Keynote speech by

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Governor of the Bank of Mauritius

at the

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Balaclava, Mauritius.

- Mr Mahad Ahmed, Managing Director, AMETrade

- Hon. Nicholas Sherry, Chair, Independent Director, TWUSUPER Australia

- H.E. Dr. Sidi Ould TAH, President, Arab Bank for Economic Development in Africa (BADEA), represented today by Mr. Moncef Klouche Advisor to the President.

- Representative of the Economic Development Board, Mauritius (EDB)

- Rekha C Mhango, Deputy Governor – Administration, Bank of Zambia

Diplomatic Corps and Heads of various delegations from Angola, Cameroun,Cote d'Ivoire, Djibouti, Kenya, Mozambique, Namibia, Malawi, Eswatini, Namibia, Nigeria, Zambia, Zimbabwe, South Africa,

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Ladies and gentlemen,

All protocol observed

Good morning

I am pleased to address you this morning at the Pension Funds and Alternative Investments Africa Conference 2024. I feel even more privileged as this is the second time that I am delivering a speech at the conference, and the first in my capacity as Governor. It is evident from the turnout that the event is now firmly entrenched in the calendar of Pension Funds and Alternative Investment Managers.

The fate of the continent is contingent on which direction its policymakers take, going forward, and most importantly the seriousness with which policies are engineered and implemented. The kernel of reforms, often trumpeted by international organizations and erudite pro-reform pundits, is the deepening of its capital markets aligned with enhanced financial literacy and enlarged financial access and inclusion.

Deeply nested within these buzzwords are the ubiquitous and perennial debates about financing in Africa and the newly enamored view that funding sources should be mobilized outside the ambit of traditional bank-based finance. Thus, the theme of this conference is a highly pertinent one. I shall endeavour to draw from some conceptual and pragmatic insights inspired from the Mauritian story to enunciate a few afterthoughts.

The fulcrum of my intervention today will be centered around two elements. In the first part, I shall provide a snapshot on the importance of pension funds and alternative investments in the financial ecosystem. I shall then cover the hallmarks of the Mauritian financial system and the value proposition it can offer to potential investors.

Taking a trip down memory lane at a time when we were all burning the midnight candle over our finance graduate textbooks, we all take cognizance of the importance of financial services as a beacon for societal upliftment. We know from our textbooks that finance provides a mechanism for channeling funds from savers to borrowers, whilst reaping inter-temporal gains from trading money over time ('interest') and whilst providing intra-temporal insurance mechanisms against liquidity-based shocks.

The outcome is a state-contingent Paretian improvement in welfare relative to an Autarky case in which no finance mechanisms existed. Many countries in Sub-Saharan Africa have, over time, grasped the importance of diversifying their underlying economic structure by freeing themselves from the straightjacket of a dominant natural resource sector. To alienate themselves from the so-called Resource-Curse paradox or the Dutch-Disease effect, they have restructured their economies by tilting their underlying centers of gravity more towards the financial services sector.

Mauritius was one of the few economies in the continent to have the vision to turbocharge the development of the financial services sector since the 1980s, as efforts were under way to spearhead diversification and to remove the economy from the ramshackle of the sugar sector, the vagaries of the textile sector and the vicissitudes of the tourism sector.

Today, the financial services sector directly contributes around 11.9 per cent of GDP. Whilst our financial sector remains bank-dominated, there have been relentless efforts by the authorities in recent years to step into the bandwagon of alternative finance and even to rub shoulders with innovative finance mechanisms that juxtapose finance with technology. The same is equally true at the continental level, the more so that financial inclusion is a topmost priority in large swathes of Africa.

For decades, a recurring leitmotiv in debates about Africa has been the pressing need to mobilize finance to address its gargantuan *'infrastructure deficit'* syndrome. Ostensibly, the development of our continent inevitably requires an adequate and effective infrastructure, be it transport, water, power, telecommunications, ports and airport.

The African Development Bank has estimated that Africa needs between USD130 billion and USD170 billion of infrastructure spending each year. Our continent is at a critical juncture as it has to ensure that the objectives spelt out in Agenda 2063 are achieved in a financially and environmentally sustainable way, whilst not imperiling macroeconomic imperatives and not jeopardizing the public debt dynamics trajectory. This is not an easy task and requires funambulist-like precision whilst walking on the tightrope.

Ladies and gentlemen,

It is therefore imperative for governments across the continent to rely heavily on private investment for their economic transformation. Public-Private-Partnership initiatives are the norm of the day. Innovation and the climate change agenda have made ceremonious appearances as supplementary challenges on the table and will remain mainstays in that venture for quite some time. Thus, with a range of new challenges, we should not be sitting on our laurels while expecting traditional bank-based finance to provide the much-needed antidote. It certainly can. But finance is not just about the ability-capacity duo but also about the efficiency-effectiveness nexus.

Some financing gaps are better addressed by institutions that are more geared towards longer-term goals and with the ability to calibrate and adapt their products, depending on the exigencies of the issue at hand. This is where pension funds and alternative investments become handy as trusted partners to bridge the lacuna.

According to the OECD 2021 Global Pension Study, the assets held by pension funds exceeded USD 56 trillion globally, an increase of 11per cent from the 2019 statistics, of which Africa holds about $700 billion. Whilst this may appear trivial at first, this figure is set to gather momentum and firm up greater traction, with the inroads of the continent into this new arcane world. The pension funds industry has the potential to accompany the continent along its transformative journey by providing part of the long-term financing needs.

Investors, with a longer-term outlook and with greater willingness and ability to take risks, seek a decent risk-adjusted return on their investments. With their longer-term focus, a cautious approach must be adopted by management of pension funds, with the agreement of their boards, regarding the investment strategy of the fund. With ESG initiatives growing at breakneck speeds, a challenge for the pension funds industry would be to ascertain the return from an investment with potentially good green credentials but sub-par financial performance. Pension funds will thus be under pressure to favor finance considerations over environmental ones.

We all know that the world economy is poised to step into the bandwagon of lower rates in 2024 and beyond, after stratospheric inflation figures of 2022 and 2023. Thus, going forward, pension funds may find their room for manoeuver squeezed and will tend to prioritize risk-adjusted returns over environmental considerations. I would urge this august audience to mull over any potential antidotes to this conundrum, especially when we need to ensure that these considerations to render environmental concerns oblivious, do not assume permanent proportions.

Ladies and gentlemen,

Let me now turn to the Mauritian financial system and the opportunities that all of you present here can potentially explore. A cardinal condition for the uplift of our continent is the existence of a resilient, transparent and efficient jurisdiction that promotes trust among local and international investors. Mauritius is well poised to be the perfect springboard for headquartering pension funds and alternative investment vehicles as well as providing conditions conducive to investing in mainland Africa.

As an international financial centre of repute, Mauritius subscribes to the highest international standards and best practices. Accounts are prepared in accordance with International Financial Reporting Standards and important metrics such as IFRS 9 and Basel III have already been adopted. We are now gearing up for the adoption of sustainable standards as crafted by the International Sustainability Standards Board.

The Mauritian jurisdiction can count on a solid network of both regional and international banks. Our banking sector has always been assessed to be robust, resilient, safe and financially sound. We have neither experienced any banking sector turmoil of systemic proportions in our history nor have we faced major hiccups in our payments system operations. Our regulatory and supervisory framework for our financial system is avant-gardist and in line with best practices. Three of our Domestic-Systemically Important Banks are rated by Moody's. Further, our two largest domestic banks have expanded their footprints regionally and have consistently been able to mobilise capital on international markets. This is ample testimony to the credence of Mauritius on the continent.

Our reputation has been reinforced on the AML/CFT front as Mauritius is one of four jurisdictions to be compliant or largely compliant with all of the 40 recommendations of the Financial Action Task Force. We are now a reference in, both, the region and globally on AML / CFT matters. As you know, compliance to AML/CFT standards has assumed increasing significance for onboarding new clients or for granting fresh licenses to financial entities. By using our jurisdiction, you may rest assured that the highest standards will be upheld.

The Stock Exchange of Mauritius is one of the most active regionally with a market capitalisation in excess of Rs400 billion. More than 185 securities are listed, out of which 60 pertain to foreign securities which are listed, traded and settled in USD, EURO, GBP and ZAR. Mauritius has established a series of Investor Promotion and Protection Agreements with several African countries.

Opportunities abound for pension funds to use the jurisdiction as a hub for mobilising capital, investing funds as well as a gateway the African continent through our banks which have easy access through a network of correspondent banks regionally. Further, the Bank of Mauritius hosts the Regional Payment and Settlement System of the COMESA that connect the 19 COMESA member-states through the SWIFT network for cross-border payments.

Ladies and gentlemen,

I cannot, at this time, fail to mention the latest press release of the IMF that was issued less than a week ago following the conclusion of the 2024 Article IV Mission. The IMF stated, inter-alia that *"The Mauritian economy has rebounded strongly from the impact of the pandemic, supported by the deployment of pre-pandemic fiscal and external buffers. Real GDP growth reached 8.9 percent in 2022 from* *rebounding tourism and manufacturing. Rapid growth was sustained in 2023—estimated at 6.9 percent—with output now having exceeded its pre-pandemic level. Vibrant tourism, social housing construction, and continued strong performance of transport and financial services buoyed growth"*. I am sure that the dynamics of growth will be reinforced.

Ladies and gentlemen,

Since I assumed Governorship in March 2020, one of my priorities has been to elevate our financial system to new heights through a number of initiatives. The Bank of Mauritius published the *"Guide for the Issue of Sustainable Bonds in Mauritius"* in June 2021. The Guide, acts as a preliminary yet compulsory consultative document which lays the foundation for the issuance of Green, Blue, Social, Climate and Sustainability bonds in Mauritius. The Financial Services Commission (FSC) released a Guideline for the issue of Corporate and Green Bonds in Mauritius in December 2021, which broadly aligns on the principles of the Guide issued by the Bank of Mauritius. These documents set out the requirements to be followed by issuers of such bonds.

Additionally, the Ministry of Finance, Economic Planning and Development developed a *"Sustainable Finance Framework"* in order to finance the Mauritius sustainability roadmap.

In October 2021, I established the Climate Change Centre at the Bank to accelerate the transition to a green economy. Our Payments system is also being modernised to facilitate both local and cross border transactions and reduce the costs. Earlier this month, the payments system of Mauritius was connected to that of India, thereby guaranteeing access to the Indian market in a faster and more efficient manner. The Bank is also well on track to introduce a Central Bank Digital Currency. A pilot testing is currently in progress. This will be extended to a few other banks soon. I am confident that Mauritius will join the bandwagon of jurisdictions with a CBDC in the near future.

We are also creating a Fintech and innovation hub which will be a hotbed for innovative solutions in the region. To that effect, several central banks in the region have already expressed their interest to join forces with us by sharing their logistics.

The Bank in collaboration with the banking industry has also charted out a road map for the evolution of the banking sector in the next decade. The blueprint revolves around five core elements to shape the future of the Mauritius banking sector: innovative products and services; new technology and business models; compliance with international standards and regulations; Environmental, Social, and Governance (ESG); and human capital development. The document is available on the Bank's website and I invite all of you to go through it as it contains many interesting proposals.

Ladies and gentlemen,

The development of the financial system goes hand in hand with the necessary changes to the legal framework to ensure its continued effectiveness. The overhaul of the banking laws is forthcoming and will cement the hard-earned reputation of our jurisdiction. The Bank will continue to play a prime role in ensuring that we have a safe, stable, and sound financial system which continues to support the seamless flow of funds between Mauritius and Africa as well as the rest of the world.

With these words, I thank you for your attention and look forward to many of you conducting business in our jurisdiction.