

Mr Speaker,

Sir,

I move that the Appropriation Bill 2004/2005 be read a second time.

2. The Bill provides for the appropriation of funds, as set out in the Schedule, for financing recurrent and capital expenditure during the next financial year.

3. Mr Speaker, Sir, it is with a deep sense of responsibility and commitment that I present the 2004/2005 Budget to the House. Responsibility, Mr Speaker, Sir, for sound management of public finances – for fairness in raising revenue - for making sure that every rupee is spent on well thought-out objectives. Commitment, Mr Speaker, Sir, to improve growth potential and to ensure that the wealth we create translates into social progress and development, not just for a few, but for all.

4. To fulfil my responsibilities and honour those commitments, I have chosen the route of consultation and dialogue. That is why I met with representatives of trade unions and of the private sector, soon after my appointment as Deputy Prime Minister and Minister of Finance in October 2003.

5. More recently, I opened pre-budget consultations to a broader spectrum of stakeholders, through open discussions and through a special website. The suggestions and discussions were enlightening.

6. Citizens in all walks of life participated in the pre-budget consultations and I would like to express my sincere gratitude to all of them. They had clear views on issues they feel should be addressed in the Budget. Workers feel they deserve a greater stake in the wealth they create. Families living in poverty, the vulnerable groups and those with modest income are asking for opportunities to fend for themselves and to move up the social ladder. They do not want handouts from Government. More women want to extend their role in society. They want Government to support them. Our enterprises - big, medium, small and micro - want the right environment to expand and thrive. Our elderly feel they deserve more protection, more care and more recognition. Our men and women want more opportunities for themselves, a better future for their children and greater social justice. They feel that the fruits of economic

growth should be more widely distributed.

7. The expectations of our population and of businesses are, in many cases, legitimate and realistic. It is the duty of Government to do the best it can to meet these expectations. And we will do so - but at a responsible and prudent pace – for the budgetary situation is very tight. And despite better growth prospects, the economy remains very vulnerable.

8. The pace of competition on international markets is accelerating. Trade barriers continue to fall regionally and internationally. And trade preferences are being eroded. The Multi-Fibre Agreement will be dismantled in January 2005. There are cut-off dates for a full Customs Union in COMESA and for a Free Trade Area in SADC. The pressures of competition from China, India and other emerging countries are increasingly overwhelming. But, many of our enterprises are not adequately prepared to face the consequences of trade liberalisation. Exporters as well as local manufacturers must recognise that only the globally competitive will survive. We are running out of time and Government cannot forever seal off local production from foreign competition.

9. Our population also must stand prepared – for it is the level of knowledge, skills and dedication of our work force that will determine the growth path. And it is the ability and willingness of more Mauritians to become entrepreneurs that will sustain economic progress.

10. There is a clear role for Government in helping our enterprises and population make it through that challenging and decisive phase of development. That is why, one underlying philosophy of the 2004/2005 Budget is that our businesses and population must be fully equipped and fully confident as they face the challenges in front of them.

11. Another underlying philosophy of the Budget is to strive towards a fairer sharing of income. We have made good economic progress in the past decades. Mauritius is now a middle-income economy with a per capita GDP of USD 4000. This puts us in the same income group as some OECD countries. Yet, the poorest 20 percent of our population receives only 6.2 percent of national income. As a caring Government, we are making it our duty to change that situation by improving

the standard of living of the poorest segment of our population. We will not let the difficult budgetary situation stand in the way of greater social justice.

12. It is manifestly clear to all of us that it takes more than one budget to prepare our country for the economic challenges ahead and to achieve a fairer distribution of income. But this Budget will take us another big step towards that vision.

13. The first priority of this Budget is to further democratise the economy.

14. The second priority is to focus on ways to boost private investment and employment creation in every sector of the economy.

15. Our third priority is to tackle the problem of unemployment at its roots.

16. The fourth priority is to strengthen and reform our institutions, for they have a key role to play in preparing our nation for the challenges ahead.

17. Our fifth priority is to address issues that have a direct bearing on day-to-day life and overall quality of life of our citizens.

18. The next priority is to give more protection to our consumers.

19. We will also continue our efforts to reduce poverty and promote social inclusion by building further on the positive results we have achieved in the past three years.

20. And the eighth priority of the Budget is to start with new approaches to budgeting – with the Medium Term Expenditure Framework, Result-based Budgeting and Targeting.

ECONOMIC REVIEW

21. Before elaborating on these strategies, I would like to present the House with an economic review.

22. The international backdrop to this year's Budget is one of continued uncertainty. The price of a barrel of oil has risen from USD 29 to exceed USD 40 in the past six months. There is always the risk that it might go up even further and dampen growth prospects. Freight rates are on a rising trend due to demand pressures

from China and the prices of a number of goods are going up.

23. Brazil, Australia and Thailand are questioning the sugar regime. There is increasing pressure on the price of sugar within the reforms of the Common Agricultural Policy, more specifically the reform of the EU sugar regime. These are a direct threat to our sugar industry.

24. Our manufacturing sector will also have to prepare for the threats from the initiative taken by some major developed countries for a full liberalisation of market access for non-agricultural goods. Our textile enterprises in particular should stand ready for the dismantling of the Multi-Fibre Agreement. There is also much uncertainty around AGOA III.

25. Regionally, Mauritius will assume the Chairmanship of SADC this year. We are preparing our country for the SADC Free Trade Area which is scheduled for 2012. We are also preparing our country to operate within a full Customs Union in COMESA by 2008. Early next year, Mauritius will host the International Small Island Developing States meeting to undertake a comprehensive review of the Barbados Plan of Action for sustainable development.

26. Mauritius is participating in negotiations between the Eastern and Southern Africa group and the European Union on an Economic Partnership Agreement.

27. Confronted with the challenges at the international and regional levels, the economy is showing remarkable resilience. Our policy actions this year to mitigate the adverse impacts of terrorism, SARS and sluggish world growth have been effective. Growth statistics show this very clearly. GDP grew by 4.4 percent in 2003 and we are expecting a growth rate of 5.3 percent for 2004. The higher GDP growth will come from improvement in the performance of most sectors of activity. However, the EPZ, in particular textile enterprises, will continue to face difficulties. The restructuring programme we have put in place should help them pull through the tough period of transition.

28. On the expenditure side of GDP, consumption has increased by 4.1 percent in 2003 and it is expected to grow by 3.9 percent in 2004. This would leave us with a savings rate of 26.3 percent in 2004 as compared to 26 percent in 2003.

29. Investment, which is a crucial determinant of growth and employment creation, stood at 22.7 percent of GDP in 2003. It is expected to reach 22 percent in 2004.

30. According to the Central Statistics Office, the unemployment rate would be around 10.6 percent at end June 2004. The economy however created some 14,400 jobs last year. I would like to report that the pace of increase in the rate of unemployment has declined for a third consecutive year, from 7 percent in 2002 to 5 percent in 2003 to 4 percent in 2004.

31. For a fourth consecutive year, the current account of the balance of payments will be in surplus. We expect to end the financial year 2003/2004 with a surplus of 5.5 billion rupees in the current account, due mainly to a stronger services account. Net international reserves are projected to reach a record level of Rs 52 billion, equivalent to nine months of imports.

32. The inflation rate has dropped from 6.4 percent in 2002 to 3.9 percent in 2003. On a financial year basis, inflation rate is expected to be around 4 percent in 2004/05, the same level as in 2003/04.

33. Effective fiscal and monetary policies have led to lower interest rates. The Lombard Rate dropped by 75 basis points this financial year.

34. The SEMDEX continues its up-beat path. In the period between June 2003 to May 2004, it has climbed by 37 percent to reach 649. Investor optimism is growing.

35. Overall, our economy has performed well and the level of confidence is back on the high side.

Overall Budget Outturn

36. As regards budget deficit for 2003-2004, it would be slightly above target.

37. There would be a shortfall of about Rs 270 million in tax revenue. Receipts from VAT, excise duties on imports and registration fees would be lower than expected. Non-tax revenue would fall short by Rs 540 million due to lower than estimated remittance of profit by the Bank of Mauritius and delays in payments by

some parastatal bodies.

38. Capital revenue, including grants, would be below estimates by about Rs 110 million. Total revenue would thus be Rs 33.6 billion against the estimates of Rs 34.5 billion.

39. On the expenditure side, subsidies and current transfers would exceed budgetary provisions by around Rs 350 million. These would be offset by lower interest payments, resulting from the issue of Bank of Mauritius Bills. Net recurrent expenditure would thus amount to Rs 34.5 billion.

40. With net capital expenditure reaching Rs 8.3 billion, total expenditure would amount to Rs 42.8 billion.

41. The overall budget deficit would be Rs 9.15 billion. Although slightly lower than targeted in absolute terms, it would be higher as a percentage of GDP, that is 5.6 percent instead of the targeted rate of 5.5 percent. This is due to lower than estimated GDP growth.

DEMOCRATISATION OF THE ECONOMY

42. I will now outline our policies, strategies and measures to promote a greater democratisation of the economy.

43. It should be clear at the very outset that democratising the economy is not about taking from those who have built assets over the years and giving to those who do not own productive assets.

44. It is not about barring the existing class of entrepreneurs and investors from new opportunities to create wealth.

45. Democratising the economy is about empowering more people to play an active role in shaping the future of our country.

46. It is about unleashing the creativity that lies locked in our people by giving them greater access to productive assets.

47. It is a question of adapting to changing realities.

48. Finally, it is more than just an economic strategy. It is about avoiding exclusion and about creating strong mechanisms to ensure that economic prosperity translates into social development.

49. We believe that a democratisation strategy must necessarily focus on widening access to land, on employee participation, on equal opportunities in employment and on entrepreneurship. It must also create the right environment for the expansion of the SME sector, micro enterprises and cooperative societies. Therefore, we will focus our actions on those specific areas.

Democratising Land Ownership

50. Mr Speaker, Sir, my very first action is to democratise land ownership. This is in line with our commitment and our determination to give our citizens a direct stake in the productive resources of our country. We started this process with the VRS scheme and succeeded. Some 8,000 employees in the sugar sector have benefited from 800 acres of land including all infrastructures. Out of the 7,000 acres of land sold to SIT under the ILLOVO deal, 2,200 acres have been offered for sale to the general public. This democratisation process has widened land ownership to thousands of families. And many of them are putting these lands to productive use and enhancing their income generating capacity. To this successful process, we are making today another momentous move to give hundreds of thousands of our citizens a stake in land resources.

51. We will do so through the Employees Welfare Fund (EWF). The EWF will put Rs 350 million into a Trust to be called the Real Estate Investment Trust. All persons on the list of the National Savings Fund at June 30, 2004 will be given, free of charge and free of tax, one unit of the Trust, with a par value of Rs 1,000. With this measure more than 325,000 men and women will become direct owners of units in the Real Estate Investment Trust. The Trust will be given Specified Entity Status under the Sugar Industry Efficiency Act. The cash resources in the Trust will be used to acquire land with high development potential. Government will arrange for the sale, at cost, of 500 acres of land by the State Land Development Company and Rose-Belle Sugar Estate. Those lands are situated at Midlands, Rose Belle, Rivière du Rempart and Trou d'Eau Douce. A Board of Trustees will be appointed after

consultations with trade unions to manage the Trust. All surplus generated by the use of the land will be distributed to those who own units in the Trust. To implement this project the EWF Act and the SIE Act will be amended.

Access to land for the promotion of non-sugar sector

52. Another major opportunity for democratising our economy lies in the development of non-sugar agriculture. To avail of that opportunity, we want to give small planters access to land over and above what the SIE Act provides for. I am pleased to announce that the SIT Land Holdings Ltd and the Mauritius Sugar Producers Association will, under a special scheme, make available 200 acres of agricultural land to be leased to small planters. The land will be used for cultivation of specified products within the framework of the Non-Sugar Sector Strategic Plan. Mr Speaker, Sir, I must here express our appreciation for the contributions of the MSPA and SIT. Their efforts speak of the spirit of cooperation that has always been at the base of economic and social progress in our country.

Employee Participation

53. Our next action to speed up the democratisation process is to offer employees the chance to acquire a stake in the ownership of the company for which they work. This can be achieved through share distribution, share options and profit sharing. Past attempts to boost employee share ownership have not succeeded. The key constraint has been the lack of appropriate incentives to set up a well-structured vehicle to facilitate employee share ownership.

54. We are proposing today a package of measures to encourage the development of Employee Share Ownership Trusts (ESOT). These trusts will act as vehicles for implementing various ownership arrangements.

55. We are exempting all share transactions undertaken by the Trust from registration duty.

56. Shares received from the Trust, up to an amount of Rs 200,000, will not be taxed as a benefit in kind if accompanied by a lock-in period of 3 years.

57. The Trust will be exempt from income tax.

58. I must add that only companies that open share ownership to all classes of employees will benefit from these tax concessions.

59. To set the example, Government will encourage public sector companies to set up Employee Share Ownership Plans.

Equal Opportunity Legislation

60. Another issue that is fundamental to the democratisation process is equality of opportunities. Government will introduce the Equal Opportunities Bill in the House, in the next session. Our aim is to prohibit discrimination and promote equality of opportunity. The main areas of focus will be employment, skills development and access to assets. This legislation will give every citizen the confidence that he or she has equal rights and equal opportunity to participate in the development process and to enjoy the fruits of growth.

61. We will draw on the experience of other countries before finalising the legislation.

Promoting Entrepreneurship

62. As we encourage democratisation, we must imperatively foster the entrepreneurship culture. This is critical to realising our vision of a more democratised economy and a more equal distribution of income. Therefore, Government will make the necessary investment now to encourage entrepreneurship.

63. First, we are setting up a Support To Entrepreneurs Programme (STEP). The aim of this programme is to give special support to high potential entrepreneurs who have the most feasible projects, create the greatest number of new jobs, who contribute the most to the process of democratisation and who put forward a plan for corporate social responsibility. We will select every year up to five such investment projects for special support. Each selected project will receive an investment grant of 50 percent of the project value, up to a maximum of Rs 500,000.

64. Second, the Support To Entrepreneurs Programme will also include a Young Entrepreneurs Scheme (YES) to help our youth who are undertaking business ventures for the first time. Under that scheme, up to 100 young entrepreneurs will be

selected for special start-up support. The start-up support package will consist of an investment grant of Rs 50,000 to each of the selected projects, and a loan of Rs 50,000 with a grace period of two years on capital and interest. This will put in the hands of 100 young entrepreneurs a seed capital of one hundred thousand rupees each to start a business.

65. Third, a panel of Mentors will advise and give further support on the implementation of the projects.

66. The Support To Entrepreneurs Programme will be implemented over a period of five years with a project value of Rs 50 million.

SME Development

67. At the heart of our policy to democratise further the economy, lies also the development of Small and Medium Enterprises. These enterprises are small in size but big in their economic and social impact. They account for more than 40 percent of total employment and they are the best antidotes to poverty.

68. The establishment of a new Ministry for SMEs, a National Co-ordinating Committee, and a High-Powered Committee chaired by the Prime Minister speaks of our commitment to the development of that sector.

69. Our plan for the SMEs is clear-cut. First, we will give SMEs greater access to finance. Second, we will set up the necessary infrastructure to facilitate the establishment of such enterprises. Third, we want to increase the number of enterprises operating in that sector. Fourth, we will bring small businesses together so they can network and establish a process of dialogue with local authorities.

SME Access to finance

70. To facilitate access to finance, the Mauritius Post and Cooperative Bank will reserve Rs 200 million in its loan portfolio for SMEs. It will also set up special SME desks at its branches to facilitate financing of these enterprises.

71. DBM will commit Rs 10 million to a contributory loan guarantee scheme. Under that scheme, 50 percent of a qualified loan will be guaranteed, up to a

maximum amount. The SME will contribute a premium of one percent of the outstanding capital.

72. To further stimulate the capitalisation of SMEs, an Equity Participation Fund of Rs 10 million will be set up. The Fund will provide 5-year equity loans to the main shareholders to invest in their company. The limit of the loan will be Rs 300,000 per company and the guarantee for the loan will be a fixed charge on the proposed shares to be acquired and a general floating charge on the assets of the borrower. Interest on the loan will accrue at the rate of 8 percent yearly and become payable only out of the dividends received by the borrower during the previous financial year of the company.

73. DBM will also provide financing for working capital up to Rs 500,000 on a revolving basis, for local and export orders.

Access to Infrastructure

74. Access to industrial infrastructure is another concern that many SMEs have expressed during pre-budget consultations. I am pleased to announce that DBM will set up an SME village on 3 arpents of land at Terre Rouge. For the first time, we will have industrial infrastructure dedicated to SMEs, complete with all necessary amenities and facilities.

75. Before deciding on the construction of more SME estates a survey of demand for such facilities will be carried out. We also want to make sure that these SME estates are appropriately located.

76. Preparing for global competition also means adopting best international practices. The Mauritius Standards Bureau provides testing facilities to obtain product marks and other regional and international quality standards and certificates. Government will finance up to 50 percent of the cost of these tests to registered SMEs.

Co-operatives

77. Another thrust of our policy to further democratise the economy is to continue our support to cooperative societies. In fact, they have, at an early stage in our

history, relied on the use of collective strength to carry out business activities. Cooperators know that by working together they can accomplish more than the sum of individual efforts. Our policy is to encourage them to carry on with their positive work. We have already earmarked land at Réduit for the Cooperative House.

78. This year, we are increasing the Budget for the cooperative sector to Rs 63.2 million.

Small Retailers

79. Since the year 2000, retail trade in Mauritius has witnessed major changes.

80. The opening of supermarkets and hypermarkets has affected the share of business held by small retailers. Government recognises the fact that thousands of families depend on retail trade for their livelihood. To correct a serious anomaly that puts small retailers at a disadvantage, retail shops, except those selling liquor ON premises, will be authorised to stay open till 21.00 hours on week-days and till 22.00 hours on Saturdays. This measure will also provide more opportunities for part-time employment.

Local Business Councils

81. To put the maximum chances of success on the side of small businesses, we need to encourage them to interact more among themselves and with various levels of government. We also need to bring them together into a process of well-structured interaction and dialogue with government. As a first step, our Municipalities and District Councils will be encouraged to set up Local Business Councils. All registered businesses will, de facto, be members of the Business Council. This will give a new and broader dimension to the process of public/private sector dialogue.

INVESTMENT AND EMPLOYMENT CREATION

82. I will now elaborate on our plan to boost private investment and employment creation.

83. Every year, we need to invest a part of the country's output to secure future economic growth. The more we invest, the higher the growth rate. And every effort

that we put in to stimulate and facilitate investment is also an effort to stimulate and facilitate employment creation. That is why, year in, year out, boosting investment is at the heart of our economic policies.

84. Government is aware that investors have to operate within an environment that is made up of a number of factors that delay the implementation of their projects. We are therefore making it our policy priority to eliminate unnecessary delays and administrative hurdles so as to make procedures more business friendly.

85. That is why, the Board of Investment recently announced a “Framework for Declared Projects” within which investment projects in selected sectors will be approved in less than 24 hours. Under this new system certain projects will no longer stay in abeyance for weeks and months, before being approved. The relevant legislation will be amended accordingly.

86. Our efforts to facilitate investment do not stop here. We will also provide a new legislative framework for permits and licences. The Investment Promotion (Miscellaneous Provisions) Bill will be introduced shortly in the National Assembly.

87. In addition, a High Level Facilitation Committee, under my chairmanship and comprising chief executives of Ministries and Agencies will be set up to ensure that secondary permits are issued without undue delays. The Committee will also consider the re-engineering of procedures leading to approval of permits and will ensure proper follow up of implementation of investment projects. BOI will act as secretariat to the Committee.

88. We are also including in the tariff schedule itself a large number of duty concessions that were being granted administratively or by way of statutory remissions.

89. We are rationalising the investment incentive schemes. At present there are 21 such schemes managed by the BOI. They will be reviewed and consolidated. We want the schemes to be few in number, and simpler to administer while at the same time better reflect policy priorities and investors’ needs. In this context, the Industrial Expansion Act will be amended.

Information and Communication Technology

90. Government started its mandate with a grand vision of transforming Mauritius into a Cyber Island. We established a road map to realise that vision and we said that we would move forward in phases, starting with putting in place the required infrastructure at the Ebene Cybercity including a Cyber Tower. Even before the commissioning of the Cyber Tower, more than 30 percent of space has been rented. This is a visible sign of success on which we will build further.

91. We are making good progress generally in the development of ICT. Some 57 companies are operating in the ICT sector, 22 of which are call centers, 15 are BPOs and 10 are software development companies. Some 2,000 persons have found employment in these companies.

92. To give a boost to Business Process Outsourcing activities, we have recently established a BPO secretariat at the BOI. It is fully operational and is promoting and facilitating all BPO related projects whether financial, logistics or ICT.

93. In a dynamic and fast moving ICT market, we must constantly protect and enhance our competitive edge. Government will therefore revisit the existing ICT Scheme to make it still more attractive and more investor friendly.

94. We must also send clear signals to investors that the skills required for call centres would be available in Mauritius. To this end, we are launching a national programme for training of 5,000 SC and HSC holders, over the next two years, in skills related to Call Centres and BPO activities.

95. I must also announce that this year 100 University of Mauritius graduates will benefit from Government support to follow a high-level training course in ICT at the Infosys Campus in Mysore. Successful students are guaranteed employment at Infosys Mauritius. We welcome this initiative for the training of our students.

Seafood Hub

96. The Seafood Hub is emerging as an industry that has great potential for further diversification of our economic base. It will eventually comprise a centre for transshipment, processing, storage, distribution and re-exportation of high value-added

seafood products.

97. Government has moved fast to facilitate investment in that sector. Close to half a billion rupees are being invested, creating more than 1,000 direct employment.

98. I am providing funds for the One-Stop-Shop Service which has been operational since the beginning of this month at Mer Rouge.

99. The Seafood Hub must form an integral part of our overall policy to develop the fisheries industry. We want to ensure that as the Seafood Hub expands, it generates benefits downstream to all stakeholders in the fisheries sector. At the same time we must build the capacity within this sector to take advantage of the development of the Seafood Hub. Therefore, we will continue our efforts to consolidate the sector.

100. DBM will set up a special loan scheme to finance the setting up of fish and seafood processing plants including cold room facilities.

101. The Food and Agricultural Organisation will fund a study to evaluate the fisheries potential and develop a proper management plan for the sustainable exploitation of resources in St Brandon.

102. I am making provision for renovation works at Albion Fisheries Research Centre and for the purchase of an atomic absorption spectrometer for analysis of heavy metal contents in fish.

103. The Fisheries Training and Extension Centre at Pointe aux Sables will be operational soon. Its functions are to enhance knowledge and skills of fishermen to operate in outer lagoon, to ensure effective fisheries management and safety at sea and to create awareness on marine conservation. Rs 30 million have been provided in this Budget to finalise construction of that centre and to purchase equipment.

104. I am also making provision for the construction of one fish landing station at La Preneuse, three fish landing platforms at St Francois Calodyne, Grand Sable and Bambous Virieux and for the upgrading of fishing posts at Trou aux Biches, Case Noyale, Riambel, Mahebourg and Trou d'Eau Douce.

105. I am providing Rs 7 million for the Balaclava Marine Park and for the laying of buoys at Cambuse and Choisy.

106. In line with the provisions of the Food Act, we will encourage investment in equipment for cold storage of food, including fish products. To this end, insulation panels and refrigeration units for chill/cold rooms and distribution trucks will be exempted from customs duty.

107. This year, I am increasing the bad weather allowance to registered professional fishermen to Rs 135. Various reports have underlined that the criteria for payment on bad weather allowance may lead to abuses. In line with the principle that Government must be fair and responsible, clearer criteria will be set after consultation with stakeholders.

Agriculture

108. Agriculture, both sugar and non-sugar, is one sector that is facing important challenges. It will be increasingly subject to competitive pressures. Government is fully aware that investing in agriculture is inherently risky and investing in projects for export is even more risky. However, we have no other option but to continue to rely on agriculture for value-added, for investment and for job creation. Our national strategies for agricultural development are spelt out in the Sugar Sector Strategic Plan and the Non-Sugar Sector Strategic Plan.

109. Government will soon start consultations with stakeholders on the Mid-Term Review of the Sugar Sector Strategic Plan. In the meantime, we will continue our support to the agricultural sector on various fronts. Our focus will be on building research capabilities, on improving irrigation facilities, encouraging mechanisation and de-rocking.

110. Implementing Phase 2 of the Northern Plains Irrigation Project will improve yield on the land of some 3,800 planters. In the next two years 1,150 planters will benefit from irrigation at Fond du Sac, Belle Vue Pitot and l'Esperance.

111. The irrigation network in the north is being converted from the high pressure sprinkler system to more efficient systems combining drip, centre pivot and solid set

irrigation. Around 1,800 planters will benefit from the new systems.

112. Government is also financing small scale irrigation projects at Victoria and Calebasse covering a total area of 208 hectares for the benefit of 170 planters.

113. In this Budget, I am providing Rs 127 million for irrigation projects.

114. Implementation of the Non-Sugar Sector Strategic Plan is also on-going. Its focus is on development of high value-added products with export potential. It is a plan that builds on strengths and tackles weaknesses. Our actions to support that sector include appropriate institutional backing, financing facilities, marketing intelligence, training as well as research and development capabilities.

115. The National Biotechnology Institute will be expected to play a key role in the development of the non-sugar sector. I am providing Rs 40 million to start construction work on a building to house that Institute.

116. Mauritian producers must stand prepared for the more stringent WTO regulations and new European norms on horticultural products. We will therefore set up a Certification Body with adequate resources for phytosanitary certification.

117. The Sugar Planters Mechanical Pool Corporation will include fine de-rocking facilities for non-sugar cultivation in its portfolio of activities.

118. The DBM will set up a new Small Planters Diversification Scheme to finance land preparation for non-sugar cultivation.

119. Government is providing resources to the Agricultural Research Extension Unit (AREU) for training planters on latest cultivation techniques.

120. A mother seed unit and an internationally certified seed laboratory will be set up to cater for production of quality mother seeds.

121. The setting up of an Agricultural Centre to provide maximum services under a single roof at Rivière des Anguilles has met with encouraging success. Next year, Government will open five more Agricultural Centres at Roches Brunes, Flacq, St Pierre, Rivière du Rempart and Long Mountain.

122. I am providing Rs 60 million for completion of the construction of the Food Technology Laboratory.

123. The Market Intelligence Unit which will be operational soon will make available to producers up-to-date information on trends on international markets.

Financial Services

124. Government has adopted a programme of fundamental reforms in business and financial services.

125. A working document on a Financial Reporting Bill has already been circulated for public consultation. The Bill which will be presented to the National Assembly next month, will establish an oversight of the accounting and audit profession, a professional body for accountants, as well as a framework for corporate governance.

126. The Ministry of Industry, Financial Services and Corporate Affairs, is releasing tonight, on its website, working documents on a new Securities Bill, a new Insurance Bill and an Investment Limited Partnership Bill.

127. Preparation of the Private Occupational Pension Bill is at an advanced stage and will provide a legal and regulatory framework for private sector occupational pension schemes. A new Insolvency Bill is being finalised. It will facilitate restructuring of viable businesses and provide for the efficient closure and transfer of assets of failed enterprises.

Tourism Sector

128. Government will also continue its support to operators in the tourism sector. The Mauritius Tourism Promotion Authority will reinforce its promotional efforts with particular focus on markets with potential for high growth, namely China, India and some Middle East countries. I am increasing provision for the promotion of tourism from Rs 140 million to Rs 160 million.

129. We are getting positive results from our tourism promotion and from our policy to stimulate investments in hotels. By end 2006 the number of hotels is expected to increase by 17 and the number of rooms to 3,200. Our national carrier is

negotiating for more flights in order to cope with the projected expansion of the market.

130. An Air Access Policy Unit is also being set up to advise Government on air access policies.

131. More and more of our youths are showing an interest for a career in the hotel industry. The Hotel School at Ebène is operating at full capacity and has no room for expansion. We are therefore taking training facilities to Pointe Jérôme.

132. Part of the Pointe Jérôme Youth Centre will be converted into a school for training in hotel and tourism. In the first phase, the school will have an intake of 250 trainees. This move to Pointe Jérôme is also in line with our philosophy to set up training facilities in areas where there is a high concentration of job seekers.

Manufacturing

133. Our manufacturing industry, in particular the textile and clothing sector, is feeling the full impact of pressures from global competition and trade liberalisation. I said at the outset that our enterprises must be better prepared to overcome these threats. Government is putting in all necessary efforts to enhance the resilience of our enterprises. In that endeavour, there is close cooperation between government and private sector institutions. It is our deepest conviction that, notwithstanding the present difficulties, the textile sector will continue to occupy a place of prominence in our economic landscape. And our actions show very clearly that Government will not let down a sector that employs more than 75,000 men and women and that has taken us decades of hard work to build.

134. The Textile Emergency Support Team (TEST) initiative has shown how collaboration between the public and private sectors can assist in supporting textile and clothing enterprises to restructure. We are taking this effort a major step forward. We are formalising the TEST initiative by creating a new integrated institutional support organisation which will now cover the entire manufacturing sector.

135. A private company limited by shares, jointly owned by the public and private sectors will be set up to deliver flexible and responsive services to enterprises

throughout their life cycle. It will be a key instrument to bring about a re-engineering of our industrial sector.

136. The core activities of MIDA, EPZDA and SUBEX-M will be taken over by the new entity. The industrial estates of MIDA will be transferred to a new state-owned company, dedicated to the management of industrial estates.

137. It will be granted a Specified Entity Status under the SIE Act. In setting up new industrial space, the company will give priority consideration to deprived areas. It is Government's intention to bring eventually all industrial estates under one single management.

138. The Board of Investment will organise investment missions to attract international partners for teaming up with our manufacturing enterprises in order for them to secure technology and managerial know-how.

139. The Mauritius Standards Bureau, as well as the Legal Metrology Division will also be restructured to make them more responsive to the new trade environment.

140. To bring down manufacturing costs and improve the competitive edge of our enterprises, we are reducing or abolishing customs duty on a number of industrial inputs, components and parts, such as conveyor and transmission belts, pumps and air compressors.

141. The necessity for a major industrial restructuring process has been emphasised in every budget over the past years. It was in this context that a special allowance of 25 percent, over and above the existing 25 percent investment allowance, was introduced in 2000 in our income tax legislation. It allowed manufacturing enterprises to claim, as investment allowance, a total of 50 percent deduction of the amount invested in modernisation of production equipment. This special investment allowance was of limited duration of two years to encourage our enterprises to gear themselves up to the challenges ahead at a very early stage. To give them some more time, this was extended in 2002 for another two years, i.e., up to 30 June this year. It is a matter of concern that few enterprises have so far been taking advantage of it. I am proposing to renew this special tax incentive for another four years but at a graduated scale, namely 25 percent in the coming financial year, 20 percent in the

following year, then 15 percent and 10 percent in the year ending 30 June 2008, when the incentive will be terminated. Thus, the earlier the investment takes place, the higher will be the tax benefit.

142. To give further protection to our industry we are finalising the Antidumping, Countervailing and Safeguard Measures Bill. It will be introduced in the National Assembly during the year. It will provide the legal framework for investigations into complaints of unfair trade practices, determination of injury to local industry and eventual application of anti-dumping and countervailing duties.

143. These actions together with our measures to facilitate investment and to give greater access to finance should put our manufacturing sector on some solid grounds to face the future.

144. Our next action is to create investment and employment opportunities through imports. Indeed, we can turn some of our imports into potential investments and exports by entering into Trade Offset Arrangements with some companies from which we are importing. Offset transactions and agreements are carried out in more than one hundred countries around the world and make up more than 15 percent of world trade. The benefits for Mauritius would be more foreign direct investment, more jobs, transfer of technology and opportunity to promote targeted industrial sectors. These are opportunities that we cannot afford to miss. Therefore, a Trade Offset Programme (TOP) will be set up to promote collaborative business ventures and trade between foreign companies exporting to Mauritius and local companies.

EMPLOYMENT CREATION: A FOCUSED APPROACH

145. Boosting investment is one way to create more jobs. But our endeavour cannot end here. And it does not end here. Our actions to promote employment must be focused on the factors that make it difficult for many to get a job. Therefore, our strategy to give access to employment includes: measures to reintegrate the long-term unemployed; measures targeting the hardest to place; development of a network of effective employment service; and measures to address the paradox of people being out of work while employers are finding it difficult to fill vacancies.

146. My first action is aimed at those unemployed who have not passed the CPE. I

am providing for special training programmes in a number of areas, including horticulture, livestock, masonry, plumbing, embroidery and basketry. The programme will start with some 3,000 trainees this year. Each trainee will be offered a stipend of Rs 1,500.

147. My second action is aimed at those unemployed who have studied up to Form V and have not passed the School Certificate Examinations. For them, we will provide training in air-conditioning and refrigeration, automotive trades, clothing and textiles, jewellery and repairs and maintenance of equipment. These trainees also will be offered a stipend of Rs 1,500.

148. Third, I am extending the Skills Development Programme. Last year some 360 graduates and diploma holders benefited from this programme. I am providing the necessary funds to extend that programme to 600 graduates and diploma holders.

149. These measures together with the ICT training for SC and HSC holders which I mentioned earlier will cost Government Rs 45 million this year.

150. Mr Speaker, Sir, among those without employment, there are families without any bread-earner. The Ministry of Labour, Industrial Relations and Employment has started a programme to reach out to these families. In collaboration with the Ministry of Women's Rights, Child Development and Family Welfare, the Trust Fund for Social Integration of Vulnerable Groups and other institutions, it is carrying out a house to house service to these families. They are offered the choice between starting a micro business or taking up one of the thousands of jobs currently available in the EPZ. Depending on the choice they make, they are provided either a micro credit or a three-month training by the EPZDA along with a stipend. Four of such visits have already taken place in Tranquebar, Roche Bois, Batterie Cassé and Vallée des Pretres. This service will be extended to other regions like Plaine Verte, Pailles, Cité Vallijee, Petite Rivière and Pointe aux Sables.

151. The new training programmes I have mentioned add to the numerous training facilities already being offered by the IVTB. In this Budget, I am providing Rs 165 million to the IVTB. This amount will be supplemented by IVTB's own funds of Rs 45 million and by another Rs 45 million from the National Training Fund.

152. In all, some Rs 300 million will be spent on training next year.

153. Mr Speaker, Sir, we are giving budgetary visibility to our policy on training because we believe it is the answer to the problem of mismatch on labour markets. We also believe it is a shared responsibility of Government, employers and trade unions to participate fully in our policy to give appropriate training to our workforce. This is an area where we must all come together and prepare our workforce for the challenges ahead.

154. Our next measure to the unemployment problem is to upgrade the 13 Employment Information Centres operating in various regions of the country. These Centres have a key role to play in reducing frictional unemployment. Provision is being made to upgrade human resources. We will monitor very closely their performance to ensure that they play an enhanced role in providing the necessary information both to job seekers and to employers.

155. The Labour Market Information System will be implemented. All the 13 Employment Information Centres will be linked and operated as a network. These links will extend to the Ministry of Labour and hopefully to the private sector to ensure a smooth flow of information to all those who need them. I am providing Rs 6 million for these projects.

INSTITUTIONAL REFORMS

156. In our endeavour to boost investment, we must not lose sight of the importance of institutional support to businesses and entrepreneurs. Sometimes we do not need to spend more to improve institutional support. Where they are ineffective, we need to align their role and functions with new needs and expectations. Where there is waste due to overlapping and duplication, we need to take action. And no responsible Government should spend tax money on institutions that have outlived their purpose or are not performing. Our responsibility is to put these institutions on the path of fundamental reforms.

157. I have already announced the integration of MIDA, EPZDA and SUBEX-M and a new approach to management and construction of industrial estates.

158. In that context, a full review of the role and functions of DBM will also be carried out.

159. There is also a major institutional review ongoing in agriculture. It concerns both the sugar and non-sugar sectors.

160. The Mauritius Freeport Authority will be integrated into the Board of Investment. There will, however, be a dedicated unit at the BOI to cater for specific needs of operators in the Freeport. Licensing of these operators will be carried out by the Customs Department.

161. My Ministry itself will undergo a major re-organisation. Our aim is to get the best results from the recent integration of finance and economic development. With technical assistance from the World Bank, we will come up with a new organisational structure. In the meantime, I am pleased to announce that all main revenue collection departments at my Ministry will soon be brought under the purview of the Mauritius Revenue Authority.

162. The most crucial support to our philosophy of being prepared must come from the civil service. Spending on the civil service should not just be about upgrading facilities. It should be about improving the quality of its services. We will therefore continue to invest in the civil service to enable it to improve its performance, delivery and productivity.

163. First, we will provide more training for public officers. An overall exercise will be carried out to assess training needs in the civil service. Our objective is to match training with the need for improvement in customer service.

164. Second, we will continue to support public officers who invest in themselves. I am providing Rs 5 million through the Distance Learning Scheme to support those who take courses to upgrade their skills. I am also increasing the provision for ICT training for public officers to Rs 12 million.

165. Third, every Ministry will be required to report regularly on the management of physical assets in their custody to a central physical asset management unit at my Ministry. This is to ensure that all physical assets of Government, from land to

buildings, equipment and vehicles are properly managed.

BETTERING THE QUALITY OF LIFE

166. I will now announce our actions on a number of issues that affect our citizens and the overall quality of life in our country.

167. First, traffic congestion. The number of vehicles on our roads keep increasing and so do the number of commuters at peak hours. Thousands of our citizens are caught in traffic jams everyday. Government will not turn a blind eye to that problem. But the problem is complicated and the solution very costly. We have a choice to make between a quick solution that will put an unbearable burden on taxpayers and a measured and responsible phasing of solutions. We cannot but choose the latter. This means that we will continue with the more affordable option of expanding the road network to divert traffic from congested areas.

168. We are implementing this year the North-South link by-passing Port Louis, through Malenga and Creve Coeur. It is expected that traffic through Port Louis will be reduced by about 15 percent during peak time. Tenders will be invited by the Road Development Authority in December 2004 and works should start by April 2005.

169. The Road Development Authority will also oversee the construction of the Vandermeersch-Réduit Link Road to alleviate traffic congestion in the Rose Hill town centre. The road will equally connect the Cybercity through the recently completed Ebène-Trianon link road.

170. Works on the South Eastern Highway linking Plaine Magnien to Kewal Nagar, by-passing Mahebourg will start soon.

171. The LRT project remains a solution for traffic decongestion in the long term. I am providing Rs 20 million for detailed studies on that project.

172. As a medium term solution, we are starting a programme for decentralisation of government offices from Port Louis. To this end, an administrative block will be constructed at Ebène Cybercity. Construction works are expected to start by August.

173. Besides traffic congestion, road safety has also become a major concern for our citizens. Mauritius has one of the highest death rates in road accident in the world. To address this concern, we will step up our road safety programme. The Budget provides Rs 20 million for road safety campaigns and road traffic improvement.

174. While I am on the theme of transportation, I wish to announce that I am reviewing the taxation regime for taxis. We are aligning the fee payable on first registration of taxi-car, whatever its type and engine capacity, on that applicable for public buses, that is an amount of Rs 20,000.

175. As a further encouragement to the use of cleaner fuel on our roads, the applicable rate of duty on car gas conversion kits will be reduced from 40 percent to 20 percent. This concession will be available only to companies approved to make such installations on motor vehicles.

Law and Order

176. There is no better safeguard of the quality of life in a country than a strong and reliable system of law and order. In this Government, we are proud of our achievements on this front. The progress we have made to restore law and order is clear and undisputable. Today, our population feels much safer and more secure. We have achieved this through firm and resolute leadership and through concrete and effective actions to combat crime in all its forms. We will uphold our resolve and pursue our actions. It is for this reason that we will never lose sight of the needs for our police force, in particular the Anti Drug Smuggling Unit, to be on top of any situation that threatens our way of life.

177. I am therefore providing Rs 80 million for the purchase of vehicles and equipment, and allowing for the recruitment of 700 trainee police constables. This will enable the police department to improve its response capacity and to combat crimes, in particular drug trafficking.

178. Second, Rs 33 million will be spent on the construction of Police District Headquarters.

179. Third, Rs 20 million are being allocated for overhaul of two helicopter aero-engines.

180. Fourth, I am providing Rs 75 million for the procurement of new passports and installation of a passport personalisation system.

181. Total provision for the Police Department is being increased by 17 percent to Rs 2.7 billion.

182. To address the problem of overcrowding in our prisons, a new wing will be constructed at Petit Verger and improvement works will be pursued at various other prisons. I am also providing for 84 additional posts at various levels in the Prison Officers grade.

Judiciary

183. To strengthen the judicial system we are providing for filling of vacancies in different grades, and for the implementation of the New Supreme Court Building Project on a Public Private Partnership basis. All tender procedures under the Central Tender Board Act will be followed.

Arts and Culture

184. Another key influence on the quality of life as well as on the values of our society is the importance we attach to arts and culture.

185. The heights that we reach in arts and culture are a measure of the evolution of our society. Our citizens must be able to live to the full the cultural diversity that our country nurtures.

186. Government will therefore continue to support the development of arts and culture on various fronts. This year we are providing for the setting up of the Professor Basdeo Bissoondoyal Trust Fund. I am also increasing the grants to Malcolm de Chazal Trust Fund, the National Heritage Trust Fund and the Mauritius Museums Council.

187. Le Morne Heritage Trust Fund has been set up this year to give Le Morne site its rightful place in our cultural scenery. I am providing necessary funds in this

Budget to preserve and promote the site as a “lieu de mémoire”.

Leisure

188. Equally important to the quality of life is availability of leisure. The SSR Botanical Garden is a legacy for which we are very proud and that we must pass on to future generations. The Garden has always been the sole responsibility of Government. We are changing that approach so that we can mobilise more resources to preserve that legacy. We are therefore leasing 15 acres of land adjacent to the Garden to the State Investment Corporation Limited and the Sugar Investment Trust for development. They will implement an integrated project including an upgrading of existing infrastructure in the garden and will create new leisure facilities, on the 15 acres of land.

189. Another place of attraction to Mauritians as well as tourists is the Chamarel site. A craft centre will be set up which will comprise outlets for local handicraft and manufactured products. A hiking track will also be developed at Chamarel.

190. Government is also implementing its plan to develop fully the potential for more leisure activities at our beaches. We are putting four acres of land at Belle Mare, Flic-en-Flac, Mon Choisy and Le Morne for the setting up of nautical centres. These centres will provide leisure facilities such as sailing, boating and windsurfing at affordable prices.

191. We are also providing for leisure and sport tracks at Sept Cascades.

Youth and Sports

192. Sports hold a place of great prominence in improving the quality of life, not only for those who like to watch sporting events but also for those who participate directly. Government policy is to take sporting facilities to the majority of our citizens and not just to a few. That is why every year we spend on new facilities, on maintaining and upgrading existing ones and on support to our athletes.

193. The sixth Indian Ocean Islands Games last year was a resounding success. It was a clear example of how sports can bring all Mauritians together and contribute to national unity. It was also a clear example of the extent to which our youth will go to

express their patriotism and their love for their country. I am convinced that if we invest in our youth, we are investing in a brighter future for our country.

194. I am therefore providing Rs 26 million for promotion of youth activities, for the National Youth Council, for renovation and for construction of youth centres, including one at St François Xavier which will be funded by the National Development Unit.

195. I am also providing funds for the re-introduction of sports competition in secondary schools.

196. I am allocating Rs 15 million for construction of the swimming pool at Mare d'Albert.

197. I am providing Rs 12 million for upgrading and renovating our stadiums and for maintenance of sports infrastructure.

198. I am also pleased to announce that I am lowering customs duty on camping tents and sleeping bags from 80 percent to 40 percent.

199. Total provision for the Ministry of Youth and Sports next year will amount to Rs 224 million.

MORE PROTECTION TO CONSUMERS

200. I will now announce our actions to give more protection to our consumers. Our citizens are concerned about abuses of market power and Government shares that concern. While we will continue to pursue a policy of price liberalisation, we will not abandon our resolve to protect consumers. Indeed, we will strengthen our capacity to ensure that markets are more competitive and that prices are fair. The Ministry of Commerce and Cooperatives will set up a Market Monitoring Unit. This Unit will have a broad range of responsibilities. It will monitor and analyse the evolution of prices and the exercise of market power, focusing on products purchased by consumers in the lower income group. It will enable Government to take prompt action and give better protection to consumers.

201. The Unit will supplement and support the Office of Fair Trading, which will

be set up under the Competition Act. I am providing Rs 2 million for the setting up of that Office and the Competition Appeal Tribunal.

202. We are also giving greater protection to bank customers. The new Banking Bill, which will be introduced in the National Assembly shortly, will provide for the appointment of a Banking Ombudsperson.

203. The Bill will require banks to furnish regular statements of accounts and to fully inform clients on bank charges.

204. It is current practice for banks to impose a charge on customers whose deposits are below a minimum amount. Under the new banking legislation, banks will not be allowed to impose a charge on such accounts without informing the customer by way of a letter. The customer will be allowed 6 months to respond to the letter. Deposits less than the minimum balances, if left untouched for more than one year, will have to be returned to the customer or transferred and kept by the Central Bank for refund if claimed.

205. The low interest rate on savings account has a significant adverse impact on the income of savers, particularly for our senior citizens. I am pleased to announce that in line with their corporate social responsibility, a number of commercial banks have offered to pay a higher rate of interest on deposits of senior citizens. They are raising their interest rates by 50 basis points above the normal rate on aggregate deposits not exceeding Rs 500,000. We welcome and commend this gesture of solidarity with our senior citizens.

206. Mr Speaker, Sir, rising prices can put tremendous pressure on the budget of consumers with low incomes. After giving deep thoughts to this problem, we are revisiting our price policy to bring relief to as many consumers as possible. Mauritians spend more than Rs 1 billion every year on medicines and pharmaceutical products. As a caring Government we are taking the following measures:

- first, we are abolishing the 5 percent customs duty on pharmaceutical products. Such products will henceforth be totally free of duties and VAT;
- second, we are lowering the prescribed maximum mark-up on

pharmaceutical products from 45 percent to 35 percent;

- third, we are reducing the special allowance from 5 percent to 2 percent.

207. Mr Speaker, Sir, with these measures, prices for all pharmaceutical products should fall by 13.5 percent.

208. I should mention that the removal of customs duty will cost Government some Rs 50 million. But what is more important is that consumers will make a saving of more than Rs 135 million.

209. In addition, we are removing customs duty on a large number of food items, including

- food preparations for diabetics and for general health;
- health drinks such as soya milk and aloe vera drinks; and
- meat-free sausages and burgers.

210. Recently the dramatic rise of import prices of iron billets and bars has resulted in an inevitable increase in retail prices. This Government cannot remain insensitive to the consequential impact on construction costs. As an exceptional measure, I am abolishing the 30 percent rate of customs duty on 6 millimetre iron bars. This is expected to result in a 15 percent decrease in the price of 6 millimetre iron bars.

211. Government cannot stay indifferent to concerns expressed about the abusive practices relating to sale by levy. Too many of our citizens are falling victims to such practices. We are therefore setting up a High Level Committee chaired by an ex-judge to study the problem and to make recommendations on how to better protect our citizens. The Committee will comprise representatives of consumer associations, the legal profession, the banking sector and other concerned groups.

212. To give further protection to our citizens from professional misbehaviour by notaries and their clerks, we will review the Notaries Act. In the meantime, we will amend the Act to provide for disciplinary actions. These will include suspension against notaries suspected of wrong doings or subject to criminal investigation.

SOCIAL DEVELOPMENT AND POVERTY REDUCTION

213. As we continue to put our resources to work to achieve higher economic growth, so must we put our resources to work to consolidate social development. Economic success can only be sustainable if it is safeguarded by a sound and efficient social system. And enhancing social development is not necessarily about spending more, it is about spending smartly, about spending strategically.

214. In the last three Budgets, Government has sharpened its focus on education, health care, the environment, social welfare, poverty reduction and social inclusion. In this Budget, we continue these efforts with special emphasis on re-orienting resources to those in greatest need.

Education

215. I will first outline our policies and measures for Education. A strong and well-developed educational system is a critical success factor to preparing our nation to meet the challenges of globalisation and to our long-term goal of a more equal distribution of income. It is also sound public policy to spend on education for it benefits not only the individual but also society as a whole.

216. We spend a significant share of taxpayers' money on the education of our children. It is only fair that we do so. But at the same time we have to ensure that all children benefit from our education policy. Therefore, we are amending the Education Act to make schooling compulsory up to the age of sixteen for all children. At the same time, we are developing a National Assessment Framework to ensure that, on leaving school at 16, students would have acquired the core competencies required to face successfully the labour market.

217. Increasing access to education means spending more on infrastructure. I am, therefore, providing Rs 40 million for the construction of two new State Secondary Schools at Vacoas and Plaine Verte. I am also allocating Rs 80 million for the completion of the second phase of five new secondary schools, two at Ebène and one each at Hollyrood, Colline Monneron and Rivière des Anguilles. Finally, Rs 480 million are earmarked for the completion of 17 State Secondary Schools, three of which are of the MGI type and four Form VI Colleges. Provision is also being

made for the recruitment of 100 additional Education Officers and 27 additional non-teaching staff and the regularisation of 140 Supply Teachers as Pre-Vocational Education Officers.

218. Government is implementing the report of the Management Audit Bureau on the review of the grant in aid formula for private secondary schools. This will involve additional cost of Rs 39 million.

219. Last year we announced a major programme for construction and upgrading of toilets in state and primary aided schools. This year I am providing Rs 20 million to continue this programme.

220. Rs 22 million is being provided as a one-off grant to registered private pre-primary schools for upgrading their facilities with a view to meeting the new mandatory norms and licensing requirements. This grant will be given over a period of two years.

221. As promised, Government is implementing IT projects in all primary schools around the island. The total cost of the project is estimated at around Rs 1 billion. This year, we are starting the first phase of that project by establishing IT laboratories in 50 primary schools around the island.

222. One conspicuous weakness in our education system is the shortfall of some 4,000 seats at tertiary level. To address this problem, we need to encourage both domestic and foreign private investment in tertiary education. We will, therefore, provide a coherent and conducive regulatory framework to govern the setting up of private universities. There will be only one regulatory body for the purpose of registration, accreditation and monitoring of tertiary institutions.

223. We are also setting up an Open Learning Institute of Mauritius (OLIM) using the Mauritius College of the Air (MCA) as a base. OLIM will provide both academic education and professional training through a rigorous distance-learning programme in collaboration with renowned foreign institutions.

224. It is also our aim to upgrade OLIM into an Open University. It will thus have a major role in pushing the knowledge hub agenda and promoting life-long

educational opportunities.

225. Total budgetary provision for the education sector is being increased from Rs 5.8 billion to Rs 6.5 billion, that is by 12 percent.

Health care

226. Besides education, Government will also sustain its commitment to health care.

227. Our first main concern is to ensure that our hospitals have the required human resources to improve the quality of services. Therefore, I am providing over Rs 40 million to fill more than 650 vacancies and to create 670 additional and new posts.

228. Our second concern is to relieve the pressure on existing public health infrastructure. I am providing this year Rs 205 million to finance on-going infrastructure expansion at Dr Jeetoo Hospital, Victoria Hospital and Brown Sequard Hospital.

229. Our third concern is to ensure the availability of required equipment. I am providing Rs 60 million for the purchase of additional hi-tech equipment and computers.

230. Our fourth concern is that medicines are available in quantities required. I am allocating Rs 400 million for medicines and increasing provision for ayurvedic medicines from Rs 2 million to Rs 10 million.

231. Our fifth concern is that patients get the treatment they need. We have therefore earmarked Rs 75 million for dialysis treatment and Rs 28 million to assist patients who cannot be treated in Mauritius.

232. Overall budgetary provision for the Ministry of Health and Quality of Life is being increased to Rs 3.7 billion.

Environment

233. All our efforts to attain higher levels of development will have little impact on

quality of life if the environment in which we live is not well protected and not improved. Economic growth and demographic expansion have exerted tremendous pressure on our environment. The most serious threats come from solid waste, waste water and pollution of our rivers and beaches.

234. Therefore in this Budget, I am providing Rs 100 million for stage two of Plaines Wilhems Sewerage Project; Rs 140 million for St Martin Treatment Plant; Rs 510 million for the Environmental Sewerage and Sanitation Project and Rs 110 million for Baie du Tombeau Sewerage Project.

235. I am providing Rs 130 million for solid waste management of which Rs 90 million for construction of a new cell at Mare Chicose.

236. An amount of Rs 301 million is being provided for operation of Mare Chicose landfill transfer stations, refuse collection and management of public beaches.

237. Other major environmental projects include coastal protection works at Flic-en-Flac, Rivière des Galets and Grand Baie. I am also providing Rs 40 million for embellishment and landscaping works, creation of nature corners and cleaning of rivers.

238. Equally important is the implementation of an integrated environmental project at Rivière du Rempart. It will include family corners, promenade, amphitheatre and food court.

239. The National Development Unit (NDU) implements a large number of projects for improving social infrastructure and living environment all around the island. I am raising its budgetary allocation to Rs 400 million.

240. Total budgetary provisions for environment related projects will reach Rs 2.2 billion, of which sewerage works will account for Rs 1.2 billion.

Women, Child Development and Family Welfare

241. This year, we are making a very special effort to channel more resources towards policies and programmes for women, child development and family welfare. In fact, the biggest percentage increase in budgetary provisions this year goes to the

Ministry of Women's Rights, Child Development and Family Welfare – an increase of 31 percent. These resources will be used:

- to complete the multi-purpose complex at Phoenix;
- to construct a creativity centre at Pointe aux Sables;
- to meet the operating expenses of the National Women's Council; and
- to implement the Community and Micro Enterprise Development Programme.

242. We are determined to promote gender mainstreaming in all sectors of the economy and to promote entrepreneurship among women. This year, the budget of the National Women Entrepreneur Council will be increased by 47 percent to Rs 5.1 million.

243. For child development, we do not want to be thrifty. We are spending the most we can on their education, health and on their general well-being. But I believe we can do more for our children. I am therefore abolishing customs duty on slates, drawing boards, felt-tipped pens, crayons and pencils. This is also in line with our policy to bring down prices.

244. I am pleased to announce that I am also removing the 15 percent duty on feeding bottles, teats, soothers, bottle warmers and sterilisers, bibs, play pens, rockers and bouncers, baby chairs and bathing chairs.

245. To assist children in need, the Prime Minister's Fund for Children is being created. Donations made to this Fund will not be subject to any tax deduction limit. I am pleased to announce that the Ombudsperson for Children's Office will become fully operational this year.

246. It is also our conviction that family values must be preserved, for they tie our society together and constitute the basis for social coherence. A policy paper on family is being prepared to develop national strategies and programmes geared towards preservation and consolidation of family values.

Social Housing

247. Our next priority for social development is that every family should have a decent shelter.

248. I am pleased to report that the NHDC has completed 860 Firinga-type housing units and 691 more will be ready early next year. In the course of the year, NHDC will construct an additional 1,000 units on 15 sites. Government will finance the site infrastructure costs.

249. Construction of 1,522 housing units on 17 sites around the island, financed by the Exim Bank of China, will also be completed early next year. Government is providing Rs 185 million for implementation of infrastructure works in respect of these projects.

250. I am also providing Rs 20 million for continuation of infrastructure works on the Sites and Services project.

251. Mr Speaker, I announced earlier the abolition of duty on 6 millimetres iron bars to relieve the pressure of rising construction costs. I am now taking an additional measure targeted at all citizens with modest income and who are making efforts to construct their own houses. We fully understand the stress that rising prices of materials can put on their budget. I am therefore raising the grant for the casting of slabs by 25 percent from Rs 40,000 to Rs 50,000.

252. We also need to assist the very poor who cannot afford even a Firinga-type housing unit. The Trust Fund for the Social Integration of Vulnerable Groups will finance the construction of some 100 housing units on two plots of land donated by the private sector at Camp Le Vieux and Henrietta.

253. Government is also providing for rehabilitation works on the sewerage infrastructure in some NHDC Estates.

254. These social housing programmes will cost some Rs 813 million.

Poverty Alleviation

255. I announced at the outset that one of the main priorities of this Budget is poverty alleviation and social inclusion.

256. The existing Poverty Alleviation programmes, based on a participatory approach are strategic weapons in our fight against poverty. The Trust Fund for the Social Integration of Vulnerable Groups has already disbursed Rs 227 million. And some Rs 100 million more have been disbursed through the “A Nou Diboute Ensam programme”, the Rural Diversification Programme, and the “Levé Diboute Programme” in Rodrigues.

257. The results of these poverty alleviation programmes are encouraging. 205 micro enterprises have been set up and 61 out of 95 approved Community Development Projects have been completed within the IFAD Rural Diversification Programme. Furthermore, the Trust Fund has approved 575 micro projects and Rs 12 million have already been disbursed. Families in some 24 regions are benefiting from these poverty alleviation programmes.

258. Government will relentlessly pursue its endeavours towards poverty alleviation. To this effect, I am providing Rs 75 million to the Trust Fund.

259. Another major initiative on this front is the “Zone d’Education Prioritaire” to give additional support to needy children.

260. Furthermore, a survey is being carried out among 5,000 Standard V school children, outside the “Zone d’Education Prioritaire”, whose performance is cause for concern. The aim is to find out, with the cooperation of Parents Teachers’ Associations, the reasons for the poor performance of these children so that we can focus our support to them.

261. We will also put a very special emphasis on the use of micro-credit schemes to lift families out of poverty. A study will be carried out, with the financial support of the African Development Bank on the setting up of a dedicated micro finance institution.

Social Welfare

262. Besides spending on poverty alleviation programmes, Government gives a helping hand to thousands of our citizens through its social welfare system. I must emphasise that our social welfare policy is guided by the principle that every citizen

has a right to a decent life. The support we give to our citizens should be fair, efficient, effective and sustainable.

263. The Basic Retirement Pension (BRP) is one item of Government transfers that absorbs a lot of our resources. Presently, there are some 116,000 beneficiaries of Basic Retirement Pension. A one percent increase in BRP costs Government Rs 28 million. A number of reports have questioned the long-term sustainability of the Basic Retirement Pension, especially as our population is fast ageing and BRP is fully funded out of Government revenues. As a responsible Government, we are studying the issue very carefully to map out our strategy on pension reforms.

264. I said at the outset that our elderly feel they deserve more protection, more care and more recognition. Their expectations have not gone unnoticed. We are making a very special effort to increase the BRP rates, in spite of the extremely difficult budgetary situation. This will be accompanied by a major change in the structure of pension rates.

265. Presently, persons between 60 and 90 years of age receive a monthly pension of Rs 1,790. I am introducing two rates for pensioners in that age group. For those between the age of 60 and 70, I am increasing the rate to Rs 1,900 per month. For those above 70 and below 90, I am increasing the basic pension to Rs 2,000 i.e. an increase of 12 percent. The pension rate for those above 90 years of age is being increased to Rs 6,850 and for centenarians to Rs 7,795.

266. The monthly pension payable to wartime and peacetime ex-servicemen is being increased to Rs 525 and Rs 350, respectively. Medical and other grants provided to them are being raised by 10 percent.

267. Our social aid programmes cater for some 17,000 men and women. To maintain our support to them, I am increasing provision for social aid from Rs 210 million to Rs 225 million. The grant to charitable institutions will be raised to Rs 40 million and that for the NGO Trust Fund to Rs 14.8 million.

268. To enable charitable institutions to obtain higher financial contributions, I am doubling the maximum allowable deduction for income tax purposes on donations made by an individual to Rs 40,000. The ceiling for a company will also be doubled

from Rs 200,000 to Rs 400,000.

269. Under the Social Aid Act, a Carer's Allowance is payable to any parent with a child below the age of 15, who suffers from disability of at least 60 percent and requires constant care and attention. The annual income of the parent or the aggregate income of the parents should not exceed Rs 100,000. I am raising this income ceiling to Rs 130,000.

270. I am pleased to announce that we shall be funding a number of social projects and programmes. These include the construction of new recreation centres at Riambel and Pointe aux Sables, a new Disability Centre also at Pointe aux Sables and renovation works at the Detoxification Centre for substance abusers.

271. Funds will be channelled to NATReSA to continue its unrelenting fight to contain proliferation of alcoholism, drug addiction and HIV/AIDS. Cash allowances in lieu of blankets to recipients of social aid will be provided. Bus fares to some 500 disabled children attending day care centres will be refunded. A Mauritian sign language will be developed.

272. Mr Speaker, Sir, total provision for the Ministry of Social Security, National Solidarity and Senior Citizen Welfare will increase from Rs 5.6 billion to Rs 6.1 billion, that is, by Rs 500 million.

OTHER MEASURES

273. Before moving on to fiscal policy, I would like to announce our actions concerning the consolidation of democracy, Local Government, Rodrigues and Outer Islands and Fire Services.

Consolidating Democracy

274. In our manifesto for the September 2000 general elections, we made a commitment to reform our electoral system. I am pleased to report that we are moving ahead with the reforms that will introduce a dose of proportional representation in the electoral system. This will correct a certain unfairness resulting from the 'winner takes all' phenomenon and consolidate democracy in our country. Alongside the introduction of a dose of proportional representation, the promotion of

women's active involvement in politics will be pursued with an unprecedented determination. The reform process will ensure that a reasonable number of women serve as parliamentarians.

Local Government

275. As regards local authorities, further to the enactment of the new local government legislation, concerns have been expressed by certain village councillors with respect to their representation within the new municipal set up. Government has appointed a Committee to look into this issue and come up urgently with appropriate recommendations. Pending the report of the Committee, I am providing Rs 1.19 billion for next year as grant-in-aid to local authorities.

Rodrigues and Outer Islands

276. To enable the Rodrigues Regional Assembly to raise more of its own funds, Government will amend the Registration and Transcription of Deeds and Inscription of Mortgages, Privileges and Charges (Rodrigues) Act. It will provide for the proceeds thereof to be credited to the Rodrigues Consolidated Fund. Likewise, fees collected in Rodrigues under the Environment Protection Act will be used for financing the Rodriguan Budget.

277. For the Rodrigues Regional Assembly, we are providing Rs 1.2 billion. This is an increase of 10 percent on this year's budget for Rodrigues.

278. We are aware of the plight of children from Agalega who pursue their studies in Mauritius. The Trust Fund for the Social Integration of Vulnerable Groups is carrying out a survey in order to establish a support scheme for these children. The scheme will be financed by the Trust Fund.

279. As for the Outer Islands Development Corporation, Rs 34 million is being earmarked. This allows for the construction of staff quarters, purchase of fire fighting equipment, setting up of a new copra crushing plant and for meeting the operating deficit of the Corporation.

Fire Services

280. Our country has recently suffered from frequent outbreaks of fire. These have important social and economic costs. To address this problem, three fire stations will be set up in Triolet, Flacq and Tamarin. I am providing Rs 32 million for the purchase of vehicles and equipment. I am also providing for the recruitment of 65 firemen. The Fire Services Act 1954 will be reviewed. Total provision for Fire Services is being increased by 31 percent to Rs 183 million.

BUDGET ESTIMATES/FISCAL POLICY

281. Mr Speaker, Sir, having indicated my various expenditure proposals, I will now summarise the Budget Estimates for next year.

282. Various factors will weigh heavily on the Budget, namely implementation of the second phase of the PRB Report and the rising costs of our social welfare programmes. Rs 10.4 billion will go towards wages and salaries. Subsidies and current transfers will account for 40.7 percent of recurrent expenditure. Debt servicing will rise to Rs 9.6 billion. Net recurrent expenditure will thus amount to Rs 36.9 billion.

283. As regards capital expenditure, we have made provisions for major on-going projects in priority sectors. In view of competing claims from various new projects, we have prioritised our expenditure, favouring projects with maximum economic and social benefits. We have come up with a net capital expenditure provision of Rs 8.4 billion. This capital expenditure will be supplemented by investments made on a Public Private Partnership basis. I would like to mention that the appropriate legislation is being finalised and will be introduced in the National Assembly soon after consultation with all stakeholders.

284. On the revenue side, receipts from direct taxes will amount to Rs 7.4 billion, while collection from indirect taxes will reach Rs 25.3 billion. Non-tax revenue is estimated at only Rs 2.2 billion as compared to Rs 3.3 billion for the current year as no remittance is expected from the Bank of Mauritius. With grants and other capital receipts estimated at Rs 1.3 billion, total revenue will amount to Rs 36.2 billion.

285. The overall budget deficit will reach Rs 9.1 billion, representing 5 percent of GDP. Our primary deficit, which is the deficit calculated before interest payments,

will be equivalent to 1.2 percent of GDP. Let me point out that our overall budget deficit in 2004/2005 will be mainly attributable to our net capital expenditure of Rs 8.4 billion. Therefore, we are borrowing, for the most part, to finance our capital expenditure and not for meeting recurrent expenditure.

286. We consider that the 5 percent overall budget deficit, although higher than what was targeted in our Economic Agenda, is realistic and responsible. A lower deficit target would have imposed heavy adjustment efforts on the population.

287. By bringing down the deficit to 5 percent, this Budget delivers on the pledge that this Government made some four years ago to restore sound fiscal management and to bring down the deficit as a ratio to GDP. And Mr Speaker, Sir, our commitment is to maintain the deficit on that downward track.

288. By lowering the deficit we are at the same time containing the increase in the level of public debt. I must also stress that with a low primary deficit, most of our new borrowings will finance capital expenditure and not government consumption. This is critical to the sustainability of public debt.

289. Another important factor is the composition of public debt. Currently a significant proportion of our debt consists of loans with maturities of less than 2 years. Our objective is to have a balanced portfolio and a more even distribution of debt servicing commitments. To that end, we have recently amended the Loans Act to allow for the issuance of a wider range of long term debt instruments.

290. Thus, Mr Speaker, Sir, the three main pillars of our debt management strategy are:

- (i) reducing the ratio of debt to GDP;
- (ii) ensuring that new debt finances capital expenditure only; and
- (iii) a more optimal management of the debt portfolio.

291. Our aim in the medium term is to generate a primary surplus, that can be used to reduce our liabilities.

292. I will now outline the main features of Government's fiscal policies and

strategies.

293. Mr Speaker, Sir, back in October last, I said it was our moral responsibility to manage the finances of the Nation in total transparency, with full accountability for every decision taken. I said then that I will put an objective behind every rupee spent and set up a proper system to assess the value addition of every rupee. This Budget delivers on that pledge. We are today placing management of public finances on the path of fundamental reforms. We are introducing this year a Medium Term Expenditure Framework (MTEF) which will ultimately replace the present system of line-item budgeting. The new approach will allow Government to be more focused on objectives it wants to achieve, on results and on performance. It is more transparent and more efficient because it enables Government to take prompt action on programmes that are not working and to respond quickly to any contingency.

294. We are implementing that new system in the areas of Education and Training. The MTEF document on Education and Training is being circulated. In a second phase, we will extend the new approach to Health, Social Security, Environment and Public Infrastructure. In the final phase, the new system will be introduced in all ministries. When MTEF is fully operational, the annual National Budget will be cast on a three-year rolling basis instead of one year.

295. A second fundamental reform that this Budget introduces is the targeting of Government transfers. Government transfers are simply not sustainable if they are universal and open-ended. This puts a limit on our capacity to do more for the poorer segment of the population. I believe that this is an issue that calls for a bold decision. I am therefore implementing this year a targeted approach to Basic Pensions. As from October 2004, payment of Basic Retirement Pension (BRP) will be limited to persons with monthly income not exceeding Rs 20,000. However, there will be a tapering of benefits for those with monthly income in the range of Rs 16,000 to Rs 20,000. Targeting for other basic pensions will be introduced as from January next. The National Pensions Act will be amended accordingly. I am confident that our citizens in the higher income bracket will understand the need for greater solidarity with their compatriots who are at the lower rung of the income ladder.

296. Targeting will also be extended to the subsidy on SC and HSC examination

fees. Presently, all students benefit from a 50 percent grant in respect of examination fees, irrespective of the income level of their parents. This grant will henceforth be limited to those with family income not exceeding Rs 30,000 per month.

297. A third major reform concerns the tax administration system. The Mauritius Revenue Authority Bill has been finalised and will soon be introduced in the House. The objective of this major institutional reform is to ensure that we have the administrative capacity to combat tax fraud and to render our tax system efficient and fair. The reform that this Government started at Customs is giving positive results. The MRA will further consolidate that reform process.

298. Another reform is to quantify tax expenditures in Government's Budget. Tax expenditures are money that Government could have collected but has chosen not to collect, by giving tax concessions to individuals and to corporations. It is important that we keep track of these tax expenditures. My Ministry will carry out a comprehensive study on Tax Expenditure for the purpose of improving fiscal policy.

TAXATION

299. I will now announce our tax policies.

Tax Administration and Enforcement

300. My first action will be to step up efforts for undoing tax avoidance schemes, ensuring full compliance with tax laws and improving tax collection. It is simply not fair that some persons pay less than their dues. The Mauritius Revenue Authority Bill and the Finance Bill will contain a series of measures designed to achieve that objective.

301. The income threshold for professionals for the purposes of the Current Payments System (CPS) will be lowered from Rs 300,000 to Rs 100,000. For traders, the new threshold will be Rs 400,000. Any self-employed above those thresholds will be required to register with the Income Tax Department and submit CPS and tax returns, whether or not he has any tax to pay.

302. Provision will be made for disallowing certain tax incentives claimed by persons carrying on business or deriving income other than emoluments where books

and records are not kept properly.

303. Under income tax law, interest income above specified exemption ceiling is taxable. This provision has been very hard to enforce because of the difficulty met by the Income Tax Department to obtain on a standing basis information from financial institutions. Those obstacles will be removed. To protect income of small savers and pensioners, the current exemption ceiling of Rs 75,000 will be increased to Rs 100,000. On the other hand, all interest income above that ceiling will be taxable, regardless of the maturity of the deposits and instruments. I must add that no assessments would be raised in respect of taxable interest income that had not been declared in previous income tax returns.

304. The Value Added Tax Act will be amended to reinforce powers for retrieval of information from computers for investigation purposes and their seizure.

305. Appropriate amendments will be brought to the Registration Duty Act and the Land (Duties and Taxes) Act with a view to defeating new schemes devised for evading payment of taxes on transfer of property through abusive use of “sociétés civiles”.

306. The Rs 75,000 deduction from the value of immovable property granted to a first-time seller is being removed. On the other hand, the registration duty exemption for first-time buyer of residential land will be raised from Rs 100,000 to Rs 110,000 and for first purchase of a house or flat, from Rs 110,000 to Rs 130,000.

307. Provision will be made for making it an obligation to include the National Identity Numbers and photographs of both sellers and buyers in any deed witnessing transfer of immovable property.

308. The Customs Act will be amended to provide Customs with the necessary powers to effectively intercept counterfeit and pirated goods at time of importation, in line with the WTO Agreement on Trade Related Aspects of Intellectual Property Rights.

309. Provision will also be made to enhance the standards of professionalism and accountability of agents, clerks and brokers dealing with Customs.

310. To reduce possibility of fraud by such agents, the importer or owner of goods will be required to sign a declaration of facts on the Bill of Entry.

311. The provisions governing Customs powers for examination of goods will be re-examined and brought in line with international best practices.

312. I should also mention that work on a computerised Price Reference Database at Customs is making rapid headway. It is already yielding results, and is becoming a key tool for countering under-valuation. Steps are also being taken for entering into arrangements with other customs authorities for exchange of information on import values.

Campement Site Lease

313. Next, Government is coming up with a new policy for renewal of campement site leases. These are prime assets. They fetch very high premiums on the property market and their values are among the highest in Mauritius. We must ensure that the State obtains a fair return on them. Government will therefore introduce a system whereby lessees will be offered the possibility, before expiry of their existing lease, to extend the leases on new terms. These terms will be determined on the basis of the current leasehold value of the site and the time-period remaining to expiry of the lease. They will also have to pay rentals based on market values. Sites for which leases come to expiry may be put to auction. A number of sites will, however, be reserved for public beaches or other development purposes, in accordance with the National Development Strategy.

Excise Duties

314. My next set of measures relates to excise duties. Government started a reform of excise taxation in 2001. The aim was to gradually bring our excise taxation system in conformity with internationally accepted practices. I am taking that reform a step further.

315. Over the past 4 years, the differential in excise duty between imported and local cigarettes has been narrowed down from 175 to 90 percentage points. We propose this year to reduce that differential further to 75 percentage points. The two

components of the excise duty rates will be revised as follows:-

- the “ad valorem” duty will be increased from 125 percent to 130 percent for local cigarettes. In the case of imported ones, it will be lowered from 215 percent to 205 percent.
- As regards the “specific” duty, it will be raised from Rs 780 per thousand cigarettes to Rs 835, applicable on both local production and imports, that is by Rs 55. This incorporates a cess element which will partly finance the reform and restructuring of the Tobacco Board.

316. These measures will lead to an increase in the retail price of cigarettes of not more than Rs 2.00 per pack of 20.

317. I am also proposing to revise the rates of excise duty on locally manufactured alcoholic beverages. These specific rates have not been reviewed to take account of inflation since June 2001. I am adjusting them as follows:

- for beer, from Rs 12.10 to Rs 14.00 a litre;
- for rum, from Rs 50 to Rs 58 a litre;
- for country wine, from Rs 4.40 to Rs 5.25 a litre;
- for liquor, from Rs 60 to Rs 72 a litre;
- for aperitifs and liqueur, from Rs 30 to Rs 40 a litre; and
- for cane spirits, from Rs 120 to Rs 145 a litre.

Tourism Fee

318. I am further proposing to introduce a Tourist Arrival Fee of 20 Euros per adult tourist visiting Mauritius and Rodrigues. For children under 12, the fee amount will be 10 Euros. This new fee will not apply to holders of a Mauritian passport. Arrangements will be made for the fee to be levied at the time of purchase of air tickets. The framework for the operation of the Tourist Arrival Fee will be laid down in appropriate legislation. Our target is to make it operational by October 2004.

VAT and Customs Duty

319. Our policies on VAT and customs duty are intricately linked. As we meet our commitments for removing tariff barriers, we need to protect our VAT base and even extend it in the medium term. Our action for reducing the level of taxation on goods will rather focus on customs duty.

320. The total number of tariff lines on which we are either reducing or removing duty in this Budget will reach 310. I have already mentioned the abolition of duty on a number of items including pharmaceutical products; food preparations for diabetics, children's favourites, baby's essential items and on many industrial inputs. I am also abolishing duty on residual current devices and automatic circuit breakers, protective apparels for noxious environment; lenses, filters and other optical elements such as telescopes.

321. Last year, customs duty on prawns and shrimps was replaced by VAT. We propose to do the same this year in respect of other crustaceans and molluscs. Accordingly, the 40 percent customs duty will be abolished and those items will become subject to VAT. This measure will take effect as from 1 July 2004.

322. I am also proposing to correct a number of classification anomalies and loopholes that are leading to non-imposition of customs duty on some luxury products. These are jacuzzis, swimming pools, plasma TV monitors and laminated board and granite floor covering. They will now be subject to a 40 percent customs duty.

Corporate Income Tax

323. I will now announce our policy changes on income tax. On corporate tax, Mr Speaker, Sir, we need to ensure fairness while at the same time maintaining the investment drive of our enterprises. In a bid to encourage investment, numerous tax concessions, deductions, exemptions and incentives have been incorporated in our income tax system over the years. The underlying justification was to allow companies to retain the major part of their earnings so that these can be re-invested. In addition to internationally competitive tax rates, we have been providing extremely favourable tax treatment of capital expenditure and depreciation.

324. As a result, many companies make huge profits, distribute substantial dividends to their shareholders, yet do not pay any tax at all.

325. It is only fair that corporations that can afford to distribute substantial dividends should be able to pay their share of tax as these dividends are exempt from income tax. I am, therefore, proposing to introduce an “Alternative Minimum Tax (AMT)” on companies. If the total tax payable by a company as computed under the Income Tax Act, after availing of all eligible deductions, works out to be less than 5 percent of its book profits and if dividends have been paid out, the company will be required to pay 5 percent of book profits or 10 percent of dividends paid out, whichever is the lower. The AMT will not apply to certain categories of companies.

326. I will propose in the Finance Bill fine-tuning of certain provisions of the Income Tax legislation relating to definition of securities and of depreciable assets and to the Investment Relief and Investment Tax Credit. Will also be addressed certain anomalies in the Schedule of exempt income related to income derived from sale or use of bagasse and consultancy services provided by non-residents. The Finance Bill will further amend the Ports Act to provide for more flexibility in the determination of the level of distribution of surplus of the Ports Authority.

327. I should mention that following the introduction of International Accounting Standards, a Consultative Committee is being set up to study their implications on income tax legislation and make appropriate recommendations. Similarly, consultations will be held with accounting firms on the issue of approved tax return dates and changes in accounting dates.

Personal Income Tax

328. I will now come to personal income tax. I have aligned our expenditure priorities with the underlying philosophies of the Budget. Our personal income tax policy is also geared to these same philosophies, with particular emphasis on lowering the tax burden on the majority of taxpayers.

329. I am therefore increasing basic personal deduction from Rs 75,000 to Rs 80,000. Deduction for dependent spouse is being raised from Rs 60,000 to Rs 65,000.

330. I am rationalising the various tax deductions presently granted in respect of dependent children. The deductions will henceforth be provided under two separate components, namely a Basic Dependent Child Deduction and a School Fees Deduction. Every taxpayer will be able to claim, in respect of a dependent child a Basic Deduction of Rs 30,000, that is 20 percent higher than the current child allowance. In addition to that amount, he will be allowed to claim, upon production of relevant receipts, the amount of school fees paid for the education of his children, up to a certain limit. The limit will be Rs 10,000 for a child attending pre-primary, primary and secondary schooling. For a child pursuing post-secondary education in Mauritius the deduction ceiling will be Rs 80,000. For a child pursuing post-secondary education abroad, the full amount of Rs 80,000 will be allowable. With these changes, a taxpayer will be able to deduct from chargeable income a total amount of:-

- Rs 30,000 in respect of an infant, instead of Rs 25,000;
- up to Rs 40,000 for a child in pre-primary, primary or secondary school, over the current limit of Rs 33,000; and
- up to Rs 110,000 in respect of a child pursuing tertiary education, against Rs 50,000 presently for those studying in Mauritius and Rs 100,000 for those overseas.

331. Mr Speaker, Sir, I will now announce a measure that will bring yet more savings to virtually all taxpayers. I am proposing to do so by restructuring the income tax rates and bands. There are currently only two tax bands, namely a rate of 15 percent applicable on the first Rs 25,000 of chargeable income whilst a rate of 25 percent is imposed on the remainder. This means that taxpayers having chargeable income of, say, Rs 30,000, Rs 300,000 and Rs 3 million respectively will all be subject to the same top marginal tax rate of 25 percent. I consider this to be inequitable and unfair. I believe there is need to instil greater progressivity in our income tax system. I am therefore proposing to bring significant reforms as follows:-

- The tax rate applicable on the first Rs 25,000 of chargeable income will be reduced from 15 percent to 10 percent;

- A new tax band will be created for the next Rs 25,000 of chargeable income. It will be subject to a tax rate of 20 percent.
- There will be a third tax band for the next Rs 450,000 of chargeable income which will attract a tax rate of 25 percent.
- Finally, any remaining chargeable income will be subject to income tax at the rate of 30 percent.

332. There will thus be four tax bands instead of two, and the tax rates will now range from 10 to 30 percent. I should point out, Mr Speaker, Sir, that with this new personal income tax structure, some 59,000 taxpayers, that is 98 percent, will pay less tax. Only some 1,000 taxpayers in the top income bracket will pay more tax.

333. I said at the outset that I will not let the tight budgetary situation stand in the way of greater social justice. Mr Speaker, Sir, the income tax package I have just announced will cost Government some Rs 150 million.

CONCLUSION

334. Let me now conclude. Monsieur le Président, Victor Hugo écrivait en son temps, je cite: “Le devoir a une grande ressemblance avec le bonheur d’autrui”, fin de citation. C’est effectivement en accomplissant notre devoir de manière responsable envers l’économie, envers notre société arc-en-ciel et envers les économiquement faibles en face des défis à l’horizon que nous b?tissons le bonheur de notre peuple. En présentant le Budget 2004/2005 au nom du gouvernement, j’accomplis ainsi mon devoir envers la nation et j’apporte ma pierre à l’édifice d’une île Maurice moderne, juste et résolument tournée vers l’avenir où il y aura des opportunités pour tous.

335. On this note, Mr Speaker, Sir, I commend the Bill to the House.