Boosting Mauritius' reputation as a key enabler of trade

GTR (virtually) gathered a group of key Mauritius-focused industry players in June to discuss the impact of Covid-19 on the Mauritian market, provide an update on the local banking sector, and evaluate whether the country has yet realised its goal of becoming the gateway to, and trading haven for, the African continent.

Roundtable participants:

- **Nuvin Balloo,** lead economist and manager, strategy, research and development SBU, MCB
- **James Benoit,** then-CEO of FCMB Bank (UK) *(chair)*
- **Bob Blower,** CEO, CognisSys
- **John Félicité,** director – Africa, Ocorian
- **Marc Harel,** head of institutional banking, MCB
- **Umulinga Karangwa,** equity investment manager and co-lead asset management, TDB
- **James Kasuyi,** head of financial institutions, international banking, Bank One
- **Robin Smither,** senior executive – head corporate banking, AfrAsia Bank

Benoit: What has been the impact of Covid-19 on the vision for Mauritius? What's new in the conversation in terms of market developments?

Harel: Typically, as banks, we go into conversations armed with a set of unique selling propositions (USPs), confident that we are flush with US dollars, and that we're investment grade, etc. Those USPs may soon be challenged. In addition the macro environment is suffering, US dollars aren't as available as they used to be, non-performing loans are going to start affecting us at some point, and capital adequacy is most probably going to be looked at again. All our USPs are being reconsidered at the moment, so our conversations are not going to be as straightforward as they used to be.

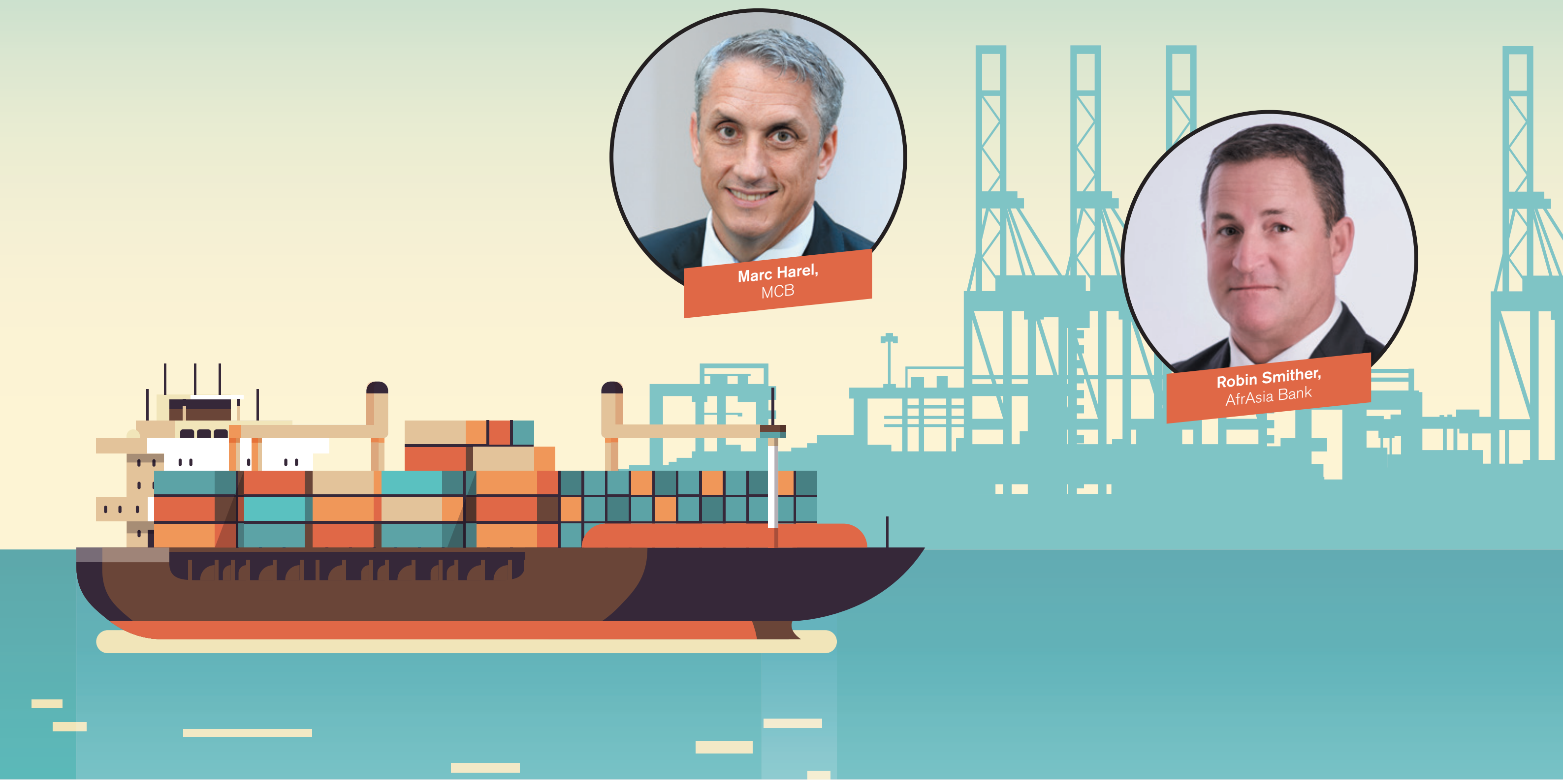
Félicité: Every nation is suffering from Covid-19 and it's having a major impact. From our side, we've seen a slowdown in people executing transactions which have now been pushed to later in the year. It doesn't mean they're not going to happen. It just means that people are waiting to see when their counterparts will be able to do things again.

I think the true impact on Mauritius has yet to be seen. Mauritius is facing a double whammy: not only has it suffered from Covid-19, which has obviously impacted people's ability to meet with bankers face-to-face and borrow and finance their businesses, but the island has also recently been added to the EU's blacklist, which is really unfortunate timing. The arguments against this are being put forward and it would appear that the EU has broken some of its own rules with respect to the procedure.

However, I also see the opportunity for Mauritius in -all of this, in the sense that it has the ability to engage much more with leading African countries. I think it needs to be selective in terms of who it deals with and how it deals with them. If there's a clear plan, then I think Mauritius could be better placed longer term.

Smither: My worry is that the extent of the impact on the local economy has yet to be seen. The central bank has introduced certain measures, such as the Mauritian Investment Corporation (MIC), which has now been funded substantially to support the local economy. In terms of what the government's intentions are for Africa, it's been announced that MauR10mn from MIC will be earmarked for inter-government funding into Africa. Given this, I would say that the Mauritian government still has strong intentions to play deeply within the pockets of Africa. It's just the question of where, when and how they do it.

What we've done at AfrAsia is try and support our clients from a forbearance perspective, where possible.



One of the risks that we try and manage is how long is the problem going to last? We're not sure whether we're dealing with a six-month problem, a 12-month problem, 18 months or even longer.

The local banks are very well placed and there's a lot of liquidity in the market, so that's one positive. But there is the fear that comes at the same time for the banks, which is that you don't want to put good money after bad. That's been a very challenging situation: to stand by clients in a very difficult time.

Because of Covid-19, we're now running a debt to GDP of around 85%, which is substantial. But, in terms of the intention that we've seen from the banks and the government, I do think the economy will pull out of it.

Kasuyi: Since the onset of Covid-19, the Mauritius banking system has remained a sophisticated and stable platform for investors looking to access the continental mainland. We've heard some banks having troubles with access to liquidity: that hasn't really been an issue here in Mauritius during the current crisis, as our regulators have been proactive and supportive. We've seen South Africa's economy go to junk status and Nigeria's country rating downgraded. These are, supposedly, the two largest economies on the continent.

Bank One is still receiving requests for financing and corresponding services. There is an increased need for investment in local manufacturing, e-commerce, pharmaceuticals, and healthcare so that Africa is better positioned to face any future crisis and uncertainty.

Balloo: We are all aware that Covid-19 will impact the Mauritian economy to a large extent, on the back of the lockdown period and the adverse impacts of downturns in our key export markets. But it's also important to bear in mind the key fundamentals of the economy. For example, in April, Moody's assigned a negative outlook for the credit rating of the Mauritian sovereign, reflecting risks to the country's economic and fiscal metrics as a result of the coronavirus outbreak. But, at the same time, it has emphasised the key attributes of the economy which are helping to counteract the adverse impact, for example the country's resilience to shocks, adherence to good governance principles, strong policy making, and robust institutional framework. It's important to bear those factors in mind.

In terms of Mauritius' listing on the European Commission's blacklist of high-risk third countries, it's a big blow to the Mauritian International Financial Centre. Of course, we are awaiting to see if this will come into effect in October 2020 as announced, but it's worth noting that several measures are being taken to address this. For example, in its most recent budget, the government announced that it is committed to completing the five remaining recommendations of the FATF by September this year. The government, together with the private sector, is working to put in place the necessary initiatives, notably in terms of the legal framework to reinforce our adherence to international standards set by the EU.

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James Benoit, FCMB Bank (UK)

Benoit: Has the country realised its goal of becoming the springboard for investment and trade into and within Sub-Saharan Africa? What role can it play in the rollout of the African Continental Free Trade Area?

Karangwa: Despite the issues discussed, Mauritius is very well placed as a platform to finance the continent. In terms of relationships with African countries, there has been very good progress. Mauritius is trading with more and more countries and the government has invested significant efforts into supporting Mauritian entities going to Africa.

For African players, I don't think that there's any risk of Mauritius declining as the best place to run a financial pan-African business. The AfCFTA is going to accelerate this standing. After this crisis, the AfCFTA will boost the way in which Africa is integrating, and Mauritius will benefit from that, for sure. Mauritius is already the most open African economy by far, even though this is costing them a lot at the moment because if you are too open you can't build domestic resilience. It is more open than South Africa, for example, as well as the other large African economies; in terms of moving money around, there is no better place.

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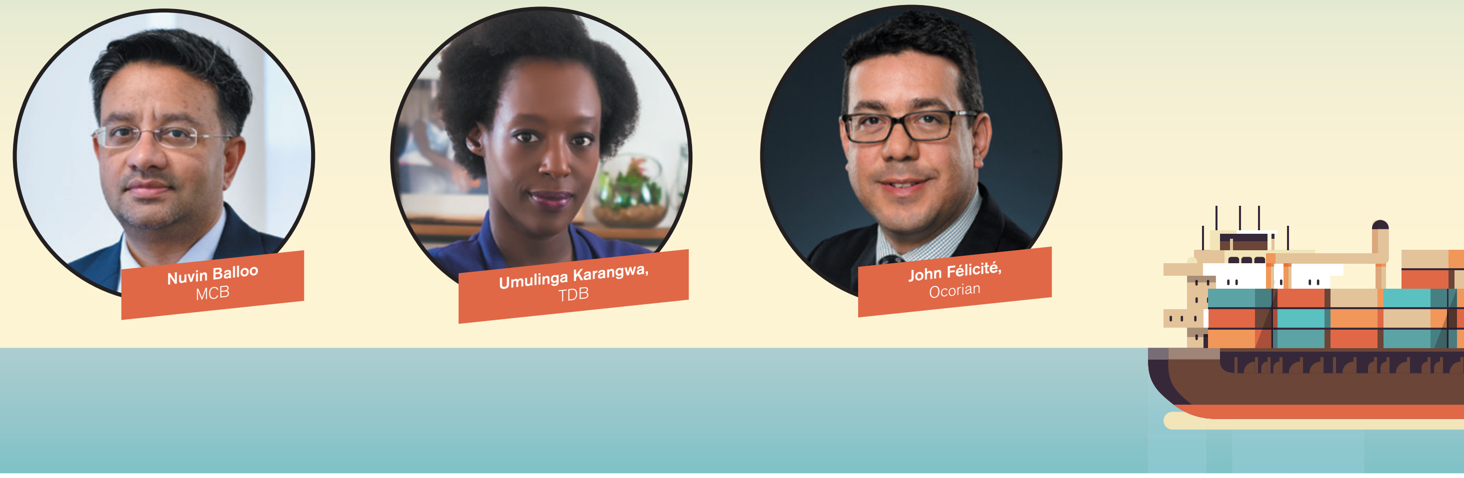
Blower: We're a commercial payments business, and set up in Mauritius last year. The major driver for us was the fact that through the various free trade agreements and regional trading blocs, we were able to get fairly unfettered access to those markets. And Mauritian banks have been very helpful in terms of helping us set up. The major Achilles heel remains that there's still a lot of bureaucracy in the way in which things are done there. Lots of paper, a lot of stamps that have to be applied to paper, things like that. They've not really digitised to the extent that they could. I know digitalisation is top of the governor of the Bank of Mauritius' and the finance minister's minds – and this really needs to take force. Now especially there has to be a real push towards digitisation of all processes, including things like KYC, anti-money laundering and so on.

Félicité: This all alludes to the perception of what Mauritius does for Africa, which needs to change. In the past 20, 30 years, it has all hinged upon the double taxation agreements (DTAs), and that has often led to challenges from different entities, whether it's the EU or countries within Africa. Mauritius should use this opportunity to change external views and focus on driving good economic diplomacy – and PR – and use governance as the new lynchpin. It needs to use technology, the skills of people on the island and thought leadership to shape the role that the country plays in the future development of the continent. That is what will change the perception of Mauritius vis a vis those outside.

Benoit: There needs to be a better understanding in the market that Mauritius is a key enabler of trade, it's not just about moving money around for a few basis points here and there, and for tax advantages. But how does Mauritius make its reputation for trade better known?

Smither: I don't think Mauritius has come anywhere close to getting to a point where it fully does what it can do on the trade finance side. It's probably fair to say that the only bank that’s really done an extensive amount of structured trade finance in this market is MCB. But, for the other banks, I don't think it's been a hugely aggressive market in Africa, and probably for good reason: the underlying risks in certain countries are not always fully understood.

There are a lot of areas that Mauritius has to develop if it's going to become a meaningful player in the trade finance space. For example, it doesn't yet have a sophisticated stock exchange platform for mining



companies. A lot of mining companies that invest into Africa, like the Australians, actually go through the Canadian stock exchange, not the Mauritius one – it's not a reputed exchange for this activity. Raising sufficient capital off the Mauritian market is not that simple. There have been very few cases where IPOs on the Mauritian stock exchange have raised the capital that foreign investors expect in complicated markets like mining.

Blower: I used to work at Standard Bank and one of the biggest problems that Mauritius has always had is that it is largely seen as a booking centre rather than a place of origination. It's really about building up the skills around origination and distribution in the local marketplace, which is so key. There are local banks investing in that, but it needs to happen across the marketplace, and international banks need to play a part in that as well and think about how to build up the skills, training and everything else around that.

Karangwa: I think the skills are here. That's one of the reasons why TDB set up its headquarters here three years ago, knowing that we will find the skills we need for our trade finance business.

Benoit: Many of you have raised the point that we need to get away from the views that Mauritius is only about treaties and tax, and I know many of your institutions are putting huge amounts of money into trade on the continent. What is holding Mauritius back in terms of being known as a place to conduct trade finance?

Smither: I have a lot of discussions with clients and potential clients on this point. Let's assume that the legitimacy side in terms of KYC was sorted out – it's not, but it should be – what most companies look at, besides the tax benefits and everything else, is what is the benefit of coming to Mauritius versus another jurisdiction, such as Singapore or Dubai? If we're talking specifically about Africa, Air Mauritius is in a bit of trouble in terms of the flight connectivity to the rest of Africa; Dubai is the most connected portal into Africa right now. That connectivity going forward will remain ever important to whoever plays within the African framework.

The second thing that is really key is relative cost. When you establish a company in Mauritius, you've got to hire people, pay taxes for people, etc, and you look at the costs of doing so in Mauritius versus Singapore and Dubai, some of the feedback, unfortunately, that I've received recently – and it's not because of Covid-19 – is that compared to these other jurisdictions, Mauritius is becoming a very expensive place to conduct business. This needs further attention. If someone starts a company here, can they get access to equity? Can they get access to debt? Can they get access to complicated funding structures that support an aggressive growth profile? It has got to be commercially viable.

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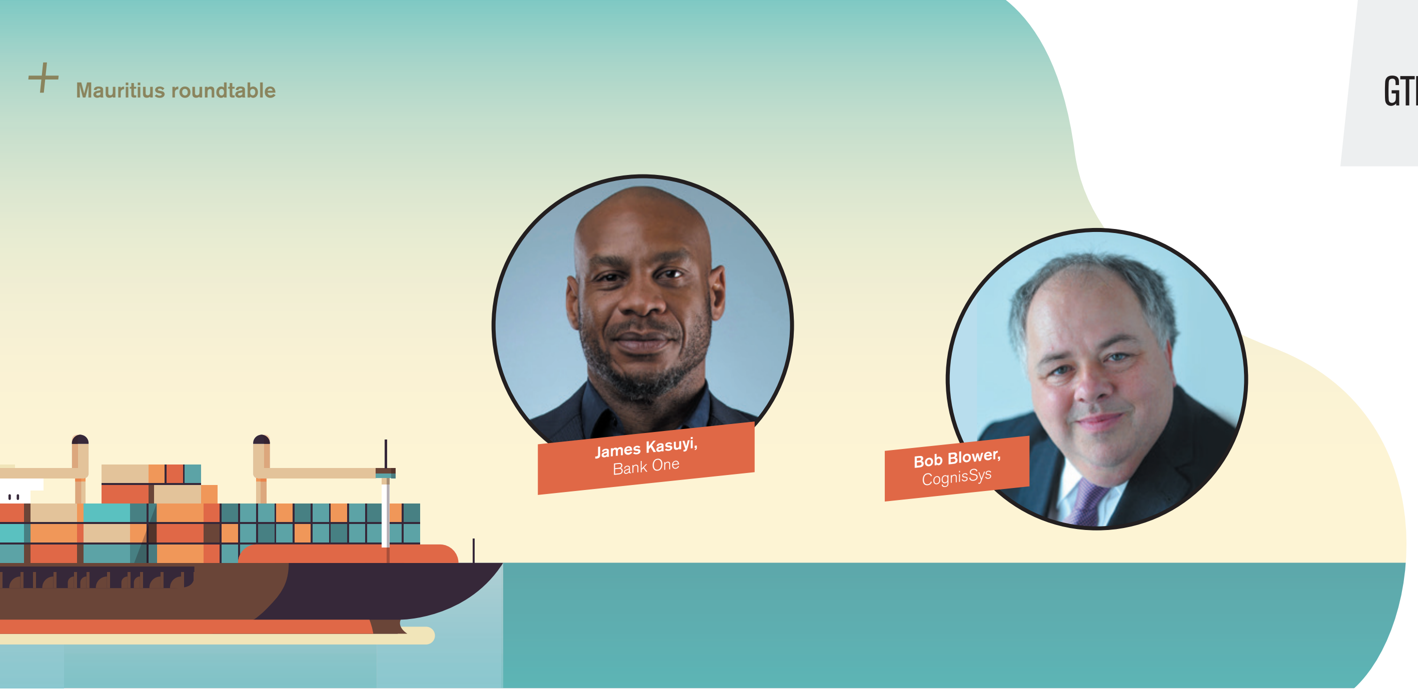
Benoit: One of the advantages Mauritius has is that there's a much more simple 'plug and play' approach – certainly when compared to London. Perhaps Mauritius' value is, to some extent, keeping it simple and keeping it focused.

Harel: Focus is an important point given that resources will be limited: we cannot go running after all the deals available in the market. At MCB we recognise that and are niche market players.

In terms of cross-border business, what we also really need to develop is our electronic capabilities and embrace this reality – this will enhance client onboarding and review and lead to better risk management, better client satisfaction, and improved trade finance execution, shipment tracking, etc. As an international finance centre, we can't do offshore banking and still require physical documentation. The regulators needs to acknowledge



this and work on it because, right now, we're more or less still working on a local retail set of rules, which isn't really ideal for the offshore business.

Benoit: Afreximbank is working on an automated KYC registry for all the banks across the continent. Markets like Mauritius really need to jump on those initiatives and use them to their advantage.

Blower: The Bank of Mauritius has just issued an RFP for a KYC registry for Mauritius, which we have responded to. The government is very keen to see this progress. Critically, it will need to embrace not just the banks but also all the management companies on the island.

Benoit: Does anyone have any final thoughts about Mauritius' future in terms of its trade finance capabilities?

Kasuyi: We've been discussing quite a bit of bad news, but we would all be remiss if we didn't also look at this as an opportunity from which we can learn and grow.

What the crisis has allowed for us is a period of introspection over the last few months. Bank One has conducted reviews of our portfolio and internal controls, making sure that our compliance processes and digital systems are top notch. We've been refining our strategy much more acutely than normally done on an annual basis. That is allowing us to focus on our core strengths as far as business is concerned.

We have also been improving the digitalisation strategy and have been upscaling and growing our systems so that we can better support investors navigate the trade market in both Mauritius and continental Africa once the business kicks back up, which it will.

In terms of trade finance, Bank One has approached other FIs and corporates and now we're looking to originate and syndicate transactions out of Mauritius, where in the past our role has traditionally be that of risk-sharing. Now Bank One, as well as Mauritius, is uniquely positioned as a reliable and strong banking partner, with the capability of originating, structuring and participating in syndicated deals 'from Africa, for Africa'.

Blower: The FI strategy is a natural step for Mauritius, given the surplus liquidity in the island. The only thing I would say is that the correspondent network outside of Mauritius needs to support that. And that, of course, takes us all the way back to the EU sanctions list.

Smither: I've got a few pointers in terms of things to watch out for. The first one is the downgrading of the South African banks and where that country is going right now, which will fundamentally shape the continent going forward. South African banks are going to struggle from an FI perspective in terms of raising foreign currency at a competitive price. One of the advantages Mauritius has right now is the liquidity that it sits on in dollars versus the South African banks, and the cost of funding on that. That's a massive opportunity to be able to deploy that capital into Africa.

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James Kasuyi, Bank One

The second thing is how to assess country risk in Africa, and how to de-risk certain structures, be it from a foreign currency perspective, exchange controls, or whatever. This is where governments and financial institutions can play a big role. If these two things come together: the ability to fund competitively against the major banks and being able to de-risk, using Mauritius as the platform, then you're starting to talk about some significant solutions around trade finance.

Banks and the central bank should also look at the option of allowing insurance wraps from the likes of the Lloyd's of London market to hedge out credit risk taken on certain loans, with the benefit of the central bank allowing the banks to reduce their capital weightage where such credit insurance is recognised. GTR