MAURITIUS

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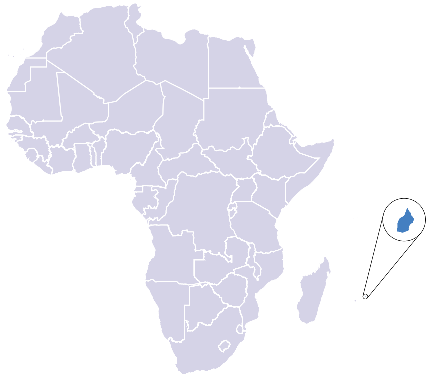

Key Data Points (as at end-December 2023, unless otherwise stated)	
Total population	1,260,379
National currency and exchange rate	Mauritian rupee, MUR46.28 per USD1
GDP and growth rate	MUR651.718 billion, 7%
SME proportion of GDP	34.4%
Annual average inflation	7%
Unemployment rate	7.7%
Total government debt outstanding	MUR451.539 billion
Public debt to GDP ratio	78.6%
Primary stock exchange	Stock Exchange of Mauritius
Number of publicly listed companies	53
Equity market capitalisation	SEMDEX: MUR271,579,357,785.36; SEM-ASI: MUR335,026,250,884.03
Estimated debt market, including bank loans	Debt securities: MUR906.8951 billion; loans: MUR846.8143 billion
Number of marketable corporate debt issuers	5

Sources: Statistics Mauritius; Bank of Mauritius; Ministry of Finance, Economic Planning and Development; Stock Exchange of Mauritius.

1. Introduction and Context

Mauritius, a Small Island Developing State, has a population of approximately 1.2 million as of 2022. It has progressed substantially since gaining independence in 1968 and managed to attain the status of a high-income economy in July 2020. It dropped back to upper-middle-income status in 2021, however, because of the impact of the COVID-19 pandemic on its core economic activities. Mauritius's GDP was USD12.9 billion in 2022, representing annual growth of 8.7%, which marked the rebound of the economy from the slump triggered by the pandemic. The real normalised GDP growth rate hovers around 3.5% to 4%. One of the key challenges for the island is to achieve and sustain a high economic growth rate in the range of 5%–6%.

The economy in Mauritius has been largely driven by the services sector in the past few years. Indeed, the tertiary sector accounts for 74.8% of the gross value added, while the secondary and primary sectors make up only 20.7% and 4.4%, respectively. Within the services sector, "wholesale and retail trade" and "financial and insurance activities" are the key driving forces. Interestingly, the gross value added by financial and insurance activities in the country in 2023 was MUR73.870 billion, which accounts for only 11.75% of GDP.

The financial sector in Mauritius is still heavily dominated by the well-established banking sector. The capital market sector is relatively nascent, with the Stock Exchange of Mauritius (SEM) having been incorporated in 1989. Indeed, in 2020, domestic credit to private sector banks represented 91.8% of GDP, while the market capitalisation ratio of listed domestic companies amounted to 54% of GDP. The liquidity of the stock market, as captured by the turnover ratio of domestic shares, was 5% in 2020. Nevertheless, the sector has evolved rapidly, so much so that Mauritius now touts itself as an investment platform, linking Africa with India, China, and the rest of the world.

Traditionally, the preferred fundraising method in Mauritius involved banks. Fundraising via public markets has been rising exponentially, however, especially following the initial disruption of the COVID-19 pandemic. Interestingly, there is a penchant towards equity securities, rather than debt securities, in the public market. The SEM has gradually started opening up to new securities issuance, however, including debt securities, exchange-traded funds, eurobonds, and structured products, thereby offering a wider range of options to the growing and evolving needs of investors. Additionally, the fintech ecosystem is gaining momentum, with the government and regulators working to create a conducive environment for the growing demand for peer-to-peer lending, crowdfunding, securities token offerings, and virtual assets. Despite the favourable tax and regulatory environment, along with the evolution in the fundraising landscape, some challenges persist that must be addressed to enhance the development of the financial sector and scale up the contribution of the financial services sector to the country's economic development.

Additionally, Mauritius is an international financial centre (IFC), which is recognised by the setup of companies owned either by domestic residents or foreigners who are able to operate either in the country or in another country. Although there is no official recognition of an IFC, there are a number of formalized IFC groupings, such as the Group of International Finance Centre Supervisors (GIFCS). Mauritius's membership in the GIFCS is evidence of its status as an IFC.

2. Raising Funds in the Public Markets

Overview

Since Mauritius gained independence, the country has successfully navigated the global economic landscape to position itself for economic value creation across the globe. It has done so by growing steadily and sustainably and by taking calculated risks. As a result, the growth story of the nation's capital market has followed the same course, with medium and sustainable growth achieved in positioning Mauritius as a rising IFC globally. Today, the country boasts a strong legal framework aligned with global best practices, with the appropriate infrastructure for the country to act as the financier for accelerated GDP growth in Africa, by seeking to contribute to bridging the gap in the continent's funding needs. Mauritius is gearing up to fulfil this role in the coming years.

Current Fundraising Landscape

Fundraising in Mauritius remains predominantly anchored within the traditional banking sector. The contribution of commercial banks in the process of capital raising is substantial relative to fundraising via public markets. The Bank of Mauritius (BoM) reports that in May 2023, the composition of the sectoral balance sheet of banks was MUR904 billion (approximately USD20 billion) in debt securities and MUR817 billion (about USD18 billion) in loans. The market capitalisation of all shares listed on the Official Market of the SEM is only MUR321 billion (USD7 billion). The number of new listings on the Official Market averaged around 28 per year in the pre-COVID-19 period. For the financial year ended 30 June 2022, the Stock Exchange of Mauritius recorded 20 new listings, after registering only 7 new listings for the financial year ended 30 June 2021.

Hence, public fundraising primarily taps into funds generated by the Mauritian economy, although commercial banks are also investing in government and corporate bonds issued in the country. That said, a positive development in the public fundraising arena over the years is the trend of more frequent and consistent corporate bond fundraising for financing major development projects in the country.

The Role of Foreign Direct Investment in Fundraising

Gross foreign direct investment in Mauritius averaged about MUR21 billion (approximately USD460 million) per year over the past five years, 55% of which was used to purchase real estate in Mauritius. Although Mauritius is an IFC with several funds and entities domiciled in the country, the investments are primarily for countries in Africa and India. Mauritius hosts funds either as closed-end funds or open-end funds by domestic residents and foreigners. The fund structures in Mauritius are mainly invested in India. As of 30 June 2023, Mauritius hosted 1,014 such funds, an increase of approximately 1.19%

compared with the previous financial year. These funds were in the following categories: CIS (single fund), CIS (more than one fund), CIS (protected cell company), closed-end fund (single fund), closed-end fund (more than one fund), and closed-end fund (protected cell company).

Funding for Infrastructure

The funding of infrastructure projects emanates from both internal and external government borrowing, with local investor participation in infrastructure being very limited (excluding green energy projects). Based on the Republic of Mauritius's Public Sector Investment Programme for the five financial years from 2021–22 to 2025–26, a total of MUR190 billion (USD4.2 billion) would be invested in the country on social and economic infrastructure spanning across the (1) roads and land transport infrastructure, (2) energy, (3) airport, and (4) port and other sectors (Republic of Mauritius 2021). All these investments are fully funded by the government through borrowing from both the domestic and international markets, as well as grants and loans from other countries.

Funding for SMEs

Traditionally SMEs have raised funds via commercial banks and development banks, with the development of crowdfunding still in a nascent stage. For example, the BoM reported that from December 2011 to June 2022, MUR15.3 billion (USD337 million) was financed by commercial banks in Mauritius under the Small and Medium Enterprises Financing Scheme.

The Regulatory Landscape

Mauritius's geographic location, attractive business framework, sustainable economic growth, strong institutional support, and financial stability contribute to the country's ability to safeguard consumers and maintain financial integrity. Currently, its financial services are overseen by two integrated regulators:

- The Financial Services Commission (FSC), which oversees nonbanking financial services and global business
- The BoM, which oversees banking activities

The Economic Development Board (EDB) is responsible for promoting Mauritius as an attractive investment and business centre. It does so by assisting and supporting investors in raising funds through private markets by providing advisory services and capacity building programmes and acting as a single point of contact for investors.

The country has built a robust regulatory and legal framework to position itself as an IFC, making it attractive for both local and international businesses looking to raise funds in a secure environment. Mauritius thereby is positioning itself as a financial hub for capital formation.

An IFC's strength is characterised by the certainty of its legal framework and its rule-based approach to doing business. Mauritius has a set of laws for financial services that govern operations. The Bank of Mauritius Act 2004 and the Banking Act 2004 govern the banking sector, and the Financial Services Act 2007, Securities Act 2005, Insurance Act 2005, and Virtual Asset Initial Token Offering Services Act 2021 (VAITOS) govern the nonbanking sector. These laws define the overall legal framework for the business to operate under and to act with certainty.

The FSC has developed a set of regulations that define the process through which the elements of the laws are translated into actions, as well as a set of rules that clarify operational matters. Therefore, the Mauritius IFC can demonstrate in the international market the manner within a proven legal framework that operations are conducted, providing legal certainty, which allows investors to trust the jurisdiction. Moreover, to ensure the robustness of its regulatory framework, the FSC and BoM embark on a yearly assessment and benchmarking of these regulations with international best practices with assistance from international bodies, such as the IMF, and whenever required, amendments are made in order to update and facilitate business (Financial Services Commission 2022; Bank of Mauritius 2022a).

The FSC has launched intensive initiatives regarding digital finance. A blueprint for the FSC was commissioned, which outlined the path for financial technologies to be embedded into mainstream activities, and therefore, the FSC licensed the different parts of the activities. The FSC is also aligned with the digital finance movement, which means that systems are enabled and operate as a mix of traditional finance and modern ways of conducting business. The FSC has a fintech cluster that enables startups to test products through sandboxing, under which the necessary regulations will be issued at a later stage after testing. In addition, the VAITOS Act lays out the FSC's legal framework for activities in the cryptoasset and virtual asset space to be regulated and to be licensed (Financial Services Commission 2023). Furthermore, the BoM's revised legislation will pave the way for the digitalisation of the financial sector (Bank of Mauritius 2022a).

The FSC has worked to align and digitally connect its processes in order to ensure end-to-end processing of systems. The FSC, in collaboration with the EDB and the Corporate and Business Registration Department (CBRD), launched the FSC Single Window, a single point of contact for businesspeople to obtain all the authorisation required, whether from the FSC or the CBRD, as well as other work-related permits from the EDB. Moreover, the FSC is in the process of completing the digitalisation of the insurance claims database.

The Registrar of Companies is responsible for the incorporation and registration of companies, as well as the removal of companies in cases of noncompliance with legal requirements.

Challenges

There are several challenges that arise from the increasing regulatory disclosure requirements, upfront costs, liquidity requirements, governance practices, and uncertainty surrounding lenders' reliability. Indeed, meeting regulatory requirements can be time-consuming, and covering upfront costs can be expensive for companies. These undoubtedly act to deter IPOs in Mauritius. Additionally, abiding by the liquidity requirements and implementing robust corporate governance practices can be challenging for companies, especially those transitioning to a public ownership structure. Furthermore, some companies experience more difficulty in attracting reputable investors if they have a limited operating history or industry-specific risks. These challenges are more difficult to overcome for smaller companies with limited resources.

The Impact of COVID-19 Fundraising

The COVID-19 pandemic inevitably impacted the fundraising process in Mauritius, with regulators observing a shift in the financial landscape. It became difficult for businesses to access traditional sources of capital because of the economic uncertainties arising from the pandemic. Private markets thus sought alternative funding solutions, including private equity and debt instruments. This move put considerable pressure on regulatory bodies to ensure that these markets operate efficiently and transparently, even amidst crises. The pandemic necessitated the fast-tracking of the digitalisation process in the financial sector, in terms of both operations and regulatory oversight, so as to accommodate this shift in capital formation. This led to the implementation of various regulatory guidelines to protect investors, a new framework for virtual assets, and the adoption of crowdfunding rules to maintain market integrity and foster a resilient financial ecosystem amid the pandemic. Other rules were introduced to ensure that Mauritius is well positioned in the fintech arena, such as the Peer-to-Peer Lending Rules 2020, the Regulatory Framework for Robotic and Artificial Intelligence Enabled Advisory Services, and the Virtual Asset and Initial Token Offering Services Act 2021.

Moreover, a new set of guidelines has emerged from the adoption of a guide on sustainable bonds by the BoM in June 2021 and the guidelines on corporate and green bonds issued by the FSC in September 2021 to cater to the requirements of African countries.

The guidelines on green bonds issued by the FSC aim to give corporate entities the necessary requirements for those bonds to be qualified as green. They also provide necessary provisions to prevent greenwashing. The requirements for entities to be qualified as green bonds are as follows:

- The proceeds of green bonds are to be used for funding of qualifying green projects.

- Categories of green projects include energy efficiency, clean transportation, sustainable waste management, and green buildings.
- Social cobenefits are required for certain green projects.

Additionally, the EDB has been instrumental in creating awareness about private investment options, thus enabling companies to make informed decisions. Therefore, a robust regulatory framework is required to ensure investor confidence and protect investors' interests.

3. Debt

In Mauritius, the fundraising process in the public markets revolves predominantly around the issuance of stocks and government bonds. Although the government of Mauritius has resorted to the public issuance of debt securities to meet its funding needs for a long time, Mauritian companies are also gradually starting to opt for the issuance of public debt securities in addition to their stock securities. Historically, Mauritian companies have primarily resorted to the issuance of debt with commercial banks and limited private placements, which targeted corporate and institutional investors.[66]

Size

As of December 2023, the central government's total debt as a percentage of GDP was 69.3%, while public sector debt as a percentage of GDP was 78.6%. As expected, the domestic debt accounts for a bigger proportion of central government debt (81.4%) relative to foreign debt. Similarly, public sector debt is also largely oriented towards domestic debt (77.8%). In the wake of the pandemic, the ratio of public sector debt to GDP rapidly rose and peaked at 94.2% in September 2021. Consequently, the government of Mauritius has adopted several economic policies to gradually bring down the public sector debt level.

Cost

The average cost of the Mauritian government's debt was 3.6% in December 2022, a 0.1% decrease from the average cost in September 2022. Its interest payments were 2.4% as a percentage of GDP and 9.6% as a percentage of recurrent revenue.

The interest rate mix differs slightly for the government's external debt and the public sector's external debt. The most common interest rate type used for government external debt is variable, followed by fixed. In contrast, for the public sector external debt, a bigger proportion requires fixed interest payments rather than variable interest payments. Interest-free loans account for an extremely small portion of both government and public sector external debt.

[66]Unless otherwise noted, the data in the following subsections are from CEIC (2024).

Currency

The currency composition of external debt is mostly euros, US dollars, and Japanese yen. In December 2022, the external government debt consisted of 43.1% euro-denominated debt, 19.2% US dollar–denominated debt, and 12.8% yen-denominated debt. Public sector external debt denominated in euros, US dollars, and yen accounted for, respectively, 31.5%, 40.9%, and 9.4% of the total outstanding debt. Interestingly, the amount of external debt denominated in euros has decreased over the past few years. Contrary to the trend in euro-denominated external debt, the amount of external debt denominated in yen has risen.

Risk

The refinancing risk of the government's debt is being reduced, as outlined in the debt management strategy of the island. The average maturity of government debt, both external and domestic, increased to 5.6 years in December 2022. Moreover, interest rate risk has also been curbed. In fact, the average time for refixing of interest for total debt increased to 5.1 years in December 2022.

Government of Mauritius Outstanding Debt

The government of Mauritius and the BoM issue short-term treasury bills through separate auctions. As at May 2023, the government of Mauritius had outstanding treasury bills worth MUR24.7 billion (USD544 million). Additionally, the government of Mauritius issues three-year government notes and bonds with maturities ranging from 5 to 20 years. The outstanding amount of the three-year treasury notes and five-year treasury bonds in May 2023 was MUR59.5 billion (USD1.3 billion) and MUR100.3 billion (USD2.2 billion), respectively. The other outstanding long-term bonds amounted to MUR155.9 billion (USD3.4 billion).

Additionally, since 2019, the government of Mauritius has also started issuing inflation-indexed government bonds, as well as silver bonds (which are solely aimed at retired residents). In May 2023, there was MUR6.2 billion (USD137 million) worth of outstanding silver bonds. Sustainable bonds are also making their way into the debt market of Mauritius, following the 2020–21 national budget, which announced the initiation of a framework for blue and green bonds. In December 2022, the first green bond in Mauritius was issued by CIM Finance, raising capital of MUR500 million (USD11 million).

Publicly Traded Corporate Debt

The Official Market of the SEM now allows the trading of corporate bonds as well. As of 2023, only six different bond securities were listed and traded on the SEM, all denominated in Mauritian rupees except for one, which is in

US dollars. The nominal price ranges from MUR12 to MUR10,000. The US dollar–denominated debt security has a nominal price of USD1,000. Additionally, the SEM allows the listing and trading of about 47 specialist debt securities. Although most of these specialist debt securities are traded in Mauritian rupees, some are denominated in US dollars, pounds sterling, and euros, the nominal values of which range from MUR1,000 to MUR1 million. There are also eight specialist debt securities that are listed on the SEM but not traded. These debt securities are denominated mostly in US dollars, with only one denominated in pounds sterling and one in South African rand. Furthermore, there are nine other structured products that are listed on the SEM, all of which have a nominal price of 1,000. They are traded in Mauritian rupees, euros, and US dollars.

The increase in demand in the number of companies listing and trading their debt securities is mostly caused by the fact that more companies, especially smaller ones, are realising that debt issuance on the public market is an easy alternative for raising funds. Given the current excess liquidity and the recent increases in interest rates in Mauritius, investors are finding debt securities increasingly appealing. Although one would expect that the increasing amount of corporate debt being listed and traded on the SEM will help push liquidity in the fixed-income market upwards, trading in the secondary fixed-income market of the island is almost nonexistent. Investors prefer holding on to the securities given the favourable interest rates.

Challenges

Government bonds and bills have existed for a long time in Mauritius. Liquidity in the secondary market, however, remains limited. Most investors still have a mindset that dictates holding the bonds until maturity, which impedes the growth of the secondary market.

Although corporates in Mauritius have mainly issued bonds through private placements, the bond market has evolved rapidly during the past decade to adapt to the changing needs of the various players. Companies are now gradually opting for publicly traded bonds, and the issuance of green bonds has also been initiated. The corporate bond market, however, which is still at a nascent stage, also has a relatively underdeveloped secondary market, similar to the government bond market. Indeed, the current excess liquidity does not motivate investors to sell their bonds. As such, to ensure that the changing bond market can become more attractive to investors, regulators will need to be proactive in taking steps to reduce both the cost and the time frame of issuance of debt. Indeed, the fees of an initial and further issue of debt and structured products are MUR150,000.

Additionally, there are annual listing fees, starting from MUR76,900 for debt securities and MUR3,200 per tranche for structured products. These costs, which are dependent on market capitalisation, coupled with the lack of trading in the secondary market, might make issuers revert to private placements. Moreover, preparing the prospectus and the review of the application documents by the SEM and FSC can be quite a lengthy process. Nevertheless, issuers can be listed after a minimum of 10 days.

The growing amount of public debt in Mauritius, which is mostly a consequence of government support measures during the pandemic, also poses a risk to the financial system. Indeed, debt peaked at 99.2% of GDP in 2020. Despite a downward trend in the country's debt-to-GDP ratio since 2020, the ratio was still relatively high, at 81.4% during 2021 and 2022. Alarmingly, this debt-to-GDP ratio is higher than that of most nearby African countries. The government targeted a debt level reduction to 71.5% in 2023–24. The remedial measures adopted by the government (such as selling off nonstrategic assets to pay debts and reduce borrowing requirements, and using debt management strategies that will improve the country's debt profile) will probably take some time to lower the debt level.

4. Raising Funds in the Private Markets

The landscape of raising funds in the private markets in Mauritius is very diverse: The country is a solid and credible international financial centre that is compliant with international norms for structuring deals and funds for investments in foreign markets. At the same time, it still has a nascent private market for raising funds for domestic investments. Although the country will continue to consolidate its position as an international financial centre, it will also have to implement the right policies that are conducive for a robust development of the private market for raising funds for domestic investment purposes.

The Regulatory Landscape

The FSC pursues international best practices in its operations, benchmarking itself against prominent global institutions. These include the International Organization of Securities Commissions, the Financial Stability Board, the International Monetary Fund, the World Bank, and the Organisation for Economic Co-operation and Development, all known for their comprehensive regulatory standards and frameworks. By aligning its strategies and regulations with these international bodies, the FSC ensures that the Mauritian financial markets remain competitive and attractive to international investors. This alignment has also facilitated adherence to global norms related to transparency, accountability, and financial stability, underlining Mauritius's commitment to fostering a robust and sustainable financial sector.

The FSC adopted several guidelines, rules, and regulations that outline the licensing requirements and accepted activities for these funds to operate. Those regulatory frameworks, coupled with the commitment of regulators, have significantly contributed to the Mauritius ecosystem, especially in the growth of the private markets.

The main legislation covering private equity funds in Mauritius are

- the Companies Act 2001,
- the Financial Services Act 2007,
- the Securities Act 2005,
- the Limited Partnership Act 2011, and
- any regulations made under these enactments.

The key regulations on private funds have contributed significantly to the rise of private markets, indicating a shift from traditional lending sources (banking loans). Nowadays, nonbanking financial institutions provide loans to borrowers, peer-to-peer lending platforms, and other fintech companies. These regulations ensure that Mauritius maintains its position as an economy of substance by fostering an efficient and transparent market and suppressing financial crime and malpractice.

Mauritius has implemented several favourable policy measures and offers incentives that can stimulate investors' interest and facilitate capital inflows into private markets. These include the following:

- Special purpose acquisition company (SPAC): Mauritius has embraced the concept of the SPAC, a shell corporation to raise capital. When formed, a SPAC is listed on the stock exchange, and the funds raised are used to make acquisitions.
- Variable Capital Company Act 2022: Variable capital companies are used by international investment funds and consist of open- or closed-end investment funds and special funds, such as hedge funds and venture capital funds.
- Financial Services (Special Purpose Fund) Rules 2021: Special Purpose Funds are still tax-exempt and operate under the aegis of the FSC.

Mauritius sets a strong example for capital formation in Africa, largely because of its well-established regulatory bodies, the FSC and the BoM. These institutions have created a regulatory environment that balances the need for security with the flexibility required to attract private funds while at the same time ensuring transparency and protecting investors.

Mauritius's high rankings in the Ease of Doing Business Index Report 2020 reflect these dynamics. The country ranked first in Africa and 13th worldwide—a testament to its conducive regulatory environment.

Mauritius has ensured that its regulations safeguard the right of investors and are tailored to the local market. Moreover, the regulatory bodies in Mauritius have ensured that increased collaboration between regulators, whilst the

EDB helps create more incentives for businesses to invest in capital formation projects and educates investors to make informed decisions about their investments.

Although Mauritius has successfully created a conducive regulatory environment for capital formation, other African countries present a contrasting picture, with regulatory challenges continuing to hinder their ability to attract private investments. The comparison underscores the importance of a flexible and investor-friendly regulatory environment in promoting capital formation.

Size of Private Markets

The size of private markets in Mauritius, although smaller compared with developed economies, shows promising growth, serving as a testament to private markets' role in capital formation. Research from the 2022 African Private Capital Activity Report (AVCA 2023) shows that Africa demonstrated resilience and recorded a significant 46% year-over-year increase in deal volume in 2022, its highest level for the past 10 years. This increase was primarily driven by the greater volume of private equity investments and growth in private debt investments. In Mauritius, private market funding has been recognised as a key contributing factor to the country's economic development, signalling a shift in the traditional debt-raising landscape as businesses increasingly leaned towards private markets for capital formation.

According to Statista (2025), Mauritius is increasingly attracting private equity (PE) investments owing to its strategic location, favorable regulatory environment, and emerging market potential in Africa. The deal value in the PE market is projected to reach USD5.74 million in 2025. Supporting this positive trajectory, both the number of deals and assets under management have shown increasing trends since 2017, despite a temporary dip in 2020 largely attributed to the global impact of the COVID-19 pandemic.

Main Actors

The main actors of private markets are

- investment dealers,
- investment advisers,
- reporting issuers,
- retail investors, and
- institutional investors.

In its 2022 annual statistical bulletin, the FSC reported that in 2021, the total assets of securities/capital market intermediaries amounted to MUR961 million

(USD21.2 million), indicating an increase of MUR127 million (USD2.8 million). The FSC also reported a decrease in the total number of authorised investment funds (including all categories of CISs and closed-end funds), from 1,043 in 2021 to 1,004 in 2022 (Financial Services Commission 2022).

Challenges

There are several challenges associated with raising funds through private markets:

- Investors' ability to accurately assess potential returns: In the domestic markets, the main challenge stems not from the fact we have a lack of qualified personnel but from a number of Mauritians being poached by other jurisdictions—in particular, Luxembourg, which lures many of our talented and locally trained citizens because the Mauritian population is bilingual and has international qualifications.
- Regulatory compliance: Complying with the mandates set out by international trend setters—namely, the Financial Action Task Force and the OECD—on harmful tax practices can be time consuming and costly. Mauritius has to make a compromise between full adherence and the attraction of global players, who would prefer a less compliant jurisdiction. So far, the Mauritian IFC has chosen to be internationally compliant because doing so leads to a long-term return.
- Access to capital: It can be difficult for emerging businesses to attract the attention of private investors, particularly in competitive markets.
- Market volatility: Private markets can be subject to rapid fluctuations, which can impact the viability of investments.
- Lack of transparency: The private nature of these markets can often lead to a lack of transparency, resulting in information asymmetry, which makes it challenging for investors to make informed decisions.
- Limited liquidity: Investments in private markets are often illiquid, making it difficult for investors to pull out their capital when needed.

These challenges represent potential hurdles to private capital formation in Mauritius and need to be addressed so the country can harness the full potential of private markets.

5. The Challenges to Capital Market Formation

Like any other market, Mauritius has several challenges that must be addressed and turned into strengths and opportunities so that its financial services industry can migrate to the next level of development. Although Mauritius offers great opportunities for capital formation in Africa, the key issues range from market resiliency to external shocks, internal human capital development, enhanced financial literacy, and a lower regulatory burden.

Institutional Settings and Regulatory Frameworks

Government policy in Mauritius has always favoured a high level of openness, both in terms of trade and investment. Mauritius has a high number of double-taxation avoidance agreements and trade treaties with several countries, and it maintains a high rank on the Ease of Doing Business Index and good governance indexes. Although the country's legal and institutional frameworks are satisfactory, there is a lack of clarity in the regulatory frameworks for the various investment vehicles. Additionally, the recent slowdown in economic growth experienced from 2020 to 2023 due to the COVID-19 pandemic, coupled with the ensuing social and political risks, may have had a negative impact on the investment landscape. This predicament might result in corporate governance complications (unfair treatment among shareholders, inaccurate and untimely corporate disclosures, and inadequate measurement of risks) in Mauritius, where disclosures required for adherence to the codes of corporate governance are made on a voluntary, rather than compulsory, basis. Additionally, investor confidence might also be dampened.

Consequently, Mauritius has to take additional steps to improve transparency and accountability, while simultaneously enhancing the power of its regulatory bodies. Furthermore, the efficiency and the effectiveness of the regulatory procedures must be enhanced by reducing the delays and hurdles in the regulatory processes, as well as promoting digitalisation of processes and service offerings. These institutional settings and regulatory frameworks must be reviewed regularly to identify and rectify gaps and adapt to ever-changing market dynamics. These steps will simultaneously help address the current lack of trust between financial institutions and potential investors, a predominant barrier to private capital formation.

Nevertheless, the frameworks put in place to ensure the fair and orderly functioning of the market activities might also unintentionally contribute to "failures" in these markets resulting from framework weaknesses. These structures are not able to withstand every situation, especially when faced with external forces, which may result in misinformation, fraud, or preferential treatment. They are also reaction-based frameworks, meaning they have been designed following a particular circumstance that arose, so their effectiveness can be tested in new situations.

Health of Markets: Market Liquidity and Volatility

As a Small Island Developing State, with its own unique specificities, Mauritius is highly susceptible to sudden, unexpected disruptions to the global economic climate. In general, the markets in Mauritius exhibit relatively high liquidity and an acceptable level of volatility. As they did elsewhere in the world, the COVID-19 pandemic and the Russia–Ukraine war caused Mauritius to face challenges, such as a heightened level of market volatility and reduced market liquidity. The consequences are magnified for the relatively small public and private markets prevalent in the country. Indeed, volatility caused the asset value of the life insurance industry to contract during the first half of 2022, while that of the general insurance industry expanded. The decrease in life insurance assets was primarily caused by a 6.5% drop in equity investment in Q2 2022, which reflected a drop in the SEMDEX over the same period. Similarly, life insurers' investment preferences changed towards debt securities, which increased by 3.7% in the first half of 2022.

Rising interest rates and significant global financial market volatility posed challenges for the nonbank financial services sector in Mauritius, which includes the insurance and private pension plan businesses. The asset value of the life insurance and private pension fund industries fell in the first half of 2022 as global stock markets fell. The volatility of financial markets increased significantly in the first half of 2022. Global equity prices fell because of increased uncertainty about the economic future, while investor risk appetite declined. Between the end of December 2021 and the end of June 2022, the MSCI World Index, MSCI Emerging Markets Index, and MSCI Frontier Index fell by 21%, 19%, and 20%, respectively.

Moreover, the investment flows through the Mauritian financial sector were also highly volatile because of the uncertainties created by the pandemic and the Russia–Ukraine war. In February 2022, the beginning of the war temporarily harmed investors' confidence and risk appetite. The SEMDEX fell between the end of February 2022 and mid-March 2022 but rebounded strongly at the start of the second quarter of 2022, consolidating first-quarter gains to peak at 2,304 points in early May 2022—a level not seen since March 2018. Following that, stock market indexes decreased as a result of increased global market volatility, the strengthening of the US dollar against key currencies, and growing domestic inflation. The SEMDEX finished the second quarter of 2022 with a value of 2,127 points (Bank of Mauritius 2022b).

Similarly, the uncertainties caused by these setbacks have accentuated the level of asymmetric information among investors, thereby causing an abrupt drop in market liquidity and subsequently a shift in the investment pattern. Potential investors favour markets with higher liquidity and lower volatility in times of crisis, making improvements in the currently unappealing market conditions of the country more challenging.

Diversification in the Types of Investors

Diversification of investor type allows for the development of emerging markets. This is caused by the demand for yields derived from a high interest rate environment, resulting mainly from institutional investors. Interestingly, Mauritius has an abundance of pension funds, insurance companies, mutual funds, and investment management companies. Institutional investors are attracted to the fairly liquid markets, the existence of substitute services, the tax advantages, and the relatively simple and barrier-free cross-border activities that the country offers. Mauritius has a relatively low number of retail investors, however. Although the investment promotion strategies adopted by Mauritius have been particularly helpful in attracting retail foreign investors, especially in the real estate sector, domestic retail investors are relatively few in number. This situation is mostly because of a lack of an investment culture in the country and an inadequate level of financial education: Only 39% of the adult population in Mauritius is financially literate, and the country has a slower pace of development in financial innovations.

The insurance sector in Mauritius has performed relatively well over the past several years and has shown resilience. The contribution of insurance, reinsurance, and pensions to GDP in 2022 was 2.1%, with a growth rate of 4.1%, and this contribution is expected to remain stable. In 2022, the total value of assets for the long-term insurance sector was MUR106 billion. Similarly, gross premiums for the long-term insurance saw an increase of 9%, reaching MUR13 billion. The number of long-term policies increased by 5%, reaching 583,002 (Statistics Mauritius 2023).

The Bond Market

Although the country's equity market has witnessed a rapid growth, its bond market, especially the corporate bond market, is still at a nascent stage. Furthermore, the investor base is very narrow for the bond market, even for the treasury bills, notes, and bonds. This situation results in thinly traded instruments and liquidity concerns for potential investors. Additionally, a benchmark yield curve is not available. As such, along with providing financial education to the population, Mauritius needs greater visibility of and accessibility to debt products.

The Private Market

The private market in Mauritius is not easily accessible to new and smaller businesses/funds because of the complex regulatory compliance requirements and difficulty to attract private investors. Moreover, the inherent lack of transparency and illiquid nature of the market make it less appealing to certain investors. On top of that, most local investors, especially individual investors, lack the necessary knowledge to value and assess private market investments. As such, a supportive environment for private funds and other alternative financing options must be created so that more coordination occurs between the private and public sectors.

Size of the Mauritian Economy

The structure and size of the Mauritian economy are also limiting factors in the development of a highly liquid and efficient capital market. Although the country is well diversified, with activities ranging from agriculture and textile manufacturing to tourism and financial and ICT services, the number of deals and transactions that emanate from domestic economic activities may be insufficient to enable the formation of a liquid and efficient market.

The challenge ahead is significant, but with sustained effort and cooperation between the public and private sectors, Mauritius can position itself as an attractive destination for capital formation in Africa.

6. Possible Solutions to Accelerate Capital Market Formation and Policy Recommendations

To tackle the key challenges facing Mauritius and unlock the country's potential to enhance its financial markets and financial services sector, a series of policy actions is required. These actions would encompass education, codes of practice and ethics, and collaboration with other stakeholders domestically and internationally.

Focus on Financial Literacy

Raising capital efficiently and swiftly is crucial for enhanced growth in the corporate sector in Mauritius. To increase the investor base and improve the liquidity of the secondary markets, increasing public knowledge through consistent educational campaigns on the functioning of the financial system is necessary (Yartey and Adjasi 2007). Financial literacy initiatives could be devised to increase awareness about the various types of funding available and thus increase the pool of local and international investors.

Moreover, the government of Mauritius could launch clear guidelines for capital formation to alleviate any obstacles to private funds. This effort could also include a comprehensive review of regulatory policies, and the FSC and BoM could spearhead this process. In addition, the EDB could assist businesses to invest in capital formation.

To encourage both internal and external investment and to maintain a favourable business environment, the EDB serves as the primary entity in charge of country branding for investment promotion. It also serves as the point of contact for all investors and coordinates with the appropriate authorities to register investors. In addition, the EDB provides assistance and guidance to Mauritius-based companies, finds opportunities in emerging economic sectors, collaborates with global partners to form strategic alliances, constructs the right ecosystem for these sectors, improves the business environment, and initiates and conducts the macroeconomic research that is needed.

Attracting Investors, Both Domestic and International

Mauritius could actively promote the benefits of investing in private markets, both domestically and internationally, to attract more private funds. Such a promotional effort could entail providing incentives for private investment, such as tax breaks or subsidies. Additionally, Yartey and Adjasi (2007) argued that foreign participation should be further encouraged to boost capital formation.

Although there are no restrictions on foreign investment in companies listed in Mauritius, and foreigners benefit from several incentives (including free repatriation revenue on sales of trade and no taxes on dividends and capital gains), additional steps should be taken to increase the visibility of not only the stock market but also the bond market. Additionally, emphasis should be given to creating the right environment with the appropriate financial products, with different maturity spectrums, for funds that are domiciled in Mauritius. In the long term, policies should also aim at further developing real sectors of economic activities that could prompt businesses, particularly from Africa, to shift their financing, deal making, and private wealth requirements to Mauritius.

Further Capitalise on Ethical Behaviour and Practices

The members of the Stock Exchange of Mauritius would benefit from an ethical framework that is in line with international standards and reflects local needs (Yartey and Adjasi 2007; Adelegan 2008). This framework would set out the behaviour that will govern the activities of the exchange. Indeed, while the SEM has already set up various mechanisms with the aim of safeguarding the interests of investors (such as ensuring the financial integrity of participants, compensating investors in cases of fraud, obligation to disclose interest, separate dealing rules for employees and directors, and segregation of client and broker accounts), it is also important to create a formal code of conduct for the exchange that will specifically address the level of professionalism expected. This code of conduct would demonstrate a professional commitment to uphold the highest standards, act ethically, avoid conflicts of interest and abuses of power, and abide by the laws and regulations of the country. This measure would simultaneously boost investor confidence and help in attracting foreign investors.

Advance the Integration of African Capital Markets

Yartey and Adjasi (2007) and Adelegan (2008) both proposed the regional integration of markets to solve problems faced by African markets. In the same vein, Tumwebaze, Uwanziga, and Kirezi (2016) argued that integration can "promote the movement of capital across the continent, increase investment opportunities, encourage optimum financing for firms irrespective of where they are, and increase the attractiveness of Africa as an investment area both by local and foreign investors." Indeed, Mauritius can also benefit from integration because it can foster synergies, reduce trading complexities, and improve risk management. This will, in turn, result in the harmonisation of legislation, trading days, settlement, and reporting standards with international standards, thereby enhancing the attractiveness of the market to foreign investors. Integrated markets will also make it easier for Mauritian companies to raise capital in the region on a larger scale, which would not be achievable in the Mauritian market alone.

The African Exchanges Linkage Project (AELP), launched in December 2022, links seven African exchanges across 14 African countries, including the SEM, representing a market capitalisation of approximately USD1.5 trillion. The aim is to facilitate cross-border trading, improve the depth and liquidity of the African market, and support free movement of investment in Africa. In 2023, an agreement was reached to expand the AELP network to 15 African exchanges. Additionally, discussions are ongoing about collaborating with the Pan-African Payment and Settlement System with the aim of streamlining the payment and settlement process.

Additionally, the African Continental Free Trade Area (AfCFTA) agreement, signed in January 2021, has the potential to unlock and spark Africa's growth. It binds 55 countries together. In February 2023, a protocol related to investment within the AfCFTA was adopted. It aims at fostering intra-African investment. Raga, Velde, Kimosop, and Mashiwa (2022) expect that the protocol will indirectly attract more external investment from the rest of the world through the Most-Favoured Nation principles and improved governance in AfCFTA.

Additionally, Mauritius is an economy that promotes trade openness. Its trade-to-GDP ratio was 86% in 2021. The country is a member of the World Trade Organization and a beneficiary of the Generalized System of Preferences (GSP) Scheme, and it has eight regional trade agreements[67] (excluding the AfCFTA agreement) and five bilateral trade agreements.[68] These agreements enhance the island's endeavour to increase its competitiveness and openness to trade. Undoubtedly, this openness to trade triggers foreign direct investment in the country (see Baltagi, Egger, and Pfaffermayr 2008; Bengoa, Sanchez-Robles, and Shachmurove 2020).

A Needed Collaboration Between Key Players

Ultimately, the key to success lies in creating an environment that encourages capital formation while promoting trust between financial institutions and investors. By leveraging digital infrastructure, improving access to financing instruments, and encouraging collaboration with other stakeholders, the FSC and BoM can work together to ensure capital formation in Mauritius and across Africa.

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[67]The regional trade agreements are the African Growth and Opportunity Act, which offers duty-free and quota-free market access to the United States for approximately 7,000 products; the interim Economic Partnership Agreement with the EU, which removes barriers to trade and enhances cooperation; the Indian Ocean Commission, an intergovernmental organisation that strengthens commercial ties for the islands of the Indian Ocean; the Common Market for Eastern and Southern Africa (COMESA) Free Trade Area, a major marketplace facilitating internal and external trading; the COMESA–EAC–SADC Tripartite Free Trade Area, which deals with the challenges of multiple Regional Economic Communities memberships and conflicting trade regimes; the SADC Free Trade Area, which eliminates customs duties; the Indian Ocean Rim Association, which promotes liberalisation and reduces barriers to trade; and the United Kingdom–Eastern Southern Africa Economic Partnership Agreement, which provides duty-free access on all products.

[68]The bilateral trade agreements are a Preferential Trade Area between Mauritius and Pakistan, a trade and investment framework agreement between Mauritius and the United States, a Comprehensive Economic Cooperation and Partnership Agreement between Mauritius and India, and free trade agreements between Mauritius and Turkey and between Mauritius and China.

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