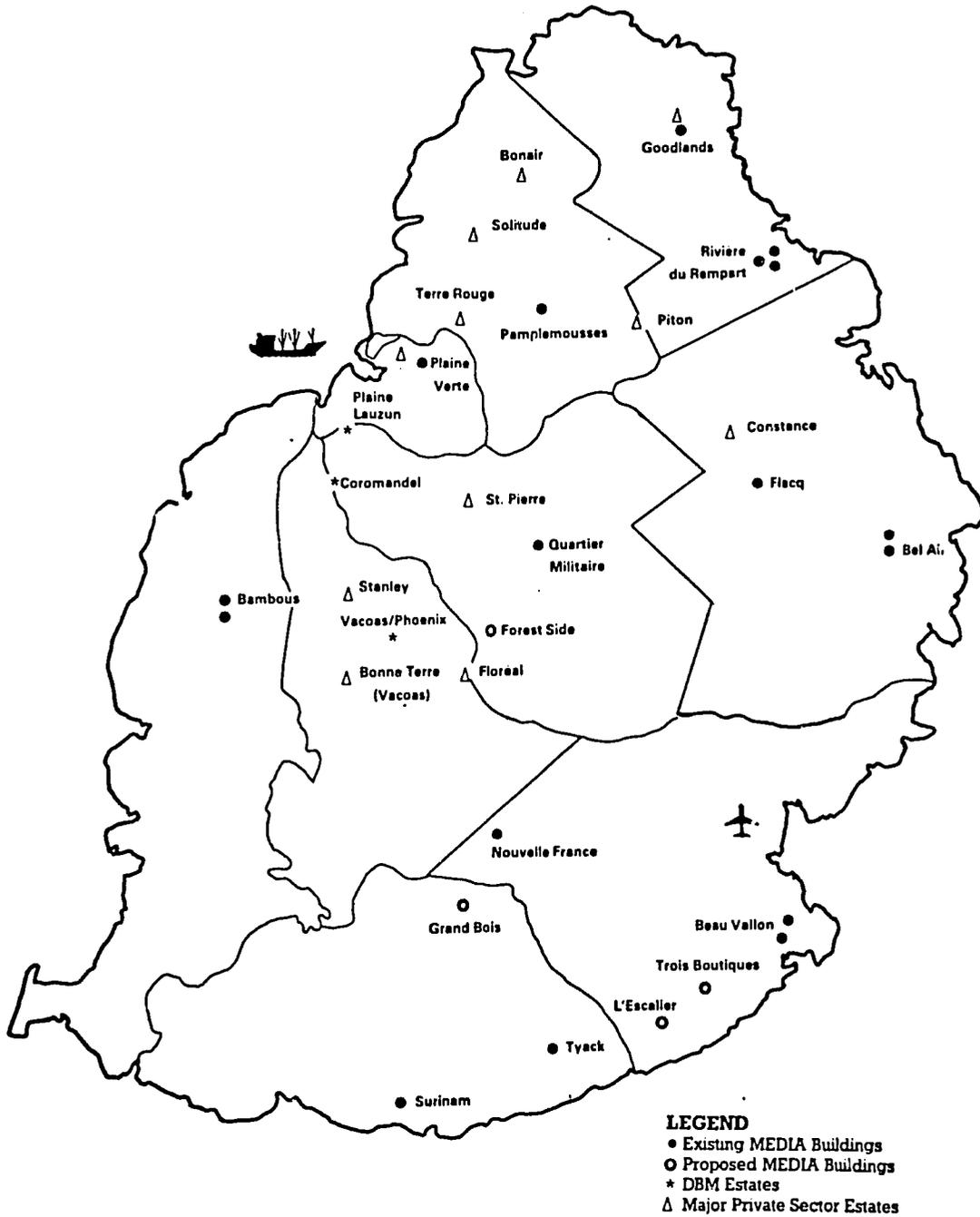
The Mauritius Export Development and Investment Authority (MEDIA) is the main organisation responsible for the construction of industrial buildings which are leased out to industrialists who set up their factories in the country.

At present MEDIA has some 80,000sq.m of factory space, located all over the island. The Development Bank of Mauritius, as well as the private sector, has also set up large industrial complexes which have been leased out to investors on the island.

The map below shows that factory buildings are erected all over the island (unlike other countries which have set up geographical free zones, the whole of Mauritius is an Export Processing Zone) as most construction programs are geared towards setting up factory buildings in areas where labor is readily available. This policy of bringing jobs to the people, instead of the other way round, is greatly facilitated by the fact that the road network on the island is good and transportation of raw materials and finished goods to and from the harbour and airport does not pose any problem.

All the MEDIA buildings (blocks of 50,000sqft) are of reinforced concrete construction and have two floors of equal area which can be divided internally into sub-units. These buildings are fully serviced with electricity, telephone, telex, fax and treated water.

Location of industrial estates



7.6.1 Incentives for the Construction of Industrial Buildings

To encourage the private sector to undertake the construction of industrial buildings, the government introduced the Industrial Building Incentives Act.

Under the Industrial Building Incentives Act, the following benefits are available:

- (a) A concessionary corporate tax of 15%;
- (b) Exemption from payment of income tax on dividends for a period of 10 years;
- (c) Industrial electrical fittings and elevators to be fixed in the buildings will be exempted from payment of customs duties;
 - (i) Payment of registration duty at 6 per cent;
 - (ii) Exemption from payment of:
 - Land Transfer tax or Capital Gains tax whichever is applicable
 - Land Development tax
 - Surcharge leviable under any enactment
 - Transcription duty leviable under the Transcription and Mortgage Act.

7.7 Local Content Requirements and Compulsory Memberships

There are no local content requirements and no mandatory memberships, though companies are advised to join the usual bodies which can prove useful to managers, notably the Mauritius Export Processing Zone Association (MEPZA), the Mauritius Employer's Federation (MEF) and the Mauritian Chamber of Commerce and Industry (MCCI).

While there are no mandatory requirements, companies investing in the internal market can win important concessions by boosting local content. Such investors have managed in recent years to access the incentives offered under the Development Certificate Incentive Scheme (see chapter 8). While now officially defunct, the scheme can be resurrected for especially worthy investors in the internal market.

7.8 Steps in Establishing a Local Company or Branch

The steps involved in establishing a local company or branch are set out in the Companies Act of 1984 which came into operation on 1st March 1985. This was the first review of

company law since the Companies Act of 1913 and, as one would expect, included very major changes.

The new investor can choose between several forms of business organisation but must set up as either a company with limited liability or as a branch of an overseas company. In the case of development companies and other enterprises benefitting from tax incentives, a local corporation should be formed.

The new Companies Act is a complex document and covers the various rules for incorporation, capital organisation, management, administration and winding up of companies. It is easiest to understand Mauritius' new company law if we look at each of its principal clauses:

- rules for the registration of companies
- rules for the formation of companies
- minimum capital requirements
- share allotment and the return of allotments
- rules for membership of holding companies
- rules differentiating exempt and non-exempt private companies
- rules covering annual return
- rules covering directors
- rules covering director's remunerations
- rules covering the register of "substantial shareholders"

REGISTRATION OF COMPANIES

The Memorandum and Articles of Association of a Company must be embodied in a notarial deed. The notary must submit to the Registrar of Companies the following:

- (i) Memorandum of Association
- (ii) Articles of Association
- (iii) Affidavit of Compliance
- (iv) Notice of First Director, Secretary, Chairman and Manager and situation of Registered Office.

FORMATION OF COMPANIES

Every company is a public company, unless it is stated otherwise in its memorandum. Any two or more persons may form a public or a private company. For a private company, the maximum number of members is 25.

MINIMUM CAPITAL

A company (except an unlimited company) may not commence business until it has a paid-up capital of at least Rs5000. A Director or Secretary is required to file a declaration to this effect.

RETURN OF ALLOTMENTS

A company must within one month of allotment of any share file a "return of allotments". If shares are issued for a consideration other than cash, the company is required to lodge an affidavit to the effect that the consideration given is not less than the amount by which the shares have been paid up otherwise than in cash. If there is a written contract relating to transfer of assets to the company, this must be filed.

MEMBERSHIP OF HOLDING COMPANIES

It is forbidden for a subsidiary company to hold shares in its holding company.

EXEMPT AND NON-EXEMPT PRIVATE COMPANIES

A private company is either an exempt or a non-exempt private company.

Exempt private companies are private companies which in respect of their least preceding financial year (and in the case of a newly incorporated private company, its first financial year) satisfy both the following criteria:

- (i) the issued share capital and reserves are less than Rs1,000,000.
- (ii) the turnover is less than Rs2,000,000.

This distinction is important for accounting and auditing purposes.

ANNUAL RETURN

All companies must file an annual return within 28 days after the date of the annual general meeting. An Annual General Meeting must be held once in every year and not more than 15 months after the last Annual General Meeting. The annual accounts required to be placed before the Annual General Meeting must be made up to a date not earlier than 8 months before the date of the meeting.

DIRECTORS

Every company must have at least two directors who are ordinarily resident in Mauritius. No person other than a natural person of full age and capacity may be appointed as director. A corporate body may no longer be appointed as a director.

DIRECTOR'S REMUNERATION

Remuneration may not be paid by way of commission on or a percentage of turnover. Only full-time directors, engaged in the management of the company, are entitled to be paid a commission on profits and, except with the approval of a special resolution of the company, his commission is not to exceed 5% of the net profits for each director and 10% in aggregate for all directors.

REGISTER OF SUBSTANTIAL SHAREHOLDERS

A substantial shareholder is defined as a person who in Mauritius or elsewhere holds by himself or his nominee a share or an interest in a share which entitles him to exercise not less than 10% of the aggregate voting power exercisable at a general meeting. Every public company or subsidiary or holding company of a public company is required to keep a register of substantial shareholders.

7.9 Rules of Competition, Mergers and Freedom to Sell

Outside of a very conventional and mild Fair Trading Act, Mauritius does not have any highly developed monopoly or competition legislation. The only piece of controversial competition law relates to sole agencies. Two years ago, a local trader sued another company, trying to prevent it from representing and selling one its own client's products in Mauritius. This raised the issue of sole agencies and distributorships in Mauritius and, not only did the sole agent lose its case, the law was amended outlawing all sole agency operations in future. There is some half-hearted complaint and lobbying against the law by the Chamber of Commerce and Industry but the law seems settled and, in the main, justified.

Most mergers are permitted, with only those deemed outside of national interest actively prohibited. This is generally decided upon at the PM Office level. For example, the PM's Office has effectively told accountancy firms that they will not be allowed to merge, in the interests of maintaining free competition.

Local Mauritians have total freedom to sell shares and equity, real estate, capital, and so on. A non-resident needs the permission of the Bank of Mauritius for most major sales of land, equity or capital, especially if he intends to export the proceeds.

7.10 The Mauritian Stock Exchange

The stock exchange is of little significance for the foreign investor, excepting for the fact that its opening demonstrates a greater degree of sophistication in the money and capital

markets. In 1989, the government launched a new stock exchange to replace the much abused and unattractive informal bourse. This represents the second major thrust for financial sector development in the 1990's, alongside the Offshore Banking Act (see Appendix Five).

French technical assistance helped set up the new bourse and write out its new rules. Brokers are now required to pass a formal qualifying examination. Brokers are also required to establish dealing companies, with a minimum of two brokers in each firm.

About 24 new brokers have been registered. Nine of the existing dealers continue to operate and were not required to take the examinations, a source of anxiety for some observers given the malpractices common under the old system.

With about 20 companies being traded, with a minimum capitalization of MR20 million, the Bourse's main problem is its size. There is simply not enough scrip in circulation to create market momentum and its own self-sustaining dynamic. The other key problem is that Mauritians do not think of the stock exchange when they think of savings and investments, thanks largely to the abusive trading practices of the previous bourse. To change this attitude of mind will take a long time, requiring a major learning process which will ensure only a slow development for the bourse over the next ten years.

There is considerable desire -- especially given the price of local money -- for companies in the internal market to quote on the market. The generous incentives they are being offered has also proven a powerful persuading force, since the abolition of the Development Certificate Scheme and its favourable tariff and fiscal incentives.

However, debating the prospects for the stock market's development is largely academic for foreign investors as they are currently excluded from being listed. Unless this restriction is removed and a future's exchange allowed to develop, it is difficult to see how the stock market will have any great effect on foreign investors' operations.

Companies which are listed are required to place at least 15% of their shares on the market, with this proportion expected to rise to 25% after five years. The incentive packages offered to the investor who buys shares and to the company that floats part of its equity are very attractive. For individuals, tax exemptions on the first US\$1000 of income from interest and dividends and 35% of dividends received from quoted companies by an individual are tax free. For companies, listed companies pay 25% income tax, instead of the usual 35%, and stamp duties and registration dues have been abolished.

Government policy: Mr V. Lutchmeenaraidoo, Minister of Finance

Has the Stock Exchange any relevance to a new investor, given the fact that incentives offered a listed company cannot match or add significantly to those already offered to companies in the EPZ?

Companies listed on the Stock Exchange are those which have existed for a long time with a track record of stability, profitability and growth and where future prospects are bright. The Stock Exchange was not meant for EPZ firms although their listing at a later stage is not excluded.

The fact that more and more companies are asking to be listed is proof that the incentives offered are attractive. With opening soon of the second market where listing conditions will be less rigorous more companies will show interest in the Stock Exchange.

Chapter 8

Investment Incentive Schemes

Investors have five basic incentive schemes that they can plug utilize, depending upon their sector (ie. manufacturing, services for export or hotels) and their market (ie. for export or home consumption). The schemes are designed primarily to encourage both overseas and local investors to set up manufacturing enterprises or service activities or to develop the tourist sector.

- (a) Export Processing Zones Act No. 51 of 1970
- (b) Development Incentives Act No. 50 of 1974
- (c) Export Service Zones Act No. 8 of 1981
- (d) Hotel Management (Incentives) Act No. 20 of 1982
- (e) Industrial Buildings Incentives Act No. of 1986

8.1 Incentive schemes

8.1a The Export Processing Zone Scheme

This scheme is without doubt the most commonly used by foreign investors, as it allows for effective duty free manufacture for export, and as such, investors should study it carefully. The highlights of the scheme are outlined below, and are undoubtedly very attractive. If the investor writes down and depreciates his investment within 10 years, he will not pay any income tax or import duties and tariffs at all. The full scheme is laid out in an annex at the back of the report for more detailed study, should the reader require it. This scheme will be the one used by manufacturers looking to re-export back to the US, or to export into Africa or the EC.

Under this scheme, the following advantages are available:

- (i) Complete exemption from payment of import duty on machinery, equipment and spare parts; buses of not less than 25-seat capacity, for the transport of workers will be subject to an import duty of 15%, or 10% if they fall under Preferential Tariff. Chassis only will be duty free;
- (ii) Complete exemption from payment of import and excise duties on raw materials and components except spirits, motor cars, petroleum products and other non-productive items;

- (iii) Payment of a nominal rate of 15% corporate tax during the whole life of the company;
- (iv) Exemption from payment of income tax on dividends for the first 10 years;
- (v) Free repatriation of capital (excluding capital appreciation), profits and dividends;
- (vi) Electric power at preferential rates;
- (vii) Loans, investment and export finance at preferential rates from the Development Bank of Mauritius;
- (viii) Eligibility under the Export Credit and Export Insurance Guarantee Schemes operated by the Development Bank of Mauritius;
- (ix) Allowances in respect of new investments in manufacturing companies, in buildings, machinery and equipment;
- (x) Availability of factory buildings on lease/rent within serviced industrial estates;
- (xi) Exemption from payment of half the normal registration fee on land and buildings by new industrial enterprises;
- (xii) The issue of residence permits to promoters and shareholders as warranted by the size of their investment and degree of technological input in the country.
- (xiii) Favourable labor legislation to assist enterprises to meet their objectives;
- (xiv) Guarantee against nationalization.
- (xv) Equitable settlement of disputes assured by the government's adherence to the convention on the Settlement of Investment Disputes administered under the auspices of the World Bank's International Bank for Reconstruction and Development.

8.1b The Development Certificate Scheme

The Development Certificate Scheme (DCS) was designed to encourage the establishment of import-substitution industries in the domestic economy. The DCS is now officially defunct but we have included it here because it can be resurrected in certain deserving cases, notably for investors whose projects in the internal market of Mauritius are deemed

especially worthy and of national interest.

The DCS was -- before the recent incentive package offered to companies in the internal market floating on the stock exchange -- the only way that companies could access tariff and fiscal incentives on a par with EPZ manufacturers.

The initial capital expenditure has to be above Rs 100,000 to qualify for a Development Certificate. The advantages under the Development Certificate Scheme are:

- (i) a nominal corporate tax rate of 15% during the lifetime of the company;
- (ii) exemption from payment of income tax on dividends paid out income derived by a development company from its development enterprise for a period of 10 years starting from its operating or production day;
- (iii) free repatriation of capital (excluding capital appreciation) and remittable abroad of profits and dividends with the approval of the Bank of Mauritius;
- (iv) loans, investment and export finance at preferential rates are available from the Development Bank of Mauritius, the State Investment Corporation Ltd and commercial banks;
- (v) availability of factory buildings on lease/rent within serviced industrial estates;
- (vi) allowances on new investments effected in manufacturing company, buildings, machinery and equipment;
- (vii) exemption from 2/3 of municipal rates during the tax holiday period;
- (viii) guarantee against nationalisation.

8.1c Export Service Zone Scheme

The Export Service Zones Act (No.8 of 1981) was passed with the objective of encouraging the establishment of export-oriented service activities. The facilities available under this scheme are:

- (i) A nominal rate of corporate tax of 15% during the lifetime of the company;
- (ii) Exemption from the payment of income tax on dividends for the first 10-year period;

- (iii) Free repatriation of capital (excluding capital appreciation) and remittance abroad of profits and dividends with the approval of the Bank of Mauritius;
- (iv) Complete exemption from payment of duty on machinery, equipment, spare parts and goods for re-exports.

Scope of services under the scheme

Accountancy	Law
Banking	Management consultancy
Civil Engineering	Medicine
Computer services	Quality control, testing and pre-shipment services
Electronic Programming	Re-exportation and transshipment
Engineering drawings	Re-insurance
International market	Translation
Labelling and packaging	

8.1d The Hotel Management Incentives Schemes

The Hotel Management (Incentives) Act (No.20 of 1982) became effective on the 24th September 1982, with a view to attracting managerial and marketing expertise into the hotel industry.

A Hotel Management Service Certificate is issued under this Act to any company which proposes to provide specialised managerial services in either a new hotel or in an existing hotel complex to which new rooms are added.

Facilities available are:

- (i) a nominal rate of corporate tax of 15% during the life time of the company;
- (ii) exemption from the payment of income tax on dividends for the first ten years;
- (iii) free repatriation of capital (excluding capital appreciation) and remittance abroad of profits and dividends with the approval of the Bank of Mauritius;
- (iv) one-time exemption from the payment of customs duty on the importation of equipment subject to the approved list published by the Government;
- (v) loans and overdraft facilities at preferential rates are available from the Development Bank of Mauritius as well as Commercial banks;

- (vi) exemption from payment of half the nominal registration fees payable by the company.

This scheme has proved as successful as the EPZ scheme, with the result now that Mauritius is near capacity in the hotel sector, with many hotels gearing up to a fierce price battle to keep their hotels full.

8.2 Corporate tax incentives

The basic tax rate for companies in Mauritius is 35%, with capital transfer tax and stamp duty rates of 20-40%. However, companies registered under one of the incentive schemes receive reductions in both areas of corporate tax, usually down to 15% for the lifetime of the investment, and exemption of the payment of corporate tax on dividends for the first ten years of the investment. The specific tax concessions under each of the schemes are elaborated upon fully in 3.1.

8.3 Personal tax incentives

There are no personal tax incentives for investors per se, although they are eligible for any increased personal tax allowances announced by the government.

8.4 Incentives for R+D

There are no incentives for R+D currently on the statute books. However, some form of incentive scheme will develop, as Mauritius gets involved in higher technology manufacturing and processing where technology transfer and development is more important.

8.5 Future Investment Opportunities

The Mauritian government has pinpointed several sectors it would like to promote with foreign investors, sectors which it perceives as being particularly appropriate growth areas for the future, such as electronics, plastics and jewellery.

At the same time, a recent World Bank report points out that would-be investors should not forget, the still substantial opportunities that exist in the traditional manufacturing and agricultural investment area. The Bank also questions the comparative advantage that Mauritius would enjoy in these new target industries (see appendix one on World Bank report).

Whatever the case, the Mauritian government's Second Phase of Industrialisation will again be geared to export-oriented manufacture - the main objective being the diversification of the industrial base of the country.

The Mauritian government has financed three feasibility studies -- in the informatics, agro-industries and electronic fields. The findings of the study on electronics are quietly optimistic. Those on agro-industries, overtly bullish. But those on informatics are quite negative. All the studies state that the government of Mauritius must undertake a number of reforms before any of these industries can expand any further.

Government has identified the following areas as being of especial interest to investors.

(i) TEXTILES

In the textile field, efforts will be mainly directed towards attracting enterprises which are producing up-market and high fashion items where the local value-added component will be substantially higher compared to classical garments. The manufacture of products ancillary to the textile sector (e.g. buttons, zip fasteners, collar supports, trimmings, elastic braids, computerised embroidery etc.) will also be actively promoted.

(ii) LEATHER GOODS

Leather goods are another target area and, with a substantial existing skill base in the industry, is sure to enjoy considerable expansion. The industry also enjoys larger margins which can more easily soak up the island's mounting labor costs. Possible products include: leather garments, footwear, travel goods (such as hand bags, brief-cases and suitcases) and gift items like wallets, belts and watch straps.

Mauritius already has a good base in the leather sector and what is now needed is a consolidation of this base in order to establish Mauritius as a reliable supplier of top-quality leather products.

(iii) JEWELLERY

The jewellery sector is another promising area in the Mauritius Export Processing Zone. Mauritian companies are already cutting and polishing diamonds as well as other stones for export to London, Paris and Amsterdam. Some 1,000 workers were employed in this sector in 1989. Vertical integration seems to offer the greatest opportunity in this field, with the next step involving production of more complex gold and silver jewellery, as well as costume jewellery.

(iv) ELECTRONICS

The development of the electronics sector is more problematic. However, government points out that the labor force in the country is well educated and can adapt itself quickly to modern technology. Existing assembly industries in this sector, notably of TVs and stereos, prove the island's capabilities. Other electronic items manufactured comprise printed circuit boards, electronic alarms, assembly of testers, hygrometers and measuring devices. However, government will have its work cut out to convince the large

multinational companies it has targeted that the country has the infrastructure and comparative advantage to support the profitable manufacture of electronic components and entire electronic products, especially as there have been as many failed as successful investments in this field.

(v) TOYS

The manufacture of toys, especially sophisticated types including electronic toys, will be encouraged. Mauritius is already producing top quality soft toys for the markets of Europe and the production of other types of toys seems assured of success.

(vi) PLASTICS

Mauritius is already manufacturing a number of plastic products for the local market including plastic toys of the "lego" type. Attention will now be focused on the production of more sophisticated plastic components normally utilised in the computer industry and the electronics sector. Again, this goal hinges on the ability of Mauritius to attract the large multinational corporations.

(vii) AGRO-INDUSTRIES

Much of Mauritius' industry has been based on agro-processing and this will continue in the future. For example, the by-products of the sugar industry are used to produce a number of items like furfural, citric acid, pharmaceutical items, baker's yeast, industrial alcohol etc. Similarly caffeine can be manufactured out of tea waste. Other developments in the agro-industrial sector can include production of canned mushrooms, fruit juices, canned asparagus, aquaculture produce and even power generation from waste sugar cane product.

(viii) OTHERS

The scope for other manufacturing development is massive. The ground work in many developed manufacturing sectors has already been laid and companies will now be building on an existing track record. This is an important point as new investors can learn from past mistakes and draw on existing, if relatively limited, marketing and labor skills. The manufacture of watch components (parts for Swiss watches are already being manufactured on the island) and assembly of watches, optical goods (top quality sunglasses are already being made for export). Light engineering goods for export to countries in the PTA, communications equipment, assembly of telephones,

lighters are just some of the sectors with a proven track record of existing successful investment. But investment need not and will not be restricted to these or the government's own chosen sectors. Any suitable export-oriented project will be encouraged, provided it satisfies criteria related to employment creation, foreign exchange benefits and the technology and know-how introduced.

Chapter 9

Capital Sources

9.1 Financial institutions and money supply policy

Mauritius has quite a developed banking system. At its centre is the Bank of Mauritius which is responsible for implementing the government's financial and monetary policies, and for handling foreign exchange transactions.

Then comes the network of 12 commercial banks, 4 of which are locally owned. The Mauritius Commercial Bank dominates this sector, accounting for as much as 80% of transactions. Many companies complain about the hegemony exercised by this institution over the market, often finding smaller commercial banks, such as Barclays, more effective and responsive to their needs.

The commercial banks operate more than 110 branches throughout the country and offer the usual range of traditional commercial services.

The other main financial institutions are the Development Bank of Mauritius, the Mauritius Commercial Bank Finance Corporation, the State Investment Corporation and the Mauritius Leasing Company. All, with the exception of the overextended Mauritius Leasing Company, are potential sources of capital for would-be investors. A rescue package has been put in place for the Mauritius Leasing Company which could boost its effectiveness.

Insurance services are provided by many companies, often subsidiaries or branches of international insurance firms. Most are grouped under the Insurance Advisory Council of Mauritius.

Mauritius is launching an off-shore banking initiative. It is still in its early stages and many crinkles have yet to be ironed out. For the moment, it has little relevance to the new investor. But, in the long term, a market may well develop, based on demand in Africa, especially in South Africa.

9.2 Money supply policy

Strict demand management policy turned around the money supply (M1) position from growth of 21.0 per cent in 1980 to a decline of 10.5 per cent in 1981. Between 1980 and 1982 M1 grew by only 2.2 per cent, followed by a 3.7 per cent growth in 1983. As the economy moved out of recession from 1984 the rate of growth of money supply accelerated sharply reaching 21.1 per cent in 1987. In the twelve months to September

1988 the rate slowed to 16.5 per cent. While interest rates have declined marginally, savings and time deposits (quasi-money) have picked up rapidly during the past few years. Although total domestic credit almost doubled between 1981 and 1986, the annual growth declined to a low of 0.7 per cent in 1986 as the net position of government reversed the trend of earlier years. However, an 18.9 per cent growth was realised in 1987, stemming entirely from the private sector. An annual growth of public sector credit of 21.8 per cent in 1982 became a decline of 12.5 per cent in 1987. As a result the share of the private sector in total domestic credit increased from 36 per cent to 58 per cent over 1982-87. By September 1988 the proportion had risen to 63 per cent.

Table 9.1
MONETARY SURVEY

(MRs mn)	1983	1985	1986	1987	1988 ^a
M1, seasonally adjusted	1,601	2,093	2,347	2,842	3,184
% change	3.7	15.1	12.1	21.1	16.5
Quasi-money	3,622	5,029	6,496	10,069	12,680
Discount rate	11.0	11.0	11.0	10.0	10.0
Public sector credit (net)	5,254	6,155	5,720	5,005	5,010
Private sector credit	2,797	3,900	4,403	7,033	8,515
Total domestic credit	8,051	10,055	10,123	12,038	13,525
% change	16.7	8.5	0.7	18.9	10.7 ^b

a September. b Twelve months to September.

Source: IMF, International Financial Statistics.

9.3 Types of credit available

Short term finance: most short term capital working capital is lent to industry by commercial banks on an overdraft basis. EPZ investors are currently borrowing at rates varying between 11% and 16%. Companies complain that the current interest rate instability, where government is hiking rates to control inflation, is a very real commercial concern.

1989 interest rates were as follows:

Bank of Mauritius Bank rate : 11%
 Commercial Banks: Export Finance Rate: 15%
 Commercial Rate: 19%
 Other lending rates: 17.5-18%

EPZ manufacturers are charged interest rates of 15.5% per annum on their term borrowings, 12.25-13% on overdrafts and 12-12.75% on the discounting of export bills.

EPZ manufacturers will be able to obtain short term credits from the offshore banks.

Medium and long term credit: Some commercial banks will also provide medium and long term credit. But the main source of such finance is the Development Bank of Mauritius and, to a lesser degree, the State Investment Corporation, Mauritius Commercial Finance Corporation and State Commercial Bank.

The Development Bank of Mauritius (DBM) offers industry a number of different financing tools: limited equity purchases, long term loans and the issue of guarantees and insurance covers. Typical conditions are 8-10 year loans with interest between 10% and 15%. The Export Credit Guarantee Scheme is another important facility offered to Mauritian industry by the DBM. These pre and post shipment guarantee credits cover overdrafts, packing credits and pre and post shipment finance against the discounting of export bills. The DBM will also issue cover against commercial and political risk.

Government policy: Mr V. Lutchmeenaraidoo, Minister of Finance

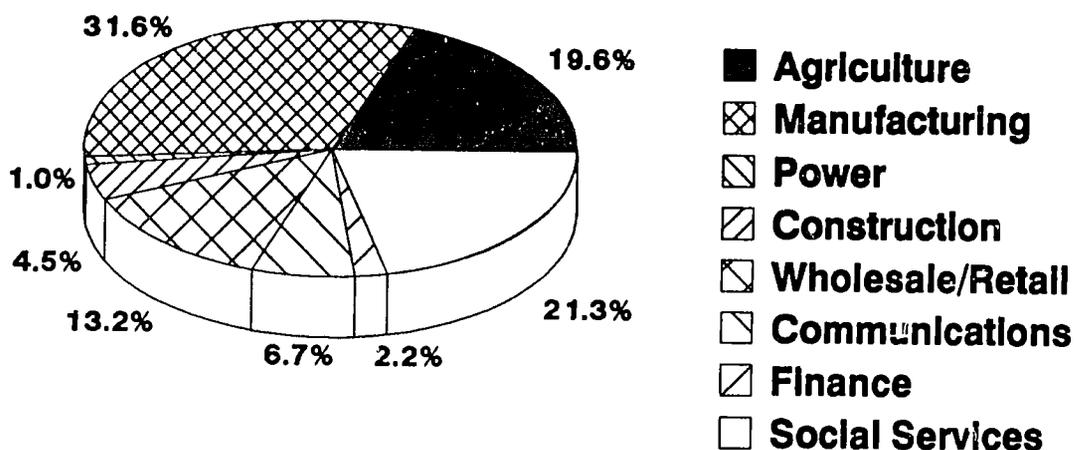
When will credit ceilings be finally removed?

It is not possible to set a particular date. However, the Government has made clear its intention to do away with such control.

The removal of all controls will depend on how financial institutions react to the new framework that is being worked out to replace the quantitative control system. The faster institutions adapt to the new environment, the quicker controls will be removed.

Total Employment by Major Industrial Sector

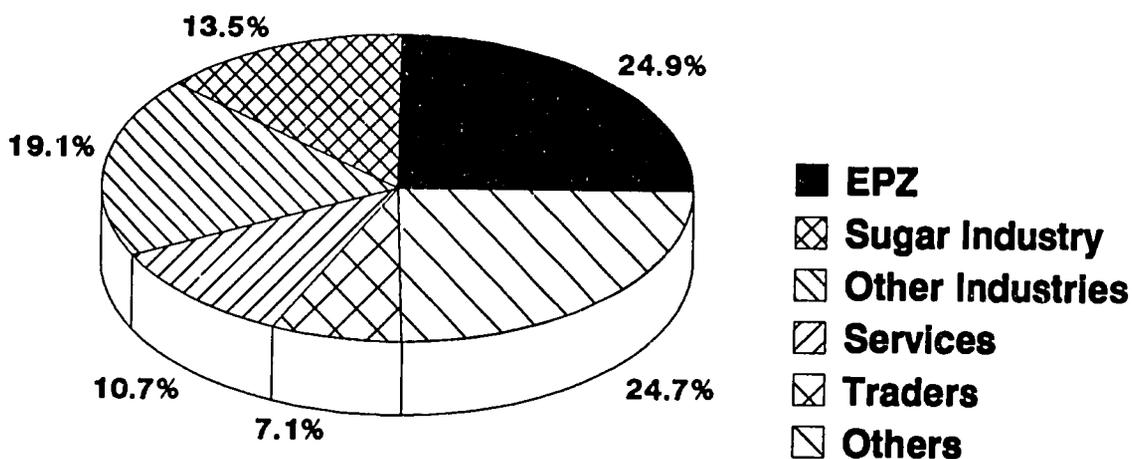
1988 (estimate)



**Total number of
employees: 424,000**

Source: MEPD & CSO

Commercial Banks' Credit: Main Beneficiaries



Source: De Chazal du Mee

9.4 Offshore Banking

Mauritius has two major development objectives to be achieved over the next decade: the development of a stock exchange and of an offshore banking sector.

Under the Offshore Banking Act of 1988, banks are allowed to come into Mauritius and set up foreign exchange dealings with offshore companies, including the import business of EPZ companies. An analysis of the Act and the procedures of setting up an Offshore Bank are laid out in Appendix 5.

Banks take a generally pessimistic view of the likelihood for an early take off of offshore banking in Mauritius. Not only do they feel that the legislation is insufficiently attractive, they also feel that such a centre must be based on a track record of stability and conservative financing results, by definition only possible in the long term. The government recognizes that the current legislation is only a first attempt to get the equation right and has already entered negotiations-- in early February 1990-- with bankers and industrialists to work out the necessary improvements.

The Offshore Banking initiative has undoubtedly been the victim of media overkill. The Finance Minister was at pains to point out at its launch that this is a long term goal and will not materialize overnight. So any judgements now would be premature. We can however make a few observations that will help the prospective investor to understand the offshore initiative and to give him a perspective on how useful it will be to them:

- the development of a truly dynamic offshore banking community will be stymied while offshore banks are forbidden from involvement in the local market place. There are a number of other similar developments which have to be undertaken and which will require substantial changes to the law.
- the development of an offshore banking community has never happened in isolation; it cannot truly take off until it has an offshore company community to service. Cyprus has 5000 offshore companies which underpin all the country's offshore banking activities. Attracting offshore companies on this scale has as much to do with a constant track record of political and commercial stability as with any specific law. So the development of a thriving offshore sector in Mauritius will take a considerable time, however liberal the law.
- the offshore banking sector will have very little relevance for new investors over the next five years, outside of some expanded role in trade financing, if the offshore banks are allowed to get involved in export financing and allowed to tap now inaccessible sources of funds. Even under current legislation, EPZ companies are able to borrow short term credits from the offshore banks but the rates will be quite high, think most industrialists, and certainly not as low as the 8% figures bandied about recently. However, this development will be of interest to multi-nationals who like to deal with their own banks;

offshore banking provides them with a broader choice than those operating in the internal banking market.

Much is made of South African money and the offshore initiative. South Africa is sure to produce considerable flight capital over the coming few years, as the edging towards a political solution induces further commercial instability. But most South African companies see themselves sticking it out in South Africa and few if any nominate Mauritius as the place they would turn to, were circumstances to force them abroad. The offshore bankers already set up in Mauritius do admit that the prospect of South African flight capital did play its part in their decision to set up in Mauritius -- one banker called it "the pearl on the horizon" -- but none have banked on it.

Government policy: Mr V. Lutchmeenaraidoo, Minister of Finance

What interest rate structure will be offered under the Offshore Banking System, both for borrowing and deposits?

Since offshore banks will deal with non-residents, the interest rates will be determined through demand and supply of financial assets in the international financial markets. The Government of Mauritius cannot nor does it intend to control interest rates in the offshore centres.

If Mauritius manages to develop an offshore banking and offshore company community, it will be very well placed to bridge the gap between Africa and Asia, especially to India, Japan and South East Asia. It will also be very interesting for companies accessing the EC, although it is impossible at present to see the precise commercial permutation that would attract companies in this regard.

Chapter 10

Foreign Exchange Control

Mauritius already has a very liberal foreign exchange control system. There is practically no control on the transfer of funds for current transactions, outside of requiring the approval of the Bank of Mauritius. And the heavy 45% stamp duty on capital transfers has been tempered a little in the last budget (see below). In 1988, the exchange controls for imports were greatly liberalized: allowing commercial "authorized" dealers to settle payments without limit and no prior approval of the Central Bank is required.

And there are plans to liberalize the system still further. The ultimate goal of liberalization is to effectively free the flow of Mauritian money into and out of the country, allowing a free flow of foreign exchange.

No deadline has been set on these final liberalizations but companies can expect at least some of them within the year. The following liberalizations were announced in the 1989/90 Budget Speech by Finance Minister Lutchmeenaraidoo:

- exemption from capital transfer tax for capital transfers for the purpose of investment in other countries in Mauritius' region.
- the practical removal of all foreign exchange controls on current transactions.
- increased basic travel allowance for Mauritians from £1,200 to £2,000 every two years, as well as permission to use international credit cards in excess of the £2000 travel allowance against payment of a reduced capital transfer tax of 15%. The basic business travel allowance is increased from £120 per day to £200 per day.
- reduced taxing of capital transfer. As the Minister explained: "capital transfer is subject to a punitive stamp duty of 45%. Now, residents and non-residents may effect capital transfers abroad against the payment of a reduced capital transfer tax of 15%." However, all capital transfers, including transfer of blocked funds, will need prior approval by the Bank of Mauritius.

All transactions involving foreign exchange have to be carried out through an authorized dealer, usually a commercial bank.

10.1 Administrative Practices

Foreign investors will find themselves coming into contact with foreign exchange controls in three main areas of their operations:

- remittances resulting from an investment (eg. royalties, dividends, and so on),
- importing
- exporting

The following three sections deals with these three areas in turn. Section N.2 looks at the actual physical stages of exporting and importing a product. This section deals more with the foreign exchange remittance side of international trading. However, the two areas cannot be easily divorced and should be read together, if the reader is to obtain a full understanding of the trading process.

10.2 Foreign exchange control: remittances from investments and capital transfer

There are seven foreign exchange regulations which have a critical bearing on foreign investments:

- a. the granting and rewards of "approved status"
- b. the transfer of dividends overseas
- c. the use of foreign currency accounts by EPZ companies
- d. the use of the forward exchange rate risk cover facilities of the Bank of Mauritius
- e. the transfer of royalties and technical fees
- f. the rules governing commissions
- g. the exclusion of EPZ companies from local credit facilities

Before looking at the specific procedures associated with the transfer of foreign exchange, we should look at some company experience:

- capital transfer for "approved status" companies is a guarantee that an investor can get his money out of the country. But the Bank of Mauritius may well still block those funds which are in excess of an investor's original rupee investment. Increased dividends before liquidation can be a partial solution to this dilemma.
- companies experience no problems whatsoever with dividend remittances, unless they have made some mistake in their applications.
- foreign currency accounts are of obvious benefit to foreign investors, but companies should note that any transaction is first transferred back into Mauritian rupees and then recalculated into the currency it is destined for, thereby suffering its own source of foreign exchange rate loss and risk.
- forward cover is all well and good but companies, especially internal ones who can

hedge on local currency, would prefer to risk in rupees rather than pay the very expensive 3% margin on a foreign exchange loan.

■ technical fees flow freely so long as the basis for working them out was clearly stated in the original investment agreement. Any movement away from that original agreement generally leads to delays and queries from the Bank of Mauritius, and immersion into lengthy referrals to the Ministry of Finance.

10.2.1 Capital transfer, capital remittances and "Approved Status"

Companies which are granted "approved status" are allowed to transfer, at a future date, out of the country funds representing the proceeds of sale of their investments or the balance of capital accruing to them after liquidation. However, they can only remit an amount equivalent to their original rupee investments.

Any capital appreciation on the sale or realisation of the shares is eligible for credit to a Blocked Account. The blocked funds, however, may be released, with the prior permission of the Bank of Mauritius, either for transfer abroad against payment of Stamp Duty at the rate ruling on the date of the transfer, or for investment in Mauritius free of payment of Stamp Duty. Investments from blocked funds do not, however, qualify for "Approved Status".

"Approved Status" is normally granted to investments made by non-residents in Mauritius and which have been paid in foreign currency transferred from abroad or in Mauritius currency from an External Account.

10.2.2 Dividends

Dividends may be declared and paid to non-residents by companies controlled by residents of Mauritius without the prior permission of the Bank of Mauritius. But companies controlled by non-residents -- ie. US investors -- must obtain permission for the transfer to non-residents of dividends after tax to the Bank of Mauritius. While they must seek permission, there has been no recorded case of a legitimate dividend remittance being held up.

The application for dividend transfer should be submitted to the Bank of Mauritius through an Authorized Dealer for consideration and approval. It should obviously be accompanied by the relevant audited accounts of the company concerned.

Government policy: Mr V. Lutchmeenaraidoo

Companies find the Bank of Mauritius tends to haggle over remittance of management fees, technical fees and royalties. Do you accept there is a problem to address and what measures could you take?

Is there a problem over royalties, management and technical fees. And the area of manufacturing under licence, specially delays in remittance, inadequate legislation on licensing and so on?

The Bank of Mauritius has indicated that there should be no delay or problem if the relevant documents are submitted in time. Authority for remittance of fees (presently in respect of the hotel industry only) covers a period of 3-5 years. The same thing applies to royalties. However, the Bank is prepared to take remedial action in order to expedite matters where delays exist. These should be brought to its attention.

The Licensing Act is presently under review.

10.2.3 Foreign currency accounts

In order to minimize the loss on foreign exchange transactions on account of exchange rate margins, companies holding an Export Enterprise Certificate can hold foreign currency accounts. But this does not protect the investor totally from exchange rate loss and risk (see introduction above).

With the permission of the Bank of Mauritius, these can be opened with commercial banks in Mauritius and can be denominated in any foreign currency of their choice.

The accounts are then credited with export proceeds and debited with payments for imports of the companies concerned.

Funds in these accounts which are surplus to the known requirements of the companies should be offered for sale to commercial banks.

Companies wishing to open a foreign exchange account apply to the Bank of Mauritius through an Authorised Dealer.

10.2.4 Forward cover

Forward exchange facilities in Pound Sterling, US Dollars and French Francs are made available by the Bank of Mauritius to companies holding an Export Enterprise Certificate through commercial banks on a whole turnover basis. The maximum period for forward cover is six months and the forward rates applicable are based on a uniform margin of 3 per cent per annum. Companies chief complaint here is that the margin is too high but banks respond that it is difficult to see how the margin can be cut.

The application for forward exchange facilities should be submitted to the Bank of Mauritius through an Authorised Dealer.

Companies holding an Export Enterprise Certificate may also enter into forward cover transactions in foreign exchange markets through their bankers in Mauritius.

10.2.5 Royalties and technical fees

Permission from the Bank of Mauritius is normally given for import-substitution or export-oriented industries to pay royalties and technical fees to overseas companies and individuals, provided the rate of royalty and the scale of technical fees are fair and reasonable. Unfortunately, companies complain that the Bank's definition of fair and reasonable often differs from their own, especially if the company wants to increase the levels remitted beyond the level stated in the original investment agreement.

The application for remittance should be submitted for consideration and approval to the Bank of Mauritius through an Authorised Dealer and should be accompanied by the relevant supporting documents including the draft investment agreement.

10.2.6 Commission

While more of a sticky issue, permission is normally given by the Bank of Mauritius for residents of Mauritius to pay commission to non-residents on exports from Mauritius, provided that the orders for exports have been introduced by them and the rate of commission payable is fair and reasonable. The application should be submitted for approval to the Bank of Mauritius through a commercial bank on Transfer Form (Not for Imports) and should be accompanied by the relevant supporting documents, including bank certificates in respect of the receipt of export proceeds.

10.2.7 Loans and overall credit facilities

Commercial banks require the prior permission of the Bank of Mauritius to grant loans and overall credit facilities to any company which is controlled directly or indirectly by non-residents (eg. US investors).

Permission for commercial banks to make loans available to finance the fixed assets of the companies concerned and to extend overall credit facilities for use as working capital is frequently granted.

Commercial banks are authorised to make available to companies holding an Export Enterprise Certificate -- and controlled by non-residents -- overall credit facilities for use as working capital up to an amount not exceeding the paid-up share capital of the company concerned (i.e. in the ratio of 1:1). Applications to grant loans and overall credit facilities in excess of the ratio of 1:1 mentioned above should be submitted to the Bank of Mauritius.

The problem of accessing local funds by non-resident controlled EPZ companies remains one of the key restraints on commercial expansion in Mauritius.

10.3 Foreign exchange control: exports

Companies need not seek permission from the Bank of Mauritius to export so long as the Comptroller of Customs is satisfied that payment for the goods has been received in an "approved" manner by a person resident in Mauritius, or will be received within six months from the date of export.

The main benefit to a company of this method of payment is that, if its commercial bank approves the paperwork, the payment can be effected immediately, and the Bank of Mauritius only told afterwards.

The Comptroller of Customs usually takes declarations from the companies involved to ensure that the above condition has been met. The Forms adopted for the purpose are Form CD3, which should be used for all exports exceeding Rs500 in value, and Form CD3X, which should be used for exports valued at Rs500 or under (but over Rs100).

Exemption from the completion of Form CD3/Form CD3X under this paragraph does not, however, affect the exporter's obligation to comply with the requirements of the Exchange Control Act, and with the regulations governing exports from Mauritius.

The completed Forms CD3 shall be produced to the Customs with the Export Bill of Entry and any necessary Export Permit. Pages 1 and 2 of the Form will be retained by the Customs and pages 3 and 4 will be returned to the exporter or his agent. Immediately upon receiving payment for the goods, the exporter or his agent should submit pages 3 and 4 of the Form to his bankers who, in all normal cases, will finalise the matter by completing the certificate at the bottom of page 3 of the Form, to show that the payment for exports has been received by one of the methods prescribed in paragraph 2.9 of Exchange Control Circular No.2 and by forwarding the Form (pages 3 and 4) to the Bank of Mauritius.

An exporter who wishes to give credit, beyond six months from the date of export, should submit an application to the Bank of Mauritius, through his bankers, stating the extensions and the reasons for it. Permission of the Bank of Mauritius should be obtained before any contract providing for such an extension of credit is signed. Any extension authorised by the Bank of Mauritius must be entered on the Form CD3 before it is lodged with the Customs at the time of shipment of the goods.

Specific approval of the Bank of Mauritius is required for:

- (i) the export of goods in respect of which no payment is to be received;
- (ii) the export of goods from ex-bond;
- (iii) the supply of goods, including petroleum products, to foreign-owned vessels;
- (iv) the export of goods manufactured in Mauritius on a C M T (Cut, Make, Trim) basis.

The applications should be submitted to the Bank of Mauritius on Form CD3/Form CDX, duly accompanied by the relative invoices and bank certificates (if payment for the exports has already been received) and other relevant documents.

Payment for exports from Mauritius should be received in foreign currency or in Mauritius currency from an External Account.

10.3.1 Credits

Commercial banks give credits for exports from Mauritius on the following terms, provided that payment for the goods will be received in an approved manner as set out in Exchange Control Circular No.2:

- (i) payment against documents, or
- (ii) sight drafts accompanied by documents, or
- (iii) drafts, accompanied by documents, drawn for usances not exceeding 180 days, after sight or date or drawing, or
- (iv) payment, in part or whole, at sight other than against documents evidencing movement of goods.

10.4 Foreign exchange control: imports

Commercial banks approve and transfer payments for imports -- using the Transfer Form (For Imports) -- into Mauritius, without the prior permission of the Bank of Mauritius, in the following way:

(a) for goods already cleared from Customs, the Transfer Form should be accompanied by the Invoice, Exchange Control copy of the Customs Import Bill of Entry, Bill of Lading or Airway bill and the original Import Permit. The original and duplicate copies of the executed Transfer Form duly accompanied by the relative supporting documents are then lodged with the Bank of Mauritius in the following week.

The most common complaint from business over importing is that the import permits are required too frequently. Also, that if the goods imported are questioned, all correspondence has to be conducted by second class post, lengthening any delays considerably.

(b) for goods not yet cleared from Customs, the Transfer Form should be accompanied by the Invoice, Bill of Lading or Airway bill and the original Import Permit. Authorised Dealers should lodge with the Bank of Mauritius the original copy of the executed Transfer Form duly accompanied by the relative supporting documents in the following week.

The duplicate copy of the Transfer Form is then given to the Bank of Mauritius, together with the Exchange Control copy of the Customs Import Bill of Entry, as soon as the goods are cleared from Customs.

The main benefit to companies of both method of payment is that, if the commercial bank approves the paperwork, the payment can be effected immediately, and the Bank of Mauritius only told afterwards.

Government policy: Mr V. Lutchmeenaraidoo, Minister of Finance

How exactly will the CoM control imports if it does away with all foreign exchange controls? Without import licensing. What is to stop Mauritian foreign exchange being squandered on luxury and other low priority imports?

Since 1983 a policy of liberalization throughout various sectors of the economy has been followed. There is no turning back on this policy. Consistent with it both foreign exchange and import controls will be further liberalized.

Until recently, import licences were generally delivered as a matter of course. So no difficulty is foreseen. However, a surge in the importation of luxury goods or low priority items might trigger the use of policy instruments like import duties or credit facilities in order to make such imports more expensive or difficult.

10.4.1 Manner of payment

Authorised payment for imports by residents of Mauritius to non-residents may be effected in Mauritius currency to a non-resident account or in any foreign currency.

10.4.2 Evidence of import

Importers have to submit physical proof of importation within 7 days from the date of clearance of goods from the Customs. The usual type of proof is the Exchange Control copy of the Customs Import Bill of Entry or the wrapper of the parcel. The importer has to present this proof to the commercial bank which made the payment for the import.

If the goods have not reached Mauritius within 2 months of the date of the transfer of funds, the importer has to explain why to the commercial bank.

Commercial banks have to forward to the Bank of Mauritius a monthly statement giving details of import transactions.

10.5 Repatriation of capital and exchange approval (see 10.2)

10.6 Transfer of royalties and fees (see 10.2)

10.7 Guarantees against inconvertibility

There is no guarantee against inconvertibility.

Chapter 11

Debt profile

External disbursed public debt began to increase sharply in 1977 and by the end of 1987 it was \$545 mn. Total disbursed and undisbursed debt, excluding transactions with the IMF and private external debt, was \$823 mn. As a result the problem of debt servicing has been a significant constraint on the development of the economy. External debt service rose to \$83 mn in 1983 before declining to \$65 mn in 1986. However, if IMF repurchases are taken into account, the burden continued to grow to 1985 - the situation being further exacerbated by the strength of the dollar over the period, the main currency in which the country's debt is denominated. Over 1986-87, however, the position improved: IMF repurchases fell to \$30 mn and the service of public external debt stood at \$75 mn. The weakening of the dollar over the year also eased the burden slightly. Although the debt service ratio has been improving, a drain on resources of this size (\$105 mn in hard currency in 1987) inevitably acts as a brake on economic growth. About 50 per cent of the total external public debt consists of borrowings from international institutions, around 32 per cent from foreign governments and about 16 per cent from the eurodollar market. The World Bank figures for debt service (see below) exclude transactions with the IMF and therefore understate the total foreign exchange cost of the government's external debt obligations. External public debt is not likely to fall during the next few years, as there is an increasing need for the government to borrow external funds to finance the budget deficit and major development projects.

Table 11.1

Total external debt (\$ mn)	1980	1985	1986	1987	1988
Total external debt	468	628	668	813	861
Long term debt	319	412	468	627	709
of which:					
public & publicly guar.	295	397	446	581	652
private non-guar.	24	15	22	46	57
Use of IMF credit	102	165	162	152	103
Short term debt	47	51	38	34	49
External debt service	52	140	144	133	201
Ext'l debt service ratio %	9.1	24.3	16.2	10.8	14.3

Source: EIU

Table 11.2

Position of BIS reporting banks vis-a-vis Mauritius
(\$ mn; Dec)

	1982	1983	1984	Sep 1985	1986	1987	1988
Bank's assets	104	102	94	92	93	89	59
Bank's liabilities	72	63	69	89	126	215	329

Source: Bank for International Settlements.

Table 11.3

Aid
(US\$ mn)

	1984	1985	1986	1987
Total Bilateral	35.3	25.3	57.0	79.8
of which				
Arab countries	-	0.0	-	3.6
Total Multilateral	17.0	5.4	58.1	118.8
Total	52.2	30.7	115.1	198.6
of which				
ODA grants	22.8	22.8	35.6	46.8
ODA loans	18.1	7.2	23.7	33.5
Disbursements				
Official & private				
Gross				
Contractual lending	19.9	8.8	27.7	43.3
Export credits, total	3.1	0.9	1.5	10.0
Export credits, priv.	3.1	0.9	1.5	8.7
Net				
Contractual lending	12.8	-1.1	23.7	34.5
Export credits, total	0.3	-4.4	0.7	9.3
Private sector net	-1.5	-21.1	-6.8	7.4
Direct investment	-0.6	-11.6	-4.2	1.6
Portfolio investment	-1.2	-5.1	-3.3	-2.2
Export credits	0.3	-4.4	0.7	8.0

Source: OECD

Price Control

12.1 Overview

For companies operating in the internal Mauritian economy, price control is now as important and volatile a commercial issue as the price of labor. While only the first major break with the supply-side economic policies that have been the trademark of the Jugnauth government, it is about as disturbing a break as you can get. Price controls show the two very different sets of rules and attitudes governing the internal economy and the EPZ. Obviously, manufacturers in the EPZ who are producing for export are not affected.

Government policy: Mr V. Lutchmeenaraidoo, Minister of Finance

Price controls seem to be on the rise and some companies in the domestic economy (as opposed to the EPZ) have had price ceilings imposed upon them, such as Nestle and Guinness, which are both foreign investors. This is a source of anxieties for prospective foreign investors, even though they should be immune in the EPZ. Could this frighten away foreign investors? And is this the limit of the Government's fight against inflation?

Price control is, to some extent, necessary in Mauritius because of market distortions. The number of controlled items has decreased considerably in the recent years. However, prices imposed have always been fair to both buyers and sellers and should not be seen as a source of anxiety by prospective investors. Price control is used mostly to remove the effects of market imperfections rather than as an instrument of policy to combat inflation.

Unfortunately, price control seems an inescapable political expedient. Quite simply, it is the most readily available tool for showing the population that the government wants to keep prices under control.

The general rule for price control is that price control is not necessary if there is more than one producer of an "essential" (ie. politically sensitive) product operating in Mauritius. But if there is a monopolistic situation, then the government has the right

to cap that producer's prices. As such, controls are mostly imposed on the agricultural input sector, such as fertilisers, agricultural foodstuffs (eg flour and chicken), and on basic strategic manufactured products, such as cement. However, there are important exceptions which destroy the notion that price control is simply a tempered and conservative policy. Coca Cola, Guinness and Nestle are subject to price control and their products, with the possible exception of Nestle, certainly do not occupy a monopolistic position in the market. Such examples force companies to the view that the government's choice of companies to control is haphazard, a view which induces an unnecessary sense of uncertainty into commercial operations.

The scheduling of price increases is also very problematic, being so drawn out and laborious that the profitability of entire operations are brought into question.

However, we should not make too much of price controls. As noted above, price control only affects companies serving the local market, leaving the majority of investors which are in the EPZ untouched. And equally, there is every indication that price control will be removed as soon as the inflation rate is brought back under control, hopefully by 1991.

12.2 Impact of price control on business expansion

As is usually the case with price control, Mauritius lacks any clear legislation and there is a consequent plethora of bureaucratic procedure. So while industry's complaints start and concentrate on a simple rejection of the need for most of the price controls, especially when they are inflicted on private sector companies, it also complains bitterly that price controls are badly implemented. A new price can take as long as four months to negotiate, by which time inflation has forced the company to start thinking about negotiating a new price and during which time the company's operation has been running at or below its lowest acceptable margins. In addition, lacking any clear procedures and timetables, this process takes up an excessive amount of executives' time.

It would be wrong to say that price control has stopped company's expansion plans, primarily because they have not been in place long enough. And price control is not likely to constrain companies' operations too dramatically in future as most companies believe that controls will be abandoned once inflation decreases.

Price controls may be having one unexpected but not unpleasant side effect: namely, they may be boosting the number of companies floating shares on the stock exchange. While none of the companies concerned care to comment, many believe that they are floating equity onto the stock exchange to ram home the fact to shareholders that price control means lower dividends. As shareholders are also voters, this may be the private sector's own cunning way of pressuring government!

Chapter 13

Licensing and intellectual property

13.1 Licensing procedures

The legislation governing manufacturing under license in Mauritius is being reviewed at the current time. As yet there is no legislation available specifically to guide the company through this area. However, outside of the specific patent and trademark laws outlined below, companies manufacturing under license will find the steps required to start operation as being identical to those facing other new investors.

An overseas partner -- the licensor -- should study carefully the sections below on patents and trademarks, as well as the foreign exchange regulations (see chapter 10).

Mauritius is relatively new to the world of technology transfer, franchises and royalties, and its novice status shows at times. For example, a company was asked to bid for an American company's franchise. But the Bank of Mauritius and the Ministry of Finance refused the local company's request for a larger than normal royalty deal and could not understand why the overseas company should warrant a higher royalty. As a result, the deal slipped through the company's fingers and the franchise went to the next highest bidder.

The key problem about manufacture-under-license deals lies in ensuring that the licensor gets the required level of royalties, technical and management fees (where appropriate)*. Outside of some bureaucratic delay, Mauritius seems to scrupulously honour its royalty and fee remittances as they are stated on the original investment agreement. However, companies do experience problems when their levels of remittance are increased from time to time, reflecting the importation of a new type of technology, for example. At this point, the Bank of Mauritius and the Ministry of Finance will tend to haggle and dispute the application. Companies are advised to ensure that they build clauses into their original agreements which will allow for larger remittances if the licensor's input increases, for a transfer of new technology or for some unexpected technical or managerial fee.

* at present, managerial fees are largely found in the hotel sector. The overseas partners report no problems with the managerial fees except when they ask for higher amounts than agreed in the original contract.

13.2 Patents and Trademarks.

Manufacturers and traders are strongly recommended to patent their inventions and register their trademarks in Mauritius. Applications can be made to the Ministry of

Industry and to Customs via a patent or trademark agent either in the US or in Mauritius.

Patents: Applications must be made by the inventor or his assignee before the product has been used in Mauritius. Patents are granted for 14 years and can be extended for a similar term.

Trademarks: The first user is entitled to the registration of a trademark. Registration lasts for seven years and can be renewed for periods of fourteen years thereafter. Applications must be made at least three months before expiry.

The law now precludes the old habit of registering trademarks in Mauritius based on corresponding US registrations.

13.3 Intellectual Property

Mauritius is a signatory to the international convention for the Protection of Industrial Property. While companies' experience problems over the complexities of intellectual property transfer, they are rooted more in the government's lack of familiarity with this field than with any detrimental attitude. As such, the transfer of technology -- already undertaken by many investors, especially in the electronics and franchising field -- should not be feared by new investors.

Chapter 14

Corporate Taxes

14.1 Tax powers, administrative practices, rates and taxable income

All resident companies in Mauritius are liable to tax on their income from all sources. The rate is 35% but reduced rates apply in certain cases for companies benefitting from special incentive packages, such as companies investing in the EPZ (see section 5).

14.2 Depreciation Rates

An initial allowance is given on plant and machinery at the rate of 50% and on industrial and hotel buildings at varying rates. Annual allowances on a straight-line basis are given at varying rates. A 100% deduction is given on expenditure incurred on clearing or improving agricultural land.

(i) Plant and Machinery/Equipment

Initial Allowance (not applicable to any type of road vehicle)	50% in the year expenditure was incurred
Annual allowance on straight line basis as from 1st year operation	
General factory plant	10%
Furniture, fixtures and fittings	10%
Electrical plant	10%-15%
Electronic high precision equipment	15%-20%
Motorcars	10%
Other vehicles (trucks, lorries, public passenger carriages)	20%

(ii) Industrial Buildings (including construction of buildings to be used as hotel)

Initial allowance	30% in the year expenditure was incurred
Annual allowance	5% (on straightlinebasis)

(iii) Additional Depreciation Allowances

In addition to the depreciation allowances offered above, further depreciations at the rate of 20% can be claimed on:

- (a) the capital expenditure incurred on the construction of industrial premises (including hotels);
- (b) the cost of the acquisition of new machinery or plant on the income year in which the expenditure was incurred. In the event of a building or machinery or plant being sold or scrapped before the expiration of 5 years, the allowance previously granted is withdrawn.
- (d) Provision for carrying forward of losses

Where a company has, in any year, incurred a loss, it is entitled under certain conditions to claim that the loss be carried forward and off set against future profits.

14.3 Schedule for paying taxes

The government's financial year runs from July 1 to June 30. Ministerial budgets, for companies interested in government contract work, are submitted to Parliament around May or June and become operative from July 1.

Tax is levied during the current financial year based on the income/profit earned during the preceding financial year.

Tax is payable in two instalments, at September 30 and at March 31. Personal tax can be paid over ten months, a sort of modified "Pay as you earn" system.

14.4 Taxes on Capital Gains, Dividends and Transfer of Capital

14.4.1 Capital Gains Tax

There is not a very developed capital gains tax system. It is levied on certain land transactions at rates varying between 20% to 30%, plus a 21% surcharge. But, even there, there would be no capital gains tax if the land has been held for more than 15 years.

There is a punitive 45% stamp duty on a portion of capital transfers, an effective capital gains tax. However this has been reduced in the 1989/90 budget (see chapter 10).

14.4.2 Treatment of Dividends

Dividends paid are no longer deductible for tax purposes. Dividends received by individual

shareholders are taxable but the first Rs10,000 is exempt under certain conditions.

14.43 Transfer of Capital and Profits

Resident corporations that are wholly owned or controlled by a foreign parent may remit income with approval from the Bank of Mauritius.

Capital may be transferred only if the original investment was approved by the Bank of Mauritius: any excess on realization of the original investment is liable to a 45% stamp duty. Transfer of income is normally granted subject to payment of income tax (if any) and only the net amount is then transferable. However, this clause was liberalized in the 1989/90 budget. Now, if investors have the prior permission of the Bank of Mauritius, they may effect capital transfers abroad against the payment of a reduced capital transfer tax of 15%, a very attractive concession.

14.5 Tax treaties and conventions

Mauritius has tax treaties with the following countries:

Denmark	Seychelles
West Germany	South Africa
France	Sweden
India	United Kingdom

A foreign entity with which Mauritius has a tax treaty is subject to Mauritian income tax on its trading income only if it has a permanent establishment in Mauritius. In that case, the permanent establishment in Mauritius is taxable but only so much as is attributable to the profits derived in Mauritius. An entity which is resident in a non-treaty country will pay Mauritian income tax on any income derived from Mauritius.

A non-resident shareholder is taxable on the dividends derived from Mauritius. Where the recipient shareholder is a resident of a country with which Mauritius has a tax treaty, he is liable at reduced rates varying between 5% and 15%.

The US does not have a double taxation agreement with Mauritius but it does have an investment guarantee agreement with the country (see Appendix 4).

14.6 Turnover, sales and excise taxes, and other corporate taxes

The following four sections cover all the other areas of corporate taxation, indirect and direct, that companies should incorporate into any business plan.

14.6.1 Sales Tax and excise stamp duties

Sales tax is charged at the rate of 5% on the importation, manufacture and sale of goods and products but exemptions are currently practised for some ranges of import and export commodities.

A tax of 10% to 15% is charged on hotel and restaurant bills.

Customs and stamp duties are levied on most imports unless specified such as raw materials, machinery and capital goods imported by the foreign investor in the EPZ.

14.6.2 Payroll Taxes

Contributions are payable to the National Pension Scheme in respect of employment persons at a rate of 6% to 8.5% of earnings by the employer and 3% to 5% by the employee.

14.6.3 Stamp Duty and Registration Dues

Stamp duty is payable on registration of documents, on transfer of currencies abroad and on imports. Registration dues are payable on all transfers of movable and immovable property by the transferee. These charges have been removed in certain cases for transactions on the Stock Exchange.

14.6.4 Land Conversion Tax

Land Conversion Tax was introduced in 1988 and is levied on the allocation of former agricultural lands to new purposes.

14.6.5 Branch Profit Tax

Branches of foreign companies are subject to tax at the corporate rate of 35%. The tax also applies to all classes of income derived by non-resident corporations.

Chapter 15

Personal Taxes

Mauritius has quite a high level of personal income tax -- 35% basic -- but it is not punitive and there are considerable personal tax deductions that investors can claim.

As from the year of assessment 1988-89, an individual tax payer is allowed the following deductions from his gross income:

(i) Personal	Rs12,000
(ii) Wife	Rs12,000*
(iii) Wife's earned income	Rs5,000*
(iv) Emolument's Relief	8% of earned income
(v) Each child up to a limit of 3	Rs7,000 (Rs15,000 for a child over 18 and studying abroad)
(vi) Contribution to approved superannuation funds or schemes for both husband and wife up to a maximum of	Rs12,000
(vii) Medical expenses incurred in a clinic or hospital	Rs4,000
(viii) Interest on unsecured loans	Rs3,500

In addition to the above allowances, the tax payer is also allowed the following deductions:

- (i) Interest on secured loans
- (ii) Dividends and interest received up to Rs15,000
- (iii) 35% of dividends received on quoted stock exchange securities and units under an authorised Unit Trust Scheme.

Chargeable Income	Tax Rate
First Rs10,000	5%
Next Rs20,000	15%
Next Rs20,000	25%
Remainder	35%

From the amount of the tax payable, calculated at the above rates, the tax payer is also allowed deductions in respect of:

- (i) life insurance premiums paid by him up to a limit of Rs2,500;

- (ii) investment in the shares of a company up to 30% of the investment but spread over a period of 3 years. This relief is subject to a maximum of Rs30,000 for an individual and Rs100,000 for a company in any one income year;
- (iii) household employees, equivalent to Rs1,500 per employee registered at the National Pension Fund, up to a limit of Rs4,500. Only half of the amount is allowed if the household employee is working on a part-time basis.

*If she has not opted for a separate form

Appendices

One	Managing Success: The World Bank	109
Two	Export Processing Zone Act 1970	113
Three	Export Services Zone Act 1981	119
Four	Treaty concerning reciprocal encouragement and protection of investment with the USA	125
Five	Brief on the establishment of an offshore bank in Mauritius	132
Six	Main economic indicators	135
Seven	Aid projects	138
Eight	Acronyms	141

Appendix One

Managing Success: the views of the World Bank and other aid agencies *

Mauritius has based its growth on labor intensive low technology industrialisation for export, but must change over into higher technology manufacturing and service industries over the next ten years, if stagnation is to be avoided, concludes the 1989 World Bank report "Mauritius: managing success".

1.1 How has the export promotion strategy succeeded since the late 1970's?

The following reasons are given for Mauritius' success story:

- + government policies of stabilisation and adjustment -- quintessential supply side IMF economics -- produced an environment suited for export production and sales.
- + Mauritius benefitted between 1982 and 1988 from an upturn in the world economy;
- + trade agreements with the EC, Sugar Protocol and US have allowed Mauritius to take advantage of its situation; and,
- + labor was plentiful and cheap when companies in the Far East were looking for just such a market.

1.2 The problem now is that many of the above favorable economic traits could turn into constraints in the future, strangling Mauritius' efforts to breach the barrier between low tech basic manufacture and high technology manufacturing and services. How could these factors turn against Mauritius?

- + Mauritius has relied on external economic demand for its success. Economic growth could just as quickly dry up if demand dissipates under an economic recession overseas -- or through a policy adjustment within the "one market" EC which proved detrimental to the trade relations with developing countries, such as Mauritius, which are signatories to the Lome Convention.
- + Mauritius is now seriously short of labor. This not only constrains future development but also impels inflation. The basic wage is now exceeded in nearly all EPZ concerns in an effort by employers to retain their labor force. The resultant financial pressure could have a dramatic effect on export industries whose wealth creation cannot be denied but whose stability is by definition shaky. 1989 saw the first step down this road with further substantial wage settlements.
- + the financial system may prove inadequate for financing the transition to the next phase of higher value development. The offshore banking legislation of 1989 is an important move to rectify this weakness.

1.3 Warning bells should now especially sound in the artificially subsidised sectors, such as sugar. Sugar -- along with manufactured exports and tourism, one of Mauritius' engines for growth over the last ten years -- is largely being subsidised by the EC. Thanks to an annex in the Lome Convention, the EC which buys 80% of Mauritian sugar, promises to tie the price which is paid to Mauritius to those offered European beet producers. This has inflated the sugar price to about three times the world free market price. With the likely demise -- or at least tempering -- of the Common Agricultural Policy (CAP), this artificial price is bound to fall, with consequent effects on sugar production in Mauritius.

The Mauritians exacerbated this sugar reliance by concentrating their agricultural diversity efforts along sugar or sugar related lines. As such, today, only a very small fraction of the land available to agriculture is dedicated to non-sugar cropping. Equally disturbing is Mauritius' apparent inability to treat their agricultural

problems with the same vigor and determination with which they tackled their economic adjustment and manufacturing export diversification in the late 1970's. For example, the country took its first step into demand-side economics with its strategy of promoting food self sufficiency, even through subsidising producers of other food crops, principally potato, garlic, onion and maize.

Equally, outside investors who have tried to exploit non-sugar agricultural opportunities have found obstacles put in their way. While too cruel a generalisation, many accuse the authorities of failing to be as helpful to investors in agriculture as they are to those in the EPZ.

Initiatives which have yet to be undertaken in this sector are renewed and smoother investment facilities, release of sugar land, investigation of high value crops (exploiting the islands particular comparative advantage), mechanisation and irrigation. The World Bank report also identified destonification and better land management as key areas to be addressed.

1.4 On the industrial front, there are substantial problems, although none of them insuperable. There is considerable disagreement with government industrial policy. Aid agencies disagree with government's policy of persuading companies to get out of textiles and also disputes the value of the specific industries that government is promoting in their place. The garment industry still can thrive from its subsidised or at least protected position in the EC markets. Equally, Mauritius can still benefit from its access to the US market through:

- + quota negotiations,
- + better management of quota allocations,
- + upgrading the value added of existing products subject to quota -- thereby maximising returns with each quota,
- + moving into products not yet subject to quotas
- + moving into markets outside of the EC and US.

Observers are also anxious about the government efforts at promoting specific industrial replacements for textiles, advising it to instead limit its role to informing all potential investors about local conditions and export market opportunities.

1.5 Tourism is unarguably a success story and, obviously while open to the vagaries of the overseas market place, the World Bank generally agrees that a small island such as Mauritius should sell itself as high-price exclusive resort. The report merely advises the country to continue its expansion carefully and to cultivate new emergent tourist markets, such as Japan and the Middle East. The report also promotes the idea of making Mauritius an all-year-round resort.

1.6 The issue of labor constraints also figures prominently in the World Bank. The success of Mauritius' export growth strategy was to a large degree based on a large pool of cheap labor, either pulling on unemployed labor or on women then outside of the labor force. Quite apart from the inflationary pressures and production cost problems for manufacturers, the report stresses the long term need to ensure that new industries are more productivity orientated, as labor becomes scarcer and inelastic. This transition requires higher technology and mechanisation, reallocation of labor to more productive sectors, greater managerial and worker efficiency and higher levels of investment in human and non-human resources.

The government already has to face the task of readdressing the wage anomalies between various groups, better control of public sector wage settlements and a general disequilibrium of the wage/money supply

balance, thanks to the 1989 settlements.

1.7 The World Bank report scrutinised the financial sector as well, noting that Mauritius' financial service demands will soon outgrow its current structure. First, direct money control is a weakness in the system -- but the government has shown its determination to eventually rely wholly on the price mechanism for stabilising currency values, with government purchases of gold or currencies as their only form of permitted intervention. The government has continued to show its determination to put in all those policies that can help the country's development: in the financial sector, this has included in the last twelve months, interest rate deregulation, the introduction of various savings schemes, stock market reform and its new off-shore banking scheme. But the report says that the two remaining problems of credit allocations and ceilings and bank market concentrations, will continue to weaken the financial system excessively until they are removed. The report advises a quick move to a central bank monetary policy based on reserve base control and on target monetary aggregates. It is a common complaint that the surpluses created by export industries are not being used effectively and that the system will prove too sluggish in its current form to support the shifts which are needed in this fast moving economy.

1.8 The report stresses the need for the government to continue its perfect track record of instituting sensible economic policies, especially in fiscal, monetary, wage, trade and exchange rate policy areas.

Investors can expect to see the following liberalisations in the financial sector:

- + a slow but assured removal of credit ceilings and credit guidelines for certain economic sectors, constraints which effectively distort the financial system by taxing some sectors and subsidising others. The government agrees that liberalisation in this area is the way ahead but will continue to subsidise one sector against another through tax reforms and incentives.

The new mechanism would see the Bank of Mauritius (BofM) relying on a reserve base control and target monetary aggregates. That is, they will have targets of how much cash to keep in reserve and will, by measuring M1, be able to adjust their reserves through selling or buying bonds onto the secondary market which has yet to be developed. The first move to this state is for the BofM to reform the Treasury Bill market by issuing new bills through an auction process. Once accomplished, a free market in money would exist which the government will have to control, as in the UK or US, through buying, selling and issuing bonds. The real reserves at the end of any accounting period can be compared with the target reserves to see if they are line with the M1 or M2 targets.

- + the government has promised effectively -- though no deadlines have been given -- to ration credit through the price mechanism and to have the open free market operations determining bank liquidity, with interest rates floating freely. Recent reforms in this direction include the removal of minimum savings deposit rates, liberalisation of commercial lending rates (now up to the commercial banks), introduction of treasury bills (6-12 month maturities), sale of government securities and BofM bonds to be quoted and traded freely on the secondary market.

- + greater credit ceilings being awarded to smaller banks, currently set at 20% for all, to allow the smaller banks to grow and to reduce the degree of concentration of the banking sector in the hands of a few majors.

- + greater interest rate differentials as government allows banks to give preferential treatment to what they deem less risky borrowers. This means certain companies will get better terms than others -- higher for EPZ manufacturers than to traders, for example -- but will ultimately be more responsive to the needs of commerce than the current rules which often leave groups of borrowers people out in the cold because the banks have used up their allocations for that sector or feel they are insufficiently covered.

+ greater range of bonds and bills from the government. There have been two such introductions already since 1987: the BofM Savings Bond and the Mauritius Housing Corporation Savings Bond.

+ Leasing will become more common and useful to companies. Tax breaks accrue to the leasee and not to the leasing company, so it is obviously in the interest of companies to lease rather than buy equipment. The Mauritian Leasing Corporation (MLC) was set up in 1988 and, if it sorts out its own financing problems (largely due to a poor take up of its bond issue, another financial innovation in 1988), the leasing market will take off. MLC has issued 26 contracts worth Rs48 million, with 16 more worth Rs22 million in the pipeline for 1989. The leasing market has one unattractive feature at present in that only financial leases are offered at present, so if the equipment has to be changed in the interim, the company has to continue the old lease to the end of the agreed term.

The World Bank's target scenario: medium term prospects

The Bank believes that, with adoption of right policies and investments in education and training, a sustained growth rate of 5% is plausible, resulting in an increase in GDP per capita from \$1850 now to \$3000 by 1995 (in 1988 US dollars).

The Bank believes that the same sources of economic growth will operate: namely sugar, EPZ and tourism. Despite efforts at agricultural diversification, the Bank forecasts a decline in its share of GDP from 13% now to 11% by 1995. The share of manufacturing will expand from 33% to 40% over the same period. GDI (Gross Domestic Investment) will remain at a high level, as Mauritius makes the change to higher tech production -- probably at around 24% of GDP by 1995.

Exports are forecast to grow at 6% annually till 1995, so long as the existing trade regime remains favorable, with most of this growth coming from the EPZ. Export earnings from non-factor services will grow at 7%. Imports will continue to grow strongly, at 6% per annum, thanks to agricultural mechanisation, export diversification and a greater use of capital intensive techniques. Growth of exports will however offset this growth in imports with the current account in the balance of payments expected to remain in surplus -- increasing from 2.6% of GDP to about 4.5% by 1995.

The EPZ is forecast to grow by 10% in 1989, a drop from the 28% experienced in the five years ending 1988. There will be a gradual deceleration in growth, producing finally 6.5% value added growth by 1995.

Development within textiles will be towards pillows, towels and bed sheets as well as towards silk and ramie articles, all of which are exempted from current US quotas -- a major reason for the closure of factories last year.

Sugar will become a mature sector which, while continuing to contribute to growth, will not be a source of major new opportunity. Moves into special sugars seems certain.

Major constraints identified by the report are labor constraints, global recession and cyclones.

* this is a precis of the World Bank's report with added comment and judgements from the author and business leaders. It is not an attempt to be a perfect replica of the report and does not necessarily reflect the precise views of the World Bank.

Appendix Two

The Export Processing Zone Act 1970

ARRANGEMENT OF SECTIONS

1.	Short title.	11.	Duty relief.
2.	Interpretation.	12.	Removals from bonded factory.
3.	Export processing zones.	13.	Payment of duty.
4.	Bonded factories.	14.	Employment and labor provisions.
5.	Export products.	15.	Publications.
6.	Issue of certificates.	16.	Powers of enforcement officer.
7.	Amendment of certificates.	17.	Regulations.
8.	Revocation of certificates.	18.	Offences and penalties.
9.	Restriction on trading.	19.	Saving clause.
10.	-		

1. **SHORT TITLE.**
This Act may be cited as the Export Processing Zones Act.
2. **INTERPRETATION.**
(1) In this Act-
"adequate security" means security which has been accepted as adequate by the Comptroller for the purposes of section 11;

"bonded factory" means a factory situate in an export processing zone;

"certificate" means an export enterprise certificate issued under section 6;

"company" means a company which carries on business or has an office or place of business in Mauritius;

"Comptroller" means the Comptroller of Customs;

"duty" means the fiscal, customs or excise duty leviable under any enactment;

"enforcement officer" means a customs and excise officer, an officer of the Ministry of Finance or of the Ministry of Commerce and Industry designated in writing by his respective Minister as an enforcement officer for the purposes of this Act;

"export" has the same meaning as in section 2 of the Customs Act;

"export enterprise" means a company in respect of which a certificate is in force;

"export processing zone" means any area or building declared to be an export processing zone under

section 3;

"export product" means a product or produce in respect of which a declaration has been made under section 5;

"import" has the same meaning as in section 2 of the Customs Act;

"manufacture" means a process whereby a resultant finished article falls to be classified under a main heading set out in Part 1 of the First Schedule to the Customs Tariff Act, which is different from the main heading under which the materials or components used in the process fall to be classified and includes-

- (a) the production of any article by the process of mechanical or chemical transformation of any inorganic or organic substance, whether such transformation is carried out by power driven machinery or by manual labor;
- (b) the making, processing, altering, repairing, ornamenting, finishing or the breaking up or demolition of any article;
- (c) the assembly of component parts of manufactured products;

"Minister" means the Minister to whom responsibility for the subject of commerce and industry is assigned;

"production day" means the day on which an export enterprise commences, or is deemed to commence, its operations;

"purchase" means the purchase of dutiable goods ex bond, whether the goods have been imported or have been locally produced or manufactured.

- (2) Notwithstanding subsection (1), the Minister may by regulations declare that a certain specific process or a process which results in a specified percentage of value being added to the materials or components used shall also constitute "manufacture" within the meaning of this section.

3. EXPORT PROCESSING ZONES.

The Minister may, with the object of attracting, promoting or increasing the manufacture of export products, by notice published in the Gazette declare -

- (a) any area of land on which a factory has been, is being or is likely to be built;
 - (b) any factory;
 - (c) any area of land which immediately surrounds a factory or the plot on which a factory is being or is likely to be built,
- to be an export processing zone.

4. BONDED FACTORIES.

No person shall-

- (a) manufacture, pack, unpack or store goods or carry on any other activity of a commercial or industrial nature in an export processing zone otherwise than in a bonded factory;
- (b) except in the case of an export enterprise, establish, maintain or operate a bonded factory, in an export processing zone.

5. EXPORT PRODUCTS.

Where an application in the prescribed form is made to that effect by a company, the Minister may,

if he considers it expedient in the public interest, declare any manufactured article, substance, matter or other thing or the produce of deep sea fishing (including fresh or frozen fish) to be an export product.

6. ISSUE OF CERTIFICATES.

- (1) Where an application in the prescribed form is made to that effect by a company which manufactures or proposes to manufacture an export product, the Minister may, if he considers it expedient in the public interest, issue to the company an export enterprise certificate, subject to such conditions as he thinks fit to impose, and declare that the company shall, for so long as the certificate remains in force, be an export enterprise.
- (2) A certificate shall be in the prescribed form and shall specify-
 - (a) the production day of the export enterprise;
 - (b) the 20 year tax relief period of the company;
 - (c) the export product which the export enterprise is or will be manufacturing;
 - (d) the capital equipment, machinery and spare parts required by the export enterprise for equipping and operating a bonded factory (in this Act referred to as scheduled equipment);
 - (e) the materials, components, substances, matters or other things or the produce of deep sea fishing, as the case may be, required by the export enterprise for the manufacture of export products (in this Act referred to as scheduled materials).

7. AMENDMENT OF CERTIFICATES.

- (1) Subject to subsection (2), the Minister may, by notice in writing addressed to an export enterprise, at any time, amend any certificate or any condition attached to a certificate.
- (2) No amendment shall be made to a certificate so as to extend the tax relief period of an export enterprise beyond 20 years.
- (3) Where the Minister amends a certificate by substituting for the production day specified another earlier or later production day, this Act shall have effect in relation to that certificate as if the production day so substituted had been originally specified.

8. REVOCATION OF CERTIFICATES.

- (1) Where the Minister is satisfied that an export enterprise has contravened this Act or any condition attached to a certificate, he may, by notice in writing, require the export enterprise, within 30 days from the date of service of the notice, to show cause why the certificate should not be revoked, and where the Minister is satisfied that, having regard to all the circumstances to have effect in relation to the certificate so revoked.
- (2) Where a certificate is revoked under subsection (1), the Minister shall specify the date from which the revocation shall become operative and this Act shall, from that date, cease to have effect in relation to the certificate so revoked.
- (3) Notwithstanding subsection (1), the Minister may, instead of revoking a certificate, direct that the tax relief of the export enterprise be restricted to such period as may appear to him to be appropriate.

9. RESTRICTION ON TRADING.

No export enterprise shall, during its tax relief period, carry on any trade or business other than in the export specified in its certificate.

10.

11. **DUTY RELIEF.**

- (1) Subject to sections 12 and 13, where an export enterprise imports or purchases any dutiable goods to be used in a bonded factory, no duty shall be paid on them if they are, subject to such conditions as the Comptroller may approve, transported directly and forthwith to a bonded factory and placed there under conditions of adequate security.
- (2) The Comptroller may require an export enterprise to enter into a bond in the prescribed form, in such amount as he may determine, whereby the export enterprise undertakes to obtain, receive, keep, use or dispose of scheduled equipment or scheduled materials only in conformity with this Act or with any conditions specified in its certificate.

12. **REMOVALS FROM BONDED FACTORY.**

- (1) No scheduled equipment shall be removed from a bonded factory except with the written authorization of the Comptroller.
- (2) No scheduled materials or export product shall be removed from a bonded factory except-
 - (a) for the purpose of being exported;
 - (b) for transfer to another bonded factory, with the permission and according to the directions of the Comptroller;
 - (c) for consumption in Mauritius, with the approval of the Minister and subject to the payment of the appropriate duty;
 - (d) for destruction in such manner as the Comptroller may direct.
- (3) Any person who, without lawful authority or reasonable excuse-
 - (a) removes any scheduled equipment, scheduled materials or export product from a bonded factory;
 - (b) is found in possession of any scheduled equipment, scheduled materials or export product outside a bonded factory,shall commit an offence.

13. **PAYMENT OF DUTY.**

- (1)
 - (a) Where there is in any bonded factory a deficiency in the quantity of dutiable scheduled equipment or materials which ought to be found there, the export enterprise shall, without prejudice to any other proceedings under this Act, be liable to pay to the Comptroller the duty leviable on the goods not satisfactorily accounted for.
 - (b) Where the Comptroller is satisfied that the deficiency has been caused by reasonable wastage or unavoidable breakage, leakage or other accident, he may remit the whole or any part of the duty leviable on the goods found deficient.
- (2) An export enterprise shall be required, by notice in writing, to pay any duty under this section, and the duty shall be paid within 30 days of the issue of the notice.

14. **EMPLOYMENT AND LABOR PROVISIONS.**

- (1)
 - (a) Every employee shall be employed at not less than a weekly rate of pay.
 - (b) For the purposes of determining the amount which may accrue to any employee

for overtime, for work performed on a public holiday or for the grant of paid leave, or the amount to be deducted in respect of absences, the basic rate per hour shall be deemed to be one forty-fifth of the weekly basic rate.

- (2) An employee may be required to work for more than the normal number of hours on any day other than a public holiday, and no payment for overtime shall thereupon accrue to the employee where the number of hours of actual work in the week does not exceed 45.
- (3)
 - (a) An employee may be required to work on a public holiday.
 - (b) Where an employee performs not less than a normal day's work on a public holiday the employer may, in respect of the normal day's work, instead of paying the employee at double rate, pay him at the normal rate and grant him one day off duty with a normal day's pay in the following week.
- (4) An employee shall not be allowed or required to work for more than 7 consecutive days.
- (5) An employee who, without his employer's consent or without good and sufficient cause, absents himself from work on a day which immediately precedes or follows a public holiday, shall forfeit one normal day's pay in the next week or, if he is entitled to paid holidays, the amount which would have accrued to him in respect of the next ensuing paid holiday.
- (6) A female employee who has had 3 confinements shall, if she is pregnant again, be entitled to maternity leave without pay but shall not be entitled to any maternity allowance.
- (7) A woman may be required to work between 10 p.m. and 5 a.m. but shall not be required to resume work before a lapse of 12 hours.
- (8)
 - (a) Where any employee reckons not less than 3 years' continuous service with an employer and his services are terminated, he shall be entitled to receive compensation which shall be equivalent to not less than 2 weeks' wages for each year of service he reckons with that employer.
 - (b) Notwithstanding paragraph (a), no compensation shall be payable in any case of dismissal on grounds of serious misconduct where the employer could not in good faith be expected to adopt any other course than to dismiss the employee.
- (9) Part VI of the Labour Act shall not apply to any contract of employment between an employee and his employer except in a case of unjustified dismissal.
- (10) In this section-
"employee" means any person employed by an export enterprise;
"good and sufficient cause" has the same meaning as in section 2 of the Labour Act;
"normal day" means a day of 8 hours' actual work;
"woman" means a female employee who has attained the age of 18.

15. PUBLICATIONS.

- (1) Subject to subsection (2), the contents of any application made by, or of any certificate issued to, any company under this Act, shall not be published, except at the instance of the company.
- (2) The Minister shall cause a notice to be published in the Gazette relating to-
 - (a) every export product;

- (b) the name of every export experience;
- (c) the issue or revocation of every certificate.

16. POWERS OF ENFORCEMENT OFFICER.

- (1) Any enforcement officer may, at all reasonable times and, if so required, on showing proof of his identify, enter any export processing zone or bonded factory for the purpose of ensuring that the provisions of this Act other than section 14 are being complied with.
- (2) Any enforcement officer may require an export enterprise or any person who is director, secretary or other officer or an export enterprise to furnish him with any information touching the business or activities of the export enterprise.
- (3) Any person who wilfully obstructs or hinders an enforcement officer acting in the exercise of his functions under this section or, without reasonable excuse, fails or refuses to give to an enforcement officer any information required of him under this section shall commit an offence.

17. REGULATIONS.

The Minister may make such regulations as he thinks fit for the purposes of this Act.

18. OFFENCES AND PENALTIES.

- (1) Any person who contravenes this Act shall commit an offence.
- (2) Any person who, in any application, declaration or statement made for the purposes of this Act, makes a statement which is false or misleading in any material particular, shall commit an offence.
- (3) Any person who keeps any record or account relating to an export enterprise which is false or misleading shall commit an offence.
- (4) Any person who commits an offence against this Act shall, on conviction, be liable to a fine not exceeding 10,000 rupees and to imprisonment for a term not exceeding 12 months.

19. SAVING CLAUSE.

This Act shall have effect notwithstanding any enactment specified in the Schedule and, except as otherwise expressly provided, nothing in this Act shall affect the operation of those enactments.

SCHEDULE

Companies Act.	Industrial Relations Act.
Customs Act.	Labour Act.
Customs Tariff Act.	Town and Country Planning Act.
Income Tax Act.	

Appendix Three

The Export Service Zones Act 1981

Regulations made by the Minister under section 17 of the Export Service Zones Act 1981

1. These Regulations may be cited as the Export Service Zones Regulations 1981.
2. In these Regulations -
"Act" means the Export Service Zones Act 1981.
3. (1) For purposes of sections 5 and section 6 (1) of the Act, the application made to the Minister shall be in the Form set out in the First Schedule to these Regulations.
(2) The certificate issued under section 6 (2) of the Act shall be in the Form set out in the Second Schedule to these Regulations.
4. The bond which an export service enterprise may be required to subscribe by virtue of section 11 (2) of the Act shall be in the Form set out in the Third Schedule to these Regulations.
5. (1) Every export service enterprise shall keep a day to day record of all the goods for re-export received, kept, issued and used on the bonded premises of the enterprise in accordance with the Form set out in the Fourth Schedule to these Regulations.
(2) Certified copies of such records for each particular month shall be forwarded to the Comptroller and to the Permanent Secretary, Ministry of Commerce and Industry so as to reach them not later than the seventh day of the month next following.
6. Whenever an export service enterprise imports or purchases any dutiable goods, it shall certify on the Bill of Entry or request note relating to the equipment and goods for re-export that such dutiable goods will be used solely for the establishment, maintenance or operation of the bonded premises of the enterprise.
7. It shall be lawful for the Comptroller to require an export service enterprise to furnish full particulars of all equipment and goods for re-export on its bonded premises.
8. The Comptroller may at any time direct that any operation of an export service enterprise be carried out under the supervision of an enforcement officer.
9. (1) Whenever an export service enterprise intends to remove any equipment or goods for re-export from bonded premises for purposes of export or for transfer to other bonded premises, it shall give notice thereof to the Comptroller not less than 2 clear days before such removal is to take place.
(2) No export service enterprise shall remove any equipment or goods for re-export from bonded premises for any other purpose unless the prior written authorization of the Comptroller has been applied for in writing and obtained.
10. An enforcement officer may at all reasonable times and, if so required, on showing proof of his identity, inspect all records, books and documents kept by an export service enterprise or used in connection with its operations.

Made by the Minister on 24 August 1981.

FIRST SCHEDULE
(regulation 3(1))

Application for an Export Service Certificate

- 1.A. (i) Full name of the applicant's company
(ii) Registered address of the company
(iii) Date and No. of certificate of incorporation
(iv) Name and address of banker
(v) Any other details

OR

- B. (i) Full name of applicant who proposes to register a company for the purposes of this application
(ii) Usual address of applicant
(iii) Full name (if known) of the company the applicant proposes to register
(iv) Name and address of banker
(v) Any other relevant details
2. Business experience of applicant (attach statement giving details with supporting documents)
3. (a) Full description of the service(s) to be provided
(b) Full details of good for re-export, where applicable, on which exemption from duty is sought.
4. State Precisely:
(i) where the business premises will be situated
(ii) the floor space required
(iii) the cost of building and land
(iv) rental of premises
5. Indicate the proposed operating day of the company or proposed company
6. Indicate what prospects there are of the markets which may be exploited (supported by documentary evidence)
7. (a) Give the number of persons expected to be employed within two years of the operating day in each of the following categories, with breakdown:

	Mauritian	Expatriate
(i) Managerial Staff
(ii) Professional Staff
(iii) Technical Staff
(iv) Skilled workers
(v) Clerical & Office Staff

12. Profitability (for a normal year)

- | (A) Cost Structure (rupees) | local | foreign |
|--|-------|---------|
| (i) Direct Labor | | |
| (ii) Consumable | | |
| (iii) Electricity | | |
| (iv) Water | | |
| (v) Depreciation | | |
| (a) Buildings | | |
| (b) Plant & Machinery | | |
| (c) Vehicles | | |
| (d) Other (e.g. office equipment etc.) | | |
| (vi) Interest | | |
| (a) Long Term loans/credits | | |
| (b) Short Term loans | | |
| (vii) Clerical Wages | | |
| (viii) Salaries to Management & Expatriates | | |
| (ix) Rent | | |
| (x) Licence fees, royalties, professional services, fees, etc. | | |
| (xi) Other | | |
| (B) Expected gross earnings: | | |

3. SERVICES

Requirements of

- (i) Water (in gallons per day)
- (ii) Electricity: (a) Maximum load in KVA.....
(b) Units per annum in KWH.....

DECLARATION

I/We hereby declare that the particulars given in this application are to the best of my/our knowledge and belief, true and correct, and that any estimates in this application have been made in good faith and with all due care.

Signed.....

Designation.....

Signed.....

Designation.....

Date this.....day of.....198...

**SECOND SCHEDULE
(Regulation 3(2))**

WHEREAS the.....Company Ltd. proposes to establish (or participate in) an export service in Mauritius as described in its application dated.....and has applied for an export service certificate;

AND WHEREAS the Minister, in accordance with section 6 of the Export Service Zones Act 1981 has considered it expedient in the public interest to grant the export service certificate;

THESE ARE THEREFORE to certify that:-

(1)is hereby declared to be an export service; and

(2)Company Ltd. is hereby declared to be an export service enterprise with effect from.....to be known as the operating day with a tax relief period of.....years.

2. This export service certificate is granted to the.....Company Ltd. subject to the following conditions:-

(a) that the Company shall be engaged solely in the above mentioned export service;

and

(b) that (i) the equipment
(ii) the goods for re-export

shall be as listed in the annexes to this Certificate, and that applications for amendment of the lists shall be submitted in advance to the Ministry.

3. This certificate is issued subject to the provisions of section 8 of the Export Service Zones Act 1981.

Dated the.....day of.....19..

MINISTRY OF COMMERCE AND INDUSTRY

.....
Minister

**THIRD SCHEDULE
(regulation 4)
H.M. Customs - Mauritius**

KNOW ALL MEN BY THESE PRESENTS THAT WE

Principle

Surety

Surety

ARE HELD AND FIRMLY BOUND UNTO THE GOVERNMENT OF MAURITIUS in the sum of Rs (in words)of lawful money of Mauritius, to be paid to the Government of Mauritius, to which payment well and truly to be made, we bind ourselves, and each of us, jointly and severally, our Heirs, Executors and Administrators and everyone of them, firmly by these presents.

Dated this.....day of.....in the year...

WHEREAS the above Bounden has undertaken to obtain, receive, keep, use or dispose of the following equipment and goods for re-export..... (equipment or goods for re-export) only in strict conformity with the Export Service Zones Act, 1981 and regulations made thereunder and with any conditions specified in the certificate issued under section 6 of the Act.

Now the condition of this obligation is such that if the said equipment or goods for re-export and every part thereof shall be duly obtained, received, kept, used or disposed of as aforesaid then this obligation to be void, otherwise to be and remain in full force.

Principal*.....

Surety*

Surety*

.....
Comptroller

NOTE: Principal and sureties must write in their own hand the following: "Good for the sum of" followed by the amount of the bonds in words, before signature.

Appendix Four

TREATY
BETWEEN
THE UNITED STATES OF AMERICA
AND

CONCERNING
THE RECIPROCAL ENCOURAGEMENT AND PROTECTION
OF INVESTMENT

The United States of America and

Desiring to promote greater economic cooperation between them, particularly with respect to investment by nationals and companies of one Party in the territory of the other Party; and

Recognizing that agreement upon the treatment to be accorded such investment will stimulate the flow of private capital and the economic development of the Parties,

Agreeing that fair and equitable treatment of investment is desirable in order to maintain a stable framework for investment and maximum effective utilization of economic resources, and

Having resolved to conclude a treaty concerned the encouragement and reciprocal protection of investment,

Have agreed as follows:

ARTICLE I

1. For the purposes of this Treaty,
 - (a) "company of a party" means any kind of corporation, company, association, or other organization, legally constituted under the laws and regulations of a Party or a political subdivision thereof whether or not organized for pecuniary gain, or privately or governmentally owned;
 - (b) "investment" means every kind of investment in the territory of one Party owned or controlled, directly or indirectly by nationals or companies of the other Party, such as equity, debt, and service and investment contracts; and includes:

- (i) tangible and intangible property, including rights, such as mortgages, liens and pledges;
 - (ii) a company or shares of stock or other interests in a company or interests in the assets thereof;
 - (iii) a claim to money or a claim to performance having economic value, and associated with an investment;
 - (iv) intellectual and industrial property rights, including rights with respect to copyrights, patents, trademarks, trade names, industrial designs, trade secrets and know-how, and goodwill; and
 - (v) any right conferred by law or contract, any licences and permits pursuant to law;
- (c) "national" of a Party means a natural person who is a national of a Party under its applicable law;
- (d) "return" means an amount derived from or associated with an investment, including profit; dividend; interest; capital gain; royalty payment; management, technical assistance or other fee; or returns in kind;
- (e) "associated activities" include the organization control, operation, maintenance and disposition of companies, branches, agencies, offices, factories or other facilities for the conduct of business; the making, performance and enforcement of contracts; the acquisition, use, protection and disposition of property of all kinds including intellectual and industrial property rights; and the borrowing of funds, the purchase and issuance of equity shares, and the purchase of foreign exchange for imports.
2. Each Party reserves the right to deny to any company the advantages of this Treaty if nationals of any third country control such company and, in the case of a company of the other Party, that company has no substantial business activities in the territory of the other Party or is controlled by nationals of a third country with which the denying Party does not maintain normal economic relations.
3. Any alteration of the form in which assets are invested or reinvested shall not affect their character as investment.

ARTICLE II

1. Each Party shall permit and treat investment, and activities associated therewith, on a basis no less favorable than that accorded in like situations to investment or associated activities of its own nationals or companies, or of nationals or companies of any third country, whichever is the most favorable, subject to the right of each Party to make or maintain exceptions falling within one of the sectors or matters listed in the Annex to this Treaty. Each Party agrees to notify the other Party before or on the date of entry into force of this Treaty of all such laws and regulations of which it is aware concerning the sectors or matters listed in the Annex. Moreover, each Party agrees to notify the other of any future exception with respect to the sectors or matters listed in the Annex, and to limit such exceptions to a minimum. Any future exception by either Party shall not apply to investment existing in that sector or matter at the time the exception becomes effective. The treatment accorded pursuant to any exceptions shall not be less favorable than that accorded in like situations to investments and associated activities of nationals or companies of any third country, except with respect to ownership of real property. Rights to engage in mining on

the public domain shall be dependent on reciprocity.

2. Investments shall at all times be accorded fair and equitable treatment, shall enjoy full protection and security and shall in no case be accorded treatment less than that required by international law. Neither Party shall in any way impair by arbitrary and discriminatory measures the management, operation, maintenance, use, enjoyment, acquisition, expansion, or disposal of investments. Each Party shall observe any obligation it may have entered into with regard to investments.
3. Subject to the laws relating to the entry and sojourn of aliens, nationals of either Party shall be permitted to enter and to remain in the territory of the other Party for the purpose of establishing, developing, administering or advising on the operation of an investment to which they, or a company of the first party that employs them, have committed or are in the process of committing a substantial amount of capital or other resources.
4. Companies which are legally constituted under the applicable laws or regulations of one Party, and which are investments, shall be permitted to engage top managerial personnel of their choice, regardless of nationality.
5. Neither Party shall impose performance requirements as a condition of establishment, expansion or maintenance of investments, which require or enforce commitments to export goods produced, or which specify that goods or services must be purchased locally, or which impose any other similar requirements.
6. Each Party shall provide effective means of asserting claims and enforcing rights with respect to investment agreements, investment authorizations and properties.
7. Each Party shall make public all laws, regulations, administrative practices and procedures, and adjudicatory decisions that pertain to or affect investments.
8. The treatment accorded by the United States of America to investments and associated activities under the provisions of this Article shall in any State, Territory or possession of the United States of America be the treatment accorded therein to companies legally constituted under the laws and regulations of other States, Territories or possessions of the United States of America.

ARTICLE III

1. Investments shall not be expropriated or nationalized either directly or indirectly through measures tantamount to expropriation or nationalization ("expropriation") except for a public purpose; in a non-discriminatory manner; upon payment of prompt, adequate and effective compensation; and in accordance with due process of law and the general principles of treatment provided for in Article II(2). Compensation shall be equivalent to the fair market value when the expropriation action was taken or became unknown; include interest at a commercially reasonable rate from the date of expropriation; be paid without delay; be fully realizable; and be freely transferable at the prevailing market rate of exchange on the date of expropriation.
2. A national or company of either Party that asserts that all or part of its investment has been expropriated shall have a right to prompt review by the appropriate judicial or administrative authorities of the other Party to determine whether any such expropriation has occurred and, if so, whether such expropriation has occurred and, if so, whether such expropriation, and any compensation therefore, conforms to the principles of international law.
3. Nationals or companies of either Party whose investments suffer losses in the territory of the other

Party owing to war or other armed conflict, revolution, state of national emergency, insurrection, civil disturbance or other similar events shall be accorded treatment by such other Party no less favorable than that accorded to its own nationals or companies or to nationals or companies of any third country, whichever is the most favorable treatment, as regards any measures it adopts in relation to such losses.

ARTICLE IV

1. Each Party shall permit all transfers related to an investment to be made freely and without delay into and out of its territory. Such transfers include: (a) returns; (b) compensation pursuant to Article III; (c) payments arising out of an investment dispute; (d) payments made under a contract; including amortization of principal and accrued interest payments made pursuant to a loan agreement; (e) proceeds from the sale or liquidation of all or any part of an investment; and (f) additional contributions to capital for the maintenance or development of an investment.
2. Except as provided in Article III paragraph 1, transfers shall be made in a freely convertible currency at the prevailing market rate of exchange on the date of transfer with respect to spot transactions in the currency to be transferred.
3. Notwithstanding the provisions of paragraphs 1 and 2, either Party may maintain laws and regulations; (a) requiring reports of currency transfer; and (b) imposing income taxes by such means as a withholding tax applicable to dividends or other transfers. Furthermore, either Party may protect the rights of creditors, or ensure the satisfaction of judgements in adjudicatory proceedings, through the equitable, nondiscriminatory and good faith application of its law.

ARTICLE V

The Parties agree to consult promptly, on the request of either, to resolve any disputes in connection with the Treaty, or to discuss any matter relating to the interpretation or application of the Treaty.

ARTICLE VI

1. For purposes of this Article, an investment dispute is defined as a dispute involving (a) the interpretation or application of an investment agreement between a Party and a national or company of the other Party; (b) the interpretation or application of any investment authorization granted by a Party's foreign investment authority to such national or company; or (c) an alleged breach of any right conferred or created by this Treaty with respect to an investment.
2. In the event of an investment dispute between a Party and a national or company of the other Party, the parties to the dispute shall initially seek to resolve the dispute by consultation and negotiation, which may include the use of non-binding, third-party procedures. Any dispute-settlement procedures regarding expropriation and specified in the investment agreement shall remain binding and shall be enforceable in accordance with the terms of the investment agreement, relevant provisions of domestic laws, and applicable international agreements regarding enforcement of arbitral awards.
3. (a) The national or company concerned may choose to consent in writing to the submission of the dispute to the International Centre for the Settlement of Investment Disputes ("Centre") or under the rules of the Additional Facility of the Centre ("Additional Facility"), for settlement by conciliation or binding arbitration, at any time after six months from the date upon which the dispute arose. Once the national or company concerned has so

consented, either party to the dispute may institute proceedings before the Centre or the Additional Facility provided:

- (i) the dispute has not been submitted by the national or company for resolution in accordance with any applicable previously agreed dispute settlement procedures; and
- (ii) the national or company concerned has not brought the dispute before the courts of justice or administrative tribunals or agencies of competent jurisdiction of the Party that is a party to the dispute.

If the parties disagree over whether conciliation or binding arbitration is the more appropriate procedure to be employed, the opinion of the national or company concerned shall prevail.

- (b) Each Party hereby consents to the submission of an investment dispute to the Centre for settlement by conciliation or binding arbitration, or, in the event the Centre is not available, to the submission of the dispute to ad hoc arbitration in accordance with the rules and procedures of the Centre.
- (c) Conciliation or binding arbitration of such disputes shall be done in accordance with the provisions of the Convention on the Settlement of Investment Disputes Between States and Nationals of other States done at Washington March 18, 1965 ("Convention") and the Regulations and Rules of the Centre or, if the Convention should for any reason be inapplicable the Rules of the Additional Facility shall govern.

4. In any proceeding involving an investment dispute, a Party shall not assert, as a defense, counter-claim, right of set-off or otherwise, that the national or company concerned has received or will receive, pursuant to an insurance or guarantee contract, indemnification or other compensation for all or part of its alleged damages.
5. For the purposes of this Article, any company legally constituted under the applicable laws and regulations of either Party or a political subdivision thereof but that, immediately before the occurrence of the event or events giving rise to the dispute, was an investment of nationals or companies of the other Party, shall, in accordance with Article 25 (2) (b) of the Convention, be treated as a national company of such other Party.

ARTICLE VII

1. Any dispute between the Parties concerning the interpretation or application of this Treaty which is not resolved through consultations or other diplomatic channels, shall be submitted, upon the request of either Party, to an arbitral tribunal for binding decision in accordance with the applicable rules of international law. In the absence of an agreement by the Parties to the contrary, the Model Rules on Arbitral Procedure adopted by the United Nations International Law Commission in 1958 as referred to in U.N. General Assembly Resolution 1262 (XIII) shall govern.
2. Within two months of receipt of a request, each Party shall appoint an arbitrator. The two arbitrators shall select a third arbitrator as Chairman, who is a national of a third state.
3. Unless otherwise agreed, all submissions shall be made and all hearings shall be completed within six months of the date of selection of the third arbitrator, and the Tribunal shall render its decision within two months of the date of the final submissions or the date of the closing of the hearings, whichever is later.

4. Expenses incurred by the Chairman, the other arbitrators, and other costs of the proceeding shall be paid for equally by the Parties. The Tribunal may, however, at its discretion, direct that a higher proportion of the costs be paid by one of the Parties.

ARTICLE VIII

The provisions of Article VI and VII shall not apply to a dispute arising (a) under the export credit, guarantee or insurance programs of the Export-Import Bank of the United States or (b) under other official credit, guarantee or insurance, arrangements pursuant to which the Parties have agreed to other means of settling disputes.

ARTICLE IX

This Treaty shall not derogate from:

- (a) laws and regulations, administrative practices or procedures, or administrative or adjudicatory decisions of either Party;
- (b) international legal obligations; or
- (c) obligations assumed by either Party, including those contained in an investment agreement or an investment authorization,

that entitled investments or associated activities to treatment more favorable than that accorded by this Treaty in like situations.

ARTICLE X

1. This Treaty shall not preclude the application by either Party of measures necessary for the maintenance of public order, the fulfilment of its obligations with respect to the maintenance or restoration of international peace or security, or the protection of its own essential security interests.
2. This Treaty shall not preclude either Party from prescribing special formalities in connection with the establishment of investments, but such formalities shall not impair the substance of any of the rights set forth in this Treaty.

ARTICLE XI

1. With respect to its tax policies, each Party should strive to accord fairness and equity in the treatment of investment of nationals and companies of the other Party.
2. Nevertheless, the provisions of this Treaty, and in particular Articles VI and VII, shall apply to matters of taxation only with respect to the following:
 - (a) expropriation, pursuant to Article III;
 - (b) transfers, pursuant to Article IV; or
 - (c) the observance and enforcement of terms of an investment agreement or authorization as referred to in Article VI (1) (a) or (b), to the extent they are not subject to the dispute

settlement provisions of a convention for the avoidance of double taxation between the two Parties, or have been raised under such settlement provisions and are not resolved within a reasonable period of time.

ARTICLE XII

1. This Treaty shall enter into force thirty days after the date of exchange of instruments of ratification. It shall remain in force for a period of ten years and shall continue this Article. It shall apply to investments existing at the time of entry into force as well as to investments made or acquired thereafter.
2. Either Party may, by giving one year's written notice to the other Party, terminate this Treaty at the end of the initial ten year period or at any time thereafter.
3. With respect to investments made or acquitted prior to the date of termination of this Treaty and to which this Treaty otherwise applies, the provisions of all of the other Articles of this Treaty shall thereafter continue to be effective for a further period of ten years from such date of termination.

IN WITNESS WHEREOF, the respective plenipotentiaries have signed this Treaty.

DONE in duplicate is _____ on the
day of _____ in the English and _____ languages, both texts being equally authentic.

FOR THE GOVERNMENT OF
THE UNITED STATES OF AMERICA:

FOR THE GOVERNMENT OF

ANNEX

Consistent with Article II paragraph 1, each Party reserves the right to maintain limited exceptions in the sectors or matters it has indicated below:

The United States of America

Air transportation; ocean and coastal shipping; banking; insurance; government grants; government insurance and loan programs; energy and power production; custom house brokers; ownership of real estate; ownership and operation of broadcast or common carrier radio and television stations; ownership of shares in the Communications Satellite Corporation; the provision of common carrier telephone and telegraph services; the provision of submarine cable services; use of land and natural resources.

Appendix Five

Brief on the Establishment of an Offshore Bank in Mauritius

The following is a précis of the Offshore Banking Initiative, enshrined in the Offshore Banking Act of 1988. The report was prepared by a local accountancy firm in Mauritius.

1. General

Offshore banking in Mauritius means banking business conducted with non-residents in currencies other than the Mauritian rupee, including offshore lending and trade financing and offshore fund management and related corporate and financial advisory services. Offshore banks will also be permitted to extend credit for terms not exceeding 90 days for financing of imports, in currencies other than the Mauritian rupee, to holders of Export Processing Zone and Export Service Zone Certificates, subject to the approval of the Bank of Mauritius.

2. Application

Applications for Offshore Banking Licences may be made by international banks of established reputation on their own or in participation with local banks. An Offshore Banking Licence will be granted to a branch of an international bank or its locally incorporated fully owned subsidiary or joint venture with a local bank.

An applicant for an Offshore Banking Licence should make the application in the appropriate form prescribed by the Bank of Mauritius and the application should be accompanied by the documents specified in section 4 of the Banking Act, 1988. The Central Bank will process the application within 90 days and give a written notice of its decision to the applicant.

3. Processing Fee

A processing fee of US\$3,000 is to be paid to the Bank of Mauritius by the applicant for an Offshore Banking Licence at the time of making the application.

4. Annual Licence Fee

A fee of US\$20,000 will be paid by the holder of an Offshore Banking Licence at the time of issue of the licence and thereafter annually.

5. Capital

An offshore bank shall maintain, in respect of its Mauritian offshore banking business, a capital or paid up capital, as the case may be, of not less than the current equivalent of Rs25 million after deduction of accumulated losses. This may be kept in any freely convertible currency and used for offshore banking business.

6. Maintenance of Net Free Assets

All offshore banks will be required to maintain net free assets to be determined by the Central Bank after discussion with each bank and the percentage need not necessarily be the same for all banks. Net free assets means the aggregate of (i) paid-up capital or capital, as the case may be, after deduction of accumulated losses (ii) Reserve Account (iii) free reserves including such excess

provision against subordinated debt as defined by and of an amount agreed by the Central Bank less that part of net fixed assets which represents premises and other fixed assets.

7. Maintenance of Liquid Assets

For prudential reasons, offshore banks will be required to maintain liquid assets. The amount of liquid assets to be maintained shall, in relation to each such bank, be expressed as a percentage of such of that bank's deposits and other liabilities (including contingent liabilities) as the Bank of Mauritius may specify from time to time.

8. Segregation of Operations

Banks conducting both domestic and offshore banking operations may be permitted to share the same premises, but will have to utilise separate rooms or offices for their operations. Furthermore, separate staff will be required for offshore banking operations and separate accounts will have to be maintained and produced.

9. Banking Secrecy, Numbered Accounts etc.

Banking secrecy, which is considered as the bedrock of an offshore centre is given special consideration in the Banking Act, 1988. However, banks will not be allowed to provide numbered account facilities to their customers.

10. Debt Settlement upon Winding Up

In the case of winding up of a bank holding both a domestic and an offshore banking licence, the domestic assets of the bank shall not be used to meet any deficiency which occurs in the offshore assets of the bank, and the offshore assets shall not be used to meet any deficiency which occurs in the domestic assets.

11. Concessions

- (a) Complete exemption from compliance with the Exchange Control Act with respect to their offshore banking transactions.
- (b) Freedom to conduct all legitimate banking and other financial business with non-residents.
- (c) Exemption from the maintenance of minimum cash balances with the Central Bank.
- (d) Exemption from credit, interest rates and certain other restrictions which are more appropriate to the business of domestic banks.
- (e) Offshore banks are exempted from the provision of concentration of risk i.e. limitations on commitments to any one customer or group of closely related customers.

12. Fiscal Incentives

- (a) A concessionary income tax rate of 5% on all offshore income.
- (b) Ability to repatriate profits freely without any further tax or any other levy.
- (c) Ability to take deposits from non-residents without having to deduct Mauritian withholding

tax.

- (d) Exemption from stamp duty on documents relating to offshore banking transactions.
- (e) Offshore banks will benefit from full exemption from customs duty on office equipment.

13. Incentives for Expatriate Staff

- (a) Expatriate staff will pay income tax at a rate equivalent to 50 per cent of the normal tax rate.
- (b) Expatriate staff will benefit from full exemption from customs duty on cars and household equipments for a maximum of two expatriate staff per bank.

14. Other Advantages

- (a) Political stability.
- (b) Health economic growth.
- (c) Strategic position as regards time zone location between Far Eastern and European financial markets.
- (d) Excellent telecommunication, international transport, hotel and tourist facilities.
- (e) Availability of banking personnel and legal, accountancy and other supporting services.
- (f) Reasonable cost of living and business operations.
- (g) Healthy, peaceful and pleasant living conditions.

15. Supervision

Offshore banks will be supervised by the Bank of Mauritius. The reporting requirements have been tailored to ensure that they operate within a framework of effective supervision without too much restriction while enjoying freedom of conducting all legitimate offshore banking business.

16. Payments by Offshore Banks

With the approval of the Bank of Mauritius, an offshore bank may open and maintain with a domestic bank an account in Mauritian rupees out of which all payments by way of salaries, remuneration fee, fine, penalty and other proper legal payments will be made.

17. The Banking Act 1988

The new Banking Act sets up the regulatory framework for offshore banking.

Appendix Six

MAIN ECONOMIC INDICATORS

	1986	1987	1988	1989 (Estimates)
(1) NATIONAL ACCOUNTS				
(a) G.D.P. at market prices (Rs m)	19,700	23,576	27,560	31,166
Annual Real Growth Rate (%)	8.9	8.4	5.8	4.2
Sectoral Real Growth Rates (%)				
Agricultural	10.7	- 3.1	- 5.3	- 6.4
Manufacturing	20.2	14.7	7.0	6.3
(of which EPZ)	(35.0)	(22.0)	(12.0)	(11.0)
Sugar (Agri. & Manu.)	12.9	- 4.3	-10.4	-10.0
Restaurant & Hotel	14.0	21.0	12.0	10.0
Construction	10.0	8.6	17.0	8.0
(b) G.D.F.C.F. Real Growth Rate (Excluding aircraft)	19.9 19.9	24.7 24.7	41.0 17.0	-13.2 + 4.6
(c) Gross Domestic Savings as a % of G.D.P. at market prices	28.5	27.4	25.8	23.5
(2) TOTAL EMPLOYMENT (June)	377,000	406,000	424,000	434,000
Male	250,000	265,000	275,000	280,000
Female	127,000	141,000	149,000	154,000
(3) UNEMPLOYMENT RATE (%)	9.6	4.9	3.0	2.7
(4) INFLATION				
Fiscal Year	Rate %	Calendar Year	Rate %	
1984/85	8.3	1985	6.7	
1985/86	4.3	1986	1.8	
1986/87	0.7	1987	0.6	
1987/88	1.5	1988	9.2	
1988/89	16.0	1989* (forecast)	13.0	

(5)	E.P.Z. SECTOR	1986	1987	1988	1989
	No. of Enterprises (June)	343	472	579	575
	Employment (June)	66,000	83,740	91,617	89,265
	Imports (Rs M)	3,863	4,801	5,800	7,000
	Imports as a % of total imports	42.0	36.8	34.1	63.0
	Exports (Rs M)	4,951	6,567	8,176	9,900
	Exports as a % of total exports	52.6	53.1	58.8	63.0
(6)	TOURIST SECTOR				
	No. of Arrivals	165,310	207,570	239,300	270,000
	Gross Earnings (Rs M)	1,190	1,786	2,376	3,000
(7)	SUGAR SECTOR				
	Production ('000 tons)	707	691	634	580
	Exports (Rs M)	3,553	4,328	4,449	4,400
(8)	BALANCE OF VISIBLE TRADE (Rs M)				
	Total Exports (f.o.b.)	9,413	11,927	13,897	15,800
	Total Imports (c.i.f.)	9,199	13,042	17,247*	19,500
	Total Value of Trade	18,612	24,969	31,144	35,300
	Balance of Visible Trade	+214	-1,115	-3,350	-3,700
	* Includes purchase of 2 aircraft				
(9)	PUBLIC FINANCE (RS m)	1986/87	1987/88	1988/89	1989/90
	Recurrent Expenditure	4,635	5,813	7,700	7,977
	Capital Expenditure (Net)	1,789	2,006	2,290	2,360
	Recurrent Revenue	5,009	6,215	7,250	8,117
	Grants	188	170	68	155
	Dividends & Miscellaneous & Contribution	289	364	275	264
	Overall Deficit	- 295	- 289	- 850	- 825
	As a % of G.D.P.				
	Overall Deficit	1.4	1.1	2.9	2.5
	Recurrent Expenditure	21.6	22.8	26.6	24.9

	Capital Expenditure (Net)	8.1	7.9	7.9	7.4
	Recurrent Revenue	23.3	24.4	25.2	25.3
(10)	BALANCE OF PAYMENTS (Rs M)				

Current Account	+1,575	-953	+997	+704
(Merchandise)	(+816)	(-2,181)	(-569)	(-1,345)
(Services)	(+81)	(+129)	(+454)	(+866)
(Transfers)	(+678)	(+1,099)	(+1,112)	(+1,183)
Capital Account	+360	+2,248	+ 97	+1,119
Errors & Omission	+637	+1,433	+903	-
Overall Balance	+2,572	+2,728	+1,997	+1,823
Current Acc as % of GDP (%)	+7.3	-3.8	+3.4	+2.2

(11) FOREIGN EXCHANGE RESERVES

- in Rs billion	3.2	5.5	7.0
- month of import	3.7	4.0	5.0

EXTERNAL DEBT FIGURES

	85/86	86/87	87/88	88/89	89/90 EST.
External Debt Service Ratio (in %)	19.4	10.9	11.0	13.6*	9.3
Outstanding Debt/GDP (end June) (in %)	44	41	44	41	N.A.

*Includes prepayment of about US\$ 34 million.

Appendix seven

Aid Projects in Mauritius

US AID Projects

<u>Title</u>	<u>Date started</u>	<u>Amount: \$'000</u>
1. Industrial diversification	1988	2,350
2. Advanced technology transfer project	1990	4,500

Source: USAID

Other aid projects

AMOUNT AGENCY & CURR.	SECTOR	DESCRIPTION	EIS STATUS	REMARKS
0.0 AFDEG	11	Project performance audit report: Grand River North-West Bridge.	4	
0.0 EC	6	Managing success dated July 1989.	4	
0.0 EC	16	EC - Mauritius Co - Operation Annual Report 1988.		
2.5 UNFPA US\$M	07	UNFPA population programme 4 1989-1992		
10.0 WBG	11	II Highway - improvement and strengthening, Road maint. prog, traffic mgmt, T/A & Trng.	3	MOS Feb.89
0.0 WGB	16	Economic development with environmental management strategies dated November 1988.	4	
8.0 EC MECU	01	Diversify agricultural sector (6006) (housing, warehouses, packing centre, lab, vehicles, equipt, clothing, T/A etc)	4	APP Oct.88

AMOUNT AGENCY & CURR.	SECTOR	DESCRIPTION	EIS	REMARKS STATUS
3.0 EIB MECU	05	"Les moulins de la concorde" (Flour mill)	4	APP Sep.88
0.0 AFDBG	04	Energy development project (construct/install coal- fired steam-driven generators)	1	Pipeline
990.0 AFDBG KFUA	13	Wastewater facilities masterplan	4	
0.0 AFDBG BUA	11	Road rehabilitation programme 1 (300 km of road network) project preparation required		Pipeline
0.0 AFDBG	11	Construction of new bridges	1	Pipeline
1.7 AFDBG MFUA	11	A2 Road up-grading (abercrombie to A1 Road in St. Louis)	1	Pipeline
1.1 AFDBG MFUA	11	A1 Road (Grand River NW Bridge Labourdonnais Sq.)	1	Pipeline
0.0 AFDBG	05	Shore-based equipment for unloading cement in bulk	1	Pipeline
0.0 AFDBG	05	Site and service schemes (site infrastructure)	1	Pipeline
10.0 AFDBG MBUA	05	Industrial estates development (construct buildings, infra- structure, engineer's services)	1	Pipeline
2.8 AFDBG MBUA	05	Tea manufacturing project (Modernization of 3 factories)	1	Pipeline
5.0 AFDBG MBUA	01	MI Pipeline : Northern plains irrigation	1	Pipeline
1.2 AFDBG MBUA	11	La Ferme and magenta canals (rehabilitation of 16 km &	1	Pipeline

AMOUNT AGENCY & CURR.	SECTOR	DESCRIPTION	EIS	REMARKS STATUS
10.0 AFDBG MBUA	01	Sugar sector rehabilitation (increase production, processing electricity generation)	1	Pipeline
10.0 AFDBG MBUA	04	Bocage guibies project (water storage & hydro-electricity generation)	1	Pipeline
10.0 WBG US\$M	05	Industrial finance project-line of credit on-lent for manufing/ transpt/tourism/ind.bldg.constrn.	4	
1.9 EC MECU	08	Development of craft industry (6005). (Workshops, materials, equipment, furniture, machinery, technical assistance, studies)	4	App.Oct 88
5.0 EC MBUA	02	Third line of credit to the development bank	4	App.Feb 88
0.0 WBG	04	Power system efficiency study Dated May 1987. UNDP/WB. (Recvd in W.A.S. Jan 88)	4	
0.0 WBG	04	Bagasse power potential 1987-2000 dated October 1987. (Recvd in W.A.S. Jan 88)	4	
0.0 WBG	15	World bank I.B.O.S. technical data sheets	4	
10.0 WBG US\$M	01	Agricultural resources & inst- itutional development - agric diversification through land resource planning, policymaking etc.	2	M O S
0.0 WBG	01	The sugar sector:problems and prospects dated March 1986	4	
0.0 UNDP	16	Country programme 1982-86	4	
0.0 EC	16	Indicative programme - EDF VI.	4	

Source: Department of Trade and Industry, UK

Appendix eight

ACRONYMS

ACP	
BLS	Botswana, Lesotho, Swaziland
CAP	Common Agricultural Policy (of the EC)
CD3	Customs declaration for exports worth more than Rs 500
CD3X	Customs declaration for exports worth Rs100 to Rs500
CSO	Central Statistical Office
DCS	Development Certificate Scheme
DBM	Development Bank of Mauritius
EC	European Community
EMS	European Monetary System
EPZ	Export Processing Zone
EURI	movement certificate
GATT	General Agreement on Tariffs and Trade
MCCI	Mauritius Chamber of Commerce and Industry
MEDIA	Mauritius Export Development and Investment Authority
MEF	Mauritius Employer's Federation
MEPD	Ministry of Economic Planning and Development
MEPZA	Mauritius Export Processing Zone Association
MR	Mauritian rupee
OSS	One Stop Shop
PTA	Preferential Trading Area
SDR	Special Drawing Rights (IMF)
SIC	State Investment Corporation
UAPTA	Unit of account of the PTA