



**MAURITIUS**  
**OPERATIONAL PLAN**

**BUSINESS STARTUP**  
**WORK PERMITS**  
**INCENTIVE REGIME REFORM**

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**FIAS**  
**a joint service of the**  
**International Finance Corporation**  
**and**  
**The World Bank**

This report has been prepared by FIAS, a joint facility of The World Bank and the International Finance Corporation, in response to a request by Ministry of Finance and the Board of Investment of Mauritius. FIAS was invited to Mauritius to work with the authorities to determine an operational action plan to reform, based on international best practice, the licensing regime and to provide guidance on the incentive scheme. This work was closely coordinated with World Bank PSD and PREM. The FIAS mission would like to thank, in particular, the BOI staff, Ministry of Finance Staff, and Mr.Ali Mansoor.

The FIAS team interviewed a range government and private sector officials and drew from its pool of international best practice. The FIAS team worked closely with officials in many different ministries and agencies.

## **Mauritius: Operational Plan for Business Start-up and Incentive Regime Reform**

### **Introduction**

The Government of Mauritius (GOM) has embarked on a new economic strategy aimed at creating an investment climate which is open, transparent, and conducive to accelerated foreign and domestic investment. To measure the success of these reform efforts, the authorities have chosen the IFC's Doing Business Indicators as the metric. As of data collected in January, 2005, Mauritius ranked 23 on average out of 155 countries surveyed that year. The GOM endeavors to be ranked in the top 10 countries during the next survey. Although the authorities are targeting all Doing Business indicators, they asked FIAS to concentrate on the business startup procedures.

In addition, the authorities would like to rationalize the incentive scheme, to present an investment climate free of distortions and which attracts business based on the possibilities the country has to offer (for example, an educated, multilingual workforce and its strategic location as a cross-roads for the world). To this end, the authorities asked FIAS to analyze the investment incentives scheme and to advise on how to best change the system to attract investors responsibly.

The diagnostic phase was carried out by the Investment Climate Assessment (ICA) and Doing Business Indicators. Based on these findings, the remainder of this short document presents an operational action plan, based on international best practice.

## **General guidelines for reform**

The action plan for implementation is based on the following guiding principles:

### **Start-up procedures**

1. Let data move, not people
2. License is ultima ratio to ensure health, safety and environment protection, not revenue generation (business tax)
3. No license for general businesses, justified sector license issued by line-ministries

### **Visa, Work and Residence Permits**

1. Business visas are part of the business climate
2. Work permit and residence permit are interdependent
3. Single officials decide faster than committees

### **Incentive system**

1. International evidence has shown that fiscal incentives promote a distorted investment climate and the major impact is that they do not promote investment although they result in government revenue losses
2. Discretion especially in application of incentives is a strong deterrent to investment as it creates a non-transparent playing field
3. The best-practice incentive system is a clear tax code which is specified with simple instruments, and one which easy to understand and administer

## Notes 1. Business Entry

### Current issues

Mauritius ranks 24 in business entry procedures in the 2006 Doing Business Survey. It takes 46 days to start a business with municipal licensing taking 30 days in average. 6 steps are necessary to receive clearances for starting a general business. Every business activity needs a municipal trade license, which has a main function of revenue generation for the local governments. Particularly time consuming are clearances from health, police and fire department. There is duplication for new businesses with the obligation to obtain a development permit for the business location.

### Best practice (benchmark)

The best performers register businesses within 2-3 days (**Australia (2 days), Denmark (3 days), Canada (3 days), Singapore (3 days)**). Let data move, not people (**Turkey/Chambers, Denmark, Singapore**). Very advanced countries allow online registration, but had to provide first for electronic signature (**Australia, Canada, Denmark, New Zealand, Singapore**). No general business licenses, only sector licenses for activities that pose risk to health, safety and environment (**Canada, Australia, Germany**). Post-registration inspection replaces pre-registration approvals (**Canada, Australia, Germany**).

### Proposed changes:

- Business Registry one-stop-shop for business entry;
- Registry informs tax authority, social security service, municipality about new companies;
- Tax authority and social security service assigns unique number and informs applicant with letter including information about obligations;
- Abolish municipality trade licenses and clearances from health, fire and police for all trades;
- Diminish current 10 clusters as base for development permit to three (resident. services (offices, retail, wholesale etc.), manufacturing);
- Offset lost revenues caused by abolishing trade licenses through business tax collected by tax authorities and transferred to municipalities (income neutral).



## Notes 2. Visas, Work and Residence Permits

### Current Issues

The visa regime is rigid with regards to duration and changes. The validity is limited to the date of the return ticket for both tourists and businesses. Prolongations must be obtained at the Immigration Department. A switch in status (tourist to business) can only be obtained from abroad. The work permit requirements are excessive with a long list of inputs that are not vital for a decision. The health clearance is duplicated with the applicant to submit a clearance from his/her home country and another one obtained in Mauritius from the public hospital after arrival. The work permit and residence permits are not coordinated which causes delays and irritations. The Work Permit Committee involves many ministries with representatives using inappropriate criteria in the decision process. Finally, vague criteria lead to discretionary decisions.

### Best practice (benchmark)

It is important to understand that countries have different histories, locations, economies, objectives, attitudes and interests regarding immigration, labor protection, and foreign labor (**Canada, Australia, Germany, USA**). Different interests mean different procedures. Therefore, in the area of work permits, care should be taken to use other countries as models.

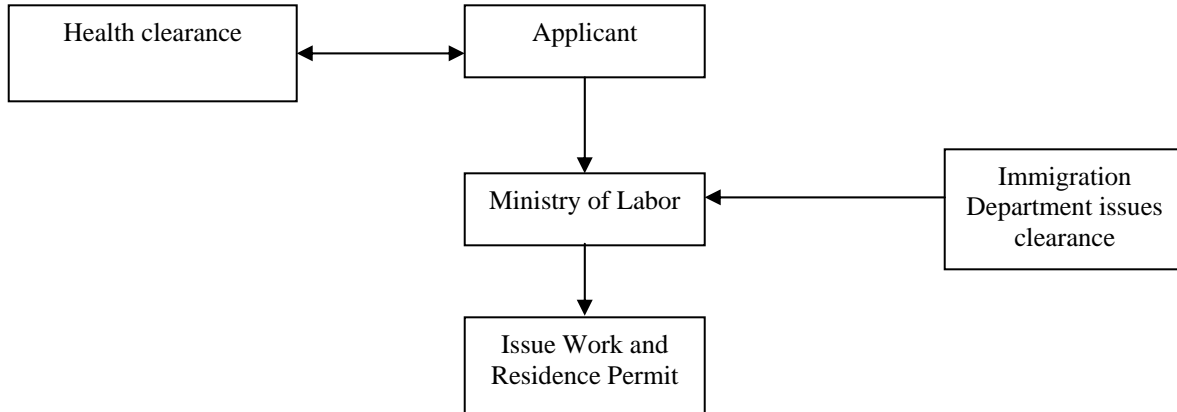
Visas are usually not limited to the date of return tickets. Instead, visa validity is 1 to 3 months (**USA (90 days), German (90 days), Botswana (90 days), Seychelles (90 days)**). Most countries have a list of countries of which citizens are allowed to enter visa-free (**USA, EU Member States**). The change from tourist to business visa can be done instantly (**USA, EU Member States**). In fact, many countries do ask for the difference only for statistical purposes (**USA, EU Member States**). Others do want to see a letter from an invitee. On work permits, generally the final decision by a single official is faster than committee for work permits (**U.K., Germany, Slovakia, Seychelles, Turkey**). Since work and residence permit are mutual conditions, the work permit should include the right to stay (**Seychelles, Botswana, U.K.**). Finally, clear criteria for skilled and non-skilled labor make the decision process consistent and therefore predictable. The criteria depends on the individual interest of the country.

### Proposed changes:

- Tourist and business visa issued for 1-3 months;
- Change of tourist to business visa possible in the country;
- Official decides on work permit after clearance from immigration (like fast track);
- Work permit includes residence permit;
- Instead of requirement to submit health clearance with application, clearance can be submitted during application;
- Issue list of doctors that are allowed to give clearance;

- Criteria for three categories: investors, skilled labor and unskilled labor. Investors should receive recommendation of BOI. Skilled labor: list of professions and/or job description and salary threshold. Unskilled labor: list of professions.

### Proposed Procedure



### Expected impact

It will be easier for business people to receive business visa. This makes the visa policy consistent with the objective to attract entrepreneurs. The fast track for all work and residence permit should diminish the time to obtain a work and residence to 1-2 weeks. This would be a value that is certainly among the best in the world. There will be no delays anymore caused by the residence permit. The criteria would reduce discretion.

### Implementing Steps:

- Legislative changes in the laws on work and residence permits need to be drafted and adopted;
- Immigration and labor departments need to be reorganized to accommodate the new procedure;
- New decision criteria and forms for skilled and unskilled labor need to be developed;
- A list of doctors must be issued that are allowed to conduct medical clearances.

## Notes 3. Incentive Regime

### Current Issues

METR analysis of current incentive system reveals that incentives offered by Mauritius do not lessen the tax burden (on the contrary) and thus should not provide an inducement to invest in Mauritius; it is based on discretionary fiscal incentives which negatively affect government revenue. In addition, the current system sends signal that economy has problems which for which the incentive regime is trying to compensate.

### International Best Practice

Best practice (**Ireland, Canada, New Zealand**) is no fiscal incentives; rather, a completely open, distortion-free investment climate which a transparent and level playing field is the best “incentive to invest”. Best practice countries define the fiscal playing field in the tax code with simple, clearly understood and administered instruments, with rates comparable to competitors (**Singapore, Chile**). At the same time, infrastructure-based incentives (see below) are successful at attracting investment. (**Thailand**)

### Proposed Changes:

- Rationalization of the tax system (rates, instruments, coverage)
- Elimination of discretion
- Elimination of fiscal incentives
- Creation of transition program (see below)
- Consideration of infrastructure-based incentives<sup>1</sup>

### Expected Impact

The immediate impact will be rationalization of fiscal regime, easier compliance (broadening of the tax base), reduction in time to comply because system simple, better climate for investment. Frees up BOI to do promotion and advocacy.

### Implementing Steps:

- Review of tax code: rates, instruments (IMF, WB)
- Abolition of current incentive regime
- Abolition of discretionary power
- Resetting rates/instruments (MoF, IFI help if requested)
- Consider infrastructure-based incentives
- Implementation of transition program to new regime (no more than 5 years)
- Complete implementation of reforms in other investment climate areas

### Transitional Arrangements

It is clear that a transitional arrangement for firms with existing incentives must be adopted and disseminated to firms before the changes in the incentive regime take place. Some guidelines include:

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<sup>1</sup> Ideas include: limited tax deduction for firm which invests in infrastructure (roads, electricity, water, telecom extension) as such investment is a public good, creation of industrial parks with immediate hookups.

- Transition period from current system to new system – time limit to be set by the Minister of Finance ( between 3 to 5 years )
- Convergence of tax incentives to the new regime should be stepwise
- Special permanent incentives or exemptions (granted by the Minister of Finance) need to be reviewed carefully. A balance must be reached between abrogating an existing (individual) contract (which could be interpreted by investors as a rule of law issue) and fiscal transparency and equity. It may be that these special exemptions have to continue.

## Mauritius – Summary Matrix of Issues and Recommendations

Issue	Recommendations	Implementing Steps
<b>1. Business Entry</b>	<ul style="list-style-type: none"> <li>• Business Registry one-stop-shop for business entry;</li> <li>• Registry informs tax authority, social security service, municipality about new companies;</li> <li>• Tax authority and social security service assigns unique number and informs applicant with letter including information about obligations;</li> <li>• Abolish municipality trade licenses and clearances from health, fire and police for all trades;</li> <li>• Diminish current 10 clusters as base for development permit to three (resident. services (offices, retail, wholesale etc.), manufacturing);</li> <li>• Offset lost revenues caused by abolishing trade licenses through business tax collected by tax authorities and transferred to municipalities (income neutral).</li> </ul>	<ul style="list-style-type: none"> <li>• Company Registry expands to all businesses;</li> <li>• The SSS develops information letter for all businesses;</li> <li>• Legislative changes are necessary of the Local Government Act 2003, Planning and Development Act 2004, Town and Country Planning Act 1954, (budget speech);</li> <li>• Neutral municipality business taxes need to be calculated and transfer arrangements agreed with municipalities;</li> <li>• Detailed zoning to be developed to replace clusters and change to post-registration inspections for all businesses (3 years).</li> </ul>
<b>2. Visa, Work and Residence Permit</b>	<ul style="list-style-type: none"> <li>• Tourist and business visa issued for 1-3 months;</li> <li>• Change of tourist to business visa possible in the country;</li> <li>• Official decides on work permit after clearance from immigration (like fast track);</li> <li>• Work permit includes residence permit;</li> <li>• Instead of requirement to submit health clearance with application, clearance can be submitted during application;</li> <li>• Issue list of doctors that are allowed to give clearance;</li> <li>• Criteria for three categories: investors, skilled labor and unskilled labor. Investors should receive recommendation of BOI. Skilled labor: list of professions and/or job description and salary threshold. Unskilled labor: list of sectors.</li> </ul>	<ul style="list-style-type: none"> <li>• Legislative changes in the laws on work and residence permits need to be drafted and adopted;</li> <li>• Immigration and labor departments need to be reorganized to accommodate the new procedure;</li> <li>• New decision criteria and forms for skilled and unskilled labor need to be developed;</li> <li>• A list of doctors must be issued that are allowed to conduct medical clearances.</li> </ul>
<b>3. Incentives</b>	<ul style="list-style-type: none"> <li>• Rationalization of the tax system (rates, instruments, coverage)</li> <li>• Elimination of discretion</li> <li>• Elimination of fiscal incentives</li> <li>• Creation of transition program (see below)</li> <li>• Consideration of infrastructure-based incentives<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Review of tax code: rates, instruments (IMF, WB)</li> <li>• Abolition of current incentive regime</li> <li>• Abolition of discretionary power</li> <li>• Resetting rates/instruments (MoF, IFI help if requested)</li> <li>• Consider infrastructure-based incentives</li> <li>• Implementation of transition program to new regime (no more than 5 years)</li> <li>• Complete implementation of reforms in other investment climate areas</li> </ul>

<sup>2</sup> Ideas include: limited tax deduction for firm which invests in infrastructure (roads, electricity, water, telecom extension) as such investment is a public good, creation of industrial parks with immediate hookups.