MAURITIUS

NATIONAL EXPORT STRATEGY

FINANCIAL SERVICES SECTOR

2017-2021

Republic of Mauritius

International Trade Centre

This National Export Strategy (NES) is an official document of the Government of Mauritius. The NES was developed on the basis of the process, methodology and technical assistance of the International Trade Centre (ITC) within the framework of its Trade Development Strategy programme.

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EXECUTIVE SUMMARY

The Financial Services Sector Strategy is an integral part of the National Export Strategy (NES) of Mauritius. The goal of the Strategy is to set the sector on the course of strategic development by addressing constraints in a comprehensive manner and defining concrete opportunities that can be realized through the specific steps detailed in its Plan of Action (PoA).

Over the next five years, the sector must accelerate away from its traditional jurisdiction-based model and improve the substance of its offerings. Increasing value addition, introducing new services and leveraging competitive advantage is the only path for sustainable development in the face of increasing global regulation to combat tax evasion and avoidance.

The Strategy's PoA responds to this task by setting four strategic objectives to support its realization:

1. Improve sector coordination and integration.
2. Improve the business environment by updating the legal and regulatory framework.
3. Improve capacities of the sector to provide world-class services.
4. Facilitate market penetration and diversification by stimulating demand for Mauritian financial services.

The Mauritian financial services sector has made great strides since its inception in the late twentieth century. The country has done an enviable job of leveraging its attributes as a stable jurisdiction for structuring investments and attracting global funds, while at the same time developing a reputation for world-class accounting and transactional services. Today the sector accounts for over 10% of gross domestic product (GDP), playing host to a large swathe of multinational banks, accounting firms and insurance companies.

Yet despite these accomplishments the sector has found it difficult to move into higher value added services. The country continues to rely on its vast network of tax treaties, specializing in offering basic services for investment holdings while leaving more important decisions and contracts to foreign counterparts. Competitiveness has been deeply hindered by the failure of stakeholders to cooperate and develop client-centric solutions.

These challenges are all the more pressing given the profound shifts taking place in the global regulatory environment for the financial sector. Spurred by deteriorating government budgets and populist sentiment against tax evasion, governments around the world are now working together to close loopholes and ensure tax compliance. This is ushering in a new era of coordinated regulation in the global financial sector, dramatically changing the requirements for success.

In light of these changes, Mauritius now finds itself at a turning point. Its old model, based around helping clients enjoy tax advantages, is fast becoming obsolete. Both the public and private sectors have therefore stepped up efforts to accelerate a shift towards a value added business model that incorporates more substance into the jurisdiction, as required by newly adopted regulations in clients' countries.

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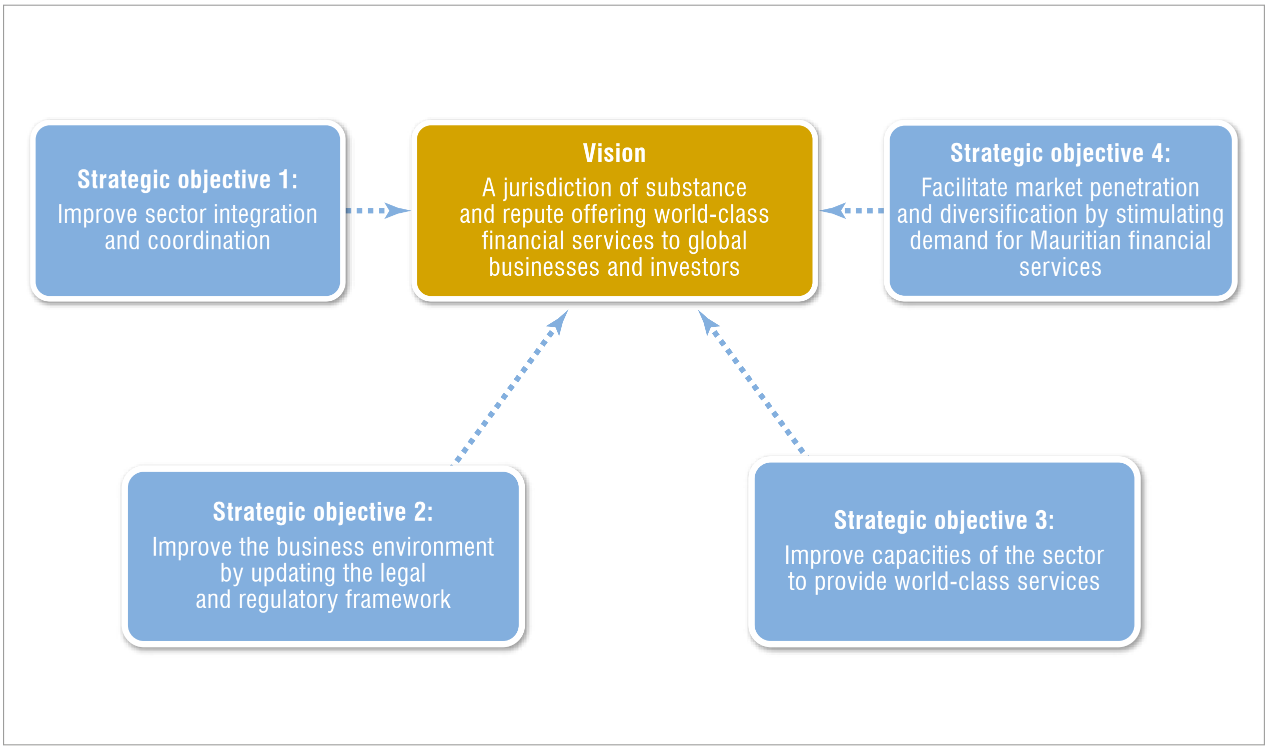
This Strategy, which seeks to stimulate this shift, was the result of extensive consultations with public and private sector stakeholders, leading to invaluable cooperation among sector operators. Key private sector stakeholders and leading institutions facilitated an exhaustive analysis of the sector. Market-led strategic orientations, prioritized by stakeholders and embedded into a detailed implementation plan, provide a clear road map that can be leveraged to address constraints to trade, maximize value addition and support regional integration. In addition, the inclusive approach ensured that all stakeholders were committed to the process. The Financial Services Sector Strategy provides Mauritius with a detailed PoA to achieve growth over the next five-year period. The Strategy is articulated around a ***unifying vision*** and ***four strategic objectives.***



INTRODUCTION

Photo: © shutterstock

Since its inception in 1989, the financial services sector has played a key role in the development of the Mauritian economy. Today it accounts for over 10% of GDP and the Government of Mauritius continues to look to the sector as a driver of future economic development. Given its importance, it is no surprise that the sector has received significant attention from policymakers. A series of detailed studies have already been performed and plans for addressing persistent constraints have been elaborated on numerous occasions, most recently in the form of two sector road maps in 2013.

Nathan Associates London Ltd formulated a development road map and branding strategy for the sector in December 2013. Oxford International Consultants (Mauritius) Ltd meanwhile prepared a road map for the Mauritian financial services industry just two months prior, in October 2013. These road maps, however, were never implemented in a systematic manner (although some of their suggestions have certainly been taken into account).

Throughout the NES consultations, stakeholders noted that these two road maps were considered to offer good guidance for the sector. Indeed, some stakeholders were of the opinion that a new Strategy was unnecessary and that efforts were simply needed to implement the previous road maps.

As such, the purpose of the present Strategy is not to duplicate past work; as was already said in the Oxford road map, there is no need to 'reinvent the wheel.'[1] Instead, this Strategy seeks to build on prior efforts. To this end, it seeks to reaffirm, update and validate the suggestions that have been developed over the past few years, while at the same time introducing new recommendations for value addition and diversification in light of the constantly changing global environment. Most importantly, however, it will ensure that an appropriate framework exists for the implementation of both old and new recommendations.

1. Oxford International Mauritius. (2013). *Mauritius for the International Financial Services Industry*. 4.

Photo: © shutterstock

GLOBAL CONTEXT

THE RISE OF OFFSHORE FINANCE

The financial services industry covers a wide range of activities including, but not limited to, commercial banking, investment banking, insurance, and various investment and asset management services. Through its numerous incarnations, finance helps to enable savings and investment, facilitate payments, provide protection from risks, allocate capital and support the creation of jobs and enterprises. The sector plays a key role in the functioning of the global economy, accounting for around 5% of global GDP[2] and 11%[3] of global service exports.[4] The sector is more prominent in developed economies, accounting for 13% of developed market service exports, as opposed to just 5% of developing market service exports.

The globalization of the past few decades has spurred the proliferation of cross-border transactions and, consequently, capital flows.[5]The scale of this transformation has been impressive and has given rise to offshore finance; global external liabilities grew from just US$ 1 trillion in 1980 to US$ 25 trillion in 2013. Offshore finance is generally defined as the provision of financial services by banks and non-bank financial institutions to non-residents. This may involve both borrowing from and lending to non-residents.

The definition of an offshore financial centre (OFC) is more elusive, however: since most financial centres of significance engage in at least some offshore activity, the majority of financial sectors could technically be called OFCs. A more appropriate and narrow definition is therefore:

a centre where the bulk of financial sector activity is offshore on both sides of the balance sheet (that is the counterparties of the majority of financial institutions' liabilities and assets are non-residents), where the transactions are initiated elsewhere and where the majority of the institutions involved are controlled by non-residents.'[6]

OFCs are jurisdictions:

i. With a large portion of financial service providers catering mainly to non-residents;
ii. With external assets and liabilities out of proportion to the size of domestic financial intermediation;
iii. That often provide some of the following benefits: low or zero taxation, lower levels of financial regulation and banking secrecy and/or anonymity.

Capital flows to OFCs have boomed in recent years: annual foreign direct investment (FDI) to OFCs was valued at US$ 75 billion from 2007 through 2012, as opposed to US$ 15 billion from 2000 to 2006.[7] OFCs also play a large role as intermediaries for multinational companies looking to channel funds elsewhere: 30% (or US$ 6.5 trillion) of corporate investment stock destined for non-OFCs is channelled through OFCs.[8]

2. Mashayekhi., Mina (2012). *The Contribution of Trade in Financial Services to Economic Growth and* development. *Development*. United Nations Conference on Trade and Development.

3. International Trade Centre (2016). Trade Map. Available from http://www.trademap.org/.

4. Combined exports of 'financial services' & 'insurance and pension services'.

5. Nathan Associates. (2013). *Mauritius International Financial Services, Component 2: Mauritius International Financial Centre*. p19.

6. International Monetary Fund (2000). *Offshore.Financial Centres*.

7. United Nations Conference on Trade and Development (2013). *World Investment Report 2013*.

8. United Nations Conference on Trade and Development (2015). *World Investment Report 2015*.

Box 1: Types of OFCs

OFCs run the gamut from sophisticated centres such as Hong Kong (China) and Singapore to smaller locations such as those found in the Caribbean. While the former may add significant value to financial transaction, some of the smallest may add little value and limit their service provision to the booking of transactions. Given this variety, the International Monetary Fund proposes three broad classifications for OFCs, categorizing them according to their capacities and business models.

International financial centres (IFCs) – such as London, New York, and Tokyo – are large international full-service centres with advanced settlement and payments systems, supporting large domestic economies, with deep and liquid markets where both the sources and uses of funds are diverse, and where legal and regulatory frameworks are adequate to safeguard the integrity of principal–agent relationships and supervisory functions. IFCs generally borrow short-term from non-residents and lend long-term to non-residents. In terms of assets, London is the largest and most established such centre, followed by New York, the difference being that the proportion of international to domestic business is much greater in the former.

Regional financial centres differ from the first category in that they have developed financial markets and infrastructure and intermediate funds in and out of their region but have relatively small domestic economies. Regional centres include Hong Kong (China), Singapore (where most offshore business is handled through separate Asian Currency Units) and Luxembourg.

OFCs can be defined as a third category that are mainly much smaller and provide more limited specialist services... OFCs as defined here still range from centres which provide specialist and skilled activities, attractive to major financial institutions, and more lightly regulated centres that provide services that are almost entirely tax-driven and have very limited resources to support financial intermediation. While many of the financial institutions registered in such OFCs have little or no physical presence, [this] is by no means the case for all institutions.

Source: International Monetary Fund (2000).

OFCs are known for offering a wide variety of services including banking, fund management, insurance, trust businesses, tax planning and international business corporations (IBCs). Companies and persons may elect to use OFCs rather than another jurisdiction for number legitimate purposes, including:[9]

- Lower explicit taxation and consequentially increased after-tax profit;
- Simpler prudential regulatory frameworks that reduce implicit taxation;
- Minimum formalities for incorporation;
- The existence of adequate legal frameworks that safeguard the integrity of principal–agent relations;
- The proximity to major economies, or to countries attracting capital inflows;
- The reputation of specific OFCs and the specialist services provided;
- Freedom from exchange controls;
- A means for safeguarding assets from the impact of litigation, etc.

It should be noted that OFCs are mainly used due to tax considerations. The following advantages of OFCs should also not be overlooked:[10]

- Tax neutrality: An offshore vehicle can be used for tax-neutral solutions, for example, for joint ventures from countries with different tax regimes.
- Legal neutrality: An offshore centre can be used for shareholders dispersed across different legal jurisdictions.
- Risk mitigation: IFC can help firms from countries with weak institutions to set up an international business more easily and gain access to international capital markets and legal systems.
- Administrative: It can be convenient for internationally mobile persons and firms to be based in a neutral location for administrative purposes.

9. International Monetary Fund (2000). *Offshore.Financial Centres*.

10. Nathan Associates. (2013). *Mauritius International Financial Services, Component 2: Mauritius International Financial Centre,* p. 19.

Despite the existence of legitimate uses, OFCs can also be used for tax evasion and money-laundering if entities seek to hide assets and income behind the walls of bank secrecy laws (see appendix 1 for some examples of the ways, both legitimate and illegitimate, that OFCs can be used by various subsegments). It is largely for this reason that OFCs have come under increasing scrutiny in recent years. Western countries, home to most high-net-worth individuals (HNWIs) and multinational companies, have renewed their efforts to crack down on tax evasion, spurred in part by the financial crisis and austerity measures. Other efforts have focused on closing loopholes that allow multinational companies to avoid tax liabilities at home through aggressive tax planning and the complex structuring of transactions.

As such, recent years have seen renewed efforts on both a bilateral and multilateral basis to enhance transparency, facilitate the exchange of information between jurisdictions, and increase and harmonize regulation. Not only have these efforts eroded some of the conditions that previously provided OFCs with a competitive edge but they have also drawn attention to OFCs and helped foment negative public opinions.

LEADING COMPETITORS

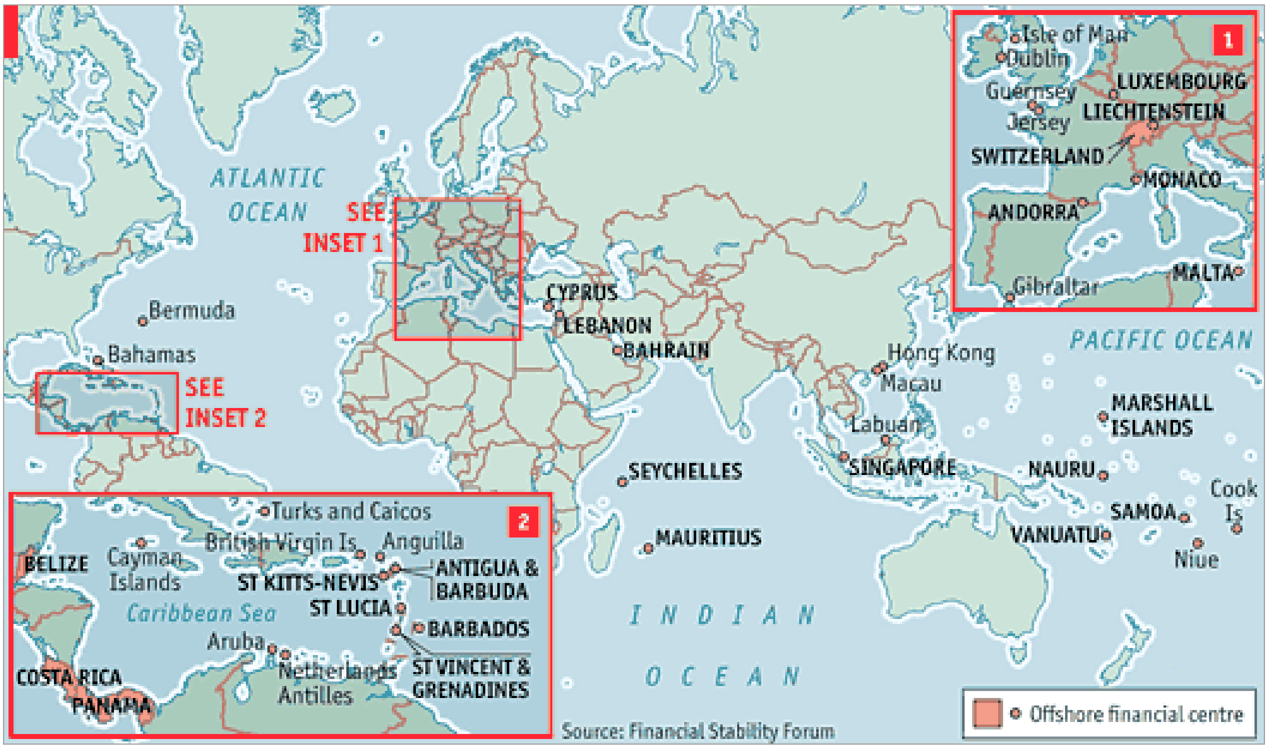
While international and offshore finance centres are found throughout the world, they are concentrated in Europe, the Caribbean, the Gulf, and Asia and the Pacific.

According to the most recent ranking of OFCs by the Global Financial Centre Index 14, the top 10 OFCs are Jersey, Guernsey, the Cayman Islands, Hamilton, the Isle of Man, the British Virgin Islands, Malta, the Bahamas, Mauritius and Gibraltar.[11]

The competitiveness of financial centres is determined largely by six key areas: business environment, taxation, people, infrastructure, reputation and market access.

11. Long Finance (2013). *The Global Financial Centres Index 14*

Figure 1: *Map of international finance centres*



Source: Oxford International Mauritius (2013), p. 2.

Box 2: Factors for a competitive financial centre

Areas of competitiveness	Main concerns
Business environment	• Rising regulatory burden • Efficiency and simplicity of regulations • Stable and predictable environment
Taxation	• Lower, competitive tax regime • Stability and transparency
People	• Rising availability of skilled labour • Flexibility and mobility
Infrastructure	• Focus on airports and trains (physical connectivity) • Information and communications technology infrastructure is also critical
Reputation	• Quality of life and safety • Emphasis on promotional bodies and urban authorities
Market access	• Largely taken for granted.

Source: Long Finance (2013). *The Global Financial Centres Index 14*.

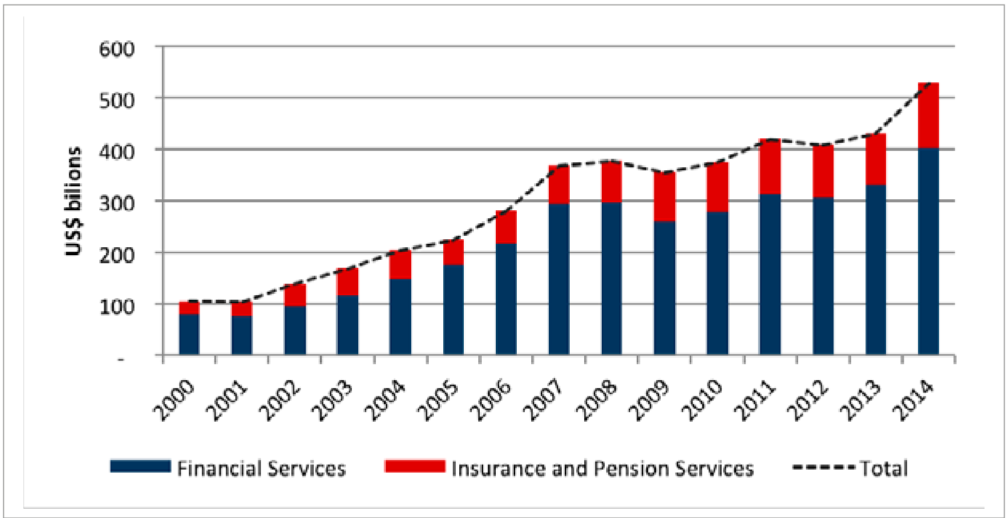
GLOBAL TRADE HAS BEEN RESILIENT

Financial services trade data is organized according to two subsegments: 'financial services,' and 'insurance and pension services.'[12] Global exports of financial services reached an all-time high of US$ 530 billion in 2014, of which 76% was accounted for by 'financial services' and 24% by 'insurance and pension services'.[13] In total, sectoral exports grew by 10% over the past 10 years: exports of financial services grew by 10.5% and exports of insurance and pension services grew by 8.6%.

12. A detailed definition of each category can be found under the trade analysis of the value chain mapping section.

13. Calculated from: International Trade Centre (2016). Trade Map. Available from http://www.trademap.org/.

Figure 2: *Global exports of financial services (combined revision), 2002–2014*



Source: International Trade Centre (2016).

Geographically, exports are dominated by Europe and Central Asia, which account for 60% of the sector's exports, followed by North America (21%), East Asia and the Pacific 13%), South Asia (2%), the Middle East and North Africa (1%), Latin America and the Caribbean (1%), and sub-Saharan Africa (0.3%). Imports are similarly concentrated: Europe and Central Asia (46%), North America (21%), East Asia and the Pacific (20%), South Asia (4%), the Middle East and North Africa (4%), Latin America and the Caribbean (4%), and sub-Saharan Africa (1%). South Asia and the Middle East and North Africa are the two fastest-growing regions with respect to both exports and imports.

FINANCIAL SERVICES

Exports

While the bulk of financial services exports originate from three regions – Europe and Central Asia, North America, and East Asia and the Pacific – the Middle East and North Africa, and South Asia are the two fastest-growing regions. Although their share of global exports continues to be very small, their 10-year growth (35% and 31% respectively) has been the highest in the world.

The past year (2015) has yielded mixed results for different regions: exports from Europe and Central Asia jumped by a considerable 30% year-on-year, while those from the Middle East and North Africa grew by a staggering 168%. Exports from East Asia and the Pacific, and North America grew at a slower but still respectable 19% and 8% respectively. South Asia (– 6%), Latin America and the Caribbean (– 45%), and sub-Saharan Africa (–9%) meanwhile all saw declining exports in 2014 with respect to 2013.

Table 1: *Trade in financial services by region*
('financial services' + 'insurance and pension services, Exports 2014' and 'Imports 2014')

Region	Exports 2014 (US$)	Share (%)	10-year CAGR (%)	Imports 2014 (US$)	Share (%)	10-year CAGR (%)
Europe & Central Asia	319 784 560	60.4	8.9	164 195 460	46.2	5.0
North America	113 161 803	21.4	9.5	76 453 476	21.5	9.1
East Asia & Pacific	71 088 121	13.4	13.0	69 532 231	19.6	11.1
South Asia	8 488 259	1.6	20.5	13 145 840	3.7	16.0
Middle East & North Africa	7 931 617	1.5	20.3	13 717 862	3.9	15.7
Latin America & the Caribbean	7 452 938	1.4	11.4	14 668 014	4.1	7.1
Sub-Saharan Africa	1 763 900	0.3	5.1	3 933 533	1.1	5.9

Source: International Trade Centre (2016).

Table 2: *Share of financial services exports by region, 2014*

Region	Exports 2014 (US$)	Share (%)	10-year CAGR (%)	Change year-on-year (%)
North America	95 005 422	23.6	9.7	7.7
Europe & Central Asia	236 082 185	58.5	9.8	30.3
East Asia & the Pacific	56 712 154	14.1	13.3	18.8
South Asia	5 976 914	1.5	31.2	-5.7
Middle East & North Africa	6 282 360	1.6	34.5	167.6
Latin America & the Caribbean	2 101 079	0.5	9.0	-44.9
Sub-Saharan Africa	1 229 528	0.3	6.2	-8.6

Source: International Trade Centre (2016).

The United States of America is the largest exporter of financial services, accounting for 22% of the sector's exports in 2014, followed by the United Kingdom of Great Britain and Northern Ireland (19% of global exports), Luxembourg (14%), Switzerland (5%), Germany (5%), Singapore (%), and Hong Kong (4%). A number of the top players have grown at particularly robust rates, including Germany, Singapore, Hong Kong, and France.

Imports

Europe and Central Asia account for 64% of financial services imports, followed by North America (13%) and East Asia and the Pacific (14%). As with exports, 10-year growth has been highest in the Middle East and North Africa (29%) and South Asia (18%). Of particular note, demand in sub-Saharan Africa has been expanding at a considerable pace of 11% (10-year compound annual growth rate (CAGR)). With regards to recent trends, year-on-year growth was very positive for most markets in 2014: Europe and Central Asia (38%), East Asia and the Pacific (33%), the Middle East and North Africa (15%), Latin America and Caribbean (155), and sub-Saharan Africa (24%). Only South Asia (– 23%) saw its imports decline during the past year.

Luxembourg is the most important importer of financial services (19% of global imports), followed by the United States (11%), Germany (8%), the United Kingdom (8%) and Ireland (5%). Demand has grown very quickly in China (10-year CAGR 43%), Italy (21%) and Germany (15%).

Table 3: *Top 10 exporters of financial services*

Exporter	Exported value in 2004 (US$)	Exported value in 2014 (US$)	10-year CAGR (%)	Share (%)
World	**148 528 772**	**403 389 642**	**11**	**100**
United States	36 389 000	87 264 048	9	22
United Kingdom	37 139 772	75 762 560	7	19
Luxembourg	19 419 642	56 140 484	11	14
Switzerland	11 452 384	22 122 700	7	5
Germany	5 262 210	20 558 160	15	5
Singapore	3 716 654	20 541 200	19	5
Hong Kong (China)	4 556 000	17 095 758	14	4
France	1 447 791	14 376 623	26	4
Ireland	5 298 219	11 265 270	8	3
Belgium	2 972 565	8 744 421	11	2

Source: International Trade Centre (2016).

Table 4: *Share of financial services imports by region, 2014*

Region	Exports 2014 (US$)	Share (%)	10-year CAGR (%)	Change year-on-year (%)
North America	24 367 737	13.3	6.2	6.6
Europe & Central Asia	117 492 222	64.3	11.2	38.4
East Asia & the Pacific	25 524 097	14.0	13.6	33.4
South Asia	4 647 228	2.5	18.2	-23.2
Middle East & North Africa	5 098 999	2.8	28.8	14.7
Latin America & the Caribbean	3 827 866	2.1	7.7	15.1
Sub-Saharan Africa	1 736 117	1.0	10.9	24.0

Source: International Trade Centre (2016).

Table 5: *Top 10 importers of financial services*

Importer	Imported value in 2004 (US$)	Imported value in 2014 (US$)	10-year CAGR (%)	Share (%)
World	**64 786 898**	**182 694 266**	**11**	**100**
Luxembourg	10 107 963	34 699 316	13	19
United States	11 156 000	19 674 652	6	11
Germany	3 613 269	15 063 248	15	8
United Kingdom	7 290 637	14 289 262	7	8
Ireland	2 775 139	8 938 918	12	5
Italy	1 264 023	8 609 961	21	5
France	2 492 038	6 613 959	10	4
Japan	2 651 993	5 300 134	7	3
Belgium	3 209 725	5 182 419	5	3
China	138 096	4 940 200	43	3

Source: International Trade Centre (2016).

INSURANCE AND PENSION SERVICES

Exports

Exports of insurance and pension services are dominated by Europe and Central Asia (66%), North America (14%), and East Asia and Pacific (12%).The strongest 10-year growth was realized in Latin America and the Caribbean (12.5%), East Asia and the Pacific (11.8%), and South Asia (10.6%). Year-on-year, all markets were positive with the exception of the Middle East and North Africa, and sub-Saharan Africa, both of which experienced a decline in 2014 from 2013.

The United Kingdom is the biggest exporter of insurance and pension services, accounting for 27% of global exports, followed by the United States (13%), Ireland (10%), and Germany (8%). While growth has been strong in many countries, exports have expanded at a particularly strong pace in France (23%), China (28%) and Mexico (15%).

Table 6: *Share of insurance and pension services exports by region, 2014*

Region	Exports 2014 (US$)	Share (%)	10-year CAGR (%)	Change year-on-year (%)
North America	18 156 381	14.4	5.6	2.0
Europe & Central Asia	83 702 375	66.3	8.7	35.3
East Asia & the Pacific	14 375 967	11.4	11.8	18.3
South Asia	2 511 345	2.0	10.6	6.7
Middle East & North Africa	1 649 257	1.3	5.9	-12.1
Latin America & the Caribbean	5 351 859	4.2	12.5	28.7
Sub-Saharan Africa	534 372	0.4	2.9	-3.4

Source: International Trade Centre (2016).

Table 7: *Top 10 exporters of insurance and pension services*

Exporter	Exported value in 2004 (US$)	Exported value in 2014 (US$)	10-year CAGR (%)	Share (%)
World	**55 457 821**	**126 281 556**	**9**	**100**
United Kingdom	9 088 579	33 671 560	14	27
United States	7 313 541	16 434 774	8	13
Ireland	9 711 125	12 422 154	2	10
Germany	3 624 444	9 733 533	10	8
Switzerland	3 897 137	7 214 920	6	6
France	891 521	6 880 936	23	5
China	380 783	4 574 100	28	4
Singapore	1 313 549	3 939 070	12	3
Luxembourg	1 665 953	3 612 516	8	3
Mexico	863 871	3 553 930	15	3

Source: International Trade Centre (2016).

Imports

North America is the biggest importer of insurance and pension services (30%), followed by Europe and Central Asia (27%), and East Asia and Pacific (25.4%). Growth has been strongest in South Asia (15%), Middle East and North Africa (11.9%), and East Asia and Pacific (10%). The value of imports has fallen in most markets over the past year (2015) and the declines were particularly large in the Middle East and North Africa (– 2.9%), and sub-Saharan Africa (– 22.7%).

The most important importing country of insurance and pension services is the United States (27%), followed by China (13%), Germany (6%), Ireland (5%) and India (5%). Demand has expanded considerably in China (10-year CAGR of 14%), India (16%) and France (16%).

Table 8: *Share of insurance and pension services imports by region, 2014*

Region	Exports 2014 (US$)	Share (%)	10-year CAGR (%)	Change year-on-year (%)
North America	52 085 739	30.1	4.4	-5.5
Europe & Central Asia	46 703 238	27.0	5.1	21.6
East Asia & the Pacific	44 008 134	25.4	10.0	-3.5
South Asia	8 498 612	4.9	15.0	33.1
Middle East & North Africa	8 618 863	5.0	11.9	-22.9
Latin America & the Caribbean	10 840 148	6.3	7.0	-6.1
Sub-Saharan Africa	2 197 416	1.3	3.3	-22.7

Source: International Trade Centre (2016).

Table 9: *Top 10 importers of insurance and pension services*

Importer	Imported value in 2004 (US$)	Imported value in 2014 (US$)	10-year CAGR (%)	Share (%)
World	**91 276 575**	**172 952 150**	**7**	**100**
United States	29 088 374	47 316 384	5	27
China	6 123 570	22 454 100	14	13
Germany	5 233 652	10 178 239	7	6
Ireland	7 498 463	8 535 863	1	5
India	1 747 700	7 921 310	16	5
France	1 410 541	6 282 556	16	4
Japan	3 440 014	5 161 589	4	3
Singapore	1 703 259	4 765 400	11	3
Canada	4 714 760	4 613 595	0	3
Mexico	2 288 160	4 219 870	6	2

Source: International Trade Centre (2016).

REGIONAL CONTEXT

With its unique location in the Southern Indian Ocean, Mauritius is intimately tied to developments in both sub-Saharan Africa and South Asia. Taken together, sectoral exports from these two regions have grown by an annual rate of 15.7% over the past 10 years, reaching US$ 10.25 billion in 2014 and placing them among the fastest-growing areas of the world. 'Financial services' account for 70% of exports and 'insurance and pension services' account for the remaining 30%. The most important exporter in the region is India, which accounts for 77% of total exports, followed by South Africa (11%), Sri Lanka (4%), Kenya (3%) and Mauritius (2%). Double-digit export growth has been realized for most of the top players over the past 10 years.

Imports have grown by a similarly impressive rate (10-year CAGR of 13%), signaling that demand for financial service in the region is growing at a healthy clip. As opposed to exports however, the majority of imports (63%) are comprised of insurance and pension services, highlighting the fact that local service providers have found it particularly difficult to keep up with growing demand for insurance and pension products. Imports were valued at $17 billion in 2014. India is the most important market, followed by Nigeria (9%) and South Africa (4%). All major markets, with the exception of South Africa, have been growing at double-digit rates over the past 10 years.

Table 10: *Top 10 exporters of financial services in South Asia and sub-Saharan Africa (total sector exports: 'financial services' + 'insurance and pension services')*

Exporter	Exported value in 2004 (US$)	Exported value in 2014 (US$)	10-year CAGR (%)	Change year-on-year (%)	Share (%)
Total	**2 386 494**	**10 252 159**	**16**	**-3**	**100**
India	1 183 018	7 929 980	21	-2	77
South Africa	531 466	1 115 517	8	-2	11
Sri Lanka	50 330	370 880	22	8	4
Kenya	12 359	284 474	37	n.a.	3
Mauritius	24 408	168 958	21	-37	2
Pakistan	59 000	167 000	11	30	2
Zambia	10 500	79 460	22	6	1
Uganda	13 271	49 192	14	27	0
Nigeria	5 538	35 983	21	37	0
Maldives	400	17 791	46	n.a.	0

Source: International Trade Centre (2016).

Photo: © shutterstock

Table 11: *Top 10 importers of financial services in South Asia and sub-Saharan Africa (total sector exports: 'financial services' + 'insurance and pension services')*

Importer	Imported value in 2004 (US$)	Imported value in 2014 (US$)	10-year CAGR (%)	Change year-on-year (%)	Share (%)
Total	**5 196 246**	**17 079 373**	**13**	**2**	**100**
India	2 538 271	12 036 680	17	5	70
Nigeria	0	1 561 296	n.a.	19	9
South Africa	540 058	710 256	3	-2	4
Sri Lanka	110 438	633 242	19	53	4
Democratic Republic of the Congo	123 511	531 145	16	11	3
Pakistan	166 000	432 000	10	3	3
Kenya	108 879	284 468	10	n.a.	2
Sudan and South Sudan	1 650	283 647	67	31	2
Mauritius	61 130	174 132	11	-46	1
Zambia	34 900	147 213	15	8	1

Source: International Trade Centre (2016).

RECENT TRENDS AND EXPECTED DEVELOPMENTS

The last few years have been characterized by a number of macroeconomic trends and developments in the international regulatory framework. These trends seem set to continue in the foreseeable future. As such, they are likely to play a key role in shaping the international financial services sector in years to come. The following trends are of particular importance to the Mauritian financial services sector.

Changing compliance framework (Automatic Exchange of Information, Common Reporting Standard)

The most important shift in recent years has been the increase in compliance requirements for international financial institutions in light of a crackdown on tax evasion and terrorism financing by Western countries. These requirements have spurred the development of automatic exchange of information. This involves the systematic transmission of financial information from one tax administration (where an account is held) to another (the resident administration of the concerned taxpayer). Traditionally performed through bilateral agreements, more recent efforts are becoming global in nature. The Organisation for Economic Co-operation and Development (OECD) developed the Common Reporting Standard as a global methodology for sharing financial data (automatic exchange of information) among relevant tax authorities. It builds on the groundwork laid by the Foreign Account Tax Compliance Act (FATCA)[14] and the European Union (EU) Savings Directive.[15]

These changes require significant investments in operational and data capacities so that financial institutions can become capable of performing necessary due diligence, monitoring compliance and ensuring the provision of data in the correct form to regulatory authorities.[16] The risk of non-compliance can be quite severe, from both a financial and reputational standpoint.

Increased scrutiny of aggressive tax planning (Base Erosion and Profit Sharing)

Base Erosion and Profit Sharing (BEPS) 'refers to tax planning strategies that exploit gaps and mismatches in tax rules to make profits 'disappear' for tax purposes or to shift profits to locations where there is little or no real activity but the taxes are low, resulting in little or no overall corporate tax being paid.'[17] BEPS has become a hot issue recently and countries are seeking to rein in aggressive tax planning strategies. In response, the OECD has developed an action plan to address the issue by closing loopholes, eliminating treaty abuse and improving international cooperation. The implementation of this action plan is likely to decrease the competitiveness of OFCs, including Mauritius, as low-tax jurisdictions.

Growth of demand for financial services in emerging economies

The financial sector is currently in the midst of an unprecedented increase in the number of potential customers: it is estimated that between 2010 and 2020, 1 billion people will have moved into the middle class. Nowhere is the growth in potential clients more striking than in emerging markets, where growth in GDP and wealth is expected to outpace that of developed markets. This rising wealth in developing economies is spurring an increase in demand from their residents for financial services across all subsectors, including commercial banking, insurance, capital markets, real estate and asset management.[18]

In addition to a growing middle class, the growth of HNWI (people with over US$ 1 million in assets) and mass affluent individuals (people with assets between US$ 100,000 and US$ 1 million) in South America, Africa, Asia and the Middle East is playing a key role in the expansion of demand for financial services.[19]In the Middle East and Africa, and Asia and the Pacific –two regions of particular importance to Mauritius– total assets under management (AuM) are expected to outpace most of the world and grow by an annual rate of 11.9% and 9.8% respectively between 2012 and 2020.

14. Foreign Account Tax Compliance Act: This act requires foreign financial institutions (FFIs) to report to the Internal Revenue Service information about financial accounts held by United States taxpayers, or by foreign entities in which United States taxpayers hold a substantial ownership interest. In order to implement FATCA, the United States has signed intergovernmental agreements for the reciprocal sharing of data with other countries.

15. EU Savings Directive: This directive requires Member states to share information on interest income, as well as information on certain insurance products.

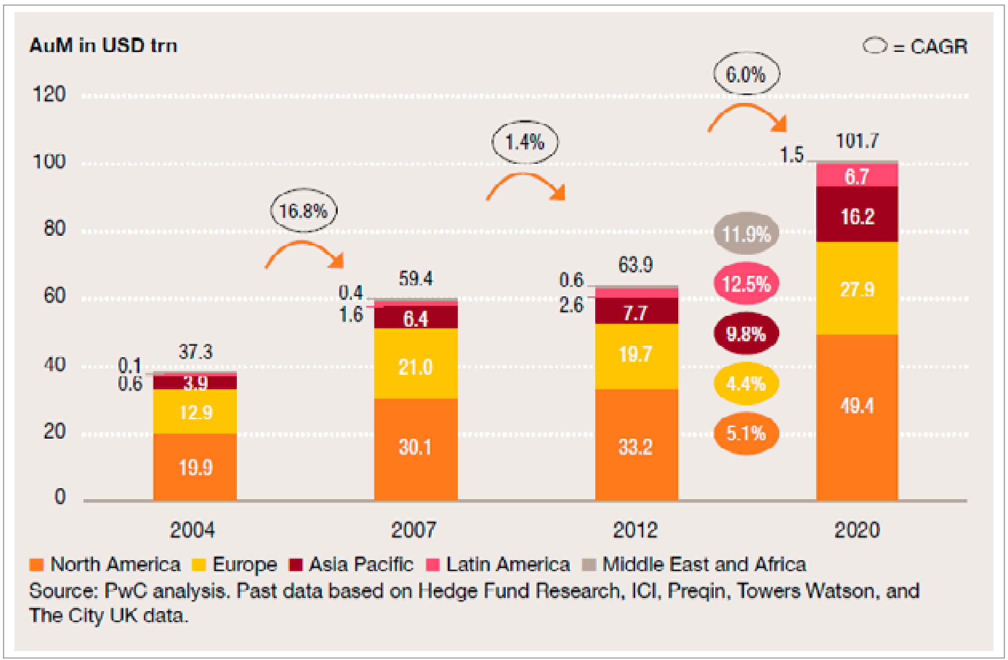
16. Price Waterhouse Cooper.Coopers (2014). Final OECD standard for automatic exchange of tax information signals compliance challenges as offshore asset transparency increases. *Tax Policy Bulletin*, 8 August 8, 2014.

17. OECD.Organisation for Economic Co-operation and Development (2016). BEPS – frequently asked questions. Accessed 06/01/2016. <http://www.oecd.org/ctp/beps-frequentlyaskedquestions.htm> Available from http://www.oecd.org/ctp/beps-frequentlyaskedquestions.htm.

18. PWC. Price Waterhouse Coopers (2014). *Asset Management 2020.: A Brave New World*. 2014. Pg, p. 11.

19. PWC. Asset Management 2020. A Brave New World. 2014. Pg. 11. *Ibid*.

Figure 3: *Global assets under management projection by region for 2020*



Source: Price Waterhouse Coopers (2014). Asset Management 2020: A Brave New World, p. 10.

In addition to the growth of demand for financial services that accompanies rising wealth and incomes in developing countries, there is also increased demand from the growing legions of large companies operating in (or looking to sell to) emerging markets. These companies require insurance, trade finance, commercial banking and various corporate finance services, among others. Economic development is also creating the need for the financing of infrastructure, real estate and public–private partnership (PPP) projects.

Increasing FDI intoAfrica and growing private equity activity

The attractive growth of emerging market economies with respect to developed markets continues to attract attention from foreign investors. Africa attracted US$ 87 billion of FDI through 660 projects in 2014, up 65% from 2013 levels.[20]

African FDI accounted for 13% of global FDI by capital and 5% of global projects.[21] The majority of African FDI originated from Western Europe (47.6% of capital), followed by North America (13%), Africa (10%), Asia–Pacific (9.6%) and the Middle East (5.5%). The biggest beneficiaries of FDI in Africa are South Africa (116 projects), Morocco (65), Kenya (57), Egypt (51), Mozambique (50) and Nigeria (43). The most important sectors were coal, oil and natural gas (38% of inbound capital), real estate (14%), alternative/renewable energy (11%), chemicals (8%), communications (7%), and building and construction materials (5%). The biggest sector by project count however was the financial sector (20%, 133 projects). Indeed, the financial sector has been a leading sector since 2006 and financial sector foreign direct investment (FDI) grew by 36% in 2014.

Private equity (PE) has played an increasingly critical role in channelling funds to the region. Not only is PE one of the growth leaders in the asset management space but it is growing at a particularly strong pace in the region. PE fundraising in Africa reached US$ 4.1 billion in 2014; deal value rose 90% to US$ 8.1 billion; and last year's 40 exits were an all-time high.[22] This growth seems set to continue: according to a survey with the Emerging Markets Private Equity Association, 36% of LP respondents plan to enter or expand investments in sub-Saharan Africa in the next two years.[23] This is the highest percentage for any emerging market region.

20. fDi Intelligence. (2015). *The Africa Investment Report 2015*.
21.. *Ibid*.

22. EY.Ernst & Young Global Limited (2015). *Private Equity Roundup: Africa*. 2015.
23. *Ibid*., p. 8.

African PE is currently subject to two particularly interesting trends: firstly, there is an increase in intraregional PE investment.[24] Due to the improving integration of regional economies and value chains, Ernst and Young Global estimates that intraregional FDI now accounts for 19% of African FDI, making it the second-largest source of FDI funding in Africa, second only to Europe. Secondly, investment has begun to diversify away from the traditional extractive industries into consumer-oriented industries as a result of the growing consumer class.

Rise of alternative investment products

The asset management space has been steadily shifting away from traditional, actively managed products towards passives,[25] solutions,[26] specialty products[27] and alternative[28] products. Of particular interest is the move towards alternative products and active specialties, given that they represent particularly interesting opportunities for OFCs such as Mauritius that are specialized in channelling FDI and foreign portfolio investment (FPI) towards developing countries in Africa and Asia.

These investment categories experienced a pronounced boom from 2008 to 2014, with AuM growing by annual rates of 26% and 12.5% respectively.[29]Alternative products are now valued at US$ 8 trillion, accounting for 11% of global AuM, while active specialties are valued at US$ 18 trillion, accounting for 24% of AuM. This trend is expected to continue: alternative products are forecast to receive 14% of net inflows from 2015 to 2018 and active specialties are forecast to receive 22%. By 2020, Price Waterhouse Coopers estimates that alternatives will have US$ 13 trillion in AuM out of a total US$ 101.7 trillion AuM globally.[30]

24. *Ibid*., p. 7.

25. Includes passive funds, such as index funds and ETFs.

26. Includes absolute return, target date, global asset allocation, flexible, income, and volatility funds.

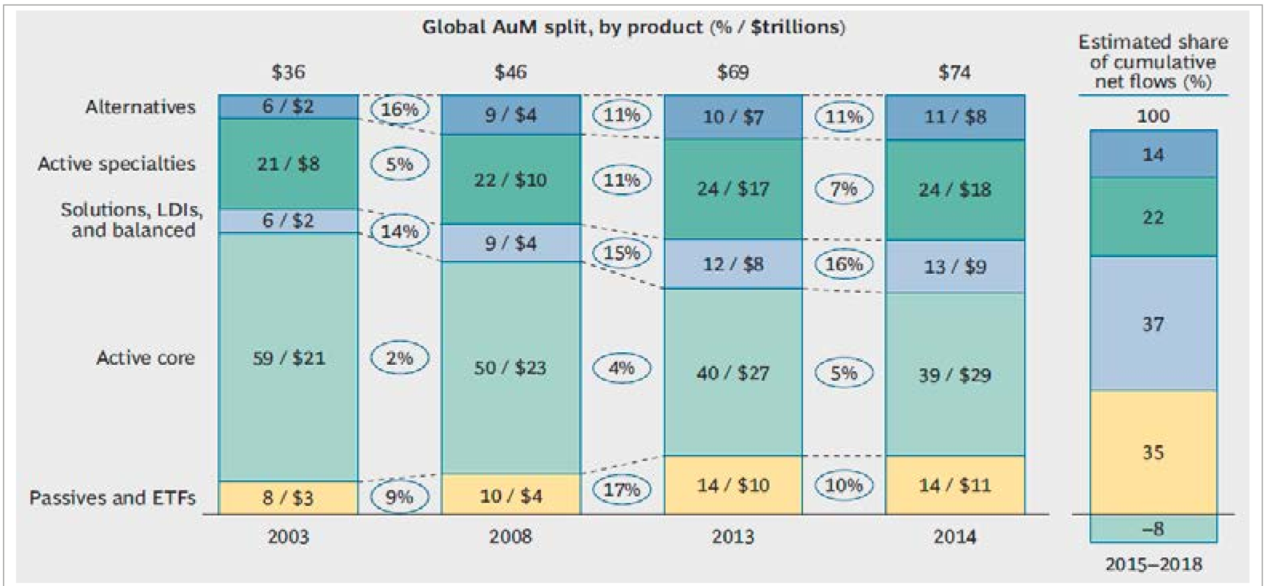
27. Includes equity specialties (foreign, global, emerging market, small and mid cap, and sector) and fixed income specialties (credit, emerging market, global, high yield, convertible)).

28. Includes hedge funds, private equity, real estate, infrastructure, and commodity funds.

29. Boston Consulting Group (2015). *Global Asset Management 2015: Sparking Growth* through go-to-market Strategy. July, 2015*With Go-To-Market Excellence*.

30. Price Waterhouse Coopers (2014). *Asset Management 2020.: A Brave New World*. 2014. Pg, p. 8.

Figure 4: *Global assets under management by product, 2003–2014*



Source: Boston Consulting Group (2015), p. 13.

Photo: © shutterstock

Box 3: Key takeaways for the Mauritian financial services sector

- Global exports of financial services reached an all-time high of US$ 530 billion in 2014, having grown by a 10% CAGR over the past 10 years.
- Although trade in financial services is dominated by the West, the Middle East and North Africa, and South Asia are the fastest-growing regions with regards to both imports and exports of financial services.
- The competitiveness of financial centres is determined largely by six key areas: business environment, taxation, people, infrastructure, reputation and market access.
- Regulatory developments will require significant investments in operational and data capacities, and the consequences of non-compliance can be severe.
- Certain offshore advantages will be lost due to regulatory developments (such as BEPS), yet OFCs may continue to play an important role in international finance, particularly their ability to offer a stable and neutral jurisdiction, specialized services, access to relevant legal and protection agreements, and other conditions that may not be available onshore.
- The growing legions of middle class, HWNI, and mass affluent individuals in developing countries are demanding greater levels of financial services, providing opportunities for well-placed IFCs.
- There is increased demand from the growing legions of large companies operating in (or looking to sell to) emerging markets. Economic development is also creating a need for the financing of infrastructure, real estate and PPP projects.
- Alternative products (now valued at US$ 8 trillion, 11% of global AuM) are expected to receive 14% of net inflows between 2015 and 2018. PE will be an important source of alternative product growth.
- Africa is offering a variety of interesting (and increasingly large) deal opportunities: PE fundraising in Africa reached US$ 4.1 billion in 2014; deal value rose 90% to US$ 8.1 billion; and lastly, PE emerged as a leading sector, with FDI growing by 36% in 2014.

VALUE CHAIN ANALYSIS AND SECTOR DIAGNOSTICS

HISTORICAL PERSPECTIVE

The origins of the Mauritian international finance sector lie in the export-processing zone that was created in 1971,[31] which provided exporters with various tax and duty considerations while at the same time restricting their access to domestic markets. As such, the programme's goal was to spur income and employment generation without destabilizing the domestic competitive landscape. A decade later, interest began to build around the idea of establishing an OFC as a means of extending this idea to the financial sector.

The process of turning Mauritius into an OFC began in 1989, with an amendment to the Banking Act of 1988 that introduced offshore banking to the legislative system, and the 1990 amendment to the Companies Act of 1984 that allowed for the establishment of offshore companies.[32] Although Barclays Bank was granted the first offshore banking and management company licence in 1989, the sector only gained momentum in 1992 with the enacting of the Offshore Trusts Act and Mauritius Offshore Business Activities Act, the latter of which established the Mauritius Offshore Business Activities Authority to regulate and promote the sector. Similarly to the export-processing zone, the new OFC framework sought to spur: '(i) economic diversification; (ii) inward transfer of know-how; (iii) expansion of services exports beyond tourism; (iv) high-value employment creation', and set the stage for the integration of Mauritius into the global financial system.[33] The sector's development was given a further boost by the opening of the Stock Exchange of Mauritius (SEM) to international investors in 1994.[34]

31. Oxford International Mauritius. (2013). *Mauritius*; Roadmap*: Road Map for the International Financial Services Industry*. 2013. Pg, p. 55.

32. Nathan Associates. (2013). *Mauritius International Financial Services, Component 2: Mauritius International Financial Centre*. 2013. Pg, p. 13.

33. Oxford International Mauritius. (2013). *Mauritius*; Roadmap*: Road Map for the International Financial Services Industry*. 2013. Pg, p. 55.

34. Nathan Associates. (2013). *Mauritius International Financial Services, Component 2: Mauritius International Financial Centre*. 2013. Pg, p. 13.

The Mauritian international finance sector gained significant traction in the mid-1990s, becoming one of the fastest-growing OFCs. From 1992 to 1998 it developed a strong reputation as a jurisdiction for investment structuring due to its extensive network of tax treaties with other countries.[35] In this context, it became an important destination for HNWI and institutional clients from the United States, EU and South Africa looking to invest in India, China and other countries in Southeast Asia. As such, Mauritius solidified its expertise in areas such as investment and fund administration, given that Mauritian law required that local counterparts be involved in such activities. While the Government looked to attract other activities such as ship registration and aircraft leasing, these efforts met with little success.

Growth hit a speed bump in 1998 following the OECD Report on Harmful Tax Competition. In the aftermath of this report, OFCs including Mauritius were pressured to engage in often disproportionate regulatory reform in order to combat 'harmful tax competition' as defined by high-tax OECD jurisdictions.[36] For the next few years (1998 through 2004), growth slowed significantly as Mauritius sought to update its regulatory framework and mitigate the reputational damage suffered due to the increased pressures of the OECD.

35. Oxford International Mauritius. (2013). *Mauritius*; Roadmap*: Road Map for the International Financial Services Industry*. 2013. Pg, p. 64.

36. Oxford International Mauritius. (2013). *Mauritius*; Roadmap*: Road Map for the International Financial Services Industry*. 2013 p. 67.

Box 4: The purpose of a dual regime

'In setting up the offshore regime, particular attention was paid to protecting the domestic economy with a clear line being drawn between domestic and offshore activities – though such demarcation later proved to be partly illusory. OFC operations were favoured with a more flexible operational and legal environment. They had tax advantages that the authorities were determined to prevent from spilling into the domestic economy in order to preserve the integrity of public finances and prevent them from deteriorating.

Offshore finance was defined then as an activity carried out within Mauritius but transacted with non-residents in non-Mauritian currency. In addition, an offshore entity registered in Mauritius could not 'deal or transact' with a Mauritian resident. In stipulating these conditions, the authorities were concerned about the possibilities of leakage and other risks under a regime of exchange-control.'

Source: Oxford International Mauritius (2013), p. 55.

The turn of the century marked the beginning of a new era in regulatory reform. In response to global pressures, Mauritius passed a number of reforms aimed at updating the country's regulatory structure in light of international developments. Three pieces of legislation were of particular importance:

i. The Companies Act of 2001 unified the onshore and offshore sectors under a single piece of legislation.
ii. The Trusts Act of 2001 unified onshore and offshore trusts under a single piece of legislation.
iii. The Financial Services Development Act of 2001 established the global business segment; established the Financial Services Consultative Council (FSCC); and established the Financial Services Commission (FSC).

The chief objectives of these reforms were to consolidate the onshore and offshore sectors, and to improve the regulatory environment. With regards to the latter, non-bank financial institutions were previously regulated by a number of bodies, including the Stock Exchange Commission, the Mauritius Offshore Business Activities Authority and the Controller of Insurance in the Ministry of Finance. The fragmented approach resulted in a number of gaps; for example, leasing companies, pension funds, asset management firms and investment advisory companies fell between the cracks and were essentially unregulated. The FSC was therefore established by the Financial Services Development Act as a means of consolidating regulation of non-bank financial institutions and integrating onshore and offshore regulation.

Other reforms were passed in subsequent years to help expand the Mauritian legal framework so that the financial services subsegments could cater to international requirements. These include the Anti Money Laundering Act of 2002, Banking Act of 2004, Insurance Act of 2005, Securities Act of 2005 and Financial Services Act of 2007; Guidelines for Islamic Banking in 2007; the Amendment to the Law Practitioners Act in 2008; and Securities Regulations for Collective Investment Schemes and Close-end Funds in 2008.[37]Some of these reforms helped open up the sector to new products (such as Islamic banking and derivative trading), while others (such as the amendments to the Law Practitioners Act in 2008) facilitated the entry of foreign expertise. As a result of this continued upgrading, Mauritian regulation is generally considered to be fully compliant with international standards.[38]

In recent years, both the public and private sectors have stepped up efforts to accelerate the shift from a tax-based model and improve the substance of the Mauritian IFC jurisdiction, as there is a growing realization that sustainable competitiveness will be elusive under the current model. This has been in response to increased scrutiny of OFCs by the West (and other important trading partners such as India) following the financial crisis of 2008 and subsequent efforts to combat tax evasion and avoidance. There has been greater interest in developing higher-value financial services such as asset management, private banking, commodities trading and complex corporate

37. Nathan Associates. (2013). *Mauritius International Financial Services,* p. 14.

38. *Ibid*., p. 14.

finance. To facilitate this evolution, two strategies have been developed for the sector in just the past few years: Oxford International Consultants (contracted by the FSC) prepared a road map for the sector in 2013, while Nathan Associates Ltd (contracted by the Commonwealth Secretariat) formulated a marketing plan for the sector in the same year. Despite such efforts, these plans have not been implemented and the sector continues to rely heavily on the lower-value services in which it has historically excelled.

CURRENT CONTEXT

The Mauritian international financial sector specializes as a jurisdiction for channelling funds from HNWI and institutional clients in one foreign country towards investments in third countries. This niche was developed as a result of an extensive network of Double Taxation Agreements (DTAs) with countries throughout the region. DTAs '…are conventions between two countries that aim to eliminate the double taxation of income or gains arising in one territory and paid to residents of another territory. They work by dividing the tax rights each country claims by its domestic laws over the same income and gains.'[39] By leveraging the Mauritian DTA network, investors and businesses from all over the world can enter markets under preferential terms. The DTA with India has been of particular importance to the sector's development: 42% of FDI into India between 2001 and 2011 was channelled through Mauritius.[40]

Mauritius has currently concluded DTAs with 43 countries, including 16 in Africa, 14 in Europe and the Americas, and 13 in Asia and the Middle East:

39. Institute of Chartered Accountants in England and Wales. (2016). Double Tax Treaties. Accessed 14/12/2015. < http://www.icaew.com/en/library/key-resources/double-tax – treaties>. Available from http://www.icaew.com/en/library/key-resources/double-tax-treaties.

40. Nathan Associates. (2013). *Mauritius International Financial Services, Component 2: Mauritius International Financial Centre*. 2013. Pg, p. 14.

Box 5: Concluded Double Taxation Agreements

Europe & Americas	Africa	Asia / Middle East
Austria (partial)	Botswana	Thailand
Cyprus	Namibia	Pakistan
Germany	Rwanda	Singapore
Italy	Zimbabwe	Qatar
Luxembourg	Congo	United Arab Emirates
Malta	Egypt	Kuwait
Guernsey	Madagascar	Nepal
Monaco	Tunisia	Bangladesh
United Kingdom	Senegal	Sri Lanka
Belgium	Swaziland	India
Croatia	Lesotho	Malaysia
France	Mozambique	China
Sweden	Seychelles	Oman
Barbados	South Africa	
	Uganda	
	Zambia	

Source: Mauritius Revenue Authority (2016).

In addition:

- Four treaties are awaiting ratification (Gabon, Kenya, Nigeria, the Russian Federation)
- Four treaties are awaiting signature (Burkina Faso, Cape Verde, Ghana, Morocco)
- Seventeen treaties are being negotiated (Algeria, Canada, Czech Republic, Greece, Hong Kong (China), Lesotho, Montenegro, Sudan, Portugal, Islamic Republic of Iran, Malawi, Saudi Arabia, Spain, St. Kitts & Nevis, United Republic of Tanzania, Viet Nam and Yemen).

The Mauritian jurisdiction is further enhanced by the presence of numerous Investment Promotion and Protection Agreements (IPPAs).

> An IPPA is an international agreement between governments for the promotion and protection of investments made by investors of one contracting party in the area of the other contracting party. A typical IPPA provides for, among others, fair and equitable treatment for investors, compensation for losses arising from strife and expropriation, free transfer of investments and returns, and settlement of investment disputes under internationally accepted rules.[41]

41. Government of Hong Kong Special Administrative Region., Trade and Industry Department. Trade Relations; Investment Promotion (2016). Hong Kong's investment promotion and Protection Agreement (IPPA). Accessed 14/12/2015. <https://www.tid.gov.hk/english/trade_relations/ippa/index.html>protection agreements (IPPAs). Available from https://www.tid.gov.hk/english/trade_relations/ippa/index.html.

These agreements can therefore be used by foreigners looking to de-risk their investments into African and Asian countries. Mauritius currently has 27 IPPAs, including 12 with Europe and the Americas, 8 with Africa, and 7 with Asia and the Middle East:

Fifteen additional IPPAs await ratification, the majority of which are with African countries: Benin, Cameroon, Comoros, Gabon, Ghana, Guinea, Kenya, Mauritania, Nepal, Rwanda, Swaziland, Chad, Turkey, Zambia and Zimbabwe.

Within this framework, it is the Mauritian jurisdiction itself that has become the main draw for the international finance sector, rather than the particular services offered within the jurisdiction. The majority of foreign clients use Mauritius as a jurisdiction for one of two types of investment holdings:

- Business holdings: This is the most prominent segment of the IFC sector. It includes global business holdings and private equity investments, among other types of active and passive holdings.
- FPI: FPI involves holding passive investments in foreign securities and assets.

Box 6: Concluded Investment Promotion and Protection Agreements

Europe & Americas	Africa	Asia / Middle East
Barbados	Burundi	China
Belgium	Egypt	India
Luxembourg	Madagascar	Indonesia
Czech Republic	Mozambique	Kuwait
Finland	Congo	Pakistan
France	Senegal	Republic of Korea
Germany	South Africa	Singapore
Portugal	United Republic of Tanzania	
Romania		
Sweden		
Switzerland		
United Kingdom		

Source: Board of Investment Mauritius. (2016).

Since foreigners generally use Mauritius due to its attributes as a jurisdiction, the focus on service provision is secondary: foreign clients only use those services necessary for the leveraging of the jurisdiction (such as fund administration services). This means that the more important tasks (such as decisions related to business development and management, investment advisory and allocation, and the provision of complex corporate finance services and products) are relegated to foreign professionals, while lower-value added services are provided within Mauritius.

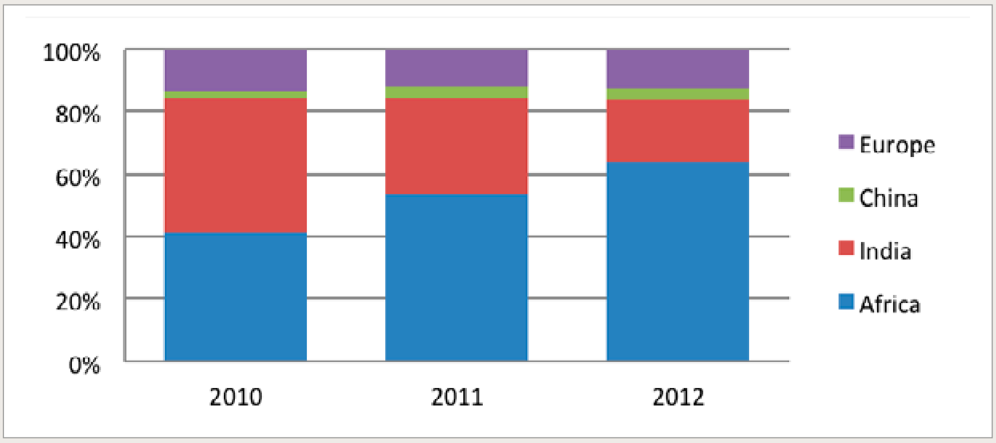
Financial services provided to international clientele are therefore limited to execution services, brokerage services, custodial services, accounting and legal services, administration and secretarial services, trade finance, and basic banking and insurance services, among others. It should be noted that capacities are in fact quite well-developed, particularly with regards to fund administration and accounting.

The sector has begun to develop other product offerings in the capital markets, insurance, asset management and banking segments, but capacities remain limited and clients generally continue to rely on foreign entities to supply more advanced financial products when necessary.

Box 7: Building a gateway to Africa

While the Mauritius IFC has historically relied on clients looking to channel investments into India, significant opportunities for growth are being presented by the continued development of the African continent. As illustrated in figure 5, there has already been a marked shift in the destination of global business company (GBC) investments. The share of the sector's investments destined for Africa rose from 41% in 2010 to 64% in 2012.

Figure 5: *Geographical distribution of investments by Mauritian global business companies (%)*



Source: Financial Services Commission Mauritius.

While Africa offers attractive opportunities for growth, many of its countries continue to be plagued by significant political and economic risks. With its extensive network of DTAs and IPPAs, its geographical proximity and its relatively inviting business environment, Mauritius is increasingly being used as a de-risking platform for global investors seeking to capitalize on African development.

The sector is currently looking to move away from this jurisdiction-based model and pursue a more sustainable growth path. To this end, it must leverage its strengths in order to develop substance and value addition. The following key advantages have been identified for the Mauritian IF sector as it moves forward in this task:[42]

- Credentials / best practices
  - Internationally recognized administration services in the IF sector, legal, accounting and secretarial services;
  - Adhere to best practices with regards to corporate governance and International Accounting Standards;
- Taxation / tax treaties:
  - Low taxes and efficient administrative system;
  - Leading signatory of DTAs, particularly in Africa;
- Legal and regulatory environment:
  - Sound legal, regulatory and arbitration environment that has been consistently updated in line with best standards; provides appropriate vehicles for foreign investors;
  - Right of appeal to Privy Council in United Kingdom provides protection and stability;
  - Member of a number of regional groups (Commonwealth, African, Caribbean and Pacific Group of States(ACP), African Union, the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa, Indian Ocean Rim Association);
  - Leading signatory of IPPAs, particularly in Africa;
  - No exchange controls;
  - Robust banking regulations;
- Stable business and political environment:
  - Ease of Doing Business ranking: nineteenth globally and first in Africa. Seen as a secure place to do business;
  - Political and economic stability with democratically elected Government;
- Skilled labour force:
  - Emphasis on education and many foreign-educated professionals;
- Considered 'largely compliant' by OECD Global Forum on Transparency and Exchange of Information;
- Conveniently located for most markets (time zone), natural linkages with surrounding continents and historical linkages to France and the United Kingdom;
- Relatively well-developed stock market with multicurrency listings.

42. Nathan Associates. (2013). *Mauritius International Financial Services, Component 2: Mauritius International Financial Centre*. 2013.

Box 8: Islamic finance in Mauritius

Islamic finance continues to grow at a fast pace throughout the world, with total assets surpassing US$ 2 trillion in 2014, up 19% from 2013.1 These assets are expected to surpass US$ 1.4 trillion in 2015 and US$ 4 trillion in 2020. Of current assets, 81% are held by the Islamic banking segment, followed by *sukuk* (Islamic bonds, 14%), Islamic funds (sharia-compliant funds, 4%) and *takaful* (Islamic insurance, 1%). Growth has traditionally been driven by markets such as Malaysia, Saudi Arabia, the United Arab Emirates, Qatar, Kuwait, Turkey and Indonesia. Even so, Islamic finance has been introduced to European capital markets via Islamic funds and *sukuk*. In Africa, Islamic banking and *takaful* have made inroads in a number of markets, including Nigeria, South Africa and Kenya. Future growth will see more demand from relatively new markets in Africa and Central Asia.

As a reputable IFC with strong links to many Muslim countries (as well as a large Muslim population of its own), Mauritius is well-placed to capitalize on the growing demand for Islamic finance products and services. Mauritius has made significant strides over the past decade: the Bank of Mauritius (BoM) was admitted as an associate member of the Islamic Financial Services Board in 2007; BoM passed its Guidelines for Islamic Banking in 2007; the first Islamic insurance business was started in 2008; the first Islamic bank opened its doors in 2009; and Mauritius hosted the eleventh Islamic Financial Services Board Summit in 2014, helping to introduce Mauritius to stakeholders from around the world.

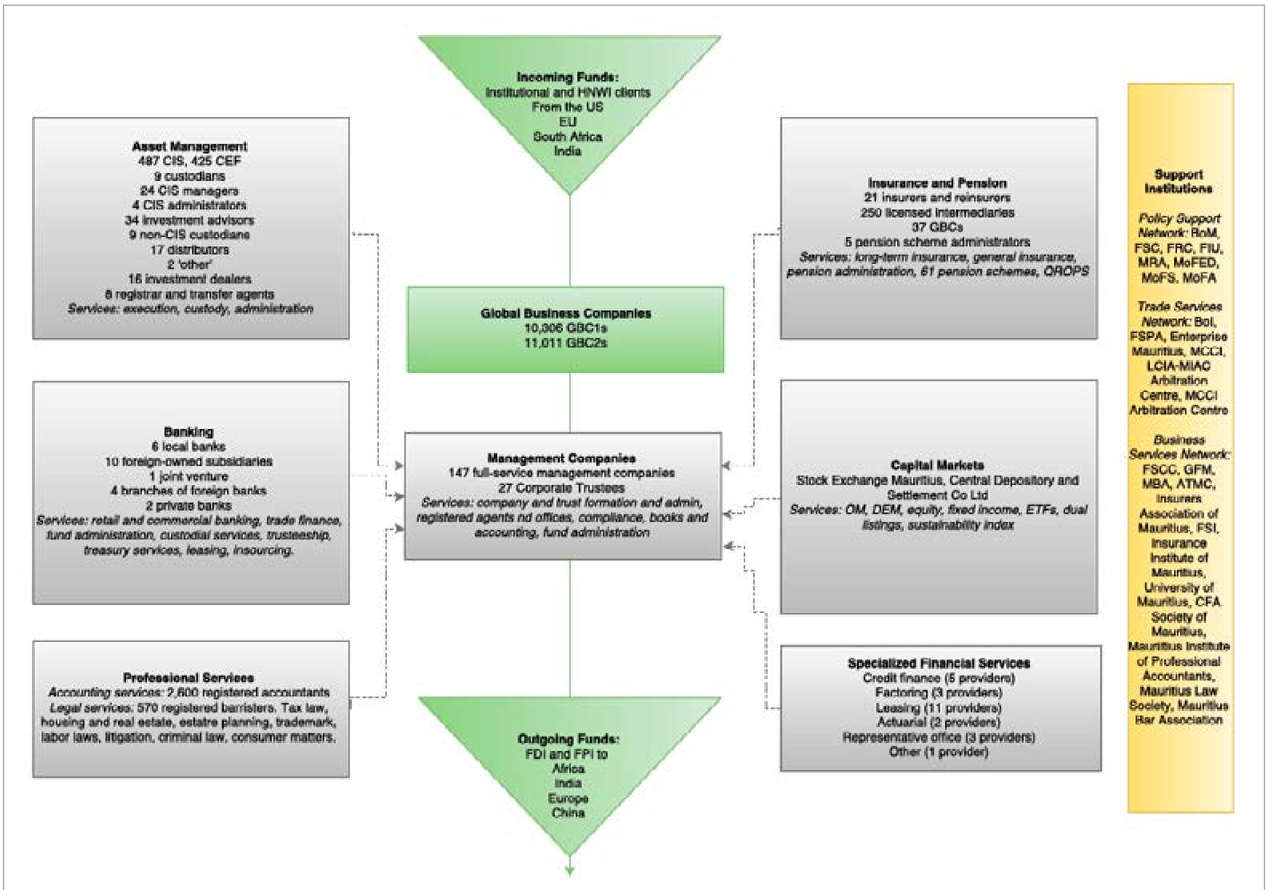
In addition to providing Islamic banking and insurance, Mauritius has also become the home to a number of Islamic funds. In addition, it has developed a reputation as a jurisdiction for structuring *sukuk* via sharia-compliant trusts.

Source: Mauritius National Investment Promotion Agency (2014).

VALUE CHAIN MAPPING

The following value chain diagram (figure 6) maps the main participants and services of the Mauritian financial services sector. For the sake of legibility, and in order to highlight those activities that comprise the bulk of current revenues, the value chain only notes those services and products that represent core offerings in Mauritius.

Figure 6: *Current value chain*

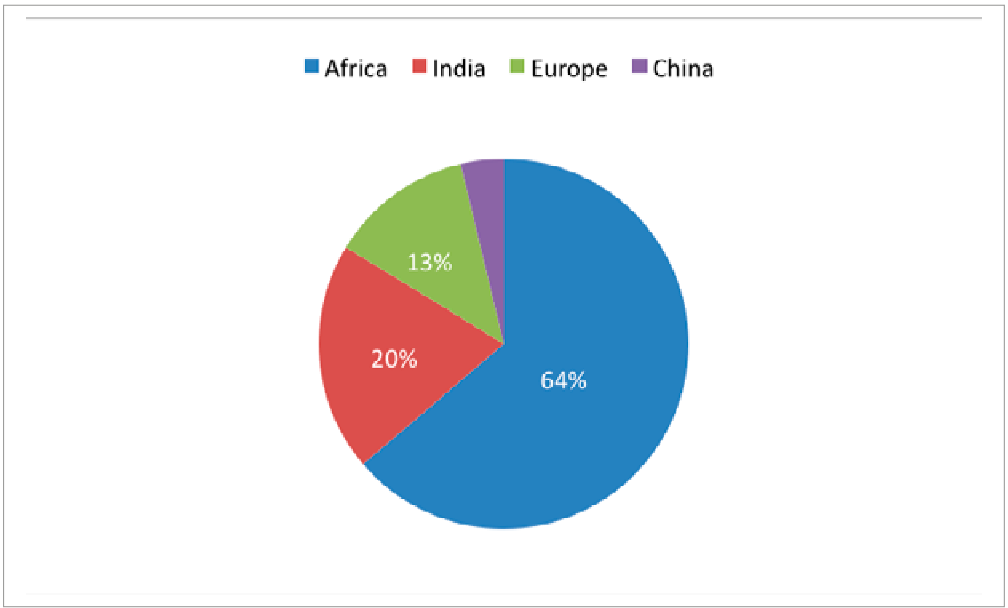


As evidenced by figure 6, there is little value added to the capital that flows through the sector. The various segments of the international financial services value chain operate in silos and remain relatively independent of each other. There are limited synergies and stakeholders tend to operate under a product-centric model as opposed to a customer-centric model, offering their own limited services with little regard to building more comprehensive offerings and capacities. The lack of a customer-focused model has prevented the development of full-spectrum service provision and greater value addition. The sector can best be understood by looking at its individual sub-segments and analysing their respective services, roles and capacities.

GLOBAL BUSINESS AND MANAGEMENT COMPANIES

The global business segment lies at the heart of the Mauritian international finance sector. Global business companies (GBCs) are the legal structure that international clients use to establish themselves in the Mauritian jurisdiction and access (and perform) financial services. GBCs can best be understood as vehicles for IFC products, namely investment holdings, whether FPI or FDI.

Figure 7: *Geographical distribution of investments by Mauritian global business companies (%) in 2012*



Source: Financial Services Commission Mauritius.

The GBC and investment holding segment caters largely to institutional and HNWI clients from the United States, EU, South Africa and India. These clients use Mauritius to structure outbound FDI and FPI, mainly to neighbouring countries. Their chief objective is to benefit from the Mauritian DTA and IPPA network. In 2012, 64% of GBC investments were destined for Africa, followed by India (20%), Europe (13%) and China (4%). It should be noted that there has been a market shift from India to Africa over the past few years.

GBCs are governed by the Companies Act of 2001 and regulated by the FSC. They are required to engage in business outside of Mauritius. Two types of GBCs are allowed under current regulations.

Global Business Licence 1.[43] GBC1s are commonly used to structure investments, and they are considered to be residents in Mauritius. As such, they are subject to taxes within Mauritius and they can benefit from tax credits and access the Mauritian network of treaties, including DTAs. GBC1s are not subject to capital gains or withholding taxes. These entities can be formed as a trust, partnership, society or protected cell company.[44] Beneficial ownership and business plans must be disclosed and the entity must be controlled from Mauritius. Decisions must be taken at board meetings held in Mauritius and chaired by at least two resident directors. In addition, a GBC1 is required to use Mauritian banks. Financial statements must be filed with the FSC and they are audited according to International Financial Reporting Standards.[45]

Global Business Licence 2.[46] GBC2s meanwhile are not considered to be residents of Mauritius. As such, they are not subject to Mauritian taxes and they cannot benefit from the DTA network. However, their ownership structure does not have to be disclosed to authorities.

A management company (MC) acts as the focal point for foreign parties leveraging the GBC structure, and any person wishing to apply for a GBC licence must do so through an MC. As with GBCs, they are also licensed by the FSC, according to which they have the following responsibilities:

- 'Company and trust formation and administration;
- Trusteeship services;
- Provision of directors, secretary and nominee shareholders;

43. Nathan Associates. (2013). *Mauritius International Financial Services, Component 2: Mauritius International Financial Centre*. 2013. Pg, p. 16.

44. Financial Services Commission Mauritius. (2016). Mauritius International Financial Centre: Being Licensed. Accessed 17/12/2015. <http://www.fscmauritius.org/being – licensed/applying-for-a-licence/global-business.aspx>. Available from http://www.fscmauritius.org/being-licensed/applying-for-a-licence/global-business.aspx.

45. Nathan Associates. (2013). *Mauritius International Financial Services, Component 2: Mauritius International Financial Centre*. 2013. Pg, p. 16.

46. Nathan Associates. Mauritius International Financial Services, Component 2: Mauritius International Financial Centre. 2013. Pg. 16. *Ibid*., p. 16.

- Registered Agents for Category 2 Global Business Licensees;
- Registered Office for Category 1 and Category 2 Global Business Licensees;
- Preparation of incorporation and application documents for Global Business Licence;
- Ensuring post-statutory compliance with company and tax laws (filing of changes on directors, shareholders);
- Maintenance of books and accounting records; and
- Fund administration services such as Net Asset Value calculation, preparation of quarterly reports.'[47]

MCs play a critical role in integrating a foreign client into the Mauritian international finance sector. In addition to the responsibilities detailed above, they act as an information point for their client. They are trusted to provide GBCs with insights into services and investment opportunities. They therefore play a significant role in the distribution and marketing of financial services to international clientele, and they can play an important role in the development of a more customer-oriented sector.

At the end of 2014 there were 10,306 GBC1s and 11,011 GBC2s (total of 21,317), up 4.9% and 3.2% respectively from the previous year.[48] These include 460 collective investment schemes (CISs) and 416 closed-end funds holding a GBC1 licence (total of 876). The number of CISs fell 4.4% year-on-year, while the number of closed-end funds rose by 7.2%. It should be noted that the total number of GBC2s has fallen drastically over the past few years, as they numbered more than 22,000 in 2008.[49] However, the number of GBC1s has risen slowly but steadily.

According to FSC data, GBC1s held a total of US$ 520.75 million in assets at the end of 2014, including US$ 122.56 million in FPI and US$ 224 million in FDI. The most significant change over the past few years has been realized in FPI, which grew by 25% from 2012 to 2014.

47. Financial Services Commission Mauritius. (2016). Mauritius International Financial Centre: Being Licensed. Accessed 17/12/2015. <http://www.fscmauritius.org/being – licensed/applying-for-a-licence/global-business.aspx>. Available from http://www.fscmauritius.org/being-licensed/applying-for-a-licence/global-business.aspx.

48. Financial Services Commission Mauritius. (2015). *Annual Statistical Bulletin 2015*.

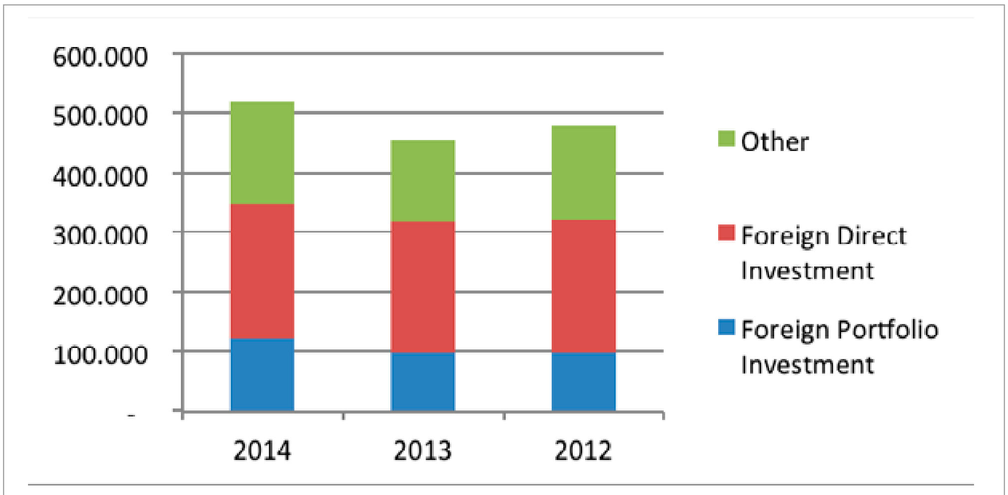
49. Financial Services Commission Mauritius. (2012). *Annual Statistical Bulletin 2012*.

Table 12: *Trends in global business companies and management companies, 2008–2014*

Entity type	2014	2013	2012	2011	2010	2009	2008
GBC1	10 306	9 825	9 660	9 758	9 409	9 581	9 498
GBC2	11 011	10 668	11 207	14 166	15 725	18 548	22 386
MCs	174	162	165	168	149	134	121

Source: Financial Services Commission Mauritius. Annual Statistics Bulletins 2014 & 2015.

Figure 8: *Total assets and outward foreign investment of GBC1s, US$ million*



Source: Financial Services Commission Mauritius (2015) and Financial Services Commission Mauritius (2014).

These GBCs were serviced by 174 MCs in 2014, including 147 full-service MCs and 27 MCs that functioned as corporate trustees only. The number of MCs has grown by over 6% annually from 2008 through 2014.

Corporate and trust service provider assets were valued at US$ 193 million in 2014, up 7% from 2013. The income of MCs meanwhile increased by 8% to reach US210 million in 2014. Profits grew from US$ 51,878,000 to US$ 52,175,000.

ASSET MANAGEMENT

The asset management segment in Mauritius remains relatively underdeveloped for two reasons. Firstly, the domestic market for asset management services is quite limited. Despite significant penetration of banking services, the local population makes little use of investment advisory and other asset management services. This has hindered the development of the necessary expertise. It should however be noted that most banks now offer some type of asset management services and there is a push to develop the local market.

Secondly, foreigners tend to use Mauritius for the lower-value added services. Complex investment advisory decisions are taken by foreign advisers (or by the client him or herself), while execution, custody, and general account maintenance and management are performed within Mauritius. Although this has led to the creation of a strong niche in the asset management space, it has hindered the development of higher value added capacities.

The vast majority of asset management activity is performed under GBC1 holding companies for foreign HNWI and institutional clients. To this end, there are 460 CISs and 416 closed-end funds. In addition, there are 27 non-GBC CISs and nine non-GBC closed-end funds. These funds are supported by nine licensed custodians, 24 CIS managers, and four CIS administrators. There are also 34 investment advisers licensed under the Securities Act of 2005, nine non-CIS custodians, 17 entities licensed to distribute financial products and two entities licensed under the general category of ‘assets management’. Asset management activities are supported by an array of other actors, particularly those within the capital markets segment, such as the 16 licensed investment dealers and eight registrar and transfer agents.

As detailed in figure 9, non-GBC investment schemes held 16.35 billion MUR at the end of 2014. With a value of roughly US$ 513 million (the exchange rate of 31 December 2014), this is roughly the same as the assets held by GBC1s.

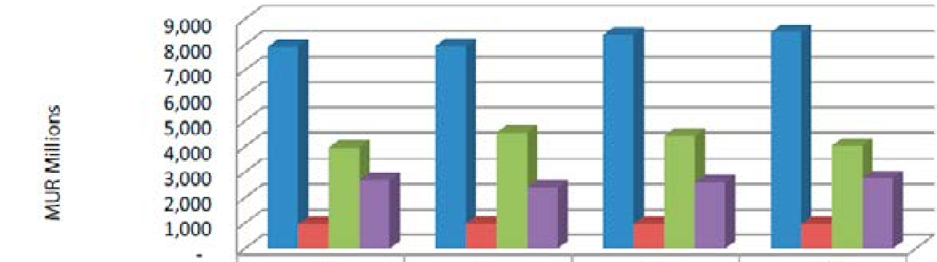
Box 9: Fund structures

Under the Securities (Collective Investment Schemes and Closed-end Funds) Regulations 2008 (the CIS Regulations), investors have the possibility to select the type of Investment Funds, whether CISs or closed-end funds, that best suits their profile, risk tolerance and return objective:

- Retail schemes: these schemes target retail investors.
- Global schemes: similar to retail schemes, these schemes target retail investors but require a GBC1 licence.
- Expert funds: these funds are restricted to ‘expert investors’ or ‘sophisticated investors’.
- Specialized CISs: these schemes are especially suited for investments in high risk or illiquid asset types, such as real estate or derivatives.
- Professional CISs: these schemes can either target sophisticated investors or offer their shares by way of private placement.
- CIS / closed-end fund as a reporting issuer: a CIS / closed-end fund may qualify as a reporting issuer if it meets the definition of a ‘reporting issuer’ under the Securities Act 2005.

Source: Extracted from: Financial Services Commission Mauritius (2016) (b).

Figure 9: *Net assets of investment schemes, 2014 (excluding GBCs)*



	Q1	Q2	Q3	Q4
CIS (31)	7,920	7,960	8,392	8,496
Unit Trust (1)	947	972	966	960
Closed-End Fund (6)	3,967	4,545	4,414	4,041
Private Equity Funds (1)	2,694	2,406	2,612	2,761

2014 Quarters

Source: Financial Services Commission Mauritius (2015), p. 32.

PRIVATE BANKING

The private banking segment provides a niche set of services to family office, HNWI and ultra-high net worth individuals' wealth management clients, mainly from South Africa and India. To this end, it offers a range of products built around a core of wealth management services. Through its wealth management services, a private bank takes a holistic approach to addressing all of a client's financial challenges through tailor-made solutions.[50]

Wealth management is a holistic approach to understanding and providing solutions to all of the major financial challenges of an investor's financial life. From a client's perspective, this implies having a tailor-made solution addressing all financial challenges. From a wealth manager's perspective, it means the ability to profitably and proactively provide a wide range of products and services in a consultative way. It is a new, discrete discipline and not just a variation on the traditional institutional investment management theme and can also be defined as an all-inclusive service to optimize, protect and manage the financial goal of an individual, household or corporate.[51]

Photo: © shutterstock

There are currently two licensed private banks in Mauritius, Warwyck Private Bank Ltd and Banque Richemount Limited. Since the segment is relatively new in Mauritius, it has yet to gain significant momentum. As with other segments of the international finance sector in Mauritius, the private banking segment has thus far focused on the provision of lower-value services (such as execution and custody), while the more significant investment decisions are taken abroad.

Given that the segment is young, Mauritius has yet to adjust its regulatory framework in an adequate fashion. Private banking falls into a grey area between BoM and FSC, and different services are governed by different regulators.

50. Warwyck Private Bank Limited. (2015). *Proposals to the of the Private Banking and Wealth Management Industry in Mauritius*.

51. Warwyck Private Bank Limited. Proposals to facilitate the growth of the Private Banking and Wealth Management Industry in Mauritius. 2015. Pg. 2. *Ibid*., p. 2.

Table 13: *Types of private banking services*

Products / services	Description	Regulators
Current accounts	Secured overdrafts; telegraphic transfer; transfer funds to and from accounts; 24/7 access through online banking.	BoM
Credit and prepaid cards	Offers extensive purchasing.	BoM
Cash covered loans	Cash-backed lending allows the client to release liquidity from his / her deposits via a short-term lending facility.	BoM
Advisory services	Detailed examination of a client's profile, including needs, ambitions and views on risk. Gives clients advice on investment opportunities.	FSC
Discretionary asset management	Bank has sole authority to buy and sell assets on behalf of clients.	FSC
Custody services	Safekeeping of securities and other assets; settlement of all securities transactions; administrative acts / notifications and processing of corporate actions; collection of interest, dividends and principal repayments; access to a network of carefully selected sub-custodians and clearing houses.	FSC
Wealth management (protected cell company)	The cells are organized as a range of funds which aim to deliver attractive long-term returns by investing in a broad range of asset classes such as cash, bonds, equities and commodities. There are a range of global multi-asset investment options to meet an individual's wealth objective.	FSC
White-label platform	Offers clients the most innovative, seamless trading platform there is. Easily manage complex trades from an intuitive interface to help clients quickly seize the next great opportunity.	FSC
Representative of investment dealer	Acts as an intermediary in the execution of securities transactions for client.	FSC
Investment dealer	Acts as an intermediary in the execution of securities transactions for clients; trade in securities as principal with the intention of reselling these securities to the public; gives investment advice that is ancillary to the normal course of business activities; manages portfolios of clients.	FSC
Portfolio reserve account	Provides clients with borrowing secured against investment portfolios.	BoM and FSC
Treasury	Foreign exchange desk offers competitive pricing in both spot and forward currency conversions.	BoM and FSC (through the white-label agreement)
Concierge-type services	Yacht brokering; real estate location; hotel, restaurant and theatre booking.	n/a

Source: Warwyck Private Bank Limited (2015), p. 3.

There is no all-inclusive licence that would allow these banks to function in a streamlined fashion. Instead, private banks must establish two subsidiaries that have separate boards of directors and staff. These entities must then apply for the following licences:

Box 10: Private banking licensing requirements

Private bank	Subsidiary of the private bank
Investment advisory licence	Investment dealer licence
Representative of investment advisory licence	Representative of investment dealer licence
Custodian licence	Collective investment scheme licence

Source: Warwyck Private Bank Limited (2015), p. 4.

CAPITAL MARKETS

The main player in the Mauritian capital markets segment is SEM. Established as a private company in 1989; it is currently the only exchange in the country following the exit of Bourse Africa from the market.[52] SEM's infrastructure is fully automated, from trading to settlement, and its operations are in line with best international standards.[53] It has been a member of the World Federation of Exchanges since 2005 and has been live on Bloomberg since 2009. SEM is one of the premier exchanges in Africa and one of the few to offer multicurrency listings (issuers can list in USD, EUR, GBP, ZAR and MUR).[54]

Another key player in the capital market ecosystem is the Central Depository and Settlement Co Ltd (CDS), a subsidiary of the SEM. Launched in 1997; CDS provides centralized depository, clearing and settlement services for Mauritian capital markets.[55] Transactions are settled in t+3 on a delivery versus payment basis. CDS adheres to international best practices, including the Group of 30 Recommendations and Core Principles for Systemically Important Payment Systems / International Organization of Securities Commission – Committee on Payment and Settlement Systems / International Organization of Securities Commissions' Recommendations. Capital markets activity is also supported by 11 investment dealers who are licensed by the FSC.

Products

SEM operates two exchanges: the Official Market (OM) and the Development and Enterprise Market (DEM). OM is meant for larger companies. As of 30 November 2015, it included 51 companies. DEM meanwhile replaced the Over-The-Counter (OTC) market for small and medium companies. It currently includes 45 companies.

While SEM supports multiple asset classes, the majority of listed securities are equities. Of the 116 securities listed on both OM and DEM, only 13 are debt and structured products. However, the market has expanded by allowing the listing of exchange-traded funds (ETFs) and GBCs. It should be noted that while there are some corporate bonds on the secondary market, there is still no secondary market for government securities, which continue to be traded OTC.

The most prominent sector on OM is the global and specialized funds sector, which accounted for 29% of all issuers, followed by investments (16.5%), banks and insurance and other finance (9%), industry (9%) and commerce (7.6%).[56] On DEM, industry represents the largest sector (28% of issuers), followed by investments (24%).

52. Bourse Africa was created in 2010, providing a trading platform for a broader group of products including currency, commodity, and equity index derivatives. However, Bourse Africa was unable to stimulate adequate demand for these products, and it has been defunct since 2013.

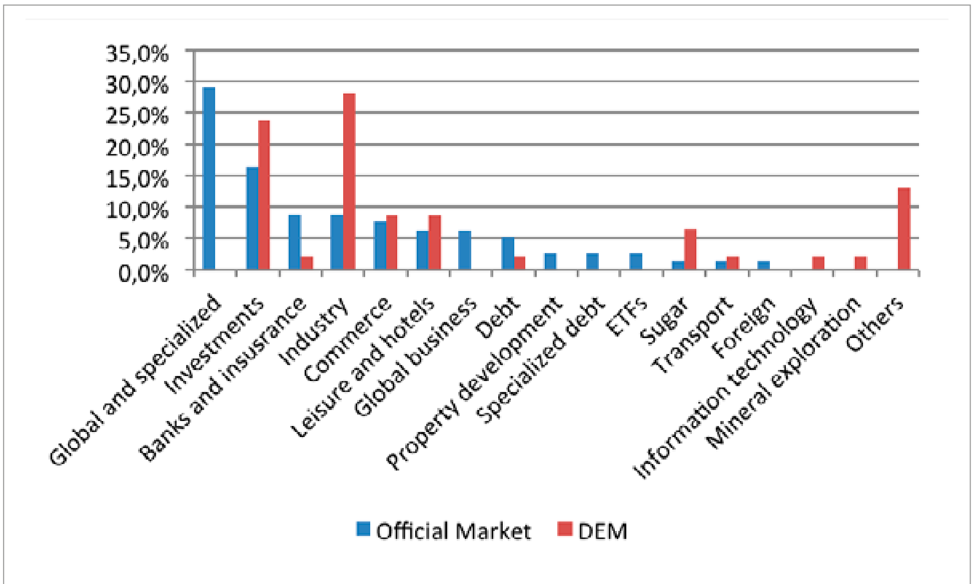
53. Financial Services Commission Mauritius. (2016). Securities. Accessed 22/12/2015. <http://www.fscmauritius.org/securities>Available from http://www.fscmauritius.org/securities.

54. Stock Exchange of Mauritius. (2016). SEM at a Glance. Accessed 22/12/2015. <http://www.stockexchangeofmauritius.com/sem-at-a-glance>. Available from http://www.stockexchangeofmauritius.com/sem-at-a-glance.

55. Financial Services Commission Mauritius. (2016). Securities. Accessed 22/12/2015. <http://www.fscmauritius.org/securities>Available from http://www.fscmauritius.org/securities.

56. Stock Exchange of Mauritius. (2014). *Annual Report 2014*. Pg, p. 45.

Figure 10: *Listed issuers by sector, end of year 2014*



Source: Stock Exchange of Mauritius (2014), p. 45.

Market size

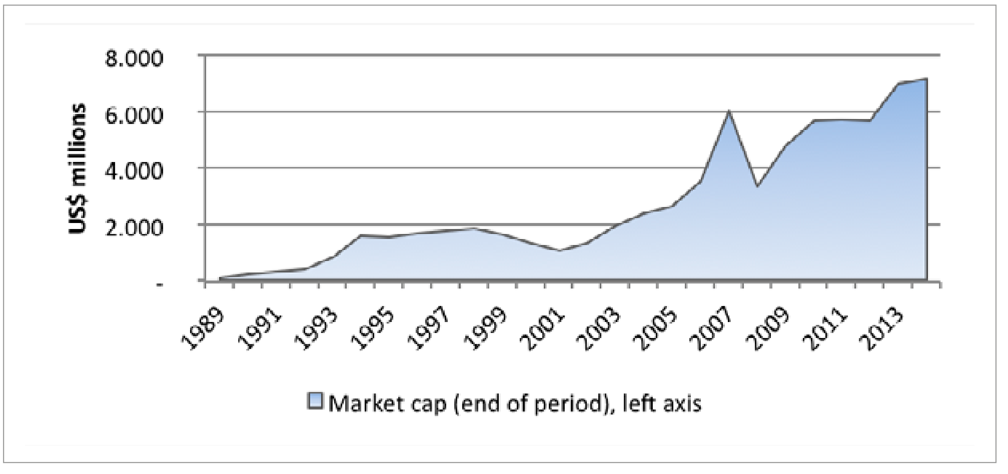
At the end of 2014, the market cap of OM was roughly US$ 7.16 billion.[57] This represents an all-time high and 5 – and 10-year CAGRs of 8.3% and 11.6% respectively.

57. Stock Exchange of Mauritius. (2015). Historical Datadata. Accessed 21/12/2015. <http://www.stockexchangeofmauritius.com/historicaldata>8 December 2015. Available from http://www.stockexchangeofmauritius.com/historicaldata.

The current market cap of OM is roughly US$ 5.5 billion (November 2015), while the DEM market cap is US$ 1.3 billion.[58] The quick drop realized thus far in 2015 was due to both a depreciating MUR as well as an acceleration of foreign outflows.

58. Stock Exchange of Mauritius. (2016). SEM at a Glance. Accessed 22/12/2015. <http://www.stockexchangeofmauritius.com/sem-at-a-glance>. Available from http://www.stockexchangeofmauritius.com/sem-at-a-glance.

Figure 11: *Stock Exchange of Mauritius Official Market, market capitalization, 1989–2013*



Source: Stock Exchange of Mauritius ().

Box 11: Foreign outflows in 2014-2015

The financial year 2014/15 saw significant investment outflows on the part of foreign investors from the Mauritian stock market. The net outflow by foreigners for 2014/15 was 4.76 billion MUR compared to 120 million MUR in 2013/14. This was somewhat in line with the net outflows from global emerging market funds that were observed in the beginning of 2015. The main reasons that seem to have driven the outflows from emerging market funds were: concerns over lower commodities prices; the likelihood of United States interest rate hikes; and worries over the impact that yen and euro weakness would have on emerging markets' exports. Some of the other factors that may also have contributed to the net outflow from the local market are: the downgrading of deposit ratings of the Mauritius Commercial Bank Ltd and the State Bank of Mauritius Ltd in October 2014 following the group restructuring exercises of the two banks; the relative poor performance of the hotel groups which was mainly due to the difficult economic situation in Europe; and the depreciation of the Mauritian rupee against the United States dollar.

Source: Extracted from: Central Depository & Settlement Co. Ltd (2015). *Annual Report 2015*, p. 4.

Despite these outflows, capital-raising activity has continued to be robust. The 2014/15 financial year witnessed 24 new listings in which companies raised 32 billion MUR through rights, bonds and private placements.[59] Indeed, since 2009 SEM has helped listed issuers raise US$ 1.9 billion.[60] Foreign participation has also increased: of the 60 new securities that have been listed since 2009 on both OM and DEM, 39 were foreign.

59. Central Depository & Settlement Co. Ltd. (2015). *Annual Report 2015*. Pg, p. 4.

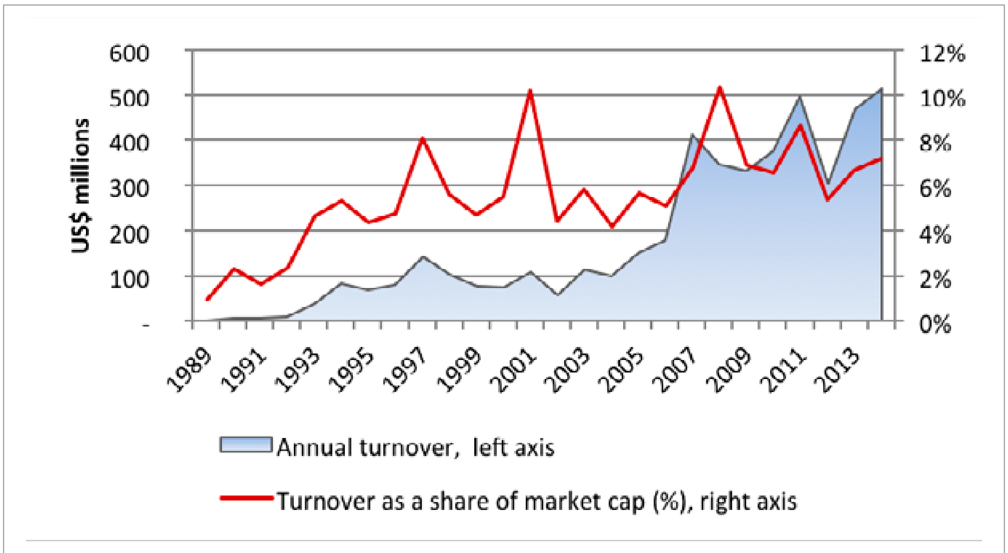
60. Stock Exchange of Mauritius. (2014). *Annual Report 2014*. Pg, p. 14.

Market depth and trading activity

Trading volume meanwhile reached US$ 515 million in 2014, representing 5 – and 10-year CAGRs of 9.1% and 17.7% respectively.

While this is certainly a positive development, turnover as a share of total market cap has stagnated at around 7% (OM only). This is among the lowest turnover ratios in the world and it is in stark contrast to other important IFCs, where turnover can far surpass total market cap.

Figure 12: *Stock Exchange of Mauritius Official Market, annual turnover, 1989–2013*



Source: Stock Exchange of Mauritius ().

Box 12: Comparative turnover ratios by region

Region	Stocks traded, turnover ratio of domestic shares (%)
North America	156.18
East Asia & Pacific (all income levels)	119.67
Arab world	78.81
Middle East & North Africa (all income levels)	60.03
EU	55.02
Latin America & the Caribbean (all income levels)	42.41
Sub-Saharan Africa (all income levels)	34.32
Central Europe and the Baltics	31.30

Source: World Bank Database.

Mauritian turnover is well below that of chief competitors, both within and outside the region, such as Hong Kong (China) (48%), Singapore (27%), South Africa (35%) and Egypt (40%). It should however be noted that turnover does exceed that of some other OFCs that have been successful in non-capital market niches, including Luxembourg (0.18%), Cyprus (1.84%), Bermuda (1.69%) and Malta (1.55%).

As to be expected given the low levels of liquidity, transaction fees are high. These fees are paid to the investment dealer, who then apportions the fees to the FSC, SEM and CDS accordingly.[61]

Foreigners accounted for 40% of trading activity in 2013/14, up significantly from 27.10% in 2010/11.[62] Meanwhile, 40% of trading is performed by local institutional investors, while the remaining 20% is performed by local individuals.

61. Stock Exchange of Mauritius. (2016). Brokerage Fees. Accessed 23/12/2015. <http://www.stockexchangeofmauritius.com/brokerage-fees>. Available from http://www.stockexchangeofmauritius.com/brokerage-fees.

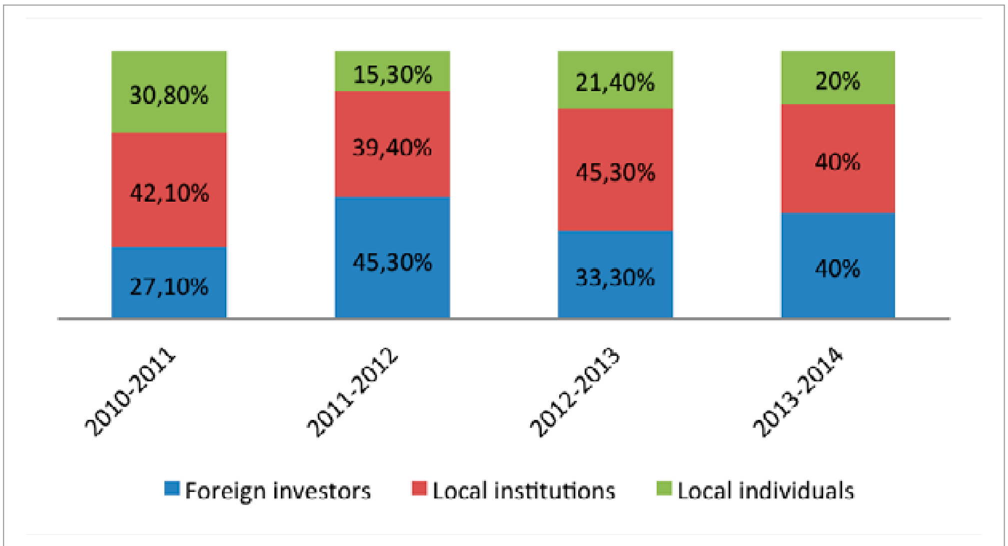
62. Stock Exchange of Mauritius. (2014). *Annual Report 2014*. Pg, p. 52.

Table 14: *Brokerage fees by transaction type*

Transaction type	Transaction size (rupees)	Investment dealer	SEM	FSC	CDS	Total fee
Equity	Not exceeding 3 million	0.75%	0.25%	0.05%	0.20%	1.25%
Equity	More than 3 million but not exceeding 6 million	0.70%	0.25%	0.05%	0.15%	1.15%
Equity	More than 6 million but not exceeding 10 million	0.60%	0.25%	0.05%	0.15%	1.05%
Equity	More than 10 million	0.50%	0.25%	0.05%	0.10%	0.90%
Debt	> 75k MUR	0.07%	0.01%	0.00%	0.01%	0.10%
Debt	< 75k MUR	MUR 55	MUR 9	MUR 2	MUR 9	MUR 75
ETFs	Any	0.21%	0.07%	0.01%	0.06%	0.35%
Turnaround	Any	0.10%	0.025%	0.005%	0.02%	0.15%

Source: Stock Exchange of Mauritius (2016) (a). Brokerage Fees. Available from http://www.stockexchangeofmauritius.com/brokerage-fees.

Figure 13: *Percentage of total value traded by investor type, 2010–2011 to 2013–2014*



Source: Stock Exchange of Mauritius (2014), p. 52.

Internationalization

As detailed in the analysis above, the Mauritian capital markets segment continues to be limited when compared with IFC competitors. It is dominated by equities and domestic issuers, and trading volume is low. Some go so far as to say that this is the weakest link in Mauritian efforts to expand its international finance sector, as it impedes on the ability of the sector to provide a fuller range of services and products that would meet client needs through holistic and client-centric solutions (whether through issuing, listing, trading or hedging).[63] A more developed capital markets segment would facilitate the growth of a more robust ecosystem comprised of financial advisers, stockbrokers, analysts and back office operations, among others.

In light of this realization, and given the fact that the small size of the domestic economy places a natural limit on growth, SEM embarked on a concerted strategy of internationalization in 2009.

According to SEM, "this internationalization process aims at moving up the value chain of products listed/traded on the SEM platform and setting the stage for the Stock Exchange of Mauritius to gradually emerge as an attractive listing, trading and capital-raising platform offering a diversity of products and services for global funds, global business companies, mining and mineral companies, specialist debt products, Africa-based ventures, government securities, and become a centre of attraction for regional and global capital."[64]

This strategy has thus far pushed a number of regulatory reforms and product developments for the purposes of making Mauritius a more attractive jurisdiction for foreign issuers and investors.

i. Remote listing: SEM has made efforts to promote remote listings as a means of attracting foreign business.
ii. Dual listings and foreign partnerships: In September 2015, SEM signed Memorandums of Understanding with the Johannesburg Stock Exchange and the National Stock Exchange of India. These Memorandums of Understanding outlined plans for future cooperation in areas such as education, training and knowledge transfer; product development; index creation and surveillance.[65] Efforts are being made to introduce and expand dual listings and partnerships with other important financial and business centres, including Dubai.
iii. Remote participation: From 2013 to 2014, SEM business rules were updated to improve the regulatory environment for foreign investment dealers trading on SEM.[66] These changes were made in order to attract more foreign participants to the market.
iv. Revised listing framework: New regulations have allowed for a wider range of products:[67]
   - 2010: Revisions allowing for the listing of global funds, specialized funds and real estate funds, among others)
   - 2011: New rules to allow for the listing of GBCs and specialist debt instruments, including Eurobonds.
   - 2012: New rules to allow for the listing of depository receipts and mineral and exploration companies.
   - 2013: New rules to allow for the listing of ETFs.
   - 2015: New rules to allow for the listing of ETNs and structured products (with both debt and equity underlying), making SEM one of two exchanges in Africa that offer structured products.
v. Reduced transaction fees: Transaction fees for turnaround trades were reduced from 1.25% to 0.15% in December 2013.[68] In addition, transaction fees for corporate bond trades were reduced from 0.60% to 0.10% January 2014. These changes were meant to stimulate liquidity and they have already been credited with improving market depth.
vi. Sustainability index: Mauritius launched the SEM Sustainability Index in September 2015, which tracks companies on both OM and DEM that engage in sustainable practices.[69] As just the second country in sub-Saharan Africa to offer such an index, Mauritius has taken an important step in becoming a regional leader in sustainable investing.
vii. New products: SEM is constantly looking to introduce new products in an effort to improve market breadth. An example of a successful outcome is the work being done by MCB Capital Markets which, in partnership with Zyfin Holdings Private Limited, is set to launch the MCB India Sovereign Bond ETF. This will be the first Mauritius–based fixed income ETF.
viii. Mauritius International Derivative Exchange (MIDEX): On the forefront of capital markets development in Mauritius are the current efforts to set up MIDEX in partnership with regional stock exchanges. MIDEX will be the first exchange to allow the hedging of certain major African currencies against the United States dollar. Work is also being done to introduce

63. Oxford International Mauritius. (2013). *Mauritius*; Roadmap*: Road Map for the International Financial Services Industry*. 2013. p. 92.

64. Stock Exchange of Mauritius. (2016). SEM at a Glance. Accessed 22/12/2015. <http://www.stockexchangeofmauritius.com/sem-at-a-glance>. Available from http://www.stockexchangeofmauritius.com/sem-at-a-glance.

65. The Economic Times. (2015). NSE Seals Pactseals pact with Stock Exchange of Mauritius for Synergy. Accessed 23/12/2015. <http://articles.economictimes.indiatimes.com/2015-09-03/news/66178633_1_anerood-jugnauth-mauritius-nse>synergy, 3 September. Available from http://articles.economictimes.indiatimes.com/2015-09-03/news/66178633_1_anerood-jugnauth-mauritius-nse.

66. Stock Exchange of Mauritius. (2014). *Annual Report 2014,* pg. 62.

67. Stock Exchange of Mauritius. (2016). SEM at a Glance. Accessed 22/12/2015. <http://www.stockexchangeofmauritius.com/sem-at-a-glance>. Available from http://www.stockexchangeofmauritius.com/sem-at-a-glance.

68. Stock Exchange of Mauritius. (2014). *Annual Report 2014*.p. 62.

69. Stock Exchange of Mauritius. (2016). About SEMSI. Accessed 23/12/2015. <http://www.stockexchangeofmauritius.com/about-semsi/>Available from http://www.stockexchangeofmauritius.com/about-semsi/.

Africa-linked index and derivatives products and an electronic commodities trading platform.

These efforts have already yielded positive results, as demonstrated by increased trading and foreign listing activity. The improvements have not gone unnoticed: in 2015, SEM won the award for ‘Most Innovative African Stock Exchange of the Year’ at the Institutional Investment Capital Market Awards 2015 for the third time in five years.[70]

INSURANCE AND PENSIONS

While the insurance industry is considered to be quite well-developed, it is still relatively small as a portion of GDP (just 3.1% estimated for 2015) when compared with the rest of the world (6.8% of global GDP in 2013).[71] At the end of 2014, the Mauritian insurance segment comprised 21 insurers and reinsurers, of which 7 engage in long-term insurance and 14 engage in general insurance (although three of the latter also engage in long-term insurance as an incidental business). There are 250 licensed intermediaries, including 176 insurance agent companies, 42 individual insurance agents and 32 insurance brokers.[72] Another 37 GBCs are involved in the insurance sector.[73]

70. Stock Exchange of Mauritius. News. Accessed 23/12/2015. <http://www.stockexchangeofmauritius.com/news/view/7637> Stock Exchange of Mauritius (2015). The Stock Exchange of Mauritius (SEM) secures the “Most Innovative African Stock Exchange Award 2015”. Available from http://www.stockexchangeofmauritius.com/news/view/7637.

71. Oxford International Mauritius. (2013). *Mauritius*; Roadmap*: Road Map for the International Financial Services Industry*. 2013., p. 86.

72. Financial Services Commission Mauritius. (2015). *Annual* Statistics*Statistical Bulletin 2015*.

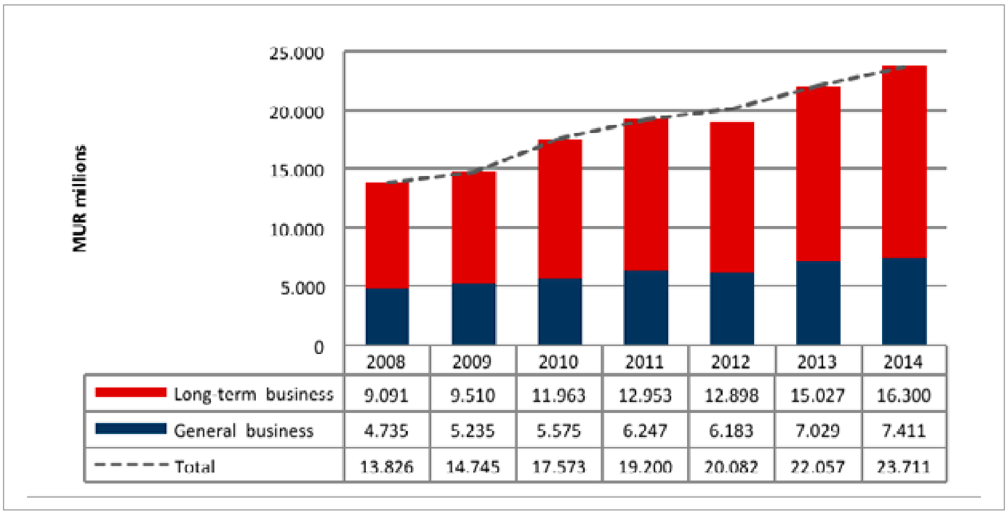
73. Nathan Associates. (2013). *Mauritius International Financial Services*.

Photo: © shutterstock

The insurance industry collected 23.71 billion MUR in insurance premiums in 2014, up 10% annually over the past five years; the CAGRs for general and long-term insurance premiums were 7.2% and 11.4% respectively between 2009 and 2014.

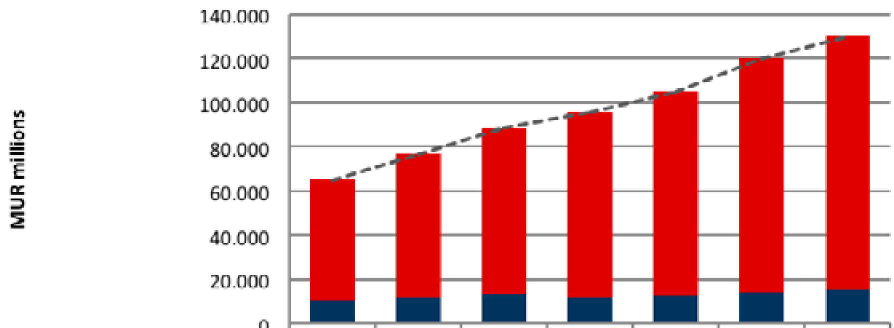
Assets meanwhile were valued at 130 billion MUR, up 8.3% from 2013. Total assets grew by a 5-year CAGR of 11.2%, with the long-term business growing at a quicker pace (12.2% CAGR) than the general business (4.9%).

Figure 14: *Insurance premiums collected in Mauritius, 2008–2014*



Source: Financial Services Commission Mauritius (2016) (a).

Figure 15: *Mauritian insurance assets, 2008–2014*



	2008	2009	2010	2011	2012	2013	2014
Long-term business	54.656	64.947	75.380	84.244	92.640	106.428	115.246
General business	10.365	11.839	13.158	11.659	12.404	13.888	15.066
Total	65.021	76.786	88.539	95.904	105.045	120.316	130.312

Source: Financial Services Commission Mauritius (2016) (a).

The majority of the general insurance business was motor vehicle insurance (65% of policies in 2014), followed by transportation (5%), accident and health (5%), liability (4%) and engineering.[74]

74. Financial Services Commission Mauritius. (2016). Performance of Insurance Industry. Accessed 18/12/2015. <http://www.fscmauritius.org/media-publications/statistics-and-surveys/statistics/insurance-and-pensions.aspx> industry. Available from http://www.fscmauritius.org/media-publications/statistics-and-surveys/statistics/insurance-and-pensions.aspx.

Table 15: *Mauritian general insurance business by segment*

	Number of policies		Value of gross premiums	
Segment	**Number**	**Year-on-year growth (%)**	**MUR (thousands)**	**Year-on-year growth (%)**
Total	**514 104**	**8**	**7 411 082**	**5**
Accident and health	24 249	33	1 879 738	11
Engineering	5 204	19	253 833	-2
Guarantee	421	2	92 879	83
Liability	20 524	27	447 380	11
Miscellaneous	46 496	25	390 621	2
Motor	333 604	3	2 821 867	2
Property	56 213	14	1 119 212	2
Transportation	27 393	7	405 552	10

Source: Financial Services Commission Mauritius (2015).

In the long-term insurance business, life assurance accounted for 82% of policies outstanding at the end of 2014, followed by linked long-term insurance (10%) and pension (8%).[75]

Table 16: *Mauritian long-term insurance business by segment*

	Number of policies		Value of gross premiums	
Segment	Number	Year-on-year growth (%)	MUR (thousands)	Year-on-year growth (%)
Total	**431 057**	**2**	**16 299 703**	**8**
Life assurance	354 871	1	11 361 827	9
Pension	32 450	7	3 485 888	11
Permanent health insurance	115	-48	5 986	21
Total	43 621	10	1 446 002	-1

Source: Financial Services Commission Mauritius (2015).

Mauritian insurers held 17.44 billion MUR in local equities at the end of 2014, accounting for roughly 7.6% of SEM market capitalization.

Table 17: *Mauritian insurer assets by asset class*

Asset class	General insurance (MUR thousands)	Long-term insurance (MUR thousands)	Total (MUR thousands)	Share of total (%)
Total assets	**15 066 359**	**115 245 762**	**130 312 121**	**100**
Cash and deposits	5 870 343	16 811 685	22 682 028	17
	3 389 514	8 692 478	12 081 992	9
Investments in related companies	1 440 755	21 035 282	22 476 037	17
Local equities	1 331 944	16 112 866	17 444 810	13
Property and equipment	884 680	6 619 776	7 504 456	6
Debt securities	738 407	13 950 168	14 688 575	11
Overseas equities	812 962	6 907 683	7 720 645	6
Other assets	597 754	25 115 823	25 713 577	20

Source: Financial Services Commission Mauritius (2015).

75. Financial Services Commission Mauritius. Report on Long Term Insurance Business: Policies in Force for the Year 2014. Accessed 18/12/2015. Downloaded (2016). Statistical highlights. Available from <http://www.fscmauritius.org/media-publications/statistics-and-surveys/statistics/insurance-and-pensions.aspx>http://www.fscmauritius.org/media-publications/statistics-and-surveys/statistics.aspx.

The segment also includes 61 pension schemes licensed under the Private Pension Schemes Act of 2005 and five licensed pension scheme administrators. These schemes held 18.79 billion MUR in assets at the end of 2014, having grown by 12% from 2013. A number of pension companies offer qualifying recognized overseas pension schemes. These are overseas schemes approved by the British Government for expats that are eligible to receive penalty-free transfers of United Kingdom pension benefits. They can reduce tax burdens and help expats manage risk by being invested and paid in local currency.

The Government of Mauritius is currently undertaking significant efforts to promote growth in the insurance industry. To this end, the law was updated to accommodate captive insurance in late 2015 and the first captive insurers are currently establishing themselves in the country. Efforts are also under way to amend the legal framework so that it accommodates cover-holder status.

BANKING

There are currently 23 banks in Mauritius, including six local banks, 10 foreign-owned subsidiaries, one joint venture and four branches of foreign banks.[76] There are also two licensed private banks. Some of the largest international banks are present in Mauritius, including HSBC, Barclays, Deutsche Bank and Standard Chartered. Following the unification of the onshore and offshore banking licences through the Banking Act of 2004, all banks are now licensed by BoM to provide services both domestically and internationally.

The majority of the segment's activity is traditional banking services to the local population as well as the provision of trade finance products to GBCs and international firms. However, banks also provide specialized services including fund administration, custodial services, trusteeship, corporate finance, structured lending, structured trade finance, international portfolio management, investment banking, private client activities, treasury services, and other specialized finance services and products. Some stakeholders perform significant leasing activity in Mauritius and the banks view it as a very competitive jurisdiction for in-sourcing different segments of global operations. It should be noted that banks providing non-bank financial services must do so under subsidiaries that are licensed by the FSC.

The regulatory environment is considered to be very robust and the segment is quite stable, having fared well throughout the turbulence of recent years.[77] Mauritian banks are held in high regard (particularly in the Africa region) and a number of them have expanded to foreign markets, including the African market.

The segment has certainly been moving in the right direction. Although the vast majority of revenues are generated from basic services and products, there has been increasing activity in more value added spaces. Many of the European Investment Bank's investments into Africa, for example, have been structured through Mauritius. Even so, there is still much work to be done in order to develop the more complex financial engineering businesses, such as mergers and acquisitions (M&A) and PPP. Banking stakeholders note that while the necessary skills may be currently lacking, the large international banks that are present in Mauritius could bring and/or develop the required expertise if there is demand. Two elements therefore seem to be missing: '(b) a sufficiently large universe of private firms that engendered M&A activity on a significant scale; and (c) the necessary experience (and skills) in Government and the private sector with successful PPPs operating on the ground in Mauritius.'[78]

SPECIALIZED FINANCE SERVICES

The sector also includes a range of specialized services that are regulated by the FSC. These include licensed entities engaged in the following activities:[79]

- Credit finance: five licensed providers
- Factoring: three licensed providers
- Leasing: 11 licensed providers
- Actuarial services: two licensed providers
- Representative office (for financial services provided by a person established in a foreign jurisdiction): three licensed providers
- Other financial business activity: one licensed provider.

76. Mauritius Bankers Association Limited. (2015). The Banking Industry. Accessed 18/12/2015. <http://www.mba.mu/banking_industry.php>. Available from http://www.mba.mu/banking_industry.php.

77. Nathan Associates. (2013). *Mauritius International Financial Services, Component 2: Mauritius International Financial Centre*. 2013, p. 15.

78. Oxford International Mauritius. (2013). *Mauritius*; Roadmap: *Road Map for the International Financial Services Industry*. 2013.p. 98.

79. Financial Services Commission Mauritius. (2015). *Annual Statistical Bulletin 2015*...

PROFESSIONAL SERVICES

While not technically a part of the target sector, due consideration needs to be given to professional services that are intimately tied to the success of the international finance sector.

Accounting services

The historic growth of the Mauritian global business segment required the support of competent accountants, particularly since Mauritius built its reputation as a location for high-quality administration services. As such, the domestic accounting sector developed the capacities to provide world-class services to the financial sector including auditing, tax advisory, consultancy, corporate finance, stock management, bookkeeping and the preparation of financial statements.[80/81] The sector has adopted International Accounting Standards, and accountants must be registered with the national accounting body, the Mauritius Institute of Professional Accountants.

Today, Mauritius has more than 2,600 registered accountants, many of whom qualified in the United Kingdom. The country hosts some of the world's most important accounting firms, including the big four: Ernst and Young, Deloitte, KPMG and Price Waterhouse Coopers.[82] Many firms operating in Mauritius maintain a strong presence throughout Africa, where they are particularly active in areas such as corporate finance advisory.[83]

Legal services

All barristers must be registered with the Mauritius Bar Association, of which there are currently 570 members.[84] Unlike in many other offshore finance jurisdictions where the legal sector developed in advance of or in tandem with the finance sector, Mauritian provision of legal services continues to be limited. Indeed, as noted by Oxford International, there has been a 'particular disengagement of the legal profession from OFC development in Mauritius.'[85] While the legal sector was at the forefront of OFC development in other locations, it remained relatively aloof in Mauritius. It is also not very integrated with MCs and accounting firms, which limits the exposure of legal professionals to potential clients and deal opportunities.

While the situation has certainly improved in recent years, stakeholders note that the capacities of local law firms to provide more complex services are still limited. They are instead used for basic services including tax matters, housing and real estate, estate planning, trademark, labour laws, litigation, criminal matters, consumer matters, etc. More value added services are outsourced to foreign firms, including appellate practices, bankruptcy, capital markets, embezzlement cases, extradition, intellectual property and forensic audit.

The Government of Mauritius is currently amending laws in order to attract top-tier law firms. In particular, laws are being updated to allow foreign law firms to operate in Mauritius autonomously without having to partner with local law firms. This development is expected to encourage skills transfer, since the requirement to use local lawyers is currently one of the key roadblocks discouraging the arrival of international law firms. In conjunction with these developments, the Ministry of Financial Services, Good Governance and Institutional Reforms (MFSGGIR) has undertaken an aggressive lobbying and promotional campaign aimed at attracting top legal talent.

JUDICIAL AND ARBITRATION SYSTEM

Mauritius's mature legal system, a hybrid of English and French law, is often cited as one of its key competitive advantages when compared with IFC competitors in the region. Mauritius ranks first in the 2015 Mo Ibrahim Index of African Governance among African countries overall and it ranks third in the 'rule of law' category, slightly behind Botswana and South Africa.[86] The court system is comprised of the Supreme Court and subordinated courts, which include the Court of Rodrigues, the Intermediate Court, the Industrial Court, the District Courts, the Bail and Remand Court, the Criminal and Mediation Court, and the Commercial Court. In addition, there is a right to appeal the ruling of the Supreme Court to the Judicial Committee of the Privy Council in London.

80. Global Finance Mauritius. (2016). Accounting & Auditing. Accessed 17/12/2015. <http://www.globalfinance.mu/index.php?option=com_content&view=article&id=83&Itemid=357>auditing. Available from http://www.globalfinance.mu/index.php?option=com_content&view=article&id=83&Itemid=357.

81. Nathan Associates. (2013). *Mauritius International Financial Services, Component 2:* p. 16.

82. Mauritius Institute of Professional Accountants. (2016). Accessed 17/12/2015. <http://mipa.mu/about/> MIPA. Available from http://mipa.mu/about/.

83. Nathan Associates. (2013). *Mauritius International Financial Services,* p. 16.

84. Mauritius Bar Association. Accessed 17/12/2015. <http://www.mauritiusbarassociation.com/index.php/mba> Mauritius Bar Association (2016). Website. Available from http://www.mauritiusbarassociation.com/index.php/mba.

85. Oxford International Mauritius. (2013). *Mauritius*; Roadmap*: Road Map for the International Financial Services Industry*. 2013, p. 56

86. Mo Ibrahim Foundation. (2015). Ibrahim Index of African Governance (IIAG). 2015. Accessed 08/12/2015. <http://www.moibrahimfoundation.org/iiag/>. Available from http://mo.ibrahim.foundation/iiag/.

Photo: © shutterstock

One of the most important steps that Mauritius has taken towards solidifying its reputation as a regional business hub has been to consolidate its position as a seat for international dispute resolution. Arbitration consists of the concerned parties delegating authority to neutral third parties who make a binding decision based on a set of commonly agreed procedures. The arbitration decision is enforceable by law. Arbitration and other forms of alternative dispute resolution are often preferred by international companies who would rather steer clear of court systems. This is particularly true for international entities such as PE groups, whose investments are multijurisdictional and have a limited lifespan. The benefits of arbitration are numerous; it is much less costly and time-consuming than litigation and it also allows the parties to maintain control over key facets of a dispute, such as venue and governing law, which would otherwise be out of their hands.[87]

Mauritius has taken a number of strides towards improving its alternative dispute resolution framework in recent years. Notably, Mauritius became a party to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, passing it into legislation in 2004. This Convention calls for the international recognition and enforcement of arbitration decisions in member countries. The Mauritian arbitration framework was further bolstered by its International Arbitration Act 2008, which was based on the United Nations Commission on International Trade Law Model Law on International Commercial Arbitration.[88] A key aspect of this law is that it created a formal separation between international arbitration and the domestic courts by 'granting jurisdiction for all appointments and several administrative functions to the Permanent Court of Arbitration at The Hague.'[89] In 2009, Mauritius concluded a host country agreement with the Permanent Court of Arbitration and the Court was invited to open a representative office in Mauritius. It should be noted that distinctions are made between international and domestic arbitration, the latter of which continues to be governed by the long-standing civil procedure code.

87. Mauritius Chamber of Commerce and Industry. (2015). Arbitration and Mediation. Accessed 08/12/2015. <http://www.mcci.org/en/our-services/arbitration-mediation/arbitration/introduction-to-marc-arbitration/>. Available from http://www.mcci.org/en/our-services/arbitration-mediation/arbitration/introduction-to-marc-arbitration/.

88. Noel, Gilbert. Mauritius: Mauritius Adopts Legal Framework for International Arbitration. Mondaq. July 23, 2009. Accessed 7/12/2015. <http://www.mondaq.com/x/83156/offshore+financial+centres/Mauritius+Adopts+Legal+Framework+For+International+Arbitration> Gilbert Noel (2009). Mauritius: Mauritius adopts legal framework for international arbitration. *Mondaq*, 23 July. Available from http://www.mondaq.com/x/83156/offshore+financial+centres/Mauritius+Adopts+Legal+Framework+For+International+Arbitration.

89. Norton Rose Fulbright. (2011). International Arbitration. October, 2011. Accessed 07/12/2015. <http://www.nortonrosefulbright.com/knowledge/publications/57234/international-arbitration>. Available from http://www.nortonrosefulbright.com/knowledge/publications/57234/international-arbitration.

There are two arbitration centres active in Mauritius:

- Mauritius Chamber of Commerce and Industry (MCCI) Arbitration and Mediation Centre (MARC). Established in 1996 by MCCI, MARC is at the forefront of arbitration in the Indian Ocean region. MARC provides parties with an institutional framework for confidential and neutral dispute resolution, which is handled by independent arbitrators. The MARC permanent Secretariat supervises the dispute resolution process to ensure quality and enforceability.[90]In order to cater to francophone countries in Africa, MCCI has recently concluded an agreement with the Chamber de Commerce et d'Industrie de Paris.

- London Court of International Arbitration (LCIA)–Mauritius International Arbitration Centre (MIAC) Arbitration Centre (LMAC). LMAC was established in 2011 as a joint venture between the Mauritian Government, MIAC and LCIA.[91] LMAC leverages the experience of the LCIA, one of the oldest seats of alternative dispute resolution in the world, to offer world-class, neutral alternative dispute resolution within the framework of LMAC rules, United Nations Commission on International Trade Law rules, or other procedures as agreed to by the relevant parties.

REGULATORY FRAMEWORK

The following regulatory bodies are charged with overseeing various aspects of the Mauritian financial services sector.

BoM is the central bank and it is tasked with maintaining financial and monetary stability. Within this role, it is responsible for regulating and supervising the banking sector, and the following issues fall within its purview: 'licensing of banks; capital adequacy; quality of management; liquidity control; concentration of risk; role of external auditors; on-site examinations; off-site surveillance; control of advertisements; confidentiality of information; identity of customers.'[92]

The FSC regulates the non-banking financial sector, including the global business sector. It seeks to:

> promote the development, fairness, efficiency and transparency of financial institutions and capital markets in Mauritius; suppress crime and malpractices so as to provide protection to members of the public investing in non-banking financial products; and ensure the soundness and stability of the financial system in Mauritius.[93]

The Mauritius Revenue Authority (MRA) is the focal point for the Common Reporting Standard. As such, it is tasked with collecting information about non-resident accounts from financial institutions and exchanging data with foreign counterparts.

The Financial Reporting Council (FRC) is comprised of two arms, the Audit Practice Review Unit and the Financial Reporting Monitoring Unit. The FRC licences auditors, approves auditing firms, reviews audit practices, and reviews financial / non-financial reporting. Its overall goals are: 'to promote the provision of high-quality reporting of financial and non-financial information by public interest entities; to promote the highest standards among licensed auditors; to enhance the credibility of financial reporting; and to improve the quality of accountancy and audit services.'[94]

The Financial Intelligence Unit (FIU) is the 'central Mauritian agency for the request, receipt, analysis and dissemination of financial information regarding suspected proceeds of crime and alleged money-laundering offences as well as the financing of any activities or transactions related to terrorism to relevant authorities.'[95]To this end, it issues guidelines to financial institutions and other concerned parties on how to handle and report suspicious transactions, and it liaises with foreign counterparts.

90. Mauritius Chamber of Commerce and Industry. (2015). Arbitration and Mediation. Accessed 08/12/2015. <http://www.mcci.org/en/our-services/arbitration-mediation/arbitration/introduction-to-marc-arbitration/>. Available from http://www.mcci.org/en/our-services/arbitration-mediation/arbitration/introduction-to-marc-arbitration/.

91. LCIA – MIAC (2016). Arbitration Centre. Homepage. Accessed 09/12/2015. <http://www.lcia-miac.org/>Available from http://www.lcia-miac.org/.

92. Bank of Mauritius. Role and Functions. Accessed 07/12/2015. <https://www.bom.mu/?id=20002> Bank of Mauritius (2016). Role and functions. Available from https://www.bom.mu/about-the-bank/role-and-functions-bank.

93. Financial Services Commission Mauritius. (2016). Mauritius International Financial Centre: About Us. Accessed 08/12/2015. <http://www.fscmauritius.org/about – us/who-we-are.aspx>. Available from http://www.fscmauritius.org/about-us/who-we-are.aspx.

94. Financial Reporting Council. Mauritius (2016). Mission, Visionvision and Values. Accessed 07/12/2015. <http://frc.govmu.org/English/AboutUs/Pages/Mission,-Vision-and-values.aspx> Available from http://frc.govmu.org/English/AboutUs/Pages/Mission,-Vision-and-values.aspx.

95. Financial Intelligence Unit. About FIU Mauritius. Accessed 07/12/2015. <http://www.fiumauritius.org/index.php?option=com_content&view=article&id=1&Itemid=2&lang=en> (2016). About us. Available from http://www.fiumauritius.org/English/AboutUs/Pages/default.aspx.

CONTRIBUTION TO NATIONAL ECONOMY

The Mauritian financial services sector was valued at 34.5 billion MUR in 2014 (US$ 1.14 billion using an average exchange rate of 30.85 MUR/US$) and it accounted for 10.3% of the Mauritian GDP.[96] It should be noted that the indirect contribution to GDP is likely to be much higher than that conveyed by direct data, given that the sector creates significant demand for professional support services (such as legal and accounting services) that are not captured in the above statistics.

Monetary intermediation accounts for 58% of the sector's value added, followed by insurance, reinsurance and pension funding (30%), financial leasing and other credit granting (7%), and other services (6%). Financial services have grown at a faster pace than the overall economy in recent years; the sector's real growth rate between 2011 and 2015 (estimated)averaged 5.5%, whereas GDP (basic prices) grew at a rate of just 3.4% during the same period. It should be noted however that growth has slowed over the past year in all segments.

The sector employed nearly 12,500 people in 2014.[97] While this represents just 2% of total employment in Mauritius, as with GDP, the total (direct + indirect) contribution to employment is likely much higher given the spillover effects between the financial sector and the wider economy.

96. Financial Services Commission Mauritius. (2015). *Annual Statistical Bulletin 2015*.

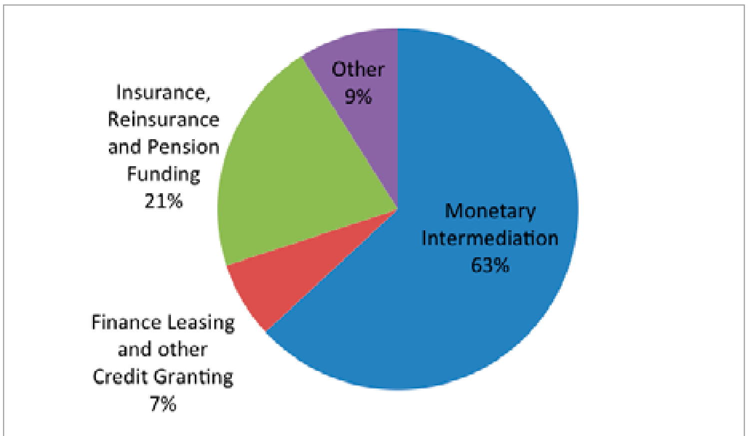
97. Employment in large establishments.

Table 18: *Financial services contribution to the Mauritian economy, 2011–2015 (%)*

Share of GDP	2011	2012	2013	2014	2015 est.
Total	**10.2**	**10.3**	**10.2**	**10.3**	**10.4**
Monetary intermediation	6.0	6.2	5.9	6.0	6.1
Finance leasing and other credit granting	0.6	0.6	0.6	0.7	0.6
Insurance, reinsurance and pension funding	3.0	3.0	3.1	3.0	3.1
Other	0.5	0.5	0.6	0.6	0.6
Real growth rate	**2011**	**2012**	**2013**	**2014**	**2015 est.**
Total	**5.6**	**5.7**	**5.4**	**5.4**	**5.2**
Monetary intermediation	6.3	6.3	5%	5%	5.4
Finance leasing and other credit granting	6.0	6%	6.5	5	6.3
Insurance, reinsurance and pension funding	4.5	4.6	4%	5.0	5
Other	3.7	5.0	5.4	5.5	5.3

Source: Financial Services Commission Mauritius (2014); and Financial Services Commission Mauritius (2016) (c).

Figure 16: *Share of sectoral employment by segment (employment in large establishments)*



Source: Financial Services Commission Mauritius (2015)

Photo: © shutterstock

In 2014, there was US$ 57 million of FDI into the Mauritian financial sector, accounting for 13% of total FDI.[98] However, FDI slowed significantly in 2015. FDI in the financial sector fell by 94% to just US$ 4 million, while total FDI fell by 70%.

Since Mauritius specializes in channelling funds towards developing markets in Asia and Africa, its financial services sector has been intimately tied to the fortunes of emerging markets. As such, the sector experienced a period of considerable growth from the turn of the century onward in tandem with the record influx of FDI into emerging economies.

Similarly, the sector has suffered negatively over the past year as a result of the downturn in China and the crisis in commodities that began to take hold in late 2014. Indeed, there has been a drop in funds flowing both from and to emerging markets recently. While the impact of the current economic crisis is not fully yet captured in the most recently available statistics, stakeholders note that recent events have taken their toll on the sector's earnings.

TRADE ANALYSIS

The statistics for trade in services are not as well-developed as those for goods because in general the available data is less granular. Even so, an analysis of available statistics can shed light on Mauritius's export performance in light of global trends.

Trade in services statistics are grouped according to nine categories, of which three bear particular relevance to the current Strategy: 'financial services', 'insurance and pension services' and 'other business services.' While 'financial services' and 'insurance and pension services' captures trade that is directly attributed to the financial services sector, many of the sector's spillover effects are captured within the 'other business services' category, which covers legal services, accounting services, and other management and consulting services. As such, two trade analyses are presented: one for 'direct trade' that covers the 'financial services' and 'insurance and pension services' categories, and one for 'indirect trade' that covers the 'other business services' category.

DIRECT TRADE[99]

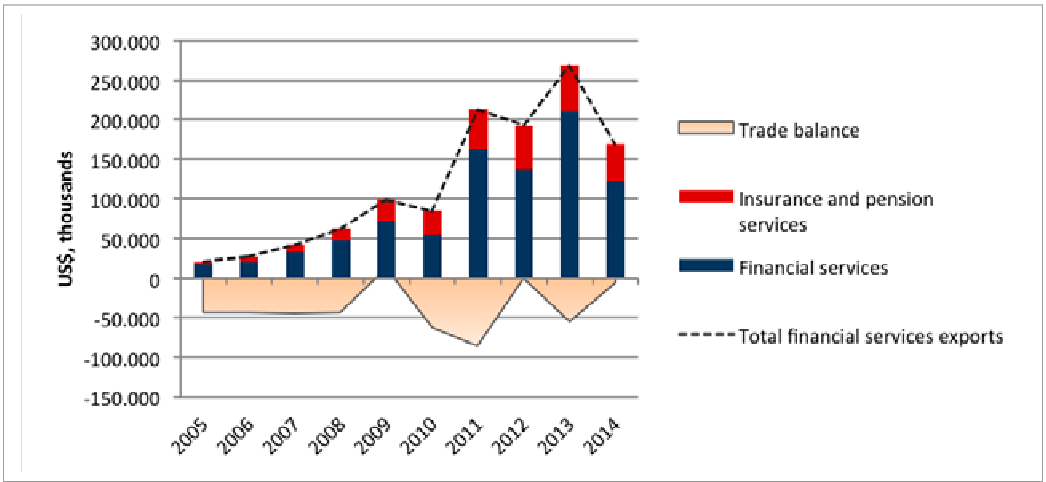
Total sector exports from Mauritius were valued at US$ 168.9 million in 2014, having declined by 37.1% since 2013. It should be noted that export values have likely fallen throughout 2015 in line with the depreciating MUR, which declined by over 11% in 2015. Nevertheless, long-term growth has been steady: the 5-year CAGR through 2014 was 11.3%, while the 9-year CAGR through the same period was 26.4%.

The trade balance averaged –US$ 37 million over the past nine years and it settled at –US$ 5 million in 2014, following significant improvements in the terms of trade in the financial services subsegment (trade balance went from –US$ 51.9 million to +US$ 20.9 million from 2013 to 2014). A part of this improvement was counteracted by deterioration in the trade deficit for the insurance segment, which fell from –US$ 2.9 million in 2013 to –US$ 26 million in 2014.

98. Financial Services Commission Mauritius. Statistics. Accessed 18/12/2015.<http://www.fscmauritius.org/media-publications/statistics-and-surveys/statistics.aspx> Financial Services Commission Mauritius (2016). Statistical highlights. Available from http://www.fscmauritius.org/media-publications/statistics-and-surveys/statistics.aspx.

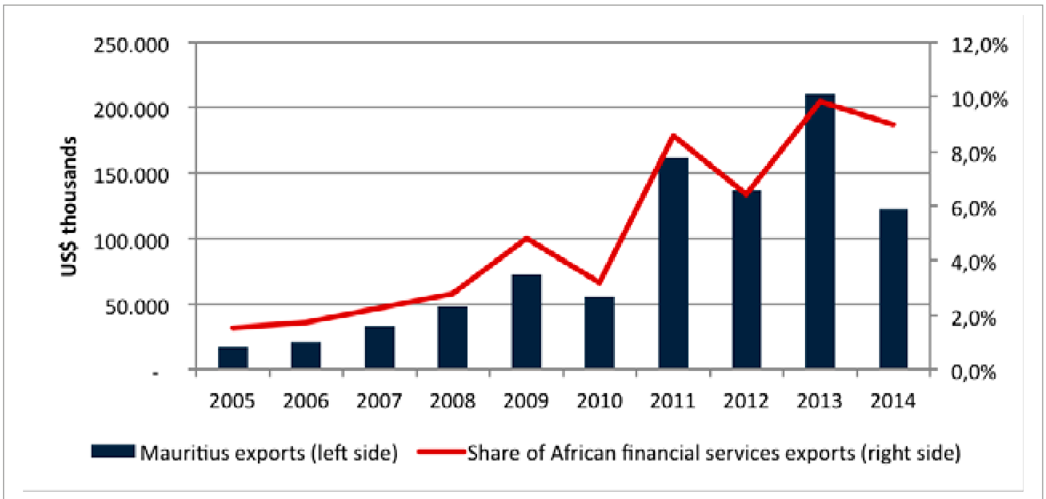
99. Note: all calculations regarding share of total African exports/imports need to be updated once more data for 2014 is available: right now, many countries have still not reported. If data does not become available by time of strategy conclusion; either remove 'share' analysis, or refer to 2013 figures for accuracy when computing market shares for Mauritius and its competitors.

Figure 17: *Overview of Mauritian trade in financial services, 2005–2014*



Source: International Trade Centre (2016).

Figure 18: *Mauritian financial services exports, 2005–2014*

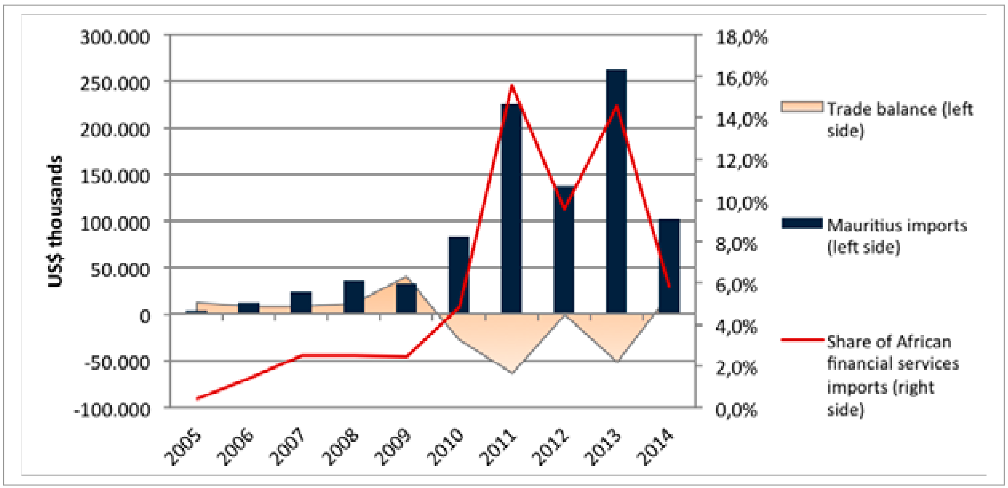


Source: International Trade Centre (2016).

Mauritius is now the fourth-largest exporter of financial services in Africa, behind South Africa, Kenya and Egypt. Mauritius's share of total African financial services exports has also grown considerably over the past decade, from 1.5% in 2005 to 9% in 2014. Of particular note, this share remained relatively stable between 2013 and 2014 despite the fall in absolute financial services exports from Mauritius. Indeed, African exports of financial services fell by 36% from 2013 to 2014. This indicates that the recent turbulence is not isolated to Mauritius and is instead connected to regional (and global) factors, namely a broader drop in demand for imports of financial services from Africa. To this end, the 30% fall in Indian imports of financial services is likely to have had a particularly strong impact on Mauritian exports.

Mauritius imported US$ 101.8 million of financial services in 2014, down 61% from 2013. While the trade balance has averaged – US$ 24.6 million over the past four years, it settled at a positive US$ 20.9 million in 2014. The Mauritian share of African financial services imports fell to 5.8% in 2015, down from a high of 15.6% in 2011.

Figure 19: *Mauritian financial services imports, 2005–2014*



Source: International Trade Centre (2016).

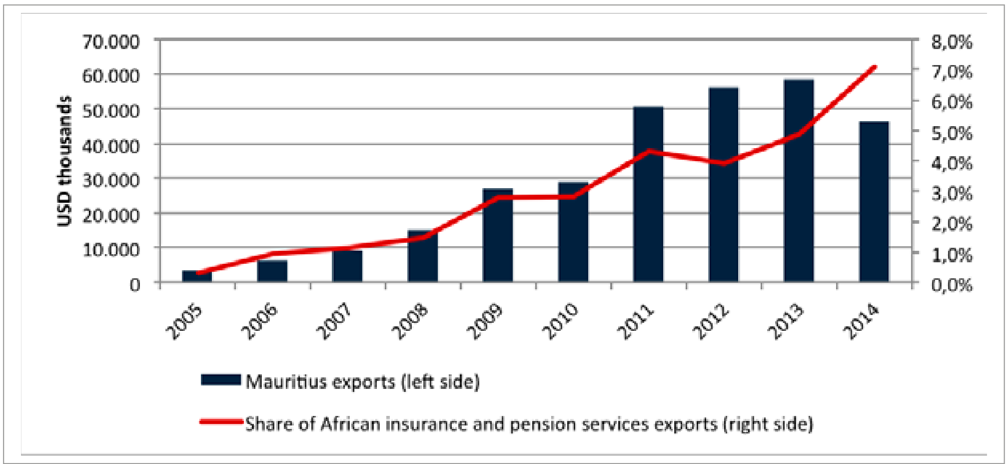
INSURANCE AND PENSION SERVICES

Exports of 'insurance and pension services' from Mauritius were valued at US$ 46.2 million in 2014, accounting for 27% of the sector's total exports. Exports of this subsegment, despite being of a lower absolute value, were more robust in recent years than the 'financial services' subsegment, exhibiting lower levels of volatility. Exports fell by 21% in 2014, much less than the 42% decline of the other subsegment. Long-term growth has been quite positive: the 9 – and 5-year CAGRs were 33.7% and 11.5% respectively, the latter of which is quite similar to the growth of the financial services subsegment (11%).

Mauritius is the fifth-largest exporter of insurance and pension services in Africa, following South Africa (37%), Egypt (18%), Kenya (18%) and Zambia (12%). Today, Mauritius accounts for 7.1% of Africa's exports. This share has grown consistently over the past decade in line with absolute exports.

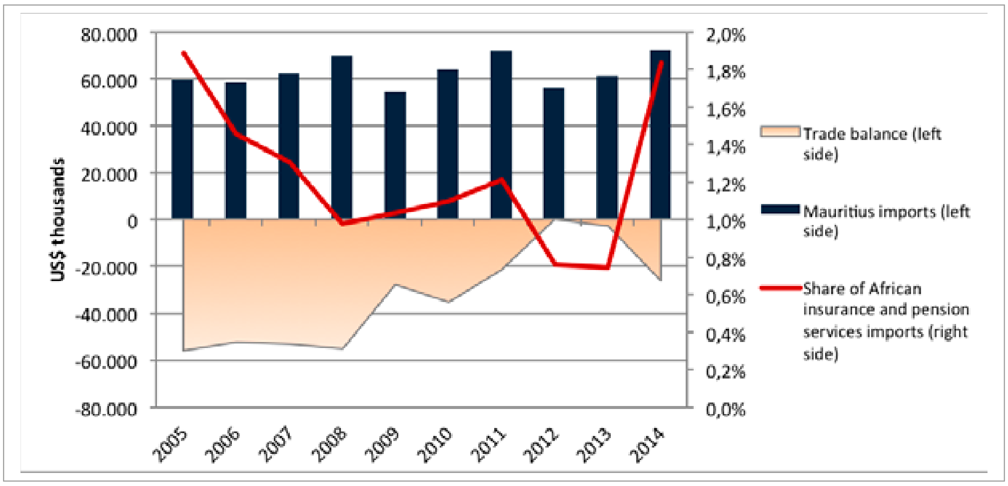
Imports, valued at US$ 72.3 million, have remained relatively steady over the years. The Mauritian share of African imports of insurance and pension services is quite low, below 2%. The trade balance meanwhile has steadily improved in tandem with rising exports.

Figure 20: *Mauritian insurance and pension services exports, 2005–2014*



Source: ITC Trademap www.trademap.org

Figure 21: *Mauritian insurance and pension services imports, 2005–2014*



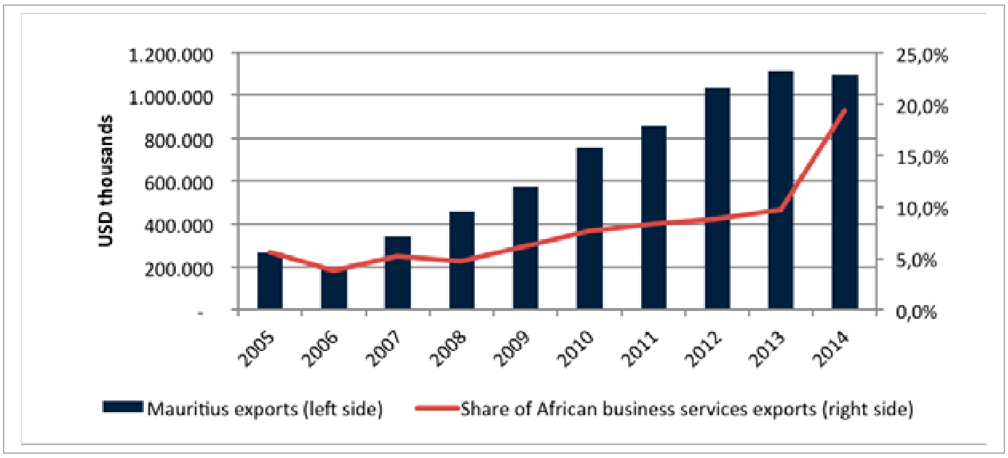
Source: International Trade Centre (2016).

SPILLOVER EFFECTS

The financial services sector requires significant support from other professional sectors, most notably the accounting, professional and management sectors. In many types of financial firms, and particularly those found in Mauritius, these services are outsourced to third parties in order to maintain a lean operating structure. As such, the direct export of financial services generates concurrent demand for the export of professional and management services. A brief analysis of the Mauritian exports of 'other business services' is therefore in order. As a cautionary note: the lack of data granularity makes it difficult to pinpoint how many of these services are related to the financial sector. This analysis should therefore only be interpreted as providing a general understanding of the larger trends in Mauritian management and professional services.

Mauritius exported just over US$ 1 billion of 'other business services' in 2014, accounting for roughly 20% of African exports in this category. Indeed, Mauritius is the third-largest exporter of such services in Africa, following only South Africa (35%) and Egypt (23%). Imports meanwhile were valued at US$ 978 million, leaving a slightly positive trade balance.

Figure 22: *Mauritian exports of 'other business services'*



Source: International Trade Centre (2016).

Photo: © shutterstock

ANALYSIS OF TRADE SUPPORT NETWORK

The future success of the Mauritian financial services sector will depend not only on the internal capacities of the companies operating in the industry. In order for the sector to achieve long-term, sustainable growth, participating enterprises must be able to rely on a capable network of Government and private sector support institutions. Mauritius's financial services trade support network is comprised of the organizations shown in box 14.

Table 19: *TSN of the Mauritian financial services sector*

Policy support network	Trade services network	Business services network
• BoM • FSC • FRC • FIU • MRA • Ministry of Finance and Economic Development (MoFED) • MFSGGIR • Ministry of Foreign Affairs, Regional Integration and International Trade	• Board of Investment (BOI) • Financial Services Promotion Agency (FSPA) • Enterprise Mauritius • MCCI • LMAC • MARC	• FSCC • Global Finance Mauritius (GFM) • Mauritian Bankers Association (MBA) • Association of Trust and Management Companies (ATMC) • Insurers Association of Mauritius • Financial Services Institute (FSI) • Insurance Institute of Mauritius • Law firms • Accounting firms • University of Mauritius • Chartered Financial Analyst Society of Mauritius • Mauritius Institute of Professional Accountants • Mauritius Law Society • Mauritius Bar Association • Mauritius Credit Information Bureau

POLICY SUPPORT NETWORK

These institutions represent ministries and competent authorities responsible for influencing or implementing policies at the national level. Overall economic and development policies are set by MoFED. MFSGGIR meanwhile is tasked with promoting the development of the financial services sector and ensuring that Mauritius is a jurisdiction of substance. To this end, some of its key objectives include developing the asset and wealth management industries as a springboard for value addition, promoting the development of the insurance sector, improving access to ancillary services and positioning SEM as a hub for mitigating African investment risks.[100] In order to facilitate these goals, the Ministry is also responsible for reforming and reorganizing the public sector to make it more effective and accountable.

Regulation of the financial sector falls within the purview of BoM, which oversees the banking segment, and the FSC, which oversees non-bank financial services including the global business segment, insurance, capital markets and asset management. The mandates of these two regulators need to be reviewed, as a number of gaps continue to be present in the regulatory structure. For example, private banking falls in a grey area between the two bodies and it is currently not properly regulated.

MRA (under MoFED) also plays a critical role in the functioning of the sector. As the national tax collection agency, MRA is the focal point for the collection (and sharing) of data for the purposes of fulfilling Exchange of Information Agreements. In the case of FATCA for example, the Intergovernmental Agreement between the United States and Mauritius allows foreign financial institutions to fulfil their obligations by reporting directly to MRA, which will then exchange information with the Internal Revenue Service. Similarly, as Mauritius is a member of the Common Reporting Standard Early Adopters Group, MRA will also be the focal point for collecting data on non-resident financial accounts and exchanging such data with other countries. MRA is often considered to be heavy on operators (inefficient and burdensome requirements) and they can be unresponsive when fulfilling client requests.

FRC (under MoFED) is tasked with ensuring confidence in financial and non-financial reporting.[101] It licenses auditors, approves audit firms, provides training and seminars on good accounting standards, and performs financial and non-financial reporting reviews. The effectiveness of FRC is in doubt; however, as it does not have the resources to adequately monitor the books of larger companies. FIU (under MoFED) is responsible for combating money-laundering and the financing of criminal activities.[102] To this end, it issues guidelines to financial institutions and other concerned parties on how to handle and report suspicious transactions, and it liaises with foreign counterparts. As with FRC, the capacities of FIU are weak and the body is believed to have failed to combat a number of scams. Reporting mechanisms are slow and staffs are frequently considered to be unreactive. Greater human and financial resources are required to ensure that both FRC and FIU are able to fulfil their mandates.

In general, there is limited alignment of public sector bodies with industry needs. Policymakers and regulators often create new regulations or enter into new international agreements without adequately consulting the private sector and considering the long-term implications. This lack of alignment is due to limited linkages between the public and private sectors and inadequate coordination mechanisms. Despite persistent issues in this arena, progress has certainly been made, particularly with regards to the recent formation of MFSGGIR. Another pervasive challenge is that staffs at public institutions generally have little experience working in the private sector, thereby diminishing their understanding of private sector needs. Greater exposure to industry, training of staff in key areas of importance to the private sector and increased coordination would go a long way to improving institutional support at the policy level.

TRADE SERVICES NETWORK

These institutions or agencies should ideally provide a wide range of trade-related services to both Government and enterprises. In this role, they would support and promote the sector through the delivery of trade and export solutions.

One such institution is Enterprise Mauritius. As the country's apex trade promotion organization, Enterprise Mauritius is mandated to help businesses expand into regional and international markets.[103] To this end, it provides a myriad of services to exporters: among other things, it coordinates participation in events such as trade fairs and

100. Mauritius, Ministry of Financial Services, Good Governance and Institutional Reforms. (2016). About Us: Theus: the Ministry. Accessed 04/12/2015. <http://financialservices.govmu.org/English/AboutUs/Pages/The-Ministry.aspx>Available from http://financialservices.govmu.org/English/AboutUs/Pages/The-Ministry.aspx.

101. Financial Reporting Council. Mauritius (2016). About us: the FRC. Accessed 04/12/2015. <http://frc.govmu.org/English/AboutUs/Pages/The-FRC.aspx>Available from http://frc.govmu.org/English/AboutUs/Pages/The-FRC.aspx.

102. Financial Intelligence Unit. About FIU Mauritius. Accessed 07/12/2015. <http://www.fiumauritius.org/index.php?option=com_content&view=article&id=1&Itemid=2&lang=en> (2016). About us. Available from http://www.fiumauritius.org/English/AboutUs/Pages/default.aspx.

103. Enterprise Mauritius. (2016). About Us. Accessed 04/12/2015. <http://sourcemauritius.com/mauritius/enterprise-mauritius/>us. Available from http://sourcemauritius.com/mauritius/enterprise-mauritius/.

buyer–seller events; it provides strategic support to businesses looking to diversify into new products and markets; it maintains liaison offices in Africa and the United States to support the development of businesses linkages in those markets; it is the implementing agency of the Export Credit Insurance Scheme for Africa; and it operates freight rebate and international fair grant schemes. While it does little work directly with the financial services sector, it indirectly promotes demand for Mauritian financial services, since the businesses that Enterprise Mauritius does attract will require such services.

BOI (under MoFED) is the country's national investment promotion agency. The activities of BOI are wide-ranging: among other things, it is tasked with coordinating investment-related promotional and marketing activities; it serves as a one-stop shop for investors, helping them obtain all necessary permits and authorizations; it provides research, data collection and analysis services; it makes policy recommendations to the Government in the field of investment promotion; it coordinates between the public and private sectors on investment matters; and it provides information to potential investors. The BoI was also specifically tasked with promoting Mauritius as an international financial centre. One of its most successful efforts in this arena was the organization of annual private equity conferences (Private Equity Mauritius). There were four iterations (2010–2014) and the event gained some prominence in international circles; the 2014 conference was attended by 300 international and local participants, including representatives from development finance institutions, investment advisory, international law firms, and other intermediaries and professionals. Nevertheless, the event was not held in 2015 due to poor coordination and the lack of sponsorship. Greater consistency will be required if the sector is to develop a reputation as a top-tier IFC.

Despite the presence of these institutions, promotion of the financial sector has thus far been a persistent challenge. Efforts have been inconsistent and marketing has not been effectively targeted towards specific products and markets. In addition, promotion has been reactive rather than proactive (for example, responding to negative columns in foreign press instead of working to build a stable and consistent brand image). In order to engage in more targeted and consistent promotion of the Mauritian financial sector, the Government has recently reconstituted the FSPA (it was dissolved in 2006 and its responsibilities had been transferred to BOI). Most recently, MFSGGIR, FSC and FSPA have begun to engage in joint roadshows to attract business. The presence of all participants in the room allows stakeholders to answer questions immediately and comprehensively. These promotional efforts have already met with initial success.

The activities of Enterprise Mauritius, BOI and FSPA are complemented by those of MCCI, the chief private sector organization tasked with encouraging investment and trade. MCCI represents member interests to the Government and advocates on their behalf. It also provides various data analysis and market intelligence services, and fosters linkages with international partners.[104] Financial services is one of the eight main sectors that MCCI services.

BUSINESS SERVICES NETWORK

These institutions include associations and commercial service providers that support the growth and development of sector businesses through their offerings.

The chief organ for public–private coordination is the FSCC, which was reconstituted in 2012/13 after years of disuse. The FSCC is chaired by MoFED and comprised of leaders from both the public and private sector, with representatives from organizations such as BoM, FSC, and large international banks and accounting firms. FSCC is comprised of a secretariat and it serves as the platform for discussing the sector's strategic orientation. While it is the closest that the sector has to a public–private coordinating body, its effectiveness is hindered by the lack of a strategic approach; stakeholders note that the Council continues to be reactive and would benefit from the introduction of a think tank function to investigate trends and opportunities.

With regards to private sector coordination and advocacy, GFM is an association representing most subsegments of the financial services industry, including GBCs, MCs, banks, accounting firms, law firms, institutional investors and SEM. Its mandate is to promote the view and interests of the sector and help Mauritius become an IFC of substance.[105] In addition, there are also a number of sector and professional associations that represent subsegments of the financial sector. These include MBA, ATMC, the Chartered Financial Analyst Society of Mauritius and the Insurers Association of Mauritius.

Financial service provision is supported by a number of ancillary sectors. Accounting services in the country are quite well-developed and can cater to complex demands of the sector. Legal services meanwhile continue to be basic, unlike in competing jurisdictions where the

104. Mauritius Chamber of Commerce and Industry. (2016). Functions. Accessed 04/12/2015. <http://www.mcci.org/en/our-institution/functions/>Available from http://www.mcci.org/en/our-institution/functions/.

105. Global Finance Mauritius. Our Institution. Accessed 04/12/2015. <http://www.globalfinance.mu/index.php?option=com_content&view=article&id=29&Itemid=261> Global Finance Mauritius (2016). Our institution. Available from http://www.globalfinance.mu/index.php?option=com_content&view=article&id=29&Itemid=261.

legal profession developed in tandem with (or in advance of) the financial sector. Domestic lawyers support the sector through the provision of basic services but more complex services are generally provided by foreign law firms. In addition to their participation in GFM, the accounting and legal profession are also represented, and catered to, by the Mauritius Institute of Professional Accountants, the Mauritius Bar Association and the Mauritius Law Society.

A key role is played by the Mauritius Credit Information Bureau. The Bureau collects and stores data on borrowers, serving as the central repository for creditor information. It then provides credit information to lenders so that they can accurately gauge credit risk.

Lastly, due consideration must be given to skills development, which is paramount to the success of a services sector. The curriculum of the University of Mauritius is generic and it does not provide adequate training in specific areas of finance such as risk management, asset management, valuation, etc. Linkages between the university and industry are weak, and there is little collaboration in designing curricula or providing opportunities for students to gain practical experience. However, positive steps have been taken with the recent formation of FSI. FSI will fill skills gaps by providing tailored trainings to finance professionals in areas where competencies are weak. FSI is currently being staffed and its curriculum is being designed. However, sustainable improvements will require greater collaboration between academia and industry.

While progress has also been made in the arena of business services, coordination of the sector remains an issue. With regards to public–private coordination, the ability of the FSCC to perform its function must be enhanced. Coordination within the private sector meanwhile is hindered greatly by the narrow and short-term mentality that dominates the subsegments, the lack of strategic thinking, and the lack of a more proactive and inclusive umbrella organization that consolidates all subsegments.

DEVELOPMENT SUPPORT FRAMEWORK

The Government of Mauritius has taken a proactive approach to the development of the international finance sector since its founding in the latter part of the twentieth century. Indeed, the Government has been a driving force behind many of the regulatory reforms that turned Mauritius into an attractive offshore jurisdiction. Today, progress continues to originate from national stakeholders and not from outside development partners: the Government continuously updates legislation to reflect the latest international best practices and demands, and both the public and private sectors work together in an effort to improve service provision. As such, there has been little support from development partners, particularly when compared with the significant levels of assistance that are frequently provided to priority sectors in developing economies. With regards to public sector initiatives however, two recent development efforts bear particular relevance to the present Strategy.

Nathan Associates London Ltd: Development Road Map and Branding Strategy (December 2013)

Nathan Associates formulated a road map for the sector that recommended ways, in which stakeholders could address challenges, diversify away from India, move away from the current tax-driven strategy, and expand into higher-value added products and services.[106] The road map also included a branding and positioning strategy, as well as a marketing plan, that would help Mauritius builds its reputation worldwide and in Africa as a business centre of excellence and gateway to regional economies. The Road Map was submitted to the Commonwealth Secretariat at the request of the Government of Mauritius.

Oxford International Consultants (Mauritius) Ltd: A Road Map for the Mauritian Financial Services Industry (October 2013)

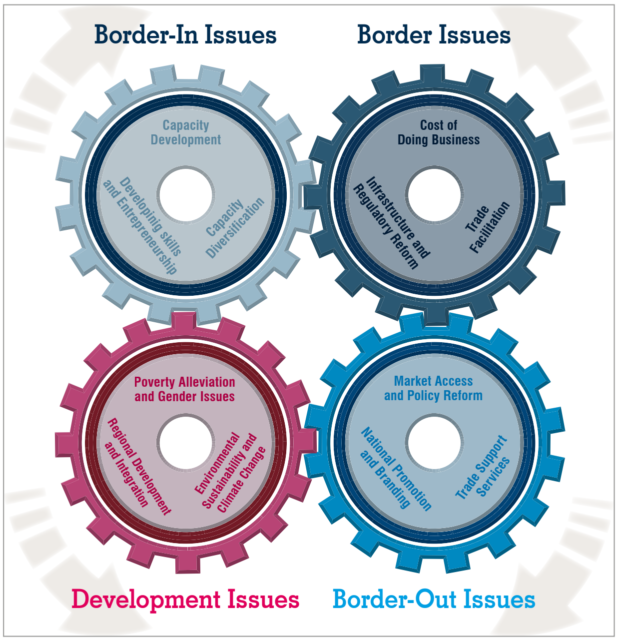
This report was commissioned by FSC and it included a detailed road map of specific actions to take in order to address the challenges faced by the Mauritius IFC.[107] The road map tackled issues such as synergies within the industry, capacity-building, market development, branding and marketing, and regulation. The action plan delegated responsibilities to appropriate implementation parties and provided estimated timelines. The report also provided subsector-specific recommendations for the development of the following IFC segments: private banking and wealth management; asset management; insurance and reinsurance; transfer pricing and global tax management; risk management and capital markets; and complex financial engineering (M&A, PPPs).

During the course of consultations, stakeholders noted that these two road maps touched on many of the key constraints affecting the Mauritius financial services industry and provided appropriate recommendations for their amelioration. Even so, little concrete progress has come from these road maps due to a lack of implementation.

106. Nathan Associates. (2013). *Mauritius International Financial Services,* p. 11.

107. Oxford International Mauritius. (2013). *Mauritius*; Roadmap*: Road Map for the International Financial Services Industry*. 2013.

COMPETITIVE CONSTRAINTS AFFECTING THE VALUE CHAIN



Traditionally, the scope of export strategies has been defined in terms of market entry, such as market access, trade promotion and export development. This ignores several important factors in a country's competitiveness. For an export strategy to be effective it must address a wider set of constraints, including any factor that limits the ability of firms to supply export goods and services, the quality of the business environment, and the development impact of the country's trade, which is important to its sustainability. This integrated approach is illustrated by the four gears framework schematic on the right.

Supply-side constraints

Supply-side issues impact production capacity and include challenges in areas such as availability of appropriate skills and competencies, diversification capacity, technology and low value addition in the sector's products.

Business environment constraints

Business environment constraints are those that influence transaction costs, such as regulatory environment, administrative procedures and documentation, infrastructure bottlenecks, certification costs, Internet access and cost of support services.

Market access constraints

Market entry constraints include issues such as market access, market development, market diversification and export promotion.

Social constraints

Social constraints include issues related to poverty reduction, gender equity, youth development, environmental sustainability and regional integration.

SUPPLY-SIDE CONSTRAINTS

Box 13: Supply-side constraints

- Over-reliance on the Indian market stymies diversification and perpetuates the image of a tax haven
- Limited product offering hinders the sector's expansion
- Inadequate skills limit the development of higher-value added services and products
- Lack of synergies between industry players diminishes competitiveness as an international financial hub
- Equity-centric capital markets limit opportunities for value creation and diminish competitiveness of the financial sector vis-à-vis other IFCs
- The dominance of domestic issuers in capital markets hinders financial sector development
- Lack of adequate depth diminishes the competitiveness of capital markets
- Limited demand for value added services constrains capacity development
- Low local demand for non-bank financial services hinders sectoral development
- Lack of a local payment switch increases costs and burden on infrastructure
- High and increasing operational and compliance costs threaten to diminish Mauritian cost-competitiveness

Photo: © shutterstock

Over-reliance on the Indian market stymies diversification and perpetuates the image of a tax haven

Mauritius has learned a lot from its experience in India, yet the continued reliance on a treaty-based jurisdiction model seems untenable in light of increasing global scrutiny over tax avoidance and evasion. Success has itself slowed diversification towards a new model, as operators have grown comfortable sticking with what works.

- **Severity:** ● ● ● ● ●
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

Limited product offering hinders the sector's expansion

The limited breadth of products is in and of itself a challenge to growth, given that many customers prefer dealing with jurisdictions that can meet all of their needs. Diversification is hindered first and foremost by a lack of skills in areas such as complex financial services and valuation as well as support services (i.e. legal). In addition, Mauritius continues to be branded as a treaty-based jurisdiction and there are few efforts made to market it as a destination for other services. The Government meanwhile does not provided incentives to practitioners to develop new products. Lastly, industry players have a low risk appetite; they are hesitant to expand to new areas when current models are working fine.

- **Severity:** ● ● ● ● ●
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

Inadequate skills limit the development of higher-value added services and products

The sector's development is constrained chiefly by the lack of skills in areas such as risk management, compliance, legal, valuation, complex financial products, asset management and investment advisory. The university curriculum is generic, as it does not provide instruction in specific areas of finance. Linkages between industry and academia are weak and there is little cooperation to design curricula or to provide practical experience through internships. Even when employers note that graduates are well-trained, their lack of practical experience is a persistent issue. In addition, the lack of more demanding job openings means that there is little demand for the appropriate trainings. It should be noted that FSI is currently being established with a mandate to fill technical knowledge gaps.

- **Severity:** ● ● ● ● ●
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

Lack of synergies between industry players diminishes competitiveness as an international financial hub

Stakeholders have a business-centric perspective as opposed to an industry-centric perspective. Self-interest dominates and there is a lack of focus on the bigger picture. As such, subsegments operate in silos, businesses operate with a view towards short-term strategies and interaction among industry players is limited. A key challenge is the lack of an appropriate umbrella organization for the sector. Synergies would allow for the cross-selling of services, the development of new products and value propositions, and the facilitation of one-stop shopping.

- **Severity:** ● ● ● ● ●
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

Equity-centric capital markets limit opportunities for value creation and diminish competitiveness of the financial sector vis-à-vis other IFCs

While SEM has made significant progress developing the country's market infrastructure, product breadth remains narrow. The majority of listed products on secondary markets are equities, although there are a limited amount of corporate and structured debt securities. Increasing market breadth would not only allow Mauritius to offer a full palette of products, it would also lead to numerous spillover effects, as the existence of a robust capital market would attract international players across a variety of industries and financial services subsectors.

A key challenge is the lack of a secondary market for treasury and Government securities, as well as the absence of a corresponding yield curve which would underpin the deepening of capital markets. Another roadblock is the weak financial knowledge of domestic companies and GBCs, which limits demand for more complex products. For example, Bourse Africa introduced currency and commodity derivative products but there was no demand because companies did not understand how they could be used to hedge risks. Despite efforts to educate, Bourse Africa is no longer operating. Similarly, the lack of asset and investment management services being demanded by the local population hinders the introduction of new types of securities. Underpinning the lack of product breadth is the limited international demand to invest in, or issue, securities on Mauritian capital markets, attributed largely to a lack of awareness on the part of foreigners as well as stiff competition from established IFCs.

- **Severity:** ● ● ● ● ●
- **Value chain segment(s):** Capital markets
- **PoA reference:** Activities

The dominance of domestic issuers in capital markets hinders financial sector development

Although SEM has signed partnership agreements with a number of foreign exchanges in an effort to expand dual listings and promote remote membership, over 90% of equities listed on SEM are issued by domestic companies. The key challenge is the lack of awareness among foreign companies of Mauritius as a jurisdiction for listing. In addition, there is limited integration between the GBC segment and capital markets, with few GBCs leveraging Mauritius as a fundraising platform. To this end, such synergies must be fostered by MCs, which serve as the focal point for GBCs in Mauritius. MCs, however – as well as support actors such as legal firms – lack the necessary skills to facilitate such synergies (for example by preparing offering documents or offering investment advisory, complex corporate finance and compliance services).

- **Severity:** ● ● ● ● ●
- **Value chain segment(s):** Capital markets
- **PoA reference:** Activities

Lack of adequate depth diminishes the competitiveness of capital markets

The lack of liquidity in Mauritian capital markets is a direct result of limited demand from both international and domestic investors for securities on the local exchanges. In general, this is closely linked to the lack of market breadth, which offers too narrow a security selection to attract large investors from elsewhere. More generally however, foreign investors are simply not aware of the opportunities for investment offered by Mauritius. Domestic demand meanwhile suffers from the relatively underdeveloped asset management industry; while the penetration rate of financial services is quite high in Mauritius, the vast majority of such services are comprised of basic banking products. Few individuals invest in capital markets, due to both low incomes and limited financial literacy. Improvements in this area can be expected as incomes rise, particularly if combined with financial literacy programmes.

- **Severity:** ● ● ● ● ○
- **Value chain segment(s):** Capital markets
- **PoA reference:** Activities

Limited demand for value added services constrains capacity development

Mauritius already plays host to some of the world's most important international banks. Stakeholder's note that these banks will quickly import (or develop locally) the skills required to provide higher-value added services, such as complex corporate finance and investment banking services, if demand exists. As such, one of the key constraints to skills and capacity development is the

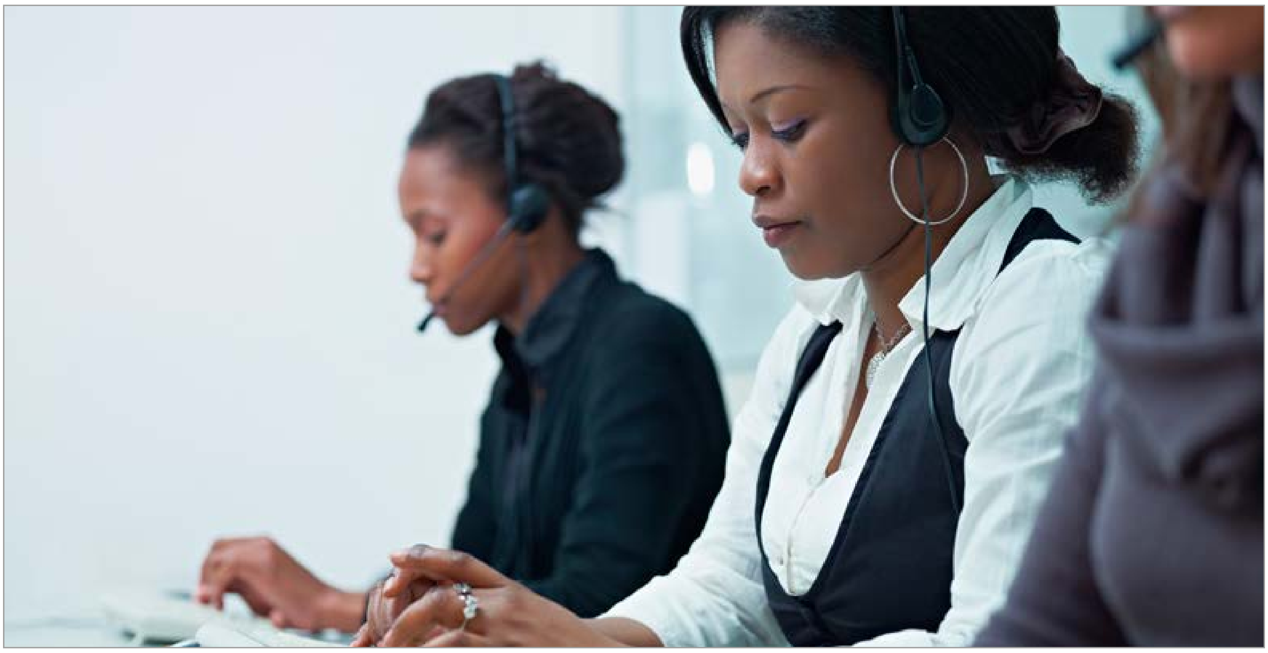


Photo: © shutterstock

absence of this demand. Indeed, Mauritius continues to be seen by many as a tax haven and it has failed to create demand through adequate promotion.

- **Severity:** ●●●●●
- **Value chain segment(s):** Corporate banking, investment banking, asset management, private banking
- **PoA reference:** Activities

Low local demand for non-bank financial services hinders sectoral development

Mauritius has the highest rate of financial inclusion in SADC, with 90% of the local population using financial services.[108] Even so, most of this participation is accounted for by basic banking services. Instead, there is little demand from individuals for services such as investment advisory, private banking and asset management. This has served to limit the development of such skills. Similarly, the lack of demand from Mauritian enterprises for more complex corporate finance and investment banking services has resulted in a dearth of capacities in those areas.

- **Severity:** ●●●●●
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

Lack of a local payment switch increases costs and burden on infrastructure

Financial technology in Mauritius needs to be upgraded. At the heart of this issue is the lack of a local payment system. The use of a foreign system is expensive, and the national information and communications technology company must keep 20% of capacity reserved for banking transactions. If a local payment system is developed that capacity can be released, thereby improving Internet connectivity for all industries (a common business environment constraint). In addition, it would lower costs and allow Mauritius to position itself as a hub for regional clearing by selling such services to its neighbours. Discussions have been ongoing for many years but increased resolve and coordinated support from all stakeholders is needed to push the issue to conclusion.

- **Severity:** ●●●●○
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

High and increasing operational and compliance costs threaten to diminish Mauritian competitiveness

Mauritius is facing increasing costs on a number of fronts: stock brokerage fees are high, due to a lack of liquidity and competition; custodial services are inefficient and expensive (only three registered custodians); and the limited availability of skilled workers pushes up the cost of those who are available. Of particular concern is the increasing cost of compliance. Enterprises must comply with a number of internal (FSC, BoM) and foreign regulators (FATCA and other automatic exchanges of information). There is no outsourcing of risk management and compliance functions. These services would be particularly welcomed by small players who cannot afford to hire multiple risk and compliance officers.

- **Severity:** ●●●●○
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

108. Finmark Trust. (2014). *Scope Consumer Survey Mauritius 2014*

BUSINESS ENVIRONMENT CONSTRAINTS

Box 14: Business environment constraints

- Quick adoption of new standards and regulations increases uncertainty
- Inadequate coordination hinders growth
- Limited alignment between institutions and industry restricts growth
- Lack of a strategic voice for the sector hinders development
- Poor and high cost of Internet connectivity diminishes competitiveness
- Poor and high cost of transport connectivity hinders business development
- Difficulties importing qualified labour hinder skills development and value addition
- Inadequate legislative frameworks create unnecessary hurdles to growth
- The distinction between onshore and offshore business perpetuates the idea that Mauritius is a tax haven
- Inefficient legal and arbitration systems diminish the competitiveness of Mauritius as an investment jurisdiction
- Lack of networks with other IFCs diminishes competitiveness
- Redundant procedures for due diligence and know-your-client reporting increase time and cost burdens
- Inadequate monitoring mechanisms pose risks to investors and the Mauritian brand
- Concerns of institutional independence diminish the competitiveness of Mauritius as a jurisdiction
- An inadequate regulatory environment results in particular challenges for the private banking segment

Quick adoption of new standards and regulations increases uncertainty

Whereas competitors may take their time to consider all of the implications, Mauritius is quick to adopt new international standards and regulations when it comes to the financial sector. While being an early adopter certainly helps Mauritius position itself as a clean and compliant jurisdiction, the lack of consultation and coordination between the public and private sectors is concerning. The industry must be allowed time to understand the cost, time and resources required for the industry to align to the new standards. A competitive financial sector requires predictability. The idea that Mauritius may alter the regulatory landscape at a whim without adequate consultation therefore leads to limited visibility and uncertainty, reducing the attractiveness of Mauritius as a finance jurisdiction.

- **Severity:** ●●●●●
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

Inadequate coordination hinders growth

Coordination is lacking within the private sector, within the public sector, and between the two. With regards to all three, the lack of an appropriate umbrella organization is a key hindrance. While the FSCC was established to be such a body for public–private coordination, it fell into disuse and was only recently revived. In addition, it is a council and not a permanent body with fixed staff. As such, its effectiveness is limited with regards to performing a more permanent role providing coordination, advocacy and other services. Coordination is also affected by the presence of numerous regulatory bodies whose mandates are at times unaligned. This is a particular challenge with regards to BoM and FSC, although a Joint Coordinating Committee has been formed to help the two organizations share information and collaborate. In reality, FSC was established in 2001 as a first step towards unifying all regulatory functions. The second step was supposed to involve merging FSC and the regulatory arm of BoM but these efforts have stalled.

- **Severity:** ●●●●●
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

Limited alignment between institutions and industry restrict growth

As with the previous constraint, this issue is complicated by the lack of an umbrella organization, inefficient collaboration between regulatory agencies and weak communication between the public and private sectors. Institutions have a limited understanding of the private sector and low motivation to respond to industry. MRA, for example, collects data under the Common Reporting Standard but the industry feels that MRA is not aligned with its needs. It is perceived as being quite heavy on operators, and client queries take a very long time. In general, it should be noted that staff at BoM, FSC, MRA and other public support institutions lack adequate private sector experience, which makes it more difficult for them to understand industry needs. Staff training as well as more regular contact between the public and private sectors would help align needs and foster a more facilitative business environment.

- **Severity:** ●●●●●
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

Lack of a strategic voice for the sector hinders development

The financial services sector lacks an effective umbrella organization that would allow for advocacy, strategy planning and cooperation. This is further complicated by the prevalence of short-term and reactive thinking, as opposed to proactive long-term thinking. Indeed, individual entities tend to consider their own interests instead of the big picture. This limits opportunities for synergistic development of higher-value added services. Greater cooperation within the sector would also allow for better coordination with the public sector. Particular challenges include the fact that GFM does not, in practice, represent all subsegments. As such, there is no true umbrella organization for the private sector. In addition, the FSCC does not take a strategic view and it instead meets to address issues in a reactive manner.

- **Severity:** ●●●●●
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

Poor and high cost of Internet connectivity diminishes competitiveness

The Internet in Mauritius is very slow and expensive (Mauritius ranks 75 in the World Wide Web Sub Index for broadband speed). While high connectivity solutions are offered, the prices are very high (~US$ 2,000 per month for corporate connectivity). Artificially low speeds and high prices are maintained due to the monopoly given to Mauritius Telecom and inadequate investment in the information and communications technology infrastructure. Speeds are further reduced by the lack of a local payment switch, as a result of which 20% of capacity must currently be reserved to perform banking transactions on the foreign payment system. Speed is of particular concern for the capital markets, and asset management and related segments. While SEM believes it can offer a reasonable level of trading activity and speed, fund managers must be able to move in and out of markets and hedge losses very quickly.

- **Severity:** ●●●●●
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

Poor and high cost of transport connectivity hinders business development

Air Mauritius has a limited number of aeroplanes and the air traffic networks were established with the idea of Mauritius as a tourism destination as opposed to a business destination. While connectivity with Europe, the Gulf and Asia is good and improving, flights are long and expensive. Of particular concern, flights to Africa are very limited and inconvenient; for example, it is often necessary to fly to sub-Saharan Africa through Dubai instead of direct. This type of inconvenience limits the attractiveness of Mauritius as a business destination, particularly as a destination for outbound and inbound African investment.

- **Severity:** ●●●○○
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

Difficulties importing qualified labour hinder skills development and value addition

Given the dearth of local skills in areas of complex financial and legal services, Mauritius will need to rely on foreign labour for certain parts of the value chain (at least in the short term). Even so, business visas continue to be an issue; they take a long time to process and spouses are not allowed to work (they must apply for separate work permits). This situation has led to divorces and cases where the couple leaves shortly after arriving. Indeed, spouses of qualified professionals are often qualified professionals themselves and they get bored not being able to work. The framework for business visas is far easier and more flexible in other jurisdictions. In addition, immigration is also hindered by limited housing stock, the lack of cultural pursuits, the lack of adequate education for children, the remoteness of the island and difficulties assimilating.

- **Severity:** ●●●●●
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

Inadequate legislative frameworks create unnecessary hurdles to growth

There are a number of areas in which the Mauritian legal framework must be improved to facilitate the sector's development. One concern is the fact that digital signatures are currently not legal. Clients must fly to Mauritius simply to sign paperwork. This is particularly burdensome given the island's remoteness. Another area needing intervention is the lack of legislation that would allow for e-residency. Given the small size of the domestic economy, e-residency would facilitate the development of demand and the expansion of product offerings.

- **Severity:** ● ● ○ ○ ○
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

The distinction between onshore and offshore business perpetuates the idea that Mauritius is a tax haven

Onshore and offshore businesses continue to be subject to an artificial separation. While the concept of onshore versus offshore is slowly phasing out, efforts must be made to unify the two into a single regime that is offshore-friendly, providing preferential taxation to foreign income. This would improve the image of Mauritius abroad, helping it to move away from its current brand as a treaty-based jurisdiction and combat the perception that it facilitates tax evasion and avoidance.

- **Severity:** ● ● ○ ○ ○
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

Inefficient legal and arbitration systems diminish the competitiveness of Mauritius as an investment jurisdiction

Legal matters take too long to resolve and breaches of law and contract are not handled quickly or effectively. This is due to a variety of issues including the lack of legal standing, deficiencies in criminal justice, administrative delays, misguided legal advice, the lack of enough judges, redundant processes, slow procedures and limited protection of whistle-blowers.

Of paramount importance is the lack of adequate communication of legal information to the business audience. The legal administration system should be revamped and fast-tracked for the (offshore) business sector. The arbitration system is also inadequate, despite the presence of an international arbitration centre. A chief concern is that it has no mechanisms to effectively enforce rulings. For example, there was a case in which an offshore entity (PE fund) opted for arbitration that went in its favour. However, the other party refused to abide by the outcome and the issue had to be taken to court. The fund is now coming to a close and the matter remains stuck in the court system. Ensuring a quick resolution to such matters is essential to attract investors such as PE funds that have a fixed term life. Such legal and arbitration problems therefore diminish the competitiveness of Mauritius vis-à-vis other IFCs such as Singapore, where legal issues can be handled within a matter of months.

- **Severity:** ● ● ● ● ●
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

Lack of networks with other IFCs diminishes competitiveness

The lack of international linkages hinders the transfer of knowledge and best practices from abroad, slowing the development of value added services. In order to move up the value chain, Mauritius must acquire such knowledge from other jurisdictions. In addition, the lack of networks leaves Mauritius relatively isolated from global value chains. Competing jurisdictions leverage their historic ties to funnel business to each other. For example, Chinese investments to Africa are funnelled through the British Virgin Islands, given the historic linkages between Hong Kong (China) and the former British colonies. Mauritius will find it difficult to compete in these circumstances unless it fosters new links.

- **Severity:** ● ● ● ○ ○
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

Redundant procedures for due diligence and know-your-client reporting increase time and cost burdens

Mauritius has no central, know-your-client database containing information on foreign entities and GBC licence holders, nor is there a centralized organ to handle all such requests. Instead, each financial service provider must make individual requests of the client in performing their own due diligence and know-your-client procedures (and each client must run around to different agencies and institutions). The resulting duplication and inefficiencies place a significant time and cost burden on the client. In addition, inefficiencies are created for the Government, since multiple regulators must perform separate sets of verification on the same client. It should also be noted that the requirements between agencies (BoM and FSC) are not aligned, making it difficult even to streamline processes.

- **Severity:** ● ● ● ● ○
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

Inadequate monitoring mechanisms pose risks to investors and the Mauritian brand

There are a number of concerns regarding the effectiveness of FRC and FIU. FRC is responsible for ensuring accurate corporate reporting and promoting good corporate governance but it does not have enough resources to review the accounts of large companies. Meanwhile FIU, responsible for combating money-laundering, terrorism financing, and other such schemes, is believed to have failed in its mandate to combat a number of scams in the country. Indeed, reporting mechanisms are slow and FIU is often considered unreactive; it may take months for someone reporting concerns to receive feedback. Such instances hurt the faith in the financial system and damage the industry's image.

- **Severity:** ● ● ● ● ○
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

Concerns over institutional independence diminish the competitiveness of Mauritius as a jurisdiction

There is some perception that FSC and BoM are not truly independent and that some of their actions are politically motivated. Given the importance of transparency and predictability for investors, such perceptions, if not addressed, can decrease the attractiveness of Mauritius as a jurisdiction vis-à-vis competitors.

- **Severity:** ● ● ● ● ●
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

An inadequate regulatory environment results in particular challenges for the private banking segment

Individuals cannot own more than 10% of a bank in Mauritius (as opposed to 40% in Singapore). Given the nature of private banking, which often takes the form of a smaller (or individual) entity, this presents a particular roadblock. There is also uncertainty as to where it lies within the regulatory framework; private banking falls in a grey area between banking and financial services, and it is subject to regulation under FSC and BoM for different types of services. Not only this, but the private bank must perform some types of services under a subsidiary that operates with a separate board of directors and separate staff.

The scope of private banking must be better defined within the Mauritian legal framework and the appropriate mandates must be given to the right regulatory institutions. In addition, type of 'omnibus' licence should allow private banks to perform all functions under one licence. In general, the regulatory and business environment should be updated in line with the practices of jurisdictions such as Switzerland, Luxembourg and Singapore. Areas for banking law reform include shareholding structure, marketing regulation, confidentiality, dormant accounts and liquidity management. Areas requiring updated directives from BoM, specifically for the segment, include the publication of tariffs; central bank reporting requirements; information necessary to open an account; the verification of customer identity and address; document requirements for corporate clients; identification of persons connected to corporations; due diligence; cash transactions; secured loans; and related counterparties.[109]

- **Severity:** ● ● ● ● ●
- **Value chain segment(s):** Private banking
- **PoA reference:** Activities

109. Warwyck Private Bank Limited. (2015). *Proposals to Facilitate the Growth of the Private Banking and Wealth Management Industry in Mauritius*. 2015.

MARKET ENTRY CONSTRAINTS

Box 15: Market entry constraints

- Lack of effective marketing and branding has hindered market expansion and development of higher-value added services and products
- Lack of market intelligence about Mauritius limits growth
- Overdependence on DTAs at the expense of more sustainable frameworks
- Lack of specialized knowledge about African markets hinders market development

Lack of effective marketing and branding has hindered market expansion and the development of higher-value added services and products

According to stakeholders, this is the most critical constraint to growth. Historically, Mauritius has been branded as a low-tax jurisdiction but it has much more to offer. Public relations and marketing has been reactive, not proactive (for example, Mauritius responds to negative columns in the foreign press rather than fostering a positive image on a consistent basis). In general, promotion is not targeted at the right people, nor is it tailored to specific markets and product segments. Instead, everything is promoted. In addition, efforts are disjointed: MCs do their own branding and marketing in an uncoordinated manner. Finally, there has been little consistency in the positive steps that have been taken. As an example, BOI held a PE conference every year that became quite an important international event. In 2015, however, they simply did not hold it. Such inconsistency makes it difficult for Mauritius to develop a solid reputation as an important IFC. As noted elsewhere, the development of demand is key to attract and developing the expertise required to move into higher-value added segments of the sector. Engaging in an effective promotional and branding campaign should therefore be a top priority in this Strategy.

- **Severity:** ●●●●●
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

Lack of market intelligence about Mauritius limits growth

Sector participants, potential investors and clients find it difficult to locate the information needed to make informed decisions about Mauritius as a jurisdiction. Generally an MC is the focal point for information, providing investors with advice and providing turnkey solutions. Even so, it is important that information can be obtained independently of the MC system in order to attract stakeholders before they become formally involved in the sector.

The problem of limited information is threefold: systems for data collection are primitive, mechanisms for dissemination are weak, and research and analytical capacities are inadequate. Currently, only a small amount of information is made available to sector participants, mainly through the BOI website and in FSC statistical bulletins. There is no centralized repository for relevant information and important institutions such as MFSGGIR do not provide information. The Ministry of Foreign Affairs, Regional Integration and International Trade also does not disseminate information about the sector abroad. Data collection meanwhile (such as the FSC annual survey) would be greatly enhanced if it were to leverage an automatic online system. In addition, there is no body responsible for performing and making public sector-specific research and analyses (for example performing comparative analysis of Mauritius and other jurisdictions).

- **Severity:** ●●●●●
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

Overdependence on DTAs at the expense of more sustainable frameworks

The Mauritian Government has historically expended a great deal of effort negotiating and entering into DTAs as a means to enhance the country's attractiveness as an offshore location. In light of OECD pressures and taxpayer anger over perceived tax evasion and avoidance, which is leading to regulatory changes while at the same time damaging the image of Mauritius, this treaty-based jurisdiction model is unlikely to be sustainable. Other developments have also eroded the Mauritian DTA advantage:

- South Africa, for example, has negotiated DTAs with other jurisdictions, such as Cyprus, to the disadvantage of Mauritius
- India may become a competitor as it looks to provide incentives for India–Africa investment and trading
- India is looking to renegotiate its DTA with Mauritius given its concerns that it has become a vehicle for tax avoidance / evasion.

More sustainable results would be achieved if the Government shifted focus towards cementing Mauritius as a jurisdiction of substance by signing (and promoting the existence of) IPPAs and Economic Cooperation Agreements, as opposed to DTAs.

- **Severity:** ●●●●●
- **Value chain segment(s):** GBCs
- **PoA reference:** Activities

Lack of specialized knowledge about African markets hinders market development

The lack of such knowledge stems first and foremost from the absence of industry-led research in the sector. There is no real banking research and there are no local think tanks. In addition, there are no appropriate university-level courses, nor are there any training sessions that would fill the gaps for finance professionals. There is a general lack of coordination between industry, universities and training institutes in developing such curricula. The development of this specialized knowledge is very important if Mauritius is to brand itself as a hub for African investments.

- **Severity:** ●●●●●
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

SOCIAL CONSTRAINTS

Box 16: Social constraints

- Potential for money-laundering and the facilitation of other deviant behaviours
- Limited number of women on boards and in senior management positions
- Suboptimal regional integration

Potential for money-laundering and the facilitation of other deviant behaviours

As noted in the business environment constraints, there are concerns over the effectiveness of FRC and FIU. In particular, there have been instances in which the authorities have failed to properly combat fraud and money-laundering due to limited human and financial resources, as well as suboptimal reporting mechanisms. Without effective regulators, there is the risk that Mauritius will be used to fund illicit activities such as drug running, arms smuggling and terrorism. In addition to facilitating socially destructive acts, such activities would also significantly impact the Mauritian brand.

- **Severity:** ●●●●●
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

Limited number of women on boards and in senior management positions

In general, the Mauritian financial sector employs roughly an equal number of women and men. Even so, there are few women on boards and in senior management positions. Women at the level below board do not tend to be as well networked as their male peers and many of the most talented women stay with their employers longer than their male peers, which again restricts their network compared with men who change jobs more frequently. In addition, many women opt out of corporate life to have children and the corporate world is very bad at welcoming them back in when they return. This problem must be rectified through effective communication to the corporate world that gender equality is of paramount importance in ensuring a balance in terms of setting independent and sustainable strategies and also exercising good corporate governance. Efforts must be made to raise awareness of this issue and provide adequate incentives to increase the opportunities for women at the pinnacle of the Mauritian financial industry.

- **Severity:** ●●●●●
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

Suboptimal regional integration

Given the small size of the Mauritian economy, sustainable growth of the financial sector will require regional integration. Yet greater integration is being hindered by a number of factors. First and foremost is the continued dispute and uncertainty over the Indian DTA, which is causing tension between the two jurisdictions. In addition, Mauritius has failed to take a more active leadership role in regional subcommittees, for example the SADC Capital Markets Subcommittee, instead participating only minimally. The sector also does not work with the Ministry of Foreign Affairs, Regional Integration and International Trade to promote its interests and integration goals. Lastly, the Government must make more of an effort to create new Economic Cooperation Agreements with regional governments and move away from DTAs.

- **Severity:** ●●●●●
- **Value chain segment(s):** All segments
- **PoA reference:** Activities

CAPACITIES VIS-À-VIS COMPETING IFCS

A multifactor analysis was detailed by Oxford International Consultants in 2013 (see appendix 2). While the assessment is subjective, the indicators provide a framework for understanding the competitiveness of Mauritius's financial services sector vis-à-vis other IFCs. In conjunction with the analysis of competitive constraints along the four gears, it can help focus stakeholder attention on those areas most critical to improving competitiveness.

Mauritius fares quite well with regards to 'political risk factors', while it achieves poor marks in the areas of 'infrastructure and other factors' and 'economic / policy risk factors.' Mauritius is also relatively weak in the analysis of financial system capacities ('financial markets / system-specific factors'); out of the nine competitors, it ranks seventh for regulation, eighth for quality / capability of banking markets, seventh for quality / capability of insurance markets, eighth for capacity of capital markets and seventh for capacity of derivatives markets. Weaknesses are particularly pronounced in the capabilities of capital markets and derivatives.

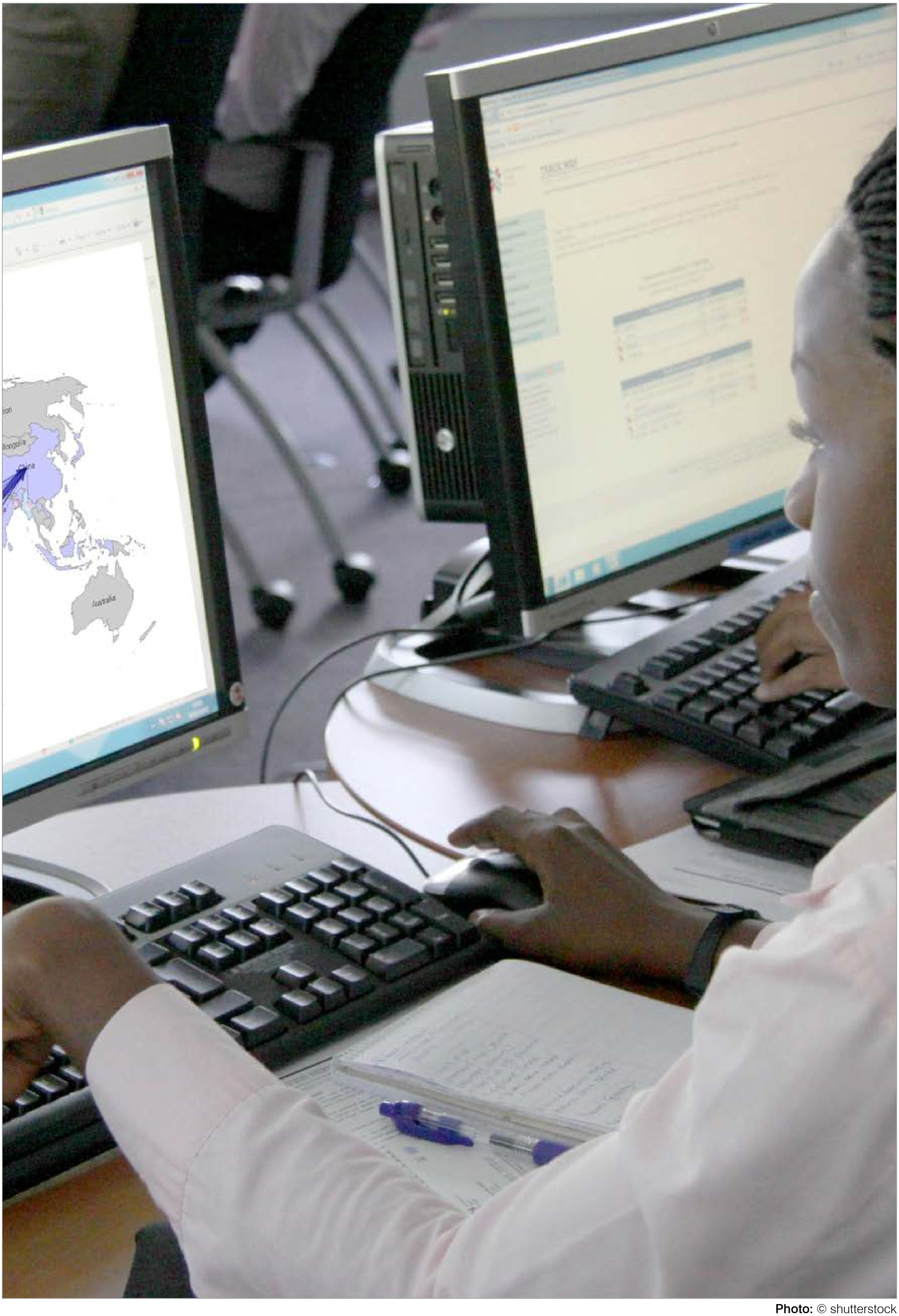


Photo: © shutterstock

THE WAY FORWARD

The Mauritian financial services sector has made great strides since its inception in the late twentieth century. The country has done an enviable job of leveraging its attributes as a stable jurisdiction for structuring investments and attracting global funds, while at the same time developing a reputation for world-class accounting and transactional services.

Recent years have seen renewed efforts to attract multinational players and move into higher-value added services. Indeed, the need to do so is greater now than ever; global regulatory changes will make it difficult for Mauritius to survive under its current business model. Faced with global efforts to combat tax evasion, the only option is to increase the substance offered by the jurisdiction.

Despite the clarity of these trends, efforts to move in a new direction are hampered by persistent challenges. Enterprises continue to operate in silos, focusing on the provision of a narrow set of existing services instead of working together to create new avenues of value addition and customer-oriented engagement. The regulatory framework meanwhile contains gaps that make it difficult to develop new products in line with global practices. Finally, promotional efforts are inconsistent and lack a strategic approach.

Given these realities, stakeholders agree that the best way to move forward is to tackle challenges in a holistic manner, starting with problems arising from the lack of coordination between stakeholders. The next step towards sustainable competitiveness is to ensure that the legislative and regulatory framework is able to support a modern and dynamic financial sector. With a solid foundation in place, stakeholders can then work to develop new product offerings and to increase the substance of services offered by the jurisdiction. Finally, it will be necessary to engage in effective promotional campaigns in order to attract demand for Mauritian financial services. The demand for services will in turn attract a greater number of multinational players, thereby creating a virtuous cycle of skills development and sectoral evolution.

Disclaimer: it should be noted that private sector participation during the consultations was low. As such, subsector-specific recommendations in the Strategy are limited and the focus tends to be on fostering a healthy environment for all subsectors.

VISION

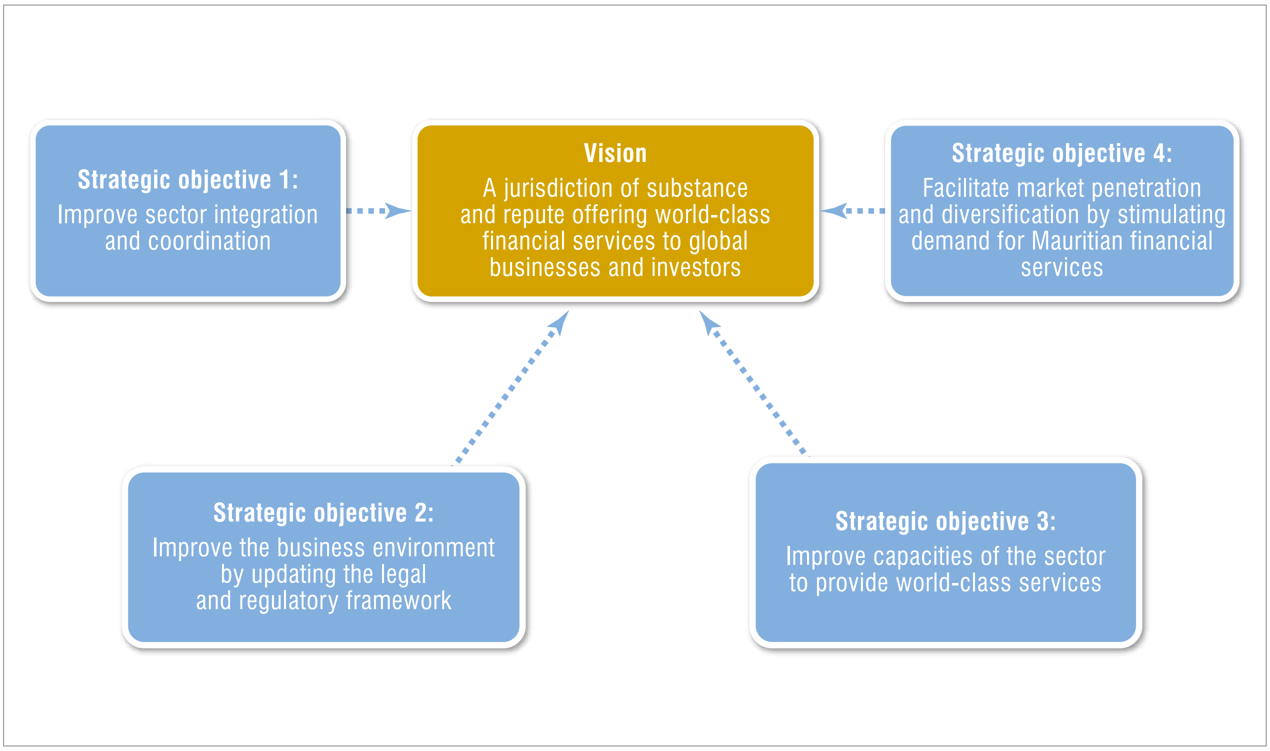
The financial services sector possesses significant potential for imparting socioeconomic contributions to Mauritius through continued internationalization and export-led growth. In order to realize this potential, competitive constraints and structural deficiencies along the four export development gears (supply side, business environment, market entry and development side) will be addressed, and identified opportunities for product and market growth will be leveraged.

All stakeholders of the financial services value chain of Mauritius agreed on the following vision statement:

> “A jurisdiction of substance and repute offering world-class financial services to global businesses and investors”

This statement embodies the ambitions of the sector, delineating the key features of the sector's future state. As such, it can be used to rally stakeholders around their common goals. The vision statement will be supported by the strategic objectives outlined in figure 23.

Figure 23: *Vision statement*



STRUCTURAL ADJUSTMENTS TO THE VALUE CHAIN: VALUE OPTIONS

Unlocking the latent potential of the financial services sector will require transformations throughout the value chain. These adjustments will allow the sector to increase value added service provision, enhance exports and expand into new markets. Figure 24 maps the new services and relationships that will result from Strategy implementation.

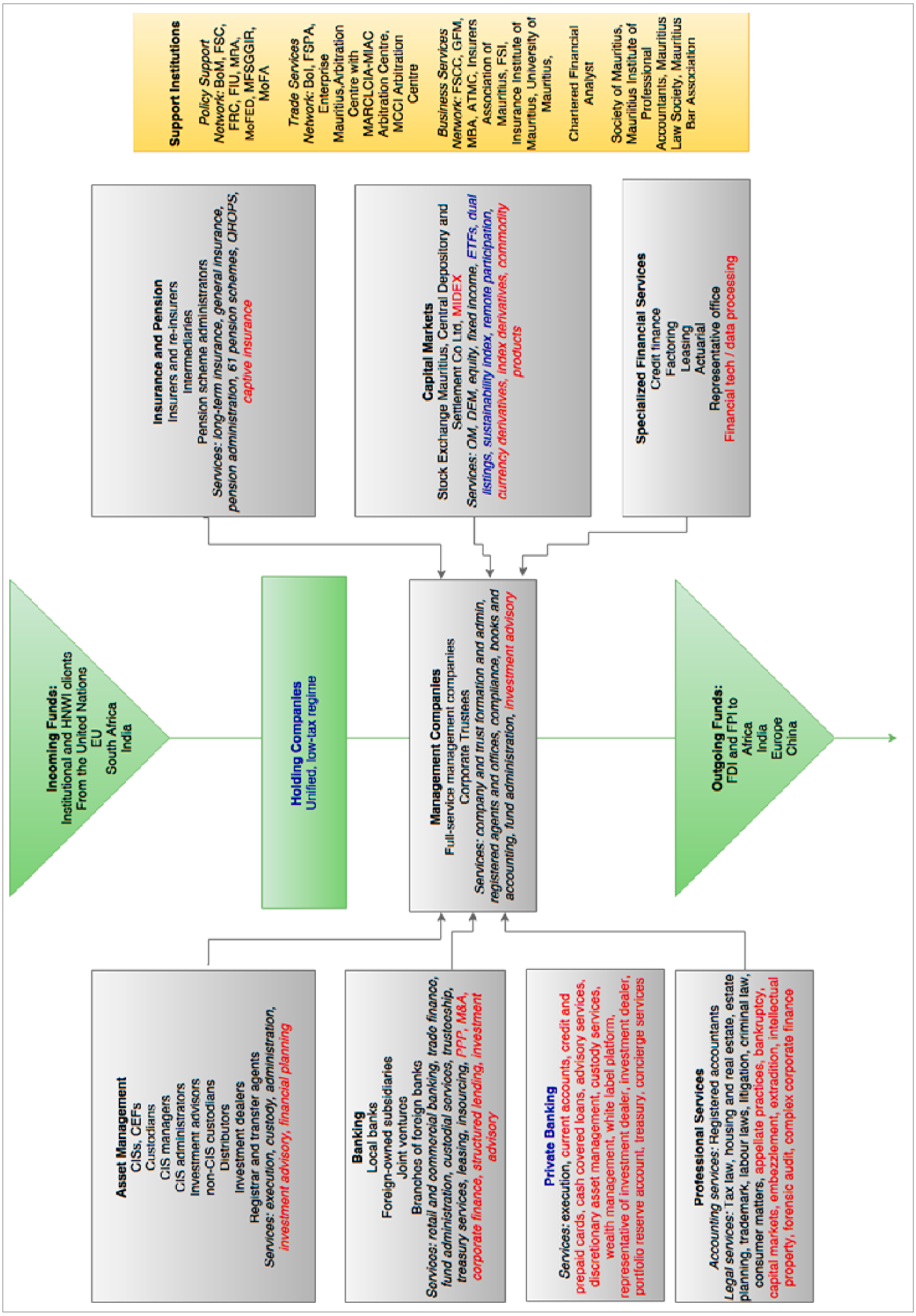


Figure 24: *Future value chain*

The following options for value retention, addition and creation have been identified.

Short-term

Foster linkages between capital market and GBC segments of the financial services sector. As the focal point for foreign investors and businesses, MCs must play a critical role in informing clients of the opportunities to raise capital through the Mauritian capital markets. They need training and skills development to offer value added services. Efforts should be made to move away from the back office towards advisory services. The role of the FSCC will be critical, and GFM and ATMC must collaborate, share information and foster linkages. GBCs must be made aware of the ways in which Mauritius can help finance their investments and businesses.

Foster linkages between the financial services sector and the local economy. There is significant scope to add greater value to the funds that pass through the GBC segment of the financial services sector. While low interest rates make Mauritius relatively unattractive as a location to park funds, an expanded universe of investible securities as well as real estate and infrastructure projects may offer appropriate investment opportunities to global funds. Again, it is the role of MCs to inform clients of the various opportunities that exist. In order to be effective, MCs must find capable investment planners and managers. As with the previous value option, institutions must also collaborate and share information. Given the vast sums of money that transit the country, great care must be taken to ensure that the risks are properly assessed and mitigated so as to avoid destabilizing the financial system.

Foster linkages between the Freeport sector and the financial services sector. The Mauritius Freeport offers a duty-free logistics, distribution and marketing hub that facilitates transhipment, consolidation, storage and minor processing. Efforts can be made to connect users of the Freeport system to a broader swathe of value added financial services including corporate banking, trade finance and insurance products. This will require increased coordination among stakeholders and the formulation of a full-service solution / package model that can be presented to potential clients.

Enhance coordination and institutional support. As noted, the majority of Mauritian financial services are provided in isolation and the various subsegments and players operate in silos. In order to add value, particularly through the creation of synergies and cross-selling, these segments must work together. Coordination, particularly at the institutional level, will therefore be paramount to product development and promotion efforts. This will require the alignment of institutions and the FSCC will play a particularly important role.

Improve service provision through enhanced labour qualifications, particularly in the areas of investment advisory and asset management. This will involve updating university curricula, strengthening linkages between universities and industry, and developing appropriate curricula for FSI. In addition to developing local capacities, efforts should be made to ensure that appropriately qualified personnel can be brought in from abroad to fill local gaps. Particular efforts should be made to attract foreign asset managers and investment advisers. These efforts will ultimately allow the Mauritian IFC to offer higher-value added activities.

Introduce a local payment switch. This will facilitate value retention by lowering clearance costs and allowing 20% of the national information and communications technology capacity to be released, thereby improving connectivity throughout the country. It would also facilitate value creation by allowing Mauritius to become a regional clearing hub (for example, an SADC regional clearing centre).

Expand the range of tradable securities. Given the small size of the domestic economy, growth in the capital markets segment must come from foreign demand. Initial efforts should focus on expanding the secondary market for basic debt and equity securities. This will include bringing treasury securities to secondary markets, stimulating corporate and Government debt issuance and listing, and expanding the universe of remote and dual listings. MIDEX should be launched and various Africa-linked index, currency, commodity and derivative products should be introduced in partnership with major regional exchanges. Mauritius should be positioned as the premier location for hedging various risks associated with African markets.

Expand the range of sustainable and ethical finance products. Mauritius was the second country in sub-Saharan Africa to offer a sustainable investment index. Mauritius can leverage this leadership position to offer an increasingly wide variety of sustainable and ethical products for investors targeting Africa.

Expand the range of Islamic finance products. Mauritius has already taken steps to capitalize on the expanding demand for Islamic finance products in the regions of Africa, the Middle East and South Asia. Even so, its offerings are currently quite limited and it will need to work to develop a broader swathe of investible products.

Introduce research and advisory services to provide intelligence on African markets. Mauritian financial services firms and institutions must develop their capacities to provide country intelligence, perform due diligence and risk analysis, and fulfil regional legal documentation requirements. As such, they can develop the niche expertise needed to act as a gateway to African markets.

Create a local credit rating agency. The expansion of rating coverage will not only help companies raise capital according to appropriate risk metrics, it will also have numerous spillover effects and help increase the perception of Mauritius as an investible location.

Introduce a one-stop shop welcoming and orientation service and foster linkages with the tourism industry. The goal here is to improve comprehensive service delivery (not just financial service delivery) from the moment a client lands in the country. This will improve the Mauritian image and make it seen as a place where people want to do business.

Increase leadership within the African financial sector community. Mauritius can increase its engagement with the African region by taking leadership roles in bodies such as the SADC Capital Markets Subcommittee. Other efforts may include offering training and skills development solutions to personnel from other countries in the region through conferences, seminars and the opening up of appropriate training curricula. This will allow Mauritius to solidify its reputation as a premier provider of financial services in the fast-growing African market and turn Mauritius into a hub for financial skills development, networking and knowledge transfer.

Increase capacities to provide complex legal services. Legislation is currently being reworked to facilitate the entrance of top-tier foreign law firms. In conjunction with concerted efforts to promote Mauritius as a financial centre, these efforts may quickly result in the arrival of top legal talent. In parallel, efforts should be made to increase the capacity of the local education system to produce qualified legal professionals. This will involve aligning university curricula with the needs of the private sector and promoting opportunities for practical experience, particularly through foreign exchange programmes. In the meantime, the sector can continue to rely on foreign service providers to make up for gaps in local service provision.

Medium-to-long term

Increase capacities to provide complex financial services. This will require updating university curricula; strengthening linkages between universities and industry; developing appropriate curricula for the FSI; fostering exchange programmes with foreign universities and financial service providers; and facilitating practical work experience opportunities. In addition, it will involve fostering the import of qualified labour by stimulating demand for more complex services in Mauritius and ensuring that immigration regulations are appropriately framed. (*Many large players, including global banks, are already present in Mauritius. These stakeholders note that they are able and willing to import or train qualified personnel if the demand for more complex financial services is there.*)

Improve air transport connectivity. Air transport was designed to accommodate the tourism industry and it must now be aligned to meet business demands. Mauritius must open up new routes to major business destinations, particularly in Africa. Air Mauritius is currently working to establish a corridor from Singapore to Africa through Mauritius and it is investigating opportunities to open additional routes through a new, regional airline subsidiary.

Improve Internet connectivity. Bringing down the cost of connectivity and improving the speed will be essential to fostering Mauritius's full integration into the global financial system. In order to compete with top-tier IFCs, particularly in the capital markets and asset management segments, the information and communications technology infrastructure must allow stakeholders to quickly and reliably move in and out of positions. Improvements can be partially achieved through the deployment of a local payment switch, although more significant progress can only be achieved either by liberalizing the information and communications technology sector or else ensuring that Mauritius Telecom adequately upgrades infrastructure.

Develop the local financial technology industry in conjunction with the software sector. Stakeholders note that Mauritius enjoys a cost advantage in the areas of financial technology and data processing. The sector can work together with the growing software development sector in order to develop financial technology products and become a source for global outsourcing of data processing solutions.

PRODUCT AND MARKET OPPORTUNITIES

The Mauritian financial sector has identified a number of areas in which it can best leverage its comparative advantages to create value through financial services exports.

Insurance: The drastic increase in trade between Asia and Africa is creating growing demand for modern insurance products. Mauritius is well-placed to serve as a neutral and reputable intermediary for insurance services to these traders.

Capital markets: Capital markets development in Africa has lagged behind the progress achieved in other parts of the world. Nevertheless, Mauritius has made recent efforts to introduce new products and establish its reputation as a financial hub for Africa. It has done this by continually expanding its dual listings with foreign exchanges and introducing innovative products such as African currency and index-linked derivative instruments. Work must be done to continue introducing new instruments in line with market gaps and build demand for these products globally in order to ensure their sustainability.

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Traditional banking products: The growing base of African consumers and businesses presents one of the world's most interesting opportunities for the provision of retail, commercial and trade finance banking services. Not only do these countries need better access to modern banking services but the growing populations are one of the most important markets for global traders. As such, there is a need for expanded trade finance for companies selling to Africa, particularly those companies from the Middle East and Asia.

Asset management and private banking: There is significant scope to provide more value added investment management to the large AuM that is already present within the country's GBCs, moving away from the reliance on basic transactional and custodial services. Similarly, efforts can be made to offer full-spectrum services by expanding the private banking and wealth management segments.

FDI and investment structuring: Africa continues to be a magnet for PE, PPPs and M&As. Despite the fact that the growing African economy offers numerous attractive prospects to foreign investors, opportunities can often be threatened by inadequate legal protections and political and economic instability. It is in this area that Mauritius truly excels. It can leverage its reputation as a politically and legally stable jurisdiction to continue attracting FDI and related businesses. These opportunities are particularly interesting because they have numerous spillover effects into other sectors such as the legal and accounting sectors.

Deal advisory: Increased FDI, PE, PPP and M&A transactions will create demand for more deal advisory services. Global accounting firms already have a strong presence in Mauritius. Efforts can be made to become a premier leader of deal advisory for African businesses and foreign investors.

Regional headquarters: Mauritian geography, legal jurisdiction, stability and Freeport schemes offer an attractive proposition for companies wishing to establish the country as their headquarters in the region. Opportunities exist to attract even more companies, particularly those trading between Asia and Africa. Efforts must also be made to foster greater linkages between regional headquarters and the local financial services sector. To this end, the financial services ecosystem should be able to offer regional headquarters full-service packages that increase Mauritius's attractiveness as a base of operations.

Domestic financial services: There are significant opportunities to expand coverage of the domestic market for non-banking financial services (particularly in the asset management space). Not only is this a relatively untapped market but it will help enterprises develop needed capacities and therefore serve as a springboard for export development.

Operational services (back office, middle office, leasing and registration): Mauritius enjoys a reputation as a top-class location for operational services and it is already home to the aircraft leasing operations of a global bank. Efforts can be made to build a reputation around successes and attract new players to the ecosystem.

INDICATIVE TARGET MARKETS

The following product and market combinations have been identified by stakeholders as those offering the most interesting potential in the near future. As such, the Strategy's activities work to enable the following types of market and product penetration and diversification.

Continued penetration of existing products and markets

Target market	Products	Reasons why it could be attractive	Key challenges
India	Investment holdings, GBCs, private equity, FPI, regional headquarters	Indian diaspora in Mauritius, deep linkages	DTA treaty renegotiated to the disadvantage of Mauritius but to the advantage of other jurisdictions; not much inbound investment; India working on incentives for India–Africa investment and trading
South Africa	Trusts, GBCs, PE, real estate	Geographical proximity, familiarity, historical linkages, currency restrictions, fleeing from political and economic volatility	India is working on incentives for India–Africa investment and trading; commodity countries are in difficulty
Kenya	Investment holdings, trusts, GBCs, PE	Geographical proximity, familiarity, historical links	India is working on incentives for India–Africa investment and trading; commodity countries are in difficulty
Nigeria, Rwanda, Zambia	Investment holdings, PE	Geographical proximity, fast-growing	India is working on incentives for India–Africa investment and trading; commodity countries are in difficulty
Madagascar	Investment holdings	Geographical proximity, familiarity, historical links	India is working on incentives for India–Africa investment and trading; commodity countries are in difficulty
Mozambique	Trusts, private equity	Geographical proximity, familiarity, historical links	India is working on incentives for India–Africa investment and trading; commodity countries are in difficulty
France, United Kingdom	Investment holdings, trusts, HNWI	Mauritian diaspora	Branding / promotion / image as tax haven
Switzerland	HNWI, investment advisory; private banking	IFC centre, some financial linkages	Branding / promotion / image as tax haven

Market diversification with existing products

Target market	Products	Reasons why it could be attractive	Key challenges
United States	Investment holdings, PE, outflows to Africa	Increased interest in Africa, first African country to sign FATCA	Promotion; distance; unfamiliarity
Qatar, Saudi Arabia, United Arab Emirates	Investment holdings, PE, outflows to Africa	Untapped market; many countries bought land in Africa for food security, agro-projects	Intense competition with Dubai, Singapore, London, British Virgin Islands, etc.
Senegal, Ghana	Outflows to target market (investment holdings, PE)	Economic partnerships between Mauritius and Ghana / Senegal	Branding / promotion
Ethiopia	Outflows to target market (investment holdings, PE), special economic zones	Growing very fast	Branding / promotion
Global	Registration of aircraft and ships, leasing	Location, already enjoys reputation in this arena	Branding and positioning

Product diversification in existing markets

Target market	Products	Reasons why it could be attractive	Key challenges
India	Regional headquartering; capital markets (dual listing, commodities / risk products, extended trading, etc.); shift from inbound to outbound	Need to add more value, diversify and reduce risk from renegotiated DTA; opportunities to leverage synergies with capital markets	Intense competition
South Africa	Capital markets (dual listing, commodities / risk products, extended trading); corporate banking, M&A advisory; retail and private banking	Currency restrictions; domestic services are poor; speed of doing business is slow; customer service is poor	Corporate banking is lacking; need to attract big international players
Kenya	Corporate banking; M&A advisory; asset management; capital markets (dual listing, commodity trading / risk products, extended trading)	Poor domestic services, difficult to access services	Not enough banking products; weak structured finance capacity; need to attract big international players, even for reputation
Other African countries	Corporate banking; M&A advisory; asset management; capital markets (dual listing, commodity trading / risk products, extended trading)	Poor domestic services, difficult to access services	Not enough banking products; weak structured finance capacity; need to attract big international players, even for reputation
African and Asian countries	Insurance	Strategic location between Africa and Asia	Product development; promotion

Full diversification (new products and markets)

Target market	Products	Reasons why it could be attractive	Key challenges
New countries in Asia and Africa	Capital markets (dual listing, commodities / risk products, extended trading); corporate banking, M&A advisory; retail and private banking	Poor domestic services; difficult to access services	Not enough banking products; weak structured finance capacity; need to attract big international players, even for reputation
New countries in Asia and Africa	Insurance products	Strategic location between Africa and Asia	Product development; promotion

STRATEGIC OBJECTIVES

The PoA will respond to the sector's vision by addressing constraints in a comprehensive manner and stimulating product and market development.

Strategic objective 1: Improve sector coordination and integration

The first strategic objective will focus on integrating people and organizations from across the public and private sectors and improving their ability to work in a coherent manner for the benefit of all stakeholders. Actors within the sector have historically operated in silos. This hinders the development of solutions to common problems, the creation of new products and services, cross-selling and the development of a client-centric approach to business. Effectively confronting the changing global environment will require coordinated action, while developing attractive product offerings will depend on the successful leveraging of synergies for value addition. Enhancing sector coordination and integration will encompass the following operational objectives:

- Operational objective 1.1: Improve public–private coordination and ensure the presence of a platform for oversight of NES implementation.
- Operational objective 1.2: Strengthen coordination within the private sector.
- Operational objective 1.3: Strengthen ability of key public and private sector institutions to support the sector.

Strategic objective 2: Improve the business environment by updating the legal and regulatory framework

Perhaps the most important determinant of a country's competitiveness in the financial sector is its business environment. Potential clients look for hosts in which they can easily obtain services, confident in the fact that they are protected by an efficient and appropriate legal system. While the Mauritian rule of law and competitive environment have long been two of the country's selling points, there are a number of areas in which further work is needed. The country must carve a niche for itself as a clean and transparent jurisdiction, while at the same time placing a greater focus on improving the ease and confidence with which foreigners can do business. This will lay the groundwork for competitiveness in any number of financial services subsectors. Improving the business environment will be accomplished through the following operational objectives:

- Operational objective 2.1: Bolster the judiciary and arbitration systems.
- Operational objective 2.2: Update the legal framework to increase foreign economic participation.
- Operational objective 2.3: Update laws related to private banking according to international standards.
- Operational objective 2.4: Improve air and communications connectivity.
- Operational objective 2.5: Take steps towards ensuring good governance, transparency and effective regulation.
- Operational objective 2.6: Promote gender equality in boardrooms.
- Operational objective 2.7: Update the legal framework to promote the development of various subsectors.

Strategic objective 3: Improve capacities of the sector to provide world-class services

The third strategic objective will build on the foundations laid by an improved coordination and regulatory framework. Stakeholders, including foreign multinational banks, agree that technical capacities of some staff categories (such as accounting and operations staff) are top-tier. The goal will be to build on these skills and introduce new opportunities for value addition. A key task will be to foster synergies between the various financial subsectors, promoting the creation of new products and the development of more client-centric (as opposed to product-centric) business models. Mauritius must also introduce new products that solidify its position as a financial leader in Africa; for example new capital market, insurance and financial technology products.

- Operational objective 3.1: Stimulate product diversification in capital markets.
- Operational objective 3.2: Stimulate human capital development locally.
- Operational objective 3.3: Stimulate knowledge transfer and human capital transfer from abroad.
- Operational objective 3.4: Encourage enterprise development and growth of small and medium-sized enterprise (SME) financial service providers.
- Operational objective 3.5: Stimulate the development of specialized research and analysis capacities focused on African markets.
- Operational objective 3.6: Develop networks with international service providers.
- Operational objective 3.7: Foster synergies between GBCs, other subsegments and the local economy.

Strategic objective 4: Facilitate market penetration and diversification by stimulating demand for Mauritian financial services

The ultimate goal of the Strategy is to help the Mauritian financial sector move away from the jurisdiction-based model and establish itself as a locale for top-tier value addition. To this end, the final strategic objective establishes the framework for leveraging newly developed capacities and expanding market presence. These efforts will rely on a number of approaches. Firstly, increasing domestic demand for more complex financial services can serve as a springboard towards increasing exports and help develop needed capacities. Efforts must then be made to promote Mauritius as the financial hub for sub-Saharan Africa. This can be done through enhanced intelligence gathering as well as the initiation of new and comprehensive promotional campaigns. In addition, Mauritius must become a leader within the region politically and strategically when it comes to the sector's development.

- Operational objective 4.1: Promote Mauritian financial services expertise.
- Operational objective 4.2: Improve the relationship management framework.
- Operational objective 4.3: Improve access to and use of trade intelligence.
- Operational objective 4.4: Engage in a comprehensive promotional campaign to build demand for Mauritian financial services.
- Operational objective 4.5: Provide support / incentives to operators who establish operations in Africa.

IMPLEMENTATION MANAGEMENT

This comprehensive Financial Services Sector Strategy, part of the NES Mauritius, endeavours to generate the conditions for a favourable expansion of the sector so as to contribute to overall socioeconomic development.

Nevertheless, a strategy in and of itself is not enough to ensure the sector's sustainable development. Such development will require the elaboration and coordination of various activities. While the execution of these activities will allow for the Strategy's targets to be achieved, success will depend on the ability of stakeholders to plan and coordinate actions in a tactical manner. Apparently unrelated activities must be synchronized across the public sector and private sector in order to create sustainable results.

Indeed, the Financial Services Sector Strategy is not the strategy of any specific institution; rather it is the strategy of Mauritius, and to ensure its success it is necessary to foster an adequate environment and create an appropriate framework for its implementation. The following section presents some of the key success conditions considered necessary for the Strategy to be effectively implemented and achieve self-sustainability and long-lasting benefits for the country.

Establish and operationalize a public and private coordinating platform and its subsidiary organ

A key success criterion for the Strategy is stakeholders' ability to coordinate activities, monitor progress and mobilize resources for the implementation of the Strategy. It is recommended that the country establishes, under the NES secretariat, a sector-specific platform for public–private deliberations that acts in an advisory capacity to the NES Secretariat, the Government and the private sector over issues related to or affecting the financial sector and its Strategy.

The formal dialogue platform will require high-level involvement of the trade support network members (public and private), as their role is crucial and will impact the effectiveness with which the Strategy is implemented. Likewise, the ability of the private sector to provide inputs to the Strategy implementation process will significantly influence the success of the Strategy.

The stakeholders' group consulted during the design process was composed of a panel of representatives of key institutions, involving ministries and trade support network members. It also comprised private sector representatives. As such, once its mandate is appropriately adjusted, this group of stakeholders is best positioned to serve as the public–private platform responsible for the coordination of Strategy implementation. It will also be required that a nominated secretariat coordinates, monitors and mobilizes resources for implementing the Strategy.

The main functions of the public–private platform should be the following:

i. Act as a consultative group pertaining to the financial services sector, enabling the private sector and Government representatives to identify priority issues;
ii. Coordinate and monitor the implementation of the Strategy by the Government, private sector, institutions or international organizations so as to ensure Strategy implementation is on track;
iii. Identify and recommend allocation of resources necessary for the implementation of the Strategy;
iv. Elaborate and recommend revisions and enhancements to the Strategy so that it continues to best respond to the needs and long-term interests of the sector;
v. Propose key policy changes to be undertaken, based on Strategy priorities, and promote these policy changes among national decision makers;
vi. Guide the secretariat in its monitoring, coordination, resource mobilization, and policy advocacy and communication functions so as to enable effective implementation of the Strategy.

As discussed above, the public–private platform should be supported by a secretariat to complete the daily operational work related to implementation management of the Strategy. The core responsibilities of the secretariat should be to:

A. Support and organize regular meetings of the public–private platform.
B. Monitor the progress and impact of Strategy implementation.
C. Coordinate Strategy implementation partners.
D. Mobilize resources to implement the Strategy.

Specific tasks falling under these broad areas of activities include:

- Formulate projects proposals, including budgets, for implementation of activities of the Strategy;
- Develop annual and biannual workplans for approval by the public–private platform;
- Collect information from project implementation and prepare regular monitoring reports to be submitted to the public–private platform;
- Advocate in favour of the Strategy to public and private partners;
- Execute any other tasks required by the public–private platform.

Private sector support and participation

The private sector should benefit from Strategy implementation through improved productive capacities, reduced costs of doing business, facilitated administrative procedures, etc. However, the private sector clearly expressed during the Strategy design process its willingness to contribute, directly or in partnership with public institutions, to the implementation of the Strategy. In brief, the private sector's practical knowledge of business operations is essential to ensuring that the activities of the Strategy are effectively implemented and targeted.

Sensitization of implementing institutions to build ownership

The key implementing institutions detailed in the PoA need to be informed of the content of the Strategy and the implications for their 2016–2020 programming. This sensitization is essential to building further ownership and it provides institutions with the opportunity to review the PoA in order to confirm the activities they can implement immediately, and in the medium and long terms. Such a programming approach will permit better resource allocation within the responsible agencies. This allocation can be formalized by integrating the activity of the Strategy into the programme planning of the institution. While the financial dimension is often required, the human resource element is no less important.

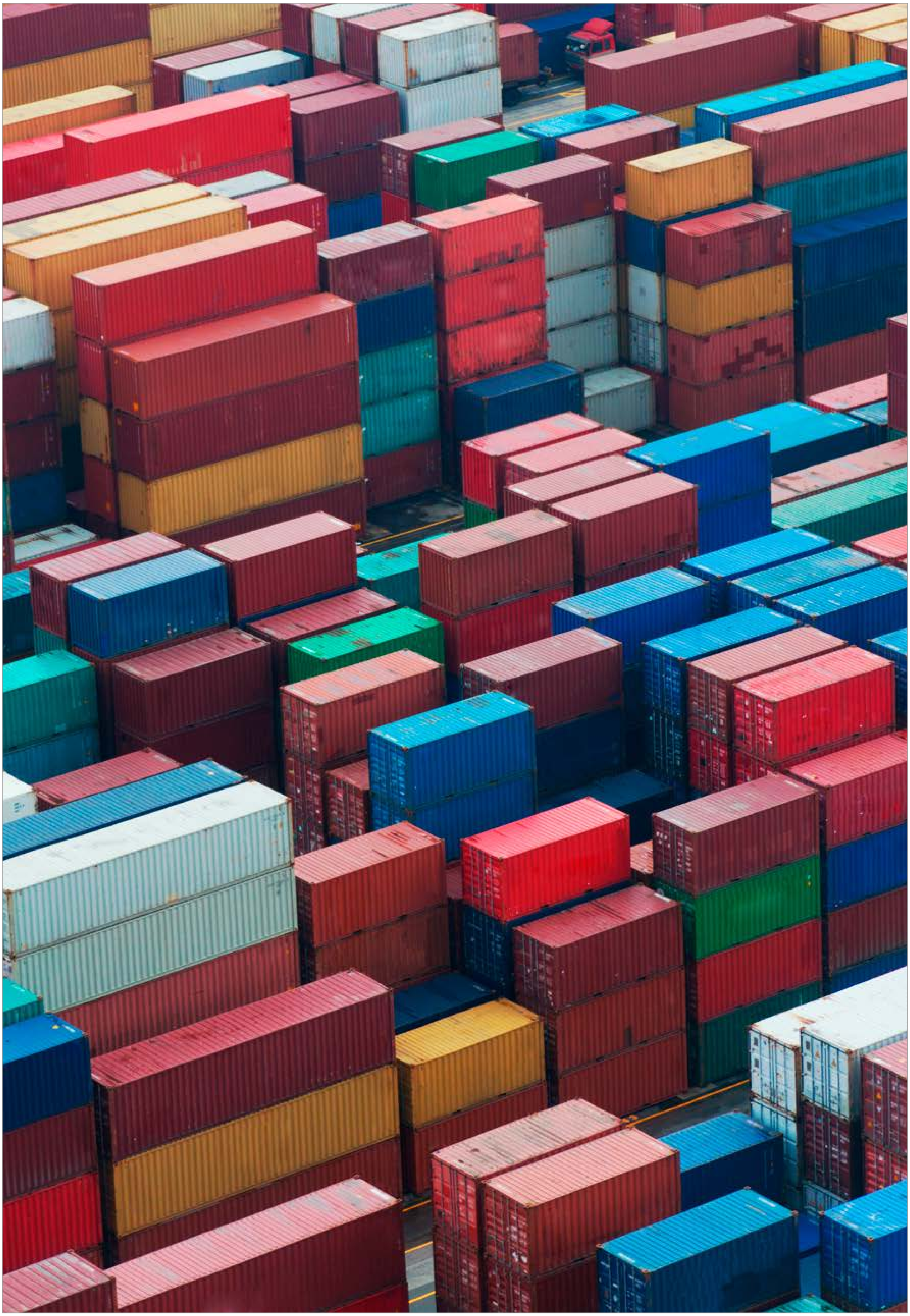
Financial resource mobilization for implementation

While resource mobilization is only part of the solution, it plays a crucial and indispensable role in supporting Strategy implementation. An integrated resource mobilization plan should be elaborated as soon as the NES is adopted. Resource mobilization involves planning the sequencing of communications with donors, project design, project proposals / applications and resources collection and management. This should facilitate, leverage and strengthen the impact of diverse sources of finance to support sustainable and inclusive implementation, including national resources, development aid and private investment.

- National resources through direct budget and support programme: The Government will need to validate a defined minimum budget support towards the implementation of the different Strategy components of the NES, including the financial services sector. This support for the Strategy's activities will demonstrate the Government's commitment to the initiatives.

- Alignment of donors' support and interventions with the Strategy: The public–private platform, together with the authorities, will have to capitalize on the significant momentum gained as part of the Strategy design process and leverage it for smooth and efficient implementation. International development agencies can use the Strategy as the logical framework for their programmes as they will surely benefit from its favourable conditions for operation (i.e. political endorsement, private sector buy-in and improved collaboration with national institutions). The PoA of the Strategy should serve the public–private platform as well as national institutions to improve communication and facilitate the negotiation, planning, coordination and evaluation of commitments made in the context of development aid, in particular through the development of programmes and project proposals aligned with the priorities of the Strategy.

- National and foreign investment: The Strategy design stakeholders' group is composed of representatives of national institutions, the trade support network and the private sector. If this group becomes the public–private platform, the Strategy should benefit from a solid channel of communication, capable of conveying reliable information to companies about the export-related opportunities in the sector, and in turn communicating to the Government the needs that investors have identified. Investment flows in Mauritius could serve as a valuable driver of funding for certain specific areas identified in the Strategy and requiring support. Even so, it must be targeted at specific prospects in order to benefit the sector's development as detailed in the way forward section of the present Strategy.



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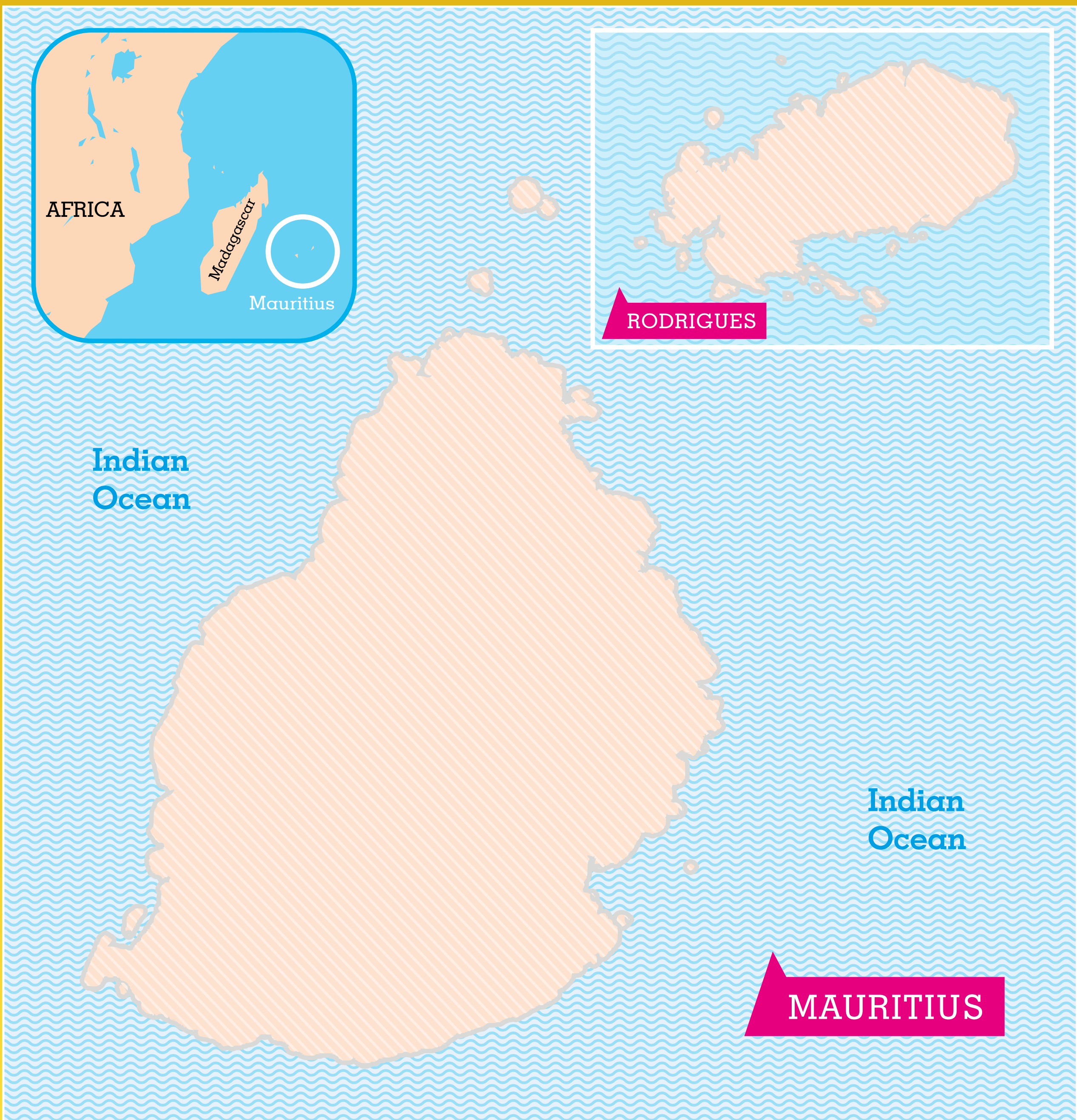
MAURITIUS

NATIONAL EXPORT STRATEGY

FINANCIAL SERVICES SECTOR

PLAN OF ACTION



Strategic objective 1: Improve sector coordination and integration

Operational objective	Activities	Priority 1=high 2=med 3=low	Implementation period 2017	2018	2019	2020	2021	Beneficiaries	Targets	Lead implementer	Supporting implementers	Possible funding source
1.1. Improve public–private coordination and ensure the presence of a platform for oversight of NES implementation.	1.1.1. Upgrade FSCC's functionality, particularly through: » Establishing regular meetings, one per month, instead of convening meetings only when there are problems; » Introducing a co-Chair who is politically independent.	1						FSCC	Monthly meeting schedule established; co-Chair selected	MFSGGIR and MoFED	GFM, BoM, FSC, MBA	
	1.1.2. Introduce a think tank function within FSCC. Specific function will be to obtain input for all sector stakeholders and ensure presentation during regular meetings. This will facilitate long-term, strategic thinking.	1						FSCC and FSPA	Think tank function introduced and at least one staff member hired	MFSGGIR and MoFED	GFM, BoM, FSC, MBA	National Government
	1.1.3. Ensure adequate research and analysis skills at the think tank through targeted trainings for skills upgrading.	1						FSCC and FSPA	Think tank staff receives at least three trainings	MFSGGIR and MoFED	GFM, BoM, FSC, MBA	National Government
	1.1.4. Give FSCC the mandate to oversee the implementation of the sector Strategy. The platform will be responsible for effectively mobilizing and engaging implementing institutions and aligning all development policies for the Strategy.	1						FSCC and FSPA	Mandate given	MFSGGIR and MoFED	GFM, BoM, FSC, MBA	
	1.1.5. Build the capacity of FSCC through targeted training, in order to coordinate and monitor completion of the Strategy's activities and to mobilize resources required for implementation.	1						FSCC and FSPA	At least two trainings held on implementation management and / or resource mobilization	MFSGGIR and MoFED	GFM, BoM, FSC, MBA	National Government
1.2. Strengthen coordination within the private sector.	1.2.1. Create a formal platform for cooperation between all subsegments. This platform should unite all subsector associations, including those representing all banks, non-bank financial service providers and ancillary service providers (attorneys and accountants). This platform should serve as the private sector umbrella organization and be used to facilitate synergies and long-term strategic thinking. It will meet once per month. A key purpose of the platform should be ensuring that MCs are aware of all investment opportunities and developments so that they can act as an effective entry point for foreign businesses and investors.	1						GFM, MBA, ATMC, Insurers Association of Mauritius, Mauritius Institute of Professional Accountants, Mauritius Bar Association, Mauritius Law Society	Platform created and meeting schedule established, and meetings regularly attended by key participants	GFM, MBA, ATMC, Insurers Association of Mauritius, Mauritius Institute of Professional Accountants, Mauritius Bar Association, Mauritius Law Society	BoM, FSC	
	1.2.2. Organize regular networking events as well as more elaborate ventures (joint participation in foreign conferences and industry events, etc.). Focus should be on staff, particularly younger staff, although all employees and top management should be encouraged to participate. These events should encourage information sharing between the different subsegments, stimulate innovation and collaboration, increase trust among stakeholders and help engender an attractive business culture in general. To be organized by the FSCC secretariat. Organization may take the form of a social industry group (i.e., Mauritian Finance Professionals, or Young Finance Professionals of Mauritius for example), with a Facebook page, mailing lists and other electronic means of engagement.	1						Staff in the financial services sector, FSCC	Group established; at least one event held per month	FSCC	GFM, MBA, ATMC, Insurers Association of Mauritius, Mauritius Institute of Professional Accountants, Mauritius Bar Association, Mauritius Law Society	
1.3. Strengthen the ability of key public and private sector institutions to support the sector.	1.3.1. Provide trainings to staff at BoM, MRA, FSC, FRC, FIU and other support institutions to improve their knowledge of the sector and sensitize them to private sector needs.	2						BoM, MRA, FSC, FRC, FIU	At least one training / sensitization session held for staff at each institution per year	FSI	GFM, BoM, FSC, MBA	
	1.3.2. Facilitate regular contact between the public and private sectors through networking events held by FSCC to foster a facilitative environment, improve knowledge-sharing and lead to mission alignment.	3						BoM, MRA, FSC, FRC, FIU	At least one networking event held each quarter	FSCC	GFM, BoM, FSC, MBA	

Strategic objective 2: Improve the business environment by updating the legal and regulatory framework.

Operational objective	Activities	Priority 1=high 2=med 3=low	Implementation period 2017	2018	2019	2020	2021	Beneficiaries	Targets	Lead implementer	Supporting implementers	Possible funding source
2.1. Bolster the judiciary and arbitration systems.	2.1.1. Increase whistle-blower protections through amended legislation after consultation with State Law Office, ministries, the industry and all relevant stakeholders through a Joint Working Group	2						Whistle-blowers	Legislation formulated and passed into law	FSCC	GFM, BoM, FSC, MBA, State Law Office	
	2.1.2. Ensure adequate communication of legal information to the business audience through a public-facing information portal. Create the portal and ensure an adequate framework for it to be regularly updated.	3						Business people, legal community	Information portal launched	State Law Office	Mauritius Bar Association, Mauritius Law Society	
	2.1.3. Ensure mechanisms are in place to enforce arbitration decisions in a timely manner after consultation with State Law Office (SLO).	1						Arbitration and court administrative systems, business people	-	Attorney General	State Law Office	
	2.1.4. Increase capacities of the judiciary system: increase the number of judges; improve operational efficiency to minimize administrative delays and eliminate redundant processes. Streamline procedures for business-related matters.	3						Judges, administrative staff, business people	Procedure times reduced	Attorney General	State Law Office	
2.2. Update the legal framework to increase foreign economic participation.	2.2.1. Introduce multiple-entry business visas for frequent business travellers from the EU and United States.	2						Foreign professionals	Relevant immigration rules amended	MoFED	Immigration Office and BOI	
	2.2.2. Allow spouses of business visa holders to access the labour market.	1						Foreign professionals	Relevant immigration rules amended	MoFED	Immigration Office and BOI	
	2.2.3. Introduce a legal framework for e-signatures.	1						Foreign investors and business owners	Legislation formulated and passed into law	MoFED	Immigration Office and BOI	
	2.2.4. Introduce a legal framework for e-residency, allowing non-residents to access Mauritian services such as company formation, banking and taxation services, and to sign official documents remotely.	2			X			Foreign investors and business owners	Legislation formulated and passed into law	MoFED	Immigration Office and BOI	
2.3. Update laws related to private banking according to international standards.	2.3.1. Update regulations that govern: » Confidentiality. Reform section 64 of the Banking Act so that it notes a sanction in the case of a secrecy breach *'Afin de renforcer le respect de la confidentialité et le secret professionnel, et de dissuader les vols de données (ou incitation au vol de données), la sanction prévue devrait être mentionnée dans la section 64 ainsi que dans les formulaires de déclaration sur l'honneur prévus en annexe du Banking Act.' (translate).* "In order to enhance respect for confidentiality and professional secrecy, and to prevent data theft, the penalty intended for should be mentioned in section 64 as well as in the declaration forms in the form prescribed in the Schedule to the annex of the Banking Act ". » Dormant accounts for private banks. Reform section 59 of the Banking Act. Allow client assets in dormant accounts to continue to be managed by private banks according to principles of good faith, due diligence and fiduciary responsibility, instead of forcing assets to be transferred to the Central Bank. » Liquidity management for private banks. Amend the directive 'guideline on liquidity management' to facilitate cash storage at the Central Bank; set a lower threshold so that 90% of private bank cash can be deposited at BoM instead of at correspondent banks.	2						Private banks	At least three (3) regulations updated accordingly	MoFED, MFSGGIR, BoM, FSC	GFM	

Strategic objective 2: Improve the business environment by updating the legal and regulatory framework.

Operational objective	Activities	Priority 1=high 2=med 3=low	Implementation period 2017	2018	2019	2020	2021	Beneficiaries	Targets	Lead implementer	Supporting implementers	Possible funding source
2.3. Update laws related to private banking according to international standards.	2.3.2. Revise Central Bank guidelines in the following areas in consultation with the BOM and stakeholders: » Publication of tariffs for private banks. Reform guideline so that private banks do not have to publicly disclose tariffs but can simply declare them to the Central Bank. » Central Bank reporting requirements. Create a set of reporting requirements specifically for private banks. Eliminate the need to report on activities that are relevant only for commercial or retail banks, including: – Student Loan Scheme – LNA Student Loan scheme (list of students) – Report 37 – Intra Bank Cheque Clearing Data – Report 5b Sector-wise SME – Report 5c Housing Credit to Household – Report 5d Credit under the SME Financing Scheme – Report 5e List of SME – SME financing Scheme – Report 5f Credit under SME to Micro and Small Enterprise turnover under Rs10m – Report 5g List of SME – SME Financing Scheme to Micro and Small Enterprise turnover under MUR10.0m. » Secured loans. Eliminate the need to include loans secured with client assets (Lombard credit) in private bank capital adequacy ratios. This will encourage foreign clients to deposit assets in Mauritius. » Related counterparties. Amend Sections 18 and 19 of the 'Guidelines on Related Party Transaction', conditioning the regulatory limits to be based on the credit risk and type of collateral. Effectively exempt loans collateralized by customer term deposits from loan regulatory limits.	2						Private banks	At least three (3) Central Bank guidelines updated accordingly	BoM	MoFED, FSC, MFSGGIR, GFM	
2.4. Improve air and com-munications connectivity.	2.4.1. Introduce new air routes to transform the airport into a hub between Asia and Eastern / Southern Africa. Explore options such as: (i) three-legged flights (triangular routes such as Mauritius – Dar es Salaam – Nairobi, Mauritius – Nairobi – Kampala, Mauritius – Nairobi – Addis Ababa, Mauritius – Nairobi – Kigali, Mauritius – Harare – Lusaka); (ii) subsidized routes (until they become viable); and (iii) strategic alliances.	2						Air Mauritius and Airport of Mauritius	At least three (3) new routes introduced between Mauritius and Africa	Air Mauritius/ BOI / MoFED / , Regional Integration and International Trade	Ministry of Finance and Economic Development/ Ministry of Foreign Affairs /	Budget 2016-2017
2.5. Take steps towards ensuring good governance, transparency and effective regulation.	2.5.1. Commission research to come up with different ways to integrate a distinction between onshore and offshore businesses, creating a unified, low-tax jurisdiction. To achieve this, assess the impact on the industry and Government revenue of the different options proposed in the Phillip Baker report and, based on the results, select desired options and adopt the required legal basis.	1						Business community at large	Relevant legislation amended and passed into law	MoFED, MFSGGIR	FSPA	
	2.5.2. Introduce appropriate substance requirements in line with implementation of BEPS.	2						GBCs	Relevant legislation amended and passed into law	MoFED, MFSGGIR	FSC	
	2.5.3. Redouble efforts to ensure high-level appointments to regulatory bodies and associations are apolitical and based on competencies. Similarly, to ensure regulatory independence and good governance.	1						FSC, FPA, FSI, BoM, FIU, FRC, GFM	Regulatory bodies and review panel	MFSGGIR	MFSGGIR	

Strategic objective 2: Improve the business environment by updating the legal and regulatory framework.

Operational objective	Activities	Priority 1=high 2=med 3=low	Implementation period 2017	2018	2019	2020	2021	Beneficiaries	Targets	Lead implementer	Supporting implementers	Possible funding source
2.5. Take steps towards ensuring good governance, transparency and effective regulation.	2.5.4. Increase staff capacities at FRC and FIU (staff training, regular capacity updating and increase budget to increase hires).	1						FRC, FIU	Capacity-building	MoFED, MFSGGIR	FIU / FRC	
	2.5.5. Reform operations at FRC and FIU to allow quicker response times and greater risk management (operational restructuring).	2						FRC, FIU	Increase efficiency	MoFED, MFSGGIR	FRC, FIU	Budget 2016–2017
	2.5.6. Create mechanisms for sharing data between FRC and FIU to reduce redundancies.	3						FRC, FIU		MoFED, MFSGGIR	FRC, FIU	
	2.5.7. Simplify procedures for know-your-client and due diligence processes: create a centralized database of know-your-client and due diligence information to be shared; empower a single body to manage it. Ensure the legal framework is in place.	2						FSC, BoM	Central database created and operational	MoFED, MFSGGIR		Budget 2016–2017
2.6. Promote gender equality in boardrooms.	2.6.1. Engage in concerted awareness-building and promotional campaigns to communicate to the corporate world that gender equality is of paramount importance	2						Women in the financial services sector	At least two (2) awareness-building seminars / workshops held for top executives in the financial sector	MoFED, MFSGGIR	National Committee on Corporate Governance	
	2.6.2. Form an association of women in the financial sector to serve as a networking and career promotion platform. Association will hold events and raise awareness of job opportunities.	2						Women in the financial services sector	Association formed, meeting schedule established	MoFED, MFSGGIR	National Committee on Corporate Governance	
2.7. Update the legal framework to promote the development of various subsectors.	2.7.1. Modify the law to accommodate cover-holder status.	1						Insurance segment	Law formulated and passed	MFSGGIR	FSC	
	2.7.2. Modify the law to allow foreign law firms to provide certain services in Mauritius autonomously without having to partner with local law firms.	1		X				Legal professionals	Law formulated and passed	MFSGGIR	FSC	Budget 2016–2017

Strategic objective 3: Improve capacities of the sector to provide world-class financial services.

Operational objective	Activities	Priority 1=high 2=med 3=low	Implementation period 2017	2018	2019	2020	2021	Beneficiaries	Targets	Lead implementer	Supporting implementers	Possible funding source
3.1. Stimulate product diversification in capital markets.	3.1.1. Develop a yield curve to facilitate bond issuance and stimulate the secondary market for fixed income products.	1						SEM	Yield curve developed and updated daily	SEM	FSC, GFM, MFSGGIR	
	3.1.2. Complete the establishment of MIDEX. Introduce new index and derivative products for major African markets and currencies.	1						SEM	At least five (5) new currency or commodity products are actively trading	SEM	FSC, GFM, MFSGGIR	
	3.1.3. Pursue dual listing and partnership agreements with new markets in Africa, Asia and Europe in line with priority markets according to market development options in this Strategy.	1						SEM	Dual listing / partnership agreements reached with at least five (5) new markets	SEM	FSC, GFM, MFSGGIR	
	3.1.4. Expand participation in the sustainability index to other African countries to become the premier destination for sustainable investing in Africa. Develop an African Sustainability Index.	2						SEM	African Sustainability Index created. Includes dual listings from at least five (5) other African countries	SEM	FSC, GFM, MFSGGIR	
	3.1.5. Create a new commodities exchange in Mauritius (Mauritius International Derivatives & Commodities Exchange (MINDEX))..	1		X	X			MINDEX SEM	Commodities market launched	MINDEXSEM	FSC, GFM, MFSGGIR	Budget 2016–2017
3.2. Stimulate human capital development locally.	3.2.1. Link universities with industry to offer internships and other practical experience opportunities.	1						Universities, financial services providers	Capacity-building	Universities, FSI		
	3.2.2. Update university curricula in line with private sector requirements and ensure that they are updated on a regular basis to reflect the latest developments in academia and practical application.	1						Universities	Capacity-building	FSPA, FSI	FSI	
	3.2.3. Ensure that the courses offered FSI are relevant and meet the needs of industry. Ensure adequate funding for FSI.	1						FSI	Capacity-building	FSPA	FSI	
	3.2.4. Provide a series of training and awareness-building workshops / seminars on key areas relevant to the financial services industry.	1						Financial services providers	Capacity-building	FSI	FSI	
3.3. Stimulate knowledge transfer and human capital transfer from abroad.	3.3.1. Negotiate work experience and exchange programmes with global banks and asset and wealth management firms.	1						Financial services providers	Capacity-building	FSI	FSI	
	3.3.2. Introduce a special visa for expatriates in specialist areas where skills are lacking, such as wealth and asset management, risk and compliance. Visas should be limited in time and granted to firms to ensure transfer of skills and knowledge.	1						Foreign professionals	Attract talents and expertise	MoFED	BOI	
	3.3.3. Encourage the Mauritian and African diaspora to come and work in Mauritius by offering incentives to highly skilled Mauritians who have emigrated abroad and have gained significant experience in the financial sector. A targeted information campaign will be crucial.	1						Mauritian diaspora	Attract talents and expertise	MoFED	BOI	
	3.4. Create a regional training programme / centre through FSI and aggressively promote it as the premier centre for financial skills learning in Africa. This will attract foreign qualified labour and stimulate the development of a talented labour pool. FSI to develop with additional training curricula in line with the capacity-building requirements of the industry.	1						Local and foreign financial services employees and students	Regional training programme / centre created; required additional training curricula developed	FSI, MoFED, MFSGGIR	FSI	

Strategic objective 3: Improve capacities of the sector to provide world-class financial services.

Operational objective	Activities	Priority 1=high 2=med 3=low	Implementation period 2017	2018	2019	2020	2021	Beneficiaries	Targets	Lead implementer	Supporting implementers	Possible funding source
3.3. Stimulate knowledge transfer and human capital transfer from abroad.	3.3.5. Encourage foreign firms to establish or increase their presence in Mauritius. Create a package of incentives such as tax rebates, jobs and training grants, access to land and buildings, and permits in selected target areas such as regional headquarters, private banking and M&A.	1						Foreign financial service firms		MoFED	BOI	Budget 2016–2017
3.4. Encourage enterprise development and growth of SME financial service providers.	3.4.1. Support business start-ups investing into Africa through grants to finance feasibility studies, seed capital, loan guarantee schemes, etc.	3						Mauritian entrepreneurs	At least five (5) grants provided each year for three years	FSI, MFSGGIR	MoFED	
	3.4.2. Create a forum for Mauritian and African entrepreneurs to engage with each other, exchange ideas, and form partnerships.	3						Mauritian entrepreneurs	Forum established and meets at least one (1) time per year	FSI, MFSGGIR	MoFED	
	3.4.3. Facilitate study tours and exchange opportunities for entrepreneurs and business start-ups to create awareness of opportunities in African countries.	3						SME financial service providers	At least one (1) study tour / exchange each year	FSI, MFSGGIR	MoFED	
3.5. Stimulate the development of specialized research and analysis capacities focused on African markets.	3.5.1. Introduce a joint initiative between the universities, FSI and the private sector to engage in joint research.	2						Universities, FSI, private enterprises	At least one (1) joint research initiative organized and funded	Universities, FSI, MFSGGIR	MoFED	
	3.5.2. Create incentives for multinationals to pursue joint research in Mauritius: subsidize specialized research and / or fund research at banks and / or universities through relevant ministries.	1						Multinational financial institutions	Two research projects conducted each year	MFSGGIR, FPA	MoFED	
	3.5.3. Negotiate research exchange programmes between universities and African counterparts in relevant areas of study (i.e., economics, business, finance).	1						Universities	At least one (1) exchange programme supported each year	FSI, universities	MFSGGIR	
3.6. Develop networks with international service providers.	3.6.1. Encourage alliances between FSPA and other similar international agencies to promote Mauritius as a corridor between Asia and Africa.							FSPA / BOI and the industry	At least one (1) alliance established	BOI / FSPA	BOI	
	3.6.2. Ensure participation in key global events and seminars.	3						FSPA / BOI and the industry	One global event held each year	FSPA	GFM, ATMC, MBA	
3.7. Foster synergies between GBCs and other subsegments and the local economy.	3.7.1. Strengthen the role of MCs as linkages between subsectors: improve MC awareness of different investment opportunities / needs of various players. Give a person at the FSCC Secretariat the responsibility for facilitating information flow between MCs and the rest of the sector (providing MCs with regular updates on activities of other subsegments, investment opportunities, services being offered or under development).	1						MCs, FSCC	Mandate given to Secretariat; report provided on a quarterly basis	FSCC	GFM, MBA, ATMC, Insurers Association of Mauritius, Mauritius Institute of Professional Accountants, Mauritius Bar Association, Mauritius Law Society, MCCI	
	3.7.2. Train staff at MCs on how to perform more value added services such as preparing offering documents and investment advisory.	2						MCs	At least four (4) series of trainings held	FSI	FSCC	
	3.7.3. Improve knowledge of different industries at MCs. Establish a regular series of seminars / awareness-building activities on developments in different industries (e.g. mining, real estate).	3						MCs	At least one (1) seminar series held each quarter	FSI	FSCC	

Strategic objective 4: Facilitate market penetration and diversification by stimulating demand for Mauritian financial services.

Operational objective	Activities	Priority 1=high 2=med 3=low	Implementation period 2017	2018	2019	2020	2021	Beneficiaries	Targets	Lead implementer	Supporting implementers	Possible funding source
4.1. Promote Mauritian financial services expertise.	4.1.1. Take leadership roles in regional committees and forums, including the SADC Capital Markets Subcommittee. To that effect: Develop initiatives to push; Consult the private sector for inputs and views; Create alliances with key partners or like-minded countries to push those initiatives.	1						MoFED	Mauritius takes at least two (2) formal leadership roles in the sector within the region	MoFED		
	4.1.2. Firmly continue pursuing Economic Cooperation Agreements and IPPAs in Africa and Asia, shifting focus away from DTAs.	1							At least 10 new IPPAs executed with countries in Asia and Africa; at least five (5) new Economic Cooperation Agreements executed with countries in Africa	MoFED	MRA	
	4.1.3. Raise awareness of risk management products (i.e. commodities, derivatives) to businesses to increase financial literacy and to build demand.	3						GBCs	Financial literacy	FSI / FSPA, MCCI	FSI	
4.2. Improve the relationship management framework.	4.2.1. Create a one-stop shop source of information, branding and client engagement to support client-centric service provision, cross-selling, etc.	1			X	X	X	FPA	One-stop shop source of information created	FPA		
	4.2.2. Create a formal linkage between the finance sector and the hospitality / tourism sector to promote full-service / lifestyle delivery. Create a formal platform for cooperation between the financial services sector and the hospitality sector. Create a portal on http://www.tourism-mauritius.mu/ for the financial sector; it should serve as an information point for all aspects of doing business in Mauritius (link with one-stop shop site). The goal is to offer a full-service package from the moment someone gets off the plane.	1			X	X	X	FPA, Mauritius Tourism Promotion Authority	Platform created; Information point created	FPA, Mauritius Tourism Promotion Authority		
4.3. Improve access to and use of trade intelligence.	4.3.1. Create a market intelligence unit at FPA. Hire and train staff on data collection, analysis, etc.	1						FPA	Unit formed and staffed	FPA		
	4.3.2. Raise awareness / train private sector operators on the collection and use of trade intelligence.	2						Financial services providers	At least five (5) trainings offered to the private sector	FSI,	FPA, FSCC	
4.4. Engage in a comprehensive promotional campaign to build demand for Mauritian financial services.	4.4.1. Equip all embassies and consular offices in foreign countries for investment promotion through trainings on: gathering trade intelligence, developing local promotional strategies and networking with potential clients and / or partners.	2						Foreign services staff	Training / on boarding programme established	FPA,	FSI, FSCC	
	4.4.2. Establish a strong brand for the destination as a business centre of excellence and gateway to Africa. To be implemented in line with operational objective 3.1 of the Branding Strategy.	1						Financial services providers	Collective financial services sector brand created by 2017	FPA		

Strategic objective 4: Facilitate market penetration and diversification by stimulating demand for Mauritian financial services.

Operational objective	Activities	Priority 1=high 2=med 3=low	Implementation period					Beneficiaries	Targets	Lead implementer	Supporting implementers	Possible funding source
			2017	2018	2019	2020	2021					
4.4. Engage in a comprehensive promotional campaign to build demand for Mauritian financial services.	4.4.3. Engage in concerted efforts to improve brand and combat negative image. To be implemented in line with operational objective 3.1 of the Branding Strategy.	1						Financial services providers	Collective brand synchronized for each subsector	FPA		
	4.4.4. Reinstitute Private Equity Mauritius and introduce new events.	1						Financial services providers	Private Equity Mauritius reinstituted	FPA		
	4.4.5. Create a regular investment promotion and attraction strategy that involves investor and client identification and attraction, participating in road shows, lobbying and network building.	1						FPA	Strategy developed and implemented	BOI	FSC, GFM, MFSGGIR, FSC	
4.5. Provide support / incentives to operators who establish operations in Africa.	4.5.1. Create a Government loan guarantee facility for trade finance into Africa (suggest a specific proposal that might be workable in the country; be sure size is appropriate, as we do not want to threaten Government finances given the large sums of money transiting the country relative to GDP).	2						Financial services providers	Trade finance facility established in 2017	MoFED		
	4.5.2. Provide a tax holiday on foreign profits for banks and non-bank financial service providers providing services in Africa. Determine detailed implementation modalities, notably related to applicable tax rates, eligibility or application periods.	1						Financial services providers	Tax holiday established in 2017	MoFED		
	4.5.3. Create a programme for credit guarantee schemes supported by international financial institutions and / or partners: the programme would help companies or projects in Africa access finance through Mauritius, with funds backed by international financial institutions.	2						Financial services providers	Export credit guarantee scheme established in 2017	MoFED	Development banks / international financial institutions	

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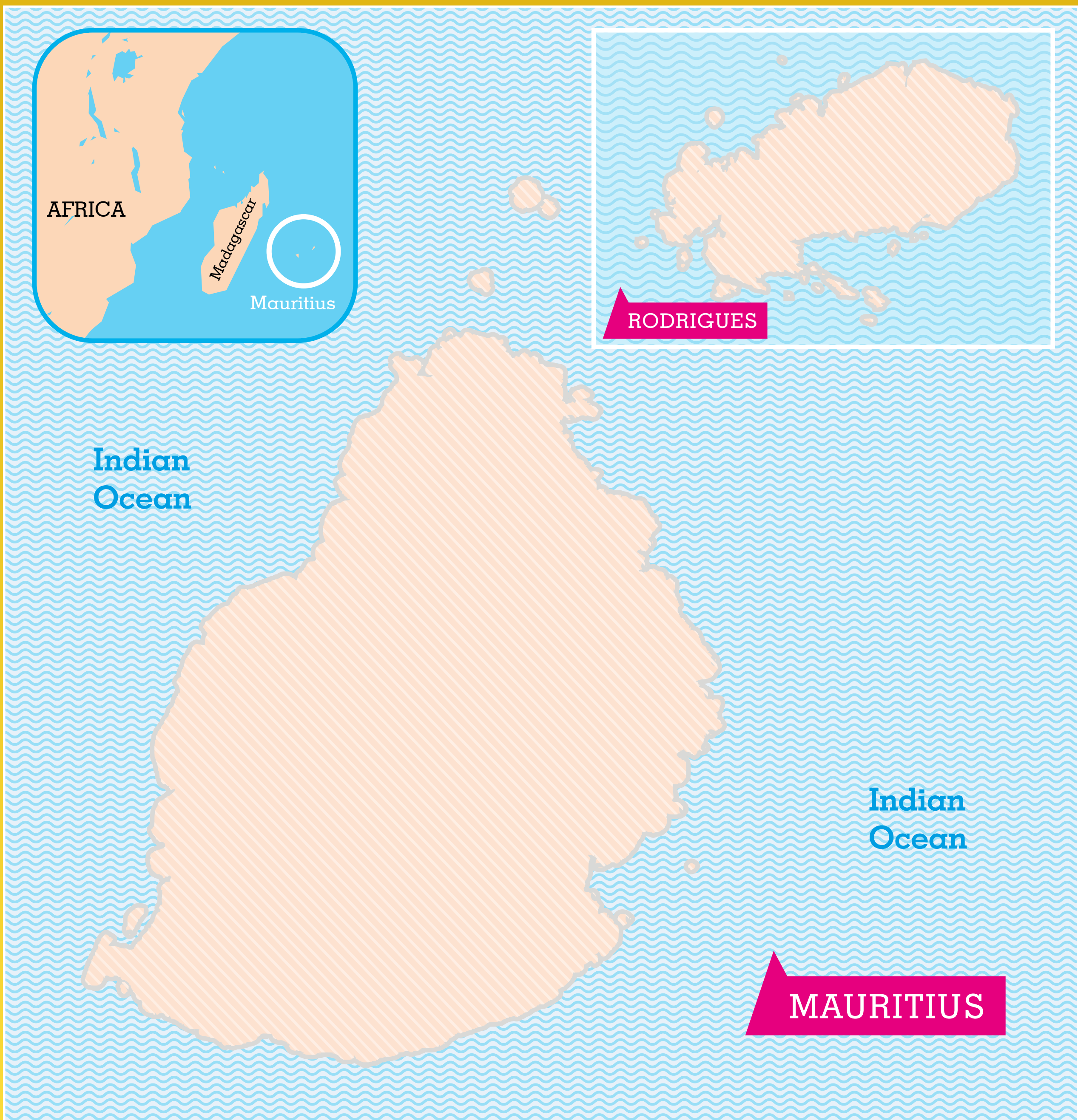
MAURITIUS
NATIONAL EXPORT STRATEGY
FINANCIAL SERVICES SECTOR

APPENDICES



APPENDIX 1: EXAMPLES OF USES OF OFFSHORE FINANCIAL CENTRES

Uses of offshore financial centres

Offshore banking licences. A multinational corporation sets up an offshore bank to handle its foreign exchange operations or to facilitate financing of an international joint venture. An onshore bank establishes a wholly owned subsidiary in an OFC to provide offshore fund administration services (e.g. fully integrated global custody, fund accounting, fund administration and transfer agent services). The owner of a regulated onshore bank establishes a sister 'parallel' bank in an OFC. The attractions of the OFC may include no capital tax, no withholding tax on dividends or interest, no tax on transfers, no corporation tax, no capital gains tax, no exchange controls, light regulation and supervision, less stringent reporting requirements, and less stringent trading restrictions.

Offshore corporations or IBCs. IBCs are limited liability vehicles registered in an OFC. They may be used to own and operate businesses, issue shares or bonds, or raise capital in other ways. They can be used to create complex financial structures. IBCs may be set up with one director only. In some cases, residents of the OFC host country may act as nominee directors to conceal the identity of the true company directors. In some OFCs, bearer share certificates may be used. In other OFCs, registered share certificates are used but no public registry of shareholders is maintained. In many OFCs, the costs of setting up IBCs are minimal and they are generally exempt from all taxes. IBCs are a popular vehicle for managing investment funds.

Insurance companies. A commercial corporation establishes a captive insurance company in an OFC to manage risk and minimize taxes. An onshore insurance company establishes a subsidiary in an OFC to reinsure certain risks underwritten by the parent and reduce overall reserve and capital requirements. An onshore reinsurance company incorporates a subsidiary in an OFC to reinsure catastrophic risks. The attractions of an OFC in these circumstances include a favourable income / withholding / capital tax regime and low or weakly enforced actuarial reserve requirements and capital standards.

Special purpose vehicles (SPVs). One of the most rapidly growing uses of OFCs is the use of SPVs to engage in financial activities in a more favourable tax environment. An onshore corporation establishes an IBC in an offshore centre to engage in a specific activity. The issuance of asset-backed securities is the most frequently cited activity of SPVs. The onshore corporation may assign a set of assets to the offshore SPV (e.g. a portfolio of mortgages, loans, credit card receivables). The SPV then offers a variety of securities to investors based on the underlying assets. The SPV, and hence the onshore parent, benefit from the favourable tax treatment in the OFC. Financial institutions also make use of SPVs to take advantage of less restrictive regulations on their activities. Banks, in particular, use them to raise Tier I capital in the lower tax environments of OFCs. SPVs are also set up by non-bank financial institutions to take advantage of more liberal netting rules than faced in home countries, reducing their capital requirements.

Tax planning. Wealthy individuals make use of favourable tax environments in, and tax treaties with, OFCs, often involving offshore companies, trusts and foundations. There is also a range of schemes that, while legally defensible, rely on complexity and ambiguity, often involving types of trusts not available in the client's country of residence. Multinational companies route activities through low-tax OFCs to minimize their total tax bill through transfer pricing, i.e. goods may be made onshore but invoices are issued offshore by an IBC owned by the multinational, moving onshore profits to low-tax regimes.

Tax evasion and money-laundering. There are also individuals and enterprises who rely on banking secrecy to avoid declaring assets and income to the relevant tax authorities. Those moving money gained from illegal transactions also seek maximum secrecy from tax and criminal investigation.

Asset management and protection. Wealthy individuals and enterprises in countries with weak economies and fragile banking systems may want to keep assets overseas to protect them against the collapse of their domestic currencies and domestic banks, and outside the reach of existing or potential exchange controls. If these individuals also seek confidentiality, then an account in an OFC is often the vehicle of choice. In some cases, fear of wholesale seizures of legitimately acquired assets is also a motive for going offshore. In this case, confidentiality is very important. Also, many individuals facing unlimited liability in their home jurisdictions seek to restructure ownership of their assets through offshore trusts to protect those assets from onshore lawsuits. Some offshore jurisdictions have legislation in place that protects those who transfer property to a personal trust from forced inheritance provisions in the home countries.

Source: Extracted from: International Monetary Fund (2000).

APPENDIX 2: MULTIFACTOR ANALYSIS OF COMPARABLE INTERNATIONAL FINANCIAL CENTRES

Table 20: *Multifactor analysis of comparable international financial centres*

Variables & factors	Abu Dhabi	Bahamas	Bahrain	Barbados	Caymans	Dubai	Labuan	Mauritius	Qatar
Political risk factors: *(weight: 10%)*									
01. Long-term stability	4	7	4	8	7	4	7	6	4
02. Democratic structure and effectiveness	0	5	0	6	6	0	5	4	0
03. Legislative functioning	2	7	2	7	7	4	5	5	2
04. Judicial functioning	2	7	1	7	7	3	4	5	3
05. Government's probity / efficiency	4	6	2	7	6	4	3	2	6
06. Quality of governance / public administration	6	7	5	7	7	6	4	3	6
07. Influence of civil society over government	2	7	0	7	7	2	3	3	2
Subtotal score	20	46	14	49	47	23	28	28	23
Economic / policy risk factors *(weight: 20%)*									
08. Overall macroeconomic policy and management	7	7	6	8	7	6	5	4	8
09. Fiscal policy, tax policy and fiscal deficits	7	7	5	6	7	5	5	3	8
10 Monetary policy stability / management	8	7	6	8	7	7	6	6	8
11. Exchange rate policy stability / management	8	8	7	8	8	8	5	4	9
12. Current account policy / deficits versus surpluses	7	7	7	7	7	6	7	3	10
13. Capital account openness policy	10	9	9	9	9	10	6	7	10
14. Currency convertibility	10	10	10	10	10	10	8	9	10
15. Openness to foreign investment – FDI / foreign indirect investment	8	10	7	8	10	9	7	6	9
16. Openness to immigration and taxation	5	6	4	5	5	7	4	5	5
17. Openness to expatriate workers and tax	8	7	7	5	5	8	3	4	5
18. Domestic living environment for expatriates	6	8	4	8	8	6	6	4	6
19. Openness of financial markets	8	10	6	8	9	9	6	4	8
20. Degree of integration with global finance	9	10	8	10	10	10	7	5	10
21. Extent of integration with global economy	9	7	6	8	9	10	6	5	9
22. Extent of public indebtedness	10	7	6	8	8	5	6	4	10
23. Extent of total (net) indebtedness	10	7	5	7	8	4	6	4	10
24. Index of human / social development	6	7	5	8	8	7	5	5	6
25. Availability of capable local human capital	3	5	2	6	5	4	5	4	4
26. Quality of overall economic regulation	6	7	5	7	7	6	5	4	5
27. Accounting / auditing standards	6	8	6	8	7	6	6	6	7

28. Legal, adjudication, arbitration standards	4	7	1	7	7	4	4	5	4
29. Business support systems capability	7	7	5	7	6	7	6	6	8
30. Overall quality of corporate governance	5	6	3	6	6	5	5	5	6
Subtotal score	167	174	130	172	173	139	80	65	175
Financial markets / system-specific factors *(55%)*									
Regulation									
31. Quality of financial system regulation overall	7	7	5	7	7	6	5	5	6
32. Quality / capability of Ministry of Finance	7	8	5	8	7	7	6	4	7
33. Quality / capability of central bank	8	8	6	8	7	8	7	6	9
34. Quality / capability of cap markets regulator	6	6	3	6	6	6	5	6	7
35. Quality / capability of insurance regulator	6	7	3	6	6	6	4	6	7
Quality / capability of insurance markets									
39. Life insurance	6	7	6	8	8	8	6	6	9
40. General and accident insurance	6	7	6	7	7	6	5	6	8
41. Health insurance (public + private)	5	7	5	7	7	6	5	6	8
42. Reinsurance	4	4	2	5	4	4	4	5	7
43. Catastrophic risk insurance	5	5	2	5	4	5	3	2	6
Capacity of capital markets									
44. Equity markets	6	5	2	4	4	5	5	4	5
45. Debt markets – government securities	6	6	4	7	5	5	6	4	5
46. Debt markets – corporate securities	1	2	1	3	1	4	2	0	2
47. Hybrid markets / NBFCs	1	1	0	2	1	3	1	0	2
48. Asset management	2	5	0	4	3	5	1	1	3
49. Alternative investment management	3	2	0	3	2	5	2	1	5
50. Private equity funds	2	3	1	5	4	6	3	1	5
51. Hedge funds	2	2	0	3	2	4	1	0	4
52. Capacity for M&A, PPP, financial engineering	2	3	1	3	1	6	2	1	5
53. Structured project finance capability	3	2	1	3	1	5	2	2	5
Capacity of derivatives markets									
54. Equity derivatives	1	1	0	2	0	3	1	1	3
55. Interest rate derivatives	0	1	0	1	0	2	1	0	1
56. Currency derivatives	2	2	1	3	2	4	2	1	4
57. Credit default derivatives	0	0	0	1	0	2	0	0	1
58. Index derivatives	1	1	0	2	0	2	2	1	3
59. Tailored bilateral derivatives	1	0	0	1	0	2	0	0	1
60. Central counterparty institutions	0	0	0	0	0	0	0	0	0
– Subtotal score:	– 115	– 125	– 70	– 137	– 113	– 149	– 100	– 85	– 157

Infrastructure and other factors *(15%)*									
61. Availability of good housing for citizens	8	6	7	6	7	8	6	4	7
62. Availability of suitable housing for expatriates	9	9	8	8	8	9	7	6	9
63. Facilities for school education	6	7	5	7	7	8	5	5	7
64. Facilities for university / tertiary education	4	5	4	5	4	4	3	4	5
65. Quality of health care and hospitals	6	6	5	6	6	7	5	5	7
66. Public transport quality / availability	4	6	4	6	5	6	5	3	6
67. Private transport cost / convenience	8	7	7	8	7	8	6	6	9
68. Airline connectivity / cost to Rest of the World	6	5	5	5	4	9	4	3	7
69. Telecom connectivity / cost to Rest of the World	8	6	7	6	6	9	6	3	7
70. Internet broadband availability	7	6	6	7	6	8	6	4	7
71. Electric power & water supply	9	8	8	8	8	9	7	5	9
72. Entertainment, cultural, social life options	5	4	3	5	3	6	3	3	6
73. Sporting and leisure options available	5	5	3	4	4	5	4	3	6
74. Voluntary organizations / NGOs	3	4	2	5	3	4	1	3	2
75. Attitude of citizens towards expatriates	4	7	1	7	7	6	2	3	5
Subtotal score	92	91	75	93	83	106	70	60	99

Total	Abu Dhabi	Bahamas	Bahrain	Barbados	Caymans	Dubai	Labuan	Mauritius	Qatar
Total score (un-weighted)	394	436	289	451	416	417	278	238	454
Total score (weighted)	337	365	231	386	342	384	253	215	415
Index: i.e. score / 720 (weighted)	0.47	0.51	0.32	0.54	0.48	0.53	0.35	0.30	0.58
Rank among comparable nine IFCs (u-w)	6	3	7	2	5	4	8	9	1
Rank among comparable nine IFCs (w)	6	4	8	2	5	3	7	9	1
									Note: scoring: 0 (lowest) to 10 (highest)

Source: Oxford International Mauritius (2013), p. 107.

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