How the Mauritius IFC paves the way for continental growth

The Mauritius IFC, in its unique position, continues to play its part in helping to shape Africa's economic narrative, according to Sayyad Khayrattee of Axis Fiduciary Ltd and, while challenges remain, the collective efforts of Mauritius and African nations may pave the way to a brighter future for the continent.

In recent years, the African continent has experienced rapid economic growth and development. This has been characterised by a dynamic blend of emerging markets, vast natural resources and a young generation passionately pushing for progress and driving change. During this transformative journey, the financial services sector has played a pivotal role, as evidenced by an expanding banking outreach, innovative digital financial solutions, fintech related initiatives, substantial investments in renewable energy and various social impact investments, amongst others. All these factors have collectively attracted a lot of foreign investments, thereby positioning the continent as the land of opportunities.

FDIs in Africa

As outlined in the UNCTAD's World Investment Report 2023 (the "Report"), investment flows to Africa in 2022 amounted to USD 45 billion. Notably, the value of announced greenfield projects in Africa increased to a remarkable USD 195 billion, as compared to USD 52 billion in 2021; and the number of announced greenfield projects rose to 766 (an increase of 39%) with 6 of the 15 top worldwide mega greenfield investments being rooted in Africa. Such an increase was primarily in the energy and gas supply, representing USD 120 billion; for the construction industry it was USD 24 billion; and in the extractive industries, it rose to USD 21 billion. Over the past five years, FDI inflows have risen in four of the regional economic groupings on the continent, as follows:

- Common Market for Eastern and Southern Africa grew by 14% to USD 22 billion;
- Southern African Development Community rose to USD 10 billion;
- West African Economic and Monetary Union rose to USD 5.2 billion; and
- East African Community grew by 9% to USD 3.8 billion.

According to the Report, the European investors remain, by far, the largest holders of FDI stock in Africa, led by the United Kingdom (USD 60 billion), France (USD 54 billion) and the Netherlands (USD 54 billion).

Private Equity deals in Africa

The AVCA's 2022 Annual African Private Capital Activity Report ("AAPCA") outlines the vibrant private equity landscape in Africa. As highlighted in the AAPCA, the total value of private capital deals reported in Africa reached a record high of USD 7.6 billion in 2022. Additionally, the continent recorded a total of 626 private capital deals. Remarkably, 2022 has become the peak year for deal volumes in Africa over the past decade, with a substantial 46% year-on-year increase.

Challenges of doing business in Africa

While Africa has seen rapid growth and development in recent years, investing and doing business on the continent presents various challenges, prompting the investors and the business community to use international financial centres like Mauritius to navigate these complexities. These challenges include inter alia:

- Risk Management: Cross-Border investments in Africa are affected by diverse legal & regulatory environments, political & security risks, infrastructure concerns, currency fluctuations, and exit risks.

> Mauritius has emerged as a leading IFC in Africa

- Legal, judicial and regulatory framework: Africa's 54 distinct countries each possess unique legal, regulatory and governance frameworks. The diversity in legal and court systems combined with bureaucratic intricacies makes litigation challenging. Thus, investors must plan for legal disputes from the start to ensure that any dispute takes place on a ground of their choosing.
- Investment protection: One of the main concerns for investors looking to invest in Africa is the high level of political and regulatory risk, which raises concerns about investment protection.
- Fund repatriation limitations: Investors often face restrictions related to exchange control requirements or other local requirements in several African countries.
- Exit Challenges: the exit process can be cumbersome with potential tax implications.

As such, the structuring of cross border investments requires careful consideration and it become imperative to structure with care and foresight. This sets the stage for the pivotal role of Mauritius as an International Financial Centre ("IFC"), which positions itself as a gateway to Africa, offering solutions to navigate these hurdles effectively.

Mauritius as the gateway to Africa

Mauritius has emerged as a leading IFC in Africa and boasts more than three decades' track record in cross-border investment and finance. It offers a well-regulated and transparent platform through an ingenious combination of fiscal and non-fiscal benefits and a diverse product base. From a fiscal perspective, it offers attractive tax rates and has signed Double Taxation Avoidance Agreements (DTAs) with many African countries, providing treaty benefits such as reduced withholding taxes on dividends, interests, and royalties; and, providing for Mauritius to have taxing rights on capital gains.

The non-fiscal advantages encompass the following:

- Ease of Doing Business: Mauritius offers a stable political and economic regime, there are no requirements for local ownership, and capital and profits can be freely repatriated. It has also secured preferential access to African markets through its membership of regional groups such as COMESA (Common Market for Eastern and Southern Africa), SADC (Southern African Development Community) and Indian Ocean-Rim Association for Regional Cooperation (IOR-ARC).
- Risk Mitigation and Legal Framework: Mauritius has a robust legal, judicial, and regulatory framework (derived from a hybrid legal system of both Civil and Common law) which provides a business-friendly environment for investors. It has signed Investment Promotion and Protection Agreements (IPPAs) with many African countries. The presence of the Privy Council of the United Kingdom as the highest Court of Appeal adds an additional layer of legal certainty and confidence for investors.
- Compliance & Governance: Mauritius maintains a strong focus on compliance and governance, aligning with international standards such as Anti-Money Laundering and Terrorist Financing measures. This commitment to regulatory

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compliance instills investor confidence in the corporate governance framework.

- **Simplicity and flexibility in structuring:** The use of a Mauritius entity is very practical, and the requirements are not complex or onerous. The Mauritius IFC caters for a wide range of structuring possibilities to meet the specific requirements of investors and the business community. This includes investment holding companies, special purpose vehicles (SPVs), funds, partnerships, and limited partnerships.
- **Business Ecosystem:** The Mauritius IFC has an established and comprehensive business eco-system which nests all the relevant services and offerings within the IFC. It is home to a number of international banks, legal firms, corporate services, investment funds and private equity funds.

How the Mauritius IFC paves the way for Africa's economic development and growth

Mauritius, with its deep-rooted historical, cultural, and geographical ties to Africa, has throughout the years played an important role in facilitating economic integration, fostering investment, and driving financial innovation across the region. It is poised to play an important role in supporting Africa's progress towards achieving the UN Sustainable Development Goals. The "Capital Economics Report – Facilitating Growth, Employment & Prosperity in Africa" (the "CER") provides some good insights into the profound impact of the Mauritius IFC for Africa:

- **Economic and Employment Catalyst:** Investments facilitated through the Mauritius IFC have backed over 4.2 million jobs in mainland Africa. It contributes to Africa's GDP and generates significant tax revenues. 9% of FDI into Africa comes from the Mauritius IFC, and this represents around USD 82 Billion which in turn generates around USD 6 billion of tax revenues for African governments each year. Also, despite representing only 0.1% of Africa's population, Mauritius contributes 0.6% to the continent's GDP.
- **Strategic Partner for Investment and stimulating growth and development:** Mauritius channels over three-quarters of its investment into Africa through corporate clients, with almost three fifths of this foreign investment being in the form of shareholdings, loans, or debt securities in African corporates. A further one-quarter is in the form of portfolio investments in shares of African businesses or debt securities. Mauritius is also the intermediary for 13% of the total reported investment in Central Africa and at least 10% in East, West, and Southern Africa regions.
- **Tax Efficiency and Compliance:** Up to 47% of investments into Africa (excluding South Africa) have been facilitated under DTAs. Over 53% of the investments from Mauritius into Africa (excluding South Africa) are not covered by a DTA, which means there is little or no scope for domestic taxes to be avoided by booking incomes or profits in Mauritius. Mauritius is also committed to international standards to combat illicit financial activities, and to improve financial transparency, with Mauritius having signed up to the FATCA and CRS.

> The structuring of cross border investments requires careful consideration

- **Balanced and Real Economy:** Mauritius is a thriving trading economy with 12 trade agreements, including 7 with African regions, granting it access to a vast segment of the global population. Its membership with the African Continental Free Trade Area is an important catalyst for Mauritius to achieve its 'Africa Strategy', and to deepen its economic ties and strengthen its partnership with the continent.
- **Sophisticated Financial Services Hub:** The IFC in Mauritius boasts a comprehensive suite of financial and professional services, including banking, corporate, funds, insurance, legal services and accounting, thereby providing a secure and efficient platform to help capital flow into the rest of Africa to support growth and development. There is a dedicated global business regime which offers services for cross-border activity.

Conclusion

The Mauritius IFC, in its unique position, continues to play its part in helping to shape Africa's economic narrative. The partnership between Mauritius and Africa symbolises a fusion of mutual growth and shared prosperity. While challenges remain, with the collective efforts of Mauritius and African nations, a brighter horizon awaits the continent.