

# **Main Results of GBC 1 Survey 2016 (Section F: National Accounts)**

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# Background Information



- The compilation of **National Accounts** statistics in Mauritius
  - ✓ is undertaken by Statistics Mauritius (SM)
  - ✓ is in line with UN System of the National Accounts 2008 (SNA 2008)
- National Accounts estimates were subject to a major revision in June 2016 further to the availability of data from the **Census of Economic Activities** conducted in 2013. Estimates which had as base year '2007', were rebased to year '2013'
- Given that GBC 1s are considered to be residents of Mauritius, their activities must accordingly be covered in macroeconomic datasets for Mauritius
- In addition, the coverage of national accounts was improved by including the "direct" contribution of Category 1 Global Business Companies (GBC 1s)

# Data Requirements and Sources



- SM estimates the contribution to the economy of various sectors that are resident in Mauritius
- The contribution of GBC1s to the economy is the **value added of GBC 1s as a percentage of Gross Domestic Product (GDP)**
- The calculation of the contribution of GBC 1s to the Mauritian economy required data on **income and expenditure of GBC 1s**
- Data collection instrument: The data required by SM are collected by FSC through GBC 1 surveys (*Section F – National Accounts of the questionnaire*)
- SM has included its requirements in the annual GBC 1 survey carried out by FSC since 2012, that is in the third survey

# GBC1 Survey 2016



- The 7<sup>th</sup> GBC 1 survey was conducted in 2016 to collect data for the year 2015 using the **Online Data Capture System (ODCS) platform**
- **Coverage of GBC1s**
  - 23 out of a total of 152 Management Companies (MCs) representing around 88% of total assets declared in 2015 were surveyed
  - The 23 selected MCs were responsible of 6,409 GBC1s out of a population of 10,756 GBC1s

	2013	2014	2015
No. of Management Companies surveyed	24	23	23
No. of GBC1s covered	7,149	6,891	6,409

# Main Results of GBC 1 Survey 2016



## Income of GBC 1s

- More than 60% of income of GBC 1s was derived from **financial transactions** (e.g., dividend, interest, gain on investments, etc.)
- GBC 1s received Rs 118 billion from **provision of services**, mainly from professional, technical and business services
- They made a **profit margin** of Rs 6 billion on goods sold which have not transited through Mauritius
- GBC 1s received a **net interest income** of Rs 1 billion from local financial service providers
- In 2015, **GBC 1s generated around Rs 2.5 trillion of income** whereby more than 80% was obtained from abroad

# Main Results of GBC 1 Survey 2016 (cont'd)



## Expenses of GBC 1s

- They purchased some Rs 114 billion of **goods and services** from both residents and non-residents. The main ones are professional and office support services
- GBC 1s paid around Rs 2.5 billion as **compensation of employees** to 1,725 employees, around 65% paid to resident employees
- They paid around Rs 0.8 billion as **rates and licences** to the relevant authorities, around 60% paid to resident authorities (mainly to FSC)
- GBC 1s spent around Rs 18 billion on **taxes** paid to authorities concerned, around 23% paid to resident authorities (mainly MRA)
- In 2015, **GBC 1s spent around Rs 1.7 trillion**. More than 70% was paid to non-residents

# How is Value Added calculated?



- Value added for a particular producer is the value of goods and services produced (gross output) less the value of goods and services used up in the process of production (intermediate consumption)

$$\text{Value Added} = \text{Gross Output} - \text{Intermediate Consumption}$$

- Case illustration: if a baker produces 50 loaves of bread which he sells at Rs 100 and uses a total of Rs 70 on goods (e.g. flour, water, salt, etc.) and services (e.g. electricity, transport, etc.) in the process, the “**value added**” he generates is  $\text{Rs } 100 - \text{Rs } 70 = \text{Rs } 30$
- Similarly, the value added for all businesses of the country can be calculated and aggregated to get the overall Gross Value Added.
- Thus, the **production approach** measures GDP as the sum of value added of all producers operating in the country plus taxes minus subsidies on products

$$\text{GDP} = \sum \text{Value Added} + (\text{Taxes} - \text{Subsidies}) \text{ on products}$$

# Main Difficulties in applying the Standard Method to GBC1s



- Why this standard procedure is not applicable to GBC 1s?
  - ✓ GBC 1s are not engaged in production of goods in the country
  - ✓ They have little physical presence in Mauritius, a “brass plate” confirming their place of registration
  - ✓ GBC 1s follow mainly the business model of investment holdings and their main income is derived from financial transactions, namely gain on investments, dividend income and interest income
  - ✓ Income received by GBC 1s from provision of services such as management fees, professional fees, advisory and consultancy fees is quite low



# The Cost Approach



- When the standard procedure cannot be used, output is estimated by the **cost approach**, that is the sum of production costs incurred by the entities
- GBC 1s do not produce in the country, but they spend e.g. licences, wages and salaries paid to local staff, fees paid to management companies, bank charges, etc.
- Hence, the value added of GBC 1s is calculated as the sum of compensation of employees paid out by GBC 1s to resident employees and licence fees paid by GBC 1s to resident authorities
- Capital costs (i.e., consumption of fixed capital and return to fixed capital) are assumed to be negligible as GBC 1s hold very little physical (non-financial) assets
- This cost method of national accounts is line with the recommendations of
  - ✓ The sixth IMF Technical Assistance Mission (February–March 2015)
  - ✓ The handbook “*Financial Production, Flows and Stocks in the System of National Accounts*” (Ref. pg. 45-46 para. 3.13)

# Value Added of GBC 1s



- Using the cost method, the value added of GBC 1s in 2015 is estimated at around Rs 2 billion, i.e. the **direct contribution of GBC1s** to GDP is **0.5%**
- The direct contribution of GBC 1s to the economy is negligible (**i.e., less than 1%**)

	Rs Million		
	2013	2014	2015
[1] Rates and licence fees paid to resident authorities	333	375	468
[2] Compensation of employees paid to resident employees	746	876	1,644
<b>[1]+[2] Value added of GBC1s</b>	<b>1,079</b>	<b>1,250</b>	<b>2,112</b>
GDP at current market prices	372,397	392,062	409,524
<b>Value added of GBC1s as a % of GDP at current market prices</b>	<b>0.3</b>	<b>0.3</b>	<b>0.5</b>

## Value Added generated from services purchased by GBC 1s



- The contribution of GBC 1s cannot be measured in terms of the value added of GBC 1s only
- It must also include services purchased by GBC 1s from local enterprises. The main ones being management, accounting, auditing, legal and banking services
- Therefore, we need to make a distinction between **two** components:
  - The value added of GBC 1s (i.e. the **direct contribution** of GBC 1s to the economy)
  - The value added generated from services purchased by GBC 1s (i.e., **indirect contribution** of the GBCs to the economy)
- Based on **information obtained from GBC 1 surveys on the amount paid by GBC 1s to the main service providers**, SM has been able to estimate the indirect contribution of GBC 1s to GDP

# Indirect Contribution of GBC 1s



- Based on services provided by banks, MCs and other related industries to GBC 1s, the **indirect contribution of GBC 1s** to the economy in 2015 is estimated at **4.7%**
- Therefore, the indirect contribution of GBC 1s to GDP is more significant than the direct one

	Rs Million		
	2013	2014	2015
[1] Value added of banks attributed to GBC1s	749	1,213	1,300
[2] Value added of business service providers attributed to GBC1s	17,469	17,339	17,861
<b>[1+2] Value added of main service providers attributed to GBC1s</b>	<b>18,217</b>	<b>18,551</b>	<b>19,160</b>
GDP at current market prices	372,397	392,062	409,524
<b>Value added of main service providers attributed to GBC1s as a % of GDP</b>	<b>4.9</b>	<b>4.7</b>	<b>4.7</b>

# Contribution of GBC 1s to the economy

- In 2015, the **total contribution of GBC 1s** to the economy is estimated at **5.2%**

			(%)
	2013	2014	2015
Direct Contribution of GBC1s	0.3	0.3	0.5
Indirect Contribution of GBC1s	4.9	4.7	4.7
<b>Direct and Indirect Contribution of GBC1s</b>	<b>5.2</b>	<b>5.1</b>	<b>5.2</b>

# GBC 1s as a Key Pillar of the Economy



- A sector that contributes 5.2% to GDP, the “**GBC 1 sector**” requires our due attention!
- If the contribution of GBC 2s is included, the contribution of “Global Business (GB) sector” to the economy can be assumed to exceed the 5.2%

Sector	2015	
	Gross Value added (Rs million)	Share in the economy - % of GDP
Sugar	3,520	0.9
Export-Oriented Enterprises (EOEs)	20,858	5.1
Tourism	27,070	6.6
ICT	20,397	5.0
<b>GBC1s</b>	<b>21,272</b>	<b>5.2</b>

# Issues Encountered



- **Key points on National Accounts Section of the questionnaire:**
  - Compensation of employees paid to resident employees is an important variable used in the calculation of value added of GBC 1s
  - ✓ MCs must absolutely avoid submission of incomplete information, especially in the case of number of employees and compensation of employees
  - For national accounts purposes, it is important to capture the transactions between GBC 1s and residents other than GBC 1s and GBC 2s → **“Real Sector”**
  - ✓ To avoid cases of misreporting, especially for transactions between GBCs. Examples:
    - GBC 1s paying “bank charges and insurance premium” to other GBC 1s
    - GBC 1s paying “office consumables and utilities expenses” to other GBC 1s

# Submission for Year 2017



## ▪ **Minor changes in Survey Form 2017**

To ensure that data are collectively exhaustive, MCs will be requested to submit the following additional information:

- Total income
- Total expenditure
- Profit and comprehensive income for the year
- Staff cost for employment outside Mauritius



# **End of Presentation**

## **Thank you for your attention**

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