Mauritius International Financial Centre

A Global Finance Mauritius Publication • August 2020 • Issue 11

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Connecting the dots for the Mauritius IFC

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When you build a network,

**conversation happens.**

We fund telecommunications because we know that everything you do sets something in motion. From uplifting a network to connecting a family, here’s to moving forward.

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Standard Bank
Building resilience

In times of unprecedented challenges, it is vital to build our resilience in order to face the future with confidence. There is no doubt that the COVID-19 pandemic is the greatest global crisis in living memory. It has wreaked havoc on stock markets, with substantial and lasting effects on economies and businesses around the world, not to mention the tragic human cost involved. While Mauritius has not been spared, quick and decisive action from the Government, combined with substantial economic support packages from both the Government and the central bank, have helped to cushion the blow.

As one of the key pillars of the Mauritian economy, the financial services sector has adapted to the ‘new normal’ and has continued to operate successfully amid this challenging context, servicing its clients around the world throughout the lockdown period. Many organisations are continuing with their ‘work from home’ policies, with some only having staff at their workplace on a rotation basis, to ensure compliance with social distancing and sanitary protocols. The regulatory authorities in Mauritius have also succeeded in working remotely, with several new licences issued during the COVID-19 period, and also relaxing some requirements to adapt to the situation.

When it comes to the payment landscape, COVID-19 has had a profound impact upon consumer habits and has opened the door to new ways of doing things. We witnessed a boom in e-commerce during the confinement, which forced many consumers to make online payments, some for the first time. The digital revolution in payments was already on its way, and this trend has now been accelerated. In this context, the Bank of Mauritius is now exploring the possibilities to create a Central Bank Digital Currency, which would prove the island’s credentials as a hub for financial innovation.

Building the resilience of the Mauritius International Financial Centre also means responding effectively to international demands in the areas of anti-money laundering and combatting the financing of terrorism (AML/CFT). The Government has redoubled its efforts in this area and preponed the timetable for meeting the remaining five FATF recommendations, which should pave the way to the jurisdiction being removed from the FATF and EU lists. We believe that this situation calls for a strong partnership between the public and private sectors. At Global Finance Mauritius, we have been playing our part by joining forces with the Financial Services Institute (FSI) to strengthen capacity building and upskilling, and we have already trained over 500 professionals across the financial sector and beyond.

Looking ahead, there is still room for optimism. On 1 July, the World Bank classified Mauritius as a high-income country for the first time, based on 2019 data, which is a great testament to the efforts of the Mauritian people over many years. The recent Budget 2020-21 ushers in a new and outward looking regime to attract foreign talents to the island, with the streamlining of residence and occupation permits, to help us build our future path.

All in all, times of crisis give us the chance to stop and reflect on where we are headed. The Global Business Sector needs to be revisited, with the current model having served us over the last 25 years, and a reform is desirable. It is becoming increasingly apparent that forthcoming changes to the business model can no longer be peripheral but must be transformational. Now is the time to re-invent ourselves and to develop a new narrative which is more innovative, sustainable and in line with international best practice.
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**The Future of Payments**

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WHY COMPETITION IN THE FINANCIAL SERVICES SECTOR IS KEY TO ECONOMIC GROWTH
The future of payments

With the virulent spread of COVID-19 posing safety concerns in the way of using cash and cards, even as e-commerce adoption rates increase exponentially due to rising implementation of social distancing measures, most economies around the world, including Mauritius, are moving to digital payments like never before.

Until the COVID-19 crisis took the world by storm, the move away from cash and cheques towards digital payments had been steady though subdued. There is no doubt that the rampant spread of the pandemic has accelerated the shift in payment behaviour. More than ever, consumers are buying products online, giving an unprecedented boost to the use of digital payment channels while reducing point of sale (POS), cash and cheque usage.

What is even more interesting to note is that the transition to digital payments is only expected to deepen when the economy eventually recovers. By 2025, global consulting major Bain and Co estimates that the adoption of digital payments could accelerate by 5 percentage points to 10 percentage points globally, above what was previously anticipated, with 67% of all global transactions being conducted digitally.
Here in Mauritius too, the move to digital payments has been noticeable during the COVID-19 outbreak, marked by an increasing usage of online and mobile banking platforms as well as mobile money wallets, a rise in the threshold of contactless payments offered by banks, and the launch of new payment platforms such as MCB JuicePro, SBM Easy Pay and my.t bill pay.

**“A crucial issue faced by Mauritians today is the heavy reliance on cash”**

Michal Szymanski, CEO, Mauritius Africa FinTech Hub (MAFH)

**Staying safe: Why paying online makes sense**

Assuming reliable security features, digital payment systems have much to recommend them from a health and hygiene standpoint. In a COVID-19 backdrop, it is feared that microorganisms could transfer to credit cards when point-of-sale terminals serve multiple people. Physical cards and PIN pads at a store checkout carry similar health risks. A recent recommendation from the World Health Organization asks consumers to use contactless

What has the experience of other countries been?

Globally, Sweden is regarded as the poster child of the cashless society. It is expected to become the world’s first cashless country by March 2023 with the startling implication, for most of us who cannot imagine a world without cash, that physical money will not be a generally accepted means of payment in Sweden. Needless to say, this journey has been slow and steady, marked by various milestones such as the widespread adoption of payment cards from way back in the 1950s, digitalisation of bank accounts since the 1960s and the setting up of the internet infrastructure and internet banking in the mid-1990s. During the COVID-19 outbreak, the acceleration in digital payments has been even more pronounced, with contactless payments in Sweden rising from 47.4 percent in mid-March to 50.2 percent at the end of April, despite the country not taking stringent lockdown measures.

Coming to Africa, electronic payments have proved to be the first FinTech solution where the continent has truly reap the benefits of leapfrogging – going from unbanked to financially included at speed. It was in March 2007 that M-Pesa was launched as the first mobile phone-based money transfer service in Africa, sparking a payments revolution in Kenya such that in its very first month, M-Pesa saw over 20,000 signups. In exactly a decade, it boasted over 27 million subscribers, 3.5 trillion shillings transacted, and 130,000 agents across the country. No wonder then that when COVID-19 cases began to spread across the continent’s major economies, Kenya turned to mobile-money as a solution to nip the virus’s spread in the bud. The country’s largest telecommunication company, Safaricom, implemented a fee-waiver on M-Pesa to reduce the physical exchange of currency.

When it comes to Asia, China is clearly a leader in the digital payments domain with an ever increasing use of smartphone payments linked to the growth of e-commerce and m-commerce. China’s experience with the SARS epidemic in 2003 helped launch digital payments and e-commerce in the country as SARS forced what would become a permanent shift in behaviours: consumers incarcerated in their homes had to turn to previously untrusted e-commerce sites, while Chinese companies adopted e-commerce for sales because people feared to meet in person. Alibaba launched Taobao that year, its first consumer-facing e-commerce website, and soon after created Alipay to help solve payments and trust problems that inhibited the growth of online shopping.

If at all, the COVID-19 epidemic has only accelerated the trend towards digital payments in China. According to statistics released in early 2020 by the People’s Bank of China (PBOC), the country’s central bank, in the three months through December 2019, banks in China processed 30.7 billion mobile transactions, representing a year-on-year increase of 73.6%. Then, on February 28, 2020, the Payment & Clearing Association of China (PCAC) launched an action to encourage people to use mobile payment, online payment and QR payment to avoid the risk of infection.

Against this backdrop, Delphine Lagesse, Group Strategic Innovation & Excellence Executive at the IBL Group which owns the Winner’s supermarket chain, draws an insightful comparison between Mauritius post-COVID and China post-SARS.

She notes, “The interesting thing is to compare Mauritius now with China in 2003 during SARS which really helped expand e-commerce and digital payments - Alibaba launched Taobao and Alipay. In Mauritius, people were scared in the beginning and there was an onslaught on supermarkets amid fears of food shortage. E-commerce groceries and digital food stores were being set up daily, with the case for online portals intensified by the collapse of tourism and shutdown of restaurants.”
payment methods and avoid cash payments as, in addition to involving human interaction, cash has the potential to transfer the virus via the organisms on it.

That statement has sparked new initiatives taken by banks and payment companies to cope with the new reality while regulators and government agencies have responded to the threat by limiting cash in circulation and quarantining bank notes. They are also promoting digital payments through measures such as increasing the limit on contactless transactions in dozens of countries around the world.

Against the backdrop of Bank One having increased contactless payment thresholds to Rs 3,000 per purchase and Rs 6,000 per day following the pandemic, Dev Neelayya, Head of eCommerce & Acquiring Business at Bank One, comments, “The adoption and usage of contactless payments has increased multiple times as customers discover the security, convenience and time saving benefits of using high-limit-band payments. Users of contactless payments found their exposure to COVID-19 contamination reduced with no physical cash or key-in on POS machines required and the ability to check out in a couple of seconds.”

Meanwhile, Michal Szymanski, CEO of the Mauritius Africa FinTech Hub (MAFH), notes, “One of the most crucial issues being faced by Mauritians today is the heavy reliance on cash in our day to day lives. As has been discussed globally, the spread of the virus through physical cash could lead to needless public exposure to the COVID-19 virus. Greater ubiquity of digital wallets and mobile payments among the population would lessen the handling of potentially contaminated cash and obviate the need for many people to visit the bank. This digitisation of the economy would have added benefits such as more development and use of e-commerce platforms and infrastructure, less time wasted in queues and less potential exposure to the current and future emergencies, among others.”

Digital payment trends in Mauritius

While mobile money wallets, online banking platforms and contactless payments had been gaining traction in Mauritius even before the pandemic broke, the impact of the COVID-19 crisis on accelerating the adoption of digital payments in Mauritius cannot be underestimated. Similar to China post-SARS, the rise in usage of e-commerce platforms in Mauritius post-COVID is leading to an unprecedented increase in the use of digital transactions. Crucially, this change in mindset cuts across genders and age groups, signifying a greater impact on financial inclusion.

Vishal Anand, Founder of online shopping platform Mycart.mu, emphasises that the crisis has seen older people purchasing online. “During COVID-19, our online chat support was present in full force to help these people who had never used e-commerce before. A significant 90% of the shoppers paid online, with a combination of debit cards, credit cards, MCB juice and my.t money being used.”

Most significantly, a poll conducted during a MAFH webinar on 28 May 2020 on the opportunities and challenges accompanying e-commerce adoption in Mauritius showed that the main payment channels used by e-commerce shoppers are digital platforms, with cash trailing far behind. Indeed, as many as 58% of all respondents noted that they used online banking platforms such as Juice and SBM Pay to conduct their transactions, with my.t money also featuring high in the list at an almost 10% adoption rate.

Yannick Ayacanou, Founder and Director of the online shopping platform PriceGuru, notes, “Pre-COVID we operated a lot on cash on delivery and only 20% of the population could purchase online but during the crisis, the emphasis on no cash exchange or card on delivery has accelerated user acceptance of digital payments.”
For his part, Dev Neelayya highlights, “The COVID-19 crisis is a ‘wake-up call’ for consumers, businesses/merchants and banks on the need to have a digital payments solution in place. In Mauritius and around the globe, there has been a high increase in digital/online payments during the lockdown period creating adoption and trial of digital payments for new users and increase in the usage rate for the habitual ones. Clearly, users of digital payments had an advantage of not being exposed to contamination by handling cash or ATM points and by being able to shop 24/7 on online stores and enjoy home delivery.”

Speaking in a recent webinar on digital payments in Mauritius, Vincent Chatard, Chief Operations Officer, MCB, noted that the COVID-19 crisis witnessed a huge rise in the usage of cards, especially on the e-commerce side”

Mauritius’ move to cashless payments in numbers

Even before the COVID-19 crisis struck, Mauritius had been moving slowly but steadily towards a cashless society – be it the central bank’s own initiative in the form of MauCAS, the national telecom operator Mauritius Telecom powering mobile payments via myt money, or the mobile banking facility offered by the Mauritius Commercial Bank through the Juice app.

“MauCAS is a payments system managed by the Bank of Mauritius and acts as a centralised payment system between banks. MauCAS has enabled banking customers (for banks running on the MauCAS payment system) to make “round the clock” payments without depending on banking opening or processing hours as transactions are settled instantly with all banks operating local payments on a single network. It also increases efficiency gains for customers by reducing time taken and costs involved in making payments, creating a fast and inexpensive way of making payments simultaneously. Convenience is another key factor as this digital form of payment allows customers to make peer-to-peer payments from the comfort of their residence,” explains Dev Neelayya.

Speaking in a webinar on digital payments, Aswin Ramduny, Chief of Payments Systems at the Bank of Mauritius, noted that all banks on the island must become participants in the Instant Payments System (IPS) under the MauCAS by the end of August, and he also indicated that there will be new opportunities for FinTech players to become part of the system, which will improve interoperability across the market. In essence, the IPS will enable customers to effect transfers between any two accounts in any two institutions within seconds and will also comprise instant direct debits and credits. The IPS and the Card Payments System (known as the National Payment Switch) – which allows participants to route their card payments through the central bank instead of international card companies such as Mastercard and Visa – form the two pillars of MauCAS.

Needless to say, all these initiatives had already resulted in a tangible movement from cash to the holy trio of cards, internet banking and mobile banking that makes up the lifeblood of a cashless payment ecosystem.

According to statistics from the Bank of Mauritius, the number of cards in circulation as of last year was 1.82 million among which there were 297,330 credit cards and 1.34 million debit cards. Internet banking transactions witnessed an increase of 14.74% from 346,952 in June 2018 to 391,463 in June 2019 with the number of customers standing at 486,051 in June 2019. Likewise, the number of mobile transactions increased by 43.24% while the number of subscribers has increased from 955,733 in June 2018 to 1.05 million in June 2019. The value of mobile transactions amounted to Rs 1.32 billion in June 2019.

Moreover, according to IMF Financial Access Survey (FAS) data compiled by the Bank of Mauritius, over the ten-year period ending December 2018, the number of active mobile money accounts per Mauritian population aged 15 years and above doubled from 0.07 in 2017 to 0.14 in 2018. The number of mobile banking and mobile payments’ transactions per Mauritian population aged 15 years and above rose from 0.9 to 1.2. The number of internet banking transactions per person of this population segment grew to 0.45 in 2018, up from 0.37 in 2017. The total value of card transactions, which are related to credit cards, debit cards, ATMs and Merchant Points of Sale, increased by nearly 3.0 per cent over a five-year period, from Rs15.7 billion in 2013 to Rs20.2 billion in 2018.
huge rise in the usage of cards, especially on the e-commerce side, with heightened consumer activity on basics such as food items leading to a “400% increase in e-commerce transactions by value”. On the contactless payments front, he commented that the bank saw an “almost four-fold increase” and an “over 50% grow-on-grow” during COVID-19. Finally, in terms of mobile payments, he highlighted that there was a 200% increase in Juice payments during the lockdown period.

Drilling deeper into popular payment platforms in Mauritius

Launched in 2013, mobile banking service Juice by MCB is one of the most popular payment platforms used by Mauritians, run as it is by one of the largest private banking operators on the island, the Mauritius Commercial Bank (MCB). Juice currently comes replete with various features including payment options, transfer features, cardless ATM withdrawals, refills and access to users’ Paypal account, modification of the daily fund transfer limit, fingerprint login, and payment via QR code. During the COVID-19 crisis, MCB launched JuicePro for SMEs to meet their daily transactional and other banking needs and will allow local entrepreneurs to download it and use it for free till December 2020.

In August last year, the island’s national telecommunications provider, Mauritius Telecom, joined forces with PCCW Global (the international operating division of HKT, Hong Kong’s premier telecommunications provider) to launch my.t money, Mauritius’ first national mobile payment solution. Based on Hong Kong’s Tap & Go mobile payment service, my.t money facilitates both payment and non-payment transactions through a mobile application platform that can integrate education, commerce and finance, transportation and government social welfare initiatives. Following the COVID-19 crisis, Mauritius Telecom has launched the my.t bill pay app in recognition of the urgent need expressed by the population to pay for utilities while respecting social distancing norms and other sanitary measures enforced during the outbreak.

Future forward

For the time being, it may be too soon to guess when the coronavirus will abate or for how long, and what will be the duration and depth of the current economic downturn. What is abundantly clear, though, is that payments systems have entered a new, and unstoppable, phase of digital innovation, following the pandemic.

In August last year, the island’s national telecommunications provider, Mauritius Telecom, joined forces with PCCW Global (the international operating division of HKT, Hong Kong’s premier telecommunications provider) to launch my.t money, Mauritius’ first national mobile payment solution. Based on Hong Kong’s Tap & Go mobile payment service, my.t money facilitates both payment and non-payment transactions through a mobile application platform that can integrate education, commerce and finance, transportation and government social welfare initiatives. Following the COVID-19 crisis, Mauritius Telecom has launched the my.t bill pay app in recognition of the urgent need expressed by the population to pay for utilities while respecting social distancing norms and other sanitary measures enforced during the outbreak.

Aswin Ramduny, Chief of Payments Systems, Bank of Mauritius

“The central bank is turning to the CBDC to move all participants in the ecosystem towards digitalisation”
the key products that the Government is looking to introduce to give a boost to the financial services sector in Mauritius, it is clear that this is an area of focus for the island economy.

Speaking in a webinar on digital payments, Aswin Ramduny, Chief of Payments Systems at the Bank of Mauritius, noted that the central bank is turning to the CBDC “to move all participants in the ecosystem towards digitalisation”, based on the experience of many central banks around the world that are fast tracking the adoption of the CBDC, especially in Europe.

Commenting on its implications for commercial banks on the island, Dev Neelayya notes, “Banks may require less manpower at retail branches and/or re-channelling the skills sets towards the development of the use of CBDCs to promote efficiency and reduce costs. The Core Banking Systems and IT Security systems will need to be aligned with the new system requirements for authorising, validating, recording and monitoring these virtual currencies.”

While it is too early to say how this initiative will be implemented, or what the attendant timelines are, the prospect of a national digital currency certainly promises to transform the payments landscape and take the ecosystem of cashless payments in the island economy to the next threshold.
The 2020-2021 Budget: Connecting the Dots for the Mauritius IFC

With the Finance Act 2020 being voted by the National Assembly of Mauritius for the implementation of Budgetary measures, the announced improvements in the AML/CFT framework, the product offering of the financial services sector, the doing business environment, and the residency regimes are expected to go a long way towards instilling renewed confidence in the business community and international investors.

Every year, culminating in the month of May, the Government of Mauritius delves into its policy space, consults with the public and private sector organisations, and engages with the civil society and supranational organisations in order to deliver an annual National Budget.

Over and above defining the financial estimates, the debt management principles, Government expenditure and public sector investments, the National Budget exercise also enables the Government to legislate with the aim of enhancing the business environment, correcting anomalies, addressing lacunas, and crafting new policies for the betterment of the jurisdiction.

All of these are done through an overarching omnibus legislation called the Finance Act.

The Finance (Miscellaneous Provisions) Act 2020 has just been voted by the Parliament and will implement the measures announced in the 2020-2021 Budget Speech, delivered by Dr. Renganaden Padayachy, Minister of Finance, Economic Planning and Development. The new Budget, entitled “Our New Normal: The Economy of Life”, instils a renewed confidence within the business community and international investors during these challenging times.

The purpose of this article, accordingly, is to unravel the measures having a bearing on our International Financial Centre and Business Hub.

The EU Conundrum

As the investing community would recall, on 7 May 2020, much to the surprise of everybody, Mauritius...
was placed on the European Commission’s new list of high-risk third countries.

The list, which is made by the Commission through a Delegated Regulation, is of countries outside of the European Union which purportedly have strategic deficiencies in their anti-money laundering and counter-terrorism financing (AML-CFT) regimes.

Notwithstanding the fact that the (new) methodology to identify such countries was published on the same day that the list came out, and that Mauritius was not given an opportunity to provide any explanation or make any representations, the Commission merely copied the findings of the Financial Action Task Force (FATF) (and Mauritius was on the FATF’s list of jurisdictions with strategic deficiencies).

Based on this premise, it is therefore axiomatic that the European Commission would remove Mauritius from the list once Mauritius is no longer on the FATF’s list of jurisdictions with strategic deficiencies.

As at March 2019, Mauritius is compliant/largely compliant with 35 out of the 40 Recommendations, including the “Big Six” Recommendations. This represents significant progress since the initial review of Mauritius in 2017/18, where the country was compliant/largely compliant with only 14 of the 40 FATF Recommendations.

In terms of Effectiveness of the FATF’s recommendations, Mauritius has only 5 remaining outstanding actions, having achieved 53 of the 58 Recommended Actions within one single year.

The Budget therefore makes provision for the implementation of the following measures to comply with the 5 remaining recommendations of the FATF, more than one year ahead of the committed schedule:

- A new AML/CFT (Miscellaneous Provisions) law, which would ensure, amongst others, that authorities are able to scrutinise suspicious transactions more efficiently and reporting officers or auditors have reporting obligations of such transactions. The new legislation has already been enacted by the Parliament on 7 July 2020;1
- A dedicated and specialised Financial Offences Court to be set up within this financial year;
- Risk-based supervisions by regulators as articulated through the strategic deficiency identified;
- Targeted outreach programmes to promote clear understanding of money-laundering and terrorist financing risks;
- Targeted financial sanctions in cases of terrorist financing; and
- Timely access to beneficial ownership information.

It is noteworthy that the Honourable Prime Minister presides over a Ministerial Committee on AML-CFT matters in Mauritius, and in order to monitor the implementation of the FATF Action Plan, the Ministerial Committee has set up a high-level multi stakeholder Core Group under the chairmanship of the Financial Secretary.

Enhancing Our Offering

Mauritius is known as the gold-standard for funds, and much of this accolade can be attributed to the avant-gardist legislative reforms brought forth by the policymakers at the right time and with the right ingredients.

Mauritius has reviewed its work-and-live regimes to make it more attractive to foreign talents

In line with this spirit, the 2020-2021 Budget makes provision for a new type of corporate structure to complement the existing panoply of fund structures in Mauritius: the Variable Capital Company (VCC).

There are very few jurisdictions (only a couple, I daresay) in the world which currently offer this structure for the time being. The VCC structure is mainly used by fund managers for open-ended and close-ended fund strategies and for the collective management of fund portfolios.

The structure notably allows for the redemption of shares and increase or decrease of capital, and the ability to pay dividends from the capital itself. It also provides the ability to have more than one investment compartment, and is of indefinite duration. The Government will introduce a new piece of legislation for this structure in the forthcoming months, and the modalities thereof are being discussed jointly by the public and private sector.
The Government also announced the introduction of the Insurance Wrapper product to complement the existing products in its wealth management-estate planning segments.

The insurance wrapper caters for life insurance policies of the exceptionally affluent with underlying investment portfolios which could comprise investment funds, shares, securities, bonds, listed and non-listed investments. The regulations for this product would be introduced within this financial year.

The Bank of Mauritius (BoM) will also introduce a Central Bank Digital Currency, which will be the digital form of the Mauritian Rupee. The digital currency will revolutionise the FinTech landscape in Mauritius and will be the first-of-its-kind in Africa. The BoM is also working on establishing new frameworks to cater for online banks and private banks and wealth management.

The Minister of Finance has also laid the stepping stones for the establishment of Mauritius as a hub for Islamic Finance by providing for the BoM to issue the first Sovereign Sukuk of Mauritius.

Opening Up to the World

With a view of embracing the global community, to attract foreign talents and expertise, and to position the country as a destination for those seeking a better quality of life, the Budget provides for some bold yet welcome reforms on our residence schemes.

Firstly, a work-and-live permit (defined as an Occupation Permit in Mauritius) is henceforth valid for a period of 10 years on a renewable basis, from the 3 years it used to be in the past.

The Occupation permit comprises three main categories: (i) Professional: employees of companies domiciled in Mauritius, (ii) Investor and Self-Employed: entrepreneurs and investors in general, and (iii) Retirees: non-citizens over 50 who have elected Mauritius as their place of habitual abode.

For an Investor Occupation Permit (OP), the minimum domestic investment required has been reduced from USD 100,000 to USD 50,000. For an innovative investor, there will no longer be a minimum turnover and investment requirement.

For a Professional Occupation Permit, there is a requirement for the employee to earn a monthly basic salary of at least MUR 60,000, save for the employees in the ICT sector, where the monthly salary is at a reduced amount of MUR 30,000. This reduced salary has accordingly been extended to other sectors.

Additionally, the policy has been clarified ensuring that there is no ambiguity that the holder of a Professional OP is able to invest in other activities and ventures in Mauritius without any restrictions or performance requirements on shareholding.

Furthermore, all categories of OP holders are henceforth eligible to bring their parents as dependents in Mauritius, and there will not be any restriction for spouses of OP holders to work in Mauritius.

Secondly, the Permanent Residence Permit (PRP), which allows a non-citizen to work and live in Mauritius for a period of 10 years, has now been
extended to 20 years. There are two main categories to the PRP: (i) previous holders of OPs, and (ii) foreign investors.

To complement the new offering, all existing OP holders, who have held the permit for three consecutive years, will now be eligible to apply for the 20-year PRP.

For the Investor PRP category, the foreign investor was required to have invested a minimum of USD 500,000 into a qualifying activity; this threshold has now been reduced to USD 375,000.

Thirdly, all holders of OP or PRP holders will be entitled, until 30 June 2022, to acquire one plot of serviced land not exceeding 2,100m² for residential purposes in any Smart City in Mauritius.

**Improving the Business Landscape**

Mauritius is one of the most business-friendly jurisdictions in the world. The World Bank’s Doing Business index currently ranks Mauritius 13th, out of the 190 countries, and 1st in Africa. The Budget introduces a myriad of measures to further enhance the doing business environment, some of which have direct positive consequences for the international community using the Mauritius IFC.

Firstly, the Government will accelerate the automation of public services.

Secondly, in our quest to encourage more substance in Mauritius, the Government has facilitated the registration of property and submission of deeds through an e-registry, henceforth mandatory for notaries, banks, and insurance companies.

Thirdly, the Budget aligns several provisions of Mauritian laws to international standards. For instance, prejudicial conducts for which company directors can be liable under the Companies Act will be defined. Additionally, any creditor will now have the ability to request a liquidator or receiver to furnish relevant financial information in relation to a company being wound up or sold. Timely enforcement of contracts and settlement of commercial disputes are also being closely looked at.

**Expanding our Africa Footprint**

The Government of Mauritius has been championing investments in Africa through its Mauritius Africa Fund, notably through the development of integrated projects, including Special Economic Zones, Technology Parks, and Logistics Parks in partner mainland African countries.

In order to take this collaboration further, the Budget provides for the quasi-sovereign wealth fund of Mauritius, the Mauritius Investment Corporation (set up and fully owned by the Bank of Mauritius) to invest in African projects up to the tune of MUR 10 billion, including in the Special Economic Zones.

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**The Government is introducing new products such as Variable Capital Companies and Insurance Wrappers**

The Economic Development Board has also commissioned a study entitled “The Role of the Mauritius International Financial Centre in driving economic growth and prosperity in Africa” to rebut unfair allegations and tags and to showcase Mauritius as a conducive investment hub for driving quality investments into Africa. The study is expected to be published in October 2020.

**Concluding Remarks**

In essence, the slew of bold initiatives announced in this 2020-2021 Budget cogently reveals the determination of the Government of Mauritius to make the Mauritius IFC thrive in the new decade.

Against a backdrop of tight challenges, this Budget undoubtedly signifies a landmark, unearthing opportunities and ensuring that the Mauritius IFC becomes a node of excellence.

While some of the Budgetary measures are already being implemented, others will be introduced during this financial year; a new Mauritius IFC website (www.mauritiusifc.mu) will come into operation in September 2020, and will be a central repository of information for all matters pertaining to the IFC, including the provision of updates on the Budgetary measures.

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1. See EDB’s Newsletter of July 2020 for an in-depth article on the AML-CFT Act 2020, available on www.edbmauritius.org
2. See EDB’s website on the Fintech Regulatory Sandbox License
3. Excluding the “Professionals” category, as this category is contract-bound
4. Manufacturing of pharmaceuticals and food processing
5. Except where the OP holder is investing in the company through which he applied for the OP in which case he cannot be a majority shareholder
Testing times: Mauritius paves way for economy of life with Budget 2020-2021

As economies around the world attempt to strike a balance between lives and livelihoods in the wake of the COVID-19 crisis, the National Budget focuses on re-launching the Mauritian economy to overcome current challenges, further to a most stringent lockdown.

In presenting the Budget 2020-21 on 4 June 2020 following one of the most stringent lockdowns globally, Finance Minister Dr the Hon Renganaden Padayachy noted that the National Budget was coming at a time of ‘unprecedented crisis.’

“A deep contraction, globally and locally, is unfolding before our eyes. As of today, the IMF is forecasting that the world GDP in its best-case scenario, would contract by around 3 percent in 2020. According to the International Labour Organisation (ILO), the impact on the global world of work will be far-reaching, pushing millions of people into unemployment. Mauritius has not been spared. The fallout on our economy is without comparison. Latest forecasts point to a GDP contraction of up to 11 percent this year, the worst GDP contraction ever for our country. It is difficult to predict if the world will go back to normal,” he cautioned.
It will be a delicate balancing act to say the least – restarting an economy that has been brought to almost a standstill following a stringent lockdown, while giving a boost to revenues that have been badly affected by the current crisis, and all amid a global environment where many economies are looking inward rather than outward and pursuing an agenda of nationalism and isolationism.

As Anthony Leung Shing, Country Senior Partner, PwC Mauritius, notes, “At PwC, we have undertaken a benchmarking analysis of the COVID-19 impact on a sample of 6 countries (Germany, Mauritius, Singapore, South Africa, UK, and USA). Whilst all the key economic indicators have deteriorated for Mauritius, the country seems to have dealt relatively well with mitigating the COVID-19 pandemic.”

**Strengthening the Financial Services sector**

In relation to the financial services sector, the Budget delivered on all fronts as it not only underlined the government’s commitment to ensure compliance with international norms, but went far beyond it by embracing diversification through innovative technology and financial products to ensure that the jurisdiction retains its competitive edge.

Shamin Sookia, Managing Director, Perigeum Capital, notes, “With the daunting challenges faced by the financial services sector for a while now, there is a pressing need for reforms to be initiated and carried out to ensure compliance with international best practices. In this respect, the Minister of Finance has announced the Government’s commitment to address the 5 recommendations of the Financial Action Task Force (FATF) by September 2020.”

On this point, the Government announced a package of measures to respond to the 5 remaining FATF Recommendations, which have subsequently been enacted in the form of the new AML/CFT (Miscellaneous) Act. This Act encompasses amendments to 19 legislative acts in Mauritius, including the Banking Act, the Companies Act, the Financial Intelligence and Anti-Money Laundering Act (FIAMLA), the Financial Reporting Act, the Financial Services Act and the Foundations Act, among others. It is also expected that a dedicated and specialised Financial Offences Court will be set up in line with the Budget recommendations.

Following measures to safeguard the jurisdiction, the Government has also proposed proactive initiatives to further enhance competitiveness of the financial services sector in line with which five new products will be introduced, as further indicated in the recommendations of the 10-year Blueprint:

- The Central Bank Digital Currency
- An insurance wrapper
- Variable Capital Companies
- An inaugural sukuk issuance by the Bank of Mauritius
- Green and blue bond frameworks by the Bank of Mauritius

Also, in keeping with the recommendations of the Blueprint, the Bank of Mauritius will come up with new frameworks for digital banking, private banking and wealth management by banks, with a number of amendments subsequently introduced in the Finance Act to facilitate these measures.

Commending the jurisdiction for taking the necessary steps to safeguard its reputation as well as forging ahead into a brighter future, Arvind Nilmadhub, Founder and Executive Director at economic consulting firm Afribrains Ltd notes, “So far, our Government has ensured that we are a safe jurisdiction to do business. Looking ahead, we welcome the move to open a dedicated Venture Capital Market at the Stock Exchange of Mauritius for start-ups and SMEs.”

**Supporting SMEs**

There is no doubt that small businesses are among the worst affected by the COVID-19 crisis. No wonder then that Budget 2020-2021 has shown a concerted thrust on supporting SMEs with both much-needed capital on the equity and loan fronts, as well as an increasing focus on products manufactured under the ‘Made in Moris’ label.

On access to capital, Shamin Sookia notes, “The Budget has come forward with some good measures to support SMEs and cooperative societies which employ quite a substantial workforce. As such, an amount of MUR10 bn has been earmarked to support distressed enterprises in those sectors with a maximum loan of MUR 10 million per enterprise at an annual concessional rate of 0.5 percent.”

On benefits extended under the ‘Made in Moris’ label, Arvind Nilmadhub highlights, “Supply chain disruptions have affected all countries around the world. Boosting local production will ensure that we are self-sufficient and at the same time will help to reduce our imports and ultimately maintain our
foreign reserves. Towards this end, it is good to see that the one-off grant towards certification under ‘Made in Moris’ label will be increased from MUR 5,000 to a maximum of MUR 50,000 while SMEs holding the ‘Made in Moris’ label will benefit from a Margin of Preference of 40 percent instead of 30 percent under Public Procurement.”

Other key measures to support SMEs under the current Budget are as follows:

- The Procurement Policy Office will require Public Bodies to procure specific goods and services from SMEs only. Public Bodies will pay SMEs within 14 days from the date of invoices in respect of supply of goods and services.
- A new Credit Check will be introduced to assess the credit worthiness of SMEs and MMEs. ISP Ltd will provide a grant to help SMEs and MMEs to obtain a Credit Check report.
- The SME Equity Fund Ltd will invest through the crowd lending mechanism to the tune of up to MUR 200,000 per project.
- To ease the cash flow of SMEs, access to factoring facilities through MauBank will be broadened while ISP Ltd will subsidise fifty percent of the factoring fee per invoice.

It is clear that the thrust of all these measures is to give a boost to local employment and increase self-sufficiency, both key aspects of economic development in a post-COVID era.

“By promoting local production through the ‘Made in Moris’ label, I believe that this will have a compounding and multiplier effect into the local economy as more value transformation and jobs will be created locally,” says Anthony Leung Shing.

Thrust on Technology and Innovation

With COVID-19 accelerating the case for all things digital, it comes as no surprise that the economic recovery plan outlined by the latest Budget is focused on innovation and technology. Highlighting the need for a ‘game changer’, Budget 2020-21 envisages a Mauritius driven by data technology as the future of the economy.

The key measures announced in the Budget from an innovation standpoint for the private sector include:

- A Technology and Innovation Fund will be created to invest up to Rs 2 million as equity in projects recommended by Mauritius Research and Innovation Council, to give the innovative enterprises in Mauritius a boost.
- To encourage techpreneurs from overseas to consider Mauritius above other destinations, the minimum turnover and investment requirement for an Innovator Occupation Permit are being removed.
- To promote a culture of entrepreneurship among university students, DBM’s Campus Entrepreneur Challenge competition will be scaled up such that the top 10 projects will be financed at a concessional rate of 0.5 percent per annum for an amount of up to Rs 500,000.

Meanwhile, Benito Elisa, CEO of Wakanda 4.0, a Mauritius-based firm that specialises in modern technologies such as blockchain, FinTech, AI, augmented and virtual reality for Africa, highlights some of the challenges that lie ahead. He notes, “I welcome the move to introduce a new sandbox framework to facilitate the development of innovative technologies under the Budget. This is especially crucial because the National Regulatory Sandbox Licence (NRSL) Committee consists of experts from the BoM, the FSC, and the EDB. We need to collaborate and see how we can ease the process of applying for a licence under the sandbox. Furthermore, another key challenge FinTech players face is that banks are not entirely comfortable with Digital Asset-related projects. From the banks’ perspective, I can understand that the main risk they perceive is on the AML/CFT front, but as FinTech players, we are ready to conduct strict KYC checks and adhere to stringent compliance requirements. We recognise the need to support the jurisdiction to move out of the EU’s list of high risk third countries as soon as possible.”

He also applauds the move to develop a culture of
entrepreneurship among university students, while noting that the Government of Mauritius needs to “train our youth on coding for all the modern technologies such as AI and blockchain.”

Apart from the private sector initiatives outlined above, on the public sector front as well, a digital transformation agenda is being pursued.

“Noteworthy measures include incentives on the digital side such as, for instance, the creation of a Data Technology Park at Côte d’Or, including 12 highly skilled and specialised centres, and the restructuring of various state-enterprises that will be led by a Mauritius Digital Transformation Agency,” says Shamin Sookia.

Other key measures towards the digital transformation of the public sector as follows:

- Expediting the implementation of the Centralised-KYC project by the Bank of Mauritius.
- Making the e-Procurement System mandatory for all public sector bodies.
- Submitting all deeds for registration of property through the Mauritius e-Registry System.
- Investing in a new Land Use and Valuation Information Management System (LAVIMS) based on Blockchain technology.
- Developing a new online system for services delivered by the National Land Transport Authority.

“With COVID-19, we have witnessed the power of technology, digitalisation and innovation. I am happy to see that the Government intends to further push its transformation agenda in the delivery of public services through an e-registry system, a single platform for trade and mandatory e-procurement, among others. The regulatory enhancements through centralisation, automation, refinement in sandbox framework, as well as the adoption of latest technologies such as blockchain, will facilitate innovation. Businesses expect government services to be readily available online, easy to understand, and free of charge; it is critical that e-government practices become embedded in our daily routine as this can unlock significant economic value. Such initiatives will help to reduce cost, generate operational efficiency and deliver better service quality; ultimately boosting public confidence,” stresses Anthony Leung Shing.

Forging ahead towards the new normal

In the light of the global crisis, the Budgetary measures are expected to contribute to positioning the economy for the new normal in a post-COVID era. There continue to be challenges in the way of the jurisdiction as it strives to establish itself as a hub for financial innovation but the Government has delivered a clear strategy to equip Mauritius for a digital future, including a strong focus on the Central Bank Digital Currency (CBDC) as a key product offering for the financial services sector.

“More than ever, it is clear in a post-COVID world that technology will change the way we work and live. We need to build capacity and equip our youth for the future. Once we build a talent base, that, more than anything else, will attract investors to Mauritius. I would also highlight that the Government must look into the benefits of implementing a CBDC and leveraging off all the advantages of having a blockchain platform and digital money,” concludes Benito Elisa.

“I commend the Government’s efforts to shape a more sustainable economy by favouring local production and diversifying into strategic sectors”

Anthony Leung Shing

Ultimately, even as the precise path is yet to be navigated, it is clear to all stakeholders that the Budget has set the economy on the right course to strengthen its financial services, boost its competencies in innovative and specialist sectors, as well as support SMEs towards giving a spur to local employment and self-sufficiency.

“The success of Mauritius has been based on openness and an export-led economy. However, COVID-19 has raised fundamental questions over the sustainability of such an economic model and I commend the Government’s efforts to shape a more sustainable economy by favouring local production and diversifying into strategic sectors,” concludes Anthony Leung Shing.
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MAKING THE DIFFERENCE
Central Bank Digital Currency: The new future of money

With digital currencies gathering steam even as doubts linger on the safety of using such forms of payment, central banks are stepping into the fray in an attempt to strike a balance between monetary stability and financial innovation.

The needs of the financial system are ever evolving, and one aspect in particular that is constantly gaining momentum is the payments system. The heart of the payments system is cash, which is associated with money in the form of central bank-issued notes and coins in the contemporary monetary system.

A central bank has the sole right to issue paper notes representing legal tender (or fiat money) to the public and distribute them through commercial banks – this is the central bank’s monopoly. In addition to cash, a central bank issues money in another format to designated financial institutions (mainly, commercial banks) held as reserve balances or current account balances at the central bank, which are called “reserve deposits”. Thus, central bank money is comprised of cash and reserve deposits.

The definition of money does not stop here since it also encompasses private sector money, which has increasingly become important, both at the household and corporate sector level. The most important form that private sector money takes is bank deposits, which can be used to make payments through automated teller machine (ATM) cards, internet banking, and/or debit cards.

In addition, new types of private sector money based on distributed ledger technology (DLT) have emerged over the past decade. These are called digital tokens, crypto assets, crypto currencies, encrypted currencies, or virtual currencies. The first, and most famous, example is bitcoin. These digital coins have garnered considerable attention globally because of their potential to serve as a new payment tool and, thus, have firmly become part and parcel of private sector money.

What are digital currencies?
According to a report by the Bank for International Settlements (BIS) on digital currencies in November 2015, a digital currency is an asset represented in digital form and having some monetary characteristics. Bitcoin and its alternatives are based on cryptographic algorithms, so these kinds of virtual currencies are also called cryptocurrencies.

Private sector players are developing cryptocurrencies as well as payment system solutions and have proved flexible in tailoring their services to changes in consumer behaviour. Advances in private money in the digital sphere are especially significant. According to the European Central Bank (ECB), a virtual currency can be defined as a ‘type of unregulated, digital money, which is issued and is usually controlled by its developers and is used and accepted among the members of a specific virtual community.’

While it is true that cryptocurrencies are backed merely by trust in the issuing party, a genuine, privately issued digital currency could have greater monetary attributes if it served as a digital representation of an asset. This is why I believe that privately issued cryptocurrencies are not currencies in the true sense of the term.

What is the role of the central bank?
Central banks and governments across the globe have not regarded these digital tokens as “money”
and have warned the public to use them with great caution because of the high volatility in their value and, thus, the high degree of risk involved. A key risk posed by privately issued cryptocurrencies is that the government or central bank does not back their redemption. The usability of these crypto assets diminishes as they become speculative vehicles with volatile purchasing power.

Now, turning to the central bank’s role, it is clear that the key task a central bank must perform is to provide an effective payments system, as it is a uniquely public good. A smoothly functioning payments system is critically important to the performance and credibility of an economy as well as for sustaining public confidence in the financial system at large. At the same time, the nature and form of the methods consumers use to transact have changed significantly, requiring central banks to remain alert to shifts in payments habits. The Official Monetary and Financial Institutions Forum (OMFIF)-IBM report on digital currencies noted that 69% of central banks surveyed pinpointed significant problems with cross-border payments systems.

Another important task of a central bank is to decide and implement the monetary policy. Central bank money (especially reserve deposits) and private sector money (bank deposits) are associated closely through the monetary policy exercises conducted by a central bank. However, if digital currencies are issued by various organisations in the form of private digital currency, then, according to King (1999), the central bank ceasing to be the monopoly supplier of such reserves would indeed deprive central banks of their ability to carry out monetary policy. At the same time, economists disagree about whether massive adjustments in central bank balance sheets would be necessary to move interest rates in a world where central bank liabilities ceased to perform any settlement functions.

Regardless of such disagreements, the ultimate concern is similar: “The only real question about such a future is how much the central banks’ monetary policies would matter” (Woodford 2000). To Benjamin Friedman, the real challenge is that “the interest rates that the central bank can set … become less closely—in the limit, not at all—connected to the interest rates

CBDCs can be used in both wholesale and retail formats
Dollarisation in some developing economies provides an analogy. When a large part of the domestic financial system operates on the basis of a foreign currency, monetary policy for the local currency becomes disconnected from the local economy.

How should central banks respond to such challenges?

As former Managing Director of the International Monetary Fund (IMF) Christine Lagarde noted in a speech at the Bank of England, "The best response by central banks is to continue running effective monetary policy, while being open to fresh ideas and new demands, as economies evolve."

Digital currencies are assets represented in digital form

Modern monetary policy, based on the collective wisdom and knowledge of monetary policy committee members—and supported by central bank independence, offers the best hope for maintaining stable units of account. Regulators should exercise suitable authority over the use of crypto assets to prevent money laundering and the financing of terrorism, strengthen consumer protection, and effectively tax crypto transactions.

Finally, central banks should continue to make their money attractive for use as a settlement vehicle. For example, they could make central bank money user-friendly in the digital world by issuing digital tokens of their own to supplement physical cash and bank reserves.

Are Central Bank Digital Currencies the way forward?

Central Bank Digital Currencies (CBDCs), denominated in an established fiat currency, could overcome these fundamental barriers. In essence, a CBDC represents the realisation of the idea of the issuance of digital tokens by central banks.

In terms of their usage, CBDCs can be applied in both wholesale and retail segments of the economy. A 2019 study by the BIS found that payments safety and efficiency were the two most important criteria that central banks considered among their motivations for issuing wholesale CBDCs.

There is significant potential for CBDCs to play a powerful role in upgrading incumbent centralised payments and settlement systems. It can be denominated in sovereign currency or government-backed assets and be issued by an institution that enables redemption of the digital currency into cash at any time.

How is Mauritius poised to benefit from the digital era?

Against this backdrop, it is heartening to note that the Bank of Mauritius (BOM) has already grasped the opportunities presented by emerging technologies. The BOM governor, in CoinDesk’s Consensus: Distributed virtual conference, noted that the banking regulator would soon make announcements in relation to the potential introduction of a retail focused CBDC.

This thrust was cemented when the Finance Minister announced in his 2020-21 Budget speech that several new products will be introduced to further enhance the competitiveness of the Mauritius Financial Services Sector, and among them, one is the Central Bank Digital Currency.

Another important aspect of this development, which I can already visualise, is that the Mauritian economy will eventually become free of physical cash and transform itself into a digital economy. The malpractices, which are being carried out in present-day economies using physical cash, will be reduced because the end-to-end usage of CBDCs can be audited in a seamless manner.

Indeed, in the new era of digital currencies and payment innovations arising therefrom, most efficient financial systems will warrant such a digital economy. In this brave new world, it is important that central banks lead from the front as economies evolve around them.

Sources:
https://itweb.africa/content/lLn14Mmj4nrqJ6Aa
The future of payment and its impact on tax administration

With innovative payment methods such as mobile wallets gaining traction in Africa over the last decade, the continent must accompany such innovation with regulations that seek to make such payment methods accountable and ensure their wider adoption with the support of tax authorities and the society at large.

The means of payment are constantly changing to keep pace with technological developments by bringing about innovations to improve the price/quality ratio and adapt payment instruments to consumer demand. In parallel, forms of money are also evolving. Money has changed its shape several times – from a barter system used 12,000 years ago, to banknotes that made their appearance around the 800s, followed by cheques around 1829.

With the development of e-commerce and globalisation, means of payment have become more and more important. Banks and other financial players have been innovating around means of payment to adapt them to market needs and integrate new technologies into these novel instruments. As a result, we have seen recently the emergence of many other players with alternative instruments to offer Paypal and Western Union a run for their money.

Meanwhile, consumers are also becoming more and more demanding and constantly looking out for more security, lower cost, transparency in the management of their assets, and reduced transaction time.

Tax challenges emerge with new payment methods

Currently, we are witnessing two parallel worlds in terms of retail payment instruments through banks and other players.

Many taxpayers place heavy reliance on payment system provider records like bank statements as a basis for preparing their accounts and paying their tax dues. Electronic payment systems that do not provide such records could lead to a correspondingly lower level of adequate and accurate account-keeping by taxpayers. In case of a tax audit, the tax authorities may issue ‘best of judgement’ assessments which may not reflect the real tax due by the taxpayer.

For example, when a payment is made by bank transfer or debit/credit card it provides the business with reliable information as the transaction between a supplier and his customer is passed on to the suppliers’ and the customers’ banks. Such transactions create third-party audit trails with both the business’ and the customers’ banks as well as the electronic payment service provider. Moreover, it gives more of a guarantee that such sales are recorded and will subsequently be reported by the suppliers. All these aspects ensure that bank transfers and debit/credit card payments provide a reliable source of information for both tax authorities and taxpayers.

However, some modern payment systems are either ‘semi-accounted’ or unaccounted. A semi-accounted payment system is a payment system where the customer is not readily identifiable while an unaccounted payment system would be a system where neither the customer nor the supplier business is necessarily identifiable to the payment system provider. It is true that this fulfils a legitimate consumer’s needs for security and privacy. However, such benefits to the customer should be balanced.
against the cost the unaccounted or semi-accounted payment method imposes on society as a whole.

Finally, this can cause even more issues in the case of indirect tax collection (VAT) which is normally collected by suppliers from customers and then remitted to the tax authority.

Looking to OECD standards for electronic payments

According to a recent OECD paper on ‘Tax Administration Guidance – Electronic Payment Systems’, it is then important to ensure that these new payments systems have an appropriate level of accountability so that taxpayers and tax administrations can continue to rely on data from these systems and should, at the very least, be semi-accounted. Unaccounted payment systems should be authorised only for transactions of nominal amount.

The OECD recommends that electronic payment systems should have a minimum level of accountability so that taxpayers and tax authorities can continue to rely on data from these systems and should, at the very least, be semi-accounted. Unaccounted payment systems should be authorised only for transactions of nominal amount.

It is also recommended that tax authorities work together with business initiatives to create systems that facilitate electronic offers, delivery, payment and documentation and express their views at the design stage. This feedback can then be communicated in a timely manner to the bodies developing these protocols or standards so that such frameworks can be developed taking into account the views of all stakeholders instead of bringing modifications to the systems afterwards.
PAYMENTS

Africa’s perspective – the latest from Gabon

The Gabonese Parliament has recently voted a new Finance Bill 2020 which is currently under review by the Gabonese Senate. Two measures contained in the new Finance Bill, which have been introduced mainly to combat corruption, are likely to influence methods of payment in Gabon.

According to the new Finance Bill, where a person (individual or company) withdraws, in a month, cash of one million XAF or more (around Euro 1,500) from his bank account he will be subject to a withdrawal levy of 2% of the amount withdrawn. Moreover, all cash transactions of XAF 5 million or more will be forbidden by law.

Gabon is part of the Central African Economic and Monetary Community (CEMAC) zone which has its own Central Bank and pegs its currency to the Euro. Although paper money has remained the norm until now, it has a regulatory landscape which is favourable to electronic money.

However, the percentage of the population of Gabon outside the Libreville, the capital, holding a bank account is relatively low, while the percentage of the population using debit or credit cards in Gabon in general is also low.

On the other hand, the percentage of the population with a mobile and smartphone is like in a typical African economy, one of the most dynamic in the world. Through Airtel and Gabon Telecom, a 4G connection is available almost everywhere in the country, and even in the most remote regions.

This phenomenon has favoured the emergence of mobile wallets like Airtel Money (for Airtel subscribers) and Flooz (for Gabon Telecom). Prepaid SIM cards are fed by cash in extensive distribution networks run by independent retailers located on every street corner. Most retailers in Gabon accept payments made through mobile wallets.

Shaping the future of payments

This cash credit brings with it several benefits, such as enabling a quick exchange between cardholders on the same mobile phone network. The money is also easily identifiable, as the telephone number itself is proof of identification. In addition to this, the mobile wallet is safe; it avoids the security issues that can arise from carrying cash around, and offers a secure solution because the money, once received, cannot be claimed by the issuer.

Undeniably, the dominant players shaping the payment landscape in Gabon are telecommunication operators. A recent IMF report highlights the importance of electronic identification, which is becoming the norm, and the mobile wallet, which is already a reality for 100 million Africans. The challenge for Gabon and African countries in general is to create interoperable systems. For the moment, we need to multiply the number of mobile lines to send or receive money.

Many taxpayers place heavy reliance on records like bank statements

But the greatest challenge is to integrate the mobile wallet with existing systems. There are several issues that need to be addressed like having someone get his salary credited directly on his mobile wallet account or transfer money from one’s bank account to his mobile wallet account, among others.

Looking ahead

As e-commerce emerges as a major economic trend, intensified in the wake of COVID-19, the other challenge facing mobile wallets is to be able to follow this rising phenomenon. Unfortunately, despite being a method of payment that is trusted by the customer and the retailer alike, the mobile wallet does not offer as seamless a user experience as the more established mode of credit card payments. Today, e-commerce is still done with payment on delivery in a majority of cases.

In the African context, the cost of electronic payment also continues to be an overriding consideration. If it is too costly, people will continue to use physical cash on the informal market. Ultimately, the success of electronic payment requires the availability of payment infrastructure at competitive rates for the most vulnerable segments of the population – and market players must heed this critical need if they are to truly thrive in the continent.
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Working towards building a more resilient society post COVID-19

As governments across the world grapple with how to handle the health, economic and societal consequences of the COVID-19 pandemic, Mauritius has proved its resilience in the face of external shocks and has faced this challenging situation from a position of strength.

The Budget 2020-21 unfolded the Government’s mission of meeting the challenges of the ‘new normal’ with a focus on the ‘economy of life’, in order to boost the economy and emerge from this crisis situation. The Government also proved its commitment to the people during the lockdown, where its first action was to secure the well-being of children, with schools being closed immediately.

From this point on, with the country in lockdown over a two-month period, the Government was able to set up a mechanism of distribution of basic food commodities to cater to the needs of the vulnerable
groups of the society. During the complete lockdown of all supermarkets, shops and bakeries for about a week, 35,000 food packs were distributed to citizens who are on the Social Register of Mauritius, those who receive the Carers’ Allowance, as well as to residents of retirement homes and the disabled.

Two other key measures were also implemented to help alleviate those facing difficulties, namely: the provision of a home delivery service; and the creation of the COVID-19 Solidarity Fund. The home delivery service was initiated by the Government, jointly with the Mauritius Chamber of Commerce and Industry (MCCI), to cater to the needs of those citizens who were facing scarcity in terms of acquiring basic food supplies. Meanwhile, the COVID-19 Solidarity Fund, a decision of the Prime Minister, Mr Pravind Kumar Jugnauth, was set up to help needy citizens, and all Government parliamentarians must contribute 10% of their salary for a year to the Fund.

Additionally, public and private schools were conducting lessons on various online platforms and in order to maintain business continuity, organisations were asked to arrange for their employees to work from home.

The island has been lauded by the international media and leaders for taking such exemplary measures to contain COVID-19. Although the borders are still closed, with the timeline for reopening the commercial airspace under constant review, Mauritius remains COVID free and has managed to slowly restart activities to boost the economy amid the new normal.

Encouraging work from home and being technology driven

During the lockdown, many organisations in Mauritius, including in the financial sector, successfully continued their business activities through work from home. John Benatouil, who is a co-founder of the French Tech Community in Mauritius, an elected Board Director at the Chamber of Commerce and Industry France-Mauritius (CCIFM) and a co-founder at Talenteum.africa, explains that, “Mauritius has had the wisdom to understand the opportunity that working at home represents for its economy and its society. Well before COVID-19, the Mauritian Government legislated to favour and supervise this mode of work. This was additionally encouraged by providing financial incentives to the companies which are organising themselves to implement work from home. The Mauritian government has already announced its intention to strengthen its legal system to further promote remote work.”

Veda Dean, Chief Operating Officer of Panda & Wolf, also mentioned that as an Adtech company, technology has always enabled them to be prepared under any circumstances with the majority of tasks and development done online.

“One of our subsidiaries - Discover Mauritius™ being a tourist cultural platform, was affected to a certain extent during the lockdown, yet, remained largely unscathed as it helped communicate essential alerts. On the other hand, we also have Eco-Warriors™ which fared even better in the lockdown context as parents were eager to help children learn through mobile games. It helps us, as a startup, to avoid having all our eggs in one basket,” explained Veda.

Moreover, since the firm is located at the heart of Port Louis, the work from home routine helped staff to be more productive. “We did not have to commute or be stuck in traffic daily which takes away a good chunk of our time as well as the energy spent while driving and walking long distances,” says Veda.

Helping economic operators through support packages

In the light of the substantial economic challenges facing the Mauritian economy, the Bank of Mauritius (BoM) launched the COVID-19 Support Programme, which has helped to assist economic operators, SMEs, households, and individuals affected by the pandemic. The various measures taken by the BoM directly or through commercial banks have led to jobs being saved, besides ensuring financial stability.

Dr Chiragra Chakrabarty, CEO of KATIC Consulting, explains, “The BoM has decided that those affected will not be penalised as regards the information reported at the level of the Mauritius Credit Information Bureau. This is a good step from a futuristic credit appraisal perspective. If they had penalised such affected operators, it would have been difficult for agencies to lend in future to those entities and individuals. Secondly, with relation to the BoM’s guideline on the scope of application of Basel III and eligible capital, the Bank has deferred the implementation of the last tranche of the capital conservation buffer to 1 January 2021. These measures will help banks to release more capital in
terms of funding capacity to customers. The BoM has really thought out of the box to support the economy in these challenging times.”

Another noteworthy initiative that Dr Chiragra highlights is the Mauritius Investment Corporation (MIC) as a special purpose vehicle under the BoM’s aegis that will operate independently within the parameters of a strict governance structure and provide support through a range of equity/quasi-equity instruments such as convertible bonds or debentures, preferential shares.

“MIC will help important domestic economic players to run their businesses during these challenging times. I visualise MIC as a sort of sovereign fund which will manage the long-term investment of reserve management and short-term investment will be managed by BoM. MIC should very carefully conduct credit appraisals before investing. The wrong selection of investment opportunity may lead to a reduction of reserves. It is very important that the MIC sets up a proper risk assessment framework to assess the business risk, credit risk, default risk and operating risk associated with a particular business,” notes Dr Chiragra.

Seeking ways to support SMEs

When it comes to SMEs, Dr Chiragra mentions that commercial banks in Mauritius will think twice before lending in such stressed conditions. The risk of SME defaults has intensified, because of either lack of demand for their finished products or supply constraints. “In such a situation, I would prescribe that we create a specific financial market platform for SMEs, through which they can issue debt instruments to raise funds. Obviously, here also the risk of default exists, but to overcome this risk, the government and the BoM can jointly create a Settlement Guarantee Fund (SGF) for SMEs,” says Dr Chiragra.

He adds, “Through this fund, a guarantee can be provided to all bond issuers to SMEs, either for principal or interest amount depending on conditions. Thus, investors in such bond issues will not have to face default risk. This will also help to develop the domestic bond market in Mauritius. The other option is to extend or simplify the provision of loan guarantees, to enable commercial banks to expand lending to SMEs. However, I would prefer the debt market route for SMEs, such that they can raise funds at cheaper rates and reduce stress from commercial banks’ portfolios. Here, the investor base will be diversified as well.”

Driving growth in e-learning

Giving an overview of how COVID-19 has impacted the education sector, Charon Potie-Joseph, Managing Director of Safe and Sound Academy, stated that the realisation that students needed to communicate and interact with their teachers and friends led to online classes on Zoom, which was new to both parents and students, and they also maintained close contact with the educational authorities. “We were sending a weekly communique to parents across classes regarding the Zoom session timetables. We also used the school Facebook page for our school community updates. Parents could also send their child’s homework for correction,” explained Charon.

“In terms of the school’s finances, we reduced the school fees by 50% since parents were financially impacted and a majority could not meet the school fees’ payments. The snowball effect was that management was placed under financial pressure to honour its commitment to pay school rent and disburse monthly salary. We have also had to organise for instant stand-ins for teachers who could not participate in Zoom classes due to power cuts, internet connectivity problems, or personal issues. However, the management continued to conduct staff meetings and trainings on a daily basis,” she added.

Preventing for the re-opening of the borders

On the tourism front, François Eynaud, CEO of Sun Limited, said that Sun Resorts is ready to welcome tourists from overseas as soon as the borders re-open. He said, “In anticipation, we have worked carefully on our COVID-19 sanitary protocols launching a partnership with SGS – a leading inspection, certification, testing and verification company – in May and implementing our own SunCare-Clean Resort & Golf label. Our protocol has been elaborated while considering the requirements of the tourism authority and our main tour operators. This label is our seal of approval, ensuring our guests that protocols have been respected and they will be visible on all touch points throughout their stay.”

Moreover, all teams are continuously trained on the new COVID-19 standards and measures. He also mentioned that the training of their associates and strict sanitary protocols are essential to reassure the guests and partners in order to ensure their peace of mind during their holidays. “These protocols are also intended to protect our associates. Apart from the sanitary protocols, we have also used this time to
focus on the guest experience, ensuring that we meet guests’ expectations upon reopening in the ‘new normal’ be it through innovative offers or the physical product. For example, our West coast resort, Sugar Beach, will re-open in November fully renovated,” said Eynaud.

Constance Hotels, Resorts & Golf is already in the process of reopening of its hotels in the Indian Ocean, and has developed a security protocol, called ‘Constance Stay Safe’, which has also been validated by SGS.

“Mauritius has had the wisdom to understand the opportunity that working at home represents for its economy and its society”
John Benatouil, co-founder of Talenteum.africa

has now started inviting locals to discover the island and benefit from deals, offers and services. Veda explains that they are collaborating with the Ministry of Health, Ministry of Tourism, the MTPA and Tourism Authority of Mauritius who are using the services of Discover Mauritius such as its Geolocation feature to send health and safety alerts, important health guidelines and procedures. “Moreover, we have already started to extend our advertising and promotional packages to local businesses so that they can use our services to be prepared for when the frontiers open. In terms of users, we’re seeing a growth in Russians who want to visit Mauritius,” said Veda.

Looking to future trends post COVID-19

Globally, consumer confidence is low in the face of concerns over job security and rising unemployment. The tourism industry in Mauritius has been severely impacted and bookings have slowed down, highlighting the importance of communicating the relevant protocols and conditions of travel.

“Mauritius handled the COVID-19 situation very well with a timely lockdown, and was declared COVID free on May 31. However, with no announcement to date on when the borders will reopen, the Tour Operators, our important trade partners, are reluctant to recommend the destination. In the meantime, we anticipate that once the borders do open, bookings will pick up again and Mauritius will remain a desirable destination, notably for millennials and those seeking long stay destinations,” says Eynaud.

Looking at both sides of the coin, the new permit rules have caught the attention of many foreigners who wish to invest in the real estate sector of Mauritius. Hence, it is clear that the government is looking at increasing the resilience of the real estate sector amid the COVID-19 crisis.

In the aftermath of the first wave of COVID-19, the biggest mistake that many startups and SMEs are making is ‘trying to stabilise their situation to the way it was’, cautions Veda.

“Individuals are still seeking jobs based on their existing skills sets without realising that those skills sets are no longer prioritised. The entire market has had an enormous transition and the only thing that will determine your success amidst the next crisis is your ability to be two steps ahead of the local market trends,” she concludes.
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The EU brings new Africa strategy to bear on the COVID-19 pandemic

As Sub-Saharan Africa suffers its first recession in 25 years with the novel coronavirus spreading across the continent, the European Union is coming to its rescue with much-needed investment in a sustainable economic recovery for the region.

On 9 March, the European Union (EU) adopted a new comprehensive strategy with Africa to guide its relations with the continent and lay the ground for the next African Union – European Union (AU-EU) Summit scheduled for the end of October in Brussels. Just two days later, the COVID-19 outbreak was declared a global pandemic.

Since then, the world has changed considerably and new pressing challenges have emerged for most countries: saving lives, mitigating the immediate socioeconomic impact of the COVID-19 pandemic and planning the economic recovery. In this completely changed context, is the new European strategy with Africa still valid?

An unprecedented sanitary crisis

The new EU comprehensive strategy with Africa has five priorities: 1) green transition; 2) digital transformation; 3) sustainable growth and jobs; 4) peace and governance; and 5) migration and mobility. This new strategy provides the basis for a new, modern and forward-looking partnership with Africa with a focus on digital transformation and green transition. Based on this document, the EU was supposed to engage discussions with African partners towards a new joint strategy to be endorsed at the AU-EU Summit in October 2020.

However, within a matter of weeks, focus has shifted to a more pressing issue. The COVID-19 pandemic that started in the Wuhan province in China has spread to 5 continents, causing more than 400,000 deaths and constraining more than half of the world’s population to partial or total lockdown. Africa, which had been spared at the beginning of the crisis, now reports more than 180,000 cases of COVID-19. Several countries on the continent have enforced a...
COVID-19

total or partial lockdown; their health systems are under increasing pressure considering limited human resources and a frequent lack of equipment and material such as tests or ventilators.

In Mauritius, since the first three cases were announced on 18 March, the Government has adopted strict containment measures which have proved to be efficient: the containment measures were lifted on 30 May following several days with no report of new local cases and only a few imported ones in the context of repatriations. The pandemic has however had severe economic consequences as the lockdown has brought activity to a standstill. The International Monetary Fund (IMF) anticipates “the worst economic fallout since the Great Depression”.

In Sub-Saharan Africa, the COVID-19 outbreak has triggered the first recession in the region in 25 years, with growth forecast at -5.1% in 2020. In Mauritius, the latest estimates released by the government point to a sharp contraction of 5.8% for FY 2019/2020 and 7% for FY 2020/2021 respectively. The tourism sector is particularly hit by travel restrictions in force since March, but other sectors, in particular small and medium enterprises and those operating in the informal sector, are also bearing the brunt of the crisis. In this context, the unemployment rate is expected to increase sharply over the coming few months.

The EU’s response to the pandemic

Affected countries around the world as well as international organisations agree that only a coordinated and large-scale response at global level can allow us to fight effectively and efficiently against the coronavirus and lead us on the path of economic recovery. Every stakeholder from governments, central banks, private sector to development partners, civil society organisations and individuals must be responsible and act in a cooperative manner. While the EU and its Member States are sparing no effort to address the sanitary crisis and the immediate socio-economic impact in Europe, the EU is playing its wider part in the global response.

We know that until there is no case of coronavirus in the world, no one will be safe. The EU is therefore at the forefront of the global effort to ensure a universal access to affordable coronavirus vaccination, treatment and testing. On 4 May, the EU hosted an international online pledging event to enhance global preparedness and mobilise funds to produce and deploy affordable coronavirus vaccination, treatment and testing that would be available to all - making them global public goods. This has brought a first success and €9.8 billion has been raised so far. But the European Commission will not stop there and has launched the next phase of this pledging conference with the international advocacy organisation, Global Citizen. This new phase culminated in a Global Pledging Summit on 27 June.

Obviously, the EU has had to adapt to a new reality and has mobilised rapidly all its forces to respond to the priority needs of partner countries. The EU has announced, within a matter of a few weeks, a support package of several billion euros from existing external funds to help its partner countries address the sanitary, economic and social impact of the pandemic. This rapid response has been possible thanks to an extensive network of 149 EU delegations around the world and strong coordination with EU Member States, their development agencies and the European Investment Bank.

From this package, which has now reached €36 billion, Sub-Saharan Africa will receive close to €5 billion to address immediate sanitary needs and prepare for economic recovery. The EU has already started to implement this package and is working with partner countries to reshape cooperation programmes and match the most pressing needs. In addition, the EU has launched three calls for expression of interest to support research on the coronavirus and strengthen research capacities in Africa. For the most critical situations, a number of Humanitarian Air Bridge flights have been organised, carrying on board humanitarian workers and essential supplies to help African countries tackle the coronavirus pandemic. Moreover, the President of the European Council, Mr Charles Michel, and the President of the European Commission, Ms von der Leyen, are calling, with several other African and European leaders, for a moratorium on debt payments for the most vulnerable African countries with a common message: ‘Only a victory in Africa can end the pandemic everywhere’.

The case of Mauritius

Since the beginning of the crisis, the EU has maintained close contact with the relevant authorities. Adapting its response to new, changing realities, the EU announced, on 3 April, an immediate contribution of MUR113 million to the COVID-19 Solidarity Fund to support the most vulnerable
people severely affected by the pandemic. The EU is also providing support to address the present and possible future sanitary risks with the delivery of individual protective equipment. But beyond the sanitary crisis, there is a need to prepare for the global recovery and to build resilience to future crises; discussions are currently ongoing with the Government to reallocate existing programmes and to find new resources to address priority needs over the medium and long term.

The EU is engaging as part of the Team Europe (notably including the French Embassy, Agence Française de Développement, Antenne de la Région Réunion à Maurice) to support the Government in four strategic areas: i) health: addressing immediate needs, strengthening the health system and building preparedness for future crises; ii) economic recovery: strengthening the business environment and investment climate and support to Small and Medium Enterprises, women and young entrepreneurs; iii) environmental protection and a sustainable green transition; and iv) digital transformation. The Team Europe response is in line with the focus of the new EU strategy with Africa and lays emphasis on digital transformation and a green transition as essential factors for a sustainable recovery.

Obviously, given the strong EU-Mauritius trade relations, what happens in Europe matters to Mauritius. Despite the swift and comprehensive policy response at both EU and national level, the EU economy is forecast to contract by 7.5% in 2020. In this context, the European Commission is proposing a major recovery plan for Europe based on a reinforced EU budget. The Green Deal - the EU’s roadmap to make Europe the world’s first climate neutral continent by 2050 - will be at the heart of this plan. The rapid adoption and implementation of such a recovery plan will have an impact on the economic recovery of our partners including the Republic of Mauritius. Dialogue, cooperation and synchronisation will be key!

An opportunity to learn enduring lessons

Will the coronavirus bring a change in the EU strategy with Africa? The COVID-19 pandemic obviously requires an immediate and coordinated global response. The EU is ready in Africa, and here in Mauritius, to support governments in addressing not only the immediate sanitary crisis, but also its socio-economic impacts while preparing for economic recovery and building resilience of their societies. In this context, the focus of the new comprehensive strategy of the EU with Africa presented in early March remains valid. In order to support the economic recovery of the region and create new opportunities for young people arriving on the labour market, we need to strengthen the capacity of human resources, promote digital transformation, and undergo a green transition.

Climate change is irreversible and unstoppable once it starts accelerating

The coronavirus is an unexpected global challenge that we need to address through cooperation. But we should also be able draw lessons from this crisis that has shown the fragility of the global economic system, a system that can suddenly be derailed by a tiny virus. In this context, several scientific experts have highlighted the relationship between human beings and nature/biodiversity, including the consumption of wild and domestic animals.

Moreover, we should not turn a blind eye and forget about other and even more pressing challenges pointed out by experts. The most obvious one is climate change for which there is no vaccine. Climate change is irreversible and unstoppable once it starts accelerating. African countries are particularly vulnerable to its impact which poses an even greater risk to the sustainability of their development and even survival of their population; at the same time Africa is home to vast natural capital, unique biodiversity and ecosystems such as forests. Investing now in a sustainable, inclusive economy, preserving vital biodiversity systems and tackling climate change is therefore an opportunity that should not be missed! We should probably accelerate and intensify these efforts in order to effectively implement the Sustainable Development Goals, our common objectives for a safer, more resilient and more inclusive development for all. When redesigning our common future, we should factor into our thinking some of the key lessons which this lockdown has taught us there; while this pandemic is still present and affecting all continents, we may not get a second chance to preserve our common home!
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The future of banking in a post COVID-19 world

As banks navigate the new normal, digital transformation may be key to succeed in a world where only the most resilient survive – but the right strategies and smart partnerships will be of the essence in this crucial journey.

By now, I can safely assume that most businesses including banks have had to tear up their meticulously detailed plans and budgets for the year.

2020 has pulled a number on every single business, government and living individual. As the saying goes ‘... you can plan a pretty picnic, but you can’t predict the weather!’

This article is intended to share some thoughts, particularly with Banking Executives as they try to unpack and navigate the ‘new normal’ as is now popularly known. Hopefully these insights may assist, as we all have had to literally go back to the drawing board and re-imagine our near and long-term strategies in a post COVID-19 world.

Game Over?

“Banking is a margins game! We are essentially in the business of buying and selling money; we buy low and sell high and make a margin!”

I vividly recall this statement uttered by my first boss, the archetype of a Fixed Income Trader at the turn of the century. The concept of ‘buying and selling
money’ completely blew my mind and I immediately fell in love with banking as a career. This was on my first day on the job nearly 20 years ago on the trading floor of a Global Bank where I first interned as a star struck, freshly minted college graduate.

The ‘Margin principle’ has remained largely true since banking began, until after the Global Financial Crisis in 2008 where interest rates have been largely at historic lows. Jerome Powell, the Chairperson of the US Federal Reserve Bank signalled in June that US Dollar interest rates will likely remain at near zero levels until around 2022.

The ‘Margin principle’ has remained largely true since banking began

The local Mauritian market is flush with liquidity, coupled with a government that does not appear to be in the mood to borrow, despite the historically low interest rates, and a recent budget that is geared towards large infrastructure spending to stimulate the economy.

So, is it ‘Game Over’ for the traditional banking model based on Net Interest Margins (NIMs)?

Rebalancing the revenue model

Margin compression is the ‘new normal’ as rates are set to be lower for longer. The ‘Great Lockdown’ triggered an economic sudden stop which has put substantial pressure on banks’ interest earning assets across the globe. Therefore, a NIM-dependent banking strategy is no longer sustainable for banks going forward.

It is no longer ‘Digital First’, it is now Digital Everything!

Future proofed banks have already begun to pivot their focus towards a Non-Interest Income (NII) led revenue model and are figuring out ways of generating more fee-based revenues to sustain earnings going forward. Fees need to be earned and justified. This means solving real problems in real time for which clients are willing to pay for in a transparent manner.

Digital transformation is NOT about technology, it is about strategy

This requires a complete rethink of banks’ digital transformation strategies. Senior leaders can no longer afford to delegate the digital transformation journey to a group of techies holed up somewhere in an ‘Innovation Lab’ that present hazy progress reports to senior management periodically.

A recent survey by the Wall Street Journal of Directors, CEOs, and Senior Executives found that digital transformation risk was their #1 concern in 2019. Yet 70% of all digital transformation initiatives do not reach their goals. Of the US$1.3 trillion that was spent on digital transformation last year, it was estimated that US$900 billion went to waste. Why do some digital transformation efforts succeed, while others fail?

Fundamentally, it is because most digital technologies provide possibilities for efficiency gains and customer intimacy. But if people lack the right mindset to change and the current organisational practices are flawed, digital transformation will simply magnify those flaws.

Allow me to summarise five key thought leadership lessons, gleaned from subject matter experts coupled with my own experience from my five-year stint whilst at CitI on best practice to successfully navigate the digital transformation journey:

Lesson 1: Figure out your business strategy before you invest in anything

Leaders who aim to enhance organisational performance through the use of digital technologies often have a specific tool in mind. “Our organisation needs a machine learning strategy.” Perhaps it does. But digital transformation should be guided by the broader business strategy. You cannot be “all things to all men”. Figure out what you are really good at and focus on becoming the best at that!

There is no single technology that will deliver “speed” or “innovation” as such. The best combination of tools for a given organisation will vary from one vision to another depending on the chosen business strategy. Furthermore, the technologies selected should be both scalable and inter-operable.
COVID-19

Lesson 2: Leverage Insiders
Organisations that seek transformations (digital and otherwise) frequently bring in an army of outside consultants who tend to apply one-size-fits-all solutions in the name of “best practices”. A more effective approach to transforming our respective organisations is to rely instead on insiders — staff who have intimate knowledge about what works and what doesn’t in their daily operations. Often new technologies can fail to improve organisational productivity not because of fundamental flaws in the technology but because intimate insider knowledge has been overlooked.

Lesson 3: Design customer experience from the outside in
If the goal of digital transformation is to improve customer satisfaction and intimacy, then any effort must be preceded by a diagnostic phase with in-depth input from customers.

At Bank One, a snap survey we recently conducted with a focus group of our clients across our main lines of business, i.e. Retail, Corporate, Private and International Banking, revealed six common requirements that clients are willing to pay fees for in a post COVID-19 operating environment:

- **Digital On-boarding**: A seamless digital customer on-boarding process which maintains the highest level of KYC standards is no longer a new innovation, but a strategic imperative – the less clicks the better.
- **Omni-Chanel User Experience**: Client demand for access to banking services through mobile, touch screen, tablets, cards, cashless and contactless touchpoints, and alternate remote flexible interfaces has increased 3X during the crisis and the traditional branch banking model is predicted to die of natural causes.
- **Cyber Security**: The lockdown has heightened the risk of cyber-crime. Cyber resilience is key to client acquisition and retention.
- **Processing Efficiency**: Near real-time processing, tracking and enhanced visibility of cross border payments is key.
- **Price and Value**: These two elements will determine the main banker status in a depressed corporate earnings environment.
- **Certainty and Risk management**: Corporate Treasurers and CFOs will require access to relevant real-time tools and insights that help them assess and mitigate risks or maximise opportunities and make better decisions.

Lesson 4: Recognise employees’ fear of being replaced
When employees perceive that digital transformation could threaten their jobs, they may consciously or unconsciously resist the changes being implemented. If the digital transformation then turns out to be ineffective, management will eventually abandon the effort and their jobs will be saved (or so the thinking goes).

It is critical for leaders to recognise those fears and to emphasise that the digital transformation process is an opportunity for employees to upgrade their expertise to suit the marketplace of the future.

Lesson 5: Bring Silicon Valley start-up culture inside
Silicon Valley start-ups are known for their agile decision making, rapid prototyping and flat structures. The process of digital transformation is inherently uncertain: changes need to be made provisionally and then adjusted; decisions need to be made quickly, and groups from all over the organisation need to get involved. As a result, traditional hierarchies get in the way. Hence, it is best to adopt a flat organisational structure that’s kept somewhat separate from the rest of the organisation. Finally, do not be afraid to fail. Failure is part of the process. But if you do fail, remember to fail fast, fail small and fail forward. Towards this end, you must also learn to ‘kill your darlings’ i.e. not to get emotionally invested in a failing project. Take the lessons learned from failure and move forward quickly.

Moving ahead
It is clear that COVID-19 has accelerated the process of going digital for all sectors, and banking is no exception to this general rule. In conclusion, I would advise that banks should not be afraid to form smart partnerships with FinTechs to accelerate scale and speed to market but also to invest in developing some capacity of in-house expertise and resilience. In an environment where only the most resilient will survive, pursuing the right digital transformation strategy and collaborating with the right partners can be key to your organisation’s success.
As business becomes more complex, virtual and interdependent, re-building and sustaining a resilient organisation is a commercial imperative. In a post COVID-19 environment, what organisations do next will matter most.

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GOVERNANCE AND REGULATORY

INTERVIEW WITH HONOURABLE MAHEN KUMAR SEERUTTUN
MINISTER OF FINANCIAL SERVICES AND GOOD GOVERNANCE, GOVERNMENT OF MAURITIUS

“Mauritius needs a strong public-private partnership to build an effective AML/CFT regime”

The Minister of Financial Services highlights the steps being taken to ensure that the jurisdiction meets FATF and EU standards as swiftly as possible, while underlining that the broader resilience of the sector relies greatly on the jurisdiction’s ability to adapt and improve upon what it does best

The Anti-Money Laundering and Combating the Financing of Terrorism (Miscellaneous Provisions) Bill was adopted by the National Assembly of Mauritius on 7 July, which aims to strengthen the jurisdiction’s framework in the light of current challenges, namely the inclusion of Mauritius on the Financial Action Task Force (FATF) list of ‘jurisdictions under increased monitoring’ in February 2020, and the EU list of High Risk Third Countries, which was formally adopted in June 2020 and which enters into force on 1 October 2020. What are the main changes brought in this new legislation and how will they help Mauritius to comply with the five remaining FATF Recommendations?

In its public statement of February 2020, the FATF identified 5 strategic deficiencies in our Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime and Mauritius agreed to address these deficiencies by implementing the FATF Action Plan within the deadline set. Although the strategic deficiencies do not relate to technical compliance deficiencies, it must be highlighted that the implementation of an effective AML/CFT regime is predicated on the establishment of a robust legal framework. The Anti-Money Laundering and Combating the Financing of Terrorism Act 2020 was steered by this Government to reinforce the legal framework to assist the work of our institutions.

This Act amends 19 pieces of legislation, including the Banking Act, the Companies Act, the Financial Intelligence and Anti-Money Laundering Act, the Financial Services Act, the Gambling Regulatory Authority Act, the Mauritius Revenue Act and the Prevention of Corruption Act. The Acts will reinforce our legal framework and strengthen the effectiveness of our AML/CFT regime.

With respect to the strategic deficiency whereby Mauritius has to demonstrate that the supervisors of its global business sector and Designated Non-Financial Businesses and Professions (DNFBPs) implement risk-based supervision, amendments have been brought to the Financial Services Act and the Financial Intelligence and Anti-Money Laundering Act (FIAMLA) to fine-tune the supervisory
legal framework to ensure that the supervisors appropriately oversee, monitor and regulate these institutions for compliance with AML/CFT requirements on a risk sensitive basis. Among other things, to strengthen the supervision of dealers in precious metals and stones in Mauritius, definitions of dealer, precious metals and stones have been clearly set out in the FIAMLA and are in line with international best practices. This will ensure that the relevant operators are properly identified, and that the AML/CFT framework can be applied for this sector in line with FATF recommendations.

Mauritius must also ensure that competent authorities have access to accurate basic and beneficial ownership information in a timely manner. In Mauritius, basic and beneficial ownership information may be obtained from the Company Registry, or financial institutions and DNFBPs. The Act fine-tunes the provisions of the Companies Act to ensure that basic information is made available for public inspection and beneficial ownership information is disclosed to the Registrar of Companies. With regard to basic and beneficial ownership information kept by financial institutions and DNFBPs, the FIAMLA and the FIAML Regulations 2018 already lay out detailed requirements in respect of customer due diligence, including ongoing monitoring, and record keeping. Compliance with these requirements is monitored by the supervisory authorities in the course of onsite examinations and offsite surveillance.

Mauritius has to demonstrate that Law Enforcement Agencies have the capacity to conduct money laundering investigations, including parallel financial investigations and complex cases. Amendments have also been brought to the Prevention of Corruption Act to provide for a penalty to any person who has committed a corruption offence.

The Government is urging the European Union to conduct its own autonomous assessment of the regime in Mauritius, which has not been performed until now. You have announced that the European Union has acceded to the Government’s request to set up a Committee comprising the technical team of the European Commission, based in Brussels, which is involved in drawing the list of High Risk Third Countries and a Technical Team from Mauritius to carry out an ongoing assessment of the progress being made on the implementation of the FATF Action Plan. What can you tell us about this process and the key milestones to be achieved between now and 1 October?

On 20 February 2020, FATF issued its public statement announcing the publication of its list of jurisdictions under increased monitoring which includes Mauritius as the FATF identified 5 strategic deficiencies which the country needs to address.

Being on the FATF list of jurisdictions with strategic deficiencies does not only entail enhanced due diligence but also demonstrates the commitment of the country to address its strategic deficiencies and calls for member states to consider the same in the assessment of their risk.

Since then, Mauritius has been working on the implementation of the FATF action plan to address the deficiencies. Although FATF had given us until September 2022 to implement the Action Plan, Mauritius took the commitment to finalise the same by the end of 2020 and prepone further the timeline to August 2020.

The Honourable Prime Minister wrote to the President of the EU Commission to inform her of the potential damage that may be caused by this unilateral decision to include Mauritius on a list of high risk third countries. In the past, the European Union and the European Commission had always privileged an open dialogue with Mauritius before taking any major
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decision. Although a progress report was also submitted to the FATF on 20 March 2020, we did not get the chance to demonstrate to the EU the progress already made so far due to the lockdown caused by the COVID-19 pandemic.

It is indeed in this context that Mauritius has proposed the setting up of a technical platform between the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) of the European Commission and the Mauritius delegation to provide an update on the progress made by Mauritius. The purpose of this platform is as follows:

(i) To ensure that the European Commission will not have any top up conditions over and above the implementation of the FATF Action Plan.
(ii) To share the information on the progress made by Mauritius on the implementation of the FATF Action Plan.
(iii) To request for an autonomous assessment by the European Commission.

On 30 June 2020, the FATF requested the Mauritian Authorities to submit a progress report along with all supportive documents to substantiate the progress made so far by 31 July 2020.

Subsequently, on 07 July 2020, the first meeting of the technical platform was held and it was brought to our attention that the European Commission will base itself on the assessment which will be conducted by the FATF and that once Mauritius is removed from the FATF list, the European Commission will take around 6 weeks to remove us from the EU List.

On 17 July 2020, the Prime Minister received a letter from the Executive Vice President of the DG FISMA to confirm that there will be no top up conditions for Mauritius.

What role can the industry play in supporting the Government when it comes to reinforcing the effectiveness of the country’s regime to tackle money laundering and terrorism financing?

An effective AML/CFT regime cannot be built without a strong public-private sector partnership. In a nutshell, financial institutions and DNFBPs must adequately apply the AML/CFT preventive measures under the FIAMLA that are commensurate with their risks and report suspicious transactions. I would also wish to highlight the significant role played by the financial institutions and gatekeepers in ensuring that accurate basic and beneficial ownership information is kept and maintained in their records. For this purpose, they must implement comprehensive internal processes and procedures that allow them to undertake due diligence measures at the time of onboarding their clients as well as maintain vigilance throughout the course of the business relationship with their clients. As such, the private sector holds valuable information which is of critical significance to law enforcement and other competent authorities.

The onus of reporting of suspicious transactions lies on our private sector operators. Suspicious transactions assist in identifying potential and actual money laundering and terrorism financing activities. Effective and timely exchange of such information will go a long way to assist the Financial Intelligence Unit and the law enforcement agencies in pursuing their objectives.

The essence of supervision and monitoring is to ensure that private sector operators are complying with their AML/CFT obligations, including the implementation of targeted financial sanctions related to terrorist financing and the financing of proliferation of weapons of mass destruction. I welcome the engagement of the private sector and more specifically of the members of the legal and accounting professionals, casino and gaming houses operators, dealers in precious metals and stones and real estate agents who are now being supervised for AML/CFT purposes with their corresponding

“Mauritius is poised to be the forerunner in FinTech in Africa”
regulators. I can understand their initial qualms vis-à-vis this new process, but high ethical standards in the conduct of business must prevail to maintain the reputation of Mauritius as a trusted International Financial Centre.

The financial services sector is a key pillar of the Mauritian economy, which has experienced an average annual growth of 5.2% over the past five years and contributes approximately 12% to the island’s GDP. The Island’s financial centre employs 3% of the working population and generates tax revenues that account for 6% of GDP. What can be done to increase the resilience of the financial services sector, in view of the global economic downturn triggered by the COVID-19 pandemic?

The COVID-19 pandemic has severely impacted not only the Mauritian economy, but economies throughout the world. This has created a precarious situation under which we have to tread carefully, as an economy inherently linked to an increasingly globalised world. Several measures were set up to ensure continuity of operations during the period of the sanitary lockdown, to ensure that industry stakeholders can continue with their business with the least issues possible, ranging from work-from-home initiatives to contingency plans for client outreach. Moreover, the Government has also set up several funds and schemes to assist Mauritians during these difficult times.

Although the true severity of the impact has yet to be gauged, the pandemic has caused financial centres throughout the world to reassess their product offerings and reorient their strategies. The evolution of the business model of Mauritius is commensurate with the adoption of new technologies and the empowerment of SMEs. The financial products are being revamped in line with new avenues for growth and the need to showcase the developments of the Mauritius International Financial Centre is now greater than ever. The resilience of the financial services sector relies greatly on our ability to adapt and improve on what we do best. Although the focus today is on our fight against Money Laundering/Terrorist Financing, advocating for new avenues for growth is critical to ensuring the sustained growth of the sector, especially in this post COVID-19 era.

There is evidence that the COVID-19 pandemic has accelerated the pace of digitalisation in the financial services sector at global level, and in Mauritius citizens have learned to adapt to new payment methods during the lockdown. The Finance Bill is paving the way for digital banking, a new Central Bank Digital Currency, and new definitions for money lending and Peer-to-Peer lending, among others. How do you see the future landscape for the sector in the digital era?

The Mauritius FinTech landscape has been recognised internationally for being avant-gardist and proactive in its approach. The jurisdiction has been the first to offer a regulated landscape for the custody of Digital Assets, through the Financial Services Commission, and there are exciting new developments in the pipeline. The development of this framework is conducive to the diversification of the product offering of Mauritius and this will act as an enabler for transparency and accountability to promote Mauritius as a jurisdiction of substance and good standing.

For instance, peer-to-peer lending will soon be introduced in Mauritius, as a novel way of raising finance for individuals. Crowdfunding, as a means of financing ventures and projects, is also an activity that is expected to thrive in the coming decades, facilitating access to capital for firms, especially SMEs. Technology, today, is an enabler not only for the financial services sector but also for other sectors such as health, tourism and agriculture amongst others. From a marketing perspective, we should take note that, in Sub-Saharan Africa, around two-thirds of the population is still unbanked, with financial inclusion figuring high on the agenda. Insurance penetration remains low across the continent and this demonstrates the untapped potential of the African market. Mauritius will be the forerunner in FinTech in the African continent in the coming years, coupled with advancements in capacity building, infrastructure and communication in line with the development of the sector.
Mauritius: High Risk or Best in Class?

As Mauritius finds itself on the European Union’s list of ‘high risk’ third countries in relation to AML/CFT, it is important to place this rating in the broader context and understand the next steps for the jurisdiction in demonstrating the effectiveness of its regime in the fight against financial crime.

On 7 May 2020, the EU proposed a number of third countries, including Mauritius (now adopted) to their list of countries whose money laundering deficiencies pose a significant threat to the financial system of the EU.

This followed an earlier listing by the Financial Action Task Force, following the Mutual Evaluation Report (MER) for Mauritius (4th round MER) which was published in July 2018. The MER highlighted that although there had been significant reforms since the last evaluation a decade ago, shortcomings were observed relating to technical compliance, and a low level of effectiveness was achieved.

In April 2019, Mauritius obtained a number of re-ratings on technical aspects, but still the low effectiveness ratings subsequently resulted in FATF including Mauritius on its list of “Jurisdictions under Increased Monitoring” in February 2020.

Placing the ratings in the broader context

Based on these listings, it might be assumed that Mauritius is one of a handful of countries presenting particularly high money laundering risks and should be of real concern to, for example, international banks or other financial intermediaries conducting business with, in, or through the country. Arriving at such a conclusion based on these listings alone would however give a false reading and could unfairly impact the country unless these listings are placed in a broader context.

For example, Financial Crime News conducted a comprehensive threat assessment across 40 Sub-Saharan African countries, assessing each country against almost 60 individual criteria, and taking the most important into account rating all 40 countries against the financial crime threat they pose, the response to these threats and the net overall risk as a result, including the EU and FATF listings.

Based on this bigger picture analysis, Mauritius actually topped the ratings, with an overall “Low” risk score of 75/100, 3rd lowest out of 40 SSA countries with a “Very Low” threat score of 82/100 and 2nd highest out of 40 SSA countries with a “High” score of 68/100 for its overall response.

These ratings and scores compare very favourably with another East African country, Ethiopia, which was recently removed from both the EU and FATF lists, whilst ranked overall 20th out of 40 SSA countries, with an overall “Moderate to High” risk score of 41/100, 10th highest out of 40 SSA countries with a “Moderate to High” threat score of 40/100 and 13th highest out of 40 SSA countries with a “Moderate” score of 41/100 for its overall response.

Mauritius obtained a number of re-ratings on technical aspects in April 2019.
The above infographics provide a detailed side-by-side comparison of the FATF rating of Mauritius and Ethiopia on various parameters.

**Implications of these unfavourable listings**

Despite this favourable comparison, Mauritius nevertheless finds itself on important international financial crime lists, which have the potential to damage the reputation of the country.

Whilst the bigger picture suggests that these listings could be misleading, Mauritius must take the actions necessary to secure its removal from these as quickly as possible.

In Ethiopia's case it took 6 Follow up Reports after their 2015 MER before FATF in October 2019 acknowledged "significant progress" and the strengthening of the "effectiveness of its AML/CFT regime", which then paved the way for the EU to remove Ethiopia from its list earlier this year.

**The way forward**

In the ultimate analysis, far too many countries have scored poorly in FATF Mutual Evaluation Reports (MERS) particularly on effectiveness, which includes countries large and small from all regions of the world.

Mauritius is capable of having its FATF listing and then (as a result) having its EU listing removed in a much shorter time frame than the 4-5 years it took Ethiopia to demonstrate sufficient progress. Indeed, the Minister of Financial Services recently noted that the FATF has requested the Mauritian Authorities to submit a progress report along with all supportive documents to substantiate the progress made so far by 31 July 2020 and it has been brought to their attention that once Mauritius is removed from the FATF list, the European Commission will take around 6 weeks to remove the jurisdiction from the EU List.

But the country's ambition should not rest there. Mauritius must use this opportunity to take those actions, across both public and private sectors which will not only satisfy the FATF and the EU, but will place Mauritius on an altogether different list of countries to be admired in the fight against financial crime, not simply by passing laws and implementing regulations, but by the outcomes that can be achieved if effectiveness is the collective aim.


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**Ethiopia FATF 40 Recommendations**

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**Mauritius FATF 40 Recommendations**

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FATF 40 Score: 71/100  
FATF 10 Core Score: 70/100

FATF 40 Score: 83/100  
FATF 10 Core Score: 80/100
As managing financial crime in an increasingly complex operating environment takes its toll on financial institutions, it may be time to take a more holistic view of the underlying governance, risk management framework and processes to manage these risks in an efficient and cost-effective manner.

In 2018, the World Economic Forum indicated that fraud and financial crime was a trillion-dollar industry, reporting that private companies spent approximately US$8.2 billion on anti-money laundering (AML) controls alone in 2017.

According to the Association of Certified Fraud Examiners’ global report on occupational fraud, organisations typically lose 5% of their annual revenue to fraud every year.

Fraud by numbers

In PwC’s 2020 Global Economic Crime and Fraud Survey, half of the respondents indicated that they had experienced some form of economic crime or fraud in the recent past. The list of crimes suffered by organisations include, in no specific order, fraud, money laundering, corruption, cybercrime and tax evasion, among others. Meanwhile, the top four instances of fraud identified by the survey were Customer Fraud, Cybercrime, Asset Misappropriation, and Bribery and Corruption.

The survey also showed that as many as 47% of companies experienced a fraud in the past 24 months with an average of 6 frauds reported per company. Moreover, only 56% conducted an investigation into their worst fraud incident even as a staggering US$42 billion was reported as total fraud losses by respondents, on top of the damage to brand, reputation, and market share. Most worryingly, nearly half of reported incidents resulting in losses of US$100 million or more were committed by insiders.

Combatting financial crimes in Mauritius

Bringing this closer to Mauritius, our jurisdiction has recently been added to the Financial Action Task Force’s (FATF) list of jurisdictions under increased monitoring, which consists of economies that have deficiencies in their regimes to counter money laundering, terrorist financing, and proliferation financing. This comes on the back of the recent assessment conducted in Mauritius against the standards of the FATF by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). As a result of this development, Mauritius has recently reviewed its AML/CFT (Countering of Financing of Terrorism) legal framework. In addition, the Bank of Mauritius and the Financial Services Commission have issued new guidelines to be adopted by regulated entities.

To compound this issue, we are currently living in a world gripped by a COVID-19 crisis, the likes of which we haven’t seen before. This has meant new ways of working and operating, mostly remotely and digitally. In Mauritius, the outbreak of the pandemic meant that lockdown measures were in effect for a prolonged period since mid-March 2020. This situation has created additional risks for organisations as less resources may be available to devote to managing financial crime at this time.

Taking all this into account, it becomes quite clear that managing financial crime in an increasingly complex operating environment is taking its toll, both from a cost and time perspective. As one local banking CEO quipped recently, it feels like the CEO’s job nowadays is mostly dealing with risk and compliance without much success.

With 13 years of experience in advising clients in the East African market on ethics and compliance, anti-bribery and corruption, due diligence, fraud risk management, corporate investigations, AML, cyber security, crisis management, business review and insolvency proceedings, I would like to share my in-depth insights into how companies can manage financial crime risk in an optimum manner.
What is financial crime?

Historically, financial crime has generally meant money laundering and other criminal transgressions that involve the use of financial services to support criminal enterprises (think terrorism financing, proliferation financing, tax evasion, bribery and corruption). Financial crime is generally viewed as a compliance issue in terms of adhering to relevant regulation and averting regulatory fines with AML/CFT programmes. Fraud and cybercrime, on the other hand, are viewed as deception of financial personnel or services to commit theft. These are often viewed as less of a regulatory burden and more of an operational loss problem, with detection measures put in place to reduce the loss.

However, this approach is no longer effective. The boundaries between different financial crimes have blurred, especially since the rise of cyberthreats, which reveal the extent to which criminal activities have become more complex and interrelated. Consider a realistic example: a cyber intrusion carried out by sanctioned states and/or terrorist groups (cybercrime) can lead to theft of customer and financial data (fraud) and these funds are then laundered through a myriad of financial institutions (money laundering) and used to finance purchase of weapons and/or terrorism activities (proliferation and terrorism financing).

In the example above, from an organisation’s perspective, who is responsible for identifying, detecting and resolving the matter? In a siloed environment, the aforementioned scenario would make it difficult to detect and join the dots, and the resolution of the matter would probably involve duplication of effort, inefficiency and would ultimately prove to be very costly to the organisation.

The case for integrated financial crime risk management

Consider the following emerging themes in financial services:

- **Faster pace of change**: When things change faster, it is more difficult to predict what happens in the future. Hence, businesses face more unexpected events and have less time to respond to them.
- **Increasing complexity**: Business processes, technologies, products and regulatory regimes are increasingly becoming more complex. As a result, there is a higher chance for the existence of hidden flaws or appearance of unforeseen outcomes.
- **Multi-polar global order**: The world is transferring towards a multi-polar global order with multiple major political and economic players. The interaction and rivalry between these players create a more uncertain business environment.
- **Globalisation**: The globalisation trend means that businesses have more interactions and interdependencies with other businesses all around the world. Therefore, the impact of any risk at any location spreads quickly among many other regions.
- **Increasingly interconnected risks**: Interdependency of different types of risks is increasing. One type of risk can evolve into many other types of risks: cyber enabled fraud, money laundering incidences etc.

The current reality of financial crime risk management relies on rule-based scenarios, depends on manual interventions, has generic risk scoring models, encourages a silo-based approach and is unsuitable for the emerging needs of the business and the customer. The current reality as described has resulted in increasing compliance costs and poor customer experience without a corresponding increase in compliance levels, risk mitigation and loss prevention. In the current context of working remotely or less available resources, this model would be inadequate to manage the risks and prevent financial loss.

How can we get it right?

In considering integrated financial crime risk management, our view is that all risks associated with financial crime involve a three-step process of identification and authentication of the customer; monitoring and detection of suspicious or anomalous behaviour; as well as the action taken in terms of response, investigation and crisis management.

Each of these activities are also governed by the same Board/Senior Management and are supported by similar data and technologies. In taking a more holistic view of the underlying governance, risk management framework and processes, financial institutions can create an appropriate operating model for the management of these risks in an efficient and cost-effective manner.

This also inevitably leads to simplified processes and better customer experience e.g. through deduplication of KYC efforts which leads to lower customer acquisition costs, better turnaround times, reduced service disruptions and, ultimately, happier customers.
Mauritius opens to the world with new permit regime

The new streamlined regime for occupational and residence permits in Mauritius, announced as part of the Budget 2020-21, sets the island on course to attract foreign talents to contribute to economic growth in the financial sector and beyond.

In delivering his Budget speech for 2020-21 in the National Assembly on 4 June, against the challenging backdrop of COVID-19, the Minister of Finance, Economic Planning and Development, Dr the Hon Renganaden Padayachy, highlighted that the Budget makes provisions for economic growth, and that this “should not be hindered by lack of labour nor by an exiguous domestic market”.

The Minister went on to underline that, “We have no choice but to open ourselves to talents, ideas and knowledge. To achieve these objectives, we are coming up with a new set of policies. Investors, professionals and retirees need visibility and certainty before opting for a place where they may be spending a significant part of their lives.”

Sharing his views on this momentous announcement, Zakir Caunhye, the Head of Department, Doing Business Reforms Implementation & Monitoring at the Economic Development Board (EDB) of Mauritius, says, “Immense importance has been laid on openness, principally to provide more certainty and predictability to investors and foreign talents. For
example, Occupation Permits for investors will henceforth be issued for a period of 10 years. The Government’s policy to avoid agency hopping and promote the require-once-principle is being furthered. For instance, one will be able to register for VAT through the CBRIS upon registration of a business. All these developments are set to define a new business landscape in Mauritius, which is customer oriented.

**Living and working in Mauritius to become easier for expatriates**

Roshan Nathoo, Managing Director of Rogers Capital Corporate Services, shared his views on this announcement, and the impact of the changes to the permits in terms of attracting people to come to Mauritius. He said, “For a number of years now, there has been a dearth of skills in Mauritius. In addition, to continue growing, our economy needs critical mass in terms of the number of people living in the country. The changes to the occupation permit terms as announced in the recent Budget are steps in the right direction to address both challenges.”

He also hoped that by “lowering the barriers to entry for non-citizens wishing to work and live in Mauritius in terms of (i) minimum salary requirements (ii) right of spouse to work (iii) ability to bring dependent parents (iv) right to purchase property”, the decision to live and work in Mauritius “will become easier for expatriates”.

He further added, “This move for relaxation of permits rules essentially stems from a recognition that not opening up our economy further to foreign labour and skills will hamper the country in its economic development. Our population has remained relatively stagnant at slightly more than 1.2 million over a number of years mostly as a result of an ageing population. Attracting people to live and work in Mauritius should create a virtuous cycle of increased spending. This would be a welcome boost to the economy given the lifestyle that would normally be associated with expatriates.”

**Major positive impact on attracting international talent to Mauritius**

Commenting on the likely impact of the new regime, Vanessa Flynn, Chief Executive Officer of Bolt Talent Solutions, said, “The impressive improvements to work, occupation and residence permits illustrate the realisation of the critical importance that talent plays in building an economy and country. The current skills gap in Mauritius has been identified as a key challenge for it to achieve the aspired ‘Gateway to Africa’ agenda.”

She anticipated that the proposal to combine the Work Permit and its corresponding Residence Permit into a single approval would have a “major positive impact” on attracting international talent to Mauritius. “Prior to this announcement, we identified untapped potential where foreign residence permit holders were unable to work and contribute to the Mauritian economy due to permit requirements and salary restrictions of a minimum of Rs 60,000. This development, along with the move to increase Occupation Permit duration from 3 years to 10 years1, should positively influence the attraction and

1. The Finance Act clarifies that the revised 10-year threshold does not apply to Professional OP holders as they are contract bound.

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**“The overall purpose of the new measures is to make life easier for investors.”**

Zakir Caunhye
GOVERNANCE AND REGULATORY

retention of internationally skilled professionals already residing in Mauritius as they can now build a long-term future on the island."

Moreover, Occupation Permit Holders will now be allowed to bring in their parents as their dependents. On this point, Vanessa adds, "Many of the expat candidates we engage with have elderly parents to care for or struggle with the thought of leaving their parents behind when deciding to immigrate. It is great to see the Government recognising the importance of family values and family reunification. Going through the COVID-19 crisis has reminded all of us of what is truly important."

Moreover, Dr Das Mootanah, Chief Executive Officer of the Metro Express Ltd, also sees the permit rules having a positive impact on the transportation sector, from the standpoint of the key innovative transport company on the island.

"The Metro Express Project is a new mode of public transport in Mauritius, and the implementation of the Project is a collaborative journey between people of different nationalities, with different cultures, knowledge, skills and expertise. Attracting international talent for the creation and emergence of new sectors/industries and for the economic growth of a country is no more a choice but a requirement for any economy," he said.

The MEL enlisted the services and expertise of the Singapore Mass Transit Corporation (SMRT), one of the top rail operators in the world, to accompany and train MEL staff in safely operating the light rail transit system. SMRT experts also helped in the preparation of safety procedures, operation manuals, protocols, supervising the operations, and other related testing with MEL staff.

**Making the most of global talents in an open economy**

Most developed and developing countries around the globe have realised that talents and skills are key resources, and Mauritius will now be ready to raise its game when it comes to attracting and retaining expats on the island.

Having the EDB as the sole agency and one-stop-shop responsible to determine and recommend applications for Occupation Permits will certainly reduce the processing time of applications. Roshan also notes that, "eliminating the requirement for spouses to have a permit to work or invest in Mauritius and allowing the holders of a permit to bring their parents to live in Mauritius will ease the number of applications required to be processed and reduce uncertainties that had been there in the past for the applicants."

The easing of permit rules will contribute to an increase in FDI coming into the country. It should be noted that the National Electronic Licensing System (NELS) was officially launched in March 2019. "NELS is to become the single platform for all business licences, permits, clearances, certificates, or any other type of authorisations required to start and operate a business while enabling cross-agency integration and customer-centric services," said Zakir.

As at date, 7 categories of permits and licenses, such as the Building and Land Use Permit (BLUP), the Occupation Permit and the Environment Impact Assessment (EIA) Licence, among others, have been onboarded on the NELS. Applications can be made through the platform, anytime and anywhere. The application is determined on the platform, which caters for electronic payment and issue of e-permits, as per defined service level agreements. Zakir adds, "In today’s world, technology should be at the core of an efficient permitting system with a view to fostering private sector investment.”

**Challenges and opportunities facing the economy**

Dr Mootanah mentions that the changes made in the permit rules are definitely positive and will

"**In the long run, these new knowledge sets and skills that have been acquired will be passed on to others locally.**"

Dr Das Mootanah
encourage even more foreign experts to work and reside in Mauritius. However, there are a few skills gaps in Mauritius, which have been identified as a key challenge for it to achieve the aspired status of a gateway to Africa for the rest of the world.

“Challenges will always be there and how we manage them will define the success of these measures. The Metro Express Project is an innovative and challenging project. So far, more than a hundred Mauritians have been trained by the foreign experts and consultants. Once our very own Mauritian experts are ready, we will be able to export our newfound expertise as home-grown local experts to the wider African continent,” says Dr Mootanah.

The combining of a Work Permit and its corresponding Residence Permit into a single permit would also have an overwhelmingly positive impact here. The Metro Express CEO also explained that this unification of permits will especially serve to encourage those professionals who offer special skills and expertise.

Additionally, global experts have pointed out that real estate is one area where it will be possible to reap returns for both local and foreign investment to offset losses incurred during these times of crisis.

“Mauritian promoters will carry on developing new projects to meet market demands. At the same time, we must look to the government to conduct public infrastructure development as well as monitor the environmental and social aspects of all realty developments in Mauritius. This will determine what kind of island we are going to leave as a legacy for our children,” says Outi de Falbaire, Managing Director for Barnes Mauritius.

Looking ahead and focusing on attracting innovators from abroad

The innovation and FinTech ecosystem of Mauritius is set to receive a boost in the light of the proposed Budget measures, with a new focus on digital transformation on one hand, and the removal of the minimum turnover and investment requirement for the Innovator Occupation Permit on the other.

“We’ve seen the emergence of the Mauritius Africa FinTech Hub, crowdfunding startups like Fundkiss and a number of incubator events. With global unemployment at an all-time high, this is the time for forcing entrepreneurship to emerge to the surface in a world where digital innovation is no longer a choice. This is a scary time for all of us as we face a pandemic, but it is also a very exciting period for innovation. This Budget has positively impacted my ability as a Mauritian entrepreneur to promote Mauritius and welcome international talent to make the island their home,” says Vanessa. Furthermore, the changes made in the permit rules are expected to bring in positive results. These changes will encourage the birth of innovative projects, with modern technologies and skills that are now for Mauritius. This is indeed a crucial step for the economic development of the country.

Dr Mootanah said, “The exchange and absorption of new, advanced knowledge and skills by the local workforce will also be favoured. This is what is happening with the implementation of the Metro Express project where the local workforce is interacting and learning from various cross-disciplinary international experts. In the long run, these new knowledge sets and skills that have been acquired will be passed on to others locally.”

Talking about the acquisition of real estate in Mauritius becoming more affordable and accessible with the new permit changes, Outi says, “The reduction in the minimum amount from USD 500,000 to USD 375,000 for a purchase of a property that grants a permanent resident status is important, but so are the other new measures that are proposed. A lot of our investors are “lifestyle investors” and the ability to work and conduct a “normal” life whilst investing is important to them. This is a real added advantage for those seeking to relocate to Mauritius. To have a work permit for oneself and for one’s spouse is a welcome measure.”

On a concluding note, Zakir said that improving the overall business environment, including but not limited to the permits regime, is a protracted and continuous process.

“Business facilitation is one of the key mandates of the Economic Development Board. Reforms inevitably result in disruptions; both for the public and private sector. Thus, it is important to collectively recognise the need to reform and to accept the possible disruptions that it may bring along, especially during the initial stages of implementation. The overall purpose of the new measures is to make life easier for investors. We have no doubt that all these measures will, over time, prove to be in the best interest of all stakeholders and, most importantly, the country,” he concludes.
Global Business Sector and the MIFC: Navigating the new economic and regulatory landscape

Mauritius must once again reinvent itself as it takes steps to evidence the effectiveness of its AML/CFT framework, uphold its reputation in the international media, as well as put in place a new roadmap to ensure a smooth economic recovery.

The highly regarded Mauritius International Financial Centre (MIFC) is at a crossroads, which poses a challenge for the 10,000+ highly skilled professionals in that sector.

Back in 2018, together with leading industry experts, SANNE had hosted a round-table to discuss the need to develop and to market the unique selling points (USPs) of the jurisdiction with the modifications to the Mauritius-India DTAA, to counter the reputational damage that is often amplified by biased press coverage, and to improve the ease and cost of doing business in Mauritius.

A look at the evolution of the industry over the last two years might show how prescient operators had been in scanning the horizon and predicting the challenges that lie ahead.

Demonstrating effectiveness of our AML/CFT framework

In 2018, the Eastern and Southern Africa Anti-Money Laundering Group’s (ESAAMLG) Mutual Evaluation Report had already identified the strategic deficiencies that led to the Financial Action Task Force (FATF) placing Mauritius on the list of monitored jurisdictions (jurisdictions with strategic deficiencies).

It is understood that Mauritius’ inclusion in the EU list of high risk third countries is a direct consequence of its inclusion in the FATF list of jurisdictions with strategic deficiencies with no other causal factors, even though 35 out of the 40 recommendations of the FATF had already been implemented by Mauritius at the time it found itself on the EU list of high risk third countries. The devil seems to lie in the remaining five recommendations which centre around ‘the International Financial Centre (IFC) demonstrating regulatory and supervisory effectiveness’.

Whilst the regulators are now, rightly, upping the ante with increased monitoring and inspection which should result in sanctions in cases of non-compliance, advocates have long been calling for regulatory authorities to facilitate the transition towards a consolidated industry that is aptly resourced to put in place adequate AML–CFT standards.

Authorities must raise the bar to facilitate this transition, with the recent passage of the AML–CFT Act being a sound move in the right direction.

Upholding the reputation of the IFC

In parallel, there have also been biased or sometimes agenda-driven press coverage which impressed on the image of Mauritius as a tax haven.
2019 witnessed the release of the so-called ‘Mauritius leaks’ papers by the International Consortium of Investigative Journalists (ICIJ). With the benefit of hindsight, this was a non-event by ICIJ’s standards in terms of its journalistic impact or consequences, for example, uncovering any illegal activity and leading to any civil or criminal action or political outcome, and stands in surprising contrast to the impactful Panama papers.

It did serve the worthy purpose of highlighting the need for reporters to be well educated on their subjects, but nevertheless contributed largely to the bad press coverage of the MIFC, to unfortunate effect. At the SANNE roundtable, the panel highlighted reputation risk as one of the key challenges faced by the IFC and the need for better promotion of the IFC whether through a brand campaign or an enhanced presence online to showcase Mauritius as a gateway to India, Africa and the Middle East.

**Government to facilitate reshaping of the business model**

The renegotiated Mauritius-India DTAA had created the need for soul-searching and putting forward new and stronger USPs for the jurisdiction, some of which could include its strong technical talent base and the relative cost competitiveness and ease of doing business.

**Reputation risk is one of the key challenges faced by the IFC**

In addition, the economic landscape is facing precipitated changes as a consequence of the global COVID-19 pandemic with some sectors such as travel and tourism likely to face long term challenges and perhaps go through the Schumpeter’s “creative destruction” process.

It is essential, in these times more than ever, that the Government creates the right environment for businesses to recover. Government must aim to strike the right balance between raising taxes/levies to steer the economy out of recession and supporting businesses and enabling them to weather the storm. Whilst there have been some targeted fiscal measures aimed at supporting specific industries such as tourism / construction, Government must also constantly take soundings from the global business sector which is already under pressure from exogenous factors as covered above.

**Navigating unchartered waters**

In light of the above, it seems likely that the global business sector in Mauritius will have to navigate uncharted waters over the coming years and success will depend a lot on agility from both operators and regulators, cooperation between the different players making up the financial ecosystem through bodies such as the Global Finance Mauritius (GFM), and the Government setting out a clear roadmap for the future of the sector through perhaps a revised and more agile version of the McKinsey 10 year-blueprint showcased in 2018.

Whilst the McKinsey blueprint was a good step, some of the assumptions made at the time are likely to be outdated now in face of the FATF/EU issues and the global pandemic – agility in this context would translate into a multi-year all-encompassing plan, elaborated in collaboration with industry players taking into consideration the points raised above, with its assumptions constantly tested to ensure systemic adaptability to an ever-evolving and complex international business environment.

Ultimately, the Government’s response in tackling the remaining FATF recommendations as a high-priority matter is laudable, however this is just one hotspot amongst many existing and potential ones. The current global business model needs to be reinvented to evolve towards more substance, a higher value added and more diversified sector in terms of geographical footprint, range of products and suite of services.

This transition will be difficult but is a necessary bitter pill – adaptability and the ability to constantly adjust and reinvent ourselves as an IFC will be critical for survival. As we have seen in other sectors such as sugar, textiles, manufacturing and tourism, Mauritius has demonstrated the capacity to reinvent itself in the past and, with the continued collaboration between the Government and the financial services industry, we can look forward to another successful journey to pave the way for building a modern, efficient, compliant, competitive and robust IFC.

By Akshaye Proag, Associate Director – Finance, SANNE Mauritius
CONGRATULATIONS
CHAMPIONS
Proud to Stand Red for 10 Years
INTERVIEW WITH RAJNISH AUBEELUCK
HEAD OF GLOBAL BANKING, STANDARD CHARTERED BANK (MAURITIUS)

“Mauritius must position itself as a sustainable finance hub for Africa”

Rajnish Aubeeluck explains how, through signing a partnership with the Government of Mauritius, Standard Chartered Bank will be developing a sustainable finance framework to help mobilise projects to support economic growth while taking account of ESG criteria

Following the spread of the COVID-19 pandemic, sustainable investments in infrastructure will be high on the agenda for governments around the world to boost their economies. How is Standard Chartered poised to help with such crucial economic initiatives?

COVID-19 will indeed change the way projects are structured and funded. The Economic, Social and Governance (ESG) lens will be key to reviewing projects and to ensuring that they remain sustainable and adaptable to similar pandemic situations that the world has recently experienced. We are taking action to support businesses, communities, and individuals so that we can look forward to a better tomorrow. We have made available USD 1 billion to assist companies in fast tracking the production of pharmaceutical products as well as procurement of masks and ventilators to combat COVID-19. We have also launched a USD 50 million COVID-19 Global Charitable Fund to help those affected by the pandemic, with a view to providing short-term relief and longer-term assistance.

We strongly believe that a better tomorrow begins today. Our sustainable finance proposition will be key to the development of the world’s economies. Our Sustainability Aspirations build on our three sustainability pillars with measurable targets to show how we are achieving sustainable outcomes across our business. In terms of infrastructure, our aspiration is that everyone should have access to safe, reliable and affordable power and infrastructure which transforms lives and strengthens economies. To meet this aspiration, we are working with our clients to provide project financing for USD 40 billion of infrastructure projects that promote sustainable development aligned with our verified Green and Sustainable Product framework. We are also committed to catalyse USD 5 billion of finance via blended finance transactions to meet infrastructure demands across the markets we operate.

We note that Standard Chartered signed a partnership with the Mauritian government to develop a sustainable finance framework that will help mobilise financing for projects to support economic growth while taking into account ESG criteria. What are the milestones that are expected to mark the various phases of this initiative, especially in view of the enhanced importance of ESG criteria following the COVID-19 crisis?

This partnership was signed just before the outbreak of the pandemic in Mauritius. The sustainable finance framework is not only being set up to support sustainable projects for Mauritius but also to position us as a centre of excellence for sustainability and sustainable finance for the African continent. The financial services industry can play an important role...
to support capital needs of the projects on the continent. This framework will bring together all stakeholders – banks, corporate administrators, consultants and the Stock Exchange of Mauritius – in creating a value proposition for sustainable finance.

Mauritius, through its expertise and health infrastructure, can aspire to become a medical hub for the African continent, especially after having demonstrated that it was able to successfully manage the pandemic and limit its spread in the country, with lower impact as compared to other countries.

“\nWe have launched a USD 50 mn COVID-19 Global Charitable Fund”\n
Initially the sustainability framework was geared toward blue and green bonds, but COVID-19 brings in an interesting perspective of social financing which is required to generate growth in the domestic economy through empowerment of SMEs and development of local manufacturing towards achieving self-sufficiency.

With the framework for green and blue bonds expected to be announced by the Central Bank, following the Budget speech, how can the bank be expected to support this eco-friendly initiative that would give Mauritius a great thrust in the sustainable finance space?

In 2018, we issued the first ever blue bond for the Republic of Seychelles. Having built expertise over the years on sustainable bond issuances and the first ever blue bond using a blue bond framework, we can play an important role in connecting capital to the sustainable project needs of the country.

The Government programme 2020-2024 details the different projects that the Government of Mauritius wants to achieve under its greener and sustainable society project. Many of those projects can be financed from proceeds of either a blue bond or a green bond.

Ultimately, Mauritius as a country is still not very active in the international capital markets. Blue and Green bonds can become the inaugural issuance for the country to attract foreign capital to the country, hence reinforcing its position as an International Financial Centre.
Even before the world woke up to the importance of going green, Standard Chartered had created a Sustainable Finance banking team last year to lead all its business activities in this emerging area. How has the creation of this new team translated into more focus on impact investing and renewable energy in emerging markets on the ground?

We continue to lead the way for sustainable financing in emerging markets. We recently issued a publication ‘Opportunities 2030’ which provides an overview of where investments could have the greatest impact in contributing to the United Nations sustainable development goals. Closer to us, opportunities on the African continent require USD 200 billion of investment across infrastructure, clean water and sanitation, power and digitisation. We are accompanying our clients in developing these crucial industries and Mauritius can play an important role by being a provider of capital for such projects.

We are promoting sustainable finance where it matters the most. We want to make the world a better, cleaner and safer place and minimise the negative impact of our financing. In other words, we wish to do more good and less harm.

As part of the group’s focus on sustainable financing, it was stated at the time of the creation of the Sustainable Finance team that the group is also looking at what role it can play with its clients in promoting greater disclosure on emissions. Has this move towards greater disclosure on emissions been accelerated in a COVID-19 context?

Our aspiration is to reduce our own impact on the environment to protect our planet for the benefit of our communities. We are committed to:

(a) reduce our annual greenhouse gas emission to net zero by 2030 with an interim target of 60,000 tonnes of carbon dioxide (CO2) emissions by December 2025;
(b) source all energy from renewable sources;
(c) reduce annual office paper use by 57%; and
(d) reduce waste per colleague to 40kg and recycle 90% of waste.

All these targets are disclosed in our annual report, together with a status of compliance with our set targets.

As a leading international bank committed to the Paris Agreement, the group’s announcement to cease any new coal fired financing in 2018 with its evocative ‘Here for good means saying no to coal’ slogan really resonated with the sustainable finance community. How does it feel to be a pioneer on this front?

As a key part of our mission to be ‘Here for good’, we only provide financial services to clients who manage their environmental and social impacts responsibly. The sector-specific criteria in this position statement, along with those in the cross-sector requirements, set out the standards we assess our clients against. We regularly engage with our clients to confirm that they’re aligned with our environmental and social requirements and consult with industry experts to ensure these stay relevant and effective.

We have committed not to directly finance any new coal fired power plant project including expansions in any location. We also expect our clients to monitor and publicly report greenhouse gas emissions annually in accordance with internationally recognised methodologies such as GHG Protocol, and, where appropriate, set clear targets for reducing green gas emissions.

As the development of sustainable finance gains momentum among investors, banks and corporates around the world, particularly in a COVID-19 context, how is the bank demonstrating its focus on sustainable finance in Mauritius and Africa?

We work closely with our Sustainable Finance experts across the globe to bring the required expertise to Mauritius as and when needed. Sharing of best practices across our network is also key for us to identify and support new opportunities by applying the ESG lens to different projects. Above all, our thought leadership initiative of helping the Government of Mauritius develop its sustainable finance framework stands testimony to our support to lay the foundations for a sustainable finance industry in Mauritius as a regional hub for Africa.
ESG - Do these letters ring a bell?

As the world sees a steady rise in the ranks of organisations making a conscious effort to adhere to sustainable practices, it is becoming increasingly clear that – unlike in the past where the focus lay on the Environmental aspects of ESG alone – it is now the Social and Governance pillars that are finding themselves placed under greater emphasis amid a COVID-19 context.

We have witnessed across the world a surge in the number of corporates committing to sustainable futures. This has been largely prompted by institutional investors, shareholders, consumers and civil society. ‘Responsible investing’ has become a buzz word.

While it is far from having become mainstream and it still remains a very niche topic in Mauritius, some companies have already embarked on the ESG path in the hope of becoming ‘responsible corporates’ and increasing profitability in the long run.

What is ESG?

ESG – Environmental, Social and Governance – refers to the criteria used to measure sustainable and responsible businesses that have an environmental and social purpose, alongside profit generation.
As businesses strive to become ESG compliant, they must constantly reflect on the following questions: What kind of impact on the environment will result from the company’s intended transactions and commercial activities? What would be the wider social impact on the company of entering into a particular transaction or undertaking a particular commercial activity? Are proper governance structures, to ensure compliance with regulatory and human rights laws, in place within the organisation?

As part of their responsibility to ensure value creation and assess risk, it falls upon board members to assess the impact that their businesses have on society and the environment. Such tasks can be overlooked if the existing risk structure and agenda don’t include items such as climate change, water and human rights, child labour etc. As such, today’s responsible boards are reconsidering their roles and duties and keeping a close watch on ESG factors.

The new ESG landscape

Social impacts

Being conscious of ESG factors enables a company to be conscious of the negative impacts its activities can have on society. These include contribution to climate change, air and water pollution, degradation of the ecosystem, ill-treatment of animals, human rights exploitation in supply chains and potentially unsafe practices and products.

In the light of increased environmental regulation, the financial sector has been quick to react and there have been significant developments in environmental and climate change-related investment products. A few such products and developments are:

(i) collective investment schemes/funds that invest in green technologies;
(ii) the Green Loan Principles which are a framework of market standards and voluntary guidelines for participants in the wholesale green loan market;
(iii) ethical indices, for example, Dow Jones Sustainability Indices;
(iv) green bond investments such as sustainability-linked bonds which are debt securities under which the issuer commits to future sustainability objectives. Payments under the bonds may vary depending on whether the issuer achieves those objectives;
(v) sustainability-linked loans enabling lenders to incentivise improvements in the borrower’s sustainability profile. Such a type of loan is achieved by aligning the terms of the loan, e.g., pricing, to the borrower’s performance against sustainability performance targets. Examples of such targets include improvements in the energy-efficiency rating of buildings or a reduction of greenhouse gas emissions in relation to products manufactured;
(vi) carbon pricing in order to reduce carbon emissions such as the Carbon Pricing Corridor initiative 2017.

In this context, it is worth noting that Mauritius’ Financial Services Commission (FSC) is a signatory to the Marrakech Pledge; a coalition of African capital market regulators and exchanges committed to acting collectively in favour of green finance.

Transparency and communication

There has been a forceful request for disclosures by investors. This trend has been encouraged by standard-setting institutions including a number of stock exchanges. The Stock Exchange of Mauritius (SEM) has introduced the SEM Sustainability Index (SEMSI) to facilitate responsible investment and to create a more sustainable capital market based on the four key pillars of sustainability, namely economic, environmental, social and corporate governance.

Reputation

Events which portray an institution in a bad light, or where failures in their ESG processes lead to the client being exposed and criticised, can rapidly damage a company’s reputation. For example, a cyber breach and ransomware attack can result in a company becoming vulnerable overnight and can lead to a backlash from furious stakeholders who find their data compromised. It is also a fact that, increasingly, civil society and customers prefer to shop with their conscience and will readily sanction any company that is seen to be falling short of the
SUSTAINABLE FINANCE

required ESG norms.

The workforce cares
In a competitive world, where human capital is key to increasing productivity and profitability, employers are keen to maintain high retention levels and to attract new talent. Employees, especially the younger generation, tend to be socially and environmentally conscious and will not want to be associated with companies that engage in practices that are harmful to the environment and society.

Business value is at risk
ESG issues can take time to become risk events or they can rapidly escalate, and a once profitable, popular organisation can become vilified overnight or its products can become unpopular because of environmental issues. Concerns about the use of plastic or the sustainability of palm oil production are examples.

Because of the inevitable consequence on shareholder value, ESG risks should be assessed by the board and directors should ponder on ways to address those risks. Corporates should ask themselves whether their products have become socially unacceptable and phase out their production. They should also ensure that their supply chains do not include parties that fail to adhere to ESG standards.

Investors care
Investors nowadays are very concerned about ESG and this impacts upon their investment decisions. They request understanding of ESG topics among the management and board of directors, along with an appreciation of the associated issues and risks, as well as plans and responses.

What’s next on the board agenda?
It is therefore desirable for a company and its board of directors to identify the company’s material ESG risks and conduct a formal ESG assessment with key investors, customers and employees. The board must also consider which ESG factors can contribute to the company’s success and focus on the opportunities that compliance with ESG could result into. It should be remembered that directors have a continuing duty to acquire and maintain sufficient knowledge and understanding of the company’s business to enable them to properly discharge their duties to the company. The importance of ESG issues is such that it is even normal nowadays to find boards with “ESG Committees” or “climate committees”.

Some of the questions that a responsible board should ask themselves are:

- Are ESG factors and considerations embedded in the decision-making processes and are they an integral part of risk management and strategies?
- Is our business model sustainable?
- Does the company communicate its ESG strategy to its investors and are reporting requirements being met?
- Has the board adequately identified ESG opportunities?

Investors nowadays are very concerned about ESG while taking investment decisions

If the board fails to actively consider the direct costs to the company arising from ESG risks, its operations and profits will suffer as a consequence and its employees and customers will move to other, ESG-compliant companies.

ESG compliance review
A review of the ESG aspects of a company include a wide range of issues such as health and safety, employment law and human rights. From an environmental approach, it involves looking at pollution, waste, water, natural resources, emissions, energy and renewables. From a governance perspective, diversity and inclusion amidst the organisation, gender pay gap, gender diversity at board level, data protection and cybersecurity, directors’ and officers’ duties and liabilities, anticorruption framework and shareholder rights are some other key factors to be considered.

What lies ahead for ESG?
While traditionally a lot of focus has been on the E in ESG, COVID-19 has further attracted attention to other aspects of ESG, namely the social and governance ones. Workers’ health and welfare, for example, have been at the centre of the debate during the pandemic.

‘Business as usual’ is therefore no longer an option. ESG is now the ‘new normal’ and no purpose-driven company can make an abstraction of these three important letters of the alphabet.
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Green and blue building blocks for a sustainable economy in Mauritius

With Budget 2020-21 vesting the Bank of Mauritius with the responsibility for developing green and blue bond frameworks to give a boost to capital markets, sustainable finance in the island economy is set to soar to greater heights

As the world reels under the impact of the COVID-19 pandemic, the importance of sustainable development has never been greater. In this context, it was only to be expected that Mauritius would take steps to ensure a more sustainable economy under the aegis of its recent Budget for 2020-21. Finance Minister Dr the Hon Renganaden Padayachy took the opportunity of his maiden budget to outline several measures to speed up the process of sustainable development on the island.

A more sustainable way of life

Budget 2020-21 outlined several ways in which the island would be expected to go green, as follows:

- An investment of Rs 736 mn in landslide
stabilisation works, protection of beaches, lagoons and coral reefs, and cleaning of drains, roads, rivers and public sites.

- The announced Mauritius Investment Corporation (MIC) to be promoted by the Bank of Mauritius will be positioned for investing in the Blue Economy as a new strategic sector.
- In the Blue Economy sector, inland aquaculture businesses to further benefit from eight-year tax holidays and duty exemptions.
- Last but certainly not the least, the development of green and blue bond frameworks by the Bank of Mauritius to take Mauritius further along the path of sustainable finance.

What is a green bond?

Green bonds represent a way for issuers to raise money specifically for environmentally friendly projects - such as renewable energy or clean transport. Green bond proceeds can go towards new or existing projects that are meant to have positive environmental or climate effects and typically cover a range of areas such as energy efficiency, pollution prevention, sustainable agriculture, forestry and fishery, the protection of ecosystems, clean transportation, clean water and sustainable water management.

In particular, green bonds are well suited for large-scale sustainability projects such as wind and solar development, which often require capital investment ahead of revenues, and which generate modest revenue over a longer investment horizon. As investors increasingly demand socially responsible investment opportunities, the market for green bonds has bloomed, with institutional investors using green bonds to address ESG (Environment, Social, and Governance) mandates.

“The green bond is a type of fixed-income instrument that is specifically earmarked to raise money for climate and environmental projects. These bonds are typically asset-linked and backed by the issuing entity’s balance sheet, so they usually carry the same credit rating as their issuers’ other debt obligations. Dating back to the first decade of the 21st century, green bonds are also referred to as climate bonds,” explains Shamin Sookia, Managing Director, Perigeum Capital.

The World Bank launched the “Strategic Framework for Development and Climate Change” in 2008 to help stimulate and coordinate public and private sector activity to combat climate change, and this framework was responsible for the genesis of the green bond.

The sustainable finance market hasn’t looked back since, with the first green bond issued by the World Bank 12 years ago creating the blueprint for today’s US$500+ billion labelled bond market. Of this, the World Bank alone has issued over US$13 billion equivalent in green bonds through more than 150 transactions in 20 currencies. The first emerging-market green bond was issued in South Africa in 2012 while Poland inaugurated the sovereign market in 2016, followed by France, Belgium and Ireland.

Green finance in Mauritius

In September 2019, the Financial Services Commission of Mauritius (FSC) became the latest financial regulator to sign the Marrakech Pledge, building upon June 2019’s Budget speech which outlined the intention of the government to come up with a framework for fostering green finance as one of the measures to diversify the jurisdiction’s product offering.

The FSC signed the Marrakech Pledge last year to foster green finance

The Marrakech Pledge is a coalition of African capital market regulators and exchanges committed to acting collectively in favour of green finance, which aims at enabling an operational framework for regulators to substantially scale up green market-based financing to fight climate change.

The genesis of sustainable finance in Mauritius can be traced all the way back to 2015 when the Stock Exchange of Mauritius (SEM) launched the SEM Sustainability Index, which identifies companies based on strong sustainability practices using a set of internationally aligned and locally relevant economic, environmental, social and governance criteria.

The case for green bonds in Mauritius

Given SEM’s attractive listing and trading platform, its increasingly-internationalised status, its prominence in the African Exchange space and the
SUSTAINABLE FINANCE

numerous fiscal and tax advantages of the Mauritius jurisdiction, the SEM is ideally positioned to become an attractive platform for the listing of green bonds by African issuers in order to raise capital from international investors.

In particular, there is immense potential for the use of green bonds to raise capital for renewable energy and infrastructure projects in Africa. Against the backdrop of a conducive Green Bonds ecosystem in place in Mauritius, the Mauritius International Financial Centre will be well-positioned to facilitate green bond capital flows in the region, with the case for green finance in Mauritius further reinforced with the announcement under Budget 2020-21 to develop a green bond framework under the aegis of the Bank of Mauritius.

“COVID-19 is a timely reminder as to how important it is to ensure sustainable development. More than ever, the financial services sector can now be the catalyst to mobilise funds along this journey. With the growing impetus on sustainable development and low carbon growth, it has become evident that financing instruments like green bonds will have to be widely adopted. In addition to the widely publicised green bonds, complimentary instruments such as climate bonds, social bonds and SDG linked bonds are now being adopted to channelise funds for specific projects,” says John Chung, Managing Partner, KPMG, Mauritius.

What is a blue bond?

Inspired by the green bond concept that people are more familiar with, blue bonds are debt instruments issued by governments, development banks or others to raise capital from impact investors to finance marine and ocean-based projects that have positive environmental, economic and climate benefits.

“With the blue economy having grown in importance and gaining momentum amongst policymakers across the world recently, the blue bond concept has been inspired from the success of green bonds in leveraging capital markets to tackle environmental issues. This is not surprising as the ocean is a significant wealth generator estimated at an annual value of US$1.5 trillion per year, making it the world’s seventh largest economy,” stresses Shamin Sookia.

The World Bank’s active Blue Economy portfolio is estimated at around US$3.7 billion, with a further US$1.5 billion in the pipeline. Projects range from implementing large regional fisheries programs in Africa and the Pacific, to tackling all sources of marine pollution, protecting critical marine habitats and supporting coastal development worldwide.

In April 2018, Morgan Stanley, working with the World Bank, sold US$10 million worth of blue bonds for solving the challenge of plastic waste pollution in oceans. In October 2018, Seychelles raised US$15 million from US-based impact investors as it issued the first sovereign blue bonds globally with support from the World Bank. In January 2019, Nordic Investment Bank, the international financial institution of the Nordic and Baltic countries, joined forces with the World Bank to launch a “Nordic-Baltic Blue Bond”, raising SEK2 billion (approximately US$210 million) for projects such as wastewater treatment, prevention of water pollution and water-related climate change adaptation.

The Blue Economy in Mauritius

The Blue Economy in Mauritius represents over 10.5 percent of the island’s GDP, with total direct employment estimated at over 20,000 excluding coastal tourism. Apart from an impressive Exclusive Economic Zone of 2.3 million square kilometres (approximately more than 1,500 times its land size), Mauritius co-shares with the Seychelles an extended continental shelf management area (396,000 square kilometres) - a first in the world, providing new avenues for the expansion of the ocean economy in a new partnership modality.

"Mauritius and Seychelles are two island nations identified in the Indian Ocean that face a greater risk of sea level rise as well as ocean acidification. This risk threatens the marine economy for both the small island nations. Ocean acidification is expected to cost the global economy more than US$1 trillion per year by 2100. The global cost of rising sea levels is estimated to be US$14 trillion per year by 2100, according to the UK National Oceanographic Centre, and many of the threats are concentrated in Asia, Africa and the Middle East,” stresses John Chung.

Tapping into the economic potential of the ocean while protecting this resource requires thoughtful policy, planning, and management. With this in mind, Mauritius decided to make the “Blue Economy” a pillar of its economic development strategy in 2012, working towards the objective of doubling the contribution of the Blue Economy to GDP by 2025. In 2013, it created an Oceans Economy Roadmap, which aims to make use of the untapped value of the

Shamin Sookia, Managing Director, Perigeum Capital
country’s ocean resources by sustainably coordinating the use of resources. The Government of Mauritius also endowed a new Ministry for Blue Economy, Marine Resources, Fisheries, and Shipping with the authority to coordinate and manage ocean-related activities.

In addition, Mauritius is an active member of the Indian Ocean Rim Association (IORA), the apex regional organisation in the Indian Ocean region with 22 Member States and 10 Dialogue Partners, stretching from South Africa in the west, running up the eastern coast of Africa, along the Gulf to South and Southeast Asia, and finally ending with Australia in the east. In September 2015, Mauritius hosted the First IORA Ministerial Blue Economy Conference with the aim of conceptualising the sustainable development of Blue economy sectors including fisheries and aquaculture, renewable ocean energy, seaport and shipping and offshore hydrocarbon and seabed minerals within the IORA context.

The case for blue bonds in Mauritius

“In the African context, the oceans contribute to about US$24 billion with over 47,000 km of coastline that is responsible for over 12.3 million jobs. The multi-sector dependence on oceans in the African economic landscape presents a great potential for innovation and growth. Hence, blue bonds become a very critical instrument to be used to boost this sector and help the ocean-linked economy become more sustainable,” explains John Chung.

With proceeds raised from Seychelles’ inaugural blue bond going towards supporting “sustainable and fisheries projects”, it is clear that innovative ocean financing tools can be used to invest in sectors of the blue economy such as fisheries to enhance food security, protect livelihoods and help drive sustainable ecosystems. As Mauritius indicates its intent to develop a blue bond framework under Budget 2020-21, the island economy can position itself as a hub for financing the blue economy in Africa.

The way forward for sustainable finance

With COVID-19 strengthening the case for a more sustainable way of life, it is clear that the financial services sector has a key role to play in the transition to a greener and more inclusive global economy.

"Mauritius communicated its commitments towards having a healthier ocean in 2017. With these commitments now supported by the intent to develop a blue bond framework under Budget 2020-21, the island economy can position itself as a hub for financing the blue economy in Africa. This will also strengthen the position of Mauritius in accessing funds from financial commitments made by development aid agencies such as the African Development Bank which was pivotal in channelising funds to Seychelles,” highlights John Chung.

Moreover, the announcement also paves the way for the island economy to serve as a hub for sustainable finance in Africa, with all the tremendous opportunity that the continent offers to truly unlock the potential of the capital market in Mauritius as institutional investors show a renewed focus on ESG parameters against the backdrop of the pandemic.

"While both green and blue bonds offer opportunities for private sector capital to be mobilised to support the green initiatives and the blue economy respectively, capital markets have a key role to play in mustering such capital in a regulated, reliable and trusted framework. The SEM and the jurisdiction would certainly benefit from positioning itself as a hub for the issuance and listing of green and blue bonds especially within the context of the geographical and business proximity of Mauritius to Africa and also due to the size of our territorial zone which is approximately 2.4 M Km² and is yet to be exploited,” concludes Shamin Sookia.

Mauritius is an active member of the Indian Ocean Rim Association

Moreover, food security is a pressing issue in Africa, compounded by rising temperatures and ocean acidification indelibly altering the aquatic ecosystems. This not only threatens the sustainability of fisheries and food security, but employment as well since communities that are heavily dependent on the fisheries sector for their livelihood are under threat.
In order to finish first

The COVID-19 pandemic is far from unprecedented, and as it accelerates economic trends ranging from remote working to home cooking, some businesses which have become “efficient” may now need to retrench.

The economist J K Galbraith once said, “The only function of economic forecasting is to make astrology look respectable.” His views are clearly not shared by or even familiar to the people whom I have encountered opining about whether the recovery from the COVID-19 pandemic and the associated economic shutdown will be a recovery which is shaped like a V, a U, a W, a bathtub or the Nike swoosh.

Is it really so?

The pandemic has also led to people voicing a number of assumptions, many of them erroneous or at least questionable:

1. The statement “When there is a vaccine” should perhaps be “If there is ever a vaccine”. After all, there isn’t a vaccine for other viral infections such as the common cold and HIV.

2. The question “When do you think things will get back to normal?” What makes the questioners think that the state of affairs which existed before the pandemic was normal? Maybe long distance tourism and commuting to work weren’t normal.

3. “This is an unprecedented situation”. Most people by now have heard of the Spanish Flu of 1918-19 (which originated in Kansas by the way), but here is a list of pandemics from the past 130 years:

<table>
<thead>
<tr>
<th>Recent pandemics</th>
<th>Date</th>
<th>Estimated death toll</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian Flu</td>
<td>1889-90</td>
<td>1m</td>
</tr>
<tr>
<td>Third Plague</td>
<td>1894-1922</td>
<td>12m</td>
</tr>
<tr>
<td>Spanish Flu</td>
<td>1918-19</td>
<td>50m</td>
</tr>
<tr>
<td>Asian Flu</td>
<td>1957-58</td>
<td>2-5m</td>
</tr>
<tr>
<td>Hong Kong Flu</td>
<td>1968-69</td>
<td>1-4m</td>
</tr>
<tr>
<td>Swine Flu</td>
<td>2009-10</td>
<td>0.5m</td>
</tr>
</tbody>
</table>

The COVID-19 pandemic is far from unprecedented.
4. Many of the people who have now heard of the Spanish Flu regard this as the greatest pandemic of all time. How about the Plague of Justinian (a Byzantine Emperor) which started in 541AD or the Black Death which started in 1331AD (and which coincidentally originated in China)? Both killed an estimated 40% of the affected population.

5. Will there be a second wave as there was with the Spanish Flu? We do not know if COVID-19 is seasonal and less contagious in warm weather and will reassert itself when the northern winter returns. The rally in the MSCI World Index from its low in March may prove to be premature, particularly if there is second wave and lockdown.

**What we can safely say about COVID-19**

This market reaction probably indicates two things. One is the sheer size of the fiscal and monetary stimulus from government spending on “furloughing” and healthcare, and Quantitative Easing—“printing” (electronically of course) money to buy assets. It’s easier to stimulate asset prices than it is to stimulate an economy. The other is that the lockdown is a supply side shock. The fall in economic activity has been caused not by a fall in demand but because governments shut down economic activity which was deemed non-essential. Because the physical assets are still there it may be tempting to assume that these businesses can just reopen when allowed and there will be a sharp recovery as demand is unaffected. But for many of them the lockdown may have exposed their fragility, leading to a wave of bankruptcies and a fall in demand as furloughs morph into longer term unemployment. But even if this is true it may not help in predicting a market retrenchment - the only type of market which ends in a recession is a bear market - markets are forward looking discounting mechanisms.

But with all these examples of pandemics in the recent and distant past surely we should be able to draw some conclusions about some likely outcomes of COVID-19. Looking back it seems that crises, including pandemics, accelerate some existing economic trends. One example is the assembly line for mass production. It existed before the Spanish Flu—the Ford Model T was placed on an assembly line in 1913—but the reduction in the workforce caused by the death rate in the pandemic may have accelerated its adoption.

**What trends in society are like to be accelerated by the reaction to COVID-19?**

- Working From Home (“WFH”) and remote working
- E-commerce
- Digital payments
- Food delivery
- Home cooking
- Social media
- Tele medicine
- Online schooling
- Pets
- Automation

**The perils of greater ‘efficiency’**

Of course, it’s not all good news. Some previous trends will be slowed or derailed by the COVID-19 pandemic. Air travel is an obvious victim and discount air travel especially so. The hospitality industry will struggle. Most restaurants were barely viable before social distancing cut their number of covers. The real estate business providing offices or shopping malls is obviously challenged. Businesses which have become more “efficient” may now need to retrench. Manufacturers in sectors ranging from fast fashion to the motor industry who have relied upon global supply chains for “Just in time” supply of goods and components may now need to shorten those supply lines and hold stock “Just in case”. The result may well be higher stocks and costs, and lower returns. Those who became financially more efficient may also suffer. The five largest US airlines are surely regretting buying back $47 billion of their shares over the past decade given estimates that maybe not coincidentally they need $50 billion to survive. 

As Rick Mears, the driver who has won the Indianapolis 500 race four times said “In order to finish first you must first finish”. There is no point in driving so fast that you crash, as those companies who listened to the siren song of the investment bankers and geared up to buy back stock and become “efficient” may discover.
The rise of Mauritius as a family office destination for Africa’s affluent

As Mauritius attempts to strengthen the wealth management pillar towards building a more diversified IFC, leveraging the family office licence to enhance the economy’s appeal for Ultra-High Net Worth Individuals from the continent could prove key to its success.

In line with a diversification strategy underpinning wealth management as a new avenue for growth for the Mauritius International Financial Centre (IFC), the Overseas Family Office licence was first announced in the 2016-2017 Budget Speech. Adding to the country’s foundation and trust structures, the licence matches the emergence of a growing ultra-high-net-worth segment (net worth of at least USD 30 million), both locally and in the wider region.

Subsequent to the Budget announcement, amendments in 2016 to the Financial Services Act 2007 introduced both an Overseas Family Office (Single) Licence and an Overseas Family Office (Multiple) Licence. Given the current dynamics of the market, the potential for multi-family offices, with a sharing of administrative costs, might be higher than for single-family offices.

As an incentive, however, both will benefit from a five-year tax holiday under the condition that they meet the substance requirements of the Financial Services Commission. Additionally, each family’s asset/estate entrusted to a single or multi-family office should be at least USD 5 million. Other requirements apply, namely in terms of minimum stated unimpaired capital.

Host of services provided by family offices

Generally speaking, the services provided by a family office are quite broad and fall within the following categories:

- Trusteeship services
- Wealth and estate/succession planning
• Portfolio management/investment services
• Fund management and advisory performance monitoring
• Tax optimisation and structuring
• Legal services
• Asset protection
• Philanthropy and charitable work coordination
• Family education
• Dedicated concierge services (real estate management, organisation of private events, yacht and aircraft management, etc.)

The classic vehicles to establish a family office are a trust, foundation or limited liability company. Typically, family offices cater exclusively for family members and family related trusts, foundations, charities and venture capital companies. As a fast-growing wealth management segment around the world, they offer a more personalised service than wealth managers and private banks.

Single-family offices usually take the form of a private company managing the investments of ultra-wealthy individuals with net assets worth more than USD 100 million, as well as those of their extended family. Multiple-family offices cater to families with net worth between USD 30 million and USD 100 million that do not have the economies of scale to establish single-family offices.

Tapping into the wealth hubs in Africa

Of late, Mauritius has attracted a number of Ultra-High Net Worth Individuals (UHNWIs), mainly from France and South Africa, through dedicated investments in up-market real estate associated with residence permits. The beneficial owners of the little over 22,000 Global Business companies active in the jurisdiction also constitute a potential pool of highly affluent individuals.

At the same time, Mauritius is keeping an eye on the African market. The number of multi-millionaires on the continent is growing at a faster pace than anywhere else in the world. Africa as a whole will see its UHNWI segment reach close to 2,600 individuals by 2023 with countries like Egypt, Nigeria, South Africa and Kenya set to be the largest wealth hubs on the continent.

Africa's affluent prize risk mitigation and confidentiality above all

In spite of a growing number of affluent individuals, Africa remains prone to geopolitical and currency risks, whilst ease-of-doing-business and economic freedom often lag behind the rest of the world. For the continent's 'nouveaux riches', risk mitigation is top of mind, especially due to the family's assets often being located in their country of residence. Together with the quest for safer jurisdictions, confidentiality comes top of mind when choosing overseas family offices to manage the family's wealth.

There is no single jurisdiction which is ideal to house each and every family office. Depending on the needs of UHNWIs, a host of factors come into play, including:
• Reasonable taxation
• No exchange control and free flow of capital
• Sound legal system
• Political stability
• Data protection and confidentiality
• Qualified workforce
• Location and proximity

Mauritius ticks all these boxes. In particular, it satisfies the prospective African family office client on the two most critical criteria of risk mitigation and confidentiality.

Africa's hub for private wealth?

The Mauritius Data Protection Act of 2017 aligns with international benchmarks. Our legal system, a hybrid of English Common Law and French Code Civil, gives predictability to all, from Anglophone as well as Francophone Africa. There is also no dearth of the professionals needed to support the investment ecosystem in Mauritius, be it accountants, lawyers or investment specialists.

However, location and proximity are practical considerations that may limit our traction with Africa, despite it being the continent that is closest to us. Indeed, these factors weigh on the decision-making process on the principle that family office services are highly personalised. As such, they involve frequent face-to-face meetings between the client and the service provider. Fortunately, with regular air connections with Africa already in place and set to expand further, Mauritius scores well on the proximity factor too.

Ultimately, it is important for us to acknowledge that it will take some time for Mauritius to be recognised as a family office destination to the same tune as the most established wealth management jurisdictions of this world. However, if its ambition is regional, it will find in Africa fertile ground for growth.
Global elite home in on luxury property as investment of choice

As High Net-Worth Individuals across the world seek lifestyle destinations for their second homes, it is clear that Mauritius ticks all the boxes to be positioned as the real estate investment hotspot in Africa
Real estate has become a very popular investment choice among the affluent segment since the past financial crisis, and interest in this asset class continues to grow around the world. Indeed, the elite category, be it High-Net-Worth Individuals (HNWIs) or Ultra High Net-Worth Individuals (UHNWIs), is increasingly on the lookout for prime, super-prime and ultra-prime developments and highly sought-after lifestyle destinations for their second homes.

With the choice of the optimum location for a second home being very often underpinned by several other key factors such as political stability, ease of doing business, world-class education and secure ownership rights, it is clear that Mauritius offers all the benefits to be positioned as the real estate investment hotspot in Africa.

Global UHNWIs will grow by 27% over the next 5 years

Having said that, COVID-19 has had a massive impact on financial markets and economies around the world. As we enter the ‘new normal’, real estate owners and occupiers are faced with varying after-effects of the pandemic. However, looking ahead, an expected rebound in real estate in the second quarter of 2020 makes it a safe investment and creates myriad opportunities for investors.

Where are the super-rich investing?

Knight Frank’s Wealth Report, 2020 reveals that, globally, more than 31,000 additional UHNWIs were created in 2019, bringing the total to more than 513,200, and the world’s UHNWI population is forecast to rise by 27% over the next five years. Location and proximity to nature remain key factors, particularly for young millionaires who prioritise health and well-being as the main benefits they seek in their investment.

According to the 2019 research undertaken by the international real estate advisor Savills, the year 2018 was the most active one ever in the global real estate market, with US$1.8 trillion invested worldwide. The research firm explains that “the search for income producing assets is a fundamental driver of the market and investors are typically buying to hold, which is limiting stock levels”. The researchers add that top-tier world cities, such as London, New York, Hong Kong, Singapore, Los Angeles, Sydney and San Francisco, have long been the first choice for prime buyers, with Germany and Dubai becoming increasingly attractive hotspots.

In a rapidly evolving world, investors and/or HNWIs are on the lookout for sustainable and smart cities, where businesses can thrive while fostering innovation to ultimately drive personal wealth as part of their portfolio diversification – factors that remain high in the decision-making process of real estate investors.

The growing trends in real estate investments

Knight Frank’s Wealth Report explains that the US dominates the rankings with 240,575 UHNWIs, more than Europe and Asia combined, accounting for almost half the global total, while Asia is expected to be the world’s second largest wealth hub and is on the path to quickly closing the gap with Europe by 2024.

Turning to ‘The Hopeful Continent’, where the HNWI population is expected to grow by 29%, South Africa has recorded the highest number of HNWIs at 215,983, with Johannesburg, Cairo, Cape Town, Lagos and Nairobi ranked as the top five cities in Africa. The report highlights that alternative real estate sectors continue to dominate potential investment opportunities with student housing and retirement homes leading the way, while real estate dominated the overall asset allocation with 30% of HNWIs wanting to invest in African property.
The appetite for investment in real estate continues to be diverse, based on the many markets available and the demographic interest in question. Senior living continues to be a growth area where the rise of an ageing population translates into a search spanning far beyond a high-end residential environment to purpose-built accommodation that regroups a spectrum of amenities, including proximity to green spaces and cultural pursuits.

Moreover, socially responsible forms of investment are becoming more of a priority in the light of the increasing challenges linked to climate change. Thus, a focus on sustainability leads the way to important business opportunities and new criteria in line with the Environmental, Social and Governance (ESG) framework that will determine high-end real estate for the affluent segment or investors.

**Mauritius: Africa’s real estate investment hotspot**

Recognised as the top African country for “Ease of Doing Business” by the World Bank, Mauritius is one of the world’s prime property investment destinations. The combined category of ‘Construction and real estate’ now represents the second-fastest growing sector on the island, paving the way for more incentives from the government to encourage property investments from investors and HNWIs.
The real estate sector is widely attractive due to the various incentives on offer. The Property Development Scheme (PDS) is an innovative measure that takes the acquisition of luxury residences to a new level, providing a unique opportunity to foreign investors to acquire freehold residential property at a minimum price of USD 500,000 and entitling the buyer to a residence permit, if all conditions are fulfilled.

With an ambitious development programme promoting a lifestyle that strikes the perfect balance between professional and personal life, the purpose of ‘Smart Cities’ is to encourage global investment and build dynamic, sustainable cities of tomorrow. This also opens up opportunities for the affluent segment to purchase high-end apartments as second homes or to cater for tourist accommodation. Despite this option not leading to acquiring a residence permit in Mauritius, it ultimately places Mauritius on the radar as a desirable ‘buy-to-let’ investment hotspot and allows foreign buyers to own a property on the island.

The various factors that make Mauritius a real estate investment hotspot can be summarised as follows:
- A strategic location with a convenient time zone
- Security and political stability
- A secure work, live and play environment
- A thriving business and entrepreneurial location
- World-class educational facilities
- Robust infrastructure, transport and medical facilities
- Sustainable, green spaces to escape urbanisation

Mauritius brings together attractive business opportunities in a strategic location at the crossroads of Africa and Asia, combining as it does economic resilience, political stability and a highly sought-after lifestyle. There are numerous compelling reasons to purchase a second home in Mauritius. The banking sector, being a sophisticated one with a deep understanding of the commercial and residential property markets, is well positioned to assist foreign buyers with expert advice and tailor-made financing solutions.

Unlocking future investment opportunities

Over the next five years, as global UHNWI numbers grow by 27%, it is further predicted that among the top 20 fastest growing countries, six will be located in Asia (led by India with 73% growth), five in Europe (led by Sweden with 47% growth) and three in Africa (led by Egypt with 66% growth).

In particular, the African Continental Free Trade Agreement, which removes 90% of tariffs on goods moving between 49 countries, can contribute to an optimistic economic recovery after the disruption caused by the pandemic. According to Oxford Economics, more than 46% of African households will have an annual income of over US$5,000 by 2023, up from 41% in 2018. This will in turn drive more demand for consumer goods and services, ultimately leading to higher demand for hotels, retail, office and logistics properties.

However, with the heightened geopolitical unrest in some countries, the after-effects of Covid-19, and climate change, among others, 2020 remains a year of uncertainty for HNWIs and investors. It is clear that the global affluent will have to survive the ‘V’ of VUCA (standing for Volatility, Uncertainty, Complexity and Ambiguity) if they wish to thrive and continue to diversify their real estate investment portfolio.
A Mauritian perspective on tax anti-avoidance provisions

As India, the UK and EU take steps to clearly define tax avoidance and codify it through relevant principles, it is becoming increasingly incumbent on Mauritius to follow in their footsteps and crystallise its own anti-avoidance rules.

Tax anti-avoidance has been placed in the limelight by the government, media, and the public at large. Tax avoidance is viewed by some as effective in securing the tax benefits sought and the term ranges from permissible tax avoidance to impermissible tax avoidance. The main difference between permissible and impermissible tax avoidance is that the first is legal while the latter is illegal.

Under the Mauritian Income Tax Act, tax avoidance includes, directly or indirectly -

(a) altering the incidence of income tax;
(b) relieving any person from liability to pay income tax; or
(c) avoiding, reducing, or postponing any liability to pay income tax.

There are several interpretations by courts regarding tax avoidance and courts have come up with some case laws and practices that may be classified as tax avoidance.

What does the Mauritian legislation state?

The Income Tax Act 1995 (ITA) provides for the following anti-avoidance provisions:

a) Interest on debentures issued by reference of shares as per Section 84 of the ITA;
b) Excess of remuneration or share of profits under Section 85 of the ITA;
c) Excess remuneration to shareholder or director as per Section 86 of the ITA;
d) Benefit to the shareholder under Section 86A of the ITA;
e) Excess Management expenses as per Section 87 of the ITA;
f) Leases for other than adequate rent under Section 88 of the ITA;
g) Rights over income retained as per Section 89 of the ITA; and
h) Transactions designed to avoid liability to income tax as provided in Section 90.

What is the stance of Mauritian Case Law?

In the case MRA (“Appellant”) V EAL MAN HIN & SONS LTD (“Respondent”), the respondent and Cleefoon Properties Ltd (“CPL”) dealt in different commercial activities but had the same common directors and shareholders.

The respondent was advancing loans to CPL over the years and the latter became insolvent and unable to repay its loans to the respondent. The part of loans due by CPL to the respondent was later converted into shares in CPL.

The MRA challenged whether the conversion of loans into shares constituted a tax avoidance scheme carried out for the sole or dominant...
purpose of obtaining a tax benefit under Section 90 of the ITA.

The Assessment and Review Committee ("ARC") concluded that the appellant ("MRA") had failed to discharge the burden showing that the conversion was entered solely for obtaining a tax benefit. It found that the commercial viability of CPL was at stake and conversions of its debt into shares was a normal commercial transaction.

The conversion did result into a tax benefit for the respondent, but the dominant purpose of the conversion was not tax avoidance but corporate rescue.

What do international laws prescribe?

The general anti-avoidance rules (GAARs) of UK and India as well as EU directives contain some important aspects of international anti-avoidance rules.

UK

It is important to note that the UK has relied heavily on judicial doctrines that give rulings on anti-avoidance transactions to curb impermissible tax avoidance. The Case of IRC V Duke of Westminster sets the principle that a taxpayer has a right to order the form of his affairs and not the substance in a tax-efficient manner. However, the form over substance approach was rejected by the Ramsay principle developed in the case of WT Ramsay Ltd v. CIR. The Ramsay principle had since then been set as a precedent for courts to adopt in cases involving tax avoidance schemes.

India

In India, with the introduction of GAAR in 2017, the anti-avoidance principles were codified. The provisions intend to incorporate the ‘Substance over form’ doctrine in Indian tax law. Broadly speaking, the anti-avoidance law will be applicable to arrangements which are regarded as ‘impermissible avoidance arrangements’ and can enable authorities to re-characterise such arrangements and deny tax benefits / treaty benefits so as to curb any means of tax avoidance.

Pursuant to Section 96 of the Indian Income Tax Act, an Impermissible Avoidance Arrangement means an arrangement whose main purpose is to obtain a tax benefit and it:

(a) creates rights, or obligations, which are not ordinarily created between persons dealing at arm’s length;
(b) results, directly or indirectly, in the misuse, or abuse, of the provisions of Act;
(c) lacks commercial substance partly or wholly, and
TAXATION

(d) is entered into or carried out by any means or in a manner not ordinarily employed for bona fide purposes.

In India, if the Commissioner of Income Tax (“CIT”) is of the opinion that GAAR provisions can be invoked, he will then issue a notice to the assessee setting out the reasons and basis of such an opinion. The assessee can object to the assessment and if the CIT is not satisfied with the explanation of the assessee, the case will be referred to an Approving Panel (composed of 3 members including the chairperson who is/has been a judge of a high court, one member of the Indian Revenue Service not below the rank of Chief Commissioner of Income Tax, and one member who is a scholar/academic on tax matters) to declare whether the arrangements constitute an Impermissible Avoidance Arrangement.

The directions issued by the Approving Panel shall be binding on the assessee and the CIT.

EU

The EU Anti-Tax Avoidance Directive (ATAD I & II “ATAD”) form part of a larger anti-tax avoidance package adopted by the European Union (EU) in response to the OECD’s Base Erosion and Profit Shifting (BEPS) Action Plan. Designed to tackle tax avoidance practices, ATAD lays down minimum standards for EU Member States, requiring them to change their corporate tax laws in certain areas and within specific timelines.

In brief, the ATAD lays down the following de minimis rules against corporate taxation avoidance:

- Interest deduction limitation to, in principle, 30% of the EBITDA of a company;
- A general anti-abuse rule (GAAR);
- Controlled foreign company (CFC) legislation applicable to both EU and third countries;
- Anti-hybrid mismatch rules applicable to both EU and third countries;
- Most ATAD rules must be implemented as of 1 January 2020.

Is anti-avoidance clearly defined in Mauritian law?

Penalties normally help to discourage taxpayers from entering transactions that lack commercial rationality. But, before imposing any penalties, one must be able to clearly define impermissible tax avoidance. As of now, there is no clear demarcation in the Mauritian legislation as to what constitutes permissible and impermissible tax avoidance.

A Company which is in a tax loss position may not claim its capital allowance in Year 1 during a tax holiday. After the tax holiday, the Company may then start to claim capital allowance on its assets at the prescribed rate in the Income Tax Regulations. The question remains whether this will be considered as tax avoidance by the MRA or tax planning by the taxpayer?

The tax system in Mauritius has no built-in checks and balances to enable the taxpayer to justify why the arrangements may not constitute tax avoidance, nor is there any board to rightly assess the same at the point of assessment.

Way forward: A clearer definition of anti-avoidance schemes

Tax avoidance is so broad that it includes both permissible and impermissible forms. The Mauritian legislation does not clearly define impermissible tax avoidance as compared to other jurisdictions. The three perquisites before terming a transaction as impermissible are the existence of a scheme, tax benefit and a tax purpose. Thus, we are of the view that the above guidance must also be present in the Mauritian legislation before the motive of entering tax avoidance is considered by the MRA.

Tax avoidance can take permissible or impermissible forms

The Authority must provide the opportunity for the taxpayer to object to the basis on which anti-avoidance provisions have been invoked. An assessment panel, constituted of independent members, will most likely be suitable for this purpose. Furthermore, the burden of proof is on the assessee to prove that the objective behind entering into a transaction or an arrangement is not to obtain tax benefit for which the assessee will have to maintain proper business rationale and document the evidence to avoid tax assessments.

With the advent of OECD BEPS Action Plan and EU Anti-tax Avoidance Directives, it is high time for the Mauritian legislation to provide greater certainty to taxpayers through a clearer definition of anti-avoidance schemes.
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Takeover: an unavoidable panacea for governance in the corporate world

Striking a balance between flexibility and clarity in takeover regulations is becoming crucial given that takeover as a mechanism of exercising corporate control, despite the attendant controversies, is clearly here to stay in an efficient market system.
or impede attempts to acquire control of a corporation by making an unsolicited offer directly to shareholders, and reflects the internal logic of two conflicting positions. According to pro-takeover commentators, takeovers are generally beneficial for corporate governance as they can displace poorly performing managers. On the other hand, those who oppose hostile takeovers argue that they can disrupt well-functioning companies and encourage short-termism, as opposed to long-term commitments for the creation of shareholder value.

**Why are Takeover Acts important?**

Takeover Acts are laws that are passed specifically to foster takeover activity by reducing barriers to M&A transactions, encouraging information dissemination, and increasing minority shareholder protection.

The increasing use of regulatory discretion in takeover regulation over time has raised tensions between allowing flexibility in the operation of the provisions and providing certainty for business. There is also a school of thought that propounds that takeover regulation should neither hamper nor promote takeovers, but instead allow individual companies to decide the contestability of their control. However, amid all these debates, the crux of the matter remains as to who should decide whether a hostile takeover goes forward.

There are three obvious candidates. First, the board may be given the power to block an offer. Second, the board may be restricted from acting to hinder a takeover, thereby allocating the decision to shareholders. Third, the final decision could be left to the courts.

**Who should regulate takeovers?**

This brings us to the question of whether national securities market regulation should be left essentially to self-regulatory or non-government bodies, like the City Panel on Takeovers and Mergers (UK Panel).

It has been argued, for instance, that the UK Panel is only concerned with the limited function of scrutinising takeovers and mergers and is therefore a body without legislative investigatory powers or the authority to apply government sanctions that would not deal successfully with matters involving ‘inquiry into fraud or abuse’.

On the other hand, the advantages of having an independent Panel as opposed to a government body rest on the ease of decision-making as achieved through speed, informality, and uniformity. There are a number of features of a Panel like the UK one that relate to those attributes and which could be viewed as reflecting its ability to adopt a commercial approach instead of an approach based on a regimented and inflexible set of rules and regulations devoid of any business sense.

Indeed, a Panel is viewed as being able to make its decisions based on the spirit as well as the letter of the law, with the application of the principles underlying takeover provisions allowing greater flexibility in outcomes. Also, it is argued that a Panel would be likely to adopt an approach that is less technical and would thus avoid undue legalism in its proceedings.

**Does a hybrid system offer the perfect solution?**

A hybrid system based on detailed legislation and regulatory discretion could as well be contemplated and would be seen as a perfect recipe to address takeover situations in some jurisdictions where, for instance, the corporate environment needs to have some sort of legal backing in addition to commerciality in deal making. At the same time, it cannot be denied that flexibility has the tendency to create uncertainty for market participants.

Indeed, the challenge for every jurisdiction where takeover laws are being enacted for the first time or are otherwise being revamped in accordance with modern trends will continue to be to achieve an appropriate balance between flexibility and clarity in the application of regulatory discretion under takeover provisions. Moreover, in the present environment where the global economy has been plagued by COVID-19 together with all its attendant inhibitions relating to physical movement and global flows, there is a lot of uncertainty surrounding business continuity at least in the short to medium term.

In the midst of these testing conditions, it will be interesting to see how the M&A world will thrive. While there will certainly be fresh targets that will become prey to both disposed and indisposed acquisitions, it remains to be seen how the corporate world, including regulators, will react in the following months to this changed paradigm where cross-border reach is severely hampered all around the world and in every particular jurisdiction, with the new environment being impregnated with rampant nationalism and individualism.
Why competition in the financial services sector is key to economic growth

As the financial services sector in Mauritius evolves rapidly in the face of technological changes and globalisation, it is becoming more complex but increasingly important to ensure that these markets operate efficiently, safeguarding the process of competition and the interests of consumers.

The financial services sector is an important pillar of the Mauritian economy with a significant contribution to the GDP and employment in the country. The financial services sector, in addition to being in itself a generator of income and employment, has an important bearing on the performance of other sectors of the economy.

As such, a healthy and efficient financial services sector is crucial for buoyant and dynamic markets and for economic growth.

As in every economic sector, competition is important in the financial services sector to ensure that the market operates optimally towards
productive, allocative and dynamic efficiency. As recognised by the World Bank Group, competition fosters economic welfare and makes markets work for development, resulting in benefits “for both firms and households and leads to potential increases in sector productivity (dynamic efficiency within firms and allocative efficiency between firms), exports, investment and consumption. These changes subsequently translate into increases in aggregate output, employment, and consumer welfare”.

**How competition in the financial sector promotes economic performance**

The interaction between competition and the financial services sector occurs along two planes. Firstly, competition enhances the performance of the financial sector, and secondly, the performance of the financial sector affects the state of competition in other economic sectors. This further accentuates the importance of having a competitive financial services sector.

Access to financial services, and financial facilities especially, enables firms in other sectors to expand into new markets and compete more rigorously. Financial access also facilitates entry of new entrepreneurs. Therefore, access to finance is important to ensure entry and expansion, which is a key ingredient for competition to occur. Easy entry and expansion ensure that firms can quickly enter markets and compete with the incumbent firms, challenging any economic rent.

When there is competition among financial service providers, it ensures that access to such finance is both more competitive in its provision and available at more competitive rates. The more competitive are such rates, the more viable and profitable business ventures become, leading to further entry and expansion and market dynamism. These ultimately enhance market competition.

Fairness in access to such financial services is also important. Where such services are accessible to all players on a fair, reasonable and non-discriminatory basis, it ensures that they can compete at arm’s length.

Finally, competition in the financial sector at the national level is also important to ensure that the local financial services sector remains attractive at the global front. It further helps local players to face competition at the international level. Indeed, competition locally in a sector contributes towards the competitiveness of that sector on the global front.

**Impact of financial sector competition on end consumers**

Competition in the financial sector also has a direct bearing on end consumers, all the more so when we are talking about financial services at the retail level. Such competition ensures that consumers can benefit from quality products at competitive prices; this has a direct impact on the purchasing power of consumers and their welfare.

However, in theory and empirically, the interlink between competition policy and the financial sector is much more complex. At a policy level, there is a need to strike a proper balance between competition and other policy objectives like the stability of the financial sector as well as accessibility and control of financial activities. Indeed, at a global level, financial sectors are usually regulated like in Mauritius, where there are various regulators overseeing the sector such as, for instance, the Bank of Mauritius and the Financial Services Commission in the Mauritian context.

The Competition Commission works in collaboration with such institutions to ensure that its enforcement decisions factor in other policy objectives in so far as permitted by law. Various Memorandums of Understanding (MoUs) have been signed in that respect.

**Interventions by the Commission for fairer finance in Mauritius**

As at date, 18% of the investigations conducted by the Competition Commission were in the financial services sector. This includes merger reviews conducted among companies in the financial services sector. Besides mergers, if only collusive agreements and abuse of monopoly are considered, then 12% of such investigations were within the financial sector.

This, to an appreciable extent, tallies with the percentage of the GDP contributed by the financial sector, which is approximately 12%, as per the figures of Statistics Mauritius. This is a rough indication that competition issues in the financial sector are more or less in proportion with other sectors of the economy.

Some of the salient investigations conducted by the Competition Commission have been in the payment cards, hire purchase, housing loans and insurance sector.
COMPETITION IN FINANCIAL SECTOR

markets. We have recently concluded an investigation into payment cards, where the Competition Commission believes that the issuer interchange fee charged by the service providers is too high and may distort competition. The Competition Commission has in this matter directed the parties to reduce the said fee from 1% to 0.5%. The matter has been appealed in the Supreme Court.

The Competition Commission also conducted an investigation into the hire purchase market. In that market, the fee charged to merchants for selling their products under the hire purchase facility of the service provider varied so significantly across merchants that it could distort competition among the merchants. It could also raise barriers to entry in the supply of hire purchase itself. In that case, the party voluntarily agreed to resolve the matter through undertakings and has revised its fees to ensure that such variation is reasoned and less. Several hundreds of merchants have, as a result, seen their merchant fees reduced and this has restored competition among such merchants.

The insurance sector has also seen the intervention of the Commission in several cases, including merger cases, whereby the parties had to offer commitments to safeguard the process of competition.

How technology is changing the face of financial sector competition

The financial services sector, fuelled by technological changes and globalisation, is evolving. New products and markets are emerging, bringing new challenges for players. This market dynamism is itself driven to an appreciable extent by competition, bringing new competitive challenges in its wake.

For instance, digitalisation is causing payment systems to evolve to the next threshold. Mauritius has in recent years seen the emergence of several online payment platforms, which challenge traditional payment modalities. With such evolution, competition for financial services providers is not only from traditional competitors but it also arises as a result of new technology and usually comes from new players.

The question of whether current competition policy is adequate to deal with these changes, especially FinTech and Big Data, is a common theme in competition policy discussions. FinTech does not only bring challenges for competition related decisions but for other policy decisions as well.

Going global brings fresh challenges in its wake

A restructuring in the global business sector among management companies has also been observed. There has been an upsurge in mergers taking place among management companies and it usually includes international companies. Up to now the situation has not been alarming but the Competition Commission keeps an eye on these transactions to ensure that they are not harmful for competition.

More and more players are going global, and this development may pose enforcement challenges for competition authorities, more so when the parties are not physically located at the national level.

Financial sector competition has a direct bearing on end consumers

Indeed, the boundaries of competition itself are changing and through technology can link different markets, thus changing the dynamics of competition.

What the future of competition looks like

Competition in the financial sector is important, in fact, exceedingly so. The Competition Commission will keep ensuring that competition law is respected across all sectors in the economy and will endeavour to enhance competition enforcement.

In particular, the Competition Commission has embarked on a law review exercise which aims at improving the current competition law for a more robust, yet dynamic, competition law.

The COVID-19 crisis has brought several economic challenges in its wake and competition policy is no exception. Although it is too early to figure with certainty the effects of COVID-19 on competition policy, competition experts believe that in the eventuality of a recession, markets may become more concentrated, increasing the importance of robust competition policies. Indeed, the Competition Commission is closely monitoring the situation to ensure an optimal competition policy for the welfare of the country.
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