MAURITIUS FINANCE

Mauritius International Financial Centre

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Interview
Minister for Financial Services and Good Governance

Taxation
The Global Minimum Tax

Sustainability
Impact Investing

Outlook and opportunities for Mauritius post-FATF & EU exit

The path to sustainability

The experience of securing the removal of Mauritius from the Financial Action Task Force (FATF) list of jurisdictions under increased monitoring in record time, and subsequently from the EU and UK lists based on the latter, has taught us that, with a collaborative effort, it is possible to turn a weakness into a strength.

Today, Mauritius complies with 39 out of the 40 FATF Recommendations, placing it in the top-tier of compliant jurisdictions. We now look forward to a re-rating later this year. With this, Mauritius will then achieve the perfect score of 40 out of 40 – which we anticipate will be the case in the light of recently adopted legislation on virtual assets. We will be the first, and probably the only, country in the world to comply with all the 40 FATF Recommendations.

Buoyed by the positive progress made to date, we can now concentrate our efforts on redefining the purpose of the Mauritius International Financial Centre (IFC) for the years to come. Green and Impact Investment has become a key focus for the international investment community. Development Finance Institutions (DFIs) and institutional investors have a strong mandate in this field, and Mauritius has what it takes to attract them and thus play a vital role as a Sustainable and Impact Investment Hub for the region.

Mauritius is already updating up its regulatory landscape to achieve this ambition. It has already introduced Green and Sustainable Finance through the establishment of an enabling framework. In 2021, the Bank of Mauritius adopted a Guide on sustainable bonds while the Financial Services Commission issued guidelines on Corporate and Green Bonds, coupled with several Sustainable and Impact Investment.

The critical role of Mauritius as an investment hub for Africa, which has been the subject of debate for many years, has finally been confirmed in the recent Capital Economics Report commissioned by the Economic Development Board of Mauritius. The report demonstrates, beyond all doubt, that Mauritius punches well above its weight by contributing to the development of African economies through different Impact Investment initiatives to the continent. More than USD 80 billion of investments to Africa have been facilitated through Mauritius.

Mauritius Finance is well placed to drive the growth and further development of the Mauritius IFC, based on a solid public-private partnership which has only been strengthened recently through our close dialogue with the authorities to restore the reputation of our jurisdiction on the international stage. We strongly support the new legislative initiatives which have come into force in recent weeks. The adoption of the Virtual Asset and Initial Token Offering Services Act (VAITOS) 2021 confirms our position as an innovative and forward-looking jurisdiction, while the coming into force of the Variable Capital Companies Act provides us with a new, flexible and competitive structure which can be used to finance Green and Impact projects.

As we take stock of how far we have come over the past year, it is now time for us to focus on investing in our future. During the AU-EU Summit, the EU has committed to invest EUR 150 billion in Africa by 2030. The MIFC has now a unique opportunity to support the transformation of the African continent and further develop its investment opportunities. We are ready to seize the challenge.

By Samade Jhummun, CEO, Mauritius Finance

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What the island economy's delisting means for the MIFC

As Mauritius looks to a brighter future following its removal from the FATF, EU and UK lists, it is clear that more work remains to be done to communicate this significant milestone and to ensure that investors understand the various regulations that have recently been introduced with a view to make the IFC not just more robust by aligning it with global standards on the AML/CFT front, but also more innovation-friendly by unfolding the path ahead for virtual assets and other such exciting offerings in the FinTech space.

In February 2020, the Mauritius financial services sector suffered a serious setback following the island economy's inclusion in the Financial Action Task Force (FATF) list of jurisdictions under increased monitoring.

This was followed shortly after by its mention in the EU list of high-risk third countries in May 2020 and a third blow was dealt when the UK also included Mauritius in its April 2021 list of high-risk countries under the UK Money Laundering and Terrorist Financing (Amendment) (No. 3) (high-risk countries) Regulations 2021.

How Mauritius responded to these threats to its credibility

To its credit , the island economy lost no time in remediating the issues that had led to its inclusion in the various lists in the first place, albeit with another stumbling block being delivered to the Mauritius International Financial Centre when the FATF maintained the island in its list of jurisdictions under increased monitoring in March 2021.

However, the efforts of the authorities to strengthen both the regulatory framework and remove the shortcomings identified under the technical efficiency pillar were slowly but surely recognised by the FATF, which has since removed Mauritius from the list of jurisdictions under increased monitoring on 21 October 2021, following a highly successful evaluation of the economy's strengthened regime against money laundering (ML) and terrorism financing (TF).

Shortly after, the United Kingdom also removed Mauritius from its list of high-risk countries under the UK Money Laundering and Terrorist Financing (Amendment) (No. 3) (high-risk countries) Regulations 2021. And, most recently, the holy trio of AML/CFT lists is complete with the EU joining the FATF and UK in delisting the jurisdiction at the start of this year.

This final victory was indeed a long awaited milestone since October 2021 when the FATF removed Mauritius from its own list and it was widely believed that it was only a matter of time before the European Union, which had placed Mauritius on its high-risk third countries based on the findings of the FATF, would take a similar decision. It was on 7 January 2022 that the European Commission announced the removal of Mauritius from the EU list of high-risk third countries by acknowledging that it no longer presents strategic deficiencies on the basis of the criteria laid down in its Directive (EU) 2015/849, which finally came into effect on 13 March 2022

The communique issued by the Financial Services Commission of Mauritius (FSC) on the occasion of the EU delisting noted that, "The delisting by the FATF, the UK and now the EU goes a long way to demonstrate our commitment to improving the legal, regulatory and enforcement measures in the fight against money laundering and terrorist financing. With its removal from the EU list of high-risk third countries, Mauritius is now cleared from all international lists of non-compliant jurisdictions, and it spells a new dawn for the future of the Mauritius IFC."

Looking at the key sectors adversely affected by the erstwhile inclusion in the FATF and EU lists, we shall now consider how the delisting has improved their prospects going forward, and what the island economy can expect from having secured this milestone in a timely and efficient manner.

FinTech first: Innovation and Regulation to go hand in hand

Most recently, the implementation of the Virtual Asset and Initial Token Offering Services (VAITOS) Act from 7 February 2022 has helped Mauritius address the final FATF Recommendation - that towards regulating Virtual Asset Service Providers - making the island economy a regional pioneer in this regard and helping cement its status as a jurisdiction of substance. Priscilla Balgobin-Bhoyrul, Senior Partner, Dentons, elaborates on this and other regulations that have helped Mauritius improve its technical efficiency and crucially secure its removal from the FATF and EU lists.

"Mauritius has recently decided to regulate virtual asset activities by enacting the VAITOS Act, in line with FATF Recommendation 15. The passing of this Act achieved two objectives- establishing a virtual asset ecosystem, while ensuring that Money Laundering (ML)/Terrorist Financing (TF) risks are managed. This is one of the various initiatives to position Mauritius as a leading FinTech hub in Africa whilst underlying the country's strong commitment to AML/CFT," she states, adding that other laws which have helped Mauritius improve its technical efficiency include the following:

- FIAMLA and its regulations;
- United Sanctions (Financial Prohibitions, Arms Embargo and Travel Ban) Act 2019;
- Financial Services Act 2007;
- Banking Act 2004;
- Companies Act 2001; and
- Prevention of Corruption Act 2002.

She concludes on the note that the de-listing has sent out a strong signal to the international community in terms of the effectiveness of Mauritius' AML/CFT regime, reinforcing its status as a jurisdiction of substance in Africa and in the world.

"Many companies had faith in Mauritius being delisted eventually and did not migrate to other jurisdictions. They have been proved right. I also suspect that the recent increase in interest in Mauritius we have seen at Dentons from clients globally is not a coincidence and aligns with the stamp of confidence of the FATF in its AML/CFT system and how the international financial community views Mauritius as a jurisdiction," she emphasises.

Global businesses look to improved prospects in the near term

Indeed, in a world where there is ever-increasing scrutiny from investors, it was the global business sector of Mauritius that felt the impact the most, as "private investors continuously assess a jurisdiction's capabilities and FATF classification is one of the factors which are considered", notes Sridhar Nagarajan, Regional Managing Director, Mauritius, IQ-EQ Global Business (Mauritius) Ltd .

"The Mauritian jurisdiction has always been well placed for its compliance framework by the investor community. This was borne out by the continued growth in business pertaining to the US-India segment which is our main pillar contributing over 50% of the industry value. However, there was a de-growth witnessed due to the EU blacklisting on the EU-Africa segment which contributes about 25% of the industry's volumes, especially from fund managers targeting certain European Development Financial Institutions (DFIs) as anchor investors," he adds.

Meanwhile, Maheshwar Doorgakant, Managing Director at Apex Fund Services, notes that "although Fund Managers are very happy with Mauritius from many perspectives, a number of them had to relocate their activities to other countries – mostly European – due to the restrictions that their investors faced due to the listing", while adding that this adverse development fortunately did not affect the funds from investors in non-EU jurisdictions, where the confidence in the Mauritius jurisdiction remained unshaken.

Sridhar goes on to elaborate upon what the delisting of Mauritius has already achieved - and what more is expected from this milestone that has been secured following a lot of hard work on the training and technical efficiency front from professionals in the fund management space. "The FATF listing of Mauritius among jurisdictions under enhanced monitoring ensured significant investments in time and focus from policymakers, regulators, and industry players in making Mauritius future ready from an AML/CFT perspective compared to other jurisdictions," he avers.

For his part, Maheshwar adds that the delisting of Mauritius has first and foremost restored the credibility of the country in the eyes of all international investors as one that is operating with the highest norms and standards of international regulations. "It is expected now that the country continues to maintain its high standards and re-establishes itself as a leader in the field, especially when it comes to the region," he concludes on a note of optimism.

Banking on a brighter future for the Mauritius IFC

In a world where central banks and investors alike are wary of dealing with economies on the FATF list of jurisdictions under increased monitoring or the EU list of high-risk third-countries, it was indeed the case that Mauritius' inclusion in the lists affected the island economy from a transactional perspective.

Here, Sangeetha Ramkelawon, Deputy CEO, BCP Bank (Mauritius), notes that, while the inclusion in these lists was harmful for Mauritius' reputation, the reality remains that most banks in Mauritius have standards which are above regulatory requirements and which adhere to the highest international standards.

> Mauritius lost no time in remediating the issues that had triggered its inclusion in the FATF & EU lists

"Having said that, the period in question was challenging as many investors were on a "wait and watch" mode. Our clients know that and we did not see any huge impact, other than few delays in transactions," she elaborates.

Priscilla Balgobin-Bhoyrul, Senior Partner at Dentons Mauritius LLP

Sridhar Nagarajan, Regional Managing Director, Mauritius, IQ-EQ Global Business (Mauritius) Ltd

Looking ahead, she underlines that, against the backdrop of the recent Russian invasion of Ukraine, the global economic situation is fragile and investors are looking for less risky countries to do business with.

Against this sobering global context, Sangeetha concludes that "in reinforcing our position as a trusted and compliant jurisdiction, and as the preferred investment platform at the confluence of Africa and Asia, Mauritius will no doubt benefit from investment flows to the African continent. The work needs to continue with training and upskilling in particular being a must to meet the requirements of this growing financial services sector despite the many challenges facing it."

Eye to the future: Managing the jurisdiction's perception among investors

Most recently, Shamima Mallam-Hassam, Managing Director of Trident Trust Company (Mauritius) Ltd, who was recently in London at the same time as the Mauritius Ministerial delegation to Europe, was privy to how positive the sentiments of fund managers, investors and DFIs alike are, now that Mauritius has successfully secured its removal from the EU list.

> The de-listing has reinforced Mauritius' status as a jurisdiction of substance

"We have started to see some momentum since a few weeks with more requests and enquiries. I have personally spoken to many DFIs and they are all very relieved that Mauritius is out of the EU list as there was no real alternative from a cost and flexibility perspective. Mauritius remains an attractive jurisdiction as it is a tried and tested one," she emphasises.

This compares favourably with the recent past when many structures that would normally have been domiciled in Mauritius were channelled to other jurisdictions such as Luxembourg, Jersey or Netherlands, she avers.

"The main reason being that some investors were not comfortable using a jurisdiction which is on a watch list. In addition, financial institutions, specially DFIs, have guidelines by which they must operate and one of the criteria being that the jurisdiction they use must not be on any watch list. In some cases, because of certain investors not wanting to use Mauritius, the clients had to create parallel vehicles in other jurisdictions thus putting additional costs to their structures. We also witnessed a decline in cross-border activities, particularly due to time-consuming and rigorous due diligence procedures for banking operations," Shamima elaborates.

However, she encourages financial sector stakeholders to do more to put Mauritius back on the map, noting that lack of communication and visibility for this achievement by the island economy might translate into a delayed return to favour with investors.

"We have certainly come out stronger of this entire FATF experience and are now compliant on 39 out of the 40 FATF recommendations. However, we are not communicating enough on the progress made. Clients have the perception that Mauritius has become a difficult jurisdiction to operate as it has become over-regulated and we need to communicate to show that there is no over-regulation but that we are simply aligning ourselves to the international norms and standards," she concludes.

Meanwhile, Sridhar Nagarajan strikes a note of optimism as he sums up what the FATF and EU delisting means for Mauritius, going forward: "Now is an opportune time for us to leverage on the capacity-building investments and the hard work over the past two years to take the jurisdiction through a quantum leap in terms of service offering and business attractiveness. Incidentally, we are now better placed to service the upcoming virtual assets segments which require an updated and nimble AML/CFT framework, along with monitoring."

Having successfully overcome recent challenges and now adhering to the highest international standards, the jurisdiction is now in pole position to inform international investors that the Mauritius IFC has turned the page and is looking forward to a bright future as it expertly services clients across fund management and administration, banking and FinTech fronts.

Maheshwar Doorgakant, Managing Director at Apex Fund Services Ltd

Sangeetha Ramkelawon, Deputy CEO at BCP Bank (Mauritius) Ltd

Shamima Mallam-Hassam, Managing Director of Trident Trust Company (Mauritius) Ltd

INTERVIEW: THE HON. MAHEN KUMAR SEERUTTUN

MINISTER OF FINANCIAL SERVICES AND GOOD GOVERNANCE, GOVERNMENT OF MAURITIUS

"One of the biggest strengths of our financial sector has been its capacity to adapt to change"

The delisting of Mauritius by the FATF, EU and the UK bears testimony to the robustness of the island's legal, regulatory, institutional and operational framework to effectively comply with the AML/CFT standards, says the Minister of Financial Services and Good Governance, and to its ability to protect and enhance the resilience of the financial services sector.

Securing the removal of Mauritius from the Financial Action Task Force (FATF) list of jurisdictions under increased monitoring, the EU's list of high risk third countries and the UK list of high risk countries represented a major challenge for the Government of Mauritius. The Minister of Financial Services and Good Governance, The Hon. Mahen Kumar Seeruttun, was at the forefront of leading the dialogue with international bodies to address the strategic deficiencies identified, galvanise support for proposed legislative remedies and engage with the private sector to prove that the Mauritius IFC could meet international requirements through robust implementation.

In this interview, Minister Seeruttun describes the efforts made by the government and industry to reach this positive conclusion and some of the key takeaways from this experience to safeguard the jurisdiction in the future. The Minister also shares his perspective on the outcome of the recent mission which he led to Europe, where he noted an increase in investors' willingness to consider Mauritius as a platform for their investments into Africa and Asia. Finally, he highlights the role of new legislative initiatives, such as the Virtual Asset and Initial Token Offering Services Act 2021 and the Variable Capital Companies (VCC) Bill, in attracting new investments in the Mauritius IFC and strengthening its competitive position on the international stage.

The removal of Mauritius from the EU's list of high risk third countries, effective as of 13 March 2022, has marked a turning point for the jurisdiction, further to the decisions of the Financial Action Task Force (FATF) and UK Government to remove Mauritius from their respective lists in October and November 2021. How would you describe the efforts of the government and industry to reach this positive conclusion?
First of all, let me recall that our removal from the FATF list was a sine qua non condition for our removal from the UK list and that of the EU.

I must say that the delisting of Mauritius from the FATF List and subsequently the EU List is the result of a collective and national effort, characterized by a strong public and private collaboration to address the strategic deficiencies identified by the FATF, which was completed ahead of the FATF set timeline.

All along this process, Mauritius has also demonstrated a strong political will and commitment to work in close collaboration with the FATF and the ESAAMLG to adhere to and to effectively implement the FATF standards. The close monitoring at the level of the Inter-ministerial Committee chaired by the Prime Minister, my Ministry and the AML/CFT committees was also instrumental to ensure tangible progress and effectiveness of the reforms being undertaken within the required timeframe. Our aim was not only to address the identified strategic deficiencies but to make the necessary reforms to maintain a robust AML/CFT regime. In this respect, the delisting of Mauritius bears testimony to the robustness of our legal, regulatory, institutional and operational framework to effectively comply with the AML/CFT standards, and to our ability to protect and enhance the resilience of the financial services sector.

The measures taken by this Government to strengthen the effectiveness of our AML/CFT regime included the adoption of new laws and regulations, the reinforcement of the collaboration amongst competent authorities and the intensive outreach activities to the private sector. In addition, Mauritius engaged with several countries and international bodies to obtain Technical Assistance with a view to reinforcing the capacity of the relevant authorities involved in the fight against financial crimes, money laundering and terrorism financing.

In this regard, a Technical Assistance Coordination Committee, co-chaired by the EU Delegation and the Permanent Secretary of my Ministry, was set up with the aim of facilitating and coordinating Technical Assistance activities with the different stakeholders that have been providing Technical Assistance to Mauritius on AML/CFT issues. It is also important to highlight that Mauritius benefitted, and continues to benefit, from the constant and continuous support of the ESAAMLG Secretariat.

> Mauritius is amongst the first countries to have a legal framework for virtual assets

Where does Mauritius stand today in terms of its compliance with the 40 FATF Recommendations?
Following the legislative reforms brought by the Government since 2018, Mauritius is now compliant or largely compliant with 39 out of 40 FATF Recommendations. It is worth also highlighting that Mauritius is the first country in the world to have been successful in meeting such a standard and in such a record time.

I wish to reassure the investor community that with regard to the only remaining Recommendation, namely Recommendation 15 on New Technologies, the Government has already initiated necessary measures to address identified shortcomings. One of amongst which was the enactment of the Virtual Asset and Initial Token Service Provider Act 2021.

An application for Technical Compliance re-rating was submitted to the ESAAMLG at the beginning of this year for discussion at the 44th ESAAMLG Task Force of Senior Officials' Meeting in September 2022.

From your own perspective, what are some of the key takeaways for Mauritius from this experience and how can these be applied to safeguard the jurisdiction in the future?
The political commitment which was provided at the highest level to strengthen the effectiveness of our AML/CFT regime and the adoption of a clear strategy and implementation plan to address the identified strategic deficiencies within a set timeline were central to the delisting of Mauritius from the FATF List

well ahead of the agreed timelines as well as our subsequent delisting from the UK and EU Lists.

In addition, the legislative reforms along with the hard work and determination demonstrated at all times by our institutions, the deployment of the necessary resources for them to carry out their functions adequately and the ongoing training on specific AML/CFT issues also contributed to this positive outcome. Last but not least, the positive and tangible progress made by Mauritius would not have been possible without the strong collaboration between the relevant competent authorities and the private sector.

As regards the future, our effort is now geared towards sustaining these reforms and ensuring the effectiveness of the measures undertaken with a view to promoting our jurisdiction as a destination of high repute. Our overarching goal is to ensure that our AML/CFT systems remain effective at all times, beyond the FATF ICRG process, and remain attentive

> Our effort is now geared towards sustaining these reforms

to the evolving FATF Standards. Mauritius is committed to further strengthen its collaboration with the ESAAMLG through active participation of Mauritius in its activities. The need for capacity building on AML/CFT will continue to be high on our agenda, as we strongly believe that our officers must be continuously trained in order to be adequately equipped to tackle the ever-changing risks.

You have recently led a mission to Europe to highlight the key attributes of the Mauritius International Financial Centre (IFC), alongside members of the industry, including from Mauritius Finance. What feedback did you receive during this mission and how can it guide the further development of the Mauritius IFC?

The high-level mission to Europe was meant, primarily, to demonstrate the work undertaken by the jurisdiction in ensuring compliance and

adherence to international norms and standards in matters pertaining to AML-CFT. Secondly, to ventilate the new products and services introduced in the financial services sector; and thirdly, to articulate value propositions to noted Europe-based financial services firms and DFIs.

The mission demonstrated, and confirmed if I may stress, an increase in investors' willingness to consider Mauritius as a platform for their investments into Africa and Asia. The substantial progress that the jurisdiction has made in consolidating our regimes has indeed instilled a renewed confidence in our jurisdiction.

The public and private sector stakeholders aligned themselves for this sustained promotional campaign to position Mauritius as an IFC of choice, to rebuild the image of our financial centre vis-à-vis the international investing community, post the de-listing of Mauritius from the FATF's list of "Jurisdictions under Increased Monitoring" and the list of "High-Risk Third Countries" of the European Union.

We are leveraging on this momentum to expand synergies with regulatory bodies in advanced jurisdictions; engage with trend-setting Development Finance Institutions (DFIs) to convey the message that Mauritius is and will remain a trustworthy jurisdiction to continue working with; and position Mauritius with high-calibre and high-profile investors to grow their businesses or to consider setting up new structures and use Mauritius as a platform to Africa and the rest of the world.

How do you see the role of upskilling and training in the Mauritius IFC? What further steps can be

taken by the Government and the industry to collaborate and ensure that Mauritius continues to comply with the highest international standards?
Upskilling and training are paramount for the sustainability of an International Financial Centre. Today we are expanding into innovative areas of the financial services sector and it is important that our service providers are up to date with these changes to make sure that Mauritius maintains its competitive edge.

As you may already be aware, the Financial Services Institute has been set up in 2018 with the specific mandate to skill, upskill and reskill the staff in the financial services sector to adapt to new changes. A challenge which it has successfully fulfilled. The contribution of the FSI in running the outreach programs for AML/CFT was paramount and it has recently come up with a tailor-made International Postgraduate course in compliance.

However, we are not sleeping on our laurels as we are aware of the challenges. Many of our youngsters are moving abroad to seek for international exposure, rightly so but we are also coming up with new incentives for them to come back to Motherland.

The figures speak for themselves as at date we need at least 1500 new recruits for the financial services sector. My Ministry in collaboration with the Financial Services Commission, Mauritius Finance, the Mauritius Bankers Association and Insurers' Association came up with the skill gap survey which was issued last month to assess the skill gap in the sector.

The objective of this exercise will enable us to take stock of the needs of the sector and work in collaboration with training institutions to design required courses.

Furthermore, we will soon be organizing a Job/Career Fair in collaboration with Mauritius Finance to inform our youngsters of the new courses and channel them to the priority areas for our sector.

Innovation is a key watchword for the Mauritius IFC, with new initiatives including the recently adopted Virtual Asset and Initial Token Offering Services Act 2021, the Variable Capital Companies (VCC) Bill, and the forthcoming legislation on Structured Investment-Linked Insurance Business, among others. How will such measures contribute to attracting new investments in the Mauritius IFC and strengthening its competitive position on the international stage?
One of the biggest strengths of our financial sector has been its capacity to adapt to change. Being aware of the global and regional competition, the Mauritius IFC is strengthening its standards and at the same increasing its palette of financial products.

The Mauritius IFC already provides for a combination of several factors such as political stability, strong institutional framework, low level of corruption, and favourable regulatory environment which has helped lay the foundation for economic growth, while its open trade policies have been key in sustaining growth.

> We need at least 1500 new recruits for the financial services sector

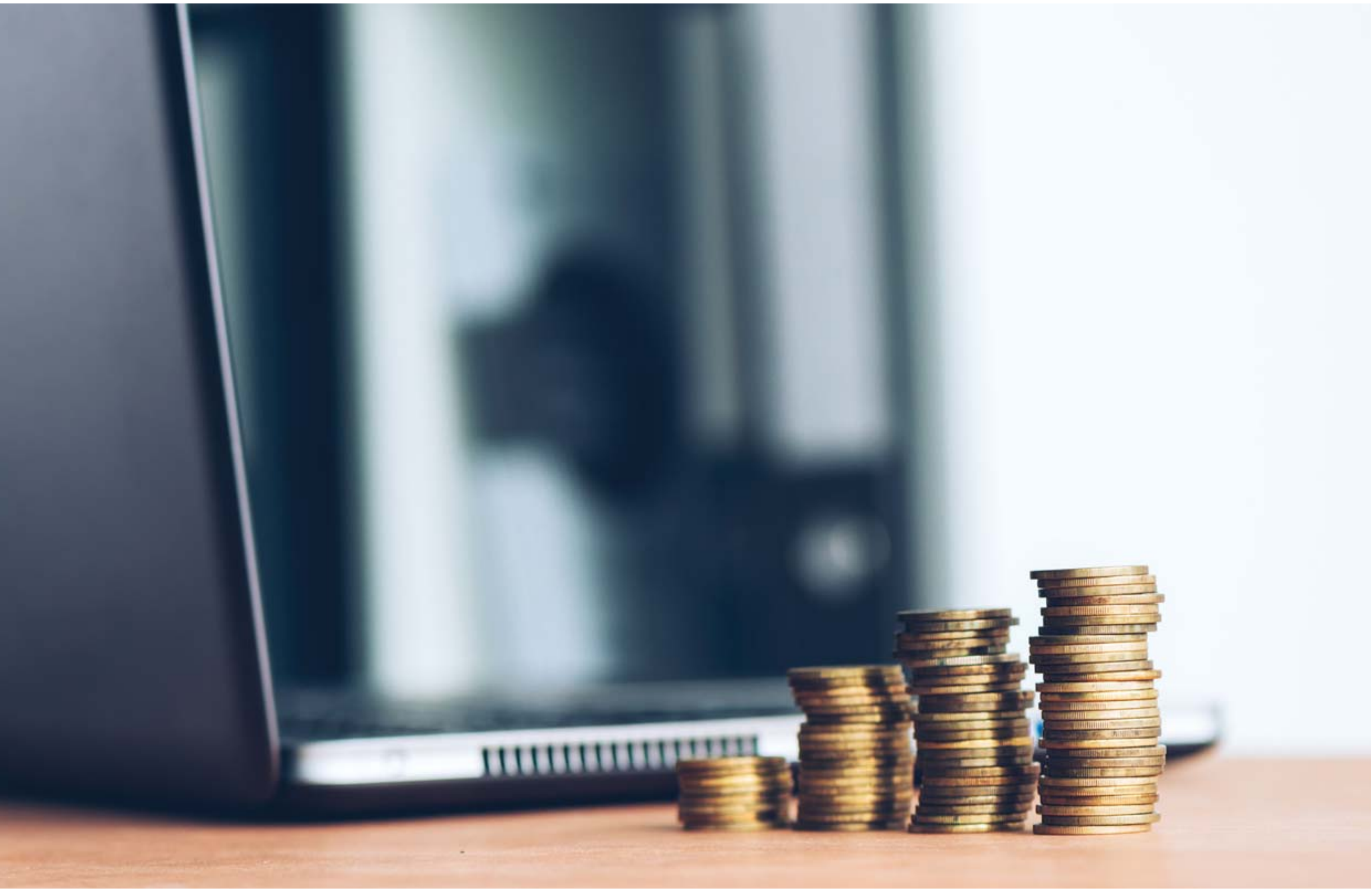
These new products are the results of extensive discussions with the private sector operators to make sure that they are competitive and will be the right tools to attract the investors.

Mauritius is amongst the first countries to have a legal framework for virtual assets, this will give certainty to investors. This will certainly be enticing to start ups or established companies in the field of virtual assets.

Furthermore recently, the VCC Bill which I presented before Parliament was adopted and this is another product which will certainly be of great value to our sector. When Singapore came up with this product in 2020, it had positively impacted its fund sector. I must say that this time, we have even added some more interesting features such as the distinct legal personality of the sub funds and SPVs as well as preventing cross tax liability between sub funds. I understand from the private operators that we already have investors waiting for the VCC to become operational.

Therefore, I am confident that with this continued collaboration between the public and private sector, our sector will continue to grow and that the future of our financial services sector is promising.

Mauritius – A small island exercising a large influence



The most revealing picture emerging from the recent Capital Economics report is undoubtedly the fundamental role being actively played by the Mauritius International Financial Centre in driving impactful investments across the African continent.

One of the biggest lessons we have learned from the devastating pandemic is that key sectors, such as healthcare, food production, education, logistics and trade, can be brought to their knees in the blink of an eye. The pandemic has wrought havoc globally with lockdowns, retrenchments and reduced economic activity, hitting the most vulnerable groups in society hardest. The upsetting state of affairs has strongly signalled the importance of impact investing, especially in those key livelihood sectors, in view of fostering sustainability and long-term resilience.

Africa's current economic stance clearly warrants, now more than ever, mobilising and scaling up deployment of institutional capital towards impact Investing in this "post" Covid-19 era.

For investors seeking to make an impact, Africa represents a wealth of potential, being endowed with abundant natural resources, and with a rapidly growing and urbanising population which is expected to almost double to 2.5 billion by 2050.

Based on latest reports and statistics pertaining to the socio-economic aftermath of the outbreak, it is evident that Africa's mounting thirst for impact investments to bolster economic recovery leads to numerous opportunities brimming for investors to address social and environmental issues while generating financial returns.

> More than USD 80 billion of investments to Africa have been domiciled in Mauritius

The dawn of Sustainable Development Goals (SDGs) in 2015 played an important role in refocusing and recalibrating the activities of investors in Africa. The fact that many investors are noticeably aligning their strategies to the SDGs has blurred the line between dedicated impact funds and Africa-focused private equity funds.

A growing number of financiers are increasingly demanding companies to commit to and communicate about ESG (Environmental, Social and Governance) standards as sine qua non conditions for investing. ESG analysis is gaining traction and has become a significant component in the investment analysis and decision-making process for institutional investors and funds.

ESG assets crossed the USD 35 trillion mark in 2020, representing a third of total global assets under management, according to the Global Sustainable Investment Association, and such assets are projected to exceed USD 50 trillion by 2025. ESG-based investments have gained momentum, growing from niche to mainstream to mandatory, as a result of investors' growing desire to have a positive impact on society, especially during this pandemic phase.

As per the 2020 Annual Impact Investor Survey published by the Global Impact Investing Network (GIIN), 43% of impact investors have funds allocated to Africa – more than any other emerging market region, while 52% of investors surveyed plan to expand their exposure across the continent in the next five years.

The World Bank emphasises that a faster economic recovery in the aftermath of the pandemic requires substantial sums of private investment capital and ensuring the establishment of a pipeline of well-defined projects which contribute to growth and social cohesion. As such, there is a dire need for Mauritius and other IFCs to play a strategic role in further stimulating foreign investment into the continent, especially if Africa's investment gap of USD 7 trillion is to be bridged in order to achieve the 2030 SDGs.

An IFC goes beyond just pooling of investments or generating financial returns - as the Capital Economics study* has revealed, an IFC also conditions measurable, beneficial, social or environmental impact for recipient countries. For instance, the report underscores that 4.2 million jobs in mainland Africa are supported by foreign investment mediated by the Mauritius IFC.

Africa is a burgeoning market for Mauritius and the investment figures obtained from the Capital Economics' survey bear testimony to this fact. Investment into East and West Africa over the past decade has increased by 29% and 27% respectively, while investment into Southern Africa has grown by 56%. The study also accentuates on the fact that in the absence of stable financial centres such as Mauritius equipped with robust legal protections and the necessary expertise to administer transactions, risk-averse investors may choose not to invest at all.

Mauritius has forged a strong reputation as a financial centre, and our financial services sector has proven

By Wendy Sharon Sathan, Lead Professional, Financial Services, at the Economic Development Board Mauritius

Bhavna Gunnoo, Senior Professional, Financial Services, at the Economic Development Board Mauritius

to be resilient in the wake of the Covid-19 pandemic, with a growth rate and GDP contribution estimated at 4.2% and 12.3% respectively for the year 2021, and a banking architecture that has transcended the minimum requirements of monetary soundness and capital adequacy.

> 43% of impact investors have funds allocated to Africa

The Mauritius IFC offers a robust ecosystem built on more than three decades of experience and expertise in cross-border investment, and is particularly poised to play a strategic role in attracting investments and promoting prosperity for and across Africa. The ambition of Mauritius to be one of the leading IFCs in the region stem from the role that we are already playing in acting as a catalyst to quality investments in the continent.

The findings of the Capital Economics study evidence our commitment, highlighting that more than USD 80 billion of investments to Africa have been domiciled in Mauritius. One of the most prominent results of the study is the fact that Mauritius contributes to approximately USD 6 billion per annum in tax revenues for African governments.

Furthermore, the country is home to a number of international banks, investment funds, accountancy firms, private equities, investment holdings and other financial institutions. This constant support and continued trust by multinational financial services institutions vouches for the Mauritius IFC, and the distinct advantages that it offers.

It should be emphasized that many Development Finance Institutions (DFIs) and impact-driven financers, including the British International Investment (BII), Proparco, Dutch Development Bank (FMO), KfW, Norfund, OPIC, GroFin and Bigen Group, which are important actors in the impact investing landscape, are currently using Mauritius as a platform to set up and manage African impact funds in an efficient and cost-effective manner while benefiting from the jurisdiction's investment friendly ecosystem.

In fact, the Capital Economics report spotlights a few of those impact investments through case studies. For instance, Bigen Global Limited, an infrastructure development company headquartered in Mauritius, has helped African countries in the achievement of SDGs related to sustainable cities and communities and economic growth. KfW, a German state-owned investment and development bank, uses Mauritian impact finance vehicles to create investment opportunities for local African investors and to support the development of African bond markets.

Norfund, the Norwegian government's fund for developing countries, and the Overseas Private Investment Corporation (OPIC), the United States government's development finance institution, pooled together funds through Mauritius fund vehicles to support the growth of local business in Africa, which in turn creates jobs and economic activity across the continent.

> Mauritius contributes to approximately USD 6 billion per annum in tax revenues for African governments

It is important to highlight that, according to the Overseas Development Institute (ODI), more than USD 20 billion of public and private co-financing has been invested into Africa via Mauritius, led by the Private Infrastructure Development Group (PIDG), which is owned by a consortium of DFIs. The recipients of this investment include Burkina Faso, Mali, Tanzania, Ghana, Cameroon, Côte d'Ivoire and Rwanda, financing infrastructure projects that are essential to their economic development.

Seasoned with the right ingredients to espouse the continent in the quest to promote prosperity, economic development, employment opportunities and enhanced quality of life required to reach the SDGs, Mauritius has naturally anchored itself as a small African heavyweight in terms of regional investments.

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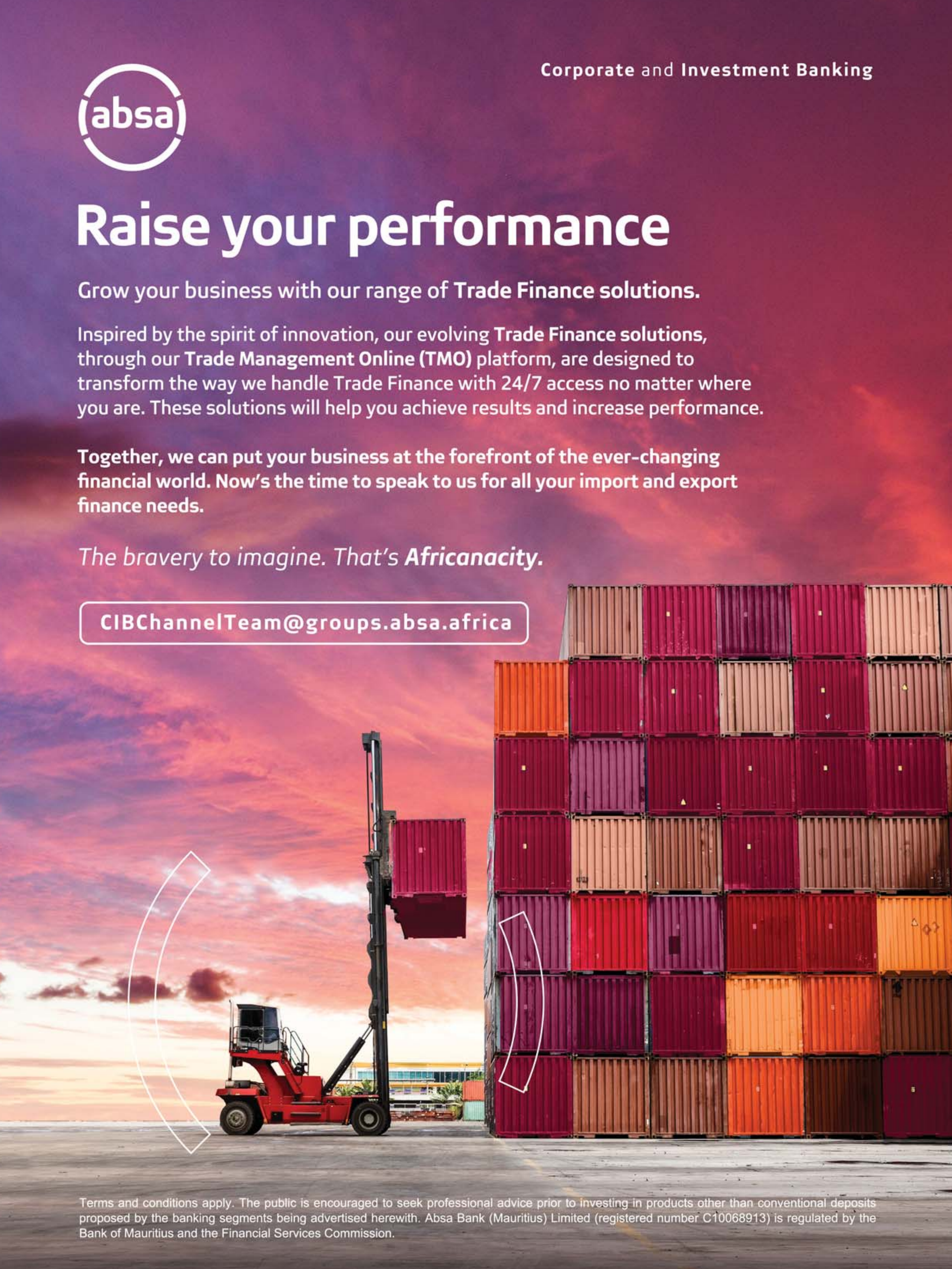
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How Mauritius can support regional impact investments with an eye to business development

With Mauritius entrenching its position as an international financial centre of note, it should first look to fellow island economies in the Indian Ocean region to see where investments structured from its shores can create sustainable impact for regional communities – even as Africa beckons enticingly in the near horizon.

When it comes to the Indian Ocean region, Mauritius does not have to look further than its big neighbouring island of Madagascar to find a location where large or even small investments can yield significant impact.

Soberingly enough, Madagascar is an island nation that, despite projected GDP growth and increased public investment, remains one of the poorest countries globally. A majority of Malagasy people reside in rural areas where 1 in 3 citizens lack access to improved water sources. The youthful population (approximately 50% of Madagascar's 26.3 million residents are under the age of 18) faces numerous challenges from their earliest days, including some of the highest malnutrition rates globally.

Investments into Madagascar continue to be a bare trickle

FDI inflows to Madagascar had been declining in the past years due to the country's political crisis. Nevertheless, the reforms introduced by the administration of President Andry Rajoelina are expected to reverse this trend.

Indeed, according to UNCTAD's World Investment Report 2021, the country received USD 359 million in FDI inflows in 2020, down from USD 474 million in 2019, as a result of the global economic crisis triggered by the COVID-19 pandemic. The stock of FDI reached USD 8.3 billion in 2020. UNCTAD' Investment Trends Monitor reported that although global FDI flows rebounded strongly in 2021, FDI flows to African countries (excluding South Africa) rose only moderately.

Against this backdrop, the Malagasy government has enacted various reforms, aiming especially to improve the business climate, to attract investors. Three reforms in particular stand out:

- company creation,
- granting construction permits.
- and trans-border trade.

However, special economic zones have not attracted enough sustainable and quality investment – and, as was historically the case, France, Mauritius, China, and the United States are still the main investors into the country.

Mauritius to help support investment flows into Madagascar

It is then clear that, for those of us who are looking at structuring investments from Mauritius into Madagascar, the current economic climate in our neighbouring island economy brings its own share of challenges from a capital raising/deal perspective.

At the same time, Mauritius enjoys a unique advantage due to its geographical proximity which guarantees that the island is well known to Madagascar businesses. Indeed, based on our discussions on the ground, we see that there are a number of young entrepreneurs who need guidance in structuring their affairs and are now looking actively at Mauritius. Of course, there are challenges to be surmounted, but similar to Africa, it requires patient capital and is best suited to investors who are looking at the island from a long-term perspective.

Most crucially, we need to do more to welcome Malagasy High-Net Worth (HNW) into our real estate segment. Indeed, as per our discussions with some Malagasy HNW at Axcel Insights, France continues to remain a key real estate destination for them. This

By Ruben Mooneesawmy
Founder and CEO
Axcel Insights

> Based on its geographical proximity, Mauritius is well known to Madagascar businesses

must change, and soon, for Mauritius to be truly regarded as a viable real estate hub for the Indian Ocean region.

So, what's next for the Mauritius IFC in terms of supporting Madagascar?

Ultimately, there is still a lot to be done for banks, advisers, and the Mauritian ecosystem to promote the advantages of the Mauritius IFC from a structuring and capital raising perspective, which means that for those of us in the financial services sector especially, we need to continue in our efforts to position Mauritius as a safe investment destination.

Especially with focus on Madagascar, it may be noted that banks like MCB, SBM, BCP and Bank One, all with their roots firmly entrenched in Mauritius, already have a presence in our neighbouring island economy which would help new businesses promoted by Malagasy investors to raise capital in Mauritius, with the following growth sectors in mind:

- Tourism: The government has announced the development of a huge hospitality project over 450ha in the Atsimo Andrefena south of Tulear that will comprise of 2-5 stars hotels, villas, golf course, restaurants entertainment parks as well as hospitals, clinics and schools for the new proprietor and the locals - besides being self-sufficient in terms of energy and water. The launch of new international and domestic air services in Antananarivo is expected to bring it up to international standards. With the investments expected to be entirely private, Mauritian hospitality operators and service providers can certainly find opportunities here through provision of training, management contracts and others.
- Agri-business: While the COVID–19 pandemic has put a brake on Madagascar's economic growth with manufacturing, mining, and services hit hardest by containment measures - agriculture has blossomed. The ambition of Madagascar to be the agri-food hub for the Indian Ocean means that the island is already the world's top exporter of vanilla, lychees, and organic red shrimp, and its second biggest for cloves. A wide range of tropical and temperate products exist thanks to the diversity of soil and climate conditions of the "Island-Continent" that can accommodate potentially profitable agricultural activities and 18 million hectares are still available - an area that greatly exceeds the landmass of all the other islands in the combined COI area. This makes Madagascar fertile ground for a host of investment opportunities in terms of agro-processing of biofuel, flour, sugar, starch, essential oils, beverages, medicines, dairy products, and canned food (including jam, vegetables, and seafood).
- Financial services and global business: On-the-ground observations from our office in Madagascar have yielded early feedback that suggests a strong gap in the market for trade finance due to FX shortage and higher pricing than Mauritian banks. Given that agri-commodity exports are in the $800m range, there are certainly opportunities for Mauritian banks to increase their participation on working capital lines to businesses in the agri-trading space. This would influence some of the mid-sized businesses to transact their trade flows via Mauritius through the setting up of global business companies.

Out of Africa: Building strong foundations in the Indian Ocean region

Ultimately, the Madagascar market continues to be underpenetrated with many players still who do not necessarily understand what the Mauritian IFC can offer and hence, why as advisers, we are investing the necessary time and energy to market the Mauritian jurisdiction from a structuring and capital raise perspective.

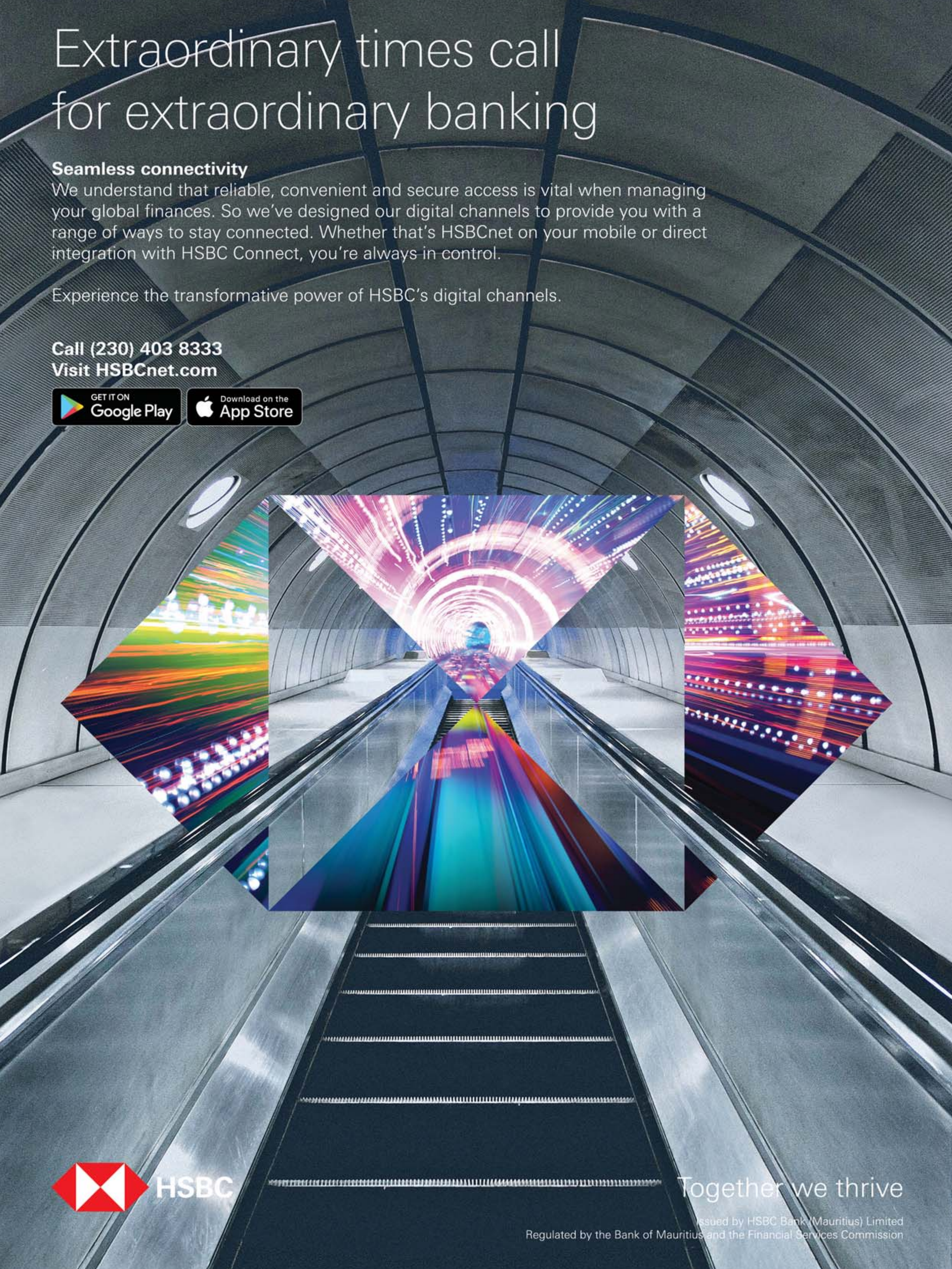
Especially against the context of the Russian invasion of Ukraine impacting global growth and putting pressures on key raw material inputs, it is unclear whether African consumers can absorb rising imports prices and so local businesses exporting to Africa and beyond must adapt themselves to the evolving situation. New markets must be discovered and those that are not present regionally should start thinking seriously along the lines of diversifying their business development channels.

Having said that, this does not in anyway diminish our focus on African transactions, nor should Mauritian businesses pull back as Africa has and will always be a long-term capital play.

To quote Tidjane Thiam who recently said, 'If you want to achieve 100x return on your investment, invest in Europe, if you want 1000x return, invest in Africa.' We hope to bring this saying to life as we foray deeper into Africa, while first taking our Indian Ocean neighbour Madagascar to the next level with our support on the impact investment front.

Rajen Mooneesawmy
Partner – Debt and Restructuring
Axcel Insights

Shanawaz Punchamgoss
Associate Director
Axcel Insights
(Madagascar Office)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Why technology could underpin growth in Africa

Africa remains the continent with the largest opportunity for growth, but much work remains to be done for ensuring that the infrastructure needed to achieve this stellar growth is in place.

As the world emerges from the shadow of COVID-19, the big question for many economists, politicians and investors is exactly what global growth will look like in the years ahead.

Africa is often the last continent to be mentioned in this conversation. This is unsurprising, considering that Africa accounts for around 2.8% of global GDP, while Asia accounts for 38.7% and North America 28.2%.

However, Africa as a continent should not be ignored. Home to 1.37bn people, with half under the age of 25, its population is expected to reach nearly 2.5bn by 2050. This presents vast human capital with a range of skills and an eagerness to learn.

The continent also offers an abundance of natural resources and is home to the African Continental Free Trade Area (AfCFTA), the world's largest free trade bloc. The International Monetary Fund (IMF) estimates that Africa's GDP growth rate will rise steadily from 3.9% in 2022 to 4.3% in 2026. That said, 21 nations are on the World Bank's list of fragile or conflict-affected countries.

So, if Africa really is the 'new frontier' for global growth as many observers claim, exactly where is that growth going to come from?

The future is now

To start with, future growth will have to be as sustainable as possible. Broad reforms to energy, telecommunications and transport will help deliver reliable electricity that can power the manufacturing sector and digital economy. Yet, only in December 2021, the IMF warned South Africa that it wasn't implementing reforms fast enough.

Some countries have focused on reforms that specifically address digital infrastructure gaps and make the digital economy more inclusive, thus ensuring affordability. And, it is in the digital and technology space that Africa may be able to make giant strides.

Much has been made of the uptake of mobile phones in the continent which has led to a surge in mobile banking and payments, with certain countries bypassing traditional landline telecommunications altogether.

How African nations decide on which technologies to focus on should not be based solely on how easy it is to execute and produce output, but on their potential to meaningfully transform Africa's development – thus, scalability is key.

Building strong foundations

While it might be the easy option to focus on technology, it's important to reiterate how crucial infrastructure is for Africa's growth. Education, energy, and financial infrastructure require foreign direct investment (FDI) and government funding to provide the strong foundation needed for growth.

The former does create something of a chicken-and-egg scenario. "What really attracts FDI are large and stable markets with growing middle classes that have disposable income," said Matthew Stephenson, Policy and Community Lead for International Trade and Investment for the World Economic Forum in a recent EY report. Something many African nations can't lay claim to.

To deliver growth, African nations will have to ensure that public investment prioritises skill acquisition over a drive for return on investment (ROI). Indeed, growth measured by ROI and GDP alone will not suffice. Africa needs to create sustainable jobs to

By John Félicité, Director, Ocorian Corporate Services Ltd

reduce the long-term levels of unemployment that persist in a continent where access to education isn't equal.

And not all future employees will be engineers, doctors, or scientists, either. So, labour productivity must increase too.

Regional and global integration will also be critical to future success. The over reliance of importation into the continent needs to be reduced. Building industrial linkages and developing local capacity will go a long way in making this a reality. This is something that AfCFTA may well help facilitate.

Investment in infrastructure is important and essential for sustainability but for integration in the global economy to be meaningful and sustainable, there should be a focus on sharing revenue strategies. This can only happen when African governments collaborate to redefine what African growth should look like.

The road ahead

While COVID-19 has undoubtedly been problematic for the continent, the optimism on the ground is unshakeable.

In the ultimate analysis, its demographics are far too attractive to ignore. In 2020, the median age for the continent was 18, which is 14 years younger than any other region. This creates a significant pool of talent all of whom can develop the required skills should appropriate education systems be in place.

That said, the pandemic has made debt burdens a big concern, especially for those with large repayment schedules due in the next several years.

The talk about Africa's potential has been around for decades, and things clearly have to change on the ground to make that growth a reality on the global stage.

> It's important to reiterate how crucial infrastructure is for Africa's growth

This provides a complex picture for organisations in Africa looking to grow and expand, or for those looking to invest in the continent. Each nation has its own idiosyncrasies and challenges which need to be navigated – something that can be particularly challenging for those without local expertise – making it essential to partner with a business that has operations on the ground.

At Ocorian, we specialise in assisting the C-suite in making decisions that will add real value to their businesses while mitigating risk. Our global footprint also means that we understand the interconnected nature of doing business around the world. This distinct perspective can play a key role in helping businesses grow, or indeed launch, their presence in Africa."

Building a resilient Africa through trade during the current crisis

As Africa experiences different challenges across sectors during the current COVID-19 pandemic, this underscores the importance of making the continent more resilient to endow it with the ability to rebound from future crises – an area where Mauritius has a key role to play.

Trade uncertainty in Africa has been exacerbated by the global impact of the Ukraine-Russia crisis, leading to increased prices, and reduced overall access to commodities. The whole supply chain, especially the agro-commodities segment, is feeling the ripple effects arising from the pandemic and the current conflict.

The African continent, nonetheless, remains a land of possibilities where trade finance serves as the lifeblood to keep its economy afloat. Leveraging on its extensive presence across Africa and beyond as part of the BCP Group, BCP Bank (Mauritius) believes in building a resilient Africa by facilitating trade to help both buyers and suppliers in an efficient manner to ride through the crisis.

Why the African continent is the next frontier of global growth?

The African continent is full of opportunities for growth - it is a major exporter of various agricultural products such as coffee, cocoa, and pulses,

The African continent is full of opportunities for growth

possessing 65% of world's arable land – and energy resources on the continent are equally abundant. It also hosts 30% of the world's mineral reserves and has 40% of the world's gold and up to 90% of its chromium and platinum.

Looking ahead, some international traders are sensing growth opportunities on the African continent, despite the crisis. Above all, trade activities are an important instrument for influencing Africa's long-term economic development. The current crisis has pushed commodity prices to soar, which in turn has heightened the need for working capital. All in all, traders are in urgent need of additional working capital and banking facilities.

The need of the hour: Deeper trade integration

It is then clear that deeper trade integration is needed to boost Africa's production and trade, which did not remain unscathed during the COVID-19 pandemic. Supply of various commodities has been affected by mass production shutdowns and supply chain blockages - and the Ukraine-Russia conflict is only multiplying the hurdles.

Global banks are often unable to take on declining African credit/ country risks in the current context

In parallel, the current trend of political instability, notably in Western Africa, is amplifying liquidity constraints and undermining the capacity of some institutions to finance African trade. In the current context, global banks are often unable to take on declining African credit and country risks. Leveraging on their balance sheet, larger traders are being privileged by banks with regards to access to banking facilities, thus driving out the smaller ones due to the heightened risk.

Key risks in the form of Inadequate foreign exchange liquidity, regulatory challenges, and constrained access to trade finance – as banks have gradually been scaling back activities from riskier markets since the onset of the pandemic – are no doubt posing problems for trade activities on the continent.

Mauritius financial services sector: Supporting African businesses amid the crisis

Together with other operators in the island economy's thriving financial services sector, BCP Bank (Mauritius) has sought to stay on top of market developments and provide solutions to boost trade activities in Africa despite the crisis, leveraging its on-the-ground presence in 15 African countries.

Deeper trade integration is needed to boost Africa's production and trade

Finally, while helping to drive business in Africa, the Mauritius IFC is promoting and encouraging the practice of ESG norms with targeted focus on the entire sustainability and ESG spectrum in terms of aspects like sustainable sourcing, supply chain visibility and transparency. Taking a leaf from the IFC, while BCP Bank wants to support trade activities in Africa, it has made it a priority to ensure that businesses are ESG-compliant, taking into consideration the importance of looking at the human and social aspects.

Overall, BCP Bank is doing, and continues to do, its share in contributing to Africa's growth as an integral part of the continent's success story.

By Avinash Jahajeeah, Head - Trade Finance & Syndications at BCP Bank (Mauritius) Ltd

Key facts and figures*

People worldwide
4000+

Worldwide locations
24

Assets under administration
$500+bn

Funds under administration
800

Supporting top PE firms*
11/15

Minimum senior team experience
20yrs

Our expertise

Private Equity & Venture Capital

Real Estate

Energy & Infrastructure

Hedge Funds

Long-only / Mutual Funds

Debt / Credit

Digital Assets

Hybrid Funds

*Information correct as of 3 February 2022.

Photo credit:
Khatleen Minerve, afm.media

INTERVIEW: H.E. CHARLOTTE PIERRE

BRITISH HIGH COMMISSIONER TO THE REPUBLIC OF MAURITIUS

"We are supporting Mauritius to achieve its ongoing ambition of being a regional financial hub"

The UK and Mauritius share a strong trade relationship, says H.E. Charlotte Pierre, and the UK's recent efforts to support Mauritius in delivering the reforms recommended by the FATF demonstrate its commitment to supporting Mauritius' efforts to be a transparent and robust financial services hub in the region and beyond.

Her Excellency Charlotte Pierre, British High Commissioner to the Republic of Mauritius, took office in August 2021, at a critical juncture for the Mauritius International Financial Centre as it was seeking to prove its credentials to the Financial Action Task Force (FATF) in the light of recent reforms and which, just two months later, led to the de-listing of Mauritius from the FATF's list of jurisdictions under increased monitoring.

In this interview, the High Commissioner shares her insights on the evolution of commercial relations between the UK and Mauritius in the post-Brexit era and the importance of financial services within this. She also describes the plethora of ways in which the UK is supporting the public and private sectors in Mauritius in reaching their goals, across anti-money laundering and combating the financing of terrorism (AML/CFT) in the light of the recent de-listings, capacity-building, cybersecurity and trade, among others. Finally, after the UK hosted the much-anticipated COP 26 climate change conference at the end of last year, she underlines how the strong partnership between the UK and Mauritius can help secure a sustainable future for the island economy.

How would you describe the commercial relationship between the UK and Mauritius, and how has this evolved in the post-Brexit context?
The UK and Mauritius share a strong trade relationship. It is one that promotes mutual interest - Mauritius is the UK's fifth biggest trade partner in Africa, bigger than Ghana, Kenya or Ethiopia, while the UK is Mauritius' second biggest export market, after South Africa. More broadly, over 140,000 British tourists visited Mauritius annually before the pandemic and it remains a highly popular destination for Brits.

As part of the ESA group of countries, Mauritius signed the post-EU Exit trade continuity agreement on 31 January 2021. £770m of British International Investment (former CDC) investment goes through holding companies or funds based in Mauritius to Africa more widely (also benefitting Mauritius, e.g. supporting 50k+ jobs). A big part of our current and future offer is focused on financial services.

We are supporting Mauritius to achieve its ongoing ambition of being a regional financial hub. Given the dominance of the City of London in global financial markets, this support is in both our interests. As global financial centres, the UK and Mauritius have strong economic and security interests in maintaining an open, transparent and secure global financial system. Also, both global banks operating in Mauritius are head quartered in London. We plan to take the trade relationship to the next level in 2022 and hope to announce our new plans in the coming months.

What steps have been taken by the UK to support the Mauritius International Financial Centre with regards to the recent de-listings by the Financial Action Task Force (FATF), the EU and the UK itself?
In April 2020, a specialist expert on countering illicit finance joined the British High Commission team to support Mauritius deliver the reforms recommended by the FATF. This advisor delivered training, shared her experience and supported key agencies in their outreach to the financial sector. The UK also provided expert support to law enforcement, the National Sanctions Secretariat, regulators and the business community. These efforts demonstrate our commitment to supporting Mauritius' efforts to be a transparent and robust financial services hub in the region – and beyond.

> A big part of our current and future offer is focused on financial services

What technical assistance is being offered to help ensure that the jurisdiction continues to meet international standards in combating money laundering and terrorism financing?
Mauritius acknowledged that FATF delisting was only the first stage. Therefore the UK stands with Mauritius to continue building resilience against illicit financial flows, including money laundering and the financing of terrorism. A robust financial sector is essential for the prosperity of Mauritius and the safety of the Mauritian people and our significant trade relationship.

Immediately following the FATF delisting, the UK deployed a team of experts from the UK National Crime Agency and the UK Home Office to work with Mauritius' law enforcement agencies, investigators and criminal justice partners to build capacity to


Photo credit: Khatleen Minerve, afm.media

tackle international corruption. Experts from the UK Treasury visited Mauritius in March 2022 to train Mauritian partners on countering terrorist financing. Also, the UK Office for Financial Sanctions Implementation continue to work with the Mauritius National Sanctions Secretariat to support the domestic implementation of international sanctions. The BHC's in-house expert continues to work closely with business, government, civil society and law enforcement to identify areas of cooperation and future UK assistance opportunities.

Capacity-building in the financial sector is of vital importance for both the public and private sectors in Mauritius. How has the UK been contributing its expertise in recent months to support the industry and local authorities?
UK experts regularly work with the public and private sector and we have provided experts for outreach sessions run by local authorities in Mauritius.

> Trade will be a focus for the coming year

The UK was a key partner in the successful Africa FinTech Festival hosted by Mauritius in late 2021. I recognise the need for constant development and innovation and I was excited to see my colleagues from the UK Department for International Trade as well as the BHC's in-house illicit finance expert presenting at such a key event for the industry.

Cybersecurity is an increasing concern in Mauritius, where there has been a significant growth in remote working in the light of the pandemic and, according to Fitch Ratings, a notable rise in cyberattacks on businesses and government agencies globally since the Russian invasion of Ukraine. How is the UK able to offer support in this critical domain?
The UK has a comprehensive cyber security programme working with Cyber leads from across Mauritius. Our cyber security experts have visited Mauritius twice since borders reopened. We continue to support government and industry to ensure Mauritius retains the highest standards of cyber security. Our technical work includes support to prevent cyberattacks and maintain the integrity of the critical national cyber infrastructure which is critical for businesses, government and citizens.

You have recently commented that trade will be one of your priorities for this year. Could you elaborate on how UK-Mauritius trade relations can be further developed and strengthened?
Trade will indeed be a focus for the coming year and I look forward to making an exciting announcement on that very soon! Key to deepening the relationship will be a better understanding of Mauritius' areas of growth where UK firms have a comparative advantage, can add value and thrive. We also want to identify constraints to trade and investment for policy makers to tackle. Finally we want to connect industry leaders from both countries to establish business to business partnerships in priority sectors including financial & professional services, healthcare/pharmaceuticals and education. While governments are important to facilitate links, it is those business to business links that will really drive this.

We provided tangible support to help Mauritius deliver the Financial Action Task Force

recommendations leading to its exit from the "grey list" in October 2021 and the UK de-listing a month later. We will help Mauritius build on that success, continuing our proven partnership on anti-money laundering and countering terrorism finance, which will be critical to Mauritius' status as a regional financial hub. This work protects our people, our economies and our open and free societies. Mauritius and the UK are working closely together to ensure that as global financial centres we do all we can to ensure that dirty money is not channelled through our countries.

Tackling climate change is a top priority for both the UK Government, which hosted the 26th UN Climate Change Conference of the Parties (COP26) in November 2021, and for Mauritius, as a Small Island Developing State which participated in the meeting. Could you share your views on how the UK and Mauritius can join forces to ensure a sustainable future for the island economy?

The focus for the UK COP Presidency year is delivery. Every country, big or small, has to play its part, and honour the promises they have made. But we must work together by aligning our efforts internationally to accelerate the pace of technological change, increase incentives for investment, and innovate faster. By working in partnership, we can support a truly global transition. We will do so by progressing work on adaptation and loss and damage. We will push all donor countries towards the commitment to double adaptation finance, and with all parties to make progress towards the Global Goal on Adaptation. We also want to deliver finance overall to support these efforts. We are urging developed countries to implement the delivery plan on the $100billion a year in international climate finance for developing countries. By COP27 we must be able to show that we are on a trajectory to meet that $100billion goal. We will also encourage the financial firms and development finance institutions that have made commitments to deliver with integrity.

> The focus for the UK COP Presidency year is delivery

At COP26, Prime Minister Johnson announced support for countries like Mauritius including the Small Island Developing State Capacity and Resilience (SIDAR) programme, which will support capacity-building for small island states to access funding and technical solutions at scale. In fact, UK experts were in Mauritius this week (21-25 March) to deliver training on public-private partnership in the critical waste management sector. This programme comes at an ideal time, as both the UK and Mauritius seek to drive post-COVID economic recovery, tackle climate change and rebalance and strengthen their economies through the mobilisation of private capital and expertise to deliver, finance and manage public infrastructure. We also welcomed experts from the UK's Climate Resilient Infrastructure Development Facility (CRIDF) who also visited recently and met key stakeholders in the water sector including the Ministry of Energy and Public Utilities, the Ministry of Finance, Water Resources Unit, Central Water Authority and the Irrigation authority to identify opportunities to implement improvement plans for a more sustainable water services and increased water supply access.

Financing a sustainable planet

With the holy trio of climate change, population growth, and technological innovations transforming global economies like never before in a post-COVID context, sustainable finance continues to gain traction as financing sustainable businesses has strong financial and investment as well as broader societal benefits.

Humanity is confronting huge challenges with climate change, population growth and technological innovations alongside growing inequality, geographical shifts, and more. The financial industry has a vital role in addressing these monumental issues by revisiting the way to best allocate capital to work in the service of the planet.

Here, mobilising sustainable finance is essential for global growth and stability for promoting the transition towards greener, more resilient, and inclusive societies and economies.

The spectrum of sustainable financing

The notion of sustainable financing covers a wide range of investments, and it is important to understand what each of them are. For illustration, imagine a spectrum of sustainable financing with traditional profit-driven financing at level zero.

At level one, there is Environmental, Social and Governance ("ESG") Risk Management where financial institutions are screening out investments that could potentially bring negative outcomes, basically, shunning investments in companies that actively do harm like producing tobacco, having a track record for being involved in animal testing, or human rights violation.

At level two, there is sustainable impact investing where sustainability factors and profits both drive decisions, and which includes investment in carbon-reduction projects like renewable energy, poverty reduction through micro financing, as well as waste reduction projects like building recycling plants, among others.

At level three, there is impact-first investing whereby social and environmental interests take priority over profit. Impact-first investing goes well beyond avoiding harm and managing risks alone. The aim is to use the power of investments to do good for the society and environment and not to worry overly about making a profit. The fourth and final level is sustainable philanthropy which takes this philosophy of generosity one step further, and where profit is completely disregarded in favour of social and environmental considerations.

By Navin Dussoruth,
Head of Internal Audit & Risk Management at Apex Fund Services Ltd

Why ESG is taking centre-stage

ESG continues to be an increasingly relevant mainstream factor in investment, driven by investors, employees, consumers, a moral obligation and an increasing fiduciary and regulatory responsibility. Through investor pressure, we have seen environmental protests on streets across the world, in the form of big marches from social and community units.

Increasingly, ESG is a 'must have' rather than a 'nice to have'. There is constant employee pressure from the inside out to make change happen. People want to work for purpose-driven organisations that stand for more than just making money; this is key for recruitment, retention, and motivation – three critical but often overlooked metrics for the success of a company.

Also, there is a growing realisation of a moral obligation towards our planet which has massive challenges, not just environmentally but socially too. It is increasingly felt that it is our duty to our current and generation to leave the world a better place than we found it. Finally, regulators and unions are introducing standards and rules across the ESG universe in which investors want to show market-leading credentials.

Other than being a mainstream factor, ESG is ultimately a measure of greater risk and reward management. ESG is important because it has a significant positive impact on fundamental business issues relevant to the long-term success of any company across licence. These business issues include corporate reputation whereby ESG can enhance a company's license to operate, making it easier to accomplish business objectives and respond to crisis scenarios with key stakeholder groups. ESG also helps for risk reductions by identifying immediate and long-term risks depending on the industry and business model. Finally, ESG maturity is an indicator to enhance the culture and add intrinsic value of a company's commitment to building a high-performing, purpose-driven workforce and inclusive culture.

In adapting to the above, it is the act of learning new and sustainable business skills as well as competencies that is making companies more successful. This is equally true for business professionals in the accounting and financial world. For instance, accountants need to learn skills for gathering, managing, analysing, and reporting a whole new generation of business metrics such as greenhouse gas emissions; investment professionals need to integrate ESG checks as an integrated part of their due diligence toolkit. The finance function needs to model renewable energy contract risks. In addition, legal teams need to deal with increasing complex environmental clause in contracts and treasury teams need to understand Green Bonds and how climate risk assessment might impact credit facilities or insurance considerations.

How the private sector is coping with the need for new solutions in the green finance space

All operators in the financial services sector are aware of these rapid changes and have learnt to adapt to this ever-evolving space by introducing new solutions catering for client demands.

> Mobilising sustainable finance is essential for global growth and stability

Moreover, there is a real need for appointment of independent and rigorous service providers and stakeholders have lot to offer in this matter. There is a full product suite available to clients in Mauritius ranging from ESG advisory services such as alignment to key ESG regulations and leading standards in the financial sector; implementation of ESG policies and approaches based on best practice. There's also ESG rating, reporting and benchmarking against best in-class ESG standards such as the United Nations Sustainable Development Goals and performance over time. Finally, carbon footprint assessment and reporting whereby climate impact-based assessment is provided on key frameworks as well as advising companies on a strategic roadmap to neutrality and net zero emissions.

Sustainable finance has emerged as a response to a world that is finally seeking to bridge social, racial and gender gaps. As of today, we are already witnessing a green revolution taking place all around us. Undoubtedly, in the ultimate analysis, sustainable finance can help us to successfully transition to a sustainable planet.

Leveraging Export Finance to address the infrastructure financing gap in Africa

It has been noted that Export Credit Agency (ECA) financing now plays a vital role in funding infrastructure projects and this trend is likely to grow significantly in the coming years. Let's look at the various ways in which such Export Finance benefits exporters navigating Africa's infrastructure opportunities.

By Faisal Khan,
Founding Partner and CIO,
Acre Impact Capital

Export Finance is ideally suited to address Africa's significant and growing infrastructure deficit, whilst supporting the United Nation's Sustainable Development Goals (SDGs) via the product's built-in controls and features.

The 100+ year old Export Finance market is uniquely positioned to deliver large scale capital expenditure through private and public sector participation, which is required to meet the SDGs.

What is Export Finance?

Export Finance is a well-established and critical instrument that supports international trade. There are 116 Export Credit Agencies (ECAs) globally, across both advanced economies and growth markets, providing support for $200-250 billion worth of business in any given year.

The basic role of an ECA is to support and encourage exports and outward investment by (i) insuring or guaranteeing international trade and investment transactions or (ii) providing direct loans / financing. The need for such facilities arises out of the need for affordable, long-term finance for infrastructure investment and the need to manage the inherent risk present in cross-border transactions.

A typical export credit facility involves debt financing via two tranches: a commercial loan tranche (up to 15% of the project value) which is short-dated (5-7 years) and disbursed upfront in order to initiate project works, followed by a longer-dated (up to 18 years) ECA-guaranteed tranche for the remaining 85% of the project value, which is disbursed in instalments based on pre-agreed project milestones.

An ECA's activities are codified by a set of terms and conditions developed by the OECD. These include performing environmental, social, and human rights due diligence in line with the IFC / World Bank best practices and ensuring that any such risks are mitigated before providing support. For sovereign sponsors of essential infrastructure projects, ECAs must ensure that they provide official support in line with sustainable lending practices taking into account IMF/World Bank country debt sustainability analyses.

> ECAs are an important channel of SDG financing flows

Finally, ECAs ensure strong compliance and control of the use of proceeds, following the OECD's recommendations on bribery and corruption. Funds are usually disbursed directly to the contractor, based on pre-agreed milestones. This control is critical to ensure that financing proceeds are used for the stated purpose of the project which has been approved by the ECA.

The de-risking nature of ECA financing particularly helps drive investments into growth market infrastructure projects. This role has been highlighted by the UNEP Finance Initiative which says, "Export

Credit Agencies are an important channel of SDG financing flows. They play a critical role in promoting the export of capital goods of developing countries [...]. Their role is therefore often indirect, acting as a catalyst and enabler of investments, especially in countries perceived to be high risk."

A unique opportunity for impact investors

The ECA market is no longer functioning as it has in the past, leading to some projects being delayed or not proceeding. For a number of strategic, regulatory, risk appetite and cost reasons, international banks have become increasingly selective in providing commercial loan financing in the market, for the tranche of the financing not covered by an ECA guarantee. This tranche of the financing is required upfront in order for the borrower to obtain the ECA guarantee. The pandemic has further exacerbated this situation as international banks additionally reduce exposure to emerging markets.

This presents an opportunity for impact investors seeking both commercial and impact returns to participate in ECA transactions, particularly in the 15% commercial financing tranche. By investing in the commercial tranche, investors can achieve risk-adjusted market returns, whilst unlocking attractive and long-dated ECA-guaranteed financing, thereby catalysing up to $5.6 for each $1 invested. This is achieved thanks to the blended nature of Export Finance structures, whereby the ECA guarantee can attract significant interest from commercial capital providers. Overall, ECA financing (on a blended basis) offers better (cheaper and more flexible) financing terms than the international bond markets to borrowers.

As another key benefit of ECA financing in terms of capital mobilisation and pricing, investors can truly be additional – while earning market risk-adjusted returns – as many transactions currently fail to come to fruition due to the lack of commercial loan financing in the market.

How ECA financing can help achieve the SDGs

The financing gap in emerging markets to achieve the SDGs stands at $2.5 trillion a year until 2030. In order to close this vast gap, a concerted effort is required across public funding, private sector solutions, development finance institutions, impact investors and philanthropists.

> The basic role of an ECA is to support and encourage exports and outward investment

In this context, Export Finance – a product designed to promote trade and exports – can be leveraged to make a much greater contribution to addressing the persistent infrastructure financing gaps in Africa and around the world and contribute meaningfully to the achievement of the SDGs.

SHAHED HOOLASH
CHAIRMAN OF MAURITIUS FINANCE

"The financial services industry is in a growth spurt with no signs of slowing down"

Mauritius will be consolidating its image of a stable jurisdiction with an enhanced AML/CFT framework in the light of the recent de-listings, says Shahed Hoolash, Chairman of Mauritius Finance, and has fostered a more vibrant compliance culture within its financial services sector while reaching the highest international standards.

On October 21, 2021, the Financial Action Task Force (FATF) announced at its Plenary session that it had removed Mauritius from its list of jurisdictions with strategic deficiencies in their approach to anti-money laundering and combating terrorism financing (AML/CFT). Mauritius was also listed as 'Compliant' or 'Largely Compliant' with 39 out of the 40 FATF recommendations.

Following this, the European Commission confirmed on 7 January 2022 that Mauritius had been removed from the European Union (EU) list of "high-risk third countries". The removal of Mauritius from these lists bears testimony to the host of bold policies and measures undertaken by the island in honouring and adhering to the highest international standards in combating AML/CFT matters.

In this interview, Shahed Hoolash, Chairman of Mauritius Finance, provides an overview of the financial services sector and discusses how the jurisdiction has addressed the deficiencies highlighted in the ESSAMLG/FATF assessment of 2019/2020, how the Mauritius IFC can grow further and Mauritius Finance's contribution to the sector's continued success.

Since January 2022, you are the new Chairman of Mauritius Finance. Since its creation in 2020, how do you assess the contribution of Mauritius Finance to the Financial Services Sector?
Mauritius Finance has succeeded in its main mission – that of promoting the financial services industry in a cohesive manner, as a single voice, by establishing permanent and constructive dialogue with regulatory bodies, industry stakeholders as well as Government.

At industry level, Mauritius Finance has gathered all the major industry players to brainstorm on matters of utmost importance like the listing of Mauritius by the FATF. This unified advocacy and discussion platform provided us with a voice to relay feedback to public authorities but also to FATF assessors who visited the country in 2021. This collective effort and dialogue, as well as the impetus at Mauritius Finance, have contributed a lot towards helping the country exit the FATF and EU lists in record time.

Challenges of combating money laundering and terrorism financing are ever changing

We have also worked closely with the regulatory institutions on a number of initiatives related to product development, enhancement of existing products and services, frameworks and technological platforms.

The quick exit of Mauritius from the FATF list of jurisdictions under increased monitoring as well as from the EU list of high risk third countries in a relatively short timeframe was a major achievement for the Mauritius International Financial Centre in 2021. How well has the jurisdiction addressed the deficiencies highlighted in the ESSAMLG/FATF assessment of 2019/2020?
The last report of the FATF indicated that our jurisdiction complies with 39 out of the 40 key requirements regarding AML/CFT. With the coming into effect of new KYC guidelines as well as new legislations and frameworks like the Virtual Assets Act, I believe we are now 100% compliant.

I want to underline the fact that all the stakeholders within the Mauritius International Financial Centre (MIFC) played their part and did whatever they had to do to reach the highest standard in AML/CFT compliance. In so doing, we have fostered a more vibrant compliance culture within our financial services sector. Operators and regulatory bodies share a common vision regarding this high compliance culture which is now here to stay on a permanent basis.

Some may be tempted to rest on their laurels now that we are largely compliant with FATF recommendations regarding AML/CFT. Why do you think is it important to further enhance our AML/CFT framework and its efficiency?
The challenges of combating money laundering and terrorism financing are permanent and ever changing. This is why regulatory institutions across the world, including those in Mauritius, have no other option than to keep enhancing their AML/CFT frameworks. As a jurisdiction, we pay the greatest attention to the potential areas of concern or improvement highlighted by the FATF. In order to ensure that we are up to the standard required, Mauritius Finance constantly provides training support to professionals within our financial services industry.

The exit from the FATF and EU lists is said to have more than positively impacted the business climate in Mauritius and the confidence of investors in the MIFC. Do you share this view?
Yes, absolutely. We are witnessing an increased amount of queries from both new and existing clients looking to setting up structures within the MIFC. We are also benefiting from a new competitive advantage since two of our largest competing jurisdictions are now going through the listing

process of the FATF. In the short and medium term, they will need to implement notable changes in their compliance rules and enforcement standards. Meanwhile, Mauritius will be consolidating its image of a stable jurisdiction with an enhanced AML/CFT framework.

Do you think that the slow rebound of the world economy as well as the uncertainties created from the Ukraine-Russia war will impact the investment flows towards and through the MIFC?
Most of the investment flows in or through the MIFC towards India and Africa originate from developed countries like the USA and Europe. Given that these economies and regions will be affected by the current war, we can expect a slight slowdown in flows in the coming months, especially from European countries. If the war drags on, the effects may then be prolonged and become more dramatic.

As of now, however, we are not experiencing any adverse impact on our jurisdiction. The financial services industry is actually in a growth spurt with no signs of slowing down. I am happy to say that we are bracing ourselves for a serious recovery and growth in 2022.

The Financial Services Sector is already one of the strongest pillars of the Mauritian economy and a major contributor to growth. How can the MIFC grow further?
The focus should be on two main levels: Consolidation and Innovation, underpinned by continued growth and development of our talent pool.

Regarding consolidation, we must ensure that our products and services remain relevant. Our regulatory framework has recently been updated with new laws providing for Family Offices and Variable Capital Companies. These are most welcome since we have had no major revamping of our products and services since 2001.

Innovation, on the other hand, will be considerably boosted if we attract a greater number of global players within the MIFC who will bring with them their business books and skills sets; thus enhancing our ecosystem and local players. In order to achieve this, we need to implement the strategy laid out in the Blueprint and move forward decisively.

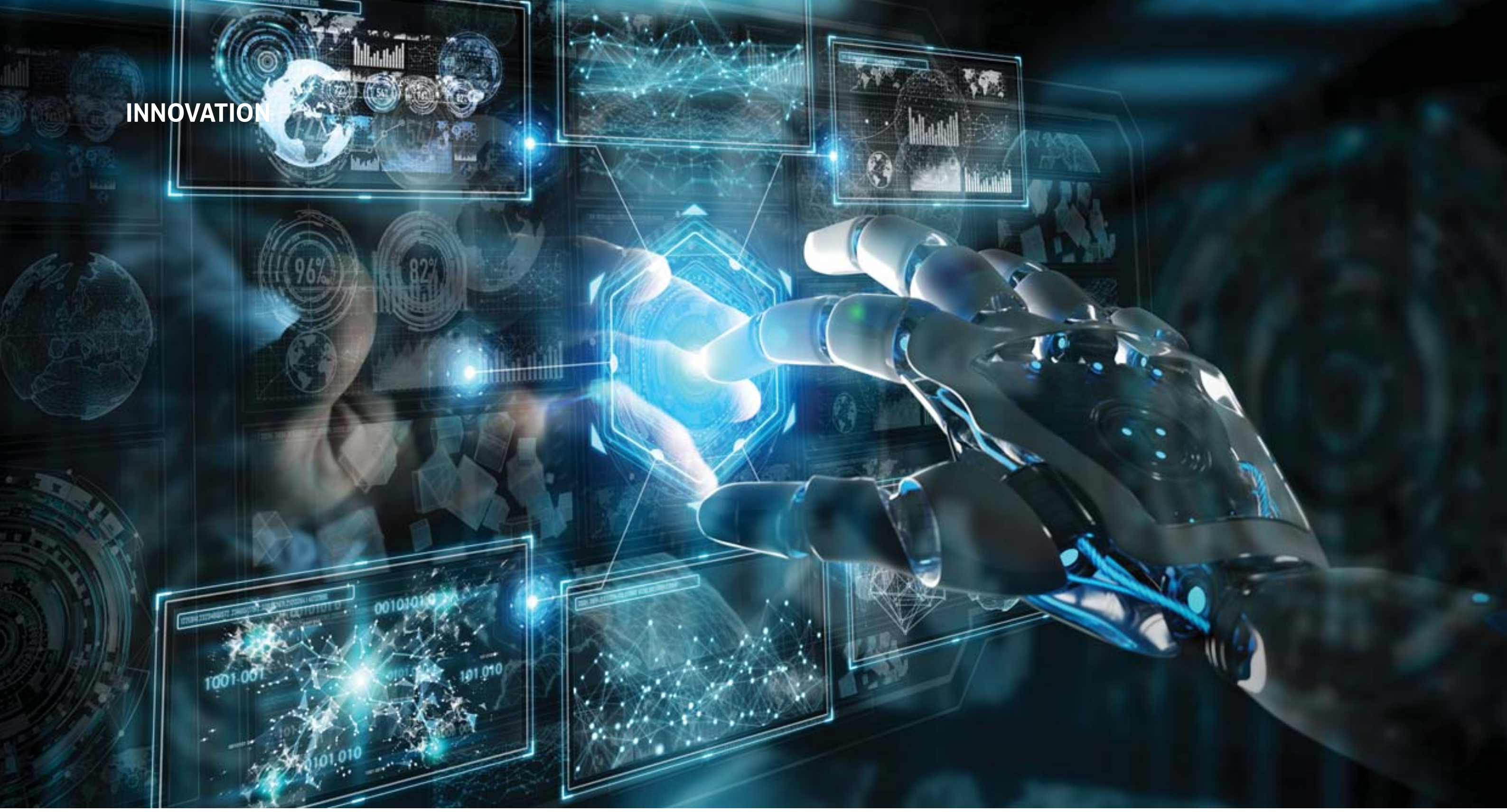
A large part of the economic success of Mauritius has been and still is the effective public-private partnership. What can the MIFC further achieve through more public-private partnership initiatives?
One of the best illustrations of the successful public-private sector partnership in Mauritius is the collaboration that led to our exit from the FATF and EU lists in record time.

In the process, we have learned a valuable lesson: Anything is possible if we put our heads together and synchronise our efforts. I must say that the industry operators have developed an even better rapport with the regulatory institutions and decision makers. This relationship enhances our capacity to pre-empt and tackle issues as they arise and thus ensure the success of our jurisdiction.

> Engagement and advocacy remain high on our agenda

What would you identify as your top priorities during your tenure as Chairman of MF?
There is a major issue on the recruitment front and we need to tackle it through capacity building and developing our ability to attract young graduates and professionals to the industry. As at now, we are finding it difficult to hire young people, even at a time when youth unemployment is on the high side. We should try to understand whether the industry is visible enough to our youth and if its outreach needs rethinking. We need to be able to engage our youth to explain to them what we do, what are the opportunities within the industry and how they can embark on rewarding careers within the MIFC. This will be the top of the agenda for the coming 4 to 5 years. Our industry is also losing local talents that are migrating to competing jurisdictions. It is thus imperative that we not only succeed on the recruitment aspect but also on the capacity building side in order to maintain the highest standards in our services.

I should also add that engagement and advocacy remain high on our agenda. We need share a common goal with the same priorities and a clear roadmap for our jurisdiction. If we succeed in doing that, we are bound to significantly increase the contribution of the industry to our GDP and thus contribute to Government's objective of graduating Mauritius into the High Income Economy category.



Digital innovation: powering a FinTech revolution in Mauritius

As the global FinTech space is rapidly evolving, Mauritius is reinforcing its position as an innovative hub and providing a plethora of opportunities for growth in the digital age through the development of an enabling regulatory framework which paves the way for new business activities in the realm of Robotics and AI, Crowdfunding and virtual assets.

In the past few years, we have witnessed the banking and finance sector in Mauritius being subject to a series of legislative amendments flowing from the enhanced nexus between technology and financial services.

The island has already demonstrated its strong commitment to combat money laundering and terrorism financing, in compliance with the Financial Action Task Force's standards. In this context, enhanced measures are being taken by the authorities to address past deficiencies and provisions are being made to mitigate the risk of money laundering, financing of terrorism and the proliferation of such related risks.

As an innovative hub, the jurisdiction has already established a forward looking framework to regulate the FinTech industry (including, amongst others, the Financial Services Rules on Custodian Services (Digital Asset), Peer to Peer Lending, Crowdfunding and the National Payment Systems Act 2018). Additionally, the Financial Services Commission issued the Financial Services (Robotic and Artificial Intelligence Enabled Advisory Services) Rules 2021 on 18 June 2021 to provide a regulatory framework and promote the adoption of new and emerging technologies by licensed service providers in Mauritius. Most recently, on 7 February 2022, the Virtual Asset and Initial Token Offering Services Act (the "VAITOS Act") finally came into force. The VAITOS Act covers two types of assets, namely "virtual assets" and "virtual tokens". With this new Act, it will undoubtedly further strengthen Mauritius' position as a leading FinTech hub in Africa.

Shedding light on the Robotic and Artificial Intelligence Enabled Advisory Services licence, it should be noted that Robotics and Artificial Intelligence are key technology enablers that will contribute to the digital transformation of the investment and portfolio management landscapes in Mauritius. With the introduction of these innovative Acts, Mauritius can further strengthen its credentials as an attractive location to invest and to develop new products and services.

A dynamic environment for global business players

Robotics and Artificial Intelligence will play a catalytic role in encouraging licensees to engage into new and innovative service lines in Mauritius. With the introduction of the new rules on Robotics and Artificial Intelligence in advisory services influencing international players, Roshan Nathoo, Managing Director at Rogers Capital says that there is an increased demand, both locally and internationally, in the financial services sector which has meant that talent has become scarce and ever more costly.

> Clients are demanding ever more ready access to comprehensive information

He elaborates that, "It is but natural that service providers look to technology, through enablers like Robotics and AI, to ensure efficiency and reliability and help ease the pressure caused by the dearth of talent. Advances in technology in recent years have also meant that solutions have become ever more accessible at affordable prices. Legislation must keep abreast of this evolution to make sure that the interests of clients and other stakeholders remain protected through, among other safeguards, supervision by a regulator, internal control systems and other good governance practices. I welcome these new rules as further enhancing the confidence in the robustness and credibility of the MIFC."

Having said that, then to what extent is client demand changing when it comes to digitally delivered platforms and services or adopting their own AI or FinTech driven solutions? As expected, technology has radically altered the speed with which information is exchanged and the way that we communicate.

Roshan highlights, "These changes have been further accelerated during the pandemic as lockdowns gave a boost to remote exchange of information and communication means and tools. Expectations of clients have evolved accordingly with what was innovative a few years ago now becoming the norm. Clients are demanding ever more ready access to comprehensive information and with quicker expected turnarounds. There is also a move towards enhanced interface with clients' systems so that there is seamless exchange with service providers. All these changes will obviously improve the way business is done but at the same time would mean that the industry has to consistently evolve with new expectations and the changing landscape."

Innovation, regulatory framework and legal - all go hand-in-hand

As the industry keeps evolving, keeping up with the laws and regulation is compulsory. Sharing views on how the Robotic and Artificial Intelligence Enabled Advisory Services Rules 2021 provides a conducive regulatory framework and promotes the adoption of new and emerging technologies by licensed service providers in Mauritius, Priscilla Balgobin-Bhoyrul, Senior Partner at Dentons Mauritius said, "True to its ambition to be an IFC of choice, Mauritius has through those Rules achieved a balanced approach. It has, on the one hand, ensured that its FinTech sector remains vibrant while ensuring, on the other hand, that licensed service providers operate within a clear regulatory framework. Such a move will also act as a catalyst for new FinTech companies which are looking for a jurisdiction that embraces innovation whilst ensuring transparency."

Moreover, with the recent VAITOS Act, it has provided an impetus to Mauritius and is already serving as a magnet to those firms which are seeking to enter the virtual asset space. Priscilla mentions that, "by

Roshan Nathoo,
Managing Director at
Rogers Capital Ltd

Priscilla Balgobin-Bhoyrul,
Senior Partner at
Denton's Mauritius LLP

attracting those companies, professionals and technicians to Mauritius, there will be increased interaction between them and local players and professionals. This will, without any doubt, help to raise the bar locally in terms of skills and experience."

An aspiring leader in the FinTech sector

The island has a forward-looking International Financial Centre and has recognised the importance of offering a safe and conducive platform for the promoters and clients of FinTech products globally. It has made significant progress on its path to regulatory innovations so as to establish itself as an aspiring leader in the FinTech industry.

Mauritius has become one of the first countries in Africa to create a bespoke framework for Crowdfunding as an innovative financing mechanism. Sharing his perspective, Dhitoimaraini Foundi, Co-Founder and Chief Executive Officer at Olive Crowd explains that the new framework for Crowdfunding in Mauritius has made a very positive contribution to the market in the sense that it gives legitimacy to the product, gives a guarantee to entrepreneurs regarding its role in the financing of companies and finally strengthens the confidence of investors for whom Crowdfunding is a means of diversifying their investments.

> Mauritius' FinTech sector remains vibrant

He notes, "We can only salute the responsiveness of the regulators in the implementation of this regulation. However, we still have room for improvement to improve and adapt to new market needs."

Citing similar views, Michal Szymanski, Chief Executive Officer of the Mauritius Africa FinTech Hub (MAFH) said that it is critical for regulations to keep pace with the innovations. He noted that, "the crowdfunding space is divided into three areas which are crowd donations, crowd equity and crowd funding. Therefore, the regulations need to keep pace with the innovation we are seeing to allow for that freedom for those innovations to mature and to ensure more people adopt the use of these technologies and funding mechanisms to grow their own businesses. Adoption of technology is one of the biggest barriers out there."

Furthermore, the Economic Development Board's Regulatory Sandbox Licence (RSL) scheme has also helped drive progress and innovation on the FinTech front in Mauritius and the region. Dhitoimaraini says, "I would call the RSL license avant-garde. This has allowed FinTechs like Olive Crowd and Fundkiss to operate pending the establishment of regulatory frameworks governing their activities. It is a useful scheme offering the possibility to tech entrepreneurs to test their innovations."

Michal also went on to add, "Having a regulator that is open to listen to new and existing innovations is critical to any FinTech ecosystem. Therefore, the EDB's RSL is key to unlocking and unblocking this new venture. This is a new type of innovation that is set to thrive in Mauritius, thereby giving opportunities to market players. The RSL is a process, and it's one of the top five in the continent. The EDB has done an excellent job in terms of market consultation and building a regulatory environment and allowing those innovations to see the light of day."

The outlook for Mauritius as an innovative hub

Among the lessonsfrom the COVID-19 crisis and the disruptions in the global value chain is that there is an urgent need to builda more resilient and diversified economy.

On a concluding note, Michal notes that the future of this innovative space for Mauritius and the African region is endless. He shares, "People are realising that there are more opportunities for funding outside of the traditional streams of the financial institutions. There is a massive trend, and this is the start. For example, Crowdfunding is money for the business, there are going to be other areas that are going to spin off. More and more crowd-based platforms will become available specifically for the financial services space."

Along the same lines, Dhitoimaraini agrees and concludes by saying, "This requires that we exploit other sectors such as the blue and green economy but also focus on innovation. Crowdfunding will be the first funder of companies of tomorrow. It has a significant role to play in this in the recovery and economic growth of Mauritius."

Dhitoimaraini Foundi, Co-Founder and Chief Executive Officer at Olive Crowd

Michal Szymanski, Chief Executive Officer of the Mauritius Africa FinTech Hub (MAFH)

INTERVIEW: VINOD BUSSAWAH

CHIEF OPERATING OFFICER, MAURITIUS FINANCE

"One of our key objectives is to help advance knowledge and training for the industry"

Training and capacity building have a critical role to play in meeting the needs of the financial sector, and Vinod Bussawah, Chief Operating Officer of Mauritius Finance, outlines the role of his institution in facilitating trainings and forging partnerships with internationally recognised institutions to attract and retain talent in the jurisdiction and address the current skills gap.

In this interview, Vinod Bussawah highlights the achievements of the trade body since its inception, explaining how it has been at the forefront of providing training opportunities, with some 750 participants benefiting from workshops. He elaborates on several proposals to Government that aim to tackle the current skills mismatch and make work permit requirements more broad-based to attract financial services professionals from abroad; while keeping an eye on competitors such as Luxembourg, Guernsey, Jersey, and Malta to stay ahead of the crowd.

Mauritius Finance (MF) has been at the forefront of leveraging training to ensure the Financial Services sector is ahead of the curve. How do you assess MF's various achievements and partnerships in the field of training to meet the sector's needs one year after its inception?

One of the key objectives of MF is to help advance knowledge and training for the industry. We contribute towards capacity building through knowledge sharing and e-learning as well as hosting training sessions through regular workshops, webinars and masterclasses.

Over the last year, we have signed MOUs with several internationally recognised institutions, namely the Chartered Institute of Securities and Investments (CISI), Centre for Learning and Training International (CLTI), International Compliance Association (ICA) and Society for Trusts and Estate Practitioners (STEP) as well as with local institutions like the Mauritius Institute of Professional Accountants (MIPA) to assist us in our endeavour. MF has also collaborated with the Human Resource Development Council (HRDC) on a re-skilling scheme.

We are pleased to report that more than 750 participants have been able to benefit from the workshops and training facilities we have offered in 2021, as summarised below:

National Training and Reskilling Scheme (NTRS)	117
Targeted Financial Sanctions (TFS) and Suspicious Transactions Reporting (STR)	80
Workshop on Private Equity	40
Workshop on Property Funds	16
Workshop on Excel Tips	20
In house training – Fund Accounting	20
Structured online courses	469
Workshop on IFRS Update	22
Workshop on Public Speaking Skills	11
Webinar on Virtual assets	106
Workshop on CRS	50

The Financial Services sector is never static, hence the need for several training initiatives pertaining to AML/CFT and CRS; there is also a clear need to empower young graduates and upskill the existing sector employees. What are the various training programmes in place for this year?

Registration for our online structured courses in AML, Fund Accounting, KYC and CDD, Compliance, Financial Crime Prevention and Financial Crime Risk with New Technology is open throughout the year. Candidates can enrol and complete these courses at their own pace, after which they are eligible to certification from our international partners. Our CPD refreshers offered by CISI are also available all year round.

> The challenge being faced by the financial services sector is with respect to attracting and developing talent

Bearing in mind that our members are now seeking for more face-to-face interactions, we launched a half day workshop on Common Reporting Standards (CRS) during which we trained 50 participants in early April 2022.

We are also planning further Workshops/Webinars on topics like Directors Duties and Responsibilities, General Data Protection Regulations, Cybersecurity, Partial Exemption and Portable Retirement Gratuity Fund in the coming months.

MF is also working with the HRDC to introduce additional training and re-skilling schemes in the field of Trust Management and Accounts and, Fund Accounting and Administration.

How do you view the various challenges for the sector, in terms of the need to address issues such as the skills gap or talent mismatch that impact on hiring, while at the same time calling for deepening capacity building from a training standpoint?

The challenge being faced by the financial services sector is firstly with respect to attracting and developing talent, and secondly retaining skilled and experienced staff. It has become extremely difficult to hire directly from the market and this phenomenon is felt during recruitment at entry level, for both secondary school leavers and fresh university graduates.

Retention of trained staff at middle level management is being affected by brain drain and a high rate of staff turnover arising from an increase in emigration of financial services professionals. Our competitors from Luxemburg, Guernsey, Jersey, Malta, amongst others, are advertising and recruiting massively from Mauritius by reaching out to candidates directly through social media.

> Over the last year we have signed MoUs with several internationally recognised institutions

The above is a major threat posed to growth and sustainability of our financial services sector. Consequently, the cost of operations keeps on going up, thus making the MIFC less competitive. This situation has already led Mauritius companies to outsource certain activities outside the island.

Together with its members, MF is organising a Job and Education Fair in the very near future. This event will allow our employers to spotlight the job openings in the industry and they will also have the possibility to interview and hire on the spot. This will also be an opportunity to "educate" the visitors on the global business sector. Some of the leading tuition providers, including the universities, will be present too. MF will invite all the major universities in Mauritius and A level/HSC students to attend this Fair.

We are also holding a brainstorming session with the relevant stakeholders, including our members, regulators, ministries, university lecturers and students on the subject matter. The proceedings of this event will culminate into a report that can be used by the industry to address its human resource challenges in the short and medium term.

What are MF's expectations from the upcoming Budget on ways and means to boost employability in terms of knowledge and training? How can a public-private partnership support this endeavour?
MF has already submitted its proposals to the Minister of Finance, Economic Planning and Development, Dr. the Hon. Renganaden Padayachy whereby we propose to tackle this challenge from various angles through a Public-Private Partnership Capacity Building by:

- Onboarding around two hundred fresh graduates and school leavers on a capacity building programme under NTRS/YEP in fields such as Fund Administration, Compliance, Corporate and Trust Management, coupled with training and placement opportunities in the sector over 12 months.

- Introducing cohesive professional courses/ modules in identified fields like Funds/AML/Trust in the second or third year of study for university undergraduate courses.

- Encouraging FSI to deliver level 1 professional qualifications such as ACCA, ICSA, etc. FSI's courses should be free in line with government's policy of providing free tertiary education to publicly funded universities.

- Reducing work permit requirements from a minimum 3 years' experience for Foreign Professionals in the financial services to 1 year and be open to professionals within the financial sector beyond fund and compliance.

- Introducing a scheme similar to SME Employment Scheme over 2 years for unemployed graduates for the Financial Services Sector to address the skill-mismatch problem and to increase employability.

- Introducing a special scheme allowing employers to be entitled to claim an HRDC refund on training fee for trainees. This will allow employers to enrol more trainees and provide them with courses relevant to the industry and increase their employability opportunities.

OLA Energy launches its office in Mauritius

Mr. Fayed Altwair, CEO of OLA Energy Holdings Ltd (OLA Energy), in the presence of the chairman and members of the board of directors of OLA Energy, took part on Tuesday March 29th, 2022, in the inauguration of the new office of OLA Energy at Pointe aux Cannoniers-Mauritius.

This paramount event will open a new chapter for OLA Energy as part of its roadmap to extend its pan-African network.

OLA Energy's core values are firmly rooted in Africa. Present in 17 countries across the continent with subsidiaries in North, East and West Africa, as well as in Reunion Island, OLA Energy has now chosen Mauritius as its 18th destination to implement its administrative and management office.

According to Mr. Altwair: "In addition to being an internationally renowned tourist destination, Mauritius has become a reference over the years as an essential platform for business and international trade. With its business-friendly ecosystem and its stable political, economic, and social environment, Mauritius was the obvious next step as part of our expansion strategy across the continent".

The OLA Energy group employs 1,500 people across Africa and generates more than 20,000 indirect jobs. With more than 1,300 service-stations over 17 countries, OLA Energy has become a major player in the continent and one of the most trusted brands. Despite the economic and social consequences of the covid-19 pandemic, OLA Energy maintains its commitment to being a key African player in the downstream oil and gas sector, providing access to energy, putting technology at the service of sustainable development, promoting innovation through local products & services, all while committing to the social and economic expansion of the countries in which it operates.

With Africa deeply rooted in its DNA, OLA Energy is confident that the 21st century will be shaped by the African footprint. Through the development of its countries, like Mauritius, the continent will open the way to unprecedented development for all its populations. The question of access to energy and its distribution is therefore a major strategic issue for the public and private sectors in Africa. This is the reason why OLA Energy will not only keep increasing its activities to create proximity services in urban and rural areas in countries where it is currently present but will also extend its network to African countries like they recently did here in Mauritius.

"The great potential of this continent pushes us to extend our activity to new horizons, and maybe one day be present in all 54 countries", states Mr. Altwair.

"We want to be part of bringing a better life to the African populations and the speed with which we have succeeded in gaining a significant reputation in the African market is a testimony to the effectiveness of our model. Mauritius forms part of our exponential growth strategy and evolution".

About the OLA Energy Group

OLA Energy is one of Africa's leading retailing companies, with more than 1,300 service-stations visited by over 500,000 customers per day in 17 countries. It operates 60 fuel terminals and serves over 54 airports across the African continent. OLA Energy employs more than 1,500 people and its operations generate 20,000 indirect jobs.

The SME Entrepreneurs' Relocation Niche

Known for its pleasant tropical climate, dynamic economy, attractive tax regimes, competitive business environment, warm hospitality, multiple investment opportunities, and political as well as social stability, Mauritius enjoys the status of a privileged destination for those looking to invest, work and live.

By Candice Thompson,
Relocation Specialist,
BTG Management Services (Mauritius) Ltd

For many SME entrepreneurs, establishing and growing a successful company is a labour of love – something akin to raising a child. The journey from birth, through the company's infancy, and finally into a rewarding endeavour, takes years of dedication, hard work, and many sleepless nights.

Because of the fondness that these business owners have for their company, the thought of uprooting their business, and possibly losing years of carefully crafted and nurtured client and supplier relationships, is something that is very carefully considered. As a result, many investors prefer to look for different investment options in Mauritius from where they are and rather leave their onshore company untouched.

However, contrary to popular belief, a relocation to Mauritius – whether it's for the purpose of incorporating a new structure in this favourable jurisdiction or moving one's entire family to the island – is much simpler than it seems and can be exceedingly beneficial.

Mauritius is renowned for being a favourable jurisdiction offering an exceptional lifestyle

Mauritius has long been known to be a prime location for both investment and relocation. The island boasts a myriad of First in Africa awards – wealthiest and safest being two of them – and has been lauded as one of the top 5 most high-prospect African countries to watch out for. In addition, being named as only one of 21 countries worldwide classified as a "full democracy", coupled with its flat corporate and individual tax rate of 15%, means that Mauritius is an excellent option for those looking at offshore jurisdictions.

Furthermore, the recent removal from the FATF grey list and the UK and EU's list of high-risk third countries has put Mauritius centre stage as a reliable and transparent jurisdiction in the global financial services sector. According to the Financial Services Commission, this has reinforced its position "as a prominent investment destination and domicile of choice for structuring cross-border investment into Africa and Asia".

To top it all off, for companies involved in the import and export sector, along with a very favourable 3% tax rate, being able to work within the highly regarded Mauritius Freeport, which has been named the global runner up in the fDi's Global Free Zones of the Year 2021 Awards, is just the icing on the cake.

When it comes to lifestyle and quality of life, the island ticks all the boxes for those considering a safe and secure location to situate themselves and their company. The friendly culture, top-quality education, exceptional medical care and facilities, and massive amount of growth and development, are just some of the reasons why expatriates are looking to Mauritius for more than merely investment opportunities.

> Mauritius is renowned as a prime location for investment and relocation

The many benefits for SME investors

For SME investors and business professionals, who have spent years building a successful entity in their country of origin, a relocation to Mauritius does not necessarily signify starting from scratch. Many business owners can incorporate productive and profitable companies using the tax benefits available on the island, while still maintaining relationships with existing clients and service providers and continuing their day-to-day business activities.

The fact that the island has exceptionally reliable and fast internet connectivity, as well as is situated in a convenient time zone between Africa, Asia and Europe, means that working with contacts abroad is seamless and simple. In addition to this, the island's robust and modern banking system makes cross-border transactions effortless.

Domiciling a company within Mauritius allows the entrepreneur to benefit from over 40 Double Taxation Avoidance Agreements (DTAAs) with other countries, as well as no Capital Gains Tax, no Donations Tax, and no Estate Duty. Additionally, many investors also choose to secure their assets and wealth within a Mauritian foundation or trust, further ensuring their autonomy.

Completing the move to Mauritius

Once the business owner has set up his structure in Mauritius, he or she is entitled to apply for an Investor permit through the Economic Development Board of Mauritius, which will allow him or her to relocate to Mauritius and bring his or her family along as dependents. For couples both working in the same entity, the option of one spouse applying through the company as a Professional is also a viable option.

The Investor permit is considered a long-term permit, having a duration of ten years, and is easily renewable. It is relatively affordable, with a minimum investment amount of USD 50,000 that needs to be transferred into the company's bank account, and an achievable annual turnover requirement of MUR 4 million from the third year of registration.

Investors choose to secure their assets and wealth within a Mauritian foundation or trust

The entire permit application process is quick and streamlined, with the application for the main applicant taking around six weeks and the applications for dependents a further two weeks. Often, the slowest part of the permit application process is collating documents and, in some cases, applying for new documents in the applicant's country of origin.

The final verdict

In conclusion, Mauritius, often described as a "sophisticated International Financial Centre of substance", is the smart choice and should not be discounted by anyone looking at moving their business into another jurisdiction.

The Investor permit is an excellent option for those wanting to enjoy the sunny lifestyle that Mauritius has to offer while still being able to manage their business seamlessly. Being able to situate one's family in safety, while also benefitting from the ease of doing business on the island, makes Mauritius the premium choice for keen financiers and entrepreneurs.

The Portable Retirement Gratuity Fund: What employers and employees must keep in mind

In light of the communiqué issued by the Mauritius Revenue Authority (MRA) dated 30 December 2021, employers were reminded that their obligation to contribute to the PRGF kicks in as from January 2022.

By Richard Li,
Senior Manager – Actuarial,
SWAN

Portable Retirement Gratuity Fund (PRGF)

The PRGF is a Fund established under the Workers' Rights Acts 2019 (WRA 2019) to provide for the payment of gratuity

- to a "worker" or self-employed on retirement.
- to the legal heirs of the "worker" or self-employed on death.

It is effective from 1 January 2020, although the requirement to make contributions was postponed to 1 January 2022.

Every employer is required to make monthly PRGF return to the MRA and the first return for the month of January 2022 was due end of February 2022. To this effect, the MRA issued a guide in March 2022 to provide additional information.

Whilst the guide provides a lot of useful information, there are numerous questions which many employers still ask themselves. In this article, we discuss some of these points and share our practical experience.

What benefit does PRGF provide and is this an additional cost to the employer?

At retirement/death/termination the benefit payable remains the same as before i.e. a lumpsum calculated based on the final remuneration and years of service. The PRGF is providing a mechanism to fund this benefit.

The additional benefit is on resignation. Previously those on no pension scheme, would leave a company without getting anything. Now, these employees will be covered by the PRGF from the period 1 January 2020 to the date they resign, so they don't lose all their years of service.

Those on Private Pension Scheme are exempted from contributing to the PRGF. Is setting up a Private Pension Scheme (PPS) more cost effective than the PRGF?

Pension schemes provide an additional/enhanced benefit to the employee which is a pension payable for life rather than just a lump sum at retirement. At retirement, a residual gratuity may remain payable to the employee depending on the level of pension provided. Therefore, a pension scheme will inherently be more costly to companies where the employees stay until retirement.

However, it can be more cost effective for companies with high staff turnover to set up pension schemes. The table below depicts this scenario.

	PRGF	Private Pension Schemes
Contributions	4.5% of **Remuneration**	4.5% of **Basic Salary** on a Defined Contribution (DC) Scheme
On resignation	Likely to be a shortfall which must be paid by the employer as the gratuity is calculated on the last remuneration	No additional payment to the pension scheme or the PRGF. There is an accumulated fund in the DC scheme that belongs to the employee
Remarks	**More costly than PPS**	**More cost effective than PRGF**

An employer has a private pension scheme in place but not all employees are covered on it. What happens if the employer now wants to onboard all employees on the pension scheme?
The employer would have to contribute to the PRGF from January 2020 to the date those employees join the private pension scheme and settle any shortfall that may exist with the PRGF at the time of exit.

However, the guidelines from the MRA suggest that when an employee joins a pension scheme after January 2022, the employer would have to pay PRGF contributions from the Date of Entry in the company rather than from January 2020. We are seeking additional clarifications on this with the MRA.

Employees will be covered by the PRGF from 1 January 2020 till their resignation date

How is the market reacting with the introduction of PRGF and are there any issues arising?
We are seeing an increased interest from many companies for the set up of new private pension schemes. However, it does take some time to set up an approved private pension scheme which means that those companies will have to contribute to the PRGF until approval is obtained from the Financial Commission Services (FSC).

There are also questions on how the PRGF contributions would be invested and what would be the expected investment return.

The FSC has provided certificates to sponsoring employers having an approved private pension scheme so that their employees are exempted from the PRGF. However, we have received feedback on certain administrative difficulties that are being faced. For example:

- There are some companies that have changed their names with the Registrar of Companies but have not advised their pension administrators and the FSC. A certificate has been issued under the old name of the company which is not being recognised by the MRA for exemption from the PRGF.

- A group may have an approved private pension scheme that covers all employees across the group including its various subsidiaries. However, the pension administrator and the FSC only has the main employer as the sponsoring employer of the approved pension scheme and hence a certificate has been issued only for the main employer. This means that employees employed by the other entities within the group, though already on the private pension scheme, are not being exempted from the PRGF.

We are currently in discussions with the relevant authorities to address and clarify these aspects.

The following diagram depicts the benefits payable under different scenarios either on PRGF or Private Pension Scheme.

Portable Retirement Gratuity Fund (PRGF)

Pension Scheme?

YES

Joined prior to Jan 2020

- No PRGF applicable
- Residual Gratuity at retirement/ death/ termination
- On resignation employee takes the accumulated pension fund contributed.

Joined during the period Jan 2020 Dec 2021

- PRGF applicable from Jan 2020 until joining the pension scheme.
- Pay shortfall to the fund on resignation for the period applicable + Employee moves the accumulated pension fund contributed
- The shortfall calculation has not been specified in this scenario
- At retirement/ death/ termination residual gratuity applicable

Joined after Jan 2022

- PRGF applicable until joining the pension scheme.
- Contribution of 4.5% applicable as from January 2022 until joining the Pension scheme + Pay shortfall to the PRGF for the period applicable.
- Shortfall contribution is calculated as 15 days' final remuneration per year of service since the Date of entry in the company less the accumulated PRGF contributions already paid as per the guide of the MRA issued in March 2022. It is expected that this changes to January 2020 instead of Date of entry in the company
- On resignation employee has both a funded PRGF for the eligible period + accumulated fund in the Pension scheme
- At retirement/ death/ termination residual gratuity applicable partly funded by the PRGF

NO

Ongoing employment until Retirement/Death/ Termination

- PRGF applicable
- Contribution of 4.5% of monthly remuneration as from January 2022
- At retirement/ death/ termination employer notifies the MRA within 1 month.
- The administrators will calculate the shortfall which must be settled by the employer to the member in retirement, the heirs on death, to the MRA in case of termination.
- Shortfall contribution is calculated as 15 days' final remuneration per year of service since the Date of entry in the company less the accumulated PRGF contributions already paid.

Ongoing employment until Resignation

- PRGF applicable
- Contribution to the PRGF for service from January 2020
- On resignation, the employer notifies the MRA within 1 month.
- The administrators will calculate the shortfall which must be settled by the employer to the MRA
- Shortfall contribution is calculated as 15 days' final remuneration per year of service as from January 2020 less the accumulated PRGF contributions already paid.

> The PRGF is a Fund established under the Workers' Rights Acts 2019

Mauritius: Tax opportunities in a post-COVID world

With budgetary deficits having reached unprecedented levels in most economies following the global economic shutdown imposed by the pandemic, let us look at how the right tax policy at the right time could help support sustainable economic growth for Mauritius in a post-COVID world.

The COVID-19 pandemic resulted in a global health crisis and led to a global economic shutdown that no one saw coming. Deficits, which were already high before COVID, have now reached unprecedented levels and fiscal policies around the world for the past two years have been centered around sustaining businesses and preserving employment during COVID.

Governments have been forced to provide huge support and funding during lockdowns, in most cases by drawing from reserves, and, in Mauritius, measures such as the Government Wage Assistance Scheme played a major part in sustaining employment, particularly in the tourism sector.

Today, the world is slowly emerging from the turmoil of lockdowns and restrictions and is now preparing post-pandemic policies. Many governments around the world are centering their fiscal policies as a way to recoup the huge amount of money spent during those COVID years and curb deficits by starting to raise taxes.

How tax policies can support sustainable economic growth in a post-COVID world

Indirect tax represents the main source of tax revenue for many governments. Singapore, for example, plans to raise the Goods and Services Tax from the current 7% to 9% between 2022 and 2025.

However, for sustainable growth, broadening the indirect tax base might be more conducive compared to a rise in the indirect tax rate. In Mauritius, to the relief of taxpayers, there has been no rise in the VAT rate, although we realise that VAT on digital services is now a reality.

> Mauritius aims to remain competitive with an array of fiscal measures and incentives

With the Global Minimum Tax (GMT) knocking at our door, can this be an opportunity? Compared to "zero-tax" or low tax jurisdictions, Mauritius is definitely at an advantage with its headline tax rate of 15%. Although only a handful of Mauritian entities may be impacted by GMT, there is still the risk of impacted entities looking at alternative jurisdictions. Now might be the right time for our policy makers to negotiate for carve-outs and exemptions.

Tax incentives which are expenditure based, particular in relation to human capital, would be welcome. Such human capital tax incentives may also be a tool to reduce the unemployment rate and thus indirectly contribute to sustainable economic growth for the country.

As we are witnessing today, the solidarity levy of up to 25% is making professionals and investors think twice before returning or coming to work in Mauritius. Such professionals and investors are bringing wealth and talent to the country – is it not the right time to rethink along the lines of an efficient tax policy to retain and attract them?

Mauritius remains an attractive tax jurisdiction

Mauritius aims to remain competitive with an array of fiscal measures and incentives to attract investments and to encourage professionals to relocate to Mauritius.

> The Premium Visa encourages foreigners to come and work remotely from Mauritius

Recognising that the future of work is hybrid, Mauritius introduced the Premium Visa initiative which encourages foreigners to come and work remotely from Mauritius. The income derived by a Premium Visa holder from employment carried out remotely from Mauritius will be taxed in the island economy only if remitted here. However, that money spent in Mauritius though the use of foreign debit and credit cards will not be taxable here.

On the corporate tax front, governments around the world are looking to restrain tax planning to curb deficits, and, as such, the commercial rationale and choice of a jurisdiction of substance are important factors to consider when setting up a business, or subsidiaries, in a foreign jurisdiction, especially for the African and Asian markets. Mauritius ticks the box in both cases - it is and remains a jurisdiction of substance which has committed to best practices, including the OECD's Base Erosion and Profit Shifting (BEPS) Minimum Standards. Mauritius brought in various changes to its tax regime, including the introduction of the 80% exemption for certain specified income streams such as interest and foreign dividend, and these have been deemed as not harmful under the Inclusive Framework on BEPS Peer-to-Peer Review.

However, there are also other less talked-about substance-related tax incentives, such as tax holidays for companies holding a Family Office licence, Global Headquarter Administrative or Treasury licences, Global Legal Advisory Services licence, or companies engaged in innovation-driven activities. With the advent of COVID and the move towards digitalisation, the Government has also been promoting companies looking to digitalise, with a 5-year tax holiday for companies set up before 30 June 2025 and engaged in the operation of an e-commerce platform.

The Mauritian Government has also made clear its desire to position Mauritius as a hub for Fintech in Africa and has actively been working towards this goal, aided by our stable regulatory and financial environment that has been forged over the last couple of decades. Recently, the island economy has introduced the Regulatory Sandbox Licence, The Digital Custodian Licence and The Virtual Asset and Initial Token Offering Services Act (passed on 10 December 2021 and enacted on 07 February 2022), and we expect more such initiatives in the near future.

A bright future beckons for the Mauritius IFC

Governments' revenues around the world have undeniably suffered major hits after COVID, and tax policies remain one of the tools that should be used to assist economic recovery. However, tax also remains a decisive factor for businesses, and this aspect should be managed accordingly.

In so far as Mauritius is concerned, our country remains a jurisdiction of substance which complies with international norms and standards. Our paradise island has a lot to offer to investors in this post-COVID world.

By Aziza Timol,
Assistant Tax Manager
at Andersen (Mauritius) Ltd

Zaynab Hisaund,
Senior Tax Manager
at Andersen (Mauritius) Ltd


wts
Locally rooted
Globally connected
WTS Tax Consulting (Mauritius) Ltd is the exclusive member firm for Mauritius within WTS Global, the leading independent global tax practice represented in over 100 countries. Since 2012, WTS Global is ranked as a Tier 1 Global Tax Network by Chambers and Partners.
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The new normal: Global minimum tax

Approved by 130 countries, the global minimum tax (GMT) is fast becoming a reality in a post-COVID world. With the GMT focused largely on taxing the digital economy as the second pillar of the overall global tax reform agreement, this tax imperative is expected to have more of an impact on developing countries such as those in Africa.

The US has always been the trend setter in matters of international tax. For instance, it initiated the automatic exchange of information under FATCA. The rest of the world followed suit and adopted the Organization for Economic Cooperation and Development's (OECD's) Common Reporting Standard[1].

Likewise, after the US introduced two rules aimed at putting in place a mechanism to ensure that the foreign profit of a US company is subject to a minimum tax, this act inspired the Inclusive Framework[2] ("IF") members to propose the global minimum tax (GMT).

How challenges linked to the digital economy led to the global minimum tax

Back in October 2015, when the Base Erosion and Profit Shifting (BEPS) package was released, the action 1 report dealing with tax challenges linked to the digital economy remained a half-baked product. While IF members agreed that the whole economy is digitalising and measures should not target digital companies, no consensus could be reached on a proposed solution.

Several countries introduced unilateral measures such as the digital services tax (DST) which seeks to levy tax on the gross revenue a company like Facebook or Google earns from activities and users within its borders. Since many digital companies are headquartered in the US, this created tension between the US and these countries. For instance, when France announced that it would go ahead with its DST, the Trump administration's reaction was immediate. Tariffs would be imposed on certain French goods including makeup, soap, and handbags.

Realising that a consensus would be a better deal than unilateral measures, the US pushed for any proposed solution to be extended to non-digital companies. In this way, they would also be able to tax multinational enterprises ("MNEs") with strong brands that were headquartered in other parts of the world.

A two-pillar solution was proposed. Under Pillar One, IF members proposed to grant more taxing rights to market jurisdictions, that is, those territories where sales arise. In parallel, some IF members proposed the introduction of a global minimum tax under Pillar Two so as to address the tax base shifting problem.

Many countries saw this as an opportunity to shore up dwindling government tax reserves. Pillar Two would allow them to tax the income of MNEs that is outside their jurisdiction through a set of rules known as the GloBe rules. For the OECD, it was clear that, in order to reach a consensus, an agreement was needed for both Pillar One and Pillar Two.

> Countries introduced unilateral measures such as the digital services tax

On 1 July 2021, the OECD hailed that 130 countries had joined a new framework for international tax reform. Countries had hastened to sign an agreement that remained vague on many issues. For instance, the global minimum tax was announced to be at least 15%.

The devil is in the details

As IF members continue to work on the design elements of Pillar Two, many open questions remain. Although the rate has now been fixed at 15%, the challenge would be to contain the appetite of those wishing for a higher rate.

While there is consensus that companies in scope of Pillar Two are those with global turnover above EUR 750m, that is, those with Country-by-Country reporting ("CbCR") obligations, jurisdictions are given the leeway to apply the Pillar Two rules to smaller MNEs. While EU members are expected to stick to the EUR 750m threshold, some countries may choose to apply the global minimum tax to smaller MNEs.

Pillar Two includes a treaty-based rule, the Subject to Tax Rule (STTR) which allows a jurisdiction to charge a top up withholding tax on certain payments between related parties where such payments are taxed at a rate less than 9%. In the October 2021 Pillar Two blueprint, mention is made that payments covered under the STTR are interest, royalties, and a defined set of payments. Would fees for technical services or capital gains also be in scope of the STTR?

The interplay between the global minimum tax which is calculated on a jurisdictional basis and the US GILTI[3] rule which is calculated on a global basis is yet to be canvassed. It remains unclear whether the US GILTI rule would be a compliant Pillar Two regime. Should this happen, the effect of the global minimum tax would be diluted.

The jury is out: Should developing countries be concerned about the GMT?

Pillar Two is part of the global political agenda to levy more tax on MNEs while targeting investment hubs. It is set to be the new normal. Like any OECD-led tax initiative, the rules are dictated by and are unjustly skewed in favour of powerful nations. They are the real winners of the project.

Developing countries have always been concerned about the imbalance in taxing rights between the source state and the residence state. The Pillar Two proposal provides no remedy for them. In addition, it will take away incentives given by these countries to attract investment that is needed to create more jobs and generate growth.

With BEPS 1.0, in spite of steps taken to eliminate harmful features in preferential tax regimes and others that require countries to incorporate an anti-abuse provision in their tax treaties, nothing has materially changed. While it is estimated that some 1000 companies have CbCR obligations, Pillar Two is likely to hit only those claiming partial exemption. All in all, assuming the threshold of Euro 750M is adopted by a majority of jurisdictions, should we lose sleep over the Pillar Two proposal? Only time will tell, but for now, a wait and watch approach appears to be on the cards, as developing countries hold their breath and hope that the rules will not further skew the tax balance in favour of advanced economies, making a level playing field in the financial services domain a more distant dream than ever before.

By Yamini Rangasamy, Associate Director at PwC Mauritius

1. The Common Reporting Standard ("CRS") was developed by the OECD Council and calls for automatic exchange of information between jurisdictions on an annual basis
2. The Inclusive Framework on BEPS ("IF") was established to review and monitor the implementation of the OECD/G20 BEPS Project and currently consists of 141 member countries (including Mauritius)
3. The global intangible low-taxed income ("GILTI") is a rule enacted by the US Senate to ensure that the foreign profit of a US company is subject to a minimum tax

Dissecting diverse virtual asset taxation regimes in place across the world

Globally, virtual currencies and crypto assets have increased in number, but from a tax perspective, systematic approaches are yet to be developed. Figuring out which transactions are taxable and then how much tax to pay, remains a real challenge in the digital asset world.

By Johanne Hague, Barrister-at-Law, Solicitor (England & Wales), Founder of Prism Chambers

Zuleikha Abbasakoor Aksener (Barrister-at-law) at Prism Chambers

Satoshi Nakamoto is the presumed name of the inventor of Bitcoin, although to this date, myths and stories abound on who are the person (or persons) behind Bitcoin. Fifteen years after work (allegedly) first started on Bitcoin coding, there are now more than 12,000 cryptocurrencies, not to mention other types of virtual assets (although interestingly, the latest FATF guidance suggests that they generally do not consider NFTs to be virtual assets).

As the scrutiny and an attempt at harmonisation of the regulators around the world tightens around the use of virtual assets, so has the question of the taxation of virtual assets. Whilst from a regulatory perspective, things are cautiously shaping up towards some consensus, this is far from the case as regards to tax policy. In fact, a significant number of jurisdictions have adopted varying definitions of virtual currencies and until now, there has been no uniformity nor consistency in applying tax rules. In our view, this lack of consistent approach has naturally resulted in low compliance rates and lost tax revenues.

It would appear that, currently, jurisdictions are taxing cryptocurrencies based on the end goal they wish to achieve in respect of this new and fast developing class of assets. In other words, the manner in which cryptocurrencies are taxed in a country will in most cases be linked to policy decisions in that jurisdiction regarding cryptocurrencies. The end goal may be to encourage the use of cryptocurrencies or deter their use. A risk perceived by a number of governments is the loss of control of money creation and supply as well as tax revenue if cryptocurrency use becomes commonplace.

There is currently no tax framework for virtual assets in Mauritius. The Government's stance on the tax treatment issue is yet to be revealed. Based on the recently enacted Virtual Asset and Initial Token Offering Services Act (the "Act") which was passed by the Mauritian National Assembly on 10 December 2021, gazetted on 16 December and came into force on 7 February 2022, it is clear that virtual assets will not be taxed in the same way as "securities" (and therefore, automatically exempt) under Mauritian law (although we would suggest that this position was debatable prior to the enactment of the Act). This is a different approach compared to certain other jurisdictions as will be further explored below.

United States and the UK

In the US, cryptocurrencies are treated as "property" or "capital assets" for tax purposes. This means that transactions involving cryptocurrencies will incur capital gains treatment as they fall under the same regime as securities.

The amount of capital gains tax that will be payable on crypto disposal will depend on how long cryptocurrencies have been held for prior to disposal, as well as the income tax bracket of a particular individual.

Any short-term capital gain (crypto held less than 12 months) is taxed at the upper marginal tax bracket. With regards to long term capital gains (crypto held in excess of 12 months), a lower tax rate is applicable.

Where a taxpayer is engaged in a trading activity which involves cryptocurrencies, the earnings are treated as income and are subject to income tax. This

includes activities such as receiving cryptocurrencies from an air drop, crypto mining income from rewards, and transaction fees and receiving cryptocurrency as a means of payment for carrying out work.

Based on the guidance issued by the Her Majesty's Revenue and Customs, the position is fairly similar in the UK. In similar fashion, cryptocurrencies are treated as "property" or "stocks" instead of currency or money. Whether profits are taxed as income or capital gains depends on whether the gain is derived form a trading activity or investment. The badges of trade must be applied to determine whether a trade is being carried out, in which case income tax will take priority over capital gains tax.

> There is currently no tax framework for virtual assets in Mauritius

Furthermore, cryptocurrencies received by an individual within the scope of employment are taxed as employment benefits.

The VAT treatment of virtual currencies in the US and the UK is also consistent. Exchanges of virtual currencies for fiat currency/other virtual currencies are not treated as a taxable event for VAT. Where a consumer pays for goods and services with virtual currencies, the underlying supply of goods or services is subject to the normal VAT rules.

Germany

One may view that Germany is an attractive jurisdiction for investments in cryptocurrency. This is largely due to the fact that cryptocurrency is considered as "private asset" instead of "property". Transactions attract income tax rather than capital gains tax.

For individuals, just like in fiat transactions, if the crypto transactions involve a profit of less than 600 Euros in a calendar year, the transaction is tax-free. The tax treatment of transactions which involve profits in excess of 600 Euros depend on the length of time for which the cryptocurrencies have been held. If cryptocurrencies are held for less than a year, any profit is taxed as income, whereas if they are held over a year, there is no tax liability over the earnings. This makes it an attractive jurisdiction for individuals who hold cryptocurrencies for longer term as an investment. Further, if crypto is used as payment for goods or services, it is also exempt from the EU-zone VAT.

On the other hand, corporate entities are all subject to corporate taxes and trade taxes on their crypto holdings. Businesses do not have a tax exemption for crypto held over one year as opposed to individuals.

India

At the other extreme is India, a jurisdiction where the government is actively discouraging investments in cryptocurrencies. It can be deduced from the 2022 budget speech that the Government is attempting to dissuade such investment through an aggressive tax position. India has qualified cryptocurrencies as "virtual digital assets" and plans to tax all transactions involving such digital assets at 30% with no deductions or exemptions as from 1st April 2022. In addition to the above, a 1% TDS (tax deductible at source) will apply to transactions involving crypto.

Crypto investors will not be eligible for indexation benefits if the assets are held long-term and face the full 30% tax rate irrespective of the period of holding. The treatment of gains or losses from virtual digital assets in India is akin to income from gambling, horse racing and lottery winnings. For gambling and lottery winnings, too, the income is taxed at a flat rate of 30% without any deductions. Prior to this new framework, standard income tax rules were being applied, under which gains on crypto transactions would fall either under 'business income' or 'capital gains', depending on the nature of the transactions and the length of time across which they were carried out.

Whilst the Indian Government's move to tax crypto alludes to an intention to regulate cryptocurrencies, rather than impose an outright ban, a major downside is that cryptocurrency transactions will be treated in the same way as gambling, a characterisation that crypto enthusiasts are very likely to regard with disdain.

Why jurisdictions such as Mauritius must opt for a crypto-friendly ecosystem

There is a stark contrast in the approaches adopted by each of the countries mentioned above. The US and UK have a neutral stance as they apply their existing tax laws to the nascent technology. In other words, they are not actively pursuing legislation to encourage nor dissuade crypto related activities – at least from a tax perspective. Germany appears to be more encouraging of cryptocurrency investment for individuals by implementing tax rules which appear to be more favourable for cryptocurrencies held for a longer term. Other countries taking a soft stance include Malta, Cyprus, Portugal, and Switzerland. At the other end of the spectrum, India has decided to swim against the tide by adopting an aggressive approach towards taxation of cryptocurrencies.

Considering that cryptocurrencies are entrenched in the modern culture, creating a crypto-friendly ecosystem would give a clear advantage to developing economies like Mauritius. To that end, it is important for the country to implement a robust and favourable tax framework for virtual assets. As a first step, the nature of cryptocurrencies should be determined for tax purposes and cryptocurrency activities which will constitute a taxable event should be clearly defined.

The Government could go in a number of different directions in its attempts to build a name for Mauritius as an attractive jurisdiction for FinTech investors. One way would be to introduce a full tax exemption in respect of gains derived from disposal of virtual assets. In parallel with the US and the German approach, this tax exemption could also be dependent on the length of time for which cryptocurrencies have been held prior to disposal. Alternately, the scope of the tax exemption could be restricted to entities licensed under the Act by extending the partial tax exemption regime to activities of virtual asset service providers or introducing a tax holiday for these entities.

> Creating crypto-friendly ecosystem would give a clear advantage to developing economies like Mauritius

Mauritius can also stand out in the region by implementing an even more sophisticated tax framework and cater for the tax implications of Decentralised Finance (DeFi) transactions as well as other use cases of crypto such as staking, mining, lending, borrowing, airdrops, forks, wallet transfers, P2P transfers, etc. In most jurisdictions, such activities have not been clearly addressed and their tax implications are only inferred from the existing tax framework which is in place for crypto assets.

We are of the view that it is not late for Mauritius to capitalise on the opportunity created by divergent views across the globe on the legal status of digital assets and become one of the early embracers of cryptocurrencies by providing a favourable legal and regulatory framework. In particular, the country can derive great benefit from devising a tax framework that increases certainty and transparency for investors whilst there are still many others who remain sceptical or even crack down on the use of cryptocurrencies. It is hoped that this year's budget speech will bring some positive news in that space.

INTERVIEW: TANVEER NANDHRA

HEAD, FINANCIAL MARKETS, STANDARD CHARTERED MAURITIUS

"Mauritius should be on an economic recovery path from the second quarter of this year"

Tanveer Nandhra, Head, Financial Markets, Standard Chartered Mauritius highlights how Russia's invasion of Ukraine is a key factor affecting foreign exchange rates worldwide, and explains the potential impact of this ongoing global conflict on the Mauritian Rupee as well as the island economy's capital markets while unfolding Mauritius' overall economic prospects.

At the outset, could you please elaborate the key factors that affect the foreign exchange rate in an economy?

There are several factors that affect the FX rate in the economy. However, before we unpack them, what is important is to understand the type of exchange rate being used in an economy which can range from free-floating to a pegged-currency rate. This, from the onset, will affect the behaviour of the FX rate.

Building on from that, the most basic but fundamental factor is the relevant demand and supply for currency which is one of the most important factors for a floating exchange rate. The genesis of the supply and demand comes from the Balance of Trade/Payments i.e., the difference between a country's imports and exports. A positive Balance of Trade/Payments suggests that exports exceed imports, which further means that the inflow of foreign currency is higher than the reciprocal outflows. In this situation, the outcome may bolster foreign exchange reserves, influencing interest rates and potentially create conditions suggestive of a strong currency. The opposite would be the case for Balance of Trade where imports exceed exports. Balance of Trade would be closely tied to another factor: the Current Account Surplus or Deficit.

Inflation and Interest rates can be additional considerations. Lower inflation is suggestive of a stronger currency and vice versa. Interest Rate and inflation are tied together. On the one hand, higher interest rates could attract Foreign Direct Investment (FDI) flows, yet, on the other hand, interest rates can be used to curb inflation, thereby impacting the currency movement.

Other factors such as the state of an economy – both economic and political – can influence FDI. This speaks to the spending power of the country, the depth of the economy, and the relative stability of both the economic and political environment.

External factors such as global events and trends may be a contributing factor towards the local currency in a jurisdiction. These events could be around geo-political events, supply and demand disruptions, climate impact and changes in the socio-economic construct. For example, looking at the long term, a key influence on the currency movement can be the switch from fossil fuel to renewable fuel for a country that is a net importer of fuel. In the short term, you may see the currency impacted due to importation of capital-intensive equipment to kick start the renewable industry. However, in the longer term, the benefits pay off, as it reduces the reliance on import-refined petroleum products. Looking at the pandemic, depending on which side of the demand or supply factors you were on, you would have seen the currency move accordingly.

One additional factor for consideration as an enabler can be the uptick in the use of technology and e-commerce which we have all seen during the years of the current pandemic – and that have made business to customer interactions so much easier. What comes to mind is the use of diaspora remittances for migrant-heavy corridors. The ability to send money home in foreign currency via remittance service providers and have these funds deposited into local currency wallets has seen this sector becoming a decent foreign exchange inflow into an economy.

Could you tell us next how changes in the foreign exchange rates exercise an effect on capital markets?

Over time, there seems to be an increase in the interdependence between exchange rates and capital markets. Exchange rates tend to influence the state of the economy and act as an indicator towards the health of the economy. The linkages could be attributed to investment and policy decision making, the ease of doing business, the type of currency regime, as well as interdependencies between the local economy and the global economy, and also other factors such as commodity prices.

The reality is that the FX system, like all other systems, reacts under simple cause and effect balances. That is to say a push in one direction will yield a reaction in another direction. I have already alluded to how global events yield local reactions. Take, for example, the US Federal Reserve looking to raise interest rates, where this decision may potentially signal to foreign investors to sell of their assets in Emerging Markets i.e., risk-off sentiment. This results in the increased need for foreign exchange in other directions, or the lack of ability to source for foreign exchange when exiting the market may deter participation by investors into local capital markets. Already we can see the pressures that an economy must face to strike a balance between securing favourable FX rates for the local economy while still remaining attractive for the foreign investment and/or trade ambitions of the same economy. It is a dynamic balance indeed.

Drawing deeper on the first question, it is clear that a key global development by way of Russia's invasion of Ukraine is the single biggest factor affecting foreign exchange rates worldwide. How has the Mauritian Rupee responded to this one, overwhelming factor?
History, both recent and distant, has shown us that geo-political tensions can have a significant impact on global, and eventually, local, supply chains. These supply chains have an impact on both the supply and demand for goods and services of varying degrees of necessity. The Russia-Ukraine conflict is no different. Since the emergence of this conflict, globally, we have seen a sharp increase in commodity prices and most notably oil prices. Oil prices, perhaps more than any other commodity, have a key impact on the cost of trade which ultimately shows up in the FX trade balances and, of course, local market inflation.

We have seen how countries that have been trading partners with Russia and Ukraine, and particularly consuming their commodities, could be left short of key supplies such as wheat. Economies that export to Russia and Ukraine may also see a drop in the level of their exports, be it tea, coffee, or horticultural products. These in turn may potentially have an impact on the relative strength of their currency.

On the other hand, there are economies such as South Africa that have seen an appreciation of their currency. This might not be entirely driven by the single event; however, it would certainly be a key contributor, especially within the metals – platinum and palladium – realm.

The conflict is an event that has triggered a reaction. If we move away from the event and look at the trigger, it provides some rationale on why certain currencies are either appreciating or depreciating. The trigger here is the disruption in supply chain and the rising commodity prices. In an economy which is a net importer and places key reliances on fuel imports, the currency movement will be reflective of this situation. You will simply need more local currency to purchase the same amount of foreign currency.

All in all, the effect of the Russia-Ukraine conflict on local economies is being felt at differing rates. Time will tell how the Mauritian economy will be ultimately affected, but the situation is being monitored closely.

The FX system reacts under simple cause and effect balances

Finally, looking ahead, how do you see foreign exchange rates moving and what would be the potential impact on the capital markets in Mauritius in turn?
In line with Standard Chartered's research, notwithstanding inflation and the global growth environment, Mauritius should be on an economic recovery path in Q2 2022. This would mainly be supported by stronger tourism growth. If you look at the tourism arrivals in Jan and Feb 2022, they are already more than half those in full year 2021 (when arrivals fell below even 2020 levels).

We do expect GDP growth to accelerate to 66.4% in 2022. The vaccination rate should help the recovery. However inflationary pressures may impact household consumption. At least 50% of Mauritius' CPI basket comprises of goods and/or services that are exposed to higher food and fuel prices.

Oil prices will continue to be a source of pressure. For instance, fuel accounted for approximately 17% of imports in 2021, which is suggestive of a widening of the current account deficit. We expect a current account deficit of 11% of GDP in 2022.

Finally, we expect that continued pressure on oil prices and food imports will have an impact on the currency, while only time will tell how much the extent of such impact will be.

Dividend policy and shareholder value: relevance versus irrelevance

Even as conflicting theories abound around whether a firm's dividend policy does indeed exercise any influence on its value, we look at the literature surrounding both the relevance and irrelevance aspects of the dividend decision to understand what effect the declaration of a dividend, and the quantum thereof, has on the firm's share value, if at all.

The overriding assumption underlying much of the academic finance literature is that business decisions are made in view of maximising shareholder value which is reflected in common stock share prices. Dividend decisions, as determined by a firm's dividend policy, are a type of financing decision that affect the amount of earnings that a firm distributes to shareholders as opposed to the amount it retains for future investments. Dividend policy refers to the payout policy that a firm follows in determining the size and pattern of cash distributions to shareholders over time.

Under real-world conditions, determining an appropriate payout policy is more often a difficult choice because of the necessity to balance many potentially conflicting forces. According to conventional thinking, paying dividends affects both shareholder wealth and the firm's ability to retain earnings to exploit growth opportunities. Because investment, financing, and dividend decisions are interrelated (Pruitt and Gitman, 1991), management cannot consider dividend policy in isolation from these other decisions. The general rule is that managers typically act as though their firm's dividend policy is relevant despite the controversial arguments set forth by Miller and Modigliani (1961) (MM) that dividends are irrelevant in determining the value of the firm.

Theory of Irrelevance

In their pioneering study, MM provide an elegant analysis of the relationships between dividend policy, growth, and the valuation of shares. On the basis of a well-defined but simplified set of perfect capital market assumptions (for instance, no taxes, transaction and agency costs, and information freely available to everyone), MM propounded a dividend irrelevance theorem where investment policy is the sole determinant of firm value. The theorem relies on prudent investment choices being made while payout policy and capital structure would take care of themselves. MM's irrelevance theory suggests that payout policy is an economically trivial issue which may be ignored provided sensible investment decisions are made. Early studies by Black and Scholes (1974), Miller (1986), and Miller and Scholes (1978, 1982) support the dividend irrelevance argument.

MM's unconventional and controversial conclusion about dividend policy irrelevance stirred a heated debate that has reverberated throughout the finance community for decades. In Modigliani and Miller (1958), perhaps their most influential paper, they showed that under certain assumptions the mixture of debt and equity that a firm holds does not affect overall firm value. A few years later, MM (1961) reported a similar result for dividend payout policy. The conclusion arrived at is that in perfect capital markets value results from investment decisions while financing decisions are irrelevant. Given a choice between financing new projects with retained earnings or with new equity, firm managers should normally be indifferent. The prevailing opinion just before MM's breakthrough research was that dividends were highly relevant to shareholder wealth and high-dividend paying firms sold at a premium over low-dividend-paying firms. Early criticism focused on MM's unduly restrictive assumptions which were considered to be unrealistic.

Testing out the theory in real world markets

When comparing MM's abstract world of economic theory with the real world, the issue of dividend irrelevance seems to raise a host of questions. For instance, researchers responded to MM's conclusion of dividend policy irrelevance by offering competing hypotheses about why corporations pay dividends and why investors want them—the dividend puzzle, as Black (1976) coined.

Some early theories that explain the potential relevance of dividends involve taxes, agency costs, and asymmetric information, thus leading to the conclusion that dividend policy can have an impact on shareholder wealth because of various market imperfections. Because these imperfections affect firms differently, one would expect dividend policies to vary substantially among firms.

> Dividend policy refers to the payout policy that a firm follows

Among the recommendations of agency theory is the residual dividend policy specifying that managers pay shareholders the free cash flows remaining after funding all profitable investments. While empirical evidence suggests that firms generally do not follow this type of policy, firms would generally maintain a smooth dividend pattern that is as strongly related to past dividends as it is to current earnings. Firms normally build up cash balances to fund future investments and whenever a funding shortage occurs, those firms would often use short-term borrowing rather than cut dividends.

The basis of signalling theory is the premise of asymmetric information, where managers have access to information that the market does not.

By Shamin A. Sookia,
Managing Director,
Perigeum Capital Ltd

Corporate financial decisions can be viewed as signalling devices that a company's managers send to investors to communicate information, which reduces asymmetries. Changes in dividend policy are one such device at the managers' disposal to communicate information to the market about the future prospects of the firm.

Asymmetric information can also affect the internal versus external financing decision. If firms are undervalued, external equity is more costly than internal equity. Firms paying dividends reduce internal equity, resulting in a considerable commitment to use external financing. A major issue with signalling arguments is figuring out exactly what the signal is. Most signalling-related studies assume that dividend increases or initiations serve as harbingers of future earnings increases.

How these earlier theories are refuted by subsequent arguments

Predecessors and contemporaries of MM (1961) often cite what MM call bird in hand fallacies to explain investor preference for dividends. These fallacies claim that investors prefer dividends because they represent guaranteed cash receipts, which are more valuable given that they are not affected by uncertainty, including possible poor future firm performance.

> Asymmetric information can also affect the internal versus external financing decision

MM, however, rebut the value of receiving dividends in hand by arguing that cash-strapped investors can simply sell a proportion of shares to mimic dividend receipts. If investors reinvest these dividends, their total return, whether from capital gains or dividends, would be the same.

Of the lesser imperfections, the clientele effects are perhaps the most notable where certain investors demand dividends and firms adjusting their dividend policy accordingly to cater for certain types of investors. MM (1961), while recognising the possibility of clientele effects, state that each corporation would tend to attract to itself a 'clientele' consisting of those preferring its payout ratio. MM discount the importance of the latter effects by claiming that the value of a firm would not change despite different clienteles.

> Firms normally build up cash balances to fund future investments

How can firms balance out all factors to arrive at a sound dividend policy?

Irrelevance theory is clearly the benchmark to beat in the dividend policy realm, similar to the null hypothesis in Mathematics (Statistics). Despite the flaws in their irrelevance theorem, the influence of MM on financial theory cannot be understated. This, in turn, has made researchers respond by identifying several areas that may generate dividend relevance.

While dividends and dividend policy will always be a continuing cause of debate, theory dictates that, provided retained earnings are reinvested at the cost of equity, or higher, shareholder wealth will be increased by cutting dividends.

However, in the real world, where not necessarily all investors are logical and where transaction costs and other market imperfections intervene, determining a successful and popular dividend policy is quite a challenge in many instances.

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