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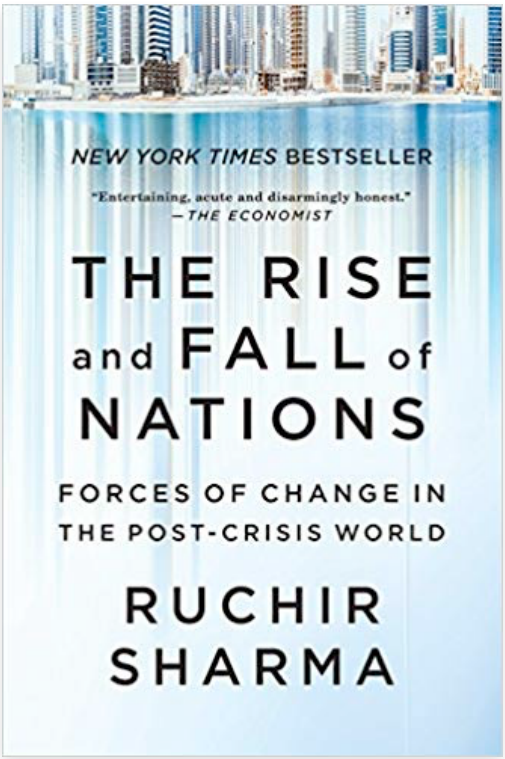
*"Tout l'art de la politique est de se servir des conjonctures."* Louis XIV

# Is Mauritius a compelling investment case?

By Philippe Koch

A few months ago, I read again the excellent book of Ruchir Sharma, *The Rise and Fall of Nations – Forces of Change in a Post-Crisis World*, published in 2015. In his second book, Sharma, who is Head of Emerging Markets and Chief Global Strategist at Morgan Stanley Investment Management, presents a system of 10 rules to gauge the attractiveness of emerging economies to foreign investors. As an investor into frontier markets across Africa, the books by Ruchir Sharma have been a great source of inspiration to think about the bigger picture for the countries I am investing in on behalf of our clients. When reading *The Rise and Fall of Nations* for the second time, I asked myself whether Ruchir Sharma, based on his 10 rules, would invest into stocks listed on the Stock Exchange of Mauritius (SEM).






In this article, I will endeavour to find an answer to this question. For each rule, I will subjectively give a grade on a scale from 1 (very bad) to 10 (very good) and then look if the total score makes Mauritius a compelling investment case or not. For the sake of a better reading experience, I will not mention the sources for the data compiled at each instance. The main sources have been Statistics Mauritius, Bank of Mauritius, the World Bank and the International Monetary Fund.

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## Rule #1: People Matter

The first rule focuses on demographics and quality of human capital. Quantitative indicators used are growth rates in overall population, the labour force and productivity. Main qualitative factors considered are openness to immigration and brain drain of the country's best and brightest.

The annual growth rate of the population in Mauritius between 2010 and 2016 was a mere 0.2%. The situation is expected to get worse since the fertility rate per woman in 2016 hovered around 1.36 children, even lower than the fertility rate in rapidly ageing developed countries such as Germany. With an annual growth rate of 1.0%, the labour force in Mauritius grew slightly stronger during the same period. Regarding multi-factor productivity, the annual growth rate of 1.0% between 2008 and 2018 has been rather weak but followed broadly the global trend in developed economies. Particularly capital productivity has been a constant drag on multi-factor productivity in Mauritius.

Turning to the qualitative factors, Mauritius has been generally open to immigration, albeit on a selective basis. Contract workers are welcome in the country for two main reasons. First, they are working in industries such as textile and construction that are increasingly shunned by the locals. Second, they must leave the country once their contract expires. Other immigrants who are actively encouraged to come to Mauritius are retired persons, particularly from Europe. Regarding immigration of skilled foreign labour, Mauritius has become increasingly defensive in recent years while supply and demand is clearly there.

The country remains attractive to French and South African entrepreneurs as doing business is comparatively easy. Some C-suite jobs in the private sector are also filled with expatriates, particularly in the hospitality and the financial services sectors. While certainly well-intended, a returning resident scheme for the Mauritian diaspora implemented by the government in 2015 has not been taken up on a larger scale.

Meanwhile, the private sector is complaining about unfilled vacancies due to the lack of certain skills in the local labour force while work permits for expats, their spouses and even foreign spouses of Mauritian citizens are increasingly difficult to obtain. The whole situation is exacerbated by a constant brain drain of young Mauritian talents who are studying abroad at reputed universities. This future "elite" of the country usually looks for well-paid and interesting positions in developed countries rather than returning to the motherland.

*Grade: 3/10*

## Rule #2: The Circle of Life

The "Circle of Life" is about the intertwined economic and political cycles in an emerging economy, which typically move from boom to complacency to bust and then bifurcate either into reform or sclerosis. Ruchir Sharma's central question is if a country is ready to back a leader capable of implementing economic, institutional and social reforms. A related question is whether such a leader does already exist on the political scene or could be reasonably expected to emerge, particularly once the circle of life is entering the "bust" stage. A differentiation is also made between "stale" and "fresh" leaders, with an obvious preference for the latter.

After almost four decades of uninterrupted growth, Mauritius seems to have entered the "complacency" stage on the circle of life, characterized by the mantra of "never change what works" prevailing in both the public and the private sector. While being a full-fledged democracy, elections in Mauritius are characterized by strong ethnic, religious and caste considerations. Political leadership in Mauritius is further dominated by two dynasties that have provided the Prime Minister in 49 out of 51 years since independence. Those two dynasties will fight it out again amongst themselves in the upcoming elections. Such an environment cannot be considered conducive for the emergence of a reform-oriented leader.

That said, voters in Mauritius did not hesitate in the past to punish leaders who grew "stale" while in office. When the country was on its knees in the beginning of the 1980s, Mauritius even voted overwhelmingly for a new party created by a young leader from a small ethnic minority. Leaders in Mauritius seem to know very well that they will be sanctioned if they fail to steer the country towards ever-increasing economic prosperity, which sometimes results in the nomination of reform-oriented "technocrats". As an example, both former Prime Ministers Sir Anerood Jugnauth and Navin Ramgoolam appointed the "technocrat" Rama Sithanen as Minister of Finance. The latter in turn implemented far-reaching regulatory and fiscal reforms during his two mandates under different political leaders that still provide dividends to the country to this very day.

*Grade: 4/10*

## Rule #3: Good Billionaires, Bad Billionaires

Rule #3 raises the question whether growing inequality between a clique of politically connected businessmen and the wider population is threatening the economy of an emerging country. Mainstream indicators used are the Gini coefficient and the Corruption Perception Index. The primary tool of Ruchir Sharma is however the Forbes billionaires list and other such rankings. He calculates the share of total billionaire wealth relative to the size of the economy, with 15% being considered a threshold that flashes warning signs. But he stresses the even higher importance of qualitative yardsticks, namely if the wealth of billionaires is stemming from the provision of useful products and services or whether it comes from "rent-seeking" and "unproductive" activities such as mining or real estate.

The last estimate of the Gini coefficient for Mauritius, as per the World Bank Databank, dates back as far as 2012, where it was 35.8 against an average of 39.2 for 25 upper middle-income countries. This can be considered a good score as it positions Mauritius in the middle of the second quartile. Moreover, an improvement in the Gini coefficient should be expected on the back of the social measures implemented by the current government during the last four years. On the other hand, the 2018 ranking of Mauritius in the Corruption Perception Index was 51, slightly up from 50 in 2017 but still down from 53 in 2015. Countries such as Botswana, Cyprus or Rwanda are ranked 61, 59 and 56, respectively.

Given the small size of the Mauritian economy and a population of just 1.3 million, none of the richest Mauritians makes it on any international list such as Forbes or the Bloomberg Billionaires Index. For the Africa region, only six entrepreneurs are included in the Bloomberg Billionaires Index. Aliko Dangote from Nigeria is at the top with a net worth of US$ 16.2 billion, while Naguib Sawiris from Egypt can be found at the bottom with US$ 5.2 billion. Such US$ fortunes are practically impossible in an economy that posted a Gross Domestic Product (GDP) at current exchange rates of US$ 14.3 billion in 2018. The threshold of 15% highlighted above equates to a combined net worth of US$ 2.2 billion (Rs 79 billion) for the wealthiest "billionaires" in Mauritius. Based on a guesstimate for the combined net worth of the wealthiest persons in Mauritius (excluding non-citizens), this number look rather high.

In 2017, Forbes Africa published the names of five "multi-millionaire" businessmen in Mauritius but did not indicate their individual or combined net worth. Following names were included in the list: 1) Raymond Ah-Chuen of ABC Group, 2) Bashir Currimjee of Currimjee Group, 3) Arnaud Dalais of Ciel Group, 4) Nundun Gopee of Nundun Gopee & Co and 5) Michel de Spéville of Eclosia Group. While it cannot be ascertained if those five men are really the five richest Mauritians, their selection provides cues with regards to the qualitative yardstick highlighted above.

> Rampant recruitment in the public sector under successive governments has started to crowd out the private sector.

Except Nundun Gopee, who is active in construction and real estate, none of those men made their fortunes in the industries highlighted by Ruchir Sharma. Their businesses span retail and

wholesale distribution, financial services, tourism and lodging, textiles, food & beverages, poultry farming and telecommunication. In short, sectors that represent the backbone of the Mauritian economy, with hundreds of thousands of Mauritians either consuming products and services sold by those businesses or working for and with them as employees or suppliers. However, the increasingly important role of the construction and real estate sector as the main driver of growth and the slippage in the Corruption Perception Index could be construed as an early warning sign.

*Grade: 8/10*

## Rule #4: Perils of the State

It should not come as a surprise that an experienced investor into emerging markets such as Ruchir Sharma considers the meddling of the state in the economy as a primary threat. Macroeconomic indicators used to assess the "Perils of the State" are government spending as a share of GDP, trends in budget deficits, the split between consumption and investment expenditure by the government and the share of government employees in the overall labour force. Important microeconomic indicators are a disproportionate role of state-owned banks, the presence of various state-owned companies and costly subsidies for basic commodities, particularly petroleum products. Qualitative factors analysed are the overall interference into private businesses by the state and the way any privatisations of state-owned assets are carried out.

In 2018, the share of government spending of GDP at market prices in Mauritius was 20%, much lower than the average of 31% for emerging markets reported by Sharma. The composition of government spending is less compelling: 77% of expenditure in 2018 went into consumption and only 23% into investment. Successive governments have further consumed on credit since decades and the annual budget deficit has been greater than 3.0% since 2012. Another worry is the role of the state as the main employer in the economy, with 14% of the total labour force in Mauritius being employed by the "general government sector" alone in 2018. Rampant recruitment in the public sector under successive governments has already started to crowd out the private sector in Mauritius.

The country currently avails of three state-owned banks: State Bank of Mauritius (SBM), Maubank and Development Bank of Mauritius. Their combined assets as at 31st December 2018 were around 19% of banking sector assets with SBM, a commercial bank listed on the SEM yet controlled by the state, representing 89% of those combined assets. Granted, some foreign banks active in Mauritius are mainly booking centres for offshore assets, so the proportion of local assets held by state-owned banks should be slightly higher. But meddling of the state in the wider economy through state-owned banks appears to be overall contained. The government is also actively looking to sell Maubank, with Prime Minister Pravind Jugnauth stating recently in parliament that it is not the role of government to manage a bank.

Apart from banks, the state controls directly and indirectly dozens of other enterprises and parastatal bodies, from large companies such as Mauritius Telecom to "natural" monopolies such as the Central Water Authority. The State Trading Corporation (STC) represents a particularly important organisation in the state edifice of Mauritius, but the subsidies it provides are distorting the free market only to a limited degree. Liquid petroleum products are by far the largest share of imports controlled by the STC, and its "Petroleum Pricing Mechanism" is today overall driven by market prices.

Nevertheless, it is hard to understand why downstream businesses active in Mauritius are not allowed to procure petroleum products themselves on international markets, with the STC focusing purely on keeping a "strategic reserve". Commodities for which direct subsidies are provided, such as flour, rice, liquefied petroleum gas and water, can be considered an overall small burden on the national treasury.

The problem in Mauritius stems less from direct subsidies than from the chronic mismanagement of state-owned companies and parastatal bodies. Many of those entities are also creating unnecessary red tape that weigh on private sector activity and result in the misallocation of resources to politically connected persons. With respect to privatisations, the record is too limited to assess fairness and transparency in the process.

*Grade: 6/10*

## Rule #5: The Geographic Sweet Spot

Rule #5 examines whether a country is making the most out of its geographic location. A "sweet spot" is defined as either proximity to large markets, for example Mexico to the United States, or a strategic location on a busy international trade route, such as Dubai or Singapore. A quantitative indicator used by Ruchir Sharma to assess the relative openness to international trade is total trade as a share of GDP. Closed economies are defined as countries with a share of total trade below 50% of GDP, while the most open emerging economies have a share of more than 100%.

> The distance to large domestic markets for goods and financial services remains a major hurdle.

Mauritius is a tiny island in the Indian Ocean about 2,300 kilometres off the coast of Mozambique, so the proximity to large markets can be ruled out. But Mauritius lies on an important South-South maritime trade route. It is estimated that around 35,000 ships pass Mauritius each year, compared to around 100,000 ships in the case of Singapore.

That said, Mauritius has lost its status as "The Star and Key of the Indian Ocean" since the opening of the Suez Canal in 1869, but also since the operation of modern container ships is an entirely different matter compared to the sailing vessels of the early 19th century. The container port in Port Louis is miniscule and highly unproductive even when benchmarked against regional ports. This is once again due to the "Perils of the State". While successive governments have announced grandiose schemes for the Mauritius Port Authority and the Cargo Handling Corporation, execution has been dismal so far.

It also remains open to discussion if the geographic location and topographical features would result in an appropriate return on capital for a large investment programme into new port infrastructure. It seems that some foreign investors still believe that Mauritius could again become an important stop on the South-South maritime trade route. China acquired a strategic area close to the port in 2012 but has so far shown limited interest to build ancillary infrastructure such as warehouses.

In 2016, DP World entered into negotiations with the government for a management agreement, but the deal was ultimately abandoned. No follow-up negotiations with DP World or another reputed international firm have been reported since then, which shows that the port does not enjoy a high priority amongst leaders. Given politicisation as well as lack of know-how and capital, it is unlikely that the port will evolve substantially under the current governance structure.

In 2018, total imports and exports of goods and services were 95% of GDP at market prices in Mauritius. It should be emphasised though that the high degree in openness has been mainly driven by imports during the last 15 years. Trade and financial flows go regularly together, with the prime example being Singapore.

Mauritius is trying to position itself as an International Financial Centre (IFC) for more than two decades now, but the country has so far become only a relatively small outsourcing destination for back-office services. Mauritius is light years away from Singapore, where 117 foreign banks, including the largest global institutions, have established subsidiaries or branches. While also due to idiosyncratic reasons, the distance to large domestic markets for goods and financial services

remains a major hurdle. The focus to become an IFC for emerging Africa is certainly the right strategy but will take time.

*Grade: 4/10*

## Rule #6: Factories First

As the title implies, rule #6 is focusing on the overwhelming importance of the manufacturing sector for the creation of wealth. The principal indicator used is total investment as a share of GDP, with a focus on "good" investment binges into manufacturing as opposed to "bad" investment binges into real estate or natural resources. According to research carried out by Ruchir Sharma, if total investment as a share of GDP in a developing country falls below 20% for several years, potential growth rates tend to fall below 3% in the years that follow. A level of 25% appears to be the minimum to sustain commendable growth rates.

When looking at the last decade in Mauritius, total investment as a share of GDP at market prices stood at 20.8% in 2013 and then fell consistently below 20%, which does not augur well for growth in the coming years. Particularly private investment remains low in Mauritius, falling from 18.9% of GDP in 2007 to 13.3% in 2017. Worse, only a paltry 5.0% of total investment in 2017 went into manufacturing compared to 13.9% in 2007. By contrast, the category "Real Estate Activities" increased from 24.0% in 2007 to 37.5% in 2017. Further, a stunning 75% of foreign direct investment (FDI) in 2017 was channelled into real estate projects. The Mauritian economy has not only seen a period of underinvestment. The small amount of investment is further fueling the "worst" investment binge, namely property and real estate.

Ruchir Sharma provides an intriguing take on the "service escalator" as an alternative to manufacturing in a developing economy. The number of formal jobs created in services as a share of the total labour force is generally small and further confined to basic clerical tasks, in turn creating limited value for the overall economy. Moving up the value chain becomes often impossible for people employed in services given the lack of proper education and practical experience. By contrast, manufacturing provides more jobs and a higher income to an unskilled or semi-skilled labour force as it requires a relatively low level of formal education.

The shortcomings of the "service escalator" highlighted by Sharma are resonating well with the situation of the financial services and business process outsourcing (BPO) sectors in Mauritius. Many CEOs speak of "value addition" but do not find the required skills in the local labour force to implement new business models. Other service jobs in developing economies, for example gardeners or maids, are not adding much value as well since those jobs neither generate export earnings nor enhance the skillset of the local labour force. An exception with respect to export earnings is the hospitality sector, which remains an important pillar of the Mauritian economy.

*Grade: 2/10*

## Rule #7: The Price of Onions

In "The Price of Onions", Ruchir Sharma is unequivocal regarding the impact of consumer price inflation: elevated inflation is always a bad sign, while low inflation is often a good sign. Sharma uses as a yardstick an average consumer price inflation of 6% for emerging economies. Inflation rates that are consistently above that threshold, moreover if going along with weak growth rates, do not augur well for investors. Central bank independence and an official inflation target serve as more qualitative indicators. Another area tracked closely by Ruchir Sharma is asset price inflation for listed equities and real estate.

With respect to consumer price inflation, Mauritius has done very well in recent years as inflation has been kept firmly under control. Average consumer price inflation in 2018 was 3.2%, and the country has remained consistently below the 6% threshold since 2011.

By contrast, some serious doubts are currently raised with respect to independence of the Bank of Mauritius, given the envisaged amendments to the Bank of Mauritius Act 2004. Further, the Bank of Mauritius still does not avail of an official inflation target. Monetary policy in Mauritius is crudely managed through regular interventions into currency markets and occasional costly sterilisations once excess reserves in the banking system are getting unsustainable.

Whether intended or not, the result of this policy is that the Mauritian Rupee trades in a tight range against the Euro, the most important currency for exports of goods and services. This "peg" against the Euro partly explains the substantial fall in consumer price inflation in recent years, as the impossible trinity of monetary policy has led to a situation where Mauritius is importing disinflation from the Eurozone.

The stock market in Mauritius does not show any signs of asset price inflation. The SEMDEX, like most emerging and frontier markets, trails largely the performance of the MSCI All Country World Index since 2014. A positive price-to-earnings ratio of 13.3x for the SEMDEX is also not indicative of an excessive valuation for profitable listed companies.

Anecdotal evidence suggests however some asset price inflation in the real estate market. Even gross rental yields for residential property are regularly lower than yields on long-term government bonds, which implies a degree of speculation embedded in the prices paid for houses and apartments. But in the absence of reliable data on the long-term evolution of land and house prices in Mauritius, it remains difficult to find clear evidence for asset price inflation in real estate.

*Grade: 7/10*

## Rule #8: Cheap is Good

Particularly in import-dependent emerging economies such as Mauritius, consumer price inflation is closely linked to the exchange rate of the local currency. Ruchir Sharma is using more traditional indicators such as the nominal exchange rate against the US$, the real effective exchange rate (REER), the balance of payments and the current account balance as first-order approximations for the intrinsic value of a currency. Refreshingly, he does not consider elaborate econometric models as the holy grail of valuation as he emphasises that it is regularly more important if a currency "feels" expensive or cheap.

The Mauritian Rupee has depreciated 13% against the US$ during the last 10 years, almost exactly in line with the decline of the Euro. But inflation differentials between Mauritius and the Eurozone remain elevated, which makes REER analysis even more important. According to the REER database of Bruegel, the Mauritian Rupee was overvalued by 20.8% in June 2019. The "Staff Report for the 2019 Article IV Consultation" published by the International Monetary Fund in April 2019 indicated an overvaluation on a REER basis of 25%.

When looking at the balance of payments, the headline numbers paint a positive picture. During the last five years, the Bank of Mauritius amassed additional reserve assets in an annual range of US$ 490 million to US$ 840 million. Mauritius avails today of an import cover of 10 months, which is not a small feat for a small island economy that is not endowed with natural resources. Given the large influence of the offshore sector on the balance of payments, it is however at times difficult to identify where those flows are exactly coming from and where they are heading to in the local economy. The standard reading is that the overwhelming part is related to Foreign Direct Investment into real estate, an asset class that has morphed into a sort of "natural resource" for Mauritius during the last decade.

> The private sector needs to come up with promising investment opportunities first.

When looking at foreign portfolio investor (FPI) flows, foreign investors sold a net US$ 330 million in equity securities listed on the SEM since the end of 2013, but most African frontier markets have seen outflows during that period as well. Here, Ruchir Sharma points out to a counterintuitive observation from his long experience as an investor into emerging markets: it regularly pays off to follow the locals instead of the foreigners, as the locals are usually the first to pull money out before the economy tanks but also the first to return once the currency and local assets feel "cheap" again. When applying this logic to Mauritius, the transfer of equity securities from foreign to local investors in recent years could represent a positive signal.

Ruchir Sharma identifies a persistent current account deficit as a highly reliable predictor of an overvalued currency. According to his research, if a current account deficit averages 5% of GDP or more over a period of five years, GDP growth is reduced by an average of 2.5% in the coming five years while the currency regularly takes a beating, in turn balancing the current account. If looking at the current account deficits for Mauritius between 2008 and 2018, the rolling 5-year average moved from -9.5% at the end of 2012 to -5.0% at the end of 2018. None of the seven 5-year rolling periods showed an average current account deficit below -5.0%, while the last positive current account balance was witnessed in 2003.

The current account deficit is of course the mirror image of the surplus in the capital account. Without the regular purchases of US$ by the Bank of Mauritius, the value of the Mauritian Rupee would be even stronger. That said, such current account deficits are not sustainable as they cannot be financed indefinitely by the sale of villas to foreigners.

The propensity of foreigners to visit a country for shopping sprees or of locals to go bargain hunting abroad is an example for a qualitative factor to get a "feeling" if a currency is cheap or expensive. Foreigners come rarely to Mauritius to buy overpriced items at the central market in Port Louis, but even middle-class Mauritians go today on extended shopping tours in far-flung places such as Cape Town or Kuala Lumpur. This pattern is indicative of a relative overvaluation of the Mauritian Rupee, but it might as well be the case that the South African Rand and the Malaysian Ringgit are relatively undervalued.

A classic relative indicator is the famous Big Mac Index published by *The Economist*. A Big Mac in a McDonald's in Mauritius goes for US$ 2.73, compared to US$ 5.82 in the United States, US$ 4.82 in France and US$ 3.06 for an average of 30 emerging and frontier countries. When applying "Burgernomics", the Mauritian Rupee does not look overvalued.

*Grade: 4/10*

## Rule #9: The Kiss of Debt

Many investors into emerging markets analyse primarily government debt metrics such as external debt as a percentage of GDP. Interestingly, Ruchir Sharma focuses predominantly on credit to the private sector. His research spanning data from 150 countries since 1960 reveals a remarkable pattern: an increase of 40% in private sector credit as a percentage of GDP over a period of five years resulted in a sharp economic slowdown in virtually all cases analysed. Further, a financial crisis broke out in 60% of the countries that breached the 40% threshold. Increases above 15% and 25% over a period of five years led also to a statistically significant decline in growth rates in the following years.

> Future growth rates could be considerably lower in absence of reforms.

Mauritius only narrowly escaped "The Kiss of Debt" in 2015. The broadest measure of private sector credit, which includes Global Business Corporations (GBCs), stood at 104% of GDP at constant prices in 2010. It increased rapidly to 139% in 2013 but then slowed down to 136% in 2015, still an increase of 32% for a period of five years. The growth rate was 25% for the same period once GBCs are excluded. The breach of

the 25% threshold in 2015 could be a partial explanation for the tepid growth rates that have followed.

Private sector credit fell slightly to 132% of GDP in 2016 and then spiked at 146% in 2017 before dropping to 128% in 2018. It is difficult to identify the main drivers of the pronounced contraction in private sector credit in 2018. The latest "Monetary Policy and Financial Stability Report" of the Bank of Mauritius covers only the first half of 2018 and reported elevated growth rates in private sector credit. The trend towards disintermediation through the corporate bond market that started a couple of years back cannot explain a contraction in broad private sector credit of that magnitude.

All said, the broad measure of private sector credit increased by a negligible 2% as a percentage of real GDP between 2012 and 2018. Local bank CEOs complain regularly about the dearth of acceptable lending opportunities in Mauritius while loan-to-deposit ratios of local banks remain relatively low. It could be argued that Mauritian banks avail of sizeable dry powder that could be deployed into new projects and fuel economic growth in the years ahead. But the private sector needs to come up with promising investment opportunities first. As a caveat, it stands to reason that official statistics have understated private sector credit growth during the last five years since many corporate bonds have found their way back on bank balance sheets as "investment securities".

*Grade: 7/10*

## Rule #10: The Hype Watch

The last rule of Ruchir Sharma looks at the perception of an emerging country amongst global opinion makers. Overly boastful articles and glowing cover stories are regularly a clear indicator that a country or region has reached its peak, while stories of gloom and doom are often pointing towards a fantastic entry point. Unfortunately, Mauritius will never make it on the title page of *The Economist* or *Time*. Financial markets and the overall economy are simply too small to draw the attention of global opinion makers, whether for good or for bad reasons.

*Grade: N/A*

## Conclusion

According to my subjective score, Mauritius gets 45 out of a total of 90, or 50%. This score would not overly excite foreign investors. The score is another manifestation of the middle-income trap in which Mauritius is stuck for years and does not find an easy way out. Some readers might argue that growth rates between 3% and 4% are an overall good achievement, given the structural slowdown in global growth since the financial crisis of 2008. But the position of Mauritius on the "Circle of Life" makes the case that future growth rates could be considerably lower in absence of reforms to the current model.

The good news is that the measures required to move to high-income status can be implemented quite swiftly in a small open island economy like Mauritius, provided leaders are really committed to them. On top of my personal list would be 1) facilitating the immigration of skilled labour, 2) actively attracting international firms, particularly in financial services, light manufacturing and trade, 3) privatisations of state-owned enterprises, 4) selection of a reputed international operator to manage the port and 5) reduction of red tape and political interference in the economy. Will Mauritius see the emergence of a leader who tackles those areas? Only time will tell.

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# A roadmap for developing the Mauritian capital markets

By Sameer Sharma

Capital tends to flow to or through jurisdictions where it is treated best. When a foreign investor looks at Africa or India, one of the main reasons why Mauritius tends to be selected is because the jurisdiction treats capital well. Mauritius is also a relatively stable jurisdiction, has laws that are relatively similar to those of the United Kingdom and holds an investment grade rating from Moody's.

While we should not kid ourselves into thinking that there has never been shell companies and round tripping done out of Mauritius, the regulations and compliance standards at offshore firms and the regulatory landscape have been drastically enhanced. One could even argue that it is easier to engage in tax evasion and money laundering in the United States and in some countries in Europe than in Mauritius today. Beyond an element of obvious bias in the Mauritius Leaks, Mauritians who often wonder why Mauritius never goes down under despite all its obvious vulnerabilities need to understand that given the near death of the export sector, it is income from the offshore sector added to real estate villa sales to foreigners and tourism receipts which keep the economy together.

All three sources of flows that currently more than plug the current account deficit and keep the economy away from a balance of payments crisis are corrolated to the same theme, i.e. the health of the global economy and the flow of money to emerging economies via jurisdictions where it is treated best. It is not just about the fact that the offshore sector has created thousands of direct and indirect jobs and accounts for a fair share of GDP, but it plays an even more important role in bringing dollars to a country suffering from an already unsustainable current account deficit. In many ways, the foreign villa sales, planned retirement homes for foreigners and smart cities in general all play to the same policy making theme, i.e. bring the foreign currency and keep the economy away from collapse.

When the jurisdiction is attacked at a time when tourism earnings are already facing pressure and when the offshore sector is losing market share to Singapore regarding India and when many African countries are looking at an opportunity to renegotiate their tax treaties with Mauritius, it is important to stand together and defend the jurisdiction. Being in a grey or black list one day aside, what would really be negative would be if the compliance departments of major endowment funds and multi-national institutions would in the spirit of "impact investing" or "socially responsible investing" ask their fund managers or pressure external managers who invest in India or Africa to not use offshore jurisdictions to structure their investment vehicles or to limit their exposure to such structures. It remains important to have a strong communications campaign and fight back.

It is also equally important for Mauritian policy makers to engage in some introspection about why Mauritius has not been able to move up the value chain in certain key segments of financial services sector and beyond. Take the International Monetary Fund for example, their view of the financial services sector and our export and tourism sector in general was well summed up on page 23 of the IMF Selected Issues Series on "Mauritius - Unlocking Structural Transformation in Mauritius: Challenges and Opportunities":

*"Mauritius' goods export complexity has been consistently below that of other major GFCs. This gap is driven by the high ubiquity (or low uniqueness) of Mauritius' exports. Mauritius' export basket also lacks diversification relative to its global competitors, as indicated by the inverse Herfindahl-Hirschman Index (HHI). The complexity of its services exports has also lagged that of other global competitors. Calculating the average complexity of service export categories, Mauritius fares* ***much lower*** *than other GFCs. Mauritius' dependence on tourism (with a low*

*complexity score) and a relatively narrow base in high complexity sectors* ***such as finance*** *are the key reasons for this gap."*

In a world beset by the rise of nationalist populism itself fuelled by a global democratic recession and a rise in wealth inequality, the lower value added offshore jurisdictions will continue to face pressure. We can have many debates about the perceptions and the realities of the Mauritian jurisdiction all we want, but the secular outlook on anything offshore is becoming more complicated, and this is true not just in Mauritius but elsewhere as well. Mauritius will simply feel the consequences more because of its dependence on abundant flows in order to keep an unsustainable political and economic system from collapsing. The purpose of this article then is to focus on a few areas within financial services that need to see urgent change in order to have a better shot at moving up the value chain.

## Mauritius needs to better leverage on its core strength

Mauritius has a large pool of well qualified accountants. I would argue that global banks (from custodian operations including back and middle office operations and beyond) can find a lot of value in Mauritius compared to the Phillipines or India. While we certainly need to be very open to foreign labour to complement our labour force in terms of size, Mauritius still has not leveraged on its current comparative advantage enough. Mauritian accountants are well versed with IFRS and need to master IFRS9 while local firms need to also look at hiring more quants who can either be sent abroad for training or be trained locally when it comes to the calculations of expected loss, derivatives pricing and treatment. This is one of the few areas where we can compete and beat the Indians and the Phillipinos, and we can also communicate in both English and French effectively.

> The lack of a professional debt management office is a major handicap.

The first step would be for policy makers to invite global banks, especially cost conscious banks (given higher regulatory capital charges in their home countries), making sure that only our best technocrats speak to these senior representatives (we cannot send any Tom, Dick and Harry as we typically do) and offer them incentives to come and set up part of their back office operations here with full foreign labour hiring flexibility and favourable tax treatments. The same incentives can be extended to global asset managers too when it comes to their support services. Mauritius simply needs to extend what it already does in the fund structuring field.

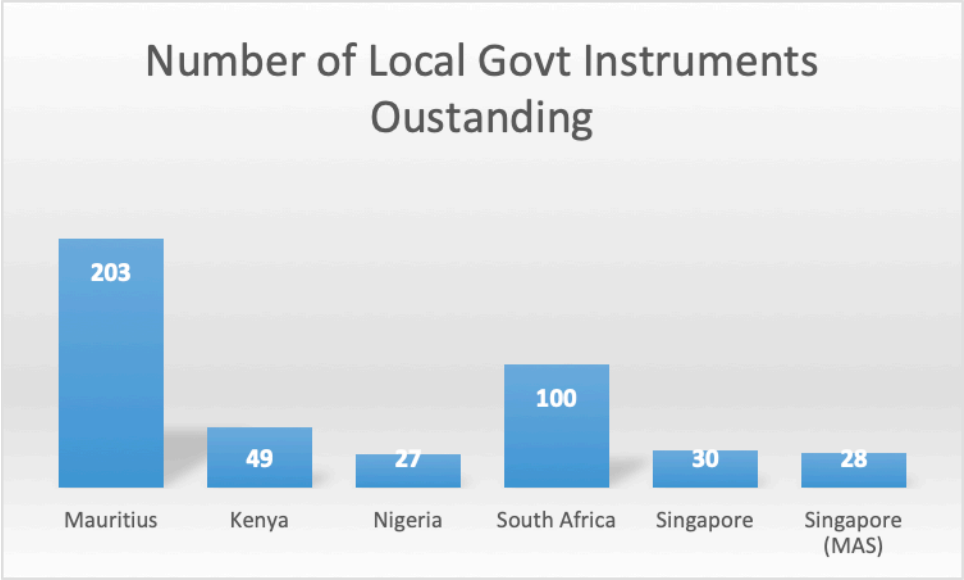
Coordination with private players is key and the reality is that there will need to be many trips and road shows, but back office and lower level middle office support operations is obtainable if we can show that we have the manpower and skills (or we can import them). This will take us away from relying so heavily on our tax treaties with other jurisdictions to competing with others based on our skills. It will certainly not be easy, for the world is competitive and we do have a size disadvantage but we need to push.

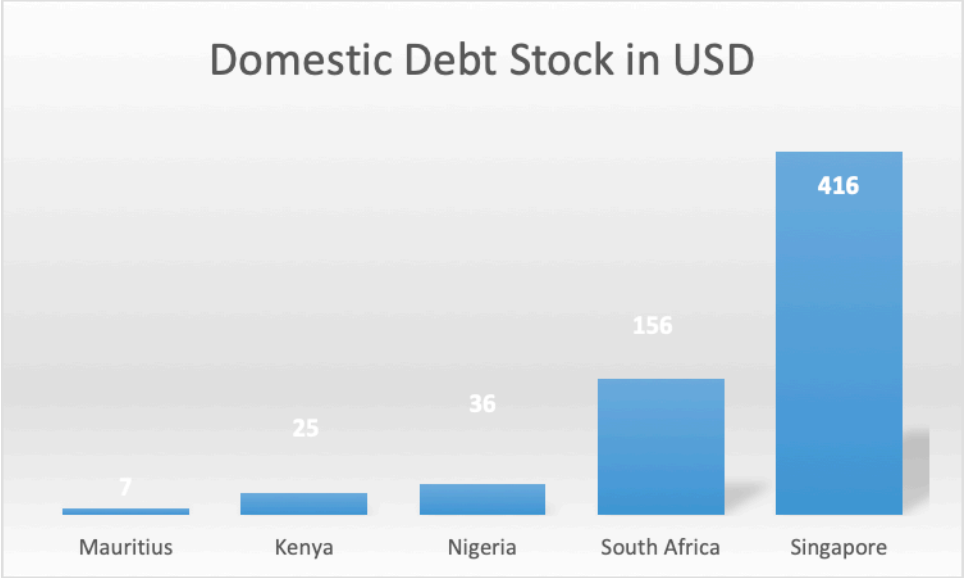
## Under developed and illiquid capital markets

Just a few years ago, South Africa saw its credit rating downgraded to junk. This provided a golden opportunity to policy makers to have more businesses; especially financial institutions shift a greater share of their operations out of South Africa to Mauritius. Our handicap is that we do not have a pool of talent when it comes to investment banking. When financial institutions look at Mauritius, they see an under developed and relatively illiquid capital market ecosystem. We simply cannot tell others to base their value added operations here when the way we have managed the development of our local bond market for example is often laughed at for its over fragmentation and lack of depth. We do not make a good impression and this helps to build the perception that we are only good at providing back office services.

Mauritius, which has a mere UD 7 billion worth of debt stock outstanding, has more than 203 bond issues of low sizes (USD 50- 100 million range) compared to much larger countries with fewer issues. Bonds are traded over the counter via market makers who need to hold adequate inventory and gain from bid ask spreads. Typically a professionalised debt management office would maximise the amount outstanding for every key benchmark point of the yield curve so that there would be fewer issues of a decent size.

In the case of Mauritius, 20 to 30 issues of between USD 200 million and USD 500 million would make more sense and would require major buy backs and re-issues spread over time to make the market more attractive to domestic and foreign players. There currently seems to be an accounting approach to the management of public debt resulting in high fragmentation which kills bond market development. There does not seem to be a coherent debt strategy beyond some limited budget cost goals. In a country where asset managers and pension fund managers already have a buy and hold mentality, the lack of a professional debt management office is a major handicap.




*(Source: Bloomberg)*

It should be concerning to local policy makers that Mauritius is still not part of the Bloomberg Africa Bond index, the domestic bond benchmark for Africa comprised of 8 countries from South Africa to Ghana. The fact that Mauritius did not make it into the index since 2017 is not something we should be proud of as a Global Financial Centre (GFC). For a country that sells itself as a GFC, the Mauritian bond markets should be ahead of the rest in the region, and its bonds should be clearable and integrated to global pools of liquidity such as Euroclear, which would bring both credibility and greater liquidity over time.

Mauritius has a lot to do in order to develop a vibrant local commercial paper and more liquid equity market.

The Mauritian Rupee has a strong correlation to the Euro and the ability to trade Mauritian bonds short term would certainly be appealing to carry traders. When it comes to foreign loans/bonds, Mauritian policy makers still focus on interest rate costs as part of an accounting and short termist mindset rather than focusing on the bigger picture. It should not be acceptable that a GFC like Mauritius does not even have Credit Default Swaps (CDS) traded on its name. The Bloomberg and Reuters pages on Mauritian capital markets speak a sad story of a lack of instruments and high bid-ask spreads. It makes for a very bad first impression as well.

For CDS to be traded on Mauritius, the latter would need to issue a few half a billion USD ticket sized international bonds over time (or a healthy issue size) with traders allowed to take both long and short positions on the underlying. As liquidity improves, CDS will appear as demand comes in and investment banks step in. This would mean that we would work closely with international investment banks, engage in road show promotions about Mauritius aimed at increasing the visibility of the country. It would also mean that we would work with large players to build a credible roadmap for the development of the Mauritian capital markets and show that we are not just a jurisdiction that survives on tax treaties.

Given the fact that the US Federal Reserve has started cutting rates, Mauritius can certainly benefit from foreign bond issues especially when global credit spreads are near historical lows. There needs to be a clear and long term strategy to put Mauritius on the map as a jurisdiction that is going somewhere and is aggressively developing its capital market. No, it is not just about going to the Indians and Chinese and seeking low coupon rates.

Of course, as Mauritius' bond and equity markets get more connected to the rest of the world, there will be more scrutiny of such things as institutional independence and on the competence of our nominees sitting at key posts. But then again either we develop our market or remain closed off and keep the capital markets under developed. What we have been doing for the last 20 years needs to evolve. Either we will do it ourselves or the likes of international journalists will do it for us. Mauritius has a lot to do in order to develop a vibrant local commercial paper and more liquid equity market, but it cannot tell others to come and issue bonds out of here when it cannot even handle its own local market effectively.

When the South Africans and Indians see that Mauritius is deepening its capital markets and that the market is Euroclearable for example, then we can perhaps aim to encourage and convince them to raise capital out of such a jurisdiction. It will take time but the goal is to create an integrated capital markets ecosystem that is connected to the world. Mauritius will not be able to compete with London or South Africa but it can gain its own second tier niche market, be it via traditional instruments or newer novel approaches at fund raising such as SCOs. The latter ecosystem needs to be developed. This is where we need to take some risks when it comes to novel technologies.

## The local asset management industry is ripe for consolidation

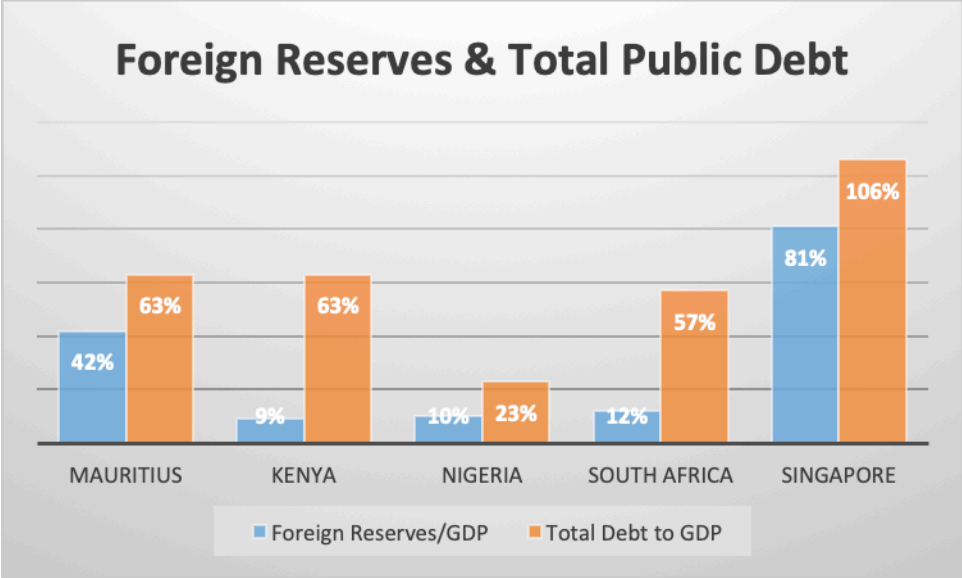
The biggest area where Mauritius can gain from developing its ecosystem, however, remains within trade finance, private equity and private credit with a focus on East and Southern Africa.

What is currently lacking is seed funding from local institutions such as public and private pension funds. The local financial landscape is dominated by banks and fund administrators. The fund management industry does not only need to compete with consumerism and falling savings/GDP but a lack of new mandates. It has a very small voice vis-à-vis the regulators compared to the banks and the fund administrators. Every genuine local setup which has tried to raise adequate seed capital out of Mauritius has failed even when the track record is good. The asset management industry, which is certainly a higher fee business than the back office business, barely ever gets any mention in any budget speech.

What is currently lacking is seed funding from local institutions such as public and private pension funds.

While it is true that the local asset management industry is ripe for consolidation given its small size in order to gain economies of scale and hire better talent, there are quite a number of things that the government can do to push this industry forward. For example, under current regulations, only SICOM can manage pension assets of civil servants and government bodies. This essentially closes an already small market to competition. The National Pension Fund/National Savings Fund barely outsource any local mandates with mandates that would encourage good governance and more trading activity too as is done in South Africa.

If one wants to raise funding for African investments locally, there is no proper ecosystem or incentives to raise seed capital locally. There is simply currently no policy to make Mauritius transition from a pass through to a "co-investment/seed capital" jurisdiction. Mauritius should have created its niche within the private credit and equity space where locally managed funds backed by adequate seed capital locally could attract foreign investors as co-investors.




*(Source: Bloomberg)*

Singapore created the GIC by transferring around three months worth of imports from the Monetary Authority of Singapore way back in the early 1980s when they only had six months worth of imports. This apolitical and professional asset manager managed the sovereign wealth of Singapore and served as a key catalyst to the development of the local asset management industry and to onward Asian investments (let alone in the rest of the world). It allowed Singapore to also increase its clout as an investor, and it also gained insight and intelligence on the happenings of Asia. This over time attracted other larger firms that wanted to access Asia to do so via Singapore.

With foreign reserves (resulting from flows) accounting for close to half of the GDP of the country, it is high time for Mauritius to look into the creation of a sovereign wealth fund. Readers will be

reminded that a large part of Singapore Government debt issuance is used to fund the continuing increase in GIC funds which itself pays regular dividends to the government and allows Singapore to maintain a relatively low tax regime. If Mauritius had launched a sovereign wealth fund, part of which would have had an Africa focus a decade ago, I would imagine that our clout would have avoided us this "one way street" stamp that our offshore sector gets accused of. Mauritius is small but the African investment universe is also small. Our size, when added to co-investments with credible partners, will not be as big a handicap as many think.

Mauritius is also well positioned to be a private wealth management platform and family office for the region. On that front at least, some progress has been made. I think that there is still a lot of potential to develop a venture capital/fund raising ecosystem wherein high networth individuals with good business ideas or/and money can find or post deals. Fintech can play a key role in linking the providers and seekers of capital together all regulated under the Mauritian common law. There we need to make sure that contracts are well structured and are enforceable.

## The National Pension Fund portfolio

Finally, back in March 2019, the Ministry of Finance publically posted its Mauritius National Investment Authority (MNIA) draft bill which would aim to create a GIC/Themasec type manager who would better manage public assets, especially those of the National Pension Fund/National Savings Fund. Unfortunately, despite the dire need to improve long term risk adjusted returns of public managed funds, not much has been heard since. Back in March, the NPF and NSF portfolio allocations were also posted online. Given unfavourable demographics and lower local bond yields which obviously push the present value of the liabilities upwards, in order for the NPF or NSF to achieve CPI + 3-4% type returns over the long term, it needs a strong tactical asset allocation framework which can only be achieved via an independent, apolitical and professionally managed body such as the MNIA.

Local corporate bonds are not very liquid and credit spreads showcase strong mispricing.

What is also clear from the NPF portfolio (NSF portfolio would have a similar logic) can be summed up as follows:

Firstly, the Strategic Asset Allocation benchmark has a too strong allocation to local Government bonds where yields will remain low for an extended period. Capital market assumptions on local fixed income are likely to be overly optimistic. Local corporate bonds are not very liquid and credit spreads showcase strong mispricing. It will be difficult to achieve 6% to 7% returns over the long term with such an asset allocation. It is also pretty obvious that there are some allocations which do not bring much to the portfolio such as structured products (meant for retail investors as low volatility products) and the many other 1% allocations which are not appropriately sized.

The Strategic Asset Allocation framework needs more growth rather than matching assets, and while the portfolio visually appears to be diversified, it does not take much to visually make out that the portfolio risk/return dynamics rely heavily on local rates and currency risk. Clearly, the portfolio could benefit from greater risk factor diversification, be it in terms of factor styles and illiquidity premia via a greater allocation to alternatives, be it local or/and foreign. The benchmark could also do with more emerging market debt and equity exposure over time given valuations (on emerging markets and to a lesser extent developed equities such as US equities in particular) and the favourable characteristics of risk on assets in Mauritian Rupee terms.

The benchmark also seems to lack an adequate amount of global developed Government bonds, but given where yields are and unattractive duration dynamics of global bond indices, a more active approach to fixed income would require more sophisticated risk budgeting techniques. Alternatives should be broken down into those such as local real estate (assuming rentals) which

corrolate positively to inflation, to growth alternatives such as private equity focusing on growth areas. A 5% alternatives allocation is inadequate to meet such high real return targets.

Secondly, on the tactical front, moves appear to be overly conservative but while this may sound nice, over time this can lead to negative funding gaps. The portfolio needs a stronger tactical asset allocation framework with clear risk budgets. A stronger degree of local mandates to local managers with clear long term alpha targets should be considered despite limited local market liquidity. The slight overweight in global equities versus benchmark, when coupled with Rupee depreciation, may have helped the portfolio somewhat this year (author's guess), but an overly conservative tactical deviation appears to have still kept opportunity costs high.

> It is global best practice for professionalised setups to manage public funds.

A low duration tactical allocation likely meant that such a portfolio would not have benefited from US yield compression enough. The portfolio needs greater risk diversification rather than investing in low volatility products such as structured products. Pension funds do not do such things. The biggest risk to such a portfolio is not to be in a position to sustain returns of CPI + 3-4% over the longer term. Given where local bond yields are and are likely to stay, a better strategic asset allocation and tactical asset allocation framework is sorely needed.

Thirdly, there is a lot of scope in terms of enhancing long term returns when it comes to a more professionalised setup. There is also quite a lot of scope with a more professional setup which would be better able to manage the liquidity of the portfolio to provide more local mandates and help to develop local asset classes in the areas of infrastructure investments, local venture capital seed funding, as is done elsewhere in the world with pension funds with similar mandates and real return targets. It is indeed global best practice for professionalised setups to manage public funds because not doing so over time leads to large opportunity costs and negative funding gaps.

| **Latest Report March 2019** | **NPF** | **Benchmark** |
|---|---|---|
| Local Treasury Bills and Notes | 21% | 15% |
| Government Stocks and Bonds | 35% | 35% |
| Rupee Deposits/Money Markets | 2% | 2% |
| Local Corporate Bonds | 6% | 10% |
| **Total Local Fixed Income/Credit** | **64%** | **62%** |
| Foreign Bonds | 2% | 4% |
| Foreign Money Markets | 0% | 3% |
| **Total Matching Assets** | **66%** | **69%** |
| Local Listed Equities | 11% | 12% |
| International Listed Equities/Mutual Funds | 15% | 12% |
| Local Mutual Funds | 1% | 1% |
| **Total Equities & Funds Allocation** | **27%** | **25%** |
| Local Private Equity | 2% | 1% |
| Local Loans | 0% | 1% |
| Local Real Estate | 2% | 1% |
| Other Alternative Investments | 1% | 2% |
| **Total Alternatives Investments** | **5%** | **5%** |
| Structured Products | 1% | 1% |
| Rounding Effects | 1% | |
| **Total Assets** | 100% | 100% |

*(Source: Ministry of social security)*

There is very little appreciation of how public and private pension funds and other institutional pools of money can really help to develop multiple asset classes in Mauritius. Given the size of Mauritius, a centralised independent but accountable setup could not only help to partially resolve the seed capital problem but also serve as an incubator of talent that would finally provide Mauritius with the means to diversify its financial product offering. Africa is USD short, Mauritius is USD net long.

There is a lot of scope in looking into clearing houses, enhanced collateral management services and in general allowing African financial institutions to more easily provide funding to each other with collateral backing, be it via repos, money market instruments and beyond via a Mauritian platform. What Mauritius lacks, however, is a roadmap, a long term plan of how to get from A to B, and more importantly the right people at the right places. In order to avoid short termist political considerations which often hold good long term decisions hostage, Mauritius needs a planning commission with no Politically Exposed Persons but more brains.

*Sameer Sharma is a chartered alternative investment analyst and a certified financial risk manager.*

# Monetary nonsense

By Eric Ng Ping Cheun


By lowering further the Key Repo Rate on 9 August, the Bank of Mauritius makes a nonsense of monetary policy as the private sector will not engage in new projects with elections close. By caving in to pressure from the Treasury Building, Governor Googoolye has not assuaged firms' concerns over the Workers' Rights Bill, but has rather done a disservice to the government which will have to face up to angry voters. By enhancing the monetary stimulus, the authorities are set to increase excess liquidity. By choosing a 0.15% decrease, the Monetary Policy Committee makes a fool of itself in front of international opinion as changes in global benchmark interest rates are always a multiple of 25 basis points.

If we go by official data, Mauritius does not need a rate cut. The MPC is not expecting an abrupt worsening of the domestic economy as it believes that "the underlying growth momentum remains broadly positive". With a real GDP growth rate of 3.9%, with an overall unemployment rate down to 7.9%, with an underlying core2 inflation rate (which excludes food, energy and administered prices) remaining at 1.9% in the first semester of 2019, with domestic credit expanding briskly by 7.4% in the year ending 30 June 2019, and with rising wages (from the first quarter of 2018 to that of 2019, the nominal wage rate index jumped by 4.9% in the private sector, notably 7.4% in the manufacturing sector), nothing justifies bringing down interest rates that are already artificially low. If the economy needs monetary easing under these conditions, it is hard to imagine a situation in which the MPC will be willing to raise the repo rate!

## Policymakers are lying to the population

To conclude that another rate cut is now warranted is to signal that the Mauritian economy is not performing as the government and the central bank have long pretended it to be. For many economic operators, this has been obvious for years, of course. Policymakers are therefore lying to the population when they hammer home the message that the economy is getting better. Has the Prime Minister and finance minister not just assured us, in his budget speech, that economic growth would be higher in 2020?

One of two things must be true: either the economy is weaker than the headline data suggest, or the method of measuring inflation is wrong. Incidentally, the discussions within the MPC no more revolve around the so-called trade-off between growth and inflation – the gospel of Keynesian thinking. The likes of Oliver Blanchard must have some difficulty in explaining why sustained growth and decreasing unemployment have not led to a resurgence in inflation.

It is possible that both conclusions are plausible. If inflation is truly more sizeable than the official estimate, real wage growth is insufficient to drive up prices. The consumer price index happens to be a measure based on a lot of arbitrary judgement calls, such as the claim that price increases are overestimated because products have improved in quality. Such an assumption, which is used to push down inflation rates, is a pretty tone-deaf way of calculating the change in the level of prices.

## Political motivation

It is evident that the rate cut is not motivated primarily by economic data, but by politics. The Bank of Mauritius under the current top management, for all its protestations of independence, is simply doing what the government wants it to do. The fiscal authority has kept on applying pressure behind closed doors with complicity inside the central bank.

There are two reasons why the ministry of finance keeps a heavy hand on monetary policy. The first is the importance of low interest rates in a situation of runaway government spending. As the public sector debt continues to rise, and the budget deficit to mount – in a period of "growth", mind you! –, it becomes crucial to maintain debt service low by pushing down interest rates. If debt payments increased substantially, welfare programmes could be trimmed, which would be politically unpopular.

Government interference in monetary policy carries a heavy political price to pay with ordinary savers.

The second reason is the necessity of a weak rupee to replenish the Special Reserve Fund of the Bank of Mauritius. The problem is that the country has witnessed significant net outflows in portfolio investments (a total of USD 2.3 billion in 2017 and 2018). The Stock Exchange of Mauritius alone suffered a net foreign divestment of Rs 3.2 billion over 14 consecutive months. As some analysts explain, "foreign investors are pulling out because the rupee is sliding, the fundamentals of listed companies are not strong, and the future does not look good". Thus, "as long as the rupee remains weak with respect to the US dollar, it is difficult to see foreign investors coming back massively."

Government interference in monetary policy carries a heavy political price to pay with ordinary savers. The effect of a decade of low rates has already been devastating for them. The interest rate policy has worsened income inequality, being designed for the rich who can chase high yield through investment products. Families living on fixed income, who can only afford to have lower-yield savings accounts, will continually lose purchasing power.

The majority of MPC members assume that their decision will help Mauritius "to further enhance its resilience". It is a joke because interest rate policy is meant for cyclical stabilisation. Even so, says an analyst, "the impact will be limited given the weak monetary transmission mechanism. What is needed are structural reforms aimed at nurturing a more competitive economy." But that is too much for the government to stomach.

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*Eric Ng Ping Cheun is the author of* Fifty Economic Steps *(2018), on sale at Bookcourt, Editions Le Printemps, Editions de l'Océan Indien, Librairie Le Cygne and Librairie Petrusmok.*

# The making of a business strategy

By Mubarak Sooltangos

We must first agree on the difference between three concepts and processes, namely Vision, Strategy and Business Plan. They have different goals and each of them is defined in time but are very often seen and felt to be similar and overlap on each other in people's mind.


A vision is long term thinking, and its purpose is to forecast, or at least to dream of where the owners of a business want to see it in a certain number of years in size, performance and presence on its market. As Stephen Covey says: "Begin with the end in mind". If you have this final goal in mind, you already have a vision. The final goal can today seem impossible to achieve, because you do not, right now, have the means to materialize it but it will stretch you to achieve something higher and work towards it. If in the end you fall short of your vision because of circumstances beyond your control, you will nevertheless have achieved an intermediate stage, still laudable, which you would probably not have achieved if the vision was not there.

A strategy has a shorter time frame, usually three years, and it outlines the measures that must be taken in that lapse of time, for the company to progress towards its declared vision. It is a cog, defined in time, which will consolidate, modify or completely change the way in which the business was going, very often dictated by changes in its business environment or new constraints and opportunities.

It is a big name, but is just a series of measures destined to improve the business, production wise, marketing and selling wise, so that the strategy, created by thinking, planning and daring is put in action. It may mean a new way of producing, presenting, selling, giving visibility to the product(s), and communicating with the target market. It often calls for the aligning of additional financial and human resources to execute this plan, often during a 12-month period.

## A fallacy called collective strategy meetings

It has become common practice nowadays for companies who have financial means to assemble their senior staff and managers in a secluded place like a holiday resort for one or two days to brainstorm about and intellectually generate a strategy. In my mind, this leads to no concrete results as it is difficult for 20 or more persons to voice their thoughts and to come to a consensus. There is no such thing as collective business acumen. It is a business virtue of the highest level, exclusive to individuals and which cannot be acquired collectively or even transmitted.

Some minds are moved by concepts, some by processes and others by operations and logistics. They have, each of them, their own focus and priorities pertaining to their individual jobs, and their minds often operate at different levels. Among these 20 persons, a majority will probably not talk, for fear of being ridiculous or for being incapable of having a holistic view of the business to venture a comment, and the rhetoric will be left to the initiative of three or four trend setters. Then, how do you reach a consensus where most participants are silent? If I wanted to be nice, I would say that silence is consent, but the people called in this meeting are supposed primarily to talk and the virtue of silence does not help.

## What is the right course of action?

The most effective way to come to a strategy is to start by consultative meetings driven or chaired by the CEO, with business unit and line managers either on a one to one basis or by small groups

of not more than three to four persons where interaction is easy. Everybody has the chance to voice his feelings without being overawed by the size of the audience, and interaction is easier. One subject is discussed at a time to obtain maximum focus and avoid diversion.

> There is no such thing as collective business acumen.

Once these consultative meetings have been held, the formulation of the strategy is the affair of the CEO, and only the CEO in his best judgement because he is the only one who will have to face the Board in case of failure. He will not be bailed out by any of his managers claiming that the strategy was the fruit of collective thinking. The CEO can choose to be helped in this final exercise by a restricted group of senior officials, close to the him, who have experience, judgement and the ability to think global and outside the box. There is more likelihood of obtaining a consensus.

An enlarged meeting grouping all the executives can then be held to be apprised of the chosen strategy. Executives will be invited to give their views thereon to challenge it and refine it. It is in the interest of the CEO to make sure that the whole team adheres to the final strategy. None of these 20 persons can claim to have been left out of the thinking process, because they would have had the opportunity of voicing their feelings and their objections at the preliminary brainstorming and at the enlarged meeting.

## Ongoing strategy

In a more practical sense, strategy is felt and lived every day in business life. The things which happen every day like modifications in the commercial environment, changes in demand, increase in price of raw materials, change in legislation, difficulty to sell, drop in sales, technological advance and changes in the behaviour of competitors amongst other things, keep modulating our way of doing business. They must be addressed there and then. Besides this, they keep us thinking ahead about improvements and refinements we should bring to our business to face change. In fact, if there is anything constant in life, it is change. If we are attentive to our business and to changes in our commercial environment, the end of year exercise in strategy making will require little brain storming and should evolve naturally as a response to these changes.

## What a strategy and business plan imply?

The Business plan that follows the choice of the strategy will determine what are the processes to be followed and the resources to be put in place to achieve the desired goal for these three years. These include land and buildings, production equipment, human resources and the means of obtaining finance for these plans to materialize. It also says whether the company will move forward by organic growth or acquisition of competitor business or the introduction of new lines of products. It may also state and call for objectives like a change of the target market or a departure from commodity business to brands or a change in the image of the company and its products from low to high or vice versa.

A strategy which states that the company will only progress by organic growth is hardly a strategy because this sort of philosophy does not call for fundamental changes in the structure of the company, its logistics, its productive equipment or its human resources for it to perform better. A strategy should be more aggressive with a view to progressing by leaps and bounds with more meaningful changes.

## Strategies with no growth

Strategies which aim only at organic growth are those of very specialized companies like Coca-Cola whose coverage of the market has reached a saturation point. They will attract only catastrophe if their product changes in taste. Their success lies in the constancy of their products.

In such situations, the usual objective is to maintain market share and dominance and to prevent smaller competitors from making inroads in their market. Even then, there must be a strategy to achieve this objective and this course of action may focus on new presentation and packaging, better customer service and more efficient ways of production which take advantage of technological advances in productive equipment or information technology.

## Strategies involving fundamental changes

Strategies which lead a company out of its comfort zone into a new activity carry several risks which must be considered. These can disrupt a whole business philosophy to which the work force was well accustomed. For example, the new orientation has no link with the traditional activity of a company to which the staff has been tuned. If the new activity targets a market which is different from the usual and acquired market, this entails communicating with this new audience which has a different customer psychology, in a different language and style.

Big multinationals like Unilever, Procter & Gamble and Sony are multi-product companies often targeted at different markets, and they excel in this type of breadth seeking strategy. They are used to buying expertise and brain power to man any new activity which they take on board, and to monitor them. On the highly positive side, widening their activities and range of products give stability to multi-product companies.

> Progressing by leaps and bounds with more meaningful changes.

## Dynamic strategies

No strategy, even if it is formally laid down, is set in concrete. The top hierarchy should meet regularly to take stock of the evolution of the business in its environment to see whether the strategy needs to be modulated, or whether it has become un-adapted or ineffective and it should be simply scrapped. This boils down to saying that higher management should always breathe strategy because this will dictate their way of doing business as time goes by and will condition their ability to make of progress a continued objective, even in changing circumstances and markets.

## Having a plan B to face meaningful and abrupt changes

Smart companies always have a plan B for likely, and often predictable and fundamental changes. This applies, for example, to the use of plastic bottles in the carbonated drink industry. In as much as the use of plastic bottles has become an integral part of this industry by being cost effective, these businesses should constantly bear in mind that legislation concerning protection of the environment can abruptly put an end to this practice, and they must, at short notice, be able to find alternative packaging at affordable cost in order not to modify their cost structure significantly. This can mean going back to glass bottles or recourse to new bio-degradable material. If this threat is always kept in mind, and the thought process of how to face it is ongoing, the shock will be dampened when this happens.

Everybody will now have understood the philosophy behind strategy making. It is not an entire management team sitting in a meeting room in a five-star hotel, or a hired and highly paid consultant having absolutely no feel for the market, the competition and the product who can formulate a strategy. It is the prerogative of a CEO, after he has taken advice from his team, because he will always be held personally accountable for any failure or shortcoming. He must never allow himself to he held to ransom by his managers and should always have the prerogative to overrule them.

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# La belle parade statistique

Par Eric Ng Ping Cheun

Le débat budgétaire a été tellement dominé par ce qu'il convient d'appeler le « hold-up » de la Banque de Maurice que très peu a été dit sur les indicateurs économiques. Ils sont tout aussi révélateurs de l'état dégradant de notre économie, comme le font ressortir les dernières actualisations de la comptabilité nationale. Cependant, en cette année électorale, les indices ont une vocation politique. Il importe donc à Statistics Mauritius de ne pas suivre la voie de notre banque centrale par la perte de son indépendance, durement acquise. Car, dans un pays où les statistiques sont produites par un quasi-monopole public, lequel ne vit que du budget qui lui est alloué par l'Etat, il est facile de dire que les statistiques mentent.

C'est sous un tintamarre médiatique que le gouvernement présente la baisse du taux de chômage comme une grande victoire statistique, qui autorise ses thuriféraires, daltoniens assurément, à affirmer que les clignotants économiques sont au vert. Or, si le nombre de chômeurs a reculé de 1 700 en 2018, ce n'est pas parce qu'on a créé plus d'emplois, mais en raison d'une baisse de la population active (par 3 100 personnes). Ainsi, il y a eu une perte nette de 1 400 emplois parmi les Mauriciens.

On n'a rien à dire de la méthodologie de Statistics Mauritius sur le calcul du taux de chômage. En revanche, on reste dubitatif devant le taux de croissance économique que le gouvernement utilise comme une belle parade statistique pour maquiller sa piètre performance. L'institut des statistiques prévoit que la croissance du PIB au prix de base serait de 3,6% en 2019, comme les trois années précédentes, et que la croissance du PIB au prix de marché serait de 3,9%, légèrement supérieure à 2018. Or ces prévisions assez optimistes ne cadrent pas avec celles, plutôt pessimistes, des productions sectorielles et des agrégats de la dépense.

Vu du côté de l'offre, le PIB (produit intérieur brut) est la somme des valeurs ajoutées de toutes les industries. Il est prévu que presque tous les grands secteurs connaîtraient en 2019 un taux de croissance moindre qu'en 2018 : la manufacture locale passerait de 4,7% à 2,0%, l'industrie alimentaire de 3,4% à 2,0%, la construction de 9,5% à 8,5%, la distribution de 3,5% à 3,4%, le transport de 3,5% à 3,2%, le tourisme de 4,3% à 2,7%, les TIC de 5,3% à 4,8%, les services financiers de 5,4% à 5,2%, les activités professionnelles de 5,1% à 4,9%, l'éducation de 2,4% à 1,1%, et la santé de 4,1% à 3,8%. Ajoutée à cela une nouvelle contraction des entreprises orientées vers l'exportation, et on comprend mal comment la croissance de 2019 au niveau national pourrait être meilleure que l'année dernière.

Ce scepticisme est renforcé dans l'optique de la demande : la hausse du PIB est la résultante de la consommation (des ménages et du gouvernement), de l'investissement (public et privé) et de l'exportation (nette de l'importation). Tous ces trois moteurs de croissance seraient cette année moins puissants qu'en 2018. La consommation finale progresserait de 3,1% en 2019 contre 3,5% l'année dernière, tandis que la formation brute de capital fixe augmenterait de 6,6% contre 10,9%. Les exportations de biens et services ralentiraient aussi (croissance de 1,2% contre 2,3% en 2018) alors que les importations seraient en hausse de 3,3% en termes réels. Par conséquent, le pays enregistrerait une importation nette de 14,3% du PIB, plus qu'en 2018 (13,5%) – une détérioration qui ne peut que peser négativement sur la croissance nationale.

On devient encore plus sceptique sur l'estimation officielle de celle-ci quand on regarde son évolution sur une base trimestrielle. Selon Statistics Mauritius, si l'on prend les données corrigées

des variations saisonnières, le taux de croissance annuel du PIB au prix de base pour le premier trimestre était de 0,9% en 2015, de 0,7% en 2016, de 0,5% en 2017, de 0,8% en 2018 et de 0,1% en 2019. Considérant la quasi-stagnation de l'économie au premier trimestre de 2019, il serait très difficile de réaliser une croissance de 3,6% cette année.

> La politique de la dépense publique s'éloigne des réalités des entreprises et des ménages.

Encore que le PIB soit surévalué. Si la production privée est mesurée à peu près correctement, au prix de marché, par la valeur que lui donne l'acheteur, en revanche nul ne peut apprécier réellement la valeur des biens et services produits par le secteur public. La part (inappréciable) de la production publique dans le PIB est de 12%. Calculée au prix de base, la valeur des produits publics est estimée d'après leur coût : plus l'Etat dépense, plus élevé est le PIB ! Ainsi, l'embauche de policiers et de médecins gonfle le PIB, puisque la valeur de leur production se mesure à leur traitement. Toute hausse des salaires des fonctionnaires et tout surcoût des chantiers publics accroissent le PIB !

Voilà de quoi décrédibiliser le PIB comme un indice de la richesse réelle du pays. Le Metro Express est l'exemple même d'un artifice qui fait croire que le pays devient riche. Les 17 milliards de roupies que cela coûte ont de quoi impressionner le chaland, mais ils ne sont pas porteurs d'une croissance durable. Entre « ce qu'on voit et ce qu'on ne voit pas », pour reprendre une distinction de Frédéric Bastiat, la politique de la dépense publique s'éloigne des réalités des entreprises et des ménages, tant elle est myope sur l'évolution des structures économiques en longue période.

On veut bien admettre que les données macroéconomiques ne sont pas d'une rigoureuse précision. Les chiffres doivent toujours être pris avec précaution. Libres aux politiciens de leur faire dire ce qu'ils veulent. Mais pour une institution qui doit demeurer crédible, elle ne doit pas prêter le flan à la suspicion. Statistics Mauritius pourra se rattraper à la prochaine publication de la comptabilité nationale le 30 septembre, avant les élections.

## Sportivement vôtre


Alors que l'île Maurice célèbre sa toute première victoire aux Jeux des îles de l'océan Indien, il convient de comparer le sport à l'économie. Pour gagner, le Club Maurice a dû récolter le plus grand nombre de médailles d'or. Pour sortir premier d'une compétition, c'est la performance seule qui a compté. Pour être performant, il a fallu beaucoup d'efforts, de discipline et de travail sur soi. Et tous les médaillés ont été récompensés à juste titre.

Or les valeurs que nous louons en sport sont aussi celles que requiert une économie performante. Pourquoi reconnaissons-nous le talent individuel dans une discipline sportive, mais pas chez l'entrepreneur qui crée des emplois ? Pourquoi exigeons-nous le maximum d'efforts chez les athlètes, mais pas la productivité parmi les travailleurs ? Pourquoi acceptons-nous de rémunérer différemment les médaillés d'or, d'argent et de bronze, mais pas l'inégalité salariale dans l'entreprise ? Si nous pouvons appliquer les principes économiques au sport (compétition, performance), nous devrons promouvoir l'esprit sportif dans l'économie (mérite, justice procédurale).

Dans une épreuve sportive, les participants doivent respecter des règles de juste conduite de manière égale (même procédure pour tous). Elles leur ouvrent seulement des chances, et non la certitude d'une issue définie. Dans la mesure où il y a des gagnants et des perdants, il n'existe pas de justice de résultat. Les résultats dépendent en grande partie des talents personnels. On n'est toutefois pas certain que les résultats seront en proportion des aptitudes des compétiteurs :

l'arbitre peut faire en sorte que personne ne triche, mais pas que personne ne trébuche ! Le vainqueur sera celui qui a le mieux fait, pas toujours le meilleur, comme au foot !

> Les valeurs que nous louons en sport sont aussi celles que requiert une économie performante.

De même parmi les entrepreneurs, les règles de la concurrence peuvent seulement accroître les chances de réussir de chacun, mais dont les possibilités sont tributaires principalement de ses connaissances particulières et des conditions de lieu et de moment où le hasard l'aura placé. Dans le jeu du marché, le succès ne sourit pas nécessairement à celui qui est le plus doué, mais certainement à celui qui a le sens des affaires. Il s'agit de résultats qui ne peuvent être qualifiés ni de justes ni d'injustes parce qu'ils se produisent dans des circonstances qui ne sont ni voulues ni prévues. On voit bien dans la vie, selon L'Ecclésiaste (9, 11), « que la course n'appartient pas aux plus robustes, ni la bataille aux plus forts, ni le pain aux plus sages, ni la richesse aux plus intelligents, ni la faveur aux plus savants ».

Les médaillés d'or sont des superstars parce qu'ils sont dotés d'un rare talent. Ils sont adorés par des milliers de fans prêts à payer pour les voir en action : l'offre est faible face à une forte demande. Les athlètes de haut niveau s'attribuent une grande valeur pour la même raison que les diamants sont très chers bien que n'étant pas aussi essentiels que l'eau : c'est la rareté qui dicte le prix.

Sans doute un médaillé d'or vaut plus que Rs 100 000. Mais tous les champions n'ont pas la même valeur. Tout comme celle d'un bien, la valeur d'un sportif est déterminée par les préférences des consommateurs : c'est eux qui génèrent les revenus des ventes de tickets et des droits de retransmission télévisée. La rémunération d'un sportif dépend forcément de sa capacité à attirer des foules. Un match quelconque peut être hautement valable en soi, mais si très peu de gens sont disposés à payer pour le regarder, il a une faible valeur économique.

De ce point de vue, on demeure sceptique devant l'assurance donnée par le ministre des sports quant à la rentabilité du complexe multisport de Côte d'Or, bâti au coût de Rs 4,7 milliards. En 1871, en précurseur de la révolution marginaliste, Carl Menger postulait que la valeur d'un bien final ne provient pas de la valeur des facteurs de production, mais que celle-ci est attribuée via la valeur que les consommateurs accordent au bien. Ainsi, si le complexe est peu exploité, la valeur des facteurs utilisés pour le construire changera : le terrain aurait pu servir à une activité plus productive.

Le seul fait que ce complexe n'a pas été mis à contribution pour les JIOI témoigne du gaspillage de l'argent des contribuables. Aussi, le piteux état du Stade George V ne justifie nullement les Rs 94 millions de fonds publics engagés pour sa rénovation. Largement subventionnée par les pouvoirs publics et des sociétés d'Etat, l'organisation des JIOI 2019, n'en déplaise au CEO du comité organisateur, n'a pas eu des retombées économiques palpables, en termes de tourisme, de restauration, d'emplois et de recettes fiscales. L'impact réel des investissements publics dans les infrastructures sportives est négligeable.

Il faut pourtant que les grands événements sportifs soient des opportunités d'attractivité de l'île Maurice, au moment où son secteur offshore devient de moins en moins attrayant. Le sport peut être un facteur de rayonnement pour le pays, un vecteur de croissance économique à travers l'exportation d'un savoir-faire organisationnel. Pour cela, il est nécessaire de préserver l'intégrité et l'éthique du sport, renforcer la transparence des clubs sportifs et garantir une gouvernance irréprochable du secteur sportif.

Le sport est organisé sous forme associative, les organisations chargées de sa gestion jouissant d'une grande autonomie. Mais vu la grossière récupération politique des JIOI, elles n'ont pas établi leur indépendance vis-à-vis du gouvernement. Au lieu de se mêler du sport, comme il le fait de l'économie, l'Etat devrait se contenter de promouvoir l'activité physique à tous les âges de la vie. Le poste « *Recreational and Sporting Services* », représentant moins de 0,5% du budget de

l'Etat en 2019-2020, devrait être revu à la hausse. Sachant que le sport est complémentaire au travail, et non aux congés publics.

*Eric Ng Ping Cheun vient de publier* Maurice la cigale *(2019), en vente chez Bookcourt, Editions Le Printemps, Editions de l'Océan Indien, Librairie Petrusmok, Librairie Le Cygne et Librairie Le Trèfle.*

# Ce que Christine Lagarde héritera à la BCE

Par Emmanuel Martin

La succession de Mario Draghi à la tête de la Banque centrale européenne (BCE) semble être assurée à Christine Lagarde. On peut s'interroger sur le caractère « politique » de la nomination ainsi que, par répercussion, sur la notion d'indépendance des banques centrales en 2019. En outre, quelles seront les conséquences en matière de possible normalisation de la politique monétaire en Europe ?

Pour le *Wall Street Journal* la première tâche de la nouvelle patronne de la BCE ne fait pas mystère : elle devra influencer l'Allemagne. Les Allemands, traditionnellement attachés à l'orthodoxie en matière monétaire, ont été assez critiques de la politique de MM. Trichet et Draghi depuis 2010. C'est évidemment aussi le cas de Jens Weidmann, président de la BuBa, qui a été écarté de la nomination à la tête de la BCE notamment du fait de son opposition passée aux rachats de titres – trop « hawkish » (politique qui combat par tous les moyens l'inflation). Mario Draghi a su peu à peu couper le cordon ombilical entre la BCE et son modèle original, la BuBa, et imposer des politiques non-conventionnelles qui passent cependant encore assez mal outre-Rhin. Mme Lagarde, dans la ligne « dovish » (politique non basée sur la lutte contre l'inflation) de son prédécesseur, devra sans doute aller plus loin et remplir une mission non officielle de sa mère patrie : convaincre les Allemands de franchir une étape supplémentaire avec des Eurobonds.

Il est difficile en effet de ne pas croire que cette nomination « politique » devra promouvoir le modèle français. On sait que Mme Lagarde, à la tête du Fonds monétaire international, a déjà tenté de faire reculer les Allemands sur les déficits et les relances de type keynésien : l'Allemagne doit dépenser ! Bien sûr Mme Lagarde n'est pas une « rouge ». Non qu'elle porte trop de Chanel pour cela, mais elle s'est exprimée assez clairement sur son très fort scepticisme à l'endroit de la Théorie monétaire moderne, une école de pensée monétaire selon laquelle la dette souveraine n'est absolument pas un problème puisqu'existe la planche à billets. Pourtant elle se situe bien dans le conventionnel de la politique monétaire non conventionnelle, qui est, faut-il le rappeler, une forme de politique *budgétaire* qui ne dit pas son nom. Rien de bien nouveau donc pour Mme Lagarde qui, à la tête du ministère de l'Économie de 2007 à 2011, a pu laisser la dépense publique augmenter de 5 points de PIB et la dette française d'un tiers…

Élément qui ne trompe sans doute pas, d'ailleurs : les marchés financiers ont salué sa nomination par un rebond. Si le contexte était normal ce serait une bonne nouvelle. Mais le contexte actuel est tout sauf normal : voilà des années que les marchés financiers « tiennent » grâce à la drogue monétaire. Ce rebond signifie donc qu'ils voient en Mme Lagarde une garantie de continuité dans la fourniture des doses de « stimulus ». La normalisation de la politique monétaire en Europe n'est donc, évidemment, pas pour demain.

## Indépendance de la BCE ?

Certains ont pu ainsi faire remarquer que la nomination d'une femme politique peut poser la question de la réelle indépendance de la BCE. En réalité l'indépendance des banques centrales

est d'une part toute relative du fait des objectifs qui leur sont assignés, d'autre part, aux USA et en Europe, tout simplement imaginaire précisément depuis les mesures mises en place sur la dernière décennie. Lorsque, le 10 mai 2010, M. Trichet martelait que la BCE était « in-dé-pen-dan-te », il venait en réalité de céder aux pressions des politiques et des marchés pour racheter pour la première fois des actifs douteux afin d'éteindre le début d'incendie dans la maison Euro. Le feu fut maîtrisé mais la charpente irrémédiablement altérée.

D'OMT en LTRO, en TLTRO, pour faire tenir cette monnaie politique qu'est l'Euro « quoi qu'il en coûte » (« *whatever it takes* »), si indépendance de la BCE il y avait, c'est à l'égard des lois de l'économie. C'est qu'il fallait d'un côté contourner la panne des mécanismes de transmission traditionnels de la politique monétaire, panne qui empêchait les banques de prêter à l'économie pour la faire repartir. Or, cette panne était liée en grande partie à la trappe des taux très bas et aux restrictions de la nouvelle réglementation bancaire – c'est-à-dire liée à l'intervention monétaire, au sens large (l'intervention appelle, encore une fois, l'intervention...). D'un autre côté, il fallait s'assurer que les niveaux totalement irresponsables d'endettement des États ne puissent susciter de nouvelle crise et que leur coût soit fortement abaissé (tout en intimant à ces États de se réformer, avec le succès que l'on sait).

> La politique non conventionnelle semble avoir de beaux jours devant elle.

Mme Lagarde hérite donc d'une politique monétaire déjà éminemment politisée, si l'on peut dire. Qu'elle ne soit pas économiste mais plutôt politique ne change ainsi pas grand chose à l'affaire. D'ailleurs il y a de grandes chances pour que, au vu des piètres perspectives macroéconomiques mondiales et des risques liés à un Brexit possiblement compliqué, M. Draghi lance une nouvelle vague de *Quantitative Easing* avant son départ, laissant ainsi encore moins d'indépendance d'action à sa successeur.

La montée des protectionnismes pourrait également indirectement aboutir à une accentuation de la fragmentation, et donc de l'affaiblissement des marchés mondiaux de la monnaie, avec pour conséquence un tarissement supplémentaire du financement de l'économie mondiale. Là encore, à des causes politiques on répondra par davantage de replâtrages monétaires politiques, faisant s'éloigner d'autant une possible indépendance de la BCE…

La politique non conventionnelle semble donc avoir de beaux jours devant elle. Cela permettra au modèle français, structurellement irresponsable et privilégiant les expédients keynésiens plutôt que les réformes libérales, de dominer. Jusqu'à ce que les lois de l'économie nous rappellent enfin à la dure réalité : les taux d'intérêt négatifs qui distordent les structures de production et d'épargne et les assouplissements quantitatifs qui perturbent le fonctionnement des marchés monétaires du vingt-et-unième siècle ne pourront pas faire illusion indéfiniment.

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