August 2013

Global Finance

Journal of the Financial Industry

MAURITIUS

"The Country's adherence to principles set by International bodies makes Mauritius a neutral, safe and trusted jurisdiction."

Hon. Xavier-Luc Duval, Vice Prime Minister and Minister of Finance and Economic Development.

"The Evolving Challenge and Hostile Operating Environment for Global IFCs"

Percy Mistry, Chairman
Oxford International Associate

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Editorial

This is the first publication of Global Finance Mauritius, the apex organisation of the financial services industry in Mauritius. Our mission is to promote the development of a competitive Mauritius International Financial Centre (IFC) that has substance, is well regulated, and efficient. To achieve our goals we have elaborated a strategy that revolves around four prongs: Promotion, Research, Advocacy and Capacity building.

GLOBAL FINANCE, the journal of the financial services industry, is aspiring to establish itself as the ideal forum for local and foreign contributors, financial institutions and regulatory bodies to share views and experience, to debate about strategies and options so as to further enhance the competitiveness of the Mauritius IFC, to reinforce its image as a secure, transparent, vibrant and innovation driven jurisdiction.

Indeed, one of our major challenges is to counter the negative image that has been projected of the Mauritius jurisdiction, in the Indian press in particular. Allegations of round tripping and tax haven have been hurled at us for years without any rebuttal from us, as we smugly believed that facts will speak for themselves. This is not the case. Facts have to be first communicated. This is why we have revamped our website and we are bringing out this journal so as to open lines of communication with anyone wishing to know more about the Mauritius IFC or wishing to contribute to the dialogue to improve the IFC.

This maiden issue has, as would be expected, a relatively higher number of articles on Mauritius. While the Vice Prime Minister and Minister of Finance and Economic Development of Mauritius gives an indication of the government's vision of the financial services sector, others have described the journey so far, the factors which have contributed to its growth, and the looming clouds of protectionism from the G 8 following the meeting held in June in Northern Ireland.

The recurrent theme is that the old model is in its death throes, that we cannot cling on to old cheese forever, and we will have to reinvent the Mauritius IFC by building on its geographic position as the star and key of the Indian Ocean, the pathway to Africa, the most efficient and effective connector between investors and capital scarce sectors globally. But we also have an architect's perspective on lifestyle trends.

I must here acknowledge the contribution of a broad array of experts who responded positively to our call for papers: from regulators, (the Governor of the Bank of Mauritius and the CEO of the Financial Services Commission), to lawyers and bankers (local and international), from investment advisers to academics, from former chairmen of key financial institutions to World Bank officials. It is hoped that the different points of view exposed here, from Washington to Hong Kong, from London to India, from Brussels to Mauritius, will provide enough food for thought and discussions to both local and international players. It is our wish that others who do not know the Mauritius IFC well will obtain a valuable insight.

We wish also to thank all the institutions and companies that have supported this initiative and look forward to your feedback to make the publication more relevant to your needs.

Nikhil Treebhoohun
CEO Global Finance Mauritius

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Global Finance
Journal of the Financial Industry
MAURITIUS

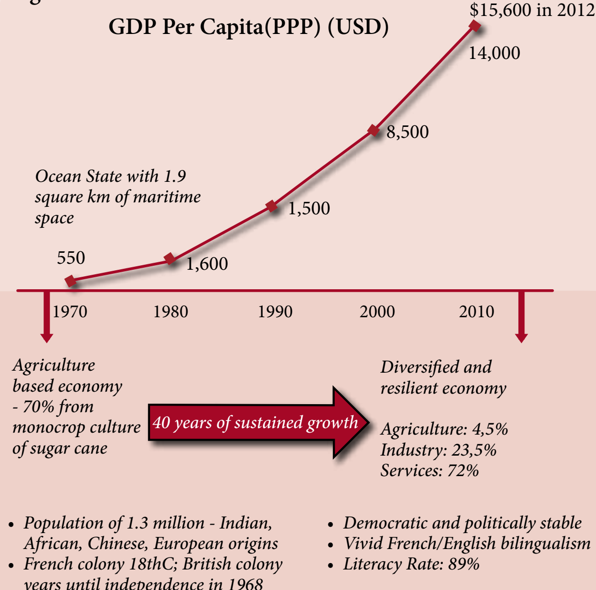
The Mauritius IFC:
A platform for business
to Africa

Global Finance Mauritius, the financial umbrella organisation

GFM was born out of the common vision of key captains of the Financial Services Industry who felt that there was a need for a unified body which could speak out in a powerful voice at a time when several challenges were posing themselves not only to the Industry but to Mauritius itself as a jurisdiction. Although not the only one, the looming threat of the introduction of the Direct Tax Code, more specifically, the General Anti Avoidance Rule in India, was among one of these.

GFM saw the light of day in October 2010 as Global Institutional Investors Forum (GIIF). It was set up as a non-for-profit organization, structured as a purpose trust, to regroup the various segments of the Mauritius financial services sector under one roof with the main objective to represent and promote Mauritius as an International Financial Centre of excellence. Whilst Shakespeare did not seem to think that there is much in a name, the decision to change the name of the organisation to "Global Finance Mauritius" was taken in August 2012 as it was felt that the new name would better reflect the organisation's membership and composition.

GFM also aims to actively represent the finance industry's needs and concerns with regards to legislation, regulation and other key areas that can enhance the Mauritius product offering. The current membership comprises all the banks (through the Mauritius Bankers Association), a few institutional investors, Accounting and Audit firms, Management Companies, Law practitioners and the Stock Exchange of Mauritius. Thus, apart from the insurance sector, all other segments of the industry are represented.

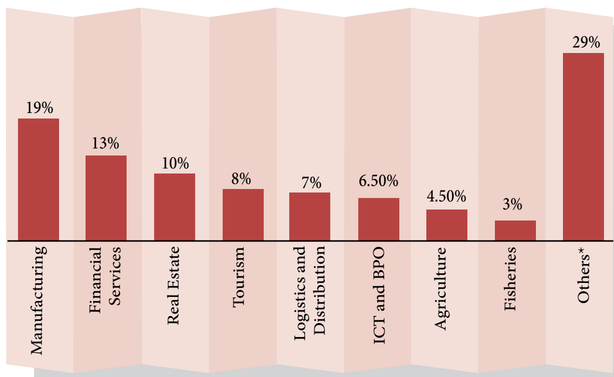


The Mauritius IFC

Since independence in 1968, Mauritius has transformed itself from a monocrop to a diversified economy. Figure 1 provides a snapshot of the growth of GDP per capita (Purchasing Power parity) from 1970 to 2012. With no natural endowments – except for its physical beauty – it has managed to grow steadily, often availing itself of opportunities offered by international economic agreements, e.g. the Sugar protocol, the Lome Convention, and the India/Mauritius DTAA. While the services sector (IT/BPO, Finance) is emerging as a key contributor to GDP, employment, and government revenue, already Mauritius is beginning to lay the foundations for becoming an ocean economy as it has a maritime zone of some 2 million square kilometers.

Mauritius was already a vibrant economy before it created its financial centre to reduce its reliance on sugar, garments and tourism. Today the economy is well diversified with manufacturing contributing to 19% of value added, financial intermediation to 13 %, tourism 8%, and agriculture 4.5%. (Figure 2)

The financial services industry has grown rapidly in the last decade and is now nearing the end of its first cycle of growth (its infant industry ➤



phase) where the ease of doing business attracted mainly investment holdings and some funds and regional headquarters. Private wealth management (trusts, foundations, private banking), fund domiciliation (private equity funds, limited partnerships, protected cell companies, collective investment schemes), Trading and Freeport, Pan-African revenue recognition (IT-related business, intellectual property) and regional headquarters (shared services – IT, BPO, Finance, Treasury, HR, Compliance –, procurement, expat services) are some of the elements of the value proposition for business from Mauritius. These are very challenging times for the industry.

The challenges that lie ahead of Mauritius as an IFC are indeed numerous:

1. Reputational risk arising mainly from erroneous perception of the jurisdiction as a tax haven.
2. Policy issues in terms of creating the proper environment for a healthy growth of the industry.
3. Need for diversification of products and markets to ensure continued growth.
4. Need to build the right skill set to support the industry.

GFM's Activities

To tackle these challenges GFM has set up several Technical Committees to look into the following issues:

1. New Products and market diversification
2. India Mauritius DTAA
3. Taxation
4. Compliance
5. Regional Treasury Centre
6. Capital Markets
7. Africa
8. PR and Communication

As a result of its substantial work on key

issues, GFM has become a vital consultation partner and interacts regularly with government and regulators on all matters concerning the industry. It has significantly contributed to a number of initiatives, namely amongst others, to the India-Mauritius DTAA, the OECD Peer Review Report on Mauritius, Legislative Developments, New Products (e.g. Private Banking and Wealth Management), Market Diversification, and FATCA.

GFM has also assisted the Financial Services Commission in organizing a brainstorming workshop in October 2012 on the theme of "Building a competitive Mauritius IFC". Other actions have been an awareness programme on the contribution of the financial sector to the economy targeting mainly the local press and participation in international conferences to project the jurisdiction.

To make its voice heard at the international level, GFM joined the International Financial Centres Forum, a cross jurisdictional private sector organization participating in the international dialogues on financial regulation. It is effectively an advocacy group which meets routinely with multilaterals (eg G20 and OECD), trade bloc (eg EU) and national policymakers to explain the role of IFC activity in promoting economic growth, trade, and jobs. Membership offers the opportunity to participate in the global conversation on financial services and follow the strategies of other firms and centres.

The activities for the coming years will therefore revolve around four main pillars: Promotion, Advocacy, Research and Capacity building (PARC).

Changing Paradigm

The challenge facing the Mauritian economy and businesses in the sector is to ensure diversification away from dependence on any one particular geography or treaty whilst at the same time expanding the value proposition within Mauritius from domiciliation and base level administration to an increasingly complex range of financial services and products. In this regard the founders of GFM were driven by a common cause that Mauritius needed to look beyond the low hanging fruit and to cultivate more variety and complexity which would enhance sustainability and reputation of Mauritius as an international financial jurisdiction.

Recent NGO movements in the UK, the Starbucks scandal and several other occurrences have drawn the limelight on tax arbitrage and again on the so-called tax havens. Several onerous regulations are mushrooming and there may come a time where tax arbitrage will be considered as a breach of the law. Mauritius more than ever is standing at a crossroads as the global business sector has for long thrived on tax arbitrage. But every cloud has a silver lining. The move towards greater substance has already started for quite some time now and the result will be more employability for our youth and a more robust and resilient economy, as the Mauritian Global Business sector re-engineers itself. GFM has geared itself to accompany its members and the policy makers in this move. For, any paradigm shift results in some casualties those who cannot adapt to the new environment. Now that most of the low hanging fruits have been picked, the industry will have to push up another gear.

RUBINA JHUBOO
Senior Associate
Global Finance Mauritius

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Mauritius' Journey into international Finance

Some 25 years ago, the Banking Act 1988 gave the Bank of Mauritius the authority to licence 'offshore' banks on top of the powers it already had to license 'domestic' banks. On the other side, in the absence of an explicit legislation, administrative steps were taken at the level of the Registrar of Companies to allow for the incorporation of 'international' finance companies which would not be subject to all the stringent requirements applicable to ordinary companies, such as filing of periodic financial statements and regular audits.

This was the beginning of Mauritius' "offshore" sector. It was not known at the time how far we could succeed as a jurisdiction into an area that was assumed to be the exclusive preserve of sophisticated financial centres that had long been in operation, principally in the West.

There were examples however of outliers such as Labuan and Singapore acting as international finance centres (IFCs) which had set themselves up already outside the periphery of the rich countries of the world. The idea was that Mauritius could mobilize the necessary resources to man this new area of its development, the more so as the country was endowed with an educated workforce capable of being trained up to provide quality professional support that an activity of the sort required. Our bilingualism in English and French, the country's hybrid legal system combining elements of the Civil Code and Common Law as well as its location in a time zone in between the Far East and the financial centres of the West, political stability and rule-of-law, were all seen as cornerstones upon which such an edifice could be constructed.

Fear of the Unknown

This first step was not free from other sorts of difficulties, one of which was about perception. At that time, just as it is the case today, there was a swathe of opinion in the world which considered that 'offshores' were essentially centres which indulged in financial malpractices. They were supposed to be the places where 'unholy' activities like money laundering and "fixing" of unlawful activities, were rife. It was also assumed that they were essentially hosts to fly-by-night investors of no substance. But that had been a perception created many years before Mauritius decided to establish its own IFC as from the late 1980s in an attempt to diversify the economy by engaging in the provision of international financial services. Going for services was compulsive for a country like Mauritius which had little by way of other resources than its educated workforce. It hardly could contemplate anything of the amount of capital and know-how needed to embark on significant projects in the real sector of the economy.

Strong reservations were therefore expressed in some parts of the local community that we should not venture out into an area of activity which certain long-standing international prejudices had qualified as being tainted with malpractices. It was clear that policy makers had to work hard to convince stakeholders that nothing would be undertaken from Mauritius as would likely sully our international image. On the one hand, to be competitive internationally, operators in our IFC had to have at least the same degrees of freedom as that which operators in other jurisdictions hosting offshore business activities enjoyed. ➤

➤ On the other hand, for us not to be dubbed as a run-of-the-mill centre aiding and abetting in the commission of international financial mal-practices, we had to raise the level of our financial controls as a safeguard against any temptation by operators to employ the country to stage up any such malpractices.

An essential trade-off

In the beginning therefore, 'offshore' banks were licensed in their own right, as distinct from 'domestic' banks due to fear of 'contagion'. That was the case even within single banks which had to keep separate these two lines of activity by means of some sort of an iron or bamboo curtain. Each side had to have separate management and be subject to distinct regulatory reporting rules in keeping with the character of the business. Thus, at a time when exchange controls were still in operation in Mauritius, 'domestic' banks were required to keep reporting their detailed periodic inflows and outflows of foreign exchange whereas 'offshore' banks were exempted from this requirement. But to safeguard against any undue liberties 'offshore' banks might take, they were subjected to the same degree of scrutiny as regards compliance with prudential rules pertaining to solvency, liquidity, risks taken, currency exposures, etc. In parallel, 'domestic' non-banking finance companies continued to report on their activities with greater rigour than what applied to generally passive investment-holding 'international' non-bank finance companies. The objective was to keep off any risk of contagion between the two and to apply distinct tax regimes in each case conducive to the development of international financial business.

The decision was taken later on - as the world economy further internationalized itself and Mauritius enhanced its outward-orientedness in pace with international developments - to integrate onshore - offshore activities. That would involve doing away essentially with differences relating to tax and regulatory compliance requirements that had been in place so far. In the Banking Act 2004, it was thus decided that a single banking licence will be granted whether the bank engaged exclusively in international or domestic banking activity or whether it operated on both fronts. In the process, the quality of regulatory reporting was increased. Regulatory oversight became even more focussed than before. Clearly, financial liberalization involved a trade-off in terms of closer regulatory and compliance monitoring to contain risks associated with the more liberal stance being adopted.

It was realized that Mauritius could ill afford to take a risk on the international good standing of its financial sector. Along with financial liberalization therefore, adequate controls were put in place to safeguard against any risk of slipping off. This essential trade-off between opening up the market and having sufficient controls in hand has been kept in place.

A Track Record of Implementing Effective Regulatory Compliance

Over many past years, Mauritius has had to keep adapting the framework of its financial regulation in the face of emerging challenges. The aim was to avert nasty surprises in the regulated institutions when it was too late to act. Intensification of financial regulation increased operators' burden of reporting. The central bank, as regulator of banks and deposit-takers, ensured compliance with 'core principles' of effective banking supervision and other (BIS) - driven international standards for conducting banking business.

As early as 2003, a joint IMF-World Bank team carrying out a Financial Sector Assessment Program concluded that Mauritius actually complied with most of the 'core principles' and that its financial regulation was in practice even tighter than what it was in certain developed countries. On its part, the Financial Services Commission (FSC) which was created in 2001, focussed on a framework of integrated supervision of all non-bank financial services undertaken from within the country. The creation of the FSC, a one-stop-shop for the regulation of capital markets, pensions and insurance, global business and all other non-bank financial services – all of which had been regulated by separate bodies in the past - constituted a step forward towards achieving consolidated and coherent financial regulation in the country. ➤

➤The pace of meetings between regulators and operators quickened over the years. Frequent and regular meetings of the sort ensured translating into practice higher standards of business conduct rules given out from time to time by international bodies, such as the BIS, FATF, IOSCO, IAIS, as well as regional bodies of which Mauritius formed part. Mauritius adapted and applied these rules to its own environment with meticulous care. In other respects, Mauritius also took the lead to ensure that the financial sector of Mauritius did not fall behind rules or standards of market transparency which it considered to be important even where those rules and standards were not an international requirement. Thus, much before it was done in many other places, Mauritian financial regulators took initiatives to ensure that financial companies' accounts should be drawn up in accordance with International Financial Reporting Standards, including the implementation of IAS 39. This approach ensured greater transparency in financial reporting by financial institutions, bringing out for the appreciation by the public risks and related party transactions to which individual financial companies were exposed.

All this was taking place in an overall environment of reinforcing transparency and accountability in Mauritius' corporate sector as a whole. Thus, there came up later the Financial Reporting Council working to monitor financial reporting and disclosure and to promote quality accounting and auditing services in the country. The National Committee on Corporate Governance, on its part, was tasked to enforce good governance at the level of companies' boards of directors. On the side of financial regulation, the prevailing practice of carrying out regular onsite inspections of all financial licence holders at pre-determined intervals was being strengthened by recruiting more regulatory staff of good calibre in both the financial regulatory bodies of the country. There was an all-round consciousness that a rule-based country which actually applied the rules with ➤

intelligence would be able to attract sound business to itself from those who cared for their good reputation and standing.

The way Forward: eliminating sore points

The foregoing shows that Mauritius has always dealt decisively whenever it has been necessary to take decisions for the good upkeep of its financial sector and its international image.

One black spot however has been a much too prolonged discussion between India and Mauritius over a number of years about the Double Tax Avoidance Agreement (DTA) which binds the two countries since as far back as 1983.

It appears that some Indian officials would like to revise the DTA which they consider has been abusively employed by certain Indian operators avoiding to pay due taxes in India by employing the Mauritius DTA route.

They would be having a penchant accordingly to revise the DTA wholesale with a view to limiting the benefits it confers to investors going into India through Mauritius. That could amount to a case of throwing the bona fide baby with the bathwater.

The Mauritian side interprets the proposed revision of the DTA as being tantamount to nullifying the core attractiveness of the very treaty itself which has served to channel huge investment funds into the Indian economy through Mauritius for decades now.

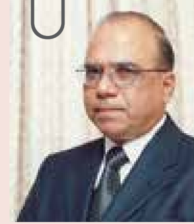
The apprehension on the Mauritian side stems from the fact that such an action would severely impact the working of the Mauritius IFC in view of the fact that Mauritian finance operators have concentrated (negligently perhaps) too much of their business around the DTA.

It seems negotiations on the sore points having emerged in the process have reached a dead end at this stage. Now, the very purpose of a negotiation proper is to reach a give-and-take rather than an all-or-none outcome.

There is little point in throwing overboard a mechanism that has served economic furtherance of both countries and has potential to serve this purpose in the future as well. It may have to be recalled that a jurisdiction like Singapore has contributed significantly as a finance centre to bring needed capital into China and that this kind of collaboration has not stopped despite China having become the world's second largest economy.

If the long term is kept in view, India and Mauritius may just as well reach mature understandings which should not be seen as undermining each other as their economies move on to further heights. It is in their mutual interest to consider that the world tomorrow will be built up around greater transparency and accountability than what we have been used to so far.

It is in the nature of financial business that it is confronted with different types of risks as it gathers scope. This imposes on market participants – and countries - the need to seek solutions to problems as and when they emerge. ■



ANIL GUJADHUR

Former First Deputy Governor of the Bank of Mauritius, He also acted as Chairman of the Financial Services Commission of Mauritius which is the regulator of all non-bank financial services In Mauritius.

Interview

Hon. Xavier-Luc Duval, Vice Prime Minister and Minister of Finance and Economic Development.

"The Country's adherence to principles set by International bodies makes Mauritius a neutral, safe and trusted jurisdiction."

You just came back from a mission to China. How do you assess today the economic ties between China and Mauritius?

China and Mauritius enjoy long standing bilateral economic and cultural relations and diplomatic relations were established between the two nations back in 1972. Mauritius is also among the first few countries to have recognized the 'One China' policy. This relation has been nurtured and strengthened with time.

The trend of business activities between the two nations is indeed a vivid proof of this growing relation. China is today one of the main trading partners of Mauritius. Last year, both our imports and exports from and to China increased by over 25% compared to the previous year. China is also an important FDI contributor to our economy and we are already home to a number of Chinese companies across various fields of activities. Mauritius is today among the top 3 sources of FDI to Shanghai. In fact, as at February this year, total FDI to China from Mauritius amounted to around USD 11.8 billion.

My visit to China shows our willingness to further enhance the economic ties between the two nations.

In line with the market diversification strategy of the Government, we are increasing our efforts in China to attract more Chinese citizens to consider investment opportunities across various sectors in Mauritius. We are confident that, with the support of the Chinese Government and business community, business ties between both countries will reach even greater heights. We are also working on the development of the Mauritius JinFei Economic Trade and Co-operation Zone.

We are seeing a growing number of Chinese tourists visiting Mauritius. In fact, since our inaugural flight to Shanghai in July 2011, tourist arrivals figures from China to Mauritius have known robust growth. Last year, the number of tourists arriving from China grew by 38% to cross the 20,000 mark. Since January this year, more than 11,000 tourists have visited Mauritius from China, representing a growth of 71.9% compared to last year's performance for the same period. We are expecting to double the number of arrivals of the Chinese market compared to 2012, and to have more than 40,000 Chinese tourists visiting Mauritius by the end of 2013.

We have also invested in a brand new airport terminal, which will be operational by end of this year. This terminal is being developed with the support of the Chinese Government, and could act as a hub for travellers between Africa, Asia and the rest of the world.

What was the Chinese response to your invitation to use Mauritius as platform to invest in Africa and other parts of the world?

Our strategy is not only to better integrate our country in the world economy but also to consolidate our position as the prime business hub in the region. In fact, our strategic location at the doorsteps of Africa, our association with the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC), our reliable infrastructure and our sophisticated telecommunications network together with our skilled ➤

and bilingual workforce contribute to make Mauritius an ideal bridge for business between China and Africa.

China is today recognized as one of the leading countries with respect to cross border investments, especially with developing countries. The recent visit that President Xi undertook to Africa is indeed a testimony of the importance that China attaches to the developing world.

> *"China is today one of the main trading partners of Mauritius. Last year both our imports and exports from and to China increased by over 25 % compared to the previous year."*

As Africa continues to attract the attention of Chinese investors and traders, we see an increasingly important role for Mauritius to play as the ideal and preferred gateway and access centre for the continent. In fact, our interactions with the business communities in China received a very positive response. Indeed, we are already welcoming Chinese business delegations to Mauritius following the trip.

Mauritius has signed and ratified Double Taxation Avoidance Agreements (DTAAs) with nearly 40 countries. Are there any new countries that Mauritius is targeting or which have expressed an interest to enter into DTAAs?

Indeed, Mauritius has so far signed 44 DTAAs in all, out of which 19 are with African countries. Government strategy has focused into making Mauritius a regional financial and business centre. We recognize the enormous potential of Africa and its rise as an emerging economy. I wish to point out that signing of DTAAs remains a priority for the Mauritian Government with the prime objective to provide a conducive environment for cross border investment flows across countries. Mauritius is presently negotiating with a number of countries with focus on the African continent. To name a few, negotiations are ongoing with Malawi, Tanzania and Morocco. We are aiming in the medium to long term to increase the number of DTAAs with African countries to thirty.

In addition, I wish to point out that Mauritius is also engaged to increase its number of IPPAS which will contribute to establish Mauritius as a platform for investment flows to Africa. To date, we have signed 39 IPPAs out of which 19 are with African countries.

The India-Mauritius Double Taxation Avoidance Agreement (DTAA) is still being discussed. Do you foresee any finalization of the agreement and is there a timeline for the Indian and Mauritian Governments to close the discussions?

A Joint Working Group (JWG) comprising of senior officials from the concerned authorities of India and Mauritius was established in August 2006 with a view to address concerns expressed by the Indian side on possible misuse of the DTAA. In this respect, Mauritius has, so far, taken several measures including the following:

- Indian auditors have been allowed to practice in Mauritius. A Mutual Assistance in Criminal and Related Matters Act has been introduced and provides for requests for judicial assistance.
- The FSC has signed an MOU with the Securities and Exchange Board of India to provide for exchange of Information.
- Mauritius has agreed to the stationing of an officer from the Revenue Department of India for better exchange of information.
- We have agreed to issue Tax residence certificate on an annual basis.

Based on international standards, stringent licensing conditions have already been introduced to ensure that Indian-sourced funds are not re-invested in India through Mauritius.

We are presently holding discussions with our friends from India on how to address certain concerns which they have raised with us, including the Limitation of Benefits clause. We have already concluded a Tax Information Exchange Agreement, based on the OECD model which is ready for signature and we have also agreed with India to extend our assistance in the collection of taxes. In the course of these discussions, we have favoured that both sides can conclude a win-win package that is mutually

➤ acceptable to both countries. We are hopeful to reach closure on these discussions very soon and we are optimistic to arrive at a solution that would be mutually beneficial to both countries.

What measures does your ministry intend to take to enhance the competitiveness of the Mauritius International Financial Centre, especially at a time when International Financial Centres are facing severe public criticism and pressure?

Our recognition by the OECD as a white-listed jurisdiction and our adherence to principles set by international bodies such as FATF, IOSCO, IAIS and IOPS amongst others make Mauritius a neutral, safe and trusted jurisdiction. Mauritius has undergone a detailed peer review by the OECD Global Forum which has assessed whether accounting, banking details of ownership / identity information are available. The OECD has concluded that not only all the elements are in place but it also recognises that Mauritius has in place an exchange of information system which is effective and efficient. Mauritius is also engaging with the United States authorities to conclude a Tax Information Exchange Agreement as well as an Intergovernmental Agreement to become compliant with the Foreign Account Tax Compliance Act and in the process shift to automatic exchange of information.

We have a very robust regulatory framework which adheres to the international norms and requirements, with a view to tracking money laundering and combating terrorism financing and has enacted appropriate legislation in this respect.

Mauritius will continue to expand its network of treaties with several countries as well as doing its utmost to align itself with international standards and practices. More measures will follow regarding bringing more substance to our jurisdiction.

In order to transform our country into a provider of higher value-added services, a wide spectrum of financial products and new laws have been introduced. The recently adopted Limited Partnership Act, Private Pension Scheme and the Foundation Act have broadened the scope of services and activities of the centre. Forthcoming legislations allowing Limited Liability Partnerships (LLP) and non-treaty based funds enjoying tax free status in Mauritius will further complement the product offerings of the jurisdiction. ➤

"Mauritius will continue to expand its network of treaties with several countries as well as doing its utmost to align itself with international standards and practices."

Mauritius is equally rapidly emerging as an attractive platform for capital raising for Africa. Mauritius is at this stage laying more emphasis on substance in the Financial Services Sector. Mauritius is also developing a derivatives market.

Mauritius already meets the Special Data Dissemination Standards (SDDS) and is planning to move to the SDDS+framework. The subscription of Mauritius to the SDDS+ represents a major step forward for official statistics in the country and for those who use these data. Subscription to the standards underscores the strong commitment to transparency in Mauritius, as well as a significant achievement in implementing internationally accepted best practices in statistics.

What are the challenges that Mauritius will have to face as an International Financial Centre and how can these be addressed?

One of the challenges our country will continuously face is to adapt to changes that are occurring rapidly in the global environment. International norms and standards are dynamic and are continuously being reviewed in the light of lessons learnt from different turmoil around the world, more recently we have had the sub-prime crisis and the Euro crisis. Mauritius is continuously reviewing its legislation to make it more in line with international norms and standards.

In order to establish itself as a regional financial centre of international repute, there is need for Mauritius to continuously review its strategies with a view to identify new markets with huge potential. Here we have in mind the potential that Africa has in terms of growth capacity.

What would be your main message to the stakeholders of the Financial Industry both local operators and international investors?

The Financial Services sector of Mauritius is the linchpin of the economy. This sector has high levels of productivity and offers rewarding careers to our youth. This is why the Government will continue its efforts to encourage more substance and graduate towards higher value-added activities in this sector.

The Government, through the BOM, FSC and BOI, is ready to provide the Financial Industry full support to achieve further growth in this sector and work is already under way. Since January, the BOI has organized several road shows to provide a platform for local operators to explore new markets in Africa and Asia and consider new sectors such as structuring of vehicles and financing for mining.

To enhance our position as the platform for investing in Africa, we are further expanding our network of DTAAs and IPPAs, especially with key African countries, to give further competitive edge to our operators.

Nevertheless, as Government, we clearly understand that we cannot progress without the full collaboration of the Private Sector. We have recently implemented the Financial Services Consultative Council to that effect. This council has several sub-committees which are mostly chaired by the Private Sector. Operators, being the first point of contact with clients, are well positioned to provide guidance on the requirements, such as new products, services, legislations, needed to improve the sector's offering and attractiveness.

> *"Mauritius is equally rapidly emerging as an attractive platform for capital raising for Africa. Mauritius is at this stage laying more emphasis on substance in the Financial Services Sector."*

Financial Services Commission
Mauritius

The Financial Services Commission, Mauritius (FSC) - the regulator for financial services other than banking and global business - has emerged as a strong partner for investments in Africa.

Its Vision

To be an internationally recognised Financial Supervisor committed to the sustained development of Mauritius as a sound and competitive Financial Services Centre.

Strategic Plan

The FSC Strategic Plan 2013-2015 aims at making Mauritius a developed, diversified, stable and competitive International Financial Centre in the pursuit of the FSC's Vision and statutory objectives.

To position Mauritius as a jurisdiction of substance with the right balance between regulation and business development, the FSC has an enhanced and balanced Supervision Framework. The pillars of the Framework are the international norms and principles which have a bearing on our prudential regulation and regulation of conduct.

Our Core Values

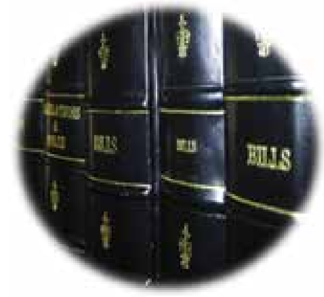
Ethical Behaviour

Professionalism

Compliance

Team Work

The FSC is committed to maintain a robust regulatory framework to preserve the good repute of Mauritius. Creating an environment of transparency, stability, and predictability provides the right platform to investors for doing business.



The Legislation

- Companies Act 2001
- Trusts Act 2001
- Protected Cell Companies Act 1999
- Limited Partnership Act 2011
- Foundations Act 2012

- **Financial Services Act 2007**
- **Insurance Act 2005**
- **Securities Act 2005**
- **Private Pension Schemes Act 2012**

- Financial Reporting Act 2004
- Financial Intelligence and Anti-Money Laundering Act (FIAMLA) 2002

International Norms and Standards adhered to:

- International Organisation of Securities Commissions (IOSCO) principles
- International Association of Insurance Supervisors (IAIS) core principles
- International Organisation of Pensions Supervisors (IOPS) principles
- Organisation for Economic Cooperation and Development (OECD) principles
- Financial Action Task Force (FATF) recommendations (AML-CFT)

Assessment programmes and reviews:

Peer reviews [Reports on Observance of Standards and Codes (ROSC)]

Assessment by SADC in the context of the 'Harmonisation of the Insurance & Pensions Legal Framework' of all CISNA jurisdictions

FSAP assessment of the jurisdiction in compliance with the Insurance Core Principles (ICP's) of the International Association of Insurance Supervisors (IAIS)

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Achieving Regulatory Balance in the Changing Financial Landscape

In all modern economies, the financial sector is subject to regulation and supervision, and while the specific objectives and nature of regulation often vary from country to country, the importance of regulation can never be overemphasised as regulatory framework can insure social stability.

The Financial Services Commission (FSC) was set up in 2001 as an integrated regulator for the non-bank financial services - insurance, securities, and pensions - and global business sectors. Over the years, the FSC continues in fulfilling its statutory functions, addressing many of the main issues and tasks confronting it in order to achieve progress and recognition both internationally and domestically.

The world has recently experienced the most severe financial crisis of modern times and current market conditions, particularly in the Euro zone, are far from reassuring. The regulatory system may not be identical in all countries, varying from highly integrated, fragmented or anything in between. Whilst there is plenty of room for debate about the merits of different regulatory structures, first and foremost, it is important that confidence of all stakeholders in the system is maintained. The crisis has also presented regulators with an opportunity to effect significant changes such that operations can be at a greater level of efficiency once into the post crisis period. To this end, the FSC, while fostering the integrity, stability and health of the financial services sector, has embarked on a number of initiatives that will contribute in paving the way for the modernisation and development of our financial markets and of the Mauritius International Financial Centre (IFC).

Sustaining credibility, predictability and stability

The FSC's enhanced and balanced supervisory framework is geared towards the development, diversification and improved competitiveness of the financial services sector, while ensuring stability.

Initiatives started under the current strategic plan a few years earlier, are starting to show positive results and span over two broad areas namely international recognition and visibility and internal restructuring for enhanced performance.

The Organisation for Economic Co-operation and Development (OECD) has always recognised Mauritius as a trusted, transparent and well-established International Financial Centre. Despite its small size, Mauritius is dynamic, diversified and fully integrated into the world market and has an efficient system for exchange of information.

The views of the OECD were reconfirmed in 2012 when the FSC signed the International Organization of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding (MMoU) which sets out an international benchmark for cross-border cooperation, critical to combating violations of securities and derivatives laws and, provides a common understanding amongst its signatories about how they will consult, cooperate and exchange information for securities regulatory enforcement purposes. ➤

➤ To qualify as a signatory, the regulator has to undergo screening by the IOSCO with regard to legislation related to the exchange of information with foreign authorities and obtain certification of its ability to implement information exchanges based on the MMoU. The signature is a major step forward toward enhancing our international cooperation and it was only made possible after amendments were brought to the existing legislative framework to facilitate information exchange (including banking information), technical cooperation and investigative assistance.

The IOSCO is not only the standard setter for securities regulation but also the leading international policy forum for securities regulators. Becoming a signatory testifies the fact that the FSC meets the international standards expected of a Securities regulator. Our experience, since then, has shown how cross-border cooperation and exchange information for securities regulatory enforcement purposes, among signatories, are useful to combating violations of securities laws.

The regulatory agenda for financial services are now being set at an international level. As a member of the IOSCO, the International Association of Insurance Supervisors (IAIS) and the International Organisation of Pension Supervisors (IOPS) which are standard setters for Securities regulators, Insurance supervisors and Pension regulators respectively, the FSC closely monitors the discussion and developments to ensure that we have the knowledge to implement the standards as they emerge. The FSC plays a more active role in IOSCO as an active member of the Committee 1 - Accounting, Auditing and Public Disclosure and in CISNA (Committee of Insurance Securities and Non-Bank Financial Authorities), the regional grouping of regulators of SADC (Southern African Development Community) member countries. Through this regional cooperation, the FSC hosts attachment programmes and visits from representatives of African regulators interested to learn about the Mauritian experience. Sharing of knowledge and expertise contributes to the building of relationships and harmonisation of supervisory mechanisms to regulate the non-banking financial and global business sectors and hence achieving regional economic development.

Delivering on our objectives

Framing the operating environment

The experience of the past few years has shown that the choice of methods, priorities and timing for execution are important. Overzealous regulation stifles entrepreneurship and a disproportionately high risk weight due to overestimated risks constricts economic growth. The FSC endeavours to provide the right platform to investors for doing business by striking the right balance between relevant and fair rules and enforcement whilst striving to keep the cost of compliance to a reasonable level. In addition, differing regimes across the financial services sectors engender counterproductive regulatory arbitrage which can be avoided by a balanced and cost-benefit analysis approach to regulation.

Regulation

As an integrated regulator, the FSC ensures that its system is able to deliver a stable equilibrium of prudential and conduct supervision. The FSC not only looks at the safety and soundness of institutions with a focus on risk, governance, capital and liquidity amongst others, but also emphasizes on how consumers are impacted by the actions of financial institutions. The overarching objective remains delivering an effective regulation.

Effective regulation requires strong powers, best-practice rules and standards, appropriate skills, a flexible risk-focused approach to supervision, and acceptance by regulators, government, and the community generally of the need to take enforcement action against institutions and individuals who do not comply with the law. To this effect, the powers of the FSC were increased with the view to improve compliance with the Code of Corporate Governance and reporting. The enabling Acts under which the FSC operates mandate it to take action against not only the licensees but also individuals acting on behalf of the licensees. A circular letter was issued this year to remind directors of licensees and reporting issuers of their duties and obligations under the law. The FSC is continuously reinforcing its regulatory skills and approach ➤

➤ and building on its capacity to regulate and supervise.

The Global Business Licence is an important clearance to ensure only the right businesses operate in our global business sector. Appropriate screening is performed at licensing so as to allow only fit and proper businesses to function within the regulatory purview of the FSC. On this token, a harmonized Code on the Prevention of Money Laundering and Terrorist Financing and a Guide to Global Business were issued at the beginning of 2012. While the Code ensures a coherent understanding of the AML/CFT (Anti-Money Laundering and Combating the Financing of Terrorism) compliance by all licensees, it also provides that operators in the Mauritius jurisdiction understand their obligations at all times and observe good business practices.

Enforcement

Whilst some regulators adopt an enforcement-led approach and direct a significant portion of resources to enforcement activities, other regulators are more geared towards work done in 'prevention' rather than ex-post enforcement actions. The FSC adopts a prevention model with greater emphasis on a robust licensing framework and continuous supervision. The FSC endeavours to prevent and identify problematic issues early in the regulatory process.

However, despite a stringent licensing framework, cases do arise when an investigation has to be carried out. Investigators are appointed and, where appropriate, notice of appointment of the investigators is sent to the firm or individual, as quickly as practicable. Such investigations may include, request for documents or information and interviews of witnesses and subjects. The firm or individual who is subject to investigation may make written or oral representations. Following the investigation work, there is an internal legal review of the case before an enforcement decision is made. While in most cases, the FSC does not publicise its investigations, the outcomes may be made public where appropriate.

Surveillance

As the regulator, we cannot compromise on regulatory standards or the exercise of surveillance. During the previous year, the FSC reinforced both its onsite and offsite surveillance and increased enforcement actions. The FSC adopts a risk-based supervisory (RBS) framework which ensures that the limited resources are efficiently allocated to the most risky businesses, in view of maximising the desired impact. The RBS framework also allows for continuous monitoring of risks through effective tracking and reporting systems. Moreover, systemic risks posed by companies are regularly monitored through researches and studies. Furthermore, the FSC operates in a matrix formula leveraging on project management techniques to ensure right mix of skills in the right projects at the right time.

Competitiveness

There is a general view that costs of compliance should not be onerous or different to other jurisdictions. While it is acknowledged that cost of staff is problematic (and finding good quality staff is difficult) as well as a significant component to the supervisory costs, the FSC has improved significantly its effectiveness and efficiency through capacity building and by streamlining its structure and processes. While most stakeholders are familiar with the Board, the Chief Executive and other members of the FSC's management team, many do not understand the way the organisation operates and the importance of examiners / compliance officers as drivers of the effectiveness of the organisation. The FSC is the whole team of individuals who works as one to deliver on the vision and preserve the reputation of the Mauritius IFC as a safe and transparent jurisdiction.

Communications and consumer protection

In its business model, financial inclusion and consumer protection is viewed as one of the pillars of financial stability and development. The FSC adopts a comprehensive approach to consumer protection as an important complementary role to prudential regulation in mitigating risks. This includes maintaining a conducive regulatory environment in terms of laws and regulations which provide adequate protection to consumers. In terms of regulation of conduct, the FSC undertakes supervision to ensure responsible behaviour by financial institutions.

A well-functioning consumer protection regime provides effective safeguards for ➤

retail financial services consumers while empowering consumers to exercise their legal rights as well as fulfil their legal obligations. Under its fair market conduct regulation, the FSC is focusing on the three main components that make up the market that is people, processes and products. To ensure the market meets the required standards in terms of conduct, the FSC has embarked on the competency framework for the sector. This entails ensuring employees of licensees dealing with consumers possess the right qualifications, skills and experience. Furthermore, it is imperative for all operators in the financial services sector to abide by a Code of Conduct.

A consumer protection regime that relies on full disclosures may mean very little to consumers that have neither the capacity to understand the disclosures, nor the ability to exercise the appropriate choice between the products being offered. All financial products contain risks and also offer rewards. The FSC is working on Guidelines for the Advertising and Marketing of Financial Products to ensure customers are treated fairly when seeking information on financial products. Service providers must ensure disclosures are explained to the customer in such a manner that allows the latter to understand the returns, implications and risks involved and subsequently make informed decisions.

The FSC practises proactive regulation aimed at informing consumers of their rights and how to safeguard their interests. Thus, the FSC regularly posts alerts on its website to inform consumers about fraudulent operators and issues such as misuse of social networks and the internet to commit financial crimes. As part of its dispute resolution mechanisms, the FSC attends to the complaints of consumers of financial services. Information collected forms part of the intelligence gathering process and is useful in determining future regulatory actions.

In line with the inclusive and consultative approach to regulation adopted by the FSC, regular consultations / communication with stake-holders, industry partners and professional associations are carried out. Feedback received shows that our 'Outreach sessions' and current communications are perceived as being of high quality and positively assessed.

Looking forward

The quality of regulation is a crucial determinant of the competitiveness of the financial markets to which it is applied. Realising balanced regulation is easier said than done. It requires continuous effort at every level. One major question is how consistently regulatory reform will be implemented globally. If it is inconsistent, regulatory arbitrage may continue to fragment overall financial system stability.

However, what should be evident by the current and recent changes brought to our regulatory and supervisory framework for financial services is that Mauritius remains a progressive, responsive and innovative international financial centre of repute committed to increasing its value proposition to clients. This commitment is no more evident than in the comprehensive and focused consultative process that is followed year after year in creating the best regulatory and business environment in Mauritius.

CLAIRETTE AH HEN
Chief Executive
Financial Services Commission.

Mauritius

A place to nurture your business

Mauritius' multilingual population, political stability and reliable legal framework have provided for sound financial regulations and a healthy economic climate. Based on robust industry pillars, Mauritius has a diversified and innovation-driven economy which offers a competitive investment platform for your business.

Mauritius ranks:

- 8th globally and 1st in Africa – Heritage Foundation Index of Economic Freedom 2013
- 19th globally and 1st in Africa – World Bank Ease of Doing Business Report 2013
- 1st in Africa – Mo Ibrahim Index of African Governance 2012
- 18th globally and 1st in Africa – Democracy Index 2012
- 20th globally – The FutureBrand Country Brand Index 2012-2013
- 2nd globally – WHO Air Quality Index 2011

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Mauritius, the Financial Crossroads of the World

Mr. Rundheersing Bheenick, Governor, Bank of Mauritius, delivered a lecture at the invitation of the Official Monetary and Financial Institutions Forum (OMFIF) in London. His talk examined the early development of Mauritius, the emergence of Africa and the role of small IFCs in the wake of the Cyprus tragedy. Due to space constraints we are reproducing here an extract on the case for small IFCs. The full version is available on the Bank's website at www.bom.mu.

I. The case for small IFCs, offshore banking and tax planning facilities.

Small jurisdictions seem to have a comparative advantage as IFC's. Historically, partly at least because of their size which limited other economic activities, small states have been more open to the world. This has allowed them to exploit emerging niches and embrace global trends more rapidly than bigger countries. They have proved to be more flexible than bigger economies and have adapted more easily to changing circumstances. Both their populations and their GDP are but a tiny fraction of world population and world GDP. Faced with limited options for development, many sought to become Offshore Financial Centres (OFC's). OFC's are generally defined as small, low-tax jurisdictions specializing in providing corporate and commercial services to non-resident offshore companies and for the investment of offshore funds. However, abuse in some jurisdictions has too easily and mistakenly fed the perception that OFC's are tax havens. Unsurprisingly, OFC's are the object of constant attack, especially from the OECD and the G20. They seem to have spawned a cottage-industry of specialists regularly taking potshots at OFC's.

We cannot ignore the fact that small country IFC's play an important role as conduits of cross-border capital flows and investments. It is estimated that as much as half the world's capital flows go through offshore centres. An estimated £13-20 trillion is hoarded away in offshore accounts. Small country IFC's, with a little over 1% of world population, hold 26% of the world's wealth, and 31% of the net profits of United States multinationals transit through them.

II Cyprus: the knell for IFC's?

There is no denying that the reputation of small country IFC's has taken a severe blow in the wake of the Cyprus crisis. Cyprus incurred direct losses of the order of EUR 4 billion or 23% of its GDP. The mind boggles at the thought of our economies taking such a big hit because of malfeasance in our offshore banking activity. The austerity cure, imposed by the Troika, and the population's reaction to it has added new jargon to the language of economic discourse. The thought of being "cypressed" strikes fear in the mind of policy-makers in all small countries, not just IFC's. For most IFC's, such a possibility is extremely remote. Some attributed the crisis to the fact that the Cypriot banking sector was disproportionate to the size of the economy. This led to the policy prescription of a quantitative limit on banking assets of 3.5 times of GDP, arbitrarily proposed at the EU level. With the benefit of hindsight, we can assert that such a limit would not have prevented the kind of problems encountered by Cyprus. The truth lies in the fact that Cyprus was excessively exposed to Greece on the assets side and to Russia on the liabilities side.

The lesson drawn from the Cyprus episode is not that IFC's have to slim down. I would rather argue that small country IFC's need to exercise care in the conduct of their business, appropriately assess potential sources of risk and better manage their asset and liability mix. Both of these points are clearly illustrated in the next two tables, which compare Cyprus banking ratios and financial soundness indicators, with three other offshore jurisdictions including Luxemburg and Mauritius. Malta and Luxemburg have 8

times and 17 times of their GDP, respectively, by way of banking assets. But their FSI's in Table 2 show that they had a more robust banking sector, as reflected for example by their non-performing loans – less than 0.5% for Luxemburg while it was nearly 16% for Cyprus. The case of Luxemburg provides ample evidence of the solidity of the banking sector of a country even when its banking assets represent 17 times its GDP. The short story is that the Cyprus episode does have lessons for other jurisdictions but it has no immediate relevance for most of them because they do not run their banking and finance the way Cyprus did. It certainly does not mark the end of the road for solid, transparent, well-regulated IFC's.

Table 1: Selected IFCs: Some Key Ratios

% of GDP	Cyprus	Malta	Mauritius	Luxembourg
International Banking Assets	206	494	170	1,212
Domestic Banking Assets	466	295	112	362
Total	672	789	282	1574

Source: FSI Database, IMF; Fitch Ratings Communiqué, Bank of Mauritius

Table 2: Selected IFCs: Some FSIs

%	Cyprus 2012Q3	Malta 2012Q4	Mauritius 2012Q3	Luxembourg 2012Q4
Regulatory Capital to Risk-Weighted Assets	9.41	14.31	17.20	19.05
Non-performing Loans to Total Gross Loans	15.51	8.09	3.78	0.34*
Interest Margin to Gross Income	87.81	62.28	65.17	10.42
Non-Interest Expenses to Gross Income	89.53	45.70	38.61	30.78
Liquid Assets to Total Assets	22.37	28.83	16.36	58.13
Liquid Assets to Short-term Liabilities	28.17	49.09	25.12	68.63

Source: FSI Database, IMF * Latest available

III. Mauritius and its homegrown model of an IFC.

The Mauritius banking sector assets are less than three times our GDP, lower than in the sample, and evenly divided between domestic and offshore assets. The FSI's show a sound banking sector, well-capitalised and nearer Luxemburg on most measures with, for example, non-performing loans at less than 4%, half the level of Malta, and regulatory capital to risk-weighted assets at 17%, very close to Luxemburg's 19%. We started on our offshore journey in 1988. An earlier attempt, a decade earlier when the economy was about to go into intensive care, proposed by a Caribbean consulting company unashamedly calling itself Tax Haven International, was shot down by the IMF which had been called in to advise on the matter. By the late 1980's, we had emerged from the tutelage of the Bretton Woods institutions and a bevy of stabilisation and structural adjustment programs. The economy was fitter and on the lookout for new engines to power the next stage of growth, to add to sugar, export manufacturing and tourism which were all doing well.

We drew on different models as we set about developing, in a phased manner, our home-grown model. This has proved to be more resilient than some of the models that inspired us – not least because our financial sector benefited from an increasingly-diversified and growing real sector and from a multilingual pool of professionals in accounting, law, management, and finance. Financial Intermediation today provides more than 2% of the total employment in the country and the trend is on the rise.

We developed an extensive network of Double Taxation Avoidance Agreements (DTAA) and Investment Promotion

and Protection Agreements (IPPA) with several countries, both developed and emerging. Our strategic location in the Indian Ocean proved to be an added advantage which enabled us to carve a niche in the region. When India started major economic reforms in the wake of the 1991 balance of payments crisis, Mauritius which had signed a DTAA with India years earlier, seized the opportunity to emerge as the largest conduit of foreign inflows to India averaging 43% of total inflows into the Asian giant over the past decade. The most important provision in the DTAA between India and Mauritius has been that the capital gains earned by a company resident in Mauritius on disposal of shares of an Indian company are tax-exempt in India. As a consequence, Mauritius has enjoyed a prominent place in tax treaty planning of private equity players, multinationals, and global fund houses investing into India.

We adopted high standards of rigorously-enforced regulation proposed by the Financial Action Task Force, the Organisation for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF). We go beyond merely applying those international norms; we are also committed and cooperative partners in compliance legislation. Our efforts paid dividends – OECD placed us on its white list which means that our jurisdiction has substantially implemented the internationally-agreed tax standards. More recently, we have initiated consultations with the US Revenue Authority to become FATCA-compliant. Mauritius has also adopted tax information exchange protocols to allow foreign countries to investigate suspected tax evasion.

As a small, isolated, island, we lost no opportunity to join regional economic groupings. When some of our needs were not met by existing bodies, we set about creating others, and two of these are actually headquartered in Mauritius. Mauritius joined the Common Market for Eastern and Southern Africa (COMESA), having been a founder-member of its precursor, the Preferential Trade Area. We joined the Southern African Development Community (SADC), at the same time that SADC opened its doors to post-apartheid South Africa. We initiated the short process that culminated rapidly in the establishment of the Indian Ocean Commission in 1982 and the bigger Indian Ocean Rim Association for Regional Cooperation in 1995. We are committed to be an active player in regional cooperation. The Bank of Mauritius serves as the Settlement Bank of the Regional Payments and Settlement System of COMESA. Mauritius hosts AFRITAC (South) – the 4th regional technical assistance centre of the IMF in Africa. The COMESA Fund and the Africa Training Institute of the IMF will soon start operations in Mauritius. The day is not far when Mauritius will obtain observer status in the Eastern African Community and ASEAN. Our vision to become a bridge between rising Asia and Africa is something that we have been patiently working on for several decades. A visible outcome is the fact that nearly half of our GBCs have been used as vehicles for investment in Kenya, Mozambique, Zimbabwe and South Africa.

Our banking sector

Little did we know how radically we were going to transform the financial landscape when we adopted in 1988 banking legislation to enable offshore banking. That was just 25 years ago. We then had 13 banks, all involved in domestic banking. By 1998, the numbers had changed to 10 domestic banks and 9 offshore banks. The sector was quite dynamic. By 2002, after some consolidation, there were 10 domestic banks and 12 offshore banks when there were also 221 offshore funds and around 19,350 Global Business Licence (GBL) Companies. The offshore banks employed around 170 persons and their assets amounted to 94% of our GDP. In 2005,

➤ we distinguished ourselves from other OFC's by introducing a single banking licence. We adopted Segmental Reporting requiring the disclosure of financial information on two distinct segments of banking activity – Segment B for banking business giving rise to "foreign source income", and Segment A for all other banking business. Today, we have 21 banks operating in our jurisdiction, all involved to varying degrees in cross-border banking activities. Some have extended their footprint beyond our shores, setting up operations in the region. Our banking sector assets represent around 3 times our GDP. There were nearly 25,000 GBL companies and their deposit base at the end of 2012 represented around 39% of total banking deposits. There is a long way to go before we reach the size of other small IFC's.

Our banks perform well and have proved to be very resilient. They have contributed in no small measure to the resilience of the Mauritian economy. The robustness of our banking sector is itself the result of prudential measures adopted in a timely manner over the years. The Global Competitiveness Report 2012-2013 provides a good indication of the health of the sector. It ranks the Mauritian banking sector 15th out of 144 countries in terms of the soundness of banks, and 35th in terms of financial market development. In the ranking of the *African Banker* magazine, seven Mauritian banks figured among the top 100 banks in Africa in 2012. This is no mean achievement if we consider that the Mauritian GDP adds up to a grand total of one-fifth of one percent of African GDP.

I just walked you through some of the initiatives, measures and policies adopted by Mauritius in its quest to become an IFC of international repute. Notwithstanding our best efforts sustained over decades to keep our jurisdiction clean, the Mauritian offshore sector has been constantly under attack, both from official quarters and from unofficial self-appointed vigilantes. India has undoubtedly benefited from increased FDI through the so-called "Mauritius Route". This has not prevented the DTAA between the two countries from regular attacks in the Indian press, which often look suspiciously like part of a "dirty-tricks" campaign by a competing jurisdiction when, that is, they are not being fuelled by holier-than-thou Indian politicians on the campaign trail who scapegoat Mauritius as an expiatory target in their "bring black money back from overseas campaign".

Teflon-like, Mauritius stoically shrugs off these attacks as it does not practice a culture of opacity. Mauritius has always been more than willing to share information with the banking and tax authorities of partner-countries. That is why attempts from various quarters to qualify Mauritius as a tax haven have not succeeded, any more than veiled threats from OECD to put Mauritius on its grey list. Many cling to the view that all IFC's are tarred with the same brush and perpetuate the myth of Mauritius, the tax haven in the Indian Ocean. Mauritius is a global facilitator with unparalleled transparency, and serious credentials, and not the answer to round-tripper's dream.

IV. Mauritius - an IFC with a difference

The challenge confronting Mauritius now is perhaps its toughest since it embarked on the offshore business a quarter century ago. It is one thing to be a competitive back-office hub and an efficient conduit for capital flows to India and Africa, but it is quite another to become a significant value-added platform, effectively enhancing South-South trade and investment. The name of the game now is greater substance and more value addition. Depressed conditions in the crisis-hit West, coupled with slowdown in India, have forced Mauritius to target other markets to grow its export of goods and services. Fortunately, the next growth frontier that is Sub-Saharan Africa is just next door. Africa has definitely turned the corner.

What does the future hold for Mauritius?

Before Mauritius can move up the value chain, it needs to recognize its limitations. It is a small country, with limited resources and it needs to do things differently. Mauritius cannot afford to be a common, garden-variety, IFC, undistinguishable from a dozen others. It must seek, at all times, to be increasingly an IFC with a difference. For this to happen, it needs both scope and scale. To add value, it needs foreign investors not only to invest through Mauritius but increasingly with Mauritian investors. And for this to happen, we need to show substance by bringing both knowledge and seed capital on the table. Mauritius can become the ➤

private equity vehicle of choice for small- and medium-scale projects in the Eastern and Southern parts of Africa within sectors where it has a comparative advantage.

The country does not have the know-how or financial clout to finance oil exploration, power plants, aluminum smelters or mining projects. But, it has already demonstrated that it can be the ideal vehicle for such investments as medium-sized clinic in Uganda, a bank in Kenya, a sugar mill project in Tanzania, a stone-crushing plant in Sri Lanka, or textiles in Bangladesh. You do not need huge sums of capital to set up a chicken farm in Madagascar or Mozambique or to offer Mauritian *savoir-faire* to the booming hotel industry of the region. Investors in the big-ticket projects of the continent, who tap the myriad of large US, European and Middle Eastern private equity funds, can still find it convenient to use the Mauritian IFC platform to package, administer and route their investments. But for investors looking for diversification from the same old investment themes, and seeking to capture Africa from the bottom-up, Mauritius can be the ideal platform. Mauritian banks are increasingly interested in forming partnerships with small - and medium-sized banks in the East African Community but their relatively small size and current Capital Adequacy Ratios mean that they need more funding.

There is a strong case to pool together available know-how and seed capital to build the critical mass required for larger projects, diversify risks, and leverage external funding. Mauritius has been toying with the idea of setting up a sovereign wealth fund which could become a source of equity funding for a more aggressive move into Africa. There is scope for increased public-private partnerships, which are still a rare phenomenon on the continent. The African Development Bank has floated the idea of an African Infrastructure Fund, financed partly from central bank reserves. It will be setting up an office in Mauritius this year. There is truly a ferment of investment and finance activity in, and around, Mauritius.

All this leads me to conclude that there are bright days ahead for the Mauritian IFC because it is an IFC with a difference. Its thriving real economy means that offshore activities are only a small chunk of the panoply of activities going on in the country.

Mauritius has made major strides during the two last decades to become a bigger regional financial centre. Compared to other small IFC's, we still have a long road to travel to become what Singapore is to Asia or Luxemburg to Europe. We have always strived to live up to the "fit and proper" image of a reputable jurisdiction. We have tried hard to be a jurisdiction of substance. We can confidently lay claim to be the best in our class, a target that has constantly been in our sights since the very beginning. We collaborate fully with all global stakeholders of the financial world – OECD, FATF, IMF and the like. Current attacks on offshore jurisdictions coming from the G20 do not pose a particular problem as long as there is level playing field across jurisdictions and transparency is upheld through well-coordinated exchange of information. There is no dearth of growth opportunities for the Mauritian IFC from *Aspiring Africa* next door, and the prodigious developments expected in Asia. There is increasing demand for reliable and trusted products and services for efficient tax planning as there is for better packaging and distribution of investments with greater real sector involvement. Mauritius is positioning itself to make the most of these opportunities.

Mauritius: the Financial Crossroads of the world?

Probably not. But quite possibly *a* financial crossroad, along with several others, meeting a real need of investors, savers and corporates from all over the world. Not a bad prospect for a country that was exuding such "*an air of hopelessness*" only half a century ago!

MR. RUNDHEERSING BHEENICK,
Governor
Bank of Mauritius

www.axis.mu

Driving African business through fiduciary expertise and corporate services

Axis is a specialist service provider with expertise in the formation and administration of offshore companies, trusts, and funds.

Axis works closely with BLC Chambers, a leading Mauritian law firm and a member of ALN (Africa Legal Network). We have a specialized range of services for your business and individual needs, both in Mauritius and other jurisdictions worldwide.

Axis Fiduciary is licensed by the Financial Services Commission of Mauritius to act as a Management Company and by the Seychelles International Business Authority to act as a Licensed International Corporate Service Provider and as a Foreign Fund Administrator.

Visit us at www.axis.mu to find out more on how your company can benefit from our expertise.

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Using a Mauritius Trust/Foundation in International Tax & Estate Planning

Although Mauritius is better known as a gateway for the structuring of investments into India and more and more in Africa, it is also increasingly being used by professional advisers and their high net worth clients as a jurisdiction of choice for private wealth management services. The recent enactment of the Limited Partnership Act and the Foundations Act has widened the choice of structures available to wealth management specialists in the context of private wealth management.

Trusts Versus Foundations

Traditionally, "trusts" have been the preferred planning tool in the context of wealth management planning for high net worth families. A well structured trust can be very effective, allowing for a number of advanced tax and estate planning strategies. Trillions of dollars' worth of assets are held through trusts worldwide. Trusts have a very long history – indeed the trust idea originates from the medieval times and personal trust law developed in England at the time of the Crusades, during the 12th and 13th centuries.

Foundations on the other hand are a new-comer to the world of financial services but are being increasingly considered by practitioners in the context of Private Wealth Management and/or for charitable giving. The Private Foundation finds its origin in 1926, when Liechtenstein created the Family Foundation by the Law of Persons and Companies. Today, there are a number of jurisdictions including Mauritius which have enacted a law on private foundations.

Key Features of

Trusts are one of the most important wealth management tools used by the Super Rich all over the world. Trillions of dollars' worth of assets are held through trusts worldwide. This is because a Trust is able to deal with most matters that are relevant in PWM and which include:

- Preservation of family property and protection against risk
- Tax planning (which may include inheritance and / or capital gains)
- Avoidance of forced inheritance laws or probate formalities
- Succession & Business Planning

The Mauritius Trust has all the attributes for use in wealth preservation and management and has been the cornerstone of its PWM offering since 1989 when the first Trust Act (which was an updated and improved version of the English Trustee Act 1925) was enacted. In 1992, the Offshore Trusts Act was enacted to specifically provide for many of the desirable features prevailing in other offshore jurisdictions. In 2001, a new modern and forward looking Trust Act was enacted. The Act contained most of the desirable features prevailing in other offshore jurisdictions but also brought about a number of innovative features paving the way for Mauritius to become an important jurisdiction for estate planning. In particular, the following are interesting features of a Mauritius Trust:

Types of Trusts

The Trust Act allows for the setting-up of a multitude of trust types including fixed, discretionary, spendrift, charitable purpose, non-charitable purpose and sharia compliant trusts amongst others. In respect of charitable Trusts, they may also be set-up to privately benefit one or more persons or objects within a class of persons provided they are not resident in Mauritius. This means that a charitable Trust may be set-up, for example, for the advancement of education the client's children provided that the latter are not resident in Mauritius.

Trust Creation

A trust may be created by a disposition of property intervivos or by will, or by holding property on trust but shall be of NO effect unless created by an instrument in writing. By law, the instrument creating a trust shall contain at least:

- the name of the trustee;
- the intention of the settlor to create a trust, or the declaration of the trustee that he holds property on trust;
- the object of the trust, the beneficiaries or class of beneficiaries, as the case may be;
- the property transferred or held on trust; and the duration of the trust.

Confidentiality

There are no registration or filing requirements for a trust and confidentiality is enshrined in the provisions of the Trusts Act. There can be no disclosure in the absence of a court order and the Trusts Act clearly defines the situations when the Court or the Judge in Chambers shall make an order for disclosure or production of any confidential information

Management & Administration

Every Trust set-up in Mauritius must have at least one qualified trustee which is defined as a management company or such other person resident in Mauritius as may be authorized by the Financial Services Commission of Mauritius. This ensures that all trusts are professionally managed.

Trusteeship can also be split into a Custodian and Managing Trustee and Private Trust Companies may be set-up to act as Trustee for a particular Trust or group of related (underlying) Trusts and which does not need to be licensed as a Trustee.

Professional trusteeship and trust administration services would generally be provided by Management Companies which are specifically licensed by the Financial Services Commission of Mauritius to provide such services.

Protectors

The Trusts Act allows for the appointment of a protector to a Trust to advise the trustee of the trust, and with such additional powers as may be conferred by the trust instrument. Unless otherwise provided in the terms of the trust, the protector shall have the following powers:

- to remove a trustee and to appoint a new or additional trustee;
- to determine the law of which jurisdiction shall be the proper law of the Trust;
- to change the forum of administration of the Trust;
- to withhold consent from specified actions of the trustees either conditionally or unconditionally.
- that the exercise by the trustees of any of their powers and discretions shall be subject to the prior consent of the protector.

Anti-Attack Provisions

The Trust Act includes provisions aimed at preventing a trust from being attacked on the basis of succession rights, marriage or divorce and insolvency of a settlor or beneficiary. This allows a Mauritius trust to be set-up specifically for asset protection.

the Mauritius Trust

Accounts & Records

A Trustee needs to keep proper books of accounts (but no requirement for audited financial statements) and keep its records in Mauritius.

Migration/Redomiciliations

It is possible for a Trust established under the law of another State to change its proper law to that of Mauritius. Foreign Trusts may also where allowed by their proper law to have a Mauritian Trustee.

Tax Planning Opportunities

The Income Tax laws make a distinction between resident and non-resident trusts.

A non-resident trust is a trust of which the settlor and the beneficiaries are not resident in Mauritius. Such trusts are not subject to taxation in Mauritius.

A resident trust is taxable on its chargeable income at the rate of 15% per annum. However resident trusts may apply for a Category 1 Global Business License (GBC1) which results in such trusts being taxable at the rate of 0-3%.

In addition, such trusts may avail of the benefits under the various Double Taxation Avoidance Agreements (DTAA) that Mauritius has signed and ratified with a number of jurisdictions worldwide leading to interesting tax planning opportunities.

Potential Uses of the Mauritius Trust

On the basis of the foregoing, it is thus not surprising that a number of HNWI already use a Mauritius Trust for estate, succession planning and family office services.

A Mauritius trust can be put to a number of possible uses, including but not limited to:

- Accumulation & Preservation of Wealth
- Succession planning
- Asset Protection
- Tax Planning
- Off balance sheet transactions
- Corporate finance/asset financing
- Securitization

Although there are a number of similarities between trusts and foundations, there are also many differences. The Foundation arguably has all the advantages of a trust but very differently to a trust, it is a legal entity in its own right and can therefore own assets directly. This is perhaps the most defining characteristic of a foundation as compared to a trust and perhaps one of the key advantages of foundations over trusts.

Key Features of

Foundations are gaining in popularity and appeals in particular to clients based in civil law territories where they are less familiar with the trust concept. The legal framework in respect of foundations is contained in the Foundations Act 2012 and the following are the key features of a Mauritius Foundation:

Types of Foundations

The Act allows for Foundations to be set-up to benefit persons, a class of persons or to carry out a purpose which may be charitable, non-charitable or both. As is the case for charitable trusts, charitable foundations may also be set-up to privately benefit one or more persons or objects within a class of persons provided they are not resident in Mauritius.

Name of a Foundation

Every Foundation should have a name which has to end with either with the word "Foundation" or a word in a foreign language which has the same meaning as the word "Foundation". Furthermore, a Foundation cannot use the word "limited", "company", "partnership", "Société" or an abbreviation or a translation of these words. The inclusion of certain words which suggests, or is likely to suggest the patronage of the Government, a statutory corporation, a local authority or the Government of any other State requires the consent of the Minister of Finance. The Registrar can also refuse to register names which are undesirable or misleading.

Creation of a Foundation

A Foundation may be created inter vivos or by will. However, a Foundation will not have legal personality unless it is registered and been issued with a certificate of registration by the Registrar of Companies which acts as the Registrar of Foundations. The following particulars extracted from its Charter will need to accompany the application for registration:

- The name of the Foundation;
- The date of the Charter; and any amendment made to the Charter before its submission to the Registrar;
- The purpose and objects of the Foundation;
- The date of the Articles, if any, of the Foundation and any amendments made to them before its submission to the Registrar;
- Name and address of the founder;
- Details of the beneficiaries or the manner in which the beneficiaries may be appointed or removed;
- The name and address of the secretary;
- The name and address of the Council Members;
- The address of the Registered Office of the Foundation;
- The period, if any, for which the Foundation is established.

Confidentiality

Although Foundations need to be formally registered, there is no requirement for the Foundation Charter to be registered but for minimum information extracted from it. Information filed in respect of offshore foundations (i.e. one founded by a non-resident of Mauritius) is not available for public inspection.

Additionally, confidentiality of information is enshrined in the Act and disclosure is permitted in very limited circumstances.

Management & Administration

Every Foundation must have a Council which shall administer the property of the Foundation and carry out the objects of the Foundation. The Council must be comprised of at least one member ordinarily resident in Mauritius. However there is no requirement for that member to be licensed.

A Foundation also needs to appoint a secretary which needs to be an organization licensed by the Financial Services Commission of Mauritius and have a Registered Office in Mauritius.

Management Companies (MCs) which are service providers licensed by the FSC to manage and provide corporate & fiduciary services would generally provide secretarial, registered office and professional councilor services.

Legal Personality

A Foundation duly registered and issued with a certificate of registration by the Registrar creates, in law, an entity with specific juridical personality, enjoying aspects of corporate ability. A Foundation can thus sue and be sued and hold property in its name.

Protectors

The Act allows for the appointment of a protector or committee of protectors by a Foundation. It also allows the Charter to determine what shall be the powers and duties of the protector or committee of protectors.

Anti-Attack Provisions

The Foundations Act includes provisions aimed at preventing a trust from being attacked on the basis of succession rights, marriage or divorce and insolvency of a founder or beneficiary. This allows a Mauritius Foundation to be set-up specifically for asset-protection purposes.

Accounts & Records

A Foundation needs to keep proper books of accounts (but no requirement for audited financial statements) and keep its records in Mauritius at its registered office.

the Mauritius Foundation

Migration/Redomiciliations

It is possible for a Foundation established under the law of another State to make an application to re-domicile in Mauritius as a Foundation established and registered in Mauritius.

Taxation of Foundations

Mauritius income tax law makes a distinction between a resident Foundation and a non-resident Foundation. A Foundation will be non-resident when the founder is a non-resident and all the beneficiaries appointed under the terms of a charter or a will are, throughout an income year, non-resident in Mauritius.

A non-resident Foundation is exempt from taxation in Mauritius. A resident Foundation will taxable on its chargeable income at the rate of 15% per annum but can apply for a Category 1 Global Business License (GBL1). A Foundation with a GBL1 will be taxed at the maximum rate of 3% and will also be able to access benefits under Double Taxation Avoidance Agreements (DTAA) that Mauritius has entered with a number of jurisdictions paving the way for interesting tax planning opportunities.

Potential Uses of a Mauritius Foundation

Foundations have some of the attractions of a trust vehicle and can thus potentially be used for purposes that trusts are used as described above. However, compared to the trust which is a common-law concept, the Foundation will appeal to clients based in civil law territories where they are less familiar with the trust concept.

Because the Foundation is an independent legal person, assets may be directly held by a Foundation unlike a trust where the assets are held by the trustee on trust. This means that foundations may be more appropriate to hold assets which are "wasting" or subject to volatility in value. In traditional trust structures, careful drafting of the trust instrument is often necessary where the purpose of the trust is to hold a single asset such as a business, or exotic assets such as an artwork, an airplane or a boat. Given the trustee's duty to diversify, act prudently, and in the best (financial) interests of the beneficiaries, trustees are often nervous about holding such assets. Foundations may become the preferred vehicle for such assets. It will be possible to establish a Foundation specifically to hold such an asset and the Council will not be subject to the same duties as trustees. The Council's duty will be to ensure the object of the Foundation (namely the holding of the asset) is achieved.

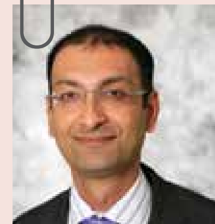
It is also a much more effective financial planning tool for those clients who want to maintain more personal control of the assets. Frequently trust deeds will be drafted with an express reservation of powers in the hands of the settlor of the Trust (or a third party of his choice), the most common power to be reserved being that of investment.

However, case-law has shown the danger of settlor reserved powers, often leading to sham arguments and other problems. Most importantly, the performance by a settlor of a reserved power does not disengage the trustee from its fiduciary duties. The attraction to using a Foundation as opposed to a trust where the power to direct investments is to be reserved is that the overriding duty to monitor the performance of the investment to which a trustee is subject is not one to which the Council of a Foundation will be subject.

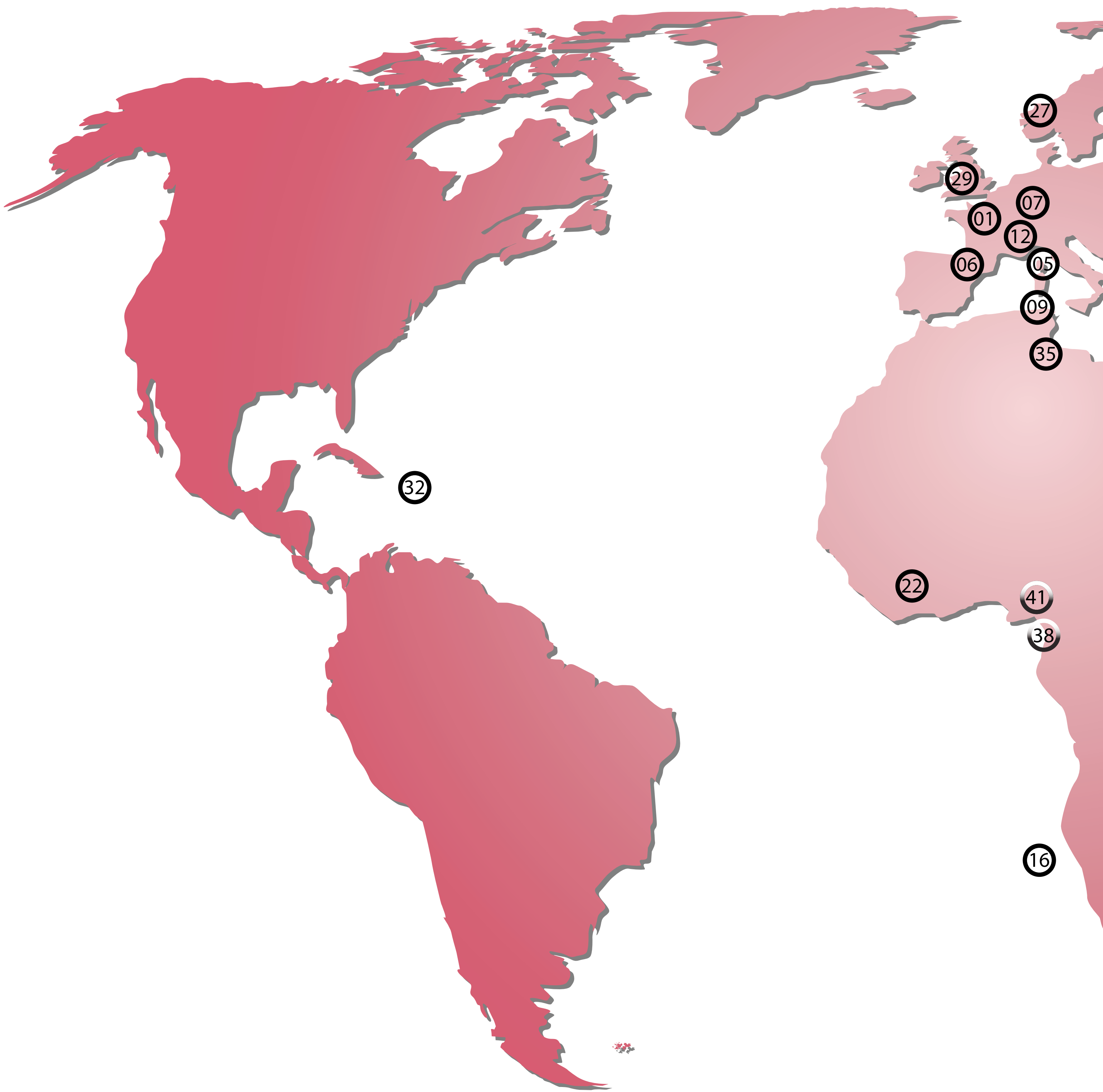
Conclusion

Initiatives on the regulatory front, coupled with the measures and policies implemented by the government and continued innovation have contributed in making Mauritius the undisputed centre for private wealth management services in this part of the world. ■

Note: This article is intended to provide general information only. It is not intended to offer, nor should it be interpreted as offering, legal advice. You must not act upon the matters referred to in it without taking specific advice.



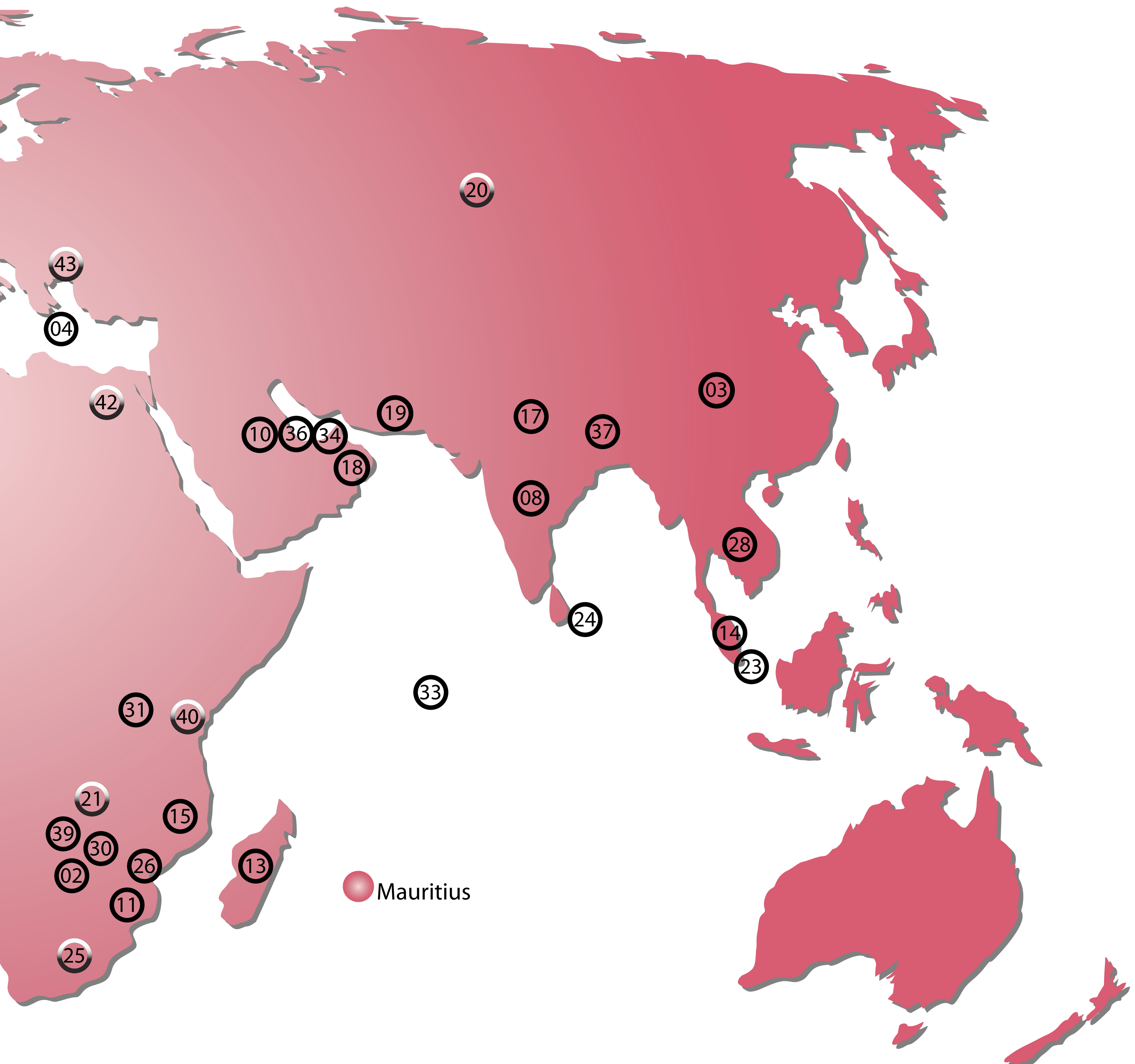
ASSAD ABDULLATIFF is the Chief Executive of AXIS Fiduciary Ltd. Assad holds an LLB (Hons) and an LLM in Business Law. Assad is a full member of the Society of Trust and Estate Practitioners (STEP), a member of STEP Council and past Chairman of the STEP Mauritius branch.



Double Taxation Avoidance Agreements

Key :

1. Belgium
2. Botswana
3. China
4. Croatia
5. Cyprus
6. France
7. Germany (NEW)
8. India
9. Italy
10. Kuwait
11. Lesotho
12. Luxembourg
13. Madagascar
14. Malaysia
15. Mozambique
16. Namibia
17. Nepal
18. Oman
19. Pakistan
20. Russian Federation
21. Rwanda**
22. Senegal
23. Singapore
24. Sri Lanka
25. South Africa**
26. Swaziland
27. Sweden (NEW)
28. Thailand
29. United Kingdom
30. Zimbabwe
31. Uganda
32. Barbados



33. Seychelles
34. United Arab Emirates
35. Tunisia
36. Qatar
37. Bangladesh
38. Republic of Congo
39. Zambia
40. Kenya
41. Nigeria
42. Egypt
43. Monaco

DTAAs awaiting Ratification

Key :

1 Russia
2 Republic of Congo
3 Kenya
4 Nigeria
5 Egypt
6 Monaco
7 Rwanda*
8 South Africa*

Mauritius, A Preferred Destination

A beautiful small island nation, Mauritius is a preferred destination for a growing number of business community and tourists from all over the world. The intentions and interests of the people preferring Mauritius as a destination are varied in sectors such as Banking & Financial Services, Tourism and Education & Knowledge Hub. The Government has been promoting Mauritius successfully in attracting investors, tourists and knowledge partners & students in these sectors, respectively.

Attractiveness

A recent report of the World Bank has placed Mauritius at number 17 among over 150 countries in the "Ease of Doing Business Report" and the first among African countries. Factors such as social, economic and political stability, modern and reliable infrastructure available, the sound legal frame work and simple operational framework make Mauritius an attractive destination. BOI is a one stop shop for investors. There are Business Friendly platforms and setting up business within 3 days is possible. It is an enjoyable place to live and work. The geographical location of Mauritius between two fast growing economies such as Africa and Asia is a distinct advantage. A full working day in Mauritius has also a convenient overlap with some working hours of Asia and Europe in the early part of the day and later part of the day in Mauritius respectively.

OECD (Organization for Economic cooperation and Development) has placed Mauritius on its "white list" which indicates that the internationally agreed tax standards have been substantially implemented. The financial crisis of 2009 had only a low adverse impact on the economy of the island due to prudent policies and steps that have been taken earlier. The World Bank and other international observers appreciate the sound economic policies which have led to balanced growth and inclusive development. There is a growing list of countries with whom Mauritius has Double Taxation Avoidance Agreements (DTTA) and also Investment promotion and Protection Agreements (IPPA).

Economic growth

Mauritius is one of the fastest growing economies and highest GDP per capita in sub Saharan Africa and is emerging as a fast growing economic center in the region. The mono crop economy heavily reliant on export of sugar has been transformed into a diversified vibrant economy having ➤

pillars such as banking & financial services, tourism, Information & Communication Technology and export oriented manufacturing.

The contribution of the Financial Sector to the economy in Mauritius is quite significant. Banking, Insurance, Capital Markets, offshore and other Financial intermediary components have undergone the needed changes to keep pace with the globalization. The financial sector contributes about 13 % of the GDP and is growing at an average rate of over 8 % per annum. Mauritius has emerged as an International Financial Center (IFC) with a difference based on a solid, transparent and well regulated system.

This is a preferred destination of Multinationals, International Banks and Financial Institutions, Global Investment Funds and Private Equity Players. Investor friendly environment, 100 % foreign ownership, low tax rate of 15 %, tax free dividend, no capital gains tax, free repatriation of capital, dividend and profits have encouraged a large number of players to make Mauritius a right investment location. These foreign firms have shown their confidence in Mauritius.

The reforms carried out in the financial sector in 2006 have attracted sizeable FDI in Mauritius. For two decades till 2005, the FDI was about Rs one billion per year. It jumped to Rs 40 billion in the year 2006. It was Rs 9 billion in 2009 and Rs 14 billion in 2011. The steady stream of FDI continues with recent figures at Rs 2.7 billion for the first quarter i.e January to March 2013.

The other prominent sectors contributing to the thriving economy are Tourism, ICT, BPO, Construction, Textiles & Garments, manufacturing, Exports, Seafood industry, Healthcare, Knowledge and so on. Present inflow of tourists is around 94 0000 per year. The sum is expected to double by the year 2020.

➤ Foreigners find Mauritius attractive for doing business for various reasons stated above. Availability of professionals, qualified persons who speak English & French is yet another advantage. The population of multicultural origins such as India, Europe, Africa, China is friendly. The work culture is moving toward 24x7 economic model needed for the ICT & BPOs.

With all that has been said above along with an abundance of natural beauty, greenery, landscape dotted with mountains, beautiful beaches, tropical forests, the island is truly a paradise.

No wonder, the national Coat of Arms describes the country as **The Star and The Key of The Indian Ocean.** And now it legitimately wishes to position itself as a regional Knowledge Hub.

Towards a Knowledge Hub

Mauritius is fast emerging as regional Knowledge Hub or Education Hub and gateway to foreign students. There is a potential to become a center for higher learning and excellence. Offering, open and distance learning, *e-learning* to the rest of the African countries is a potential growth area. Amity Institute of Higher Education (AIHE) is attracting a large number of students from Mauritius and African Countries as well as other Asian countries. And Amity is not the only tertiary institution present in Mauritius. The Government aims at attracting 100,000 students by the year 2020. This will require a major leap frog from the present strength of just around 1500.

The concept of promoting a country as an Education Hub has been successfully implemented by countries/cities such as Singapore, Dubai, Malaysia, Hong Kong, South Korea, Qatar, and the republic of Panama. These countries pose a huge challenge to Mauritius in becoming an Education Hub. Most of these competitors are not too far from Mauritius and have the early mover advantage. The secrets of their success are not difficult to understand at all. One can appreciate the 3 major success stories in Singapore, Dubai and Malaysia.

Singapore has about a 100,000 students at present and is aiming at becoming a "Global schoolhouse". The education sector market there is estimated at US $ 3.7 billion. It is poised to become a global talent hub by attracting more students, faculty, researchers and professionals. They have been building industry relevant capabilities through the education programs aligned with various economic sectors. "Universitas 21" has placed Singapore at serial number 11 among 45 countries in terms National Higher Education System. The parameters on which the ranking is done are – resources, environment, connectivity and output.

Neighboring country Malaysia is not far behind, in terms of number of students which is estimated at 90,000 at present. They have an ambitious aim of taking the number to 200,000 by 2020. They have two locations where the infrastructure is available. One is the capital of the country which has Kuala Lumpur Education City (KLEC) which spreads over 500 acres and the other is Educity at Iskandar near Joha Baru.

Dubai offers facilities at Dubai Knowledge Village (DKV) and Dubai international Academic City (DIAC). Excellent infrastructure there includes 18 million square feet campus. Dubai has attracted 37 branch campuses of foreign universities and students of 137 nationalities pursuing over 400 higher education programs.

A student hub arranges various events such as sports, social cultural events for students and looks after their visa requirements. Besides the academic institutions, there are about 450 foreign firms specialising in the areas of Human Resources, Research & Development, training and consultancy. Some of the common factors behind these successful education hubs are infrastructure, hostel accommodation, land at concessional price, research infrastructure and funding for research. ■

DR. DHANANJAY KESKAR
Director
Amity Institute of Higher Education (AIHE) Mauritius

B.E. (Mechanical), MBM (AIM, Manila), Ph.D, FIMA
Dr. Keskar has 28 years of top level corporate experience. Four management cases developed by him are accepted by ECCH (European case Clearing House). Dr. Keskar has also been recognised as Fellow by ALL India Management Association.

Congratulations to GFM for the first issue of this journal. With the mandate of GFM in mind, which is to speak on behalf of the industry, we thought it could be interesting on this occasion to ask a few of our global business clients to briefly describe the activities they are carrying out in Mauritius through their GBC1 and with the help of ABAX.

We are convinced that building awareness on the wide variety of business activities that GBC1s are already carrying out will help dispel misconceptions about the sector. It can give a broader and more realistic picture of how the attributes of our international financial centre are helping these companies do business more effectively here and in other countries where they operate.

While these snapshots do justice to our jurisdiction as a well regulated and competitive hub, they also underscore the ABAX role in enabling these companies focus on their core activities. Our primary role was traditionally to take care of our clients' fiduciary, administrative and compliance requirements. However, over the past few years, we have been consistently adding to this and we are now very proud to have successfully contributed to the setting up of more elaborate operations in Mauritius for numerous clients.

Beyond the traditional activities of trading and investment holding, our clients have been using their Mauritius companies as regional headquarters often providing services to other group entities, such as the running of sales offices, procurement offices, providing treasury services, payroll and HR administration and Intellectual Property services. We have also been advising clients and assisting them to source trade finance or other forms of finance from banks and other institutions, to list on the Mauritius Stock Exchange, or providing them with IT services and hosting of their servers in our data centre.

RICHARD ARLOVE
Chief Executive Officer of ABAX

Last but not least, we have also assisted some of our clients in relocating their own personnel to Mauritius, as well as in actively seeking and seizing opportunities on the local market as proof of their being part of the Mauritian economy.

AFGRI is a leading listed South African Group specialised in agriculture and food. The company is active across the continent where it is constantly on the lookout for new business opportunities. AFGRI is focused on the revival of the continent's agricultural sector and is specifically interested in making a contribution towards food security for Africa by expanding its core grain-based footprint across the continent.

A strategic decision was made by AFGRI to effectively manage its international business from Mauritius. AFGRI established a dedicated business development team to drive its expansion into the rest of Africa just short of two years ago. This initiative reached a milestone when AFGRI Mauritius Investment Ltd opened its doors in Black River Business Park on 1 June 2013.

AFGRI has decided to utilise its dormant subsidiary in Mauritius to house its expansion initiatives for the continent. Many international players have approached AFGRI to become their enabling partner into the agricultural industry of the continent as AFGRI is considered to be a well-defined, experienced, focused and integrated operator in the agricultural space.

➤ Access to dedicated funding for the development of the agricultural industry in Africa will be enhanced by using the Mauritius jurisdiction as most of the challenges non-investment grade countries face are removed and investors can invest in an integrated agriculture business with interests in many African countries.

Mauritius does not have any exchange control regulations. A treasury function will be put in place in Mauritius to manage and control the financial assets and liabilities of the combined investments of AFGRI on the continent.

A centralised services function for all AFGRI's continental operations may also be set up at a future date, should it be considered viable. In the same vein, AFGRI is looking to set up AFGRI Mauritius Financing, a subsidiary that will provide finance to support equipment rental to farmers in countries where AFGRI does not have direct lending capability.

In summary, AFGRI realises the untapped agricultural potential in Africa and recognises that its presence in Mauritius can help the Group play a key role in the revival of agriculture on the continent.

Arysta LifeScience

Founded in 2001, Arysta LifeScience is one of the world's largest privately held crop protection and life science companies. It focuses on the development, marketing and distribution of innovative, high-quality chemical solutions for today's dynamic agroscience and health and nutrition science marketplace. With a focus on emerging countries and niche markets, Arysta LifeScience manages a portfolio of more than 200 active ingredients. In addition to its Tokyo headquarters, the company maintains more than 40 offices and subsidiaries that serve 125 countries worldwide.

As a group, Arysta LifeScience organises its business in many business units, one of them being the Africa and Western Europe business unit which is managed from Mauritius. Initially created as an investment holding company, Arysta LifeScience Mauritius Ltd has been reorganised so as to centralise some of the management, procurement and trading activities of the Africa region.

In this business model, Arysta LifeScience Mauritius is the main entrepreneur. It purchases finished goods from producers and resells them to the distribution entities, namely but not restricted to Arysta LifeScience in South Africa, Kenya, Tanzania and Mozambique. Arysta Mauritius also purchases raw materials from various sources and countries. Additionally, Arysta LifeScience Mauritius is a hub for all public health businesses in Africa and carries out all the Arysta business consulting in Africa. Arysta LifeScience offers a comprehensive range of solutions for Vector control with a proximity service all across Africa. The company is engaged with all the major players involved in improving health care and its delivery on the continent.

Responding to the changing of today's dynamic market place, Arysta LifeScience is keenly sensitive to the responsibilities that come with delivering necessary and valuable products around the globe.

In line with its new business model, Arysta LifeScience Mauritius has been running its offices in Mauritius with personnel at top management, middle management and administrative support levels. To date, the CEO of the Africa Western Europe Business Unit has relocated to Mauritius, and so have the Group Purchasing Manager and the Head of Sugar Technology. In addition to supporting the group's sugar related activities, the latter will also be collaborating with the local sugar sector.

Arysta LifeScience Mauritius has plans to integrate the local research and business spheres. The company has made contact with the Mauritius Sugar Industry Research Institute for collaboration on the development of new products. In the same vein, contact has been made with local wholesalers and distributors whilst possibilities of collaboration with the Ministry of Health are also being scrutinized.

eMoney Solutions

"The quality of the technological infrastructure offered by Mauritius has prompted us to host all our servers and concentrate all our technical activity there." Hervé Tairou, Founder and CEO of eMoney Solutions, a Mauritius headquartered pre-paid payment solutions provider with operations in West Africa.

As a new era dawns on the African continent, African entrepreneurs with international know-how and expertise are beginning to bring in tailored solutions to real African problems. One such solution has been the introduction of an innovative pre-paid payment solution in seven West African countries to address the needs of a stratum of the population which does not have access to banking facilities. The solution proposed by eMoney enables people to transfer money or to pay utility bills electronically even if they do not have a bank account or bank card or not even a mobile phone. The operation occurs through accredited agents such as the local post-office or shopkeepers which utilise a pre-paid card to enable transactions on behalf of clients. A commission is paid by the client for each transaction which is shared amongst the agent and the operator.

eMoney established its headquarters in Mauritius in February 2011 whilst maintaining operational subsidiaries in most of the countries in which it is active. In the words of its CEO and founder Hervé Tairou, the choice of Mauritius has been motivated by its conducive eco-system for business structuring, professional services and technology-enabled development and deployment, the access to international banks, law firms and accounting and audit practices of world standard coupled with the free flow of funds and tax-efficiency. Furthermore, Mauritius enables the provision of shared services in a cost effective, process-optimised manner by bilingual (French / English) professionals.

The group headquarters is organised as a group of companies engaged in the following activities in Mauritius:

1. Holding of the Intellectual Property Rights

Mauritius currently has the appropriate legal framework which allows a business idea and concept to be protected. Consequently, eMoney registered its Intellectual Property centrally in Mauritius to protect it as well as to license out its franchise and collect royalties from other operators in Africa.

2. Investment and business structuring

eMoney Solutions has structured its investment in various subsidiaries through Global Business Companies in Mauritius. Aside from making business sense and mitigating risk, this provides a number of financial and fiscal advantages which must be taken into consideration when looking at value creation and long term planning for the group. Moreover, all the group contracts with accredited agents and partners are entered into by eMoney Solutions in Mauritius. This ensures that the contracts are governed and protected by the Mauritius laws. Mauritius being a recognised and dedicated International Arbitration Centre, any dispute arising between the two parties can effectively be resolved locally in a very efficient and cost effective manner.

Furthermore, centralisation of the sales, marketing, and contract management operations in Mauritius enables the group to recognise its revenue in Mauritius where it is effectively subject to a maximum tax rate of 3%. The retained earnings resulting from this consolidation process allow the group to envisage expansion in other African countries.

3. Shared Services

The group also runs its back-office and reconciliation activities in Mauritius. This enables invoicing and billing of clients in a timely manner. The availability of bilingual professionals is a major advantage which allows the group to manage a common billing centre for both English and French speaking Africa.

4. Server hosting

Mauritius being well connected to Africa through the SAFE, LION and EaSSy undersea fibre optic cables, the group has decided to take advantage of this to further enhance its operations through the hosting of its main servers in a data centre in Mauritius. All Point of Sale terminals are connected to these central servers thus ensuring accessibility, reliability, security and stability of operations.

5. Treasury Management

Mauritius offers eMoney Solutions a good platform for its central treasury management. There is no exchange control on foreign exchange on entry and exit, and banks offer the ability to effectively manage sub-accounts in practically all hard currencies. This allows the group to maintain revenue in USD and Euro and actively manage its treasury, thus considerably reducing the risks attached to exchange rate fluctuations.

6. IT Applications Development

The group has an office in Mauritius which acts as a development centre for its proprietary technology platform.

The group has relocated to Mauritius its key personnel for the development and maintenance of its technology platform.

7. Employment of expatriates

Other collaborators who have to roam from one country to another marketing the services of the group and giving technical and commercial support to clients are also employed in Mauritius. This allows more sophisticated remuneration packages taking into consideration their personal circumstances and enabling better wealth planning.

Food Lover's Market is part of the Fruit & Veg City group which was started in 1993 in South Africa by brothers Brian and Mike Coppin. The brothers' vision was to create a store that would resemble a marketplace of old, where farmers brought their fresh produce from their farms to be sold to the public. The dedication to freshness at an affordable price has always remained one of the cornerstones on which Fruit & Veg City is built.

The next step in their evolution was the creation of a modern eatery where food aficionados could indulge in a range of gourmet foods. It was this vision that gave birth to the Food Lover's Market, a stylish and modern food emporium which caters for the discerning customer, the connoisseurs, the professional 'foodies' and the regular Fruit & Veg City customers.

Today there are more than 100 Fruit & Veg City stores throughout Southern Africa including in Mauritius, Namibia, Zimbabwe, Botswana, Angola and Zambia, and even as far afield as Australia. It remains a family business with brothers Brian and Mike still running the day to day operations of the company. Their vision is still visible in every store, where freshness and value are placed at a premium. They are now applying this successful recipe to a growing list of new markets all over the African continent and beyond. Ghana, Mozambique, Rwanda and Uganda have already been identified as countries where Fruit & Veg City plans to be present in a near future.

In Mauritius Fruit & Veg City operates 3 outlets in a joint-venture agreement with local partner SKC Surat and a 4th outlet in Curepipe has been announced. The expansion of Fruit & Veg City locally is a vivid example of a successful integration between global and local business sectors. In Mauritius, Fruit & Veg City outlets employ 240 people.

Fruit & Veg City also hold their Intellectual

Property for all African countries except for South Africa, Namibia and Lesotho in Mauritius.

The quality of professional services available locally together with Mauritius' sound legal and intellectual property frameworks are the main reasons that have led Fruit & Veg City to have its franchising agreements managed from here. The success in the management of franchising agreements is giving Fruit & Veg City comfort for the further expansion of its franchise network on the African continent and elsewhere.

As part of the franchising management duties being done in Mauritius, the invoicing for royalties and consequential debt collection and management for all franchisee companies are executed entirely from the group's Mauritius operations.

"The speed with which the government and ministerial departments process applications is dumbfounding." Craig Silver, CEO of Generator Logic, a custom-built power solutions company operating from the Mauritius Freeport.

Generator Logic is a South-African based group specialised in the manufacture of custom-built power solutions for an array of industries. It is South Africa's most innovative and versatile manufacturing supplier of open-ended, weatherproof, sound attenuated, mobile specialised generator sets and ancillary products. The group has been supplying power solutions for a wide variety of applications with a range of power capacities for more than a decade. Generator Logic's custom-built power solutions are specially designed for the telecoms, film and entertainment, mining, agriculture, construction and leisure industries. With a strong presence in Central and Southern Africa, Generator Logic currently supplies into 28 countries across the continent.

Due to continuous expansion, Generator Logic was looking forward to set up additional manufacturing capacity outside of Johannesburg some years ago. Its CEO, Craig Silver was looking for a convenient port city and at the time he did his study he looked at possibilities offered by Mombasa and Dar-es-Salaam. In his views, both ports did not compare favourably with Mauritius because of the road freight required to ship the goods from Johannesburg to either Mombasa or Dar-es-Salaam. Also, the favourable business environment in Mauritius made the choice an easy one, considering the speed with which applications were processed and licences obtained. The decision was then made to set up the new facility in Mauritius after assessing the logistics advantages presented by the Freeport, the ease-of-doing business and the fiscal and non-fiscal benefits offered.

Mauritius enjoys regular sea freight service to Tanzania, the main market serviced so far by Generator Logic Mauritius. The slight time difference between Mauritius on the one hand and South Africa and Tanzania on the other makes the conduct of business between these countries

convenient. Easy access to manual workers at a more competitive rate than in South Africa has also been a strong point in favour of Mauritius.

The Mauritius authorities have decided to create a very favourable eco-system for the growth of the Freeport sector and on the basis of same Generator Logic is considering expanding further its Mauritius operations for manufacturing and export to other countries than Tanzania in East Africa, to West Africa and Indian Ocean islands.

"Mauritius has a highly responsive financial framework. The Stock Exchange of Mauritius was responsive, open-minded and fast and the local advisors were well in-touch with the global capital markets scene." Dr Gachao Kiuna, CEO of TransCentury Ltd, a Nairobi-listed infrastructure investment group covering 14 African countries.

TransCentury Limited (TCL) is an infrastructure company based in Kenya, with a track record for delivering unique investment opportunities and executing for success. TCL seeks sectors which display characteristics of under-penetration and inefficiencies whereby it invests to bring financial, technical and managerial capacity into such sectors. The company's key focus areas are the power infrastructure, transport infrastructure, and specialised engineering sectors.

The Group, which as at December 2012 had revenues of KES 13.5 billion and an operating profit of KES 2.0 billion, is geographically diversified, with major operations in Kenya, Uganda, Tanzania, Rwanda, Democratic Republic of Congo (DRC), South Africa and Zambia.

On 8 June 2011, TransCentury made history by becoming the first ever Kenyan group to successfully close a multi-million dollar Eurobond in the International Bond Market, and the very first ever to close a Eurobond that is listed in Africa, by listing its US$75m Eurobond issue on the Mauritius Stock Exchange. On 14 July 2011, TransCentury Limited's ordinary shares were also listed by way of introduction on the Nairobi Stock Exchange.

TransCentury has opted to use Mauritius as a platform for its investments across Africa, as CEO Dr. Gachao Kiuna points out, for its

stringent regulatory and legal environment that is critical for professional investors and public companies such as TCL and its bondholders (e.g. anti-money laundering regulations). It was also chosen for its highly responsive financial framework. The Stock Exchange of Mauritius was responsive, open-minded and fast and the local advisors were well in-touch with the global capital markets scene. Mauritius provides TCL a window to the international capital markets, enabling the company to gain access to vital capital injections with the desired levels of flexibility and adaptability.

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An intermediation hub to bridge the funding gap for Africa's infrastructure

I recall a conversation with one of my former colleagues who was the Treasurer in one of the bank's emerging market locations in the midst of reorganisation talks. Having taken the red eye to have a face to face meeting with a senior executive, he was unceremoniously dismissed with the quip, "what's the fuss, you are not even on the radar screen!". Being on the radar screen and having brand recognition are paramount. They testify to the effort and success of the Mauritian authorities, both public and private, to reinvent the island and set the trajectory for growth in the new millennium. The challenge is what's next? The low hanging fruit phase is over, what are the next stage rocket boosters?

As if further headwind was needed, offshore centres have joined bankers as the latest whipping boy. This is not new. Since biblical times, the moneymen have attracted an ambivalent mix of loathing and respect. The difference this time is that they seem to have lost respect. As Governments in the developed world, irrespective of their political leaning, endeavour to redress the global banking eco system, tax compliance and fairness will become a key pillar of this new realignment. These cross currents could offer Mauritius a one-in-a-lifetime opportunity to seize a strategic position. The global financial crisis of 2008 will usher a new paradigm.

New paradigm: Opportunity for Mauritius to become an intermediation hub.

The global financial crisis marked the end of the global banking system that emerged in the aftermath of the 80's big bang, deregulation and globalisation. National and regional regulators are still beavering to dismember institutions they regard as unfit for purpose and concocting new set of rules and fitness tests for those they regard as systematically important. This is no cosmetic change, it is inherently game changing. As the global conglomerate banking institution disappears, both the mechanism by which funds flow from investors / asset owners to borrowers / fund raisers and the drivers of this activity will be transformed. This is going to be revolutionary, not evolutionary.

The buy-side of the equation is more fascinating. The wall of money flowing from global institutional investors (Pension funds, Private Equity Funds, Sovereign Wealth Funds, and Family Offices) is ever present and needs a safe harbour. These investors are increasingly keen to show that they have a brain and more importantly a heart too! They have been turned off attractive fancy financial products engineered and underwritten by financial institutions and rated by Rating agencies they no longer trust. Social responsibility is not a fad. At this year's gathering of the great and the good of the Hedge ➤

In a recent Special Report of the Economist on Offshore financial centres, Mauritius was branded as the "centre for investment in India targeting Africa". Imagine the nightmare of the PR professionals who need to work with centres that are labelled as money magnets, or worst, sunny places for shady investors.

Fund industry in Las Vegas, the last speaker was Oliver Stone (*remember Gordon Gekko, Greed is good*). He warned about the great divide in today's society and the rise of Occupy Wall street protest in the aftermath of the financial crisis. He remarked, "This is the Roman Empire, think about the French Revolution!".

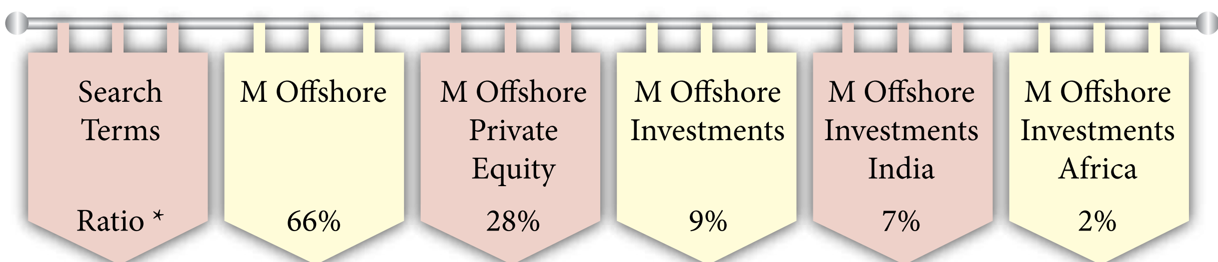
Risk is being redefined as loss of capital. Return of capital is paramount, more than return on capital. Consequently they are increasingly interested in the underlying real assets. Sovereign Wealth Funds, in particular, will be a force for change as they come to terms with their buying power and seek direct interaction with investment opportunities particularly in private equity.

For the investment management industry, there are massive changes on the way too:

- Asia's wealth represents slightly under 75 % that of Europe. Yet its asset management industry is only around a third that of Europe.
- Since 2000 in the US, emerging market funds have grown 2.5 times faster than international funds and more than 5 times faster than US domestic funds.
- Whether driven by regulators or internal governance, the demand for increased transparency remains unabated. This is one of the reasons why asset managers struggled to reduce costs as fast as assets and revenues fell post-crisis. Robust reporting solutions that allow proper risk monitoring and to properly explain them to their clients are indispensable. No asset manager can be expected to have all the best systems or to have people with the right skills on the ground in every market. Asset managers will look for smart collaboration/partnerships to drive down costs.

As part of the soul searching ensuing from the financial crisis, financial engineering and complex products activities felt like another piñata. Slicing and dicing dodgy US mortgages repackaged for unsuspecting north European pension funds as AAA investment is inherently flawed. However make no mistake, asset backed securitisation techniques will have a place in the new financial armoury required to fund infrastructure projects. The consolidation in the banking system and the concomitant shedding of a large pool of highly skilled financiers means that accessing this talent pool is more affordable. With the right offering, there is no reason why Mauritius should not be able to compete with Singapore or Dubai to attract the required talent and expertise.

By design or by default, global banks are shrinking their balance sheets. Traditional players are moving away from intermediating in complex funding deals. There is an opportunity for Mauritius to develop a specialisation as an



Search Terms	M Offshore	M Offshore Private Equity	M Offshore Investments	M Offshore Investments India	M Offshore Investments Africa
Ratio *	66%	28%	9%	7%	2%

*: Ratio of number of searches for specific terms to holidays (denominator) M: Mauritius

intermediation hub for channelling funds to bridge the gap for infrastructure funding in Africa.

Institutional investors around the world:

- Want yield
- Crave exposure to inflation linked long term cashflows
- Are increasingly showing preference for access to the underlying asset
- Yearn for confirmation and reassurance that their capital is contributing to alleviate poverty and inequality and helping raise people's living standard and well being.

Next stage rocket boosters: Channelling funding to bridge Africa's infrastructure gap.

I ran a quick Google search to get a feel for the positioning of Mauritius as an offshore centre and in respect to investments in Africa. To put it in context, I used the positioning in Tourism as the benchmark.

This is neither a scientific test nor a robust metric. Nevertheless, it helps to size the opportunity. In the words of the Chief Economist of the African Development Bank, "The international financial crisis provides Africa with a great opportunity to access funds to finance its infrastructure program." If indeed one shares this view, the potential for Mauritius is in terms of decuples!

Africa focused funds have been on a downtrend since the peak of 2007. It is clear that the promise of the continent is not being matched by a strong pipeline of deal opportunities. It is worth noting that the top three challenges and barriers to growth are not about the investment equation and risk reward (*Deloitte 2013 Private Equity survey*); they are: ➤

• Human Capital deficiencies in companies
• Lack of acceptance of private equity / investment mentality
• Governance / Transparency / Lack of sophistication.

The Indian double taxation treaty has been undoubtedly a catalyst. However, what are the lessons that have been learnt from this experience and the recipe that can be conceived to address the African situation.

The value proposition from Mauritius needs to be lucid and uncompromising:
• Value-added Mauritius can bring as an intermediation hub
• Ability and proven track record to earn and retain the trust of the investors community : a quality assurance seal
• Constructive contribution to reducing poverty / inequality and be a champion of sustainable development.

The success of companies like Google where the obsession is with problem solving rather than "financial arithmetic" is both insightful and inspiring.

Making it happen will not be trivial. It will require the Mauritian stakeholders (public and private) to take the lead on several fronts.

This is by no means an exhaustive list but to mention a few axes for development:
• Create the right stakeholder forum and engagement with regional and global donor agencies to design the governance structure to provide the necessary quality assurance to the investors.

Raise seed capital and create Fund of Funds type of vehicles
• Partner with the various regional organisations to engage with the
  – National Pension Funds and Sovereign Wealth Funds
  – These institutions will have to play a critical role both in terms of raising seed capital, risk transfer and working out potential exit strategies to help sweeten the deals to attract private funds.
• Help the industry build on the existing back-office service infrastructure to front – office deal making capabilities.
  – The upskilling will require imported talent and expertise to start with and given the potential of the Mauritian labour force there is no doubt about the locals taking over the relay.

Admittedly this is no walk in the park. However it's no different from the major strategic decisions taken in the past which have seen the country transform from a mono crop producer to develop first a manufacturing base and then a service sector.

Think global, act regional and be socially responsible

The Mauritius brand already exists and is well respected. The challenge is to develop a new offering that has the potential and sustenance to carry the island for the next decades. The World Bank estimates that currently there is a 50% shortfall on the spending Africa needs to fully bridge the infrastructure gap. The consensus view is that this shortfall is fundable. It's about creating bankable opportunities, efficient partnerships between stakeholders to source funding and clever risk mitigation and transfer. The innovation should be built around the talent and skills Mauritius can offer to solve this problem. The African investment industry has to be Mauritian ingenuity at its utmost. At the same time it offers Mauritius the prospect to reinvent itself just in time.

More importantly, Mauritius will be able to
• Service investors struggling to cope with new and different realities in the aftermath of the global financial crisis.
• Make a difference to a continent with the largest youth bulge; 60 % of the new entrants into the labour market could not find work last year.

Think global, act regional and be socially responsible, Mauritius will be the radar screen! ■

JAYA PATTEN
Director
Jaya Advisory

Jaya set up his own financial consultancy after a career in global capital markets spanning over two and half decades in Europe and Asia. He has held various leadership and transactor roles at leading financial institutions (Morgan Stanley, Credit Agricole and Lloyds).

The development of a Yuan Offshore market in Mauritius

"Everything Changes – Nothing Disappears" – Greek Poet Ovid

"It is only the dreamers that move mountains" – Fitzcarraldo, in the movie, "Ftizcarraldo", directed by Werner Herzo

I have been living in Hong Kong for the past quarter century and visited Mauritius in October, 2012. My first visit to Mauritius was in 1985. In fact I took one of the first few flights out of Singapore when Air Mauritius started its direct service to Mauritius. It was a Boeing 707 and the flight was bumpy. When I landed I found a rather poor country but also an island full of warm and well educated people. I have returned after a gap of 27 years and found in 2012 a middle income island where the people are still warm and intelligent. One good thing about returning after such a long gap is that one has a better perspective how many good things have been achieved in spite of the many problems encountered.
My primary purpose of writing here is not to flatter Mauritians, but rather to explore how the rise of the Chinese Yuan, also known as the Renminbi (RMB), may offer some opportunities for Mauritius if it is able to leverage its history, culture and geopolitical position?

The rise of China

China has the largest foreign reserves in the world of about US $3.2 trillion dollars. So China is now poised to emerge into what Britain did in the 19th century and the US did in the earlier part of the 20th century and the Japanese did in the second part of last century, namely to become the largest capital exporter in the world.

While most people in the world know about China's bulging reserves, not so many people know about India's bourgeoning need for capital. India is hoping to spend about 1.2 trillion US dollars to fix its creaking infrastructure. India not only does not have that level of savings available to tap but it also lacks a strong enough long term capital market which can enable it to raise such enormous sums.

So it looks like China's surpluses and India's need for long term funds is a match waiting to happen and would probably happen eventually. It is the stated policy of China to diversify its reserves and make them less dependent on funding the deficits of the US.

It is also the stated policy of India to move towards a more open financial system and closer economic relations with China. The ground realities and specific policies leave much to be desired; just because China has large reserves and India has large funding needs will not automatically lead to convergence. But there seems to be little long term alternative for the policies of China and India except, however grudgingly, to embrace each other financially. European, and to a lesser extent the US, financial institutions have neither the balance sheet nor the risk appetite to meet India's needs. In fact it is obvious to anyone watching the financial industry that the Europeans in particular are in the process of pulling back from even traditional and low risk financing activities such as trade financing in Asia.

Capital is fungible and Chinese surpluses are already funding at arm's length the needs of India. If the world financial system has no access to Chinese funds. India would probably find it harder to get the funds it needs. True, China and India are uneasy partners - both politically and economically in spite of the fact that trade between the two giants is growing tremendously. They see each other as competitors and have an unresolved border dispute. But things can change and change dramatically too.

In a geopolitical sense China sees itself, rightly or wrongly as a country that the US is trying to encircle with the help of Japan, Mongolia and even South Korea and some countries of South East Asia. Looked at this way, it is important for China to prevent India from joining the US sponsored "encirclement" policy, - that is much more important to China now than to worry about a border war that happened 50 years and now remains one of the most peaceful borders of the world. The political readiness to trade with or finance a country is important in every situation but especially so in the case of China, which still remains a centrally planned and command economy.

India has been doing its best until recently to wish away the rise of China, neither doing anything like joining forces with others to prevent the rise of China nor embracing China too closely to try and get special favours from China.

Mauritius as a bridge

Mauritius is in the fortunate position of having good relations with China and India. It is true that Singapore also has the same advantages while at the same time being one of the major financial centres of the world and with a very big Yuan deposit base. But Mauritius is not without its peculiar advantages

One should not underestimate the problems that Mauritius will encounter while trying to be the match maker between China's foreign reserves and India's funding needs. Many other cities and countries, including London, Singapore and Malaysia have already staked their claim to become the "offshore Yuan" trading centre and all those places have bigger economies and better geographical locations. However, smallness, nimbleness and the ability to focus on one task instead of trying to be everything to everybody does have its advantages too.

The reason that the DTA between Mauritius and India became such a success was because of the objectives of all the major parties, the foreign portfolio investors into India, the Mauritian government and legal services sector and the objective of the Indian government coincided. The portfolio investors wanted lower taxes and the Indian government wanted a way to attract portfolio investments quickly through friendly ➤

parties even before the restructuring of the Indian economy; and the capital markets were fully ready for them. Since it made everyone happy the DTA was a success for about twenty years.

Now the situation is different: rightly or wrongly many people in the Indian government view the DTA as something that, rather than helping India, is depriving the government of revenues. This may or may not be accurate and we can argue about it - but that is the reality today. Even the corporate sector in India is not enthused enough to fight for the retention of the DTA strongly. Unlike in the past two parties out of three are now not strong supporters and therefore the DTA can at best only limp along.

The Next Chapter in the Mauritian – Indian Financial Relations

As they say, whenever one door closes, another one opens. Just at the time when the Indian corporate are losing interest in the DTA, the Indian companies, especially the capital intensive infrastructure companies, are looking with interest at the bulging reserves of China and wondering how to access it. China's main focus is not India: but China would not mind diversifying a small portion of its exposure to India rather than support what it perceives as the bullying US and the sick Europe. All it needs now is an honest broker to make that marriage possible. And Mauritius has a fighting chance - if not a strong - chance to fulfil this role. Of course it will **not** be easy: but it can be done.

How to make Mauritius become a Yuan Financing Centre for India

If Mauritius believes in its potential to become a yuan centre in the region it will have to take some concrete actions outlined below and which may be a first step:

Declare that Mauritius wants to become a Yuan financing centre – just like London, Dubai, Singapore and Malaysia have. Such a declaration by the government should not be dismissed as hot air but rather as a catalyst to gel the private sector players around the idea, safe in the knowledge that they will be acting in accordance with broad government policy.

Invite Chinese financial institutions to open an office in Mauritius. The Chinese banks are willing and eager to expand abroad and incidentally the Industrial and Commercial Bank of China (ICBC) has just opened its first branch in India. The ICBC can surely justify opening a branch in Mauritius as a "gateway to Africa" or "gateway to India" – as Chinese companies have been adding operations in both places.

Promote Mauritius in East Asia: Mauritius is already well known in India but not many know about Mauritius in Hong Kong since there is no one in charge of promoting Mauritius in Hong Kong.

Yuan is already convertible in Hong Kong. While inside China and even inside the large banks in Hong Kong one would find that there are all sorts of restrictions on not only taking Yuan out of China but even taking other currencies into China, as the Chinese government wants to prevent the flow of "hot money" into China. On the other hand you can go to corner money changers in Hong Kong who operate quite legally and change into Yuan or out of it with minimal fuss for hundreds of thousands of dollars. This is because there is a very liquid "two way" market for Yuan in Hong Kong unlike inside China.

Open an Office and Sign MOUs with Hong Kong based institutions: London stock exchange has already signed an MOU with Hong Kong's de facto central bank, "Hong Kong Monetary Authority" to co-operate in developing a Yuan market.

N. BALAKRISHNAN

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Cim global management

A pioneer in the Global Business Sector since 1992, we service multinationals, financial institutions and high net worth individuals in the formation and administration of corporate entities, trusts and funds operating worldwide.

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Cim group ASPIRE BEYOND

MAURITIUS SINGAPORE SOUTH AFRICA UNITED KINGDOM

The *Star and Key of the Indian Ocean*, the words attributed to the Portuguese explorer, Vasco da Gama, when describing Mauritius are as relevant today as they were in the 16th century when Mauritius straddled the trade routes with Asia.

In the 21st century, the relevance of Mauritius has again come to the fore as an international financial centre of high repute which is rapidly becoming the investment fulcrum between Africa and India. A stable democracy since its independence in 1968 and with a legal system that has the Privy Council of the House of Lords of the UK as its court of final appeal, Mauritius offers the political stability and legal certainty that is required by international investors. This is supported by its OECD white-list status and a framework of investor friendly legislation, competent regulation and a qualified bilingual workforce.

This is the fast developing international financial centre in which the Cim Group of financial services companies operates. Cim offers a synthesised value chain of inter-relating businesses providing high-end financial solutions. Utilising the unique geography of Mauritius, it is our intention to build on the reputation that Mauritius has as a financial centre to develop a Southern Hemisphere based financial-services capability that provides global investment functionality primarily into Africa and Asia and other developing markets. Drawing on the significant human resources available within Mauritius, and supplementing them with international skills and expertise, where necessary, we are consolidating our hub in Mauritius with excellent capabilities in corporate, trust and fund administration, insurance, tax services and credit finance.

Our international management businesses are grouped under the Global Management arm of the Cim Group and incorporate corporate services, fund administration, trust services and tax advisory capabilities. Cim Global Management is a synthesis of a number of businesses achieved through a combination of organic growth and acquisition; IMM (International Management (Mauritius) Limited) was the first Offshore Management Company licensed in Mauritius in 1992 and was augmented by the acquisition of Multiconsult in 2007. Both of these businesses were regrouped as Corporate Services and Fund services and constitute a leading international management service in size complexity and capability. Cim Fund Services administers more than 20% of all funds domiciled in Mauritius and is SSAE 16 Type II compliant. Our client base is reflective of the major investment and training brands internationally. Our teams have experience across diversified investment sectors including investment funds, private equity, holding companies, logistics, infrastructure, construction, agri-industry and insurance.

Cim Global Management provides a broad range of services including:

- Structuring and incorporation of corporate entities and establishment of trusts;
- International Tax Planning and Advice on cross border structure/ transactions, building 'substance';
- Mauritian Fund administration including Net Asset Value calculations and registrar services;
- Accounting, administration, domiciliation, corporate and secretarial services;
- Anti-money laundering and regulatory compliance; and
- Provision of back-office trading services including the preparation of invoices and/or letters of credit.

Cim's client base includes leading fund management houses, supra-national funding agencies, and multinationals which are amongst the largest listed entities on the world's major stock exchanges. Our business units provide a fully integrated service, which includes corporate and secretarial work, accounting, compliance and taxation services. In addition to its Mauritian operations, Cim has set up a subsidiary in Singapore and a presence in South Africa and UK and has working relationships with operators in various jurisdictions such as the Cayman Islands, Luxembourg, Seychelles, BVI and Cyprus.

Cim Trustees (Mauritius) is the fiduciary services arm of the group, with services ranging from the establishment of trusts to the provision of trustee services. In addition, Cim holds an investment in Universal Trustees (Pvt) Ltd in India, a start-up trust company on the Indian sub-continent, focussing on the Indian diaspora.

Cim Tax Services is a member of the Taxand international tax network, which developed out of the Andersen international auditing practices, and has branches in over 50 countries worldwide and a network of tax advisory capabilities.

Our teams work very closely with our clients with the aim of providing a high level of service and responsiveness as we understand that time is of essence in all that we do. Our people are also well versed in the requirements of the jurisdiction and receive regular training to remain well abreast of latest development in all aspects of operations from Company Law, Compliance to Accounting. We operate on PFS Paxus which is a fully integrated fund administration package including NAV, registry/transfer agency, capital accounts & full investor reporting.

Investment into Africa is not solely the domain of private equity and investment funds, although these are significant players, there are a myriad of other themes that are developing and which we feel can be assisted by the appropriate structures and services out of Mauritius due to its close geographic proximity, membership of COMESA, SADC and IOR-ARC. Cim has developed leading edge competencies combined with a procedures and capabilities framework whilst at the same time ensuring strict adherence to local laws and international norms and standards.

In a post-financial crisis world, where confidence is still frail and liquidity is limited, Cim is fast developing as an international financial services player. This is supported by assets under administration in excess of US $100 billion an expanding international network, a unique value proposition and competent professionals driven by our values of passion, performance and integrity.

VAUGHAN HEBERDEN
Chief Executive, Cim Group

Investment Promotion and Protection Agreements signed by Mauritius

No.	Country	No.	Country	No.	Country
1.	Germany	14.	Romania	27.	Sénégal
2.	France	15.	Singapore	28.	Sweden
3.	U.K and Northern Ireland	16.	Swaziland*	29.	Madagascar
4.	China	17.	Zimbabwe*	30.	Barbados
5.	Mozambique	18.	Benin*	31.	Botswana*
6.	Pakistan	19.	Burundi	32.	Belgium/Luxemburg Economic Union
7.	Indonesia	20.	Ghana*	33.	Republic of Korea
8.	Portugal	21.	Mauritania*	34.	Finland
9.	South Africa	22.	Tchad*	35	Tanzania*
10.	India	23.	Comores*	36	Republic of Congo*
11.	Switzerland	24.	Guinea Republic*	37	Kenya*
12.	Czech Republic	25.	Rwanda	38	Turkey*
13.	Nepal*	26.	Cameroon*		

Agreements signed and awaiting ratification

Mauritius rankings by different International Institutions

No	Index	Global Rank (Mauritius)	Africa Rank (Mauritius)
1	Environmental Performance Index 2010	6 out of 163 countries	1st
2	Fraser institute economic freedom 2011	9 out of 141 countries	1st
3	2011 Index of Economic Freedom	12 out of 183 countries	1st
4	Forbes Survey of Best Countries for Business 2011	19 out of 134 countries	1st
5	World Bank Ease of Doing Business 2012	23rd out of 183 countries	1st
6	Democracy Index 2010	Full Democracy 24th out of 167	1st
7	Global Enabling Trade Index	33 out of 125 countries	1st
8	Knowledge Economy Index	64	1st
9	International Property Rights Index 2011	38 out of 129	2nd
10	Outsourcing Readiness Index (Africa) 2009		2nd out of 15
11	Corruption Perceptions Index 2011 (Transparency International)	46 out of 183	3rd
12	ITU –United Nations Agency for Information and communications. ITU's Digital Access Index	62nd out of 178	2nd
13	Global Competitiveness Index 2011-2012	54 out of 142 countries	2nd
14	Human Development Index 2011	77 out of 189	3rd
15	Mo Ibrahim Index of African Governance 2011	-	1st
16	Africa Competitiveness Index 2011	-	2nd
17	The A.T. Kearney Global Services Location Index, 2011	36 out of 50 countries	4th

How the rules of the Offshore game changed for ever

Business is a game. In our first university years, that's how we learnt to start doing business even before we embraced the real world. We learnt, as a general rule of the game, that if we don't adapt to the ever changing parameters, we were bound for bankruptcy, sooner rather than later.

Indeed in a time span of less than a decade, if we were doing offshore business in the same way and according to the principles that obtain, before say, the so-called events of September 11, we would be today in early retirement. In any case, the ensuing Great Recession of 2008 would have relegated us to obsolescence.

Global Business as it is described today is only a quarter century old in Mauritius. In this very short time span, however, the country has become the jurisdiction of choice for international investors attempting to optimize their risks-return equation. Let us recall that in the aftermath of the grave oil crisis of the 1970's, many countries tried to open up their frontiers to attract foreign investments to turn around their ailing economy. But foreign investors evaluation of risks are not reduced to only financial risks. They chose third party jurisdictions for greater comfort. Who could have blamed them? Their choice was all along most legitimate.

Endowed with a very long history of the principle of continuity in governments and fair elections, law abiding culture, whether local or international, and crucially, a tax system which is most friendly to capital gains and eventual transfers of their gains, the jurisdiction has become the place to structure the investors' India-related middle and long term portfolios. For the last five years or so, the country has occupied the first spot among the providers of foreign direct investments into India, in spite of 2 game-changing shifts in the way international watch-dog institutions want cross-border movements of money to take place. It is likely to remain so in ➤

➤ the foreseeable future even if more changes are to be expected in the rules and regulations governing the flows of money between countries.

Following the September 11 events, the fight against terrorism took center stage. Shaken to the core, the United States of America proclaimed a state of utmost urgency to know who is financing terrorism and expectedly embarked the whole of Europe into a major strategy of tracking the flow of funds from one country to another. The way a jurisdiction receives cross-border funds will henceforth be subject to Regulations. Banks in turn receiving these monies should mandatorily know who are the senders and the ultimate beneficiaries. Service providers to global corporations and high-net-worth individuals need to know who their clients are really. Adam Smith, the father of Capitalism would not recognize his child. Regulations, anti-money laundering laws, black-list and white-list jurisdictions, know-your-client principles, capitalism has now a new meaning. Those jurisdictions which refuse to embrace it will be chastised and precluded from doing international business and eventually the economy will collapse.

We can recall in Mauritius the shake-up or rather the earthquake that shook the stake-holders down to their feet. Used to more than 10 or 15 years of offshore business based on flexibility regarding who are the ultimate owners and recipients of cross-border money, Management companies and financial institutions are now required to share information at will and request of financial authorities according to defined criteria.

Setting-up of global companies and vehicles for special purposes and other structures will now have to be done within the provisions of not only well defined set of rules and regulations but as importantly to norms and standards that are slowly but regularly put in place by international organizations charged with the power to segregate the compliant from the non-compliant financial centers.

We can also recall how the new legal and institutional environment, based, inter-alia, on the setting-up of the Financial Service Commission and the promulgation of the Anti-money laundering laws, was firmly set-up against a back-drop of understandable resistance to change. But the country was clairvoyant enough and the jurisdiction did not have to wait a long time to reap the benefits of the first-mover advantage. In the few years that followed, global business experienced its first exponential growth rate, projecting it as the fastest growth industry and one of the most important pillars of the country's economy.

However those jurisdictions who were skeptics about the sea wave changes that just took place did not have to wait long for a double-whammy. In 2008 the whole capitalist world enters a major recession never seen before since the Great Depression of 1929, triggered by a highly contagious large scale sub-prime mortgage defaults and its twin-face excessive bank leverage lending. The roll-back has terrible consequences for the overall economy. The System is one more time shaken to its core. National Products plummet, major banks and blue-chip companies from USA to UK, from Ireland to Greece, and some states themselves are on the brink of bankruptcy forcing the World Bank, IMF and The ECB to go on long term costly rescue missions.

Tax payers or those who have evaded taxes need to enter the fray and contribute. From the fight against terrorism, the rules are now rewritten to control companies and individuals when they shift money and profit from one country to another using financial centers. The recent G8 summit has illustrated how the most developed economies intend to have the whole world with them to embark on a new tax information sharing strategy that will help states to collect more taxes to bridge their mammoth budget deficits. This is no doubt a fresh challenging issue to address for all the 70 or so international centers in the world which received and processed last year 1.3 trillion dollars of cross-border money. Financial centers will remain no matter an essential catalyst in the efficiency of this money flow. But as always there will be losers and winners. ■

GEORGES CHUNG TICK KAN
First Chairman
of the Financial Services Promotion Authority.

Chairman
of Kross Border Corporate Services

KROSS BORDER

Your trusted global business partner

Corporate Administration

Fund Administration

Accounting

Tax

Payroll

Captive Insurance

Stock Exchange Listings

Kross Border
St Louis Business Centre
Cnr Desroches & St Louis Streets
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The Evolving Challenge and Hostile Operating Environment for Global IFCs

The G-8 Summit at Lough Erne in Northern Ireland chaired by the UK underlined on-going efforts by G-8 countries (except for Russia, so referred to henceforth as G-7) to continue on the singularly counter-productive tack of extracting revenue from every possible source. An increasingly irrelevant G-7, with rapidly diminishing global influence, now seems determined to squeeze not just every drop of juice and skin from taxpaying lemons but every bitter pip as well. By doing so, it risks damaging global economic revival at a particularly crucial inflexion point.

Towards a tax collection war

At Lough Erne, G-7 leaders congratulated themselves on sanctioning what amounts to officially enforced tax extortion. They aim to change long-established international tax conventions by trenchant bullying. They are asserting a highly questionable right to tax income not generated within their jurisdictions from sources that are not resident or domiciled in them. By doing so they are unleashing a tax collection war amongst themselves. Each is trying to extort tax for its own national jurisdiction from income generated outside their borders, from the same universe of transnational corporations (TNCs), and high net worth individuals (HNWIs) with multiple domiciles to facilitate conduct of their global operations and interests. That is bound to have deleterious consequences for G-7 and the rest of the world.

"Fair is foul, and foul is fair"

The reason for G-7 governments going into hyper drive on revenue collection is not difficult to understand. It has nothing to do with paying taxes to demonstrate responsible citizenship, or to apply peculiarly distorted ideas about social fairness by invoking morality, or with issues of tax evasion, or what is now being condemned as 'aggressive tax avoidance'. '*Paying your fair share*' has become the leitmotif and irritating mantra of these bankrupt governments, when no one has any clear idea of what '*fair*' might be.

For example, what is seen as fair by the UK government in having Amazon, Barclays, Google, J.P. Morgan or Microsoft pay the tax that HMRC, the British parliament and public think ought to be paid in the UK, might be seen as grossly unfair by Americans and US-IRS. The IRS may think that such tax ought to be paid to them instead. The same goes for France, Germany, Italy, India, China, Brazil, South Africa, Indonesia, and every other government bent on tax extortion from these entities because of its own egregious failures in managing public finances responsibly. This absurd situation is multiplied manifold in the case of HNWIs with homes in many jurisdictions even when the income they generate has nothing to do with these jurisdictions.

The main reason for the tax-extortion posture now adopted by G-7 governments is that all of them have overextended themselves for a long period of time. They have borrowed too much from their own citizens and from (foolish) global capital markets for too long to keep financing public expenditures they cannot afford. Their public and external debts are too large and their deficits remain daunting. The sovereign debt they keep issuing is not worth the paper it is printed on. They have ➤

adopted an economic model of entitlements and welfare which is powerfully entrenched, politically almost impossible to change, in countries where the majority of the electorate (especially the poorest) has become a dependent client of the welfare state.

Although they know they can no longer afford it, given their ever-increasing (welfare-driven) costs and ever-decreasing competitiveness in the global economy, G-7 refuses to accept harsh realities and looks elsewhere for cheap solutions instead. Now their chickens have come home to roost. Sadly, the political cowardice characterising their governments does not permit them to confront their client electorates with such obvious truths. They know they need to reform and change unaffordable, unviable welfare dominated economic models by pruning, prioritising and re-engineering public expenditure. They know they must abandon their dysfunctional and counterproductive cradle-to-grave welfare models. But they are impotent to act.

Double Standards

After all, destroying social protection is precisely what these same G-7 countries, using the IMF and World Bank in a grotesquely unfair, inappropriate manner, forced Latin America and Africa to do in the 1980s, and Asia in the 1990s, when these continents had their own debt crises. G-7 believes a different law applies to them. They believe that *developing* countries (and Greece which has been made a developing country by the EU) must adjust to debt and economic crises through acute, painful fiscal and monetary compression. But G-7 can only adjust to such crises through graduate, moderate (as painless as possible) fiscal consolidation accompanied by liberal monetary expansion (euphemised as quantitative easing). Nice, if you can issue reserve currencies that allow you to pass on the costs of adjustment to others!

So instead of doing what they need to, G-7 countries (deluded in a bizarre belief that they still run the world) are eschewing the difficult structural adjustments they should and must make. Instead they are focusing much too heavily on squeezing every last cent of revenue from every possible source; at the expense of further reducing their competitiveness and further damaging prospects for reviving the global economy in a balanced fashion. And they are aiming at easy targets that cannot fight back with the same force - i.e. global IFCs- which are now portrayed by G-7 as evil leeches sucking the tax-blood out of their economies.

Scapegoats

G-7 have global IFCs (like Mauritius) firmly within their telescopic sights, aiming to continue their misguided efforts to cripple/disable such IFCs; without any regard for the implications or consequences for the health and efficient functioning of the global economy by doing so. Obsessed by conceptually unsound, self-serving notions of 'harmful tax competition' propagated idiotically by the OECD through the nineties and oughties, they refuse to accept the reality that global IFCs like Mauritius play a vital role. They provide the global financial system with safety valves that permit it to function much more efficiently than it would without them.

It is difficult to imagine how the current volume of cross-border trade and investment financing flows could possibly be intermediated as efficiently and cost-effectively - especially between developed and emerging markets - without IFCs. That is so especially given the punitive, complicated tax arrangements that govern direct bilateral investment and trade financing flows despite the (dubious) protection offered by bilateral investment treaties (BITS).

Local judicial, political and tax probity conditions in most emerging markets (like India) do not inspire confidence on the part of foreign investors from the US, EU, Japan, and East Asia, who are accustomed to much better standards of political and country risk management. IFCs like Mauritius do much (though not yet quite enough) to overcome these difficulties by ameliorating any cross-border risks and facilitate a flow of triangulated transactions that seemingly afford better protection in the eyes of the foreign investor.

There is another reason that G-7 are going after IFCs like Mauritius. They do not like the competition that such unrelated IFCs offer to their own related IFCs – such as Nevada, Delaware and Miami in the US, the Isle of Man, Bermuda, the Bahamas, and the Channel

Islands in the UK, French and Dutch islands in the Caribbean etc. IFCs like Mauritius have taken too much business away from these other IFCs that are related to G-7 countries in one way or another.

What the EU has done recently to destroy Cyprus' ability to operate as an IFC catering to Russian interests is a case in point. It is an instructive warning to other similar 'offshore' jurisdictions. But, as might be expected, G-7 only bullies those it can. It dare not take on IFCs that have the financial muscle and firepower to fight back, like IFCs in the Middle East, Singapore and Hong Kong (protected by China). These IFCs are all large net suppliers of capital to G-7 which cannot therefore afford to alienate them. So they are permitted the kind of opacity that IFCs like Mauritius are not.

Attacks on Mauritius IFC

The story of the development and growth of Mauritius' IFC is compelling. It holds out hope for the future – for Mauritius and other similar small island economies. But the tale is not an entirely happy one. The trajectory of Mauritius' IFC growth has been threatened and interrupted by several initiatives launched by the larger economies of the Organization for Economic Cooperation & Development (OECD) for a variety of self-serving reasons since 1998.

Growth of the IFC in Mauritius stalled when the OECD released its *Report on Harmful Tax Competition* in 1998. That report passed part of the burden of solving a problem created by OECD countries themselves on to OFCs. Since then OFCs like Mauritius have been under constant pressure from the Financial Action Task Force (FATF), the OECD, IFIs, and the G-7's Financial Stability Forum (FSF) to improve the transparency and accountability of their operations.

The accompanying threat of blacklisting and applying sanctions to jurisdictions deemed non-compliant with OECD demands has strained international relations. Institutions and countries with asymmetric power have attempted to exercise extraterritoriality on questionable grounds over many small jurisdictions without countervailing power.

The last decade has seen a barrage of initiatives launched by the OECD such as those on anti-money laundering (AML) and countering the financing of terrorism (CFT) to reshape and curb the activities of IFC that threaten to compete with their own financial services sectors/interests and that they perceive as threatening their tax revenue raising capacity. This structural problem will persist for some time. It will continue to influence the way in which Mauritius' IFC evolves from now on. It would be in Mauritius' interests if it exerted more efforts in anticipating and challenging such changes rather than continually reacting defensively to them.

"G7: First clean up your domestic economies"

G-7 countries are not taking the more obvious steps that could be taken to make life easier for everyone. They could begin by reforming their absurdly complex tax codes which now have more loopholes than Swiss cheese. But that would put too many of their tax lawyers and accountants (who have enormous influence in their respective parliaments) out of work.

They could simplify their direct and indirect tax structures/regimes and harmonise them more closely by

Poem Written by a cabal of Finance Ministers

Tax his land, tax his wage,
Tax his bed in which he lays.
Tax his tractor, tax his mule,
Teach him taxes is the rule.

Tax his cow, tax his goat,
Tax his pants, tax his coat.
Tax his ties, tax his shirts,
Tax his work, tax his dirt.

Tax his chew, tax his smoke,
Teach him taxes are no joke.
Tax his car, tax his arse
Tax the roads he must pass.

Tax his tobacco, tax his drink,
Tax him if he tries to think.
Tax his booze, tax his beers,
If he cries, tax his tears.

Tax his bills, tax his gas,
Tax his notes, tax his cash.
Tax him good and let him know
That after taxes, he has no dough.

If he hollers, tax him more,
Tax him until he's good and sore.
Tax his coffin, tax his grave,
Tax the earth in which he lays.

Put these words upon his tomb,
"Taxes drove me to my doom!"
And when he's gone, we won't relax,
We'll still be after his Inheritance TAX!

Vision in motion

The power of synergy

It is said that the power of synergy is exponential, it doesn't work through addition but multiplication. Born in 2012 from the merger of DRBC and FUEL, based on the common goal of both companies to remain competitive and strengthen their existing investments, Alteo is today in a strong position to take advantage of new opportunities for local and international expansion, with the support of the expertise and combined resources of the two companies.

Derived from the Latin word 'Altus', the name Alteo encompasses the vision of the new group, not only in the cane industry, but through a mix of activities that covers the production of renewable energy, sustainable property developments and hospitality services.

www.alteogroup.com

CIRCUS

➤ lowering marginal rates to more reasonable levels and disallowing a plethora of inexplicable and unjustifiable deductions. They could abandon punitive taxation which they euphemistically call 'progressive'. They could widen their indirect tax bases. They could abandon reliance on income taxation and instead apply fractional transaction levies, say 1%, on all transactions and not discriminate by transaction-type (e.g. financial, stock market, property or speculative transactions). They could spend (waste) much less public money e.g. by bringing down the share of GDP consumed by the public sector in G-7 from 45-50% to 30-35%. They could accept that governments (most of all G-7) are the least efficient users of capital resources and savings; they misapply scarce resources to expenditures that taxpayers do not want to incur, while sacrificing precisely those services that taxpayers want to avail of.

One of the key reasons that the world economy is not recovering or growing as fast as it should is that governments around the world – developed and developing – are now absorbing (pre-empting) far too large a proportion of scarce global savings. They are deploying them quite unproductively, thus denying the private sector the ability to compete for such savings and use them more efficiently in ways that would encourage more output, employment and investment.

India joining the pack

The implicit political turpitude and hypocrisy in this stance of G-7 should not go unchallenged by the IFCs or by the non-G7 world at large; but unfortunately it is. Instead of confronting them, other large emerging economies (India in particular for all the wrong reasons) are pursuing the same counterproductive anti-IFC tack. They too believe, quite erroneously, that they are losing too much revenue because of tax-avoidance through IFCs like Mauritius, instead of recognising how much they have benefited instead. Had Mauritius not existed it is quite doubtful that India would have attracted as much inward investment as it did. That FDI/FII in turn generates all kinds of tax revenue (from sales, employment, profits, dividends, user charges) that India never takes into account when complaining about its putative (and imaginary) revenue 'losses'.

Also there is a great deal of hypocrisy about 'round-tripping'. Policy-makers, politicians and bureaucrats in India know that round-tripping is a fact of life. So do their Mauritian counterparts and regulators. Yet they both publicly deny it. So they keep pirouetting like a pair of peg-legged peacocks around the issue. Indian authorities know who does most of the round tripping – their most prominent politicians and industrialists. Yet they both go through the silly political theatrics of accusation and counter-accusation instead of acknowledging quietly that if there was no corruption on a ➤

➤ massive scale in India, and if the capital account were open, there would be no round tripping of this sort.

Most of the proceeds of rampant Indian corruption that are round-tripped (via corporations and relatives in the Indian diaspora) - are not channelled through Mauritius. Far greater amounts are round-tripped through Switzerland, Luxembourg, Canada, Australia, Singapore, Hong Kong, Caribbean islands, Cyprus, Gibraltar, the UK, and the US, - in fact almost every IFC that Indians use. Mauritius is used more by global transnationals and by foreign institutional investors than many of these other jurisdictions which are preferred by Indian round-trippers. But that is not to say that Mauritius does no round-tripping at all, as it invariably alleges. And this theatre of the absurd goes on *ad infinitum* with everyone involved in the drama knowing that the truth can never be publicly told. So why not just let it lie and get on with life?

"Small IFCs of the world, Unite!"

It is these absurd global conundrums and hypocrisies that are shaping the increasingly hostile and unpleasant environment in which IFCs like Mauritius have to operate and steer themselves through in the coming years and decades. They pose tricky challenges that players (and policy-makers) in the Mauritian financial services industry need to understand the intricacies of and adapt constructively to. Clearly Mauritius cannot fight this fight on its own as a singular, unique IFC. It has common cause with many of its peers in the same predicament.

Collective enterprises like the IFC Forum – which Mauritius needs to join and participate in much more enthusiastically – need to become more representative of the global IFC community. They need to be more organised, rational and vociferous in pushing back against the more extreme forms of G-7 tax-bullying. But this cannot be done if the IFC Forum remains much too focused on the Channel Islands, other UK dependent overseas territories, and the Caribbean. It is not yet inclusive enough, or structured appropriately enough, to accommodate the concerns of other IFCs in the Mediterranean, Middle East, Indian Ocean, East Asia and the Pacific.

Unless Mauritius and the IFC Forum get their individual and collective acts together, the current absurdly hypocritical and self-serving G-7 posture will continue to predominate and damage the legitimate interests of global IFCs – and of the global economy - which are wrongly being portrayed as engaged in illegitimate activity, for many of the reasons discussed above.

Also, it must be emphasised yet again that the entire financial services industry in Mauritius needs to recognise, and finance properly on a long-term sustained basis, a capable, powerful umbrella financial services industry association that ➤

➤ embraces all its constituent elements (i.e. banks, insurance companies, securities companies, exchanges, pension funds, management companies, accountants, auditors and lawyers etc.).

Such an association now exists in the form of Global Finance Mauritius (GFM). It is not clear that all the actors involved in the provision of IFS via the Mauritian IFC understand fully how much they need such an association. Nor do they show any serious commitment to funding it properly on a rolling 3-5 year, fully budgeted, basis. GFM is essential to represent the IFS industry's views to GoM and even more importantly to the outside world.

Orwellian G7

G-7's posture on tax extortion should be seen in the context of recent revelations about the extent of intrusive and indefensible electronic surveillance over internet communications that G-7 countries have mounted through their security agencies. In clandestine, secretive fashion they have been eavesdropping illegally on each other, and over their own and foreign citizenry. The posture of G-7 on surveillance and tax issues should raise profound public concerns about whether these Orwellian G-7 governments have now lost all sense of propriety and restraint.

The excuse they use of exerting more and more clandestine power, supposedly to protect their citizens from terrorist threats, is wearing thin. In the process they are adopting terrorist modes of conducting themselves. So who protects citizens from the excesses, improprieties, and illegalities of their own governments? G-7 and large emerging countries now consider it fair to indulge in every form of covert surveillance and tax extortion (it is no longer taxation in any commonly understood sense of that term) simply because government is the only agency with legitimate right to resort to violence in order to enforce.

It is with this hostile evolution of G-7's attitudes (and those of countries like India for all the wrong, misguided reasons) that the future of Mauritius as a viable IFC needs to be assessed.

Post-2013 Global Financial Environment: How Mauritius must adapt and respond.

Eurocrisis

Much has happened since the global financial crisis that started in August 2007, and erupted in September 2008 with the demise of Lehman Brothers, resulted in the disappearance of many well-known global financial institutions that provided IFS throughout the world. The crisis has since morphed into an acute crisis of sclerotic growth, debt and unemployment in Europe, and a growth crisis that is being gradually overcome in the US and Japan. The fact that both these latter countries also have acute debt and unemployment crises has yet to be fully acknowledged by global markets.

The fallout from 2008 is still reverberating around the world. The global economy is recovering very slowly from a precipitate, deep recession exacerbated by the inept manner in which the Eurozone debt crisis has been handled. Thanks to the ECB Chairman's publicly stated resolve to "do whatever it takes" to save the Euro (which faced an existential crisis not so long ago) and Eurozone, Ireland finally seems to be coming out of its enforced debilitation albeit fitfully. That is not true as yet of Portugal, Spain or Cyprus. The Greek economy has contracted by nearly 40% in five years. Italy is on the brink of another debacle. France is still in a state of recession prolonged by the highly questionable policies of the Hollande government which are not working but backfiring. Germany and the smaller Northern European countries (as well as Poland and some Eastern European member of the EU) are gaining some traction while being adversely affected by their larger European neighbourhood.

Unless Europe acts more quickly and decisively with strong German backing to resolve the Eurocrisis decisively, once and for all, and if incipient growth in the US does not gather more momentum in the latter half of 2013 and into 2014, the global economic outlook may again turn bleak. If the experiment with *Abenomics* in Japan fails it would add considerably to the world's travails. If it succeeds it would add another locomotive (which has been moribund for over 22 years) to pull the world economy out of the mire that it has been stuck in.

BRICS stuttering

Oddly enough, the large emerging markets of Brazil, ➤

➤India and China were the counterbalance to collapsing growth in the US, EU and Japan from 2008-2011. But since then they have all, almost simultaneously, begun to show signs of economic and political stress. At an inflexion point when the fortunes of the major developed economies seem to be turning for the better those of the large BRIC countries seem to be turning for the worse. Africa seems to be the main bright spot on the horizon if, for once this time, it can actually sustain the promise that it shows.

When interest rates rise

The recently signalled withdrawal of quantitative easing by the US Fed however has imbalanced expectations in fragile and nervous global capital markets as conditions in global debt markets begin to 'normalise' gradually. The worry is that global sovereign bond portfolios (which total $45 trillion for the US, EU and Japan alone) held mainly by global banks, insurance companies, pension funds and asset managers will lose a considerable amount of their present capital value in mark-to-market terms when interest rates begin to rise, as they must.

For example, if short interest rates were to rise from their present level of below 1% to around 3% and long rates went from 2% to 5% as a result, that would result in a mark-to-market loss of US$3-4 trillion in a $45 trillion portfolio. That would wipe out the capital base of the global banking system and take yet another toll on the global financial landscape. Bank balance sheets would again tip into unviability, governments would need to recapitalise banks yet again, and bank consolidation would probably gather greater force in most countries when current scenarios of consolidation have not fully played out.

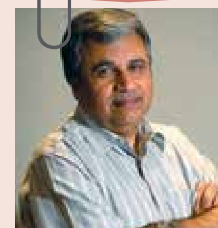
That may result in even fewer, larger institutions (too-big-to-fail) left standing with reinforced oligopolistic characteristics and tendencies if left undisturbed when things return to normal. Though that is contrary to regulatory intent, it is precisely what might happen. To avert such an outcome regulators may need to rethink mark-to-market rules and put in place other transitional accounting devices to avoid the risk of partial or full meltdown of global finance.

Opportunities for Mauritius

These tectonic changes have resulted, paradoxically, in significant opportunities emerging for Mauritius' IFC in providing higher value-added financial services in old and new markets. Confidence has been shaken in the banking systems of the US and Western Europe, but less so (if at all) in the economies of Asia, Africa and the Middle East; although that may be changing. There can be little doubt that China's banking system is in serious trouble though China has the reserves and fiscal/monetary firepower to withstand and recuperate quickly from a large shock to its financial system. India, however, does not and its economy is entering perilous waters.

Even so, the locus of global financial services provision is shifting, gradually but inexorably, from western financial centres Like London and New York to centres that are more proximate to emerging countries that will create new wealth more rapidly in the coming decades than the established ones.

That may provide Mauritius with greater opportunities for exporting a wide array of financial services than presently envisaged, providing it positions itself, and opens itself up quickly enough, to capitalise on these trends. But, it will need to make the necessary changes at *macro* (economy wide governance), *meso* (in the financial services industry) and *micro* (in the structure and competitiveness of its financial firms and the human capital deployed in the industry) levels to do so successfully. It will need to clean up its political act considerably to make the jurisdiction more credible than it presently is. ■



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Tax Information Exchange The current state of play

On top of the agenda of the G8 Summit in Northern Ireland was the highly topical issue of tax evasion, tax avoidance, exchange of information, transparency and the current work of the OECD in relation to such matters. Prime Minster Cameron announced that Great Britain is to sweep away "tax secrecy" by introducing a "new central register' that will ensure all the true owners of "shadowy' shell companies have to be declared to tax authorities.

It will be remembered that the United Kingdom and its crown dependencies form one of the largest financial centres in the world. But times are changing and other actors have come on the block. This has given tax planning opportunities to multinationals which have traditionally arranged their affairs to be tax efficient and legitimately so. Starbucks and Google have recently been criticized for not paying their fair share of taxes in the countries in which they operate.

With the above as backdrop, the G8 released an action plan principled to prevent the misuse of companies and legal arrangements. Known as the Lough Erne Declaration (2013), the 8 core principles have been advocated to be fundamental to the transparency of ownership and control of companies transposed for tax planning purposes. These core principles are basically in line with the Financial Action Task Force (FATF) – standards on ownership identification. They are now *sine qua non* requirements to ensure the integrity of basic company information, beneficial ownership information and the timely access to such information. First, it is important for law enforcement or investigative authorities to know who really owns and/or controls companies and who are their beneficial owners. Information should be accurate, adequate and current.

Second, beneficial ownership information should be accessible to onshore law enforcement tax administrators, FIUs and other relevant agencies. This could be achieved by creating central registries.

Third, should we go as far as a registry for trusts? Many jurisdictions do not have one. South Africa is one of the rare countries having one. Information should become readily available to authority and trusts, trustees and trust assets.

Fourth, authorities have to have in place systems to assess the risk to which their anti-money laundering and their countering of financing of terrorism agencies are exposed. Appropriate information should be shared and properly coordinated amongst regulators within a jurisdiction and between regulators across borders with in place appropriate arrangements bilateral or multilateral such as MoUs or Concordats.

Fifth, it is now generally agreed that certain shareholding structures such as bearer shares and nominee shareholders and directors should be prevented.

Sixth, there should be a reinforcement of due diligence procedures on the part of financial institutions as well as non-financial businesses and professionals.

Seventh, proportionate sanctions should be in place for non observance of regulators. But the key is to have robust enforcement measures.

Eight, competent authorities should cooperate effectively across borders.

In the wake of the foregoing, the UK has enjoined its crown dependencies to take steps towards agreeing to automatic exchange of information and enjoin countries to sign the OECD Multilateral Agreement on Mutual Assistance in Tax matters. It also called upon the OECD to develop a FATCA – type of agreement for its member countries.

However, since 2009 the OECD has already started a serious work on tax transparency and information exchange.

The Global Forum and its works

The Global forum on Transparency and Exchange of Information for Tax purposes is the only multilateral framework of its kind within which work in the area of tax transparency and exchange of information is carried out over 120 jurisdiction which participate in the work of the Global forum on an equal footing. The Global Forum (GF) is in charge of the monitoring and peer review of members and non-members (called jurisdiction of interest) with respect to the implementation of the standards of tax transparency and exchange of information for tax purposes. These standards have essentially been developed from principles laid down in the 2002 OECD Model Agreement on Exchange of information on Tax matters (TIEAs), its commentaries and in Article 26 of the OECD Model Tax Convention on Income and on capital, its commentaries as updated in the 2005 Model (MTC). In that respect an upgrading of standards has also been carried out with the respect to the UN Model. The UN published in March 2011 a new and updated Model that removes the domestic interest test requirement and eliminates bank secrecy as a barrier to the exchanging of tax information (see Article 26(5) of UN MTC).

The Mandate of the GF is to review the Exchange of Information (EOI) framework of all jurisdictions identified by the GF as well as member countries. Mauritius is a member of the GF and has since 2001 been in the forefront of participating jurisdiction in the work of the OECD as an active non-OECD member to elaborate the TIEA. Such contribution of Mauritius has won Mauritius plaudits in the international arena. Mauritius is also a member of the Peer Review Group (PRG) which is a small select group of 30 countries that assess collegially the reports prepared by the expert tax assessors appointed by the GF.

Peer Reviews are carried out in 2 phases

Phase 1 reviews assess the quality of a jurisdiction's legal and regulatory framework for the exchange of information while Phase 2 reviews look at the practical implementation of the framework. Some members have undergone a combined Phase 1 and 2 assessment. Mauritius was in the very first batch of countries undergoing a combined Phase 1 and 2 review. This was done alongside such countries as Australia, Germany, France, the United Kingdom, Canada and United States. Mauritius is being peer reviewed by the United States and Malaysia for a second supplementary report following amendments done in the Trust Act and the Companies Act in relation to ownership identification.

All Review reports become public documents once adopted by the GF and become GF reports for that country. At this point in time, the GF has adopted 79 phase 1 reviews, made 20

combined reviews, made 555 recommendations, 17 supplementary reviews (including that of Mauritius) and 50 follow up reports. The credibility of those reports is grounded on the methodology which has been elaborated by the EOCD in 2009 at the Mexico Meeting. This was revised in 2010. The methodology sets out guidelines for the conduct of the peer review. It is central to the success of the exercise of review by peers. For it to be credible, the exercise must show effectiveness, fairness, transparency, objectivity, consistency and cost-efficiency. The next step of the GF work would be the rating to be attributed to assessed countries. This exercise will take place in September 2013 in Paris. Countries will be rated as compliant, largely compliant, partially compliant or non-compliant on each and every element and will also be given an overall rating.

Reporting Progress to G-20 Group of Countries

At their Summit in Seoul in November 2010, the G-20 leaders invited the GF to report on progress made with respect to international tax transparency work done by the GF. The GF thus, adopted a Progress Report that was delivered to the G-20 leaders. In June 2012 a similar exercise was carried out at the Los Cabos (Mexico) Summit. A similar exercise will be carried out at the next G-20 meeting.

This brings me to the question whether the work of the GF is instrumental in developing a soft law. Many reviewed jurisdiction are being called and are actually taking steps to amend their domestic laws to be standard compliant. The following figures speak for themselves. Fifty peer reviewed countries have amended their laws. Seventeen countries have revisited their banking laws and regulations to improve access to bank information. A similar number of countries have eliminated the provision for bearer shares in their laws. Forty two countries have improved their standards on accounting information. Six countries have eliminated the domestic tax requirements. Therefore, what is striking since the beginning of this exercise is the high level of cooperation and commitment shown by GF members to amend their domestic laws to be standard compliant. What we are in effect seeing is the development of an entirely new area of soft law. Peer pressure (in the positive sense) of members of the GF (within the GF as well as outside) is getting countries to make unprecedented progress towards tax transparency. These guidelines of behaviour which do not have force of law (by themselves) or are not binding (by themselves) are being adhered to by the single largest tax group of countries.

Conclusions

Great strides are being made to strengthen the international financial architecture by increasing the level of cooperation. The laudable initiatives by the GF, G20 or the OECD can only be profitable to developing countries and their emerging markets if they also address the issue of base erosion and frontally address the issue of base erosion and profit shifting (BEPS) behaviour by multinationals. The recent OECD report on BEPS (February 2013) goes into the right direction. With an increasingly integrated and seamless international financial architecture, exchange of information has become vital to tax authorities and international institutions.

RAJESH RAMLOLL
LLM (Tax) President
International Fiscal Administrators
(IFA) - Mauritius

FATCA Compliance of financial entities in Mauritius as from 2013

Whilst the timeline for the implementation of the United States' Foreign Account Tax Compliance Act (FATCA) has been effectively extended by six months, it is easy to underestimate the planning, training and activities needed to implement compliance procedures especially if there are any IT system modifications that need to be made.

Online registration for financial entities

Given that the FATCA online registration portal is now projected to open on 19th August 2013 financial entities around the world should now be geared up to register with the United States' Internal Revenue Service (IRS). We still do not have a view on the precise online registration process but the IRS has published a draft paper form (Form 8957) of what would be expected from financial entities. Whilst this process of simply registering is not expected to be onerous, the IRS has extended the time period to register by six months. This is a welcome change as it allows financial institutions to use the remainder of 2013 to get familiar with the registration process, input preliminary information and to ➤

➤ refine information before finalising their registration in early 2014. The new date set of 25 April 2014 is the last date by which a financial institution can register to ensure inclusion on their June 2014 FFI list.

Mauritian Financial Institutions will need to register to obtain a GIIN.

The Government of Mauritius is in discussions with the IRS and is planning on signing an Inter-governmental Agreement (IGA). The proposed model 1 agreement will make Mauritius a FATCA partner country and hence all financial institutions will be deemed compliant whilst the Mauritius Revenue Authority implements the processes to gather information from our local financial institutions.

However, even though an IGA is expected to be signed, Mauritian Financial entities will still be expected to register with the IRS. This registration is necessary so that the financial institution can be issued a Global Intermediary Identification Number (GIIN). These GIINs will serve as the main unique identifier of financial institutions for satisfying its reporting requirements and identifying its "FATCA compliant" status to other withholding agents.

Who should comply with FATCA requirements?

As highlighted in the Global Finance Mauritius FATCA assessment last September, banks are heavily affected by the impending legislation and should already have plans in place to ensure they will be compliant with FATCA. However, the term financial institution is defined by the IRS as a Custodial Institution, a Depository institution, an Investment Entity, or a Specified Insurance Company.

Due to the wide definition of an investment entity, there are several entities which are affected but still require more information to better understand their roles and responsibilities. The Offshore Management sector is especially impacted. All special purpose vehicles (SPVs) that meet the definition of being an investment entity are affected and will need to register with the IRS and follow the subsequent local legislation that will come as a result of the IGA. This poses an interesting question onto whom the onus of complying with FATCA requirements should fall. For the Mauritian entities this has to be the local entity itself, so by default the responsibility needs to be addressed locally by the directors of these companies. FATCA places requirements on financial institutions to appoint a Reporting Officer who could be subjected to criminal proceedings if failings are found in the reporting process. There is undoubtedly going to be an increase in the cost of compliance, whilst the understanding of who will bear these costs is not as obvious.

The insurance sector is also affected and "Specified Insurance Companies" are also expected to register with the IRS and satisfy the local reporting requirements. ■

SHANAKA KATUWAWALA

Served as FATCA project manager at the Bank of New York Mellon from 2011-2012. He is now Executive Director at Grant Thornton, Mauritius and is responsible for Specialist advisory services.

Life after shopping In the eye of the cyclone

The world is in the eye of the cyclone. On the one hand, there is the global financial crisis, and on the other the ecological challenge. Although the outlook on the surface seems gloomy, yet there is still room for optimism as a wealth of opportunities is attainable through change and transformation. The future is still bright. For, as a species, the human being is good in a crisis. Our backs may be up against the wall but we are always extraordinary in that situation.

We have to recognize that we have entered a period of great change: a synchronized related crash of economy and ecosystem with food shortages, climate catastrophes, massive economic change and global geopolitical instability. We will need to change our expectations about our material lifestyles, the nature and focus of our work and career, our expectations of government, how we behave in our communities and our companies to get out of this mess.

First, we need to understand the depth and complexity of the issues. We must realize that we are **part and parcel of Nature**. This has always been true in Africa and Asia (although changing now). In the Western World, instead of protecting ourselves from nature, we are finally learning to be part of it.

From Rio (1992) to Durban (2011) we have all been behaving as simple observers with little power, in the presence of an immature, chaotic global decision making process. We can only ask: "Who's in charge? Who can really do something about it?" Nobody seems to have a clear idea who's in charge. Is it Finance, the Media, Governments, Civil Society, the 99% or Facebook?

May be it should be all of us.

A very big Problem

People don't think they live *in the environment* –they live *somewhere else*. They move away from nature, live in cold/warm sealed buildings in massive sprawling cities. When we look at our **Global Footprint**, we are breaking all records with disasters and Climate Refugees, with Pakistan floods and Russia record temperatures leading to the ban on wheat exports. The costs of 2011 Thailand floods were thousands of lives and 34 billion euros.

Despite our natural instinct that it is a bad idea to mess up the environment, yet principles such as humanity, sense of obligation and morality are still not appealing enough and attractive to people.

No! Only **Money** is! It is only when destruction of the environment is a direct threat to the economy that we start to consider it as a threat to our planet, or when Sir N. Stern states that unchecked climate is synonymous to a 20% decline in GDP, then governments sit up and take notice.

So, can we afford to ignore these warnings? Can we remain skeptical about the effects of climate change? Skepticism can be healthy at times, but organized skepticism can really be harmful. Furthermore, **no action** means more of the same.

Some think that the problem will be fixed with new technologies, new behaviours through markets and new injection of capital. It is like Viagra. It only lasts a few hours. This is not going to happen. The assumptions are that we will bring the poor out of poverty, that we will carry on creating jobs and provide food and satisfy basic needs, that we will continue to increase our financial/material standard of living, that we will carry on in ➤

relative stability despite a few conflicts. We have already gone beyond the **Limits**: we are overexploiting the planet's capacity and we need to cater for an extra 2 billion people in 20 years. We will need to find answers to these three basic questions:

- Is population the problem? China has not been able to fix it. How will other countries react?
- Can the market and technology fix it? On the scale and at the speed required? The challenge is not only technical but also economical and political.
- Can the Economy grow differently? Bhutan is trying *Prosperity without growth* -Gross National Happiness (GNH). Some may argue (and justifiably so) that this model may not be readily exportable.

The Challenge is clear: Markets and Technology cannot adjust to the scale and with the speed required. There is no evident indication of any action on a global scale. There is strong inertia against change, and resistance will not only continue but also strengthen. And all this is due to a strong addiction: an addiction to growth. We just love growth. Politicians love it. Economists love it. It is in the strategy of every Government and every Company. But do we have a choice?

Eliminating fossil-fuel industry to cut CO_2 means losing over 2 trillion € of economic activity. If we don't, we will face runaway climate change with huge potential loss for the insurance industry, collapse of food supply, geopolitical crises, water shortages and climate refugees. Therefore, the issue is no longer ***when*** but ***how*** - ***How*** to adjust?

To meet this challenge headlong we will need to be prepared physically, economically and psychologically to accept unpleasant things. It will be a chaotic and discontinuous change. It will require a major evolution in human values, politics and personal expectations. We will have to engineer and endure deep shifts in how we behave personally and collectively. And finally this issue is a HUMAN one, not a single technical or market issue. It is not only about saving the planet, but about saving the civilisation!

History is replete with examples of powerful companies, countries, and empires that have fallen because of complacency. *(see Jared Diamond – Collapse).* Survival is not about size or strength; it is about capacity to adapt. We need to consider practical preparedness, investing in the right technology, and psychological readiness to cope with uncertainty and rapid change.

What response?

We need a **Global emergency response**, whatever the cost. The Initial response will focus on climate change, particularly on energy, transport and agriculture. Climate change is a symptom, not the problem.

➤ To succeed, we will need to expand our response to other sustainability issues.

We need to create a **New Model of Economic Development** that does not involve consumerism or material growth, but focuses on alleviating poverty and extreme inequity, revisiting our energy production systems, redesigning our cities for real enhancement of the quality of life.

One can anticipate that there will be two types of responses running in parallel: the Old Economy and System trying to fix itself with existing assumptions and mechanisms; and the New Economy with transformational thinking.

Global agreements are difficult to achieve. Kyoto, Copenhagen, Durban did not produce any global action. We should take the example of trade, at the GATS negotiation, WTO did not wait for a single global agreement to free trade before initiating action. Thus, a rapid response is possible with a small number of countries forming a "Coalition of cooling": start with 50% emissions with these 3 - USA+China+$EU_{27,}$ then bridge over to 67% emissions – +Brazil + Russia+ India + Japan. The rest of the world is only 33% !

There will be systems shocks and geopolitical implications. Already we are witnessing global shifts in economic competitiveness caused by the changing value of resources and the move to new technologies, challenges to the moral authority of different cultures and economic systems, driven by their inability to respond to the looming crises. Thus, those who have created the problem will be engulfed in a process of retribution and accountability.

At the global scale, competition is fierce between EU, USA and Asia, especially China. With heavy investment in R&D in Asia (China, S Korea, and Singapore) EU and USA are losing their edge in innovation.

China is producing results: It is the world largest solar market; between 2006-2010, 20% reduction in energy use has been achieved while EU has this target for 2020 (20% +20%). By 2020 China will have achieved 40%-45% reduction. It is investing heavily in R&D - 386 billions € - 38 % of global investment especially in strategic industries: Energy efficiency - New energies – ICT – Biotech.

There will be losers. When low lying Maldives, Tuvalu, and Kiribati will sink, they will be ignored. These countries are too small to be acknowledged.

But when Bangladesh, China, India, USA become affected with millions of refugees and trillions of Euros of damages, we will no longer ignore the question.

Creative Redesign

HSBC estimates the global market for low carbon technology to exceed 2 trillion € per annum by 2020 with capital ➤

investment of around 7,5 trillion € during the current decade. It's already here and it's unstoppable! They are all about creative measures:

- **C**^{5} : **C**onnect the **C**ity to **C**haos,**C**risis and **C**hange
- Create Urban Leadeship
- Create Long Term Value
- Promote Urban Responsibility
- Engage a campaign *Shop less, live more*
- **I**^{4} : **I**nvest in **I**ntelligence, **I**nformation Technology and **I**nnovation
- Connect IT R&D to Quality of Life
- Invest in solar/wind/bio
- Eco-retrofit the old cities
- Sustainable by Design
- **E**^{5} : **E**xchange - **E**xport **E**U **E**xpertise and **E**xperience
- Partner with BRICS, Asia & Africa

We need to get to work on designing the future. The future is already here. Millions of people have turned up to work, excited, committed and actively engaged. They are not waiting for permission to get on with it.

Technology will play a critical role in the way forward. But alone it is not a solution. They have to deliver close to Zero CO_2, they should be safe and affordable. They should consider factors like our quality of life, our geopolitical stability and our future prosperity and economic stability.

There is much more that will unfold. But a focus on climate and energy provides us a critical insight into the process as well as the most important short-term economy-wide impacts on both markets and emissions.

- Food and agriculture
- Transport and city planning
- Global Energy Efficiency benefits by 50% by 2050 = 6 trillion €
- EU renovation market = 32% energy savings

Yes, there is Life after shopping

Millions are already designing the future, inventing technology, transforming companies, changing behavior, starting campaign, building new organizations beyond the Great Disruption.

There are two reasons for change: First, there is no choice; Second the old model is outdated. It has delivered but it cannot anymore. We need to redesign our model and choose one which is rich in progress and happiness and not in physical impact, rich in quality of life and embedded in human development.

Maybe the direction is Happiness Economy. We need to make choices at personal, corporate, national, and global levels. It will give us more fun, clearer conscience, more money, more time, better health.

In conclusion, one can say that this century is going to be a wild and exhilarating ride. The crisis as it is known now follows 2 successive phases: First, the recognition of the **Failure of growth** with the assumption: growth is no longer the foundation of prosperity and success. Resistance will appear and we will desperately try to restart growth; second, recognition of the **End of growth.** We will see amazing breakthrough in technology. Our Cities will be cleaner, our transport cheaper and our agriculture transformed. But the transition will be messy with chaos and volatility at the social, economic and political levels in various countries. We will be able to celebrate our resilience and our ingenuity, the brilliance of the human mind, and the power of innovation to drive rapid global change.

Lessons?

We need to act collectively and stop waiting for someone else to fix it.

We all know what we need to do. Decide to Change. Decide to act in a context of dignity and respect. Connect and work. Raise children who think. Be happy!

We are the system.

We have to change.

GAETAN SIEW

CEO Global Creative Leadership Initiative

Le Morne Mountain

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FDI in Least Developed Countries: Problems of Excess?

When you think of foreign direct investment (FDI) in developing countries,what is the picture that comes to mind? Usually it is of multinational companies setting up gleaming high-tech plants in countries such as China or Malaysia. And most FDI to developing countries has indeed gone to these kinds of middle income countries that are well-integrated into global production networks and trade, with growing manufacturing and modern services sectors.

It is less common to think of the Least Developed Countries (LDCs) as an attractive destination for FDI, given these countries' high poverty, low education levels and weak institutions.

It is surprising, then, to realize that Least Developed Countries have in fact been receiving as much if not more FDI - as a share of GDP - as other more advanced developing countries. Here the key driver has been FDI into natural resources, in particular oil and minerals.

Least Developed Countries as Destination for FDI

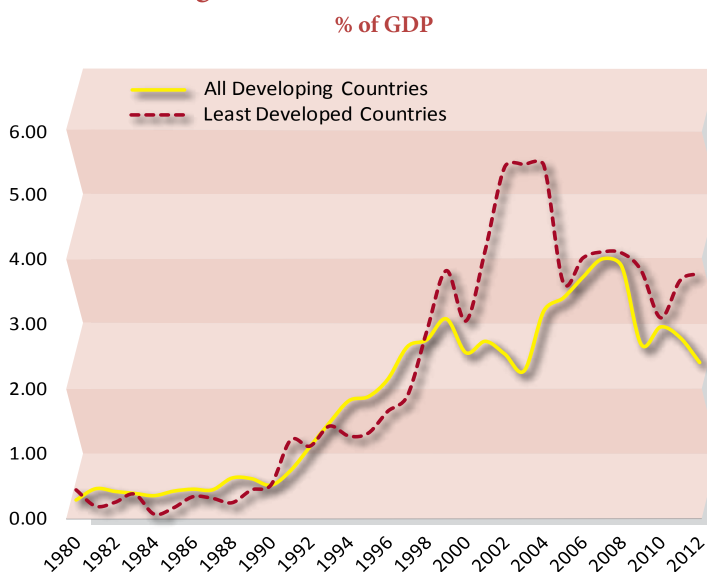
The Least Developed Countries (LDCs) are 48 countries flagged by the United Nations Economic and Social Council as meeting certain thresholds: low per capita income, weak human development and high economic vulnerability to shocks. (UNCTAD, 2012). About two thirds are in Sub-Saharan Africa with the rest mostly in the Asia and Pacific region. The population of the LDCs is about 840 million, about 12 percent of the world total, although at about $730 billion, their GDP (at market exchange rates) is only around 1 percent of the world total.

Figure 1 shows that while FDI inflows to all developing countries used to run at only about 0.5 percent of GDP in the 1980s, that proportion rose sharply in the 1990s, as part of a broader process of global integration. It is striking that the pattern for LDCs has been very similar. Indeed FDI inflows to LDCs in the 2000s appear to have been somewhat *higher* as a share of GDP than for developing countries as a whole. This is not just a case of a few LDCs receiving most of the FDI. Over three quarters of LDCs received flows of more than 2 percent of GDP in 2002-11 over half received inflows worth more than 4 percent of GDP, while a quarter of these countries were indeed receiving FDI inflows of *over 8 percent* of GDP in this period.

Most LDCs remain primarily exporters of primary commodities. Large flows of FDI into these countries have been mostly targeted at the commodities sector, in particular fuel and minerals, driven by strong global demand, high commodity prices and spectacular new discoveries of subsoil assets. Countries like Angola and Equatorial Guinea provide examples where heavy FDI inflows have already resulted in strong oil production and revenues. Others like Democratic Republic of Congo, Liberia ➤

Figure 1: FDI Inflows 1980-2012

% of GDP



Source: IMF Oct.2012 WEO Database and World Bank Staff

➤ and Sierra Leone are examples where FDI is still accelerating and major expansions in minerals production and revenue still lie mostly in the future. [1] Gelb, Kaiser and Vinuela (2012) note that large as-yet undiscovered reserves of oil and minerals are likely to be found and brought on stream in Africa for decades to come, including in LDCs

Problematics of the Natural Resource Curse

The growing discovery and production of natural resources made possible by FDI should in principle provide an enormous boost for development and poverty reduction in the LDCs, for example by increasing resources for education, health and infrastructure. In reality experience is replete with cases of resource abundant countries that have squandered their natural wealth, have experienced low growth, massive corruption and social conflict, and ended up even poorer than when they began – the so-called " natural resource curse".

So, which of these roads will the LDCs travel? Will a booming natural resource sector prove to be a curse or a blessing? The current consensus among economists is that it mostly depends on circumstances and policies. (Brahmbhatt, Canuto and Vostroknutova 2010; Lederman and Maloney 2007). Two circumstances seem particularly important. First, negative effects are mostly related to oil and minerals rather than agricultural commodities. Such concentrated "point source" resources can easily become the object of rent-seeking and capture (including through armed conflict). Second, high oil and mineral revenues mostly have a negative impact in countries *with bad governance,* while they have a *positive* impact in countries with good governance. (Collier and Goderis 2007). This is worrying because LDCs are in general characterized by weak institutions and poor governance.

There are a number of ways in which natural resource abundance and poor governance can lead to worse economic performance. First, countries with weak governance are more likely to adopt poor economic policies to manage commodity booms. For example politicians may spend the new revenues in wasteful and ➤

➤ unproductive ways which nevertheless increase their political popularity. Second, natural resource booms create complicated problems in macroeconomic management that are tough even in economies with good governance and institutions. These include so-called Dutch Disease effects, with an appreciation of the real exchange rate accompanied by a contraction of sectors of the economy such as manufacturing. Other macroeconomic problems result from the volatility of primary commodity prices, which drives volatility in natural resource revenues, government spending and real exchange rates, with the resulting uncertainty damaging investment and growth.

Natural-resource-abundant countries also face longer-term questions about the optimal pace at which to deplete their resources today and how much to save for the welfare of future generations. An important metric here is whether the country's economic strategy is *sustainable*, meaning one that transfers enough wealth to future generations to allow them to achieve at least the same level of welfare as today's generation. Natural resources are part of a country's overall wealth or capital stock, alongside its physical capital (such as machinery and buildings) and intangible capital (including human capital, social capital, and factors such as the quality of its institutions). To increase wealth, a country's investment in the various forms of capital must exceed the depreciation of its wealth, including the depletion of its natural resources. In other words, what is referred to as the country's *adjusted net savings (ANS) rate* must be positive. [2]

The ANS rate for LDCs was positive but low during the 2000s – about 4 percent a year, compared to 13 percent for developing countries as a whole. ANS rates were *negative* for several LDCs, indicating that their wealth stock was contracting and that current growth would not be sustainable in the future.

What Policies Can Help LDCs Best Manage Commodity Resources for Development?

Given the evidence that problems with governance are at the root of the natural resource curse, it is vital to increase transparency and accountability over all aspects of natural resource extraction and use. These aspects include the terms of contracts with companies engaged in resource extraction or operation, ongoing monitoring of operations, and the collection and use of government taxes and other revenues from natural resources. Broad global efforts like the Extractive Industries Transparency Initiative (EITI) can play a part, as, at the domestic level, can anticorruption reforms, more scrutiny by civil society and media, procurement reforms, strengthening of formal audit, parliamentary scrutiny, and so on. Equitable sharing of benefits across regions, ethnic groups, and so forth can help reduce the danger of civil strife over resources.

Many countries are also experimenting with use of a separate (extra-budgetary) Natural Resource Fund (NRF) to facilitate good management of revenues. Experience suggests that such funds can help buttress the right policy mix but that, by themselves, they are no substitute for sound overall fiscal and economic management. An NRF of itself will not prevent waste and abuse unless it is part of a broader effort to strengthen governance and integrate ➤

the fund with an overall fiscal policy framework.

The government also needs to make key decisions about how to allocate natural resource revenues between consumption and savings of various kinds, decisions which will determine how well the country is able to handle problems such as Dutch Disease and commodity price volatility, as well as the long run impact of natural resources on growth and poverty reduction. Should the government return revenues to private citizens (via tax cuts, transfers, or a "citizens' dividend"), or retain them in its own hands? If the latter, how should revenues be allocated between public consumption and various kinds of public investment? (These issues are discussed in depth by, for example Collier and Venables 2008). If resources are to be spent on public investment and infrastructure, reforms to strengthen public investment management, cost-benefit analysis, monitoring and evaluation, and budget processes and institutions are crucial.

We conclude that high FDI flows into booming natural resource sectors in the Least Developed Countries could raise difficult development challenges for these economies. With good policies and governance, though, natural resources can help accelerate overall economic and social development. Mismanaged, they could foster the deep dysfunctions and problems associated with the natural resource curse.

Note: The views expressed in the article are those of the authors and do not necessarily represent those of the World Bank, or of the Executive Directors of the World Bank or the governments they represent.

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1. See Boayke et al (2012) for Liberia and Sierra Leone.
2. World Bank (2011) provides a comprehensive discussion of the methodology of wealth accounting and of principal findings from wealth accounting data across countries

G8 Heads of State Summit:

What Happened, and What are the Implications?

The UK hosted the Group of Eight (G8)Heads of State Summit in Lough Erne Northern Ireland in June 2013. 'Tax, trade and transparency' were the key agenda items. Corporate taxation did not figure prominently, principally because the OECD 'Base Erosion and Profit Shifting' project did not report until July.

NGOs kept the media focus on the transparency work stream, calling on the UK in advance of the summit to "put its own house in order". UK Prime Minister Cameron's key objectives for the transparency program were:

- collection of information on beneficial ownership for all companies,
- central registers for data,
- 'freely accessible' to law enforcement; and
- also accessible to the general public.

During the run up to the summit the UK deflected attention to the British offshore centres, prevailing on them to upgrade tax information exchange collection and exchange protocols. Under considerable media attention the Crown Dependencies and Overseas Territories (CD/OT) signalled willingness to engage in wide-ranging automatic information exchange. CD/OT commitments stimulated by the summit included the following:

- FATCA-style information exchange with the UK;
- participation in an EU pilot to engage in FATCA-style information exchange;
- accession (through the UK) to the OECD Multilateral Tax Convention; and
- scheduled reviews concerning transparency in respect of beneficial ownership.

The OECD Multilateral Tax Convention commits signatories to tax information exchange on request to all other signatories. The Convention also paves the way to automatic tax information exchange and to enforcement of the tax judgements of other signatories. The CD/OTs have not yet committed to automatic exchange through the Convention or to enforce the tax judgements of others, but there may now be pressure to do so.

The OECD tabled a report at the Summit entitled: 'A Step Change in Tax Transparency' with proposals for moving to automatic exchange of information, on a single standard. As many institutions are now adapting to accommodate US FATCA requirements, this appears likely to be the new standard.

UK Prime Minister Cameron withdrew plans to keep registers of beneficial ownership on the G8 agenda on 15 June, the same day that he met with the Chief Ministers and Premiers of the British offshore centres.

In the event, the UK received limited support at the Summit itself for other aspects of their transparency program, suggesting that while countries are keen to receive tax enforcement data they have less interest in reciprocating.

The next steps are Action Plans to press ahead with the vague G8 member commitments to enhance beneficial ownership collection. From the G8 only the UK, the US and France have tabled commitments to provide Action Plans at the time of writing.

The British offshore centres already collect beneficial ➤

ownership information for corporations and have done so for a dozen years, through licensed and regulated corporate service providers. The UK, by contrast, does not yet collect any beneficial ownership information.

The UK Action Plan for transparency provides for deposit of beneficial ownership in company registers. Prospects for success of UK plans do not look promising: overburdened corporate registrars have little ability to chase down those contributing data to confirm that beneficial ownership disclosure is adequate or accurate. Criminals, for example, would be unlikely to fear sanctions from Companies House for failing to properly report. It is likely that in due course the CD/OT model will be seen as far more effective. One might expect that in due course UK and other G8 countries will need to examine this model more carefully (also used in the Netherlands) as it becomes clear that the passive, archival process of corporate registries is unsuited to the law enforcement task intended for it. The Department for Business, Innovation and Skills is expected to run a public consultation on the new reporting requirements during the summer – including the question about whether to make the information available to the public.

Public Registers: What are the Risks?

A planned release of financial information poses risks well beyond occasional hacking or bribery of tax officials to access official records. Data aggregators would, for example, harvest the data out of public registers of beneficial ownership then organise and analyse the data for sale for commercial buyers. Such compiled records would be readily accessible to criminals.

Could governments effectively protect individuals in the public eye targeted after their data is stolen or released? Should celebrities owning their homes through companies in an effort to avoid paparazzi or other harassment have their personal data disclosed? What about the individual owners of companies running abortion clinics or engaged in nuclear research or life sciences activity which is lawful but offends fringe groups- eg, animal rights activists? Even if the G8 is comfortable, important questions remain regarding the real kidnapping and extortion risks in emerging countries with less stable or effective governments.

NGOs have noted that public registers would facilitate their work in support of tax investigation and enforcement. African countries with weak institutional capability are singled out for support. Thoughtful tax policy experts no doubt shudder at the prospect of 'vigilante' tax enforcement. As the recent condemnation of the US IRS for targeting Tea Party and similar activists shows, government agencies at least have the virtue of accountability for their derelictions.

There is of course no guarantee or even reason for confidence that all those with access to published financial data would use it responsibly in the regulated and impartial manner expected from governments. Could clear lines be drawn between vigilante tax enforcement by well-intentioned NGOs and (self-help) action by criminals to effect a more direct 'redistribution' of newly visible wealth? Ironically, such risks are likely to be highest in the countries with weak institutions- the very same which NGOs seek to help.

Does a Level Playing Field Matter?

A level playing field - ie, universal or at least broad-based application of standards - is essential to avoid simple displacement of business to less expensive or less transparent locations. However, the notion of a more than 100 countries progressing in one wave seems an impractical process. Some countries will have to lead and take the competitive consequences.

As the UK now conducts approximately 25 per cent of the cross-border financial intermediation in the world, a program which hobbles them and does not include Asia and the US may be ineffective and pointless. Worse, the UK could lose any leverage over progress on global standards if it moves ahead of other big players who are happy to exploit the regulatory arbitrage opened by UK action. Even if China and the US ultimately join the program, the last man standing (and other late movers) will still be big winners where they have corralled all of the business before the level playing field is locked down.

China's cooperation in US FATCA is uncertain; it is not a G8 member and was not asked to join the consensus. Even if

China were asked to join in, we know the answer. China already blocked similar action by the UK when it chaired G20 under PM Gordon Brown in 2009. Few MNCs or wealthy individuals are likely to shift their affairs to China if they hang back, but what about Hong Kong if it shelters under China's umbrella?

What about the US? US LLCs are generally tax-free when owned by non-US persons, provided their activity is confined to holding operations or investments outside the US.

The US establishes more than a million LLCs a year, most of which are used for routine (reported and taxed) US business. To their credit, US federal government agencies also candidly acknowledge widespread abuse of US LLCs by international criminals, given that US data collection obligations lag well behind current international standards. In many states no information at all on corporate owners is collected, giving complete anonymity to owners [1].

There is no risk of BVI-style theft of US data discs – such discs do not exist in the US system. Many US states do not even track shareholders of record at the moment, so US domestic standards have a long way to catch up. With over 18 million active corporations[2] US self-exemption from the rules is a not a small hole in the global system. What are the prospects for a globally effective process for tax information collection and exchange while the US is not on the program?

Conclusion

G8 proposals represent an ambitious program in the global drive for transparency. Costs will be vast. Competitive implications, cyber-criminal access to data registers and level playing field issues all bear careful thought.

IFCs play an important role providing the utility 'wiring', which supports cross-border investment and trade. Globalisation has fuelled a doubling of world GDP in a generation, unprecedented in world history. Poverty has declined dramatically across emerging economies, particularly those like China which have skilfully used and supported the symbiotic financial hubs which surround them. Trade, not aid, has been the emerging country ticket to success.

Ill-considered damage to the facilities which support global business could be perilous. Asian and other emerging financial hubs in the Middle East – as well as the US - will eagerly snap up existing financial services capacity which is impaired by uncompetitive and poorly designed UK/G8 policy. G20 will now take over the transparency work stream in a Heads of State meeting in St Petersburg scheduled for 4 September 2013 under a Russian presidency.

It feels like 2002, when small IFC regulatory compliance leapfrogged that of the OECD countries, forcing a slowdown in the pace until the larger countries caught up. In the meantime British IFCs would be well advised to contribute actively to the public conversation on regulation to ensure that the world recognises their leading regulatory standards and their constructive contribution to the economies of the metropolitan countries they service. ■

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1 "Company Formations Minimal Ownership Information Is Collected and Available", Report to the Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, US Senate, United States Government Accountability Office, April 2006. Also see: US Money Laundering Threat Assessment, US, December 2005.

2 "The Puppet Masters: How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do About It", World Bank, November 2011.

An end to offshore business?

Small emerging International Financial Centres(IFC) like Mauritius should develop pro-active strategies of engagement with key jurisdictions after the G8 Summit, writes Samantha Seewoosurrun of Newgate Communications, Brussels

The recent G8 Summit in Northern Ireland hailed an unprecedented crackdown on tax avoidance and tax evasion. UK Prime Minister David Cameron, who presided over the meeting, commented that "*tax authorities across the world should automatically share information so those who want to evade taxes have nowhere to hide*". The issue of automatic information exchange will remain high on the political agenda for the months to come, in Europe and beyond. Small IFCs like Mauritius might consider taking pro-active steps to engage with key international jurisdictions and to develop a positive response, to guard against any adverse 'domino effects' from current international discussions.

State of play after the G8 Summit

So where do things stand after the G8 Summit? The final communique placed significant emphasis on developing global solutions to the problems of tax evasion and tax avoidance, and included the following points:

- The G8 would ensure that international and G8 countries' own tax rules "*do not allow or encourage any multinational enterprises to reduce overall taxes paid by artificially shifting profits to low-tax jurisdictions*".
- The exchange of information between jurisdictions was seen as *"a critical tool in the fight against tax evasion*" and recent developments in tax transparency were seen as *"setting a new standard and commit to developing a single truly global model for multilateral and bilateral automatic tax information exchange building on existing systems*". The G8 expressed support for the OECD report on the practicalities of implementation of multilateral automatic exchange and pledged to work together with the OECD and in the G20 to implement its recommendations urgently. The G8 called *"on all jurisdictions to adopt and effectively implement this new single global standard at the earliest opportunity*".

In addition, the G8 also agreed on a set of Action Plan principles to prevent the misuse of companies and legal arrangements, inspired by the UK, which highlight that companies should know who owns and controls them and their beneficial ownership and basic information should be adequate, accurate and current. The principles also state that beneficial ownership information on companies should be accessible onshore to law enforcement, tax administrations and other relevant authorities including, as appropriate, financial intelligence units. While all of the G8 countries supported the principles, only six of the countries agreed to present their own Action Plans, with Germany and Russia declining to do so. The UK published its own document on the same day as the G8 Summit, and the US and France were quick to follow.

OECD's four steps to tackle global tax evasion

In terms of the OECD's work referred to at the G8 Summit, the OECD reported that *"vast amounts of money are kept offshore and go untaxed to the extent that taxpayers fail to comply with tax obligations in their home jurisdiction. Offshore tax evasion is a serious problem for jurisdictions all over the world, OECD and non-OECD, small and large, developing and developed. Cooperation between tax administrations is critical in the fight against tax evasion and a key aspect of that cooperation is exchange of information*".

The four steps suggested by the OECD are as follows:

- Enacting broad framework legislation to facilitate the expansion of a country's network of partner jurisdictions
- Selecting the legal basis for the exchange of information
- Adapting the scope of reporting and due diligence ➤

requirements and coordinating guidance
- Developing common or compatible IT standards.

EU 'at the forefront of the fight'

The EU has explicitly stated that it wishes to be *"at the forefront of the fight against tax evasion and tax fraud"*. In a Joint statement after the G8 Summit by European Council President Van Rompuy and European Commission President Barroso, it was noted that automatic exchange of information is already the norm for EU savings income and by 2015 should apply to all form of income and account balances, and there was strong support for making this a global standard and introducing country-by-country reporting by multinational companies to tax authorities. Beyond the political rhetoric, the EU and certain Member States have already taken a series of concrete steps this year to show that they mean business.

First, in April, France, Germany, the United Kingdom, Italy and Spain announced plans for a pilot action on automatic exchange of information (AEOI) using the US Foreign Account Tax Compliance Act (FATCA) model agreed with the US as a basis, and called on Europe to take a lead in promoting AEOI in the world.

Secondly, in June, in response to calls from EU Heads of State and Government, the European Commission adopted a new proposal to expand the scope of automatic exchange of information, which is seen as contributing to the development of an international standard. While the existing Directive and new proposal cover the arrangements between the EU Member States and do not seek to target third countries as such (although it is noted that information may be passed where bilateral agreements are in place), EU Taxation Commissioner Semeta commented upon the launch of the proposal that it *"gives the EU an even stronger hand to push for more tax good governance internationally… to 'up our game' as a Union and lead by example. And it is also a sign we expect others to follow us"*.

Third, later in June, the European Commission told Italy, Poland, Belgium, Greece and Finland's self-governing Aland Islands that they must enforce new EU rules aimed at tackling tax evasion within the next two months or else face court action. The new rules – which should have been applied since the beginning of 2013 - require Member States to share information with each other on possible tax evaders and set deadlines for how quickly information must be provided. It is made clear that countries cannot refuse requests to share information by saying the data is held by banks.

While the EU initiatives taken to date do not include any binding measures in relation to offshore centres or 'tax havens', there are clear indications that EU politicians and policy makers still have further measures in their sights. At the end of June, the European Parliament's Socialist & Democrat Group hosted a meeting focusing on tax havens, tax evasion and corruption. Experts emphasised how multinationals and people involved in international trade use tax havens to avoid paying tax, sometimes with the permission of governments. Starbucks and Apple were cited as examples, and it was claimed that half of the world's trade is channelled through tax havens. Mojca Kleva Kekuš MEP commented: *"Now it is up to the European Commission to prepare concrete proposals and for Member States to ensure they become reality. I have also suggested creating a list of tax havens."*

UK focus on tackling 'aggressive tax avoidance'

In advance of the G8 Summit, David Cameron had already set out his priorities based on the three T's: tax, transparency and trade. He sought to set an example to other leaders by hosting a meeting with Britain's Overseas Territories and Crown Dependencies to call for action on tax information exchange and beneficial ownership. Speaking after the Summit, he proclaimed that *"tax authorities across the world should automatically share information so those who want to evade taxes have nowhere to hide. Companies should know who really owns them and tax collectors and law enforcers should be able to obtain this information easily, for example through central registries, so people can't avoid taxes by using complicated and fake structures."*

To further demonstrate leadership, the UK Government's own Action Plan published on the day of the Summit states that it will amend the Companies Act 2006 to require that this information is accurate and readily available to the

authorities through a central registry of information on companies' beneficial ownership, maintained by Companies House.

The tough stance taken by David Cameron is already starting to yield some results, which will surely strengthen the resolve of Cameron personally and the UK Government more broadly to reinforce their campaign with further initiatives. Late in June, Starbucks announced that it has paid £5m in UK corporation tax - its first such tax payment since 2009.

Hollande 'voulait aller plus loin'

The issue of tackling 'paradis fiscaux' rocketed up the political agenda in France in the aftermath of the scandal which brought down former Budget Minister Jerome Cazuhac, who eventually admitted tax evasion in early April. President François Hollande reacted angrily to the scandal, which delivered a severe blow to his own credibility and that of his Socialist administration, and he has since announced a raft of initiatives, such as one to prevent tax dodgers from holding public office and another to force French banks to publish details of their subsidiaries around the world and to create a French blacklist, to be updated each year, of foreign tax havens.

Speaking after the G8 Summit, M. Hollande said the outcome represented *"un grand pas"* which left tax havens *"en mauvaise posture"*. He expressed disappointment that the G8 did not go further in relation to multinationals and also thought that there could have been an obligation for registers of offshore companies to be published.

Developing pro-active strategies of engagement

Beyond the G8, other jurisdictions are taking pro-active steps to tighten their own tax evasion rules, with Singapore most recently announcing it will become a money-laundering offence for banks to assist tax evaders to hide their funds on its territory. In the light of this, on 30 June the Financial Times reported Jason Collins, a partner at Pinsent Masons, a UK law firm, as saying that *"many governments are not going to rest until all offshore centres sign up to 'automatic' exchange of information so that information about their citizens is as freely available as if they banked onshore."*

Taken together, recent developments clearly demonstrate the strong momentum for further initiatives to crackdown on tax evasion and avoidance at global level, and that the bar of 'acceptable standards and behaviour' will be set higher and higher. This may lead to greater scrutiny and attention on countries such as Mauritius over the months to come. So does this mark the end of global business? It all depends on how effectively Mauritius and other jurisdictions can communicate a positive response and develop a targeted engagement plan with key authorities regarding its position as a well regulated IFC to neutralise potential 'domino' effects arising from the tax havens discussion and to withstand international scrutiny. Mauritius can present itself as a model of transparency for other centres to follow, which could yet drive further business to the island, but must grasp this opportunity now as the clock is already ticking.

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Sir Seewoosagur Ramgoolam International airport

A brand new airport terminal was inaugurated on the 30th of August 2013 by the Hon. Prime minister, Dr. Navin Ramgoolam.
This new terminal that will be fully operational as from mid September will support the strategy of Mauritius to become a major regional hub for travellers between Africa, Asia and the rest of the world.

Accelerated Programme for Economic Integration

Small and remote islands, like Mauritius, suffer from inherent structural handicaps that hamper their sustained growth and sustainable development. One way to overcome this is through regional cooperation and integration.

This was the stark reality that Mauritius faced when it achieved independence. Therefore, in the definition of its foreign policy, economic diplomacy became an important component and regional cooperation was the instrument through which this policy was to be implemented.

Mauritius, therefore, joined a number of regional and inter-regional Organizations like OCAM, OAU/AU, COMESA, SADC and the ACP-EU Cotonou Partnership Agreement as well as ESA-EU Economic Partnership Agreement. It has also supported the COMESA-EAC-SADC Tripartite process for the establishment of a grand FTA by 2014, and subsequently a single Customs Union. The latter agreement is expected to include services. But, notwithstanding the declarations at the highest political level, an agreement in the immediate future seems elusive.

Following successive rounds of multilateral trade negotiations, and within the context of regional free trade agreements, there has been significant progress in reducing traditional barriers to trade like tariffs. But, there are still many non-tariff barriers and burdensome regulations in respect of which little progress has been made. Moreover, in the area of services which has huge potentials for cross border trade, many countries are still reticent to liberalize, and progress, both within the World Trade Organizations and in the Regional Economic Communities, is either slow or inexistent

In view of this unsatisfactory state of affairs, five like-minded and reform-oriented countries, namely Malawi, Mauritius, Mozambique, Seychelles and Zambia, decided in September, 2012 to launch the Accelerated Program for Economic Integration (APEI). This is in line with the spirit of rapid integration based on the principles of variable geometry and speed underpinning the Road map adopted by the COMESA Council of Ministers of Finance and Central Bank Governors, and by SADC in 2011.

Progress on the implementation of the proposed Road map has, however, been very slow. It is generally recognized that the non-availability of dedicated financial resources to accompany necessary reforms and to mitigate their possible short term negative impact has historically been one of the major reasons for the lack of progress towards speedy regional integration. Discussions have been going on with some development partners to explore the best possible models to get the regional integration accelerated using a possible combination of various financing instruments to advance the pace of implementation of agreed regional integration agendas.

If effectively implemented the Road Map/APEI has the potential to spark a strong supply response and thus generate higher growth and better employment opportunities, diversified exports and enhanced international competitiveness needed for greater regional and global integration into trade and production network.

With the persistent difficult economic and financial situation in most of Europe, the world is shifting its focus eastward, but also southward to Africa. And therefore, it is urgent for Mauritius to improve market access to Africa and to promote Mauritius as a service centre by ensuring that, by coming to Mauritius, investors from countries like China and India have easy access to Africa. This is part of our regional strategy to transform Mauritius into a platform for enhanced economic and financial linkages to the emerging economies of the African Continent.

Africa has a big and fast-growing market with its current population of 1 bn expected to exceed 2 bn by 2050, with a middle-class attaining 500 million. In the last 10 years, Africa has grown two-and-a-half times faster than any developed country, ➤

➤ and has the potential to maintain that growth rate. According to many studies and Organizations, within the next 10 years seven out of the top fastest-growing countries in the world will be in Africa. Africa grew in 2012 when most of the world was in the midst of crisis and the future outlook is good.

It was against such a background that the five like-minded and reform-oriented countries adopted an Action Matrix covering five pillars that require reform to remove impediments to trade and investment and the ease of doing business as well as the facilitation of the movement of professionals and business people; the pillars are: improvement of business regulatory environment; elimination of trade to barriers in goods; promoting trade in services; improvement in trade facilitation; and capacity building and peer to peer learning.

The Action Matrix has identified priority constraints and a set of specific actions to be implemented over a 3-year time frame which began in May 2013. Specific key performance indicators have been set for each participating APEI country to ensure that the objectives of the integration process are met within the agreed time line. In accordance with the Action Matrix, the participating countries have to identify five priorities and five constraints in the five pillars.

An important element of this innovative approach is the possibility of building capacity through peer-to-peer learning and the sharing of knowledge and experience. It is noteworthy that the APEI platform is NOT a trade negotiations forum, nor is it meant to duplicate or undermine the regional integration agenda of the RECs (Regional Economic Communities) to which the five APEI countries belong. However, it can serve as a platform to facilitate the resolution of any trade, business or investment related problems bearing in mind that the attendance at the APEI meetings so far has been at high/senior officials' level.

The success of the proposed APEI will hinge on a strong political will in the concerned countries, the adequate structuring and sequencing of proposed policy reforms and actions, effective implementation and adequate financial backing from the international community as experienced in successful regional integrations in other parts of the world, like the European Union through its Cohesion Fund.

Lack of access by domestic and foreign companies to the right people with the right skills is not allowing them to fully exploit the huge trade and investment opportunities that an emerging African continent provides. In this respect, the APEI countries recognize that the main challenge is to address the impediments to the movement of service providers across borders that will help make them an attractive hub for investment. The main focus is the facilitation of the movement of different categories of service providers among the five APEI countries in order to address the poor allocation and mismatch of skills demand and supply initially among the five countries and subsequently across the African continent. ➤

➤ The APEI Technical Meeting held in Malawi on 30-31 May 2013, pursuant to a mandate by the second APEI Ministerial meeting held in Seychelles on 19 March 2013, adopted the Terms of Reference for a study on the Facilitation of the Movement of Professionals, Business People and other service providers. It will be financed by the Development Grant Facility provided by the World Bank. Calls for Expression of Interest have already been launched. The study is expected to be completed within five months; but the Travel Handbook and Memorandum of Understanding on the Business Visa/Permits will possibly be ready for examination by the APEI Ministerial meeting to be held in Malawi in late September, 2013.

Mauritius has taken the lead on this proposal in our effort to create a regional platform for the export of professional services across the region being given that it already has the appropriate framework in place and is thus encouraging its APEI counterparts to do the same. Our objective is to get the other countries to adopt the same policies that we have for professionals and to accept that these provisions would apply to residents and not to citizens. If we succeed, this may encourage foreign enterprises investing in Africa to set up their regional headquarters in Mauritius. It may also encourage investment into Africa to be routed through Mauritius. This proposal should not be confused with the free movement of people or labour mobility advocated by some regional organizations and on which we currently have reservation.

For the attainment of the objectives of the APEI, the five participating countries have recognized the importance of structured intra-private and public-private dialogues. In this regard, they have agreed to define the most appropriate process and platform. The European Centre for Development policy Management will facilitate the exercise with the intention to create mutual engagement by the Governments and the private sector so as to improve the overall business environment necessary to strengthen the competitiveness of enterprises, encourage linkages and facilitate exchanges among the APEI countries.

The APEI process is being facilitated by the World Bank. The EU seems also to be supportive of this approach which will contribute towards the acceleration of the implementation of the regional integration agendas of the RECs/ROs. The support of other development partners, like Japan (TICAD), AfDB, AFD, DFID, will have to be secured in order to finance the costs associated with the implementation of the APEI Action Matrix. It is only by producing quick and tangible results and the commitment for the provision of dedicated resources on a predictable basis by the development partners that other countries may be encouraged to join the APEI.

The five APEI countries had until the end of June to submit their technical assistance requirements to help them implement their commitments over the agreed three-year period under each of the five pillars identified in the Action Matrix. The World Bank has prepared a template to facilitate the compilation of information in this regard. Mauritius has undertaken consultations with the operators/stakeholders to identify our needs and also the constraints in the other APEI countries that are hindering our export and business relations.

In order to ensure action at the national level, the APEI Ministers have decided that each participating country has to set up a National Coordinating Committee with a designated Focal Point that will form part of a Regional Coordinating Working Group (CWG). The latter is responsible for compiling inputs from national stakeholders and dialogue with other countries. It will also monitor progress in the implementation of the Action Matrix. The CWG has to meet every three months and the Ministers every six months

At the level of Mauritius, three Technical Working Groups on the APEI have been set up by the Mauritius National Coordinating Working Group. They are co-chaired by the public and private sector representatives and meet regularly to examine actions required under the Action Matrix.

The next APEI technical and Ministerial meetings are scheduled to take place in Malawi at the end of September, 2013. Malawi will then take over the chairmanship from Seychelles. ■

SUTIAWAN GUNESSEE,
Chairman
Mauritius National Working Group
Accelerated Programme for Economic Integration

Regional Treasury Centres for Africa

Evolution of International Finance Centres

The world has been experiencing structural shifts in the global economy: debt overhang in the West, cash surplus in the East and significant opportunities in Africa. This has resulted in the growth of the South-South trade corridor and the formation of a channel for investment capital between Asia and Africa.
How do we tackle the fragmented nature of the Africa opportunity and what are the various options to access such a market in an efficient manner?
What are also the critical aspects of the evolution of both International Financial Centres and Regional Treasury Centres in the context of a suitable mechanism to channel and manage the trade and investment flows into Africa?

Africa – Huge but fragmented opportunity

Africa's middle class has experienced the fastest growth over the last decade. Consumer spending is expected to expand to USD 1.4 trillion by 2020 from USD 860m in 2008. With average GDP growth expected to average 7% up to 2030 - this goes to partly explain the level of optimism and investor interest in Africa.

However as investors rush to seize this opportunity, it is important to appreciate its fragmented nature so as to derive the necessary investment synergies.

For example the Africa opportunity is spread across the vast continent (approximately 30 million km^2) in multiple countries, both Anglophone and Francophone Africa (some countries like Angola, Mozambique are Portuguese speaking).

Within the continent, also are a number of trade blocs e.g. COMESA, SADC, IOR-ARC, EAC, ECOWAS etc all pointing to the need and opportunity for consolidation which brings forth multiple economic benefits. Additionally any investor should be aware of the varying regulations including tax and currency controls and should take into account the political dynamics across the continent.

This surely poses a challenge for any corporation which would like to invest across the continent. Centralisation of company functions up to the formation of a Regional Treasury Centre (RTC) can assist in reducing the cost of making Pan-Africa investments while at the same time deriving efficiency benefits of a large market place.

Centralise to realize the Africa opportunity

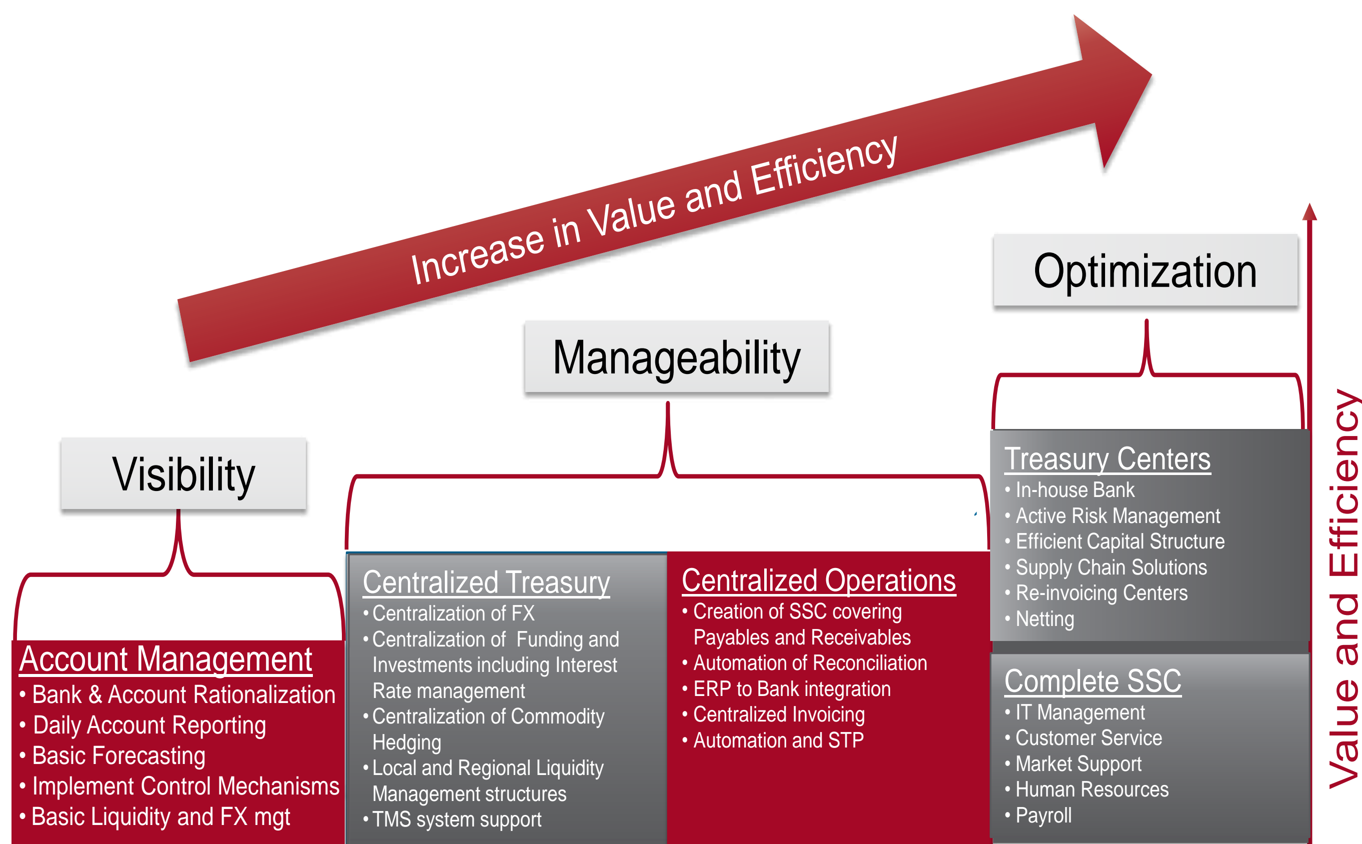
The journey towards regional treasury centralisation can help illustrate how consolidating corporate functions can provide the synergies required to access Africa. The figure below shows the key steps in centralisation and the value and efficiency derived.

The journey of centralisation begins with Visibility. In order to be able to manage the funding and liquidity management needs of the group a fundamental knowledge of the local cash flows is needed.

Typically the next steps that help with manageability and optimisation happen in parallel or independent of each other. Firstly, the Treasury function centralises the Funding, Foreign Exchange, Liquidity management and Commodity risk hedging. In parallel the Finance function in cooperation with the Treasury applies the best practice procedures for Accounts Payables and Receivables.

Treasury centralisation involves building *in-country liquidity structures*. This helps in optimising returns and enhancing visibility and control on locally trapped cash particularly in some African countries that have exchange ➤

Figure : Journey towards Regional Treasury Centralisation



controls. What follows is *Regional Treasury Centres*. RTCs help in optimising liquidity across multiple geographic locations and would be the single face to the market for Forex and financing needs particularly for USD / GBP / EUR currencies.

Finance centralisation would usually involve the setting up of a *Shared Services Centre* (SSC). This entails consolidating non-core treasury and financial functions (e.g. Finance, HR Processes etc). While SSCs provide efficiency by eliminating duplication of non-core corporate functions across multiple countries, a language complexity does arise. Companies would have to take into account the challenge of serving both Anglophone and Francophone Africa from a centralised location. This largely helps in increasing operational efficiency and reducing cost. Greater economies of scale are achieved where companies have high volume payments across multiple countries. To increase efficiency and timeliness of payments, dealing with a financial institution that has a strong network in Africa and direct access to the local clearing houses is an important consideration.

The benefits that centralisation offers are however limited to the level at which an International Financial Centre (IFC) has evolved to provide a singular access to Africa.

IFCs need to evolve to fully realise the Africa opportunity

As a starting point let us first look at the key factors that corporates find important when selecting an IFC to locate an RTC in the African context.

When choosing an IFC to locate in, a corporate would usually consider the following:

- The availability of skilled personnel
- The regulatory environment
- Access to international financial markets
- The availability of business infrastructure
- Access to customers

Availability of skilled personnel

When international corporates select an IFC to locate their RTC, skilled personnel are essential. Furthermore, when providing access to Africa, personnel would require at least two

additional skills: Bi-lingual in French and English to serve Anglophone and Francophone Africa and strong local knowledge about the markets in Africa. To be able to achieve this, countries hosting IFCs could look at the following strategies:

i) *Educational Hub:* A country hosting an Africa IFC should position itself as a hub for students from Africa and Asia (rebalance the existing education curricula to include Africa needs in particular).

This can be done by attracting or fostering partnership with the region's best and renowned universities and developing a marketing strategy to attract foreign students. The rigour and quality of tertiary education needs to be made comparable with some of the high-end universities across the world.

ii) *Attracting Human Capital*: Continued investments in adding capacity and quality at higher education institutions would be necessary to sustain the human capital requirement for an Africa focused IFC. However, given the shortage of bi-lingual staff and those with knowledge about the markets in Africa, measures need to be taken to attract expatriate talent which always assesses the relative attractiveness of IFCs. Incentives such as tax breaks, investment opportunities into real estate or local economy, faster permanent residency would go a long way in attracting these professionals into the country.

iii) *Enhancing the skills of Working Professionals:* Apart from fresh talent, there is also a need to augment and internationalise the skills of working professionals in an IFC. Professionals working in the IFC that want to be Africa focused can be sponsored to obtain qualifications that are partially or fully subsidised by the Government.

The Regulatory environment

Any Africa focused IFC, which wishes to attract RTCs, should have a regulatory regime that provides clear tax advantages and that facilitates accessibility to the markets in Africa.

i) *Targeted Double Taxation Avoidance Agreements (DTAA) & Investment Protection and Promotion Agreements (IPPA)*: The DTAAs and IPPAs with African nations should be a must to attract Africa destined investments. An IFC would need to have these in place for the

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major Africa nations e.g. Nigeria, Egypt, Sudan, South- Sudan, Angola, Tanzania, Zambia, Kenya South Africa, Ghana.

ii) *Embassies/Consulates for African Nations:* Embassies or consulates in any country hosting an IFC would help in obtaining visa, translation and notarisation of documents etc. Embassies would also promote investment opportunities in their respective countries and this information would be accessible to investors based in that IFC.

iii) *Africa Time Zone:* For a location to be used by investors to access Africa, it must be able to cater for the African time zone. It goes without saying that an IFC with close geographical proximity to Africa would be better placed. Even then policies and facilities to support extended working hours may need to be introduced.

Access to African & International financial markets

Bringing African corporates seeking equity or debt financing closer to international investors would increase the relevance of an IFC.

i) *Listing of African Corporate's Stock Exchanges located in IFC's*: Doing this would attract global investors to take risk in large African corporates. This would not only offer investors platforms for African investments, but would also open up information on Africa to the general market.

ii) *Custody hubs:* Financial institutions who offer custody services for markets in Africa should be encouraged to set up in IFCs. This would give investors a singular access point to stock exchanges in Africa.

iii) *Multi-currency platforms* – Exchanges in IFCs offering access to Africa should offer listing in major African currencies e.g. South African Rand

iv) *Financial Instruments for risk management:* Countries that host Africa focused IFCs should encourage financial institutions to develop derivatives that can be used to hedge against risk arising from investing in assets in Africa.

Availability of Business Infrastructure & Access to Customers

i) *Air Connectivity:* Air hubs have played an important role in the development of IFC's like Singapore and Dubai. Strong air connectivity would be required for passenger traffic across the African continent. Moreover connectivity with the rest of the world would be key in the evolution of an IFC.

ii) *Telecommunication & Internet:* An IFC should have strong telecom and internet connectivity with Africa. This also includes mobile phone connectivity. Africa has been leading the way in mobile phone money transfers (e.g MPESA in Kenya). An IFC that can tap into this payment channel would be at an advantage as it can offer international corporates a payment channel with access to millions of Africans.

iii) *Trade blocs:* Africa has numerous trade blocs. An IFC that is a member of one or more of these trade blocs would offer corporates that deal in trade within the continent another reason to choose them as a location for their regional headquarters.

Mauritius experience in the IFC and RTC space

Mauritius, an emerging IFC, is seen as a gateway to Africa for trade and investment flows. It is strategically positioned between Asia and Africa and can act as a port for bulk-breaking of goods consigned for fragmented markets in Africa.

Mauritius is already witnessing the positive trend of corporates setting-up their procurement offices and liquidity management solutions in the country which will eventually evolve as full-fledged RTC's for the region. Thus IFC's are surely evolving into crucial intermediaries in fusing together fragmented markets and improving the efficiency of accessing them.

SRIDHAR NAGARAJAN
Chief Executive Officer
Standard Chartered Bank (Mauritius) Ltd.

Global Business Banking Coming of age

Known as the Star and Key of the Indian Ocean, Mauritius' history is steeped in the geopolitical and commercial importance of being a strategic maritime port of call and trading post on the route between Europe and Asia. Successively colonised by the Dutch, the French and then the British, Mauritius has traditionally punched far above its weight by virtue of its key location in terms of the relative proximity to both Africa and Asia and the ability to cover the vastness of the Indian Ocean.

Fast forward a few centuries, and the idiom of "location, location, location" has not changed an iota. The once mono-crop economy, then vulnerable to the vagaries of the sugarcane harvest, has gradually made way to a diversified, increasingly service-oriented and internationally competitive productive structure that is highly integrated into the world economy. Consequently, Mauritius has moved from a low to an upper middle income country in the space of a few decades, globally recognised for its high value-added production in niche segments and its ability to take innovative practices, depicted, amongst others, by the setting up of one of the first export-processing zones in the world in the 1970's to kick-start a manufacturing revolution revolving around the textiles industry. The Global Business sector in Mauritius, a glittering jewel in a crowning financial sector that has established the country as a renowned and reputable international financial centre (IFC), illustrates one of the many ways in which this island nation has maintained its strategic importance, while positioning itself as the ideal platform to tap into the current and future opportunities stemming from the gravitational shifts in the global economy.

Years of growth and exposure to international trade created the foundations for the development of a strong and resilient banking industry and culminated in the emergence of a sophisticated financial sector, with institutions such as the Mauritius Commercial Bank Ltd., a key regional bank equipped with expertise that has been developed and honed for 175 years. Today, Mauritius enjoys a strong reputation as a safe, trusted and secure financial jurisdiction untarnished by not even a single international financial scandal. Its Global Business industry is firmly established within the financial sector and economy as a whole. As at June 2013, there were some 25,696 Global Business companies (GBCs), 894 global funds and 168 management companies operating in the Mauritian jurisdiction; the sector as a whole is estimated to have contributed around 4.9% to GDP in 2012, and the net value of assets of GBCs and global funds reached an estimated USD 60 billion as at end 2012, compared to USD 8.9 billion in 2000. The gradual but steady development of Global Business in Mauritius was originally a result of the wider national economic diversification strategy that involved the liberalisation of the economy in the 1990's (notably concerning the abolition of capital and exchange controls), pragmatic macroeconomic reforms to foster and facilitate a conducive business environment, and a solid regulatory framework. As part of this strategy, the objective of positioning Mauritius as a regional hub for Global Business (or offshore) financial services led to the modernisation of laws and regulation in 1992 and, coupled with the opening up of the stock market in 1994 to foreign investors, provided impetus to the development of the financial industry. A second wave of reforms under the Business Facilitation Act in 2006 significantly improved the investment climate, propelling Mauritius amongst the top performers globally across a wide range of indices, such as the Ease of Doing Business Index and Index of Economic Freedom.

With the presence of some 21 international and domestic banks, activities directed to the provision of international financial services have given ➤

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rise to foreign-sourced income (known in Mauritius as Segment B and consisting mainly of foreign currency loans and other financing outside Mauritius to corporates). The sector has experienced strong and sustained growth in recent years and shown a remarkable ability to ride the global financial crisis. In this respect, total Segment B loans registered an annualised average growth rate of above 19% between March 2006 and 2013, increasing from USD 2.8 billion to USD 9.6 billion (MUR 86.4 billion to MUR 297.8 billion) during that period, despite the successive tremors on the international front. Such robustness illustrates the attractiveness of the jurisdiction as a key hub and destination for finance, notably to serve emerging markets in Asia and increasingly Africa, the judicious expansion strategy of its banking players and the growth potential therein, as the targeted regions maintain their stellar growth path. Additionally, the sectorial distribution of these loans is well diversified, with financial & business services, manufacturing and trade financing accounting for a large chunk.

In its embryonic stage, as has been the case for all international financial hubs, the key offering of Mauritius lay in the midst of its network of international fiscal treaties. However, since those early days, its Global Business sector has moved beyond its teething stage, thriving and now maturing into a full-fledged financial centre, with a diverse array of services offered to clients from varied geographies, now including derivative trading through a world-class platform, a leading stock market in Africa and a regionally influential regulatory reach. Specifically, the attractiveness of Mauritius as an IFC goes largely beyond tax planning considerations and is, to a significant extent, attributable to the quality of its services and expertise, the sound legal and regulatory framework, and its established reputation. This has been achieved by building upon the comparative advantages that have enabled the country to fearlessly navigate the rough economic seas of the global economy over the past decades and achieve what has been dubbed 'the Mauritius Miracle':an innate ability to consistently re-invent and re-position its economy to sustain economic development and resilience.

Lately, the domestic Global Business industry has evolved towards higher value-added services, with key recent developments such as the specific investment funds listing regime by the Stock Exchange of Mauritius, tailored to provide a streamlined and progressive listing process for a wide variety of fund structures, and several pieces of legislation to allow for new investment vehicles, as part of the objective of further promoting Mauritius as a platform for wealth management services, succession and estate planning in the region. These developments complement already existing product/service offerings such as Regional Headquarters Scheme (which several leading global companies have taken advantage of), private wealth management, global funds, protected cells companies, trusts and captive insurance company, alongside more traditional investment routing activities and GBC hosting.

As a growing business and financial hub backed by a safe, politically stable and democratic economy, along with improving connectivity and infrastructure, Mauritius can therefore, within its Global Business framework, tap into various business and financial planning opportunities, as IFCs continue to play a major role in enhancing cross-border financial flows and structuring investments, targeting mainly emerging Asia and Africa. Notably, Mauritius has now a vast network of tax agreements with African countries, with the latter expected to be the main engine of world growth going forward, underpinned by sustainable positive developments therein, such as the positive structural and macroeconomic reforms being undertaken, the rise of an affluent middle-class and the diversification of sectorial base. Indeed, international financial centres such as Mauritius have an important part to play in this process by serving as a platform to raise funds and channel investments in their economies' productive capacity and thus enable their economic development - this is all the more important, given their current inherent hindrances to raise finance domestically.

Yet challenges persist; the aftermath of the global financial crisis has brought forth unrelenting pressure for regulatory oversight in a bid to preempt and defuse factors which led to the demise of major institutions across the globe. However, the debate seems to have skewed towards populism, particularly the idea of taxing international capital flows. In fact, at a time when it is primordial to rekindle economic activity, the least effective means to do so would be to introduce new

levies on cross-border finance, and stifle entrepreneurs. Any move to burden this flow with undue and unreasonable means will only worsen world growth prospects and hinder the attainment of development objectives. Specifically for Mauritius, the local legislation needs to be upgraded to further encourage private equities and companies to set up business locally to provide substantial and cost-effective funds to promote investments towards the region, tapping into the Africa/Asia axis. In light of increasing pressures to clamp down on IFCs which act as tax havens, there will undoubtedly be a rush towards financial jurisdictions of good repute, representing both substantial opportunities and risks to the financial sector therein, particularly for the banking players. The banks will have to significantly gear up their capacity to gratifyingly meet the demands from such a surge, notably in terms of continuous service delivery, while having appropriate safeguards and KYC policies in place to determine the source of and filter incoming funds. As a young entrant to the world of IFCs, the jurisdiction will also be tested by unscrupulous businessmen to fraudsters to hackers. To this effect, building capacity within players to match international standards and demands will be a key component for the Mauritian jurisdiction to effectively capture this new business and further its bid to become the main player regionally.

All that said, the Mauritius product offering is diverse and improving, with domestic players increasingly able to tap into opportunities, building on the solid footing provided by their prudent business model. Beyond, the reputation of Mauritius as a sound financial jurisdiction of good repute will only be enhanced through further improving the existing set-up. The burgeoning and thriving economies in the region, hungry for financing their development and consumption needs, provide Mauritius with ample prospects to strengthen its role as an international financial jurisdiction. Whilst due care is required, given its acquired maturity, the Mauritian Global Business and its Banking sector are well poised to move confidently forward and fulfil its potential to grow into the preferred international financial centre of the region.

PRATIK GHOSH
Head of Global Business
The Mauritius commercial Bank

Opening up offshore opportunities across Africa

One of the most dynamic and fastest economies in sub-Saharan Africa, Mauritius has successfully moved since its independence in 1968 from a mono-crop sugar-dominated economy to a services-oriented one. The target spelt out is now that of an innovation-driven economy. This rapid and successful transition to a mature economy - one of just two in Africa - is testimony to the vision and will to succeed jointly shared by government, the business community and the population for sound economic management coupled with a vision to succeed.

In effect, the country focuses on ensuring that doing business in and from Mauritius is easy and smooth as well as compliant with best practices in terms of transparency, good governance and ethics. It is no coincidence that Mauritius has been recognised as the 1st country in Africa in the World Bank Ease of Doing Business Report. Mauritius has enacted anti-money laundering and terrorist financing legislation while the business framework itself has been made simpler. A "Work & Live in Mauritius" department has even been set up within the Board of Investment in Mauritius to expedite formalities for individuals and investors setting up in Mauritius. The business environment and the investment climate in Mauritius are constantly being enhanced with a view to strengthen the image of Mauritius as an attractive investment destination. The sound economic policy and good governance have indeed made Mauritius the most business friendly destination in Africa.

One salient feature of the business-friendly strategy is the fact that a foreign investor can settle hassle-free in Mauritius and be operational in just three days. Over and above being a country devoid of any exchange control and where export-oriented operators enjoy duty-free privilege for inputs and equipment, Mauritius also has one of the world's most generous tax regimes, with personal and corporate tax harmonised at a low 15% and tax-free dividends.

The legislation governing global business has been elaborated to optimally allow management of funds outside of the European Union. The country also boasts an impressive number of double taxation agreements ("DTAs") with a wide range of countries together with investment promotion and protection agreements ("IPPAs") with key regional and international economies. Mauritius currently has double taxation agreements with 39 countries including India with whom Mauritius has a long-standing special relationship, and more than a dozen African countries. A number of other double taxation agreements are in progress. Add to that the fact that Mauritius is also a privileged member of key African and regional organisations, including the African Union (AU), the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA) and the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC), and you get an ideal springboard for taking full advantage of the range of opportunities that lay in store in Africa.

It is justly Africa that Barclays has in scope in line with the Barclays Group 'One Africa strategy'. The reason behind this is the immense potential of Africa. Evidence clearly shows that over the last 5, 10 and 20 year's Africa's economic growth has been second only to Emerging Asia's and the resilience of growth post-crisis has been impressive. On the front of resources, commodity extraction has been a larger proportion of African GDP than in any other region. Yet, total extraction is much lower and suggests that there is far more to come in Africa. In addition, the emergence of South-South links plainly stands as a direction for future success. Several areas, agriculture and technology for instance, can go from being drivers of employment to driver of growth. ➤

➤ Africa indeed looks set to become the world's fastest growing consumer market, the more so that an increasing number of people are expected to move to cities in Africa over the next 20 years. This is much more than the mass which has moved to cities in China in the last 20 years. Social and economic indicators indicate that this African trend is expected to accelerate.

As the focus converges towards Africa, one element that stands out is the fact that the history of Barclays in Mauritius has always been intimately linked to the economic development of the country and marked by the firm belief in the enormous potential of the African continent. Set up on 15 October 1919, Barclays was the first international bank to establish operations in Mauritius and has always been not only an active economic player but also a strong contributor to the success of businesses and corporate entities throughout the decades.

Barclays Bank Mauritius Limited is poised to be the bridge between the world and Africa by providing ways and means to customers and clients who are eagerly following the evolution of African economies which are actively seeking ways to become more business friendly. Leveraging the global presence of Barclays through operations in 50 countries across 27 markets and building upon an extensive network in Africa, Barclays Mauritius International Banking is able to provide a complete range of sophisticated solutions that span cash management, deposits, treasury, trade and lending to meet the needs of the most exacting and sophisticated customers and clients.

Our capacity to offer the best services and products on the market is further enhanced by Barclays being the major shareholder of Absa, one of South Africa's largest financial services groups. We also have one of the largest footprints in the African region with a combined presence of more than 1,500 distribution points. Through Barclays Mauritius International Banking, customers and clients have access to eight leading offshore financial centres, with all their assembled expertise. Each of the Barclays global business centres to which Barclays Mauritius International Banking is linked provides tax-efficient banking in a stable and respected jurisdiction.

With full access to dedicated relationship managers and product specialists boasting a unique knowledge of the local and regional market and ➤

Established on 15 October 1919 in Mauritius, Barclays was the first international bank to commence operations in Mauritius. Barclays Bank operated as a branch of Barclays Bank PLC until 1 June 2013 when it became Barclays Bank Mauritius Limited. Barclays Bank Mauritius Limited is a subsidiary of Barclays Group. The history of Barclays in Mauritius has been one of award-winning performance. Its most recent accolades are the Bank of the Year award for Mauritius from the banker and the EMEA Finance award for best foreign bank in Mauritius won for the fifth consecutive year.

Barclays Bank Mauritius Limited provides a range of banking services to both personal and corporate customers and clients. Personal services include current and savings accounts, foreign currency accounts, loans, credit cards, ATMs and telephone banking. Business services include lending products, trade and export finance and specialist services such as treasury, foreign exchange and capital markets capability.

We also offer world-class international banking products and services to customers and clients worldwide. International Banking boasts a unique blend for supporting the setting up or expansion of operations within the region thanks to its unquestioned international and multilingual expertise. The strength of the local International Banking team is further boosted by the fact that Barclays Bank Mauritius Limited pioneered the local global business sector in 1989 by being the first bank to have an offshore operations licence. Testimony to the ambition of our International Banking team to be on the forefront of innovation is the first-on-the-market launch of a new offering, namely the opening and handling of Foundation Accounts, a new form of business entity introduced recently in Mauritius.

Graham Sheward is Corporate Director in International Banking for Barclays Bank Mauritius Limited in Mauritius. He can be contacted by phone on +230 4041000 or alternatively via email at

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in an advantageous time-zone location, Barclays Mauritius International Banking is well placed to provide customers and clients with global financial solutions combined with comprehensive local support. Our international span is further enhanced by our pioneering status on the front of Global Business in Mauritius. Barclays was the first banking institution to launch offshore operations in Mauritius in 1989 and it is no coincidence that more than 20 years later, Barclays still is one of the key players both locally and regionally. Testimony to that is our well diversified and 'elite' portfolio.

It is always pleasing to profile actual customer feedback from our extensive network and Azuri Technologies, an innovative business bringing power to off-grid customers in rural African emerging markets, is a case in point. Azuri asked Barclays to help them fulfill their ambition of expanding further into Africa, and the results speak for themselves:

- Azuri has experienced rapid growth by distributing their pay-as-you-go affordable solar home systems in Africa.
- Safer and cheaper than traditional sources such as kerosene, their systems provide 8 hours of power, allowing families to improve their quality of life.
- Barclays provided Azuri with finance of £1m through our Social Innovation Facility, which was set up as a catalyst for the development of innovative products that deliver a sustained social impact.
- With this backing, Azuri will deliver an additional 30,000 solar home systems.
- Azuri has ambitious plans to expand across Africa and will benefit extensively from Barclays on-the-ground presence and expertise.
- As Simon Bransfield-Garth, CEO, says "Barclays have shown tremendous vision in looking at the future possibilities in Africa, they are working closely with us to find ways to finance the roll out of energy into that continent."

Another way Barclays is determined to support its customer base is through technological innovation. *'Barclays Integrator'*, an internet transactional banking solution platform aimed at creating opportunity for customers to access banking facilities, is a clear illustration of our innovative spirit. As a matter of fact, the '*Barclays Integrator*' made Barclays win the *Euromoney Award for Cash Management* some years back. This online platform, offered to corporate customers, proprietors, partnerships and designated individuals of companies provides secure, reliable and fast online banking solutions. Barclays Mauritius International Banking offers a comprehensive and customised range of products and services to corporates and these include:

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- Trade Finance
- LC refinancing/Discounting, Pre-shipment finance, Bills discounting
- Syndicated Loan Market; participation in syndicated loan market by actively seeking transactions in London / Far East / Africa
- Escrow account services
- Agency and Project Account Bank Offering

I have worked across several geographies and though all my previous positions are reminiscent of very good experiences, I guess I would choose to stay in Mauritius at this point in time.

There are a number of reasons that dictate this choice. The quality of life there and the wonderful people of course. But over and above these, my motivations as banking professional are the economic potential of this country and the immense opportunities ahead for doing business to and from Mauritius.

GRAHAM SHEWARD,
Corporate Director
International Banking
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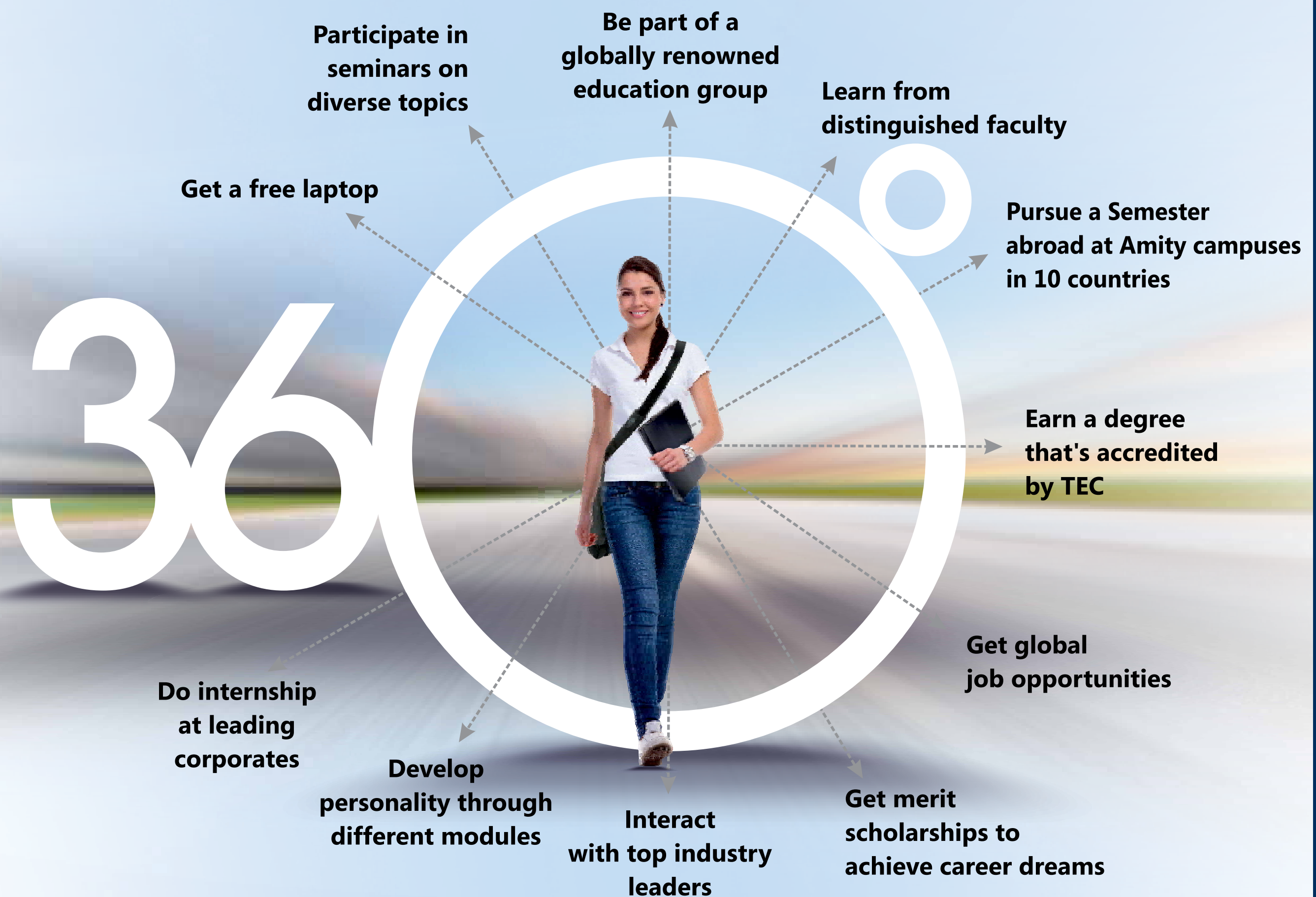

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Trust, Peace of Mind, Wealth and Rewards are essential to Life