

Mauritius and Seychelles as channels for Foreign Direct Investment in Africa

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Over the past decade we have seen many investors keen to invest in projects not only in India and Asia but also in Africa through Mauritius and Seychelles. A good portion of these investments have come from the Gulf and Middle Eastern states Abu Dhabi, Qatar and Oman. Two recent deals of note relate to a pair of property projects each totaling some \$400 million in value. The first is backed by Dubai-based Emirates Hotels and Resorts, which will own and manage a luxury hotel & resort in Mahe, Seychelles which, when opened, will represent a significant development in the Republic. The second is backed by Qatari-based investors and also relates to a luxury hotel to be constructed in the country. Both projects represent two of the largest investments made in the Seychelles islands and generally reflect growing Middle Eastern investments in the Indian Ocean.

China's booming economy, which has grown by an average of 9 per cent annually for the last two decades, requires massive levels of energy to sustain its growth. Although China relies on coal for most of its energy needs, it is the second-largest consumer of oil in the world behind the US. The International Energy Agency projects China's net oil imports will jump to 13.1 million barrels per day by 2030, from 3.5 million barrels per day in 2006. China currently imports about half its oil supplies from the Middle East, and that percentage is projected to grow in coming decades. Yet the extent of the country's energy demand has also compelled China to push into new markets, and particularly Africa.

The attractions of Africa

It has been estimated that eighty-five per cent of Africa's exports to China come from five oil-rich countries - Angola, Equatorial Guinea, Nigeria, the Republic of Congo, and Sudan - according to a World Bank report. But Chinese interest in Africa extends beyond oil. China now ranks as the continent's second-highest trading partner, behind the US, and ahead of France and Britain. From 2002 to 2003, trade between China and Africa doubled to \$18.5 billion; by 2007, it had reached \$73 billion. Much of the

growth was due to increased Chinese imports of oil from Sudan and other African nations, but Chinese firms also import a significant amount of non-oil commodities such as timber, copper, and diamonds. China recently began to import some African-manufactured value-added goods, such as processed foods and household consumer goods. Experts say Chinese companies see Africa as both an excellent market for their low-cost consumer goods, and a burgeoning economic opportunity as more countries privatise their industries and open their economies to foreign investment. Some textile manufacturers, for example, are reportedly investing in African factories as a way to get around US and European quotas on Chinese textiles.

Chinese inflows

Chinese investment into Mauritius in the last three years has indeed been substantial. During President Hu Jintao's visit to the country in 2009 he promised \$260 million to redevelop the island's international airport. Meanwhile, the \$730 million Shanxi Tianli Enterprises Park - a special economic zone in the Indian Ocean to service Beijing's expansion in Africa (Source: Financial Times, January 2010) - currently in development near the capital of Port Louis, represents the largest ever foreign direct investment into Mauritius.

Furthermore, the African Financing Partnership (AFP) reported that it is adopting the collaborative co-financing platform to facilitate cost-effective preparations of African projects for financing by the Development Finance Institutions (DFIs). The investors promoting the AFP, who have pledged a \$15 billion investment fund for supporting the growth of the private sector in Africa, include the International Finance Corporation (IFC), the African Development Bank (AfDB) Group, the Agence Française de Développement (AFD), the Development Bank of Southern Africa, the European Investment Bank, the Islamic Development Bank Group, KfW Bankengruppe and the World Bank Group. It is anticipated that the target of the AFP will be to finance large scale projects in infrastructure, extractive, indus-

trial and agro-industries in Africa. Some of the several transactions that the DFIs are carrying out closely together, according to AFP, include the new Dakar Airport project by the AIDB; the Lake Turkana Wind Farm project in Kenya, by LWTP; the Main One Cable and Helios Towers projects in Nigeria; the Nairobi toll road project by the IFC; the Egyptian Refinery Company project by Proparco; African Outgrower Development Funds, and the Ruzizi III project by the European Investment Bank. IFC highlighted the profitable nature of the projects and called for more investors to join in supporting and funding these projects, since there is still room for more investors to team up with the AFP in promoting the economic growth of Africa.

FDI flows to Africa

In terms of sources of Foreign Direct Investment (FDI) flows to Africa, the US, France, the UK, Germany, and Portugal accounted for most flows to the region from 1996 to 2000. Within the same period, the US is the most important source of FDI flows into the region, accounting for approximately 37 per cent of inflows from developed countries. This represents a marked shift from the period 1991 to 1995, in which the UK and France were the most important sources of FDI flows to the region (source: Foreign Direct Investment in Africa: Performance, Challenges and Responsibilities, African Trade Policy Centre; Work in Progress by Chantal Dupasquier and Patrick Osakwe).

India has been present in Africa for decades, with its FDI mostly in the services and manufacturing sectors but also in Africa's natural resources, including the oil sector (in Sudan, for example). India is also seeking to secure energy sources and other natural resources from Africa to support its dynamic economic growth. In eastern and southern Africa, Indian immigrants, with business ties to India and a good knowledge of Africa, have played a significant role in attracting new investment to the continent. This is especially true in recent years because "India is flush with foreign reserves and the government has lifted regulations and controls, allowing firms to go abroad and removing the \$100

million cap on foreign investment by Indian firms," according to Harry Broadman, writing in *Connecting Africa and Asia*, Finance & Development.

Mauritius and Seychelles combine the traditional advantages of offshore financial centres in the Indian Ocean (no capital gains tax, no withholding tax, no capital duty on issued capital, confidentiality of company information, exchange liberalisation and free repatriation of profits and capital etc) with the distinct advantages of being treaty-based jurisdictions, with a substantial network of treaties and Double Taxation Avoidance Agreements.

Why Mauritius and Seychelles?

There are specific advantages for setting up and administering investment vehicles in Mauritius and Seychelles for investment in Africa. For example, capital gains taxes, where imposed in Africa, are generally levied at a rate ranging from 30 per cent to 35 per cent. Nevertheless, the Double Taxation Agreements (DTA) in force in Mauritius or Seychelles restrict taxing rights of capital gains to the country of residence of the seller of the assets. Since there are no capital gains taxes in Mauritius or Seychelles, the potential tax savings for the Mauritius-resident entity are significant. Also, Mauritius has signed Investment Promotion and Protection Agreements (IPPAs) with 15 African member states; the IPPA with South Africa is already in force. An IPPA typically offers the following guarantees to investors from the contracting states: free repatriation of investment capital and returns; guarantee against expropriation; most favoured nation rule with respect to the treatment of investment; compensation for losses in case of war, armed conflict or riot etc, and arrangement for settlement of disputes between investors and the contracting states. Furthermore, while these two nations are fully part of Africa, Mauritius and Seychelles are not continental African countries. This ideal geopolitical situation eliminates spillover effects from potential neighbouring conflicts. Thus, much of the FDI increase in Africa has been routed through Mauritius- and Seychelles-domiciled investment vehicles. ■