Frontière Finance

Caring for your nest eggs

Extracts from US Department of State document Investment Climate Statement Mauritius'.

Mauritius is among the most competitive and successful economies in Africa and actively seeks foreign investment. In the World Bank's 2007 Doing Business Survey, Mauritius ranks 32nd among 175 countries and second in Africa, after South Africa, for ease of doing business. The government of Mauritius' (GOM's) objective is for Mauritius to rank among the top ten most investment- and business-friendly locations in the world.

ECONOMIC REFORM: The government which took office in July 2005 has embarked on a bold economic reform program aimed at moving Mauritius from a reliance on trade preferences to global competitiveness. The reform strategy, outlined in the budget for fiscal year 2006-07 (July-June), is designed not only to remedy fiscal weaknesses but also to open up the economy, facilitate business, improve the investment climate, mobilize foreign direct investment and expertise, attract the Mauritian diaspora back to the country, and introduce structural reforms to support sustainable growth.

BUSINESS FACILITATION: To eliminate bureaucratic obstacles to start a business, the Business Facilitation Act 2006, which was passed by Parliament after the budget, abolishes the need for trade licenses. It also provides that, effective October 1, 2006, entrepreneurs can start new activities within three working days on the basis of self-adherence to guidelines set by the authorities, who will exercise ex-post control for compliance. Also, residence permits and work permits for foreign investors and professionals have been combined into an occupation permit, which is now processed within three working days.

INVESTMENT OPPORTUNITIES: Mauritius has realized a remarkable economic transformation from a mono-crop economy based on sugar production to a diversified economy resting on export-oriented manufacturing, tourism, and financial and business services sectors. Mauritius has also embarked on an ambitious program to make Mauritius the financial and business hub for high value-added technology and other intellectually advanced industries. The emerging sectors are: (i) Information and Communication Technology, (ii) Seafood and Marine Industry, (iii) Textile and Fashion, (iii), Manufacturing and Light Processing, (iv) Logistics and Distribution, (v) Biomedical Industry, (vi) Knowledge Industry, (vii) Hospitality and Property Development, (viii) Agro-Processing and Biotechnology, (ix) Financial Services, and (x) Land-Based Oceanic Industry.

The location of Mauritius, situated in the Indian Ocean between Africa, Asia, and Australia, offers a successful business base for both regional and international trade. U.S. companies can use Mauritius as a platform to tap regional markets through Mauritius' membership in the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA), which offer preferential access to a market of 380 million consumers. U.S. businesses can also use Mauritius to get preferential access to the Indian market through the recent Comprehensive Economic Cooperation and Partnership Agreement signed between Mauritius and India.

INVESTMENT INCENTIVES: Government incentives for investment include: a low corporate tax rate of 15 percent; exemption from customs and excise duties on imports of equipment and raw materials; exemption from tax on dividends and capital gains; a low rate of 5 percent registration duty for notarial deeds; free repatriation of profits, dividends, and capital; and reduced tariffs for electricity and water.

Conversion and Transfer Policies

The GOM abolished foreign exchange controls in 1994. Consequently, no approval is required for the repatriation of profits, dividends, and capital gains earned by a foreign investor in Mauritius. In general, businesses have no difficulty obtaining foreign exchange. However, the domestic foreign exchange market has remained tight during 2006 mainly due to expanding current account and government budget deficits as well as the shortfall in sugar export proceeds as a result of the announced sugar export price reduction by the European Union. Exporters have been holding on to their export proceeds thereby causing a gap between supply and demand for foreign exchange.

An inter-bank foreign exchange market in U.S. dollars was established in July 1994 through a page on the Reuters screen. Prior to that, the Mauritian rupee was pegged to a basket of currencies, which included the U.S. dollar, the pound sterling, the French franc, and others. The exchange rate is market-determined, but the market is dominated by a small number of institutions. The Central Bank occasionally intervenes to stabilize the market. There is convertibility on both capital and current accounts. Settlement can be done in foreign currency, and foreign currency accounts can be opened in Mauritius. There is no legal parallel market in Mauritius for investment remittances.

Mauritius has a well-developed and modern banking system. At the end of September 2006, net international reserves amounted to approx. USD 2.2 billion, representing close to nine months of imports. Between October 2005 and October 2006, the Mauritian rupee, on average, appreciated vis-a-vis the Japanese yen (0.9 percent) but depreciated against the U.S. dollar (6.1 percent), the euro (4.5 percent), and the pound sterling (4.8 percent).

Expropriation and Compensation

Legislative guarantees against nationalization exist and are respected. The GOM has never nationalized an industry.

Dispute Settlement

A joint venture involving a U.S. investor has been engaged in a lengthy dispute with Mauritius Telecom, its cellular subsidiary, Cellplus, and the former Telecommunications Authority, over allegations of unfair competitive practices by Mauritius Telecom and Cellplus. The case remains in the courts. There has been no case of expropriation in Mauritius thus far. Mauritius is a member of the International Center for the Settlement of Investment Disputes and the Multilateral Investment Guarantee Agency of the World Bank.

The Mauritian legal system is largely based on English and French law. Criminal and civil litigation is mainly English while substantive law is modeled on the French Napoleonic code. The domestic legal system is generally non-discriminatory and transparent. Members of the judiciary are independent of the legislature and the government. The highest court of appeal is the judicial committee of the Privy Council of England. Mauritius is a member of the International Court of Justice.

Right to Private Ownership and Establishment

Under the Non-Citizens (Property Restriction) Act, a non-citizen investor may acquire property in Mauritius with the prior approval of the Prime Minister. However, the Prime Minister’s approval is not required when the property is acquired (i) under a lease agreement not exceeding 20 years, (ii) under the Integrated Resort Scheme for the purchase of a villa, or (iii) when the investor has obtained approval from the Board of Investment (BOI) to acquire property for use in his/her business. Any foreign investor engaged in an economic activity generating an annual turnover exceeding Rs 3 million (approx. USD 95,000) may obtain BOI’s approval to acquire immoveable property in the name of his/her business.

Protection of Property Rights

Property rights are respected. Mauritius maintains a sophisticated and impartial legal system based on both Napoleonic code and British common law. The system protects all tangible property. Intellectual property rights are protected by the Copyrights Act of 1997 and the Patents, Industrial Designs and Trade Marks Act of 2002, which are in line with international norms. Mauritius is a member of the World Intellectual Property Organization (WIPO) and party to the Paris and Bern conventions for the protection of industrial property and the Universal Copyright Convention.

The Patents, Industrial Designs and Trade Marks Act of 2002 was introduced by the government, in part, as a response to the rise in the production and trade of counterfeit goods, such as Ralph Lauren, Nike, Reebok, Caterpillar, Guess, Diesel, Calvin Klein, and Oakley. In 2004, Polo Ralph Lauren (PRL) successfully sued local manufacturers and retailers of PRL counterfeit products in Mauritian courts, which resulted in the closure of the counterfeit operations.

A trademark is initially registered for 10 years and may be renewed for successive periods of 10 years. A patent is granted for 20 years and cannot be renewed. The new trademark and patent laws comply with the WTO's Trade Related Aspects of Industrial Property Rights (TRIPS) agreement and protects designs, brands, and technological inventions. Also, the law dictates that well-known international trademarks are protected, whether they are registered in Mauritius or not.

However, while copyrights are being effectively enforced by the Police and Customs authorities, trademark enforcement is problematic. According to a leading IPR law firm, the Police are not taking action against trademark infringements because they have been advised by the State Law Office that trademark enforcement is not within their scope of work, despite the fact that trademark infringement is by law a criminal offence. Furthermore, the GOM's Industrial Property Office (IPO), which also has power to enforce trademarks, has not carried out any enforcement since its creation. Only in cases where the trademark owner has a commercial representative in Mauritius is enforcement possible under the Prevention of Unfair Practices (Industrial Property) Act 2002, based on unfair competition instead of trademark infringement.

Transparency of the Regulatory System

Mauritius has built its success on a free market economy. The business environment is one of the most inviting in Africa. Mauritius also has a long-standing tradition of government and private sector dialogue which allows the private sector to effectively voice its views on the development strategy of the country. The Joint Economic Council is a key vehicle in this regard.

In July 2006, the government brought radical reforms to trade, investment, tariff, income tax, and labor regulations to simplify the framework for doing business. Trade licenses and many other bureaucratic hurdles have been abolished.

Companies in Mauritius are regulated by the Companies Act of 2001, which incorporates international best practices and promotes accountability, openness, and fairness. In order to combat money laundering and terrorist financing, the government also enacted the Prevention of Corruption Act, the Prevention of Terrorism Act, and the Financial Intelligence and Anti-Money Laundering Act.

On December 12, 2006, the National Assembly adopted a new and more transparent Public Procurement Bill. The objective of the new bill, which repeals and replaces the Central Tender Board Act, is to establish a Central Procurement Board to cater for all forms of procurement by public bodies. This World Bank-approved bill makes provision for the establishment of a Procurement Policy Office manned by a Director and two other independent persons and responsible for formulating policies and issue directives for the operation of a transparent and efficient public procurement system. Provision is also made to enable a bidder or potential bidder to challenge the procurement proceedings of a public body at any stage and request the Chief Executive Officer of the public body to consider his complaint and, where appropriate, take remedial action. The bill also establishes an Independent Review Panel to which appeals against decisions of a Chief Executive Officer may be brought. Thus, a simplified two-tier process is available to unsatisfied persons to seek remedy.

Capital Markets and Portfolio Investment

Mauritius has a well-developed financial services sector and aims to become a regional financial center. The Stock Exchange of Mauritius (SEM) has shown a satisfactory record of performance in terms of the volume of transactions, the number of listed companies, market capitalization, and the fairness and efficiency of its operations since its launch in 1989. In December 2006, the Stock Exchange of Mauritius had 43 companies, including two mutual funds, listed on the Official Market and 32 Over-The-Counter companies. Market capitalization grew from USD 92 million in 1989 to about USD 4 billion in December 2006. In November 2005, the SEM was admitted as a member of the World Federation of Exchanges, which identifies the SEM as having assumed the commitment to prescribed business standards.

The Mauritius stock market was opened to foreign investors following the lifting of the foreign exchange controls in 1994. No approval is required for the trading of shares by foreign investors unless investment is for the purpose of legal and management control of a Mauritian company or for the holding of more than 15 percent in a sugar company. Incentives to foreign investors include free repatriation of revenue from the sale of shares and exemption from tax on dividends and capital gains.

Mauritius has an active offshore financial sector, which is a major route for foreign investments into the Asian sub-continent. Mauritius is the number one source of foreign direct investment in India, thanks mainly to the favorable Double Taxation Avoidance Treaty between Mauritius and India. Foreign direct investment transiting through the Mauritian offshore sector to India amounted to USD 1.74 billion during the first quarter of the Indian fiscal year starting in April 2006, according to figures released by the Indian Ministry of Trade and Industry. Major U.S. corporations use the Mauritius offshore sector to channel their investment to India.

Mauritius has a relatively sophisticated banking sector with 19 banks licensed to undertake banking business. The Banking Act of 2004, which replaced the Banking Act 1988, removed the distinction between domestic (Category 1) and offshore (Category 2) banks and provided for banking business to be conducted under a single banking license regime. Accordingly, all banks are free to conduct business in all currencies, including the Mauritian rupee. There are also several non-bank financial institutions which are authorized to conduct deposit-taking business.

Two Mauritian banks, the Mauritius Commercial Bank Ltd. and the State Bank of Mauritius Ltd., account for about 75 percent of the market share. Both banks are among the 10 largest banks in Africa. Foreign banks present in Mauritius include the Hong Kong and Shanghai Banking Corporation (HSBC), Barclays Bank, Bank of Baroda, Habib Bank, South East Asian Bank, Banque des Mascareignes, PT Bank Internasional Indonesia, Deutsche Bank, Standard Bank, Standard Chartered Bank, and Investec Bank.

The banks focus mostly on trade financing and on provision of working capital. Accounts may be opened in all major currencies as well as the Mauritian rupee. Several commercial banks offer card-payment services, such as credit and debit cards and direct debits. Other facilities, including phone banking, home banking, internet banking, and PC banking, are also provided by some banks. Commercial banks offer spot and forward transactions in all major currencies.

Commercial banks have diversified into non-banking business through subsidiaries and affiliates. Banks are engaged in the provision of leasing, stock brokering, asset and fund management, investment and private banking business, insurance agency, and portfolio and custodial management. As of September 2006, commercial banks' total assets amounted to approximately USD 17 billion.

Political Violence

Mauritius has a long tradition of political and social stability and is internationally recognized for its well-established democracy. However, inter-ethnic tensions led to four days of rioting in February 1999, following the death in police custody of a popular minority singer. Governments since then have sought to calm ethnic tensions and stress national unity.

Strikes and politically motivated violence are rare. Three political activists were murdered in 1996. The leader and several members of a small political party were arrested in December 2000 and charged with this crime. One of them was found guilty and sentenced to 21 years imprisonment. General elections in July 2005 brought about a new government and were carried out without any major incident.

Corruption

Mauritius is one of Africa's least corrupt countries. It is among the countries which have recorded a significant improvement in perceived levels of corruption, according to the 2006 Corruption Perceptions Index of Transparency International. Mauritius is ranked 42nd out of 163 countries, and is second in Africa, after Botswana. Corruption is not seen as an obstacle to foreign direct investment.

The government has passed laws and established institutions to combat corruption and money laundering. In February 2002, the GOM adopted the Prevention of Corruption Act, which led to the setting up of an Independent Commission Against Corruption (ICAC) in June 2002. ICAC has the power to detect and investigate corruption and money laundering offenses and can also forfeit the proceeds of corruption and money laundering. In February 2002, the government also passed the Financial Intelligence and Anti-Money Laundering Act, which provided for the establishment of a Financial Intelligence Unit, which is operational.

There has been much emphasis on good governance in the last few years by both the government and the private sector. In 2001, the government appointed a joint public and private sector Committee on Corporate Governance in Mauritius. In October 2003, Mauritius published and adopted a Code of Corporate Governance. The recent World Bank report on “Governance Matters 2006” ranks Mauritius at the second place among African countries where norms in matters of good governance are respected in enterprises.

Bilateral Investment Agreements

In September 2006, Mauritius and the United States signed a Trade and Investment Framework Agreement (TIFA), aimed at strengthening and expanding trade and investment ties between the two countries. The TIFA Council, comprising of representatives from both governments, plans to hold its first meeting in Mauritius in early 2007. There is also an investment incentive agreement between Mauritius and the Overseas Private Investment Corporation (OPIC).

Mauritius has signed Investment Promotion and Protection Agreements with 33 countries: Barbados, Belgium, Benin, Botswana, Burundi, Cameroon, Chad, China, Comoros, the Czech Republic, India, Indonesia, France, Germany, Ghana, Guinea, Luxemburg, Madagascar, Mauritania, Mozambique, Nepal, Pakistan, Portugal, Romania, Rwanda, Senegal, Singapore, South Africa, Swaziland, Sweden, Switzerland, U.K., and Zimbabwe. Agreements with the following countries are awaiting signature: Chile, Egypt, Ethiopia, Korea, Lesotho, Malawi, South Korea, Tanzania, Turkey, Uganda, and the United Arab Emirates.

OPIC and Other Investment Insurance Programs

Mauritius is eligible for the full range of OPIC's investment insurance programs. It is also a member of the Multilateral Investment Guarantee Agency.

Labor

As of June 2006, Mauritius had a total labor force of 546,200, including 329,900 males and 162,300 females. Total employment stood at 492,200, including 16,700 foreign workers, mainly from China, India, Madagascar, Sri Lanka, Bangladesh, and South Africa, and mostly employed in textile factories but also in construction, tuna canning, and hotel and catering sectors. The unemployment rate had risen steadily since 1991 to reach almost 10.4 percent in June 2005, representing about 50,000 unemployed. In December 2006, however, it fell slightly to 9.4 percent.

Wages are low by Western standards but high by most Asian and African standards. Factory workers in the Export Processing Zone generally earn between USD 200-USD 250 per month. Middle managers earn between USD 700 and USD 1,000 per month. Fringe benefits, including transport and meal allowances, paid leave, and bonuses, represent about 25 to 30 percent of the basic payroll of employees.

While Mauritius has an active trade union movement, labor-management relations are generally good. Unionized workers, which account for less than 25 percent of the workforce, act responsibly and rarely disrupt business. There has not been a major strike since 1979. Under the Industrial Relations Act, unions have the legal right to strike. However, the government seeks to preempt strikes through a system which promotes settlement through negotiation or arbitration by the Permanent Arbitration Tribunal and the

National Remuneration Board.

Foreign Trade Zones/Free Ports

The Mauritius Freeport (free-trade zone) was established in 1992 as a customs-free zone for goods destined for re-export. The government's objective is to promote the country as a regional warehousing, distribution, marketing, and logistics center for Eastern and Southern Africa and the Indian Ocean rim. Through its membership in the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), and the Indian Ocean Commission (IOC), Mauritius offers preferential access to a market of 380 million consumers, representing an import potential of USD 90 billion.

Situated in 50 hectares of land adjacent to port facilities and a modern container terminal, the Freeport offers 115,000 square meters of world-class infrastructure, including cold rooms, dry storage, an international trade exhibition center, processing units, and office space for transshipment, consolidation, storage, and processing activities. Freeport facilities are also available at the airport. Port Louis is increasingly used by major shipping lines (i.e. Maersk/Sealand, P&O Nedloyd, and MSC) as a regional container transshipment hub.

Activities that can be carried out in the Freeport include warehousing and storage, breaking bulk, sorting, grading, cleaning and mixing, labeling, packing and re- packing, minor processing, transshipment, cash & carry sales, export-oriented port based activities, export- oriented airport based activities, freight forwarding, express courier services, mail order, simple assembly, reshipment, quality control, and inspection services.

As of December 2006, 350 Freeport companies were engaged in activities such as re-export, transshipment, minor processing, and assembly. In 2005, the Freeport imported USD 406 million and re-exported USD 497 million worth of goods. Main products re-exported include: machinery and electronic equipment (54 percent); apparel and accessories (13 percent); seafood (9 percent); chemical and pharmaceutical products (3 percent); textile yarns and fabrics (5 percent); and jewelry (2 percent). In 2005, the principal export markets for the Freeport were the United Arab Emirates, Madagascar, Italy, France, and Reunion Island.

The Freeport sources its imports from a wide range of countries. In 2005, the major suppliers included Panama, Cook Islands, Saudi Arabia, Hungary, Denmark, Kuwait, Argentina, and Sierra Leone. The main products imported include foodstuffs, chemicals and pharmaceuticals, telecommunication equipment, textile fabrics and accessories, ready-made garments, electrical goods, and general consumer goods.

The Board of Investment, in collaboration with Airports of Mauritius Ltd., plans to develop an air cargo terminal and a dedicated air cargo logistics center at the airport. The main activities targeted include re-export of high value/low volume products, light assembly operations, warehousing, labeling and repackaging, sea-air/air-sea and transshipment cargo, express courier, and freight forwarding services.

Foreign Direct Investment

While Mauritius was very successful in attracting foreign direct investment (FDI) in the 1970's, there has been a decline in the growth of FDI since the mid-1980's, particularly in the manufacturing sector. However, FDI has started to pick up again since 2005, led by the tourism sector, particularly the Integrated Resort Scheme for the construction of luxury villas, golf courses, and related amenities in resort areas.

Major sources of FDI in Mauritius are France, India, South Africa, and the U.K. In the first nine months of 2006, the U.K. and Switzerland accounted for most FDI inflows in Mauritius, directed mainly to the Integrated Resort Scheme.

Following his late 2006 investment promotion missions in Europe, Asia, and South Africa, the Minister of Finance announced potential investment by British, Malaysian, South African, and Danish companies in property development (through the Integrated Resort Scheme), seafood, information technology, and banking.

Investment opportunities in Mauritius are available in the following sectors: ethanol production, spinning, information and communication technology, tourism, seafood and aquaculture, land-based oceanic industry (exploiting deep-sea cold water for various applications), hospitality and real estate development (including hotels and integrated resort/luxury villas), energy, education and training, and healthcare.

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