MAURITIUS

THE LANDSCAPE FOR IMPACT INVESTING IN SOUTHERN AFRICA

WITH SUPPORT FROM

GIIN
GLOBAL IMPACT INVESTING NETWORK

OPEN CAPITAL

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For any questions or comments about this report, please email Rachel Bass at rbass@thegiin.org.

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COMMON ACRONYMS

AFD  Agence Française de Développement (French Development Agency)
AfDB  African Development Bank
BIO  Belgian Investment Company for Developing Countries
BoP  Base of the Pyramid
CEPGL  Communauté Économique des Pays des Grand Lacs (Economic Community of the Great Lakes Countries)
COMESA  The Common Market for Eastern and Southern Africa
CSR  Corporate Social Responsibility
DFI  Development Finance Institution
DFID  The Department for International Development (United Kingdom)
EIB  European Investment Bank
ESG  Environmental, Social, and Governance
FDI  Foreign Direct Investment
FMCG  Fast-Moving Consumer Goods
FMO  Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (Netherlands Development Finance Company)
GDP  Gross Domestic Product
GIIRS  Global Impact Investing Ratings System
GIZ  Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)
HDI  Human Development Index
ICT  Information and Communication Technology
IFAD  International Fund for Agricultural Development
IFC  International Finance Corporation
IMF  International Monetary Fund
LP  Limited Partner
MDG  Millennium Development Goal
MFI  Microfinance Institution
MSME  Micro, Small, and Medium-Sized Enterprises
NGO  Non-Governmental Organization
OFID  OPEC Fund for International Development
OPIC  Overseas Private Investment Corporation (United States)
PE  Private Equity
PPA  Power Purchasing Agreement
PPP  Purchasing Power Parity
PTA  Preferential Trade Area Bank
RFP  Request for Proposal
SACCO  Savings and Credit Co-operative
SGB  Small and Growing Business
SME  Small and Medium-Sized Enterprises
SOE  State-Owned Enterprises
TA  Technical Assistance
UN DESA  United Nations, Department of Economic and Social Affairs
UNCTAD  United Nations’ Conference on Trade and Development
USAID  The United States Agency for International Development
VAT  Value-Added Tax
VC  Venture Capital
WASH  Water, Sanitation, and Hygiene
WHO  World Health Organization

COMMON TERMS

Early-stage business  Business that has begun operations but has most likely not begun commercial manufacture and sales
Focus countries  Countries under study wherein non-DFI impact investors are most active, namely Madagascar, Malawi, Mozambique, South Africa, Zambia, and Zimbabwe
Growth-stage business  Company has a functioning business model, and its current focus is developing new products / services or expanding into new markets
Mature business  Profitable company with a developed and recognizable brand
Non-focus countries  Countries covered by the study but that have limited non-DFI impact investor activity, namely Angola, Botswana, Lesotho, Mauritius, Namibia, and Swaziland
Venture-stage business  Sales have begun but cannot sustain the company’s operations. The business model is still being aligned with the realities on the ground
MAURITIUS

SMALL IN SIZE,
LARGE IN INFLUENCE
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ABOUT THIS REPORT

MOTIVATION

The impact investing industry has grown in prominence over the last decade, and impact investors globally have developed substantial and particular interest in sub-Saharan Africa, given the region’s strong potential for investments to drive positive social and environmental impact. Despite strong interest, relatively little research has examined impact investing markets at the country level within the continent. This type of granular information is essential to investors currently operating in the region or considering investments there in the future.

This study provides detailed information on impact investing activity across 12 countries in Southern Africa. For each country, the report examines impact investing capital disbursed at the time of data collection in mid-2015 (by sector, size, and instrument), analyzes key trends in the industry, and describes the challenges and opportunities available for social enterprises and impact investors. Political and/or economic circumstances may have changed since initial data collection.

SCOPE

As defined by the GIIN, impact investments are “investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.” A commitment to measuring social or environmental performance is considered a hallmark of impact investing. Investors who do not meet this definition have not been included in this report’s analysis.

Development finance institutions (DFIs) are important actors in the impact investing landscape, providing large amounts of capital both through direct impact investments and through indirect investments through other impact capital vehicles. Because of their large size and unique nature, this report analyzes DFI activity separately from the activity of other types of impact investors.

METHODOLOGY

This report relies heavily on primary research, including more than 60 interviews with local and international impact investors, social enterprises, ecosystem players, and government institutions. The research team also examined publicly available primary information, including analyzing investor documents and reviewing organizational websites and press releases to compile a comprehensive database of impact investing activity across all 12 countries in Southern Africa. Overall, this report includes data regarding the activities of 25 DFIs and 81 non-DFI impact investors, totaling over 8,600 transactions including substantial activity from DFIs based in South Africa.

More detailed information on methodology and scope is provided in the ‘Introduction & Methodology’ chapter. All chapters of this report can be found at www.thegiin.org.
COUNTRY OVERVIEW

The Republic of Mauritius is an island nation located in the Indian Ocean, approximately 1,000 kilometers east of Madagascar (see Figure 1). Comprising several islands, Mauritius has a total population of 1.24 million and occupies only 2,040 square kilometers. Despite its small size, the country has significant maritime control, with an Exclusive Economic Zone of 2.3 million square kilometers, one of the largest globally.

Mauritius gained independence from British rule in 1968 and has seen subsequent fair and smooth transfers of power across multiple election cycles. According to the Democracy Index compiled by the Economist Intelligence Unit in 2014, Mauritius ranked 17th out of 167 countries worldwide in terms of the strength of its democratic institutions, the only African country categorized as a “full democracy.”

In addition to its strong governance, Mauritius has pursued sound economic policies to drive prosperity. In particular, its monetary policy has kept inflation in the single digits, and historical interest rates have encouraged domestic saving. In addition, Mauritian exchange rate policy has made its exporters competitive.\(^6\) Its stable business environment, reflecting all of these factors, is arguably the best in sub-Saharan Africa. The World Bank ranks Mauritius first among African countries and 20\(^{th}\) globally on its “Ease of Doing Business” index.\(^7\) In addition, Mauritius actively seeks to attract investment, offering a number of financial incentives to both domestic and foreign investors, including more than 40 Double Taxation Avoidance Agreements.\(^8\) Strong institutions enable the economy to withstand adverse external conditions, earning the country a stable sovereign credit rating of Baa1 (stable) in 2014.\(^9\)

Mauritian gross domestic product (GDP) was USD 22.3 billion at purchasing power parity (PPP) in 2014 and grew at six percent annually over the last decade.\(^10\) Mauritius, like most African countries, was historically dependent on agriculture, with sugarcane the primary crop produced and exported.\(^11\) However, in recent years, the country has diversified its economy: today, the agricultural sector accounts for just three percent of GDP, while the service sector comprises 72 percent.\(^12\) The country has built a highly regulated offshore financial sector that serves as a broad platform for investment into Africa. Information and communication technology (ICT) and tourism also drive growth in the service sector, which is complemented by strong exports in apparel, textiles, and jewelry.\(^13\) As of 2014, the European Union was the main export market, accounting for 58 percent of all exports.\(^14\)

Mauritius is classified as an “upper middle income” country, with a GDP per capita of USD 18,553, the highest in the Southern Africa region (see Table 1 for regional and global comparisons of this and other development indicators).\(^15\) In comparison

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\(^8\) Ibid.


\(^11\) Ibid.

\(^12\) Ibid.


\(^14\) Ibid.

to the region, the country also has a relatively low—and falling—unemployment rate, around eight percent.\textsuperscript{16} Low unemployment is largely attributed to the government’s economic reforms, which have aimed to open the country’s economy and drive foreign direct investment (FDI).\textsuperscript{17}

### TABLE 1. SELECTED MAURITIUS DEVELOPMENT INDICATORS

<table>
<thead>
<tr>
<th>DEVELOPMENT INDICATOR</th>
<th>Mauritius</th>
<th>Regional Average</th>
<th>Global Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDI SCORE (RANKS 63\textsuperscript{rd} OF 187 COUNTRIES)</td>
<td>0.77</td>
<td>0.55</td>
<td>0.69</td>
</tr>
<tr>
<td>GDP PER CAPITA (USD)</td>
<td>18,553</td>
<td>6,874</td>
<td>17,975</td>
</tr>
<tr>
<td>UNEMPLOYMENT RATE (%)</td>
<td>8</td>
<td>13</td>
<td>6</td>
</tr>
<tr>
<td>POPULATION BELOW USD 1.25 / DAY (%)</td>
<td>&lt;1</td>
<td>51</td>
<td>25</td>
</tr>
<tr>
<td>UNDER-FIVE MORTALITY (PER THOUSAND BIRTHS)</td>
<td>14</td>
<td>75</td>
<td>47</td>
</tr>
<tr>
<td>POPULATION WITH SOME SECONDARY EDUCATION (%)</td>
<td>54</td>
<td>41</td>
<td>59</td>
</tr>
</tbody>
</table>

The island nation also performs well on the United Nations’ Human Development Index, falling into the “high” category with an HDI score of 0.77 in 2013. Mauritius’ HDI score has consistently been the highest among all Southern African countries, significantly exceeding the 2013 sub-Saharan African average of 0.50.\textsuperscript{18} Under-five mortality, currently at 14 deaths per thousand live births, is also well below the 2015 Millennium Development Goals’ target of 60.\textsuperscript{19}

SUPPLY OF IMPACT INVESTMENT CAPITAL

To date, there has been minimal impact investing activity within Mauritius. Excluding development finance institutions (DFIs), research has found only 14 transactions. The majority of deals are in the financial services and ICT sectors, with an average non-DFI deal size of around USD 10 million. In addition to banks and ICT platforms, capital has been deployed in real estate and manufacturing. Matching the profile of these industries and the average size of investment, many of the businesses receiving this capital were later-stage, more mature enterprises.

DFIs have been more active, closing 40 known deals in Mauritius and disbursing a total of approximately USD 600 million, of which USD 80 million was invested through funds of funds. With DFIs, too, financial services is the largest sector, comprising 25 percent of total deals to date.

THE BROADER INVESTMENT LANDSCAPE

Despite minimal impact investing activity, overall FDI in Mauritius is robust, with real estate, construction, and financial and insurance activities driving the majority of capital inflows. Over the past few decades, the government has transformed the country into one of the most open economies in the world; as a result, Mauritius is one of the highest recipients of FDI per capita. In 2013, 23 percent of FDI in Mauritius originated from the United Kingdom, followed by India at 10 percent.

Due to its geographic proximity to Africa, political and economic stability, and sophisticated infrastructure that encourages business, Mauritius is often considered a gateway for investment into the African continent. The country has a modern legislative regime for establishing funds, corporate companies, limited partnerships, trusts, and foundations. Consequently, the jurisdiction is commonly used to structure investment into sub-Saharan Africa, especially across regional state borders. Mauritius
currently has more than 600 investment funds operating from the country, including both non-impact (e.g., Goldman Sachs and BlackRock) and impact-focused funds (e.g., GroFin and Phatisa).

The Mauritian banking and financial system is well-capitalized and ranks 26th globally in “financial market development.” Commercial banks are the most dominant players with total assets of USD 38.5 billion in 2014, of which the four largest banks hold 56 percent. Bank lending rates were near 8.5 percent in 2013, a notable decline from rates exceeding 14 percent in 2005. Mauritian households have the highest financial inclusion rate in the region, with only 10 percent of the population unbanked. Access to credit is more challenging, with approximately half of Mauritians borrowing actively, though only 27 percent borrow from formal financial institutions.

MAURITIUS AS A CONDUIT OF CAPITAL

Many investment funds choose to use offshore jurisdictions, such as Mauritius, when operating in Africa. Mauritius has signed double taxation avoidance agreements with more than 40 countries, and the country has a strong overall business environment, legal and regulatory environment, and tax efficiency for distributions.

General Partners often choose to domicile their funds in Mauritius since this provides them the flexibility to easily structure and deploy capital into promising portfolio companies while providing their Limited Partners with liability protection and tax efficiency. For these reasons, among others, Mauritius is a preferred domicile for many investors focused on Africa and South Asia. In addition to the tax, legal, and financial incentives encouraging funds to locate in Mauritius, investors cite geography, political stability, and local professional service providers as key drivers of their decisions to domicile in the country.

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30 Ibid.
CHALLENGES AND OPPORTUNITIES FOR IMPACT INVESTORS

Mauritius continues to present a business-friendly environment with a vibrant private sector. There are no restrictions on remittances of profits, dividends, or capital gains earned by foreign investors. As mentioned above, the country has double taxation avoidance agreements with more than 40 countries. While the investment environment is clearly favorable, its combination of low poverty and low unemployment figures, along with high HDI scores, limit the potential to create impact through investments, particularly relative to other opportunities in the region.

Impact investors will face the following challenges placing capital in Mauritius:

- **Small market**: As one of the smallest countries in Southern Africa by both geography and population, there is limited potential to scale businesses in the domestic market. For instance, the limited land area and high population density leaves little opportunity for expansion of the agricultural sector. As an island nation, local businesses must carefully assess strategies for regional expansion and export opportunities.

- **Skilled labor**: While Mauritians have high literacy levels compared to other countries in the region, there is a lack of talent available with the skills necessary to succeed in the evolving economy. As the economic focus shifts from primary production to services, the World Economic Forum lists an “inadequately educated workforce” among the top challenges to doing business in the country.

Despite these challenges, the government of Mauritius is implementing a strategy intended to propel the state to high-income status by 2025. This plan prioritizes high-potential sectors that present opportunities for potential investors. Impact investors could find attractive opportunities in these sectors to drive job creation:

- **ICT and Business Process Outsourcing (BPO)**: The ICT sector posted overall growth of 6.8 percent in 2014, while the number of mobile phone subscribers has been growing annually at 12 percent since 2004, providing opportunities for software and mobile application development. Opportunities in the BPO sector have increased due to Mauritius’s growing service-based economy and English-speaking population. Segments of interest include telemarketing, customer support, technical helpdesks, and data centers, among others.

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• **Ocean economy:** With its control of an Exclusive Economic Zone of more than two million square kilometers, Mauritius has untapped investment opportunities in ocean-related industries such as fishing, seaweed harvesting, pearl culturing, wind and tidal renewable energy, and tourism.

• **Healthcare and pharmaceuticals:** The government is encouraging growth in the healthcare sector, with a particular focus on pharmaceutical manufacturing and marine biotechnology.35

• **Agribusiness:** Although agriculture comprises a small portion of total GDP, opportunities remain in this sector. Currently, sugar plantations dominate more than 90 percent of arable land, and the government has identified diversification into other cash crops, such as rice and maize, as a key priority.36 The country relies heavily on food imports, so investments in agriculture will bolster national food security.

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ABOUT THE GLOBAL IMPACT INVESTING NETWORK

The Global Impact Investing Network (GIIN®) is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry. For more information, see www.thegiin.org.

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