

Rundheersing Bheenick: Ticking the right boxes – financial market development in Mauritius

Keynote address Mr Rundheersing Bheenick, Governor of the Bank of Mauritius, at a function to mark the successful issue of the second tranche of Notes under the Omnicane Multicurrency Medium Term Note Programme, with Standard Bank (Mauritius) as the Lead Arranger, Ebène, 21 January 2013.

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What a pleasure it is to be here this evening to mark the continued success of both the issuer, Omnicane, and the Lead Arranger, Standard Bank (Mauritius), with their Multicurrency Medium Term Note Programme. And just in case anyone thought that this is not reason enough to celebrate, we are also marking the entry of OMNICANE as a 25% equity partner in a US\$200 million sugar complex in Kenya, after closure of a US\$120 million loan, again arranged by Standard Bank but, this time, jointly with the PTA Bank.

What a wonderful way to start the New Year – on a such strong note of confidence, especially after the pessimistic mood that had been dogging us in the second half of last year! Well done, Omnicane. Well done, Standard Bank. I hope that as the year progresses, we shall be celebrating more similar successes.

This financing and investment package ticks so many of the right boxes that it's difficult not to get excited about it.

- It scores very high marks on banking and financial market development.
- It confirms the return to health and renewed vigor of the domestic sugar sector in its latest avatar as a cane industry.
- It attests to the growing regional interest in Mauritian *savoir faire*.
- And it illustrates the dynamism of our offshore banks operating in our international financial centre.

Let me say a few words on each of these points in turn.

First, banking and financial market development

Bank-of-Mauritius-watchers – at least those who go beyond the widespread fixation with our monetary policy – know that financial market deepening has been a major focus of central bank action in recent years. Progress has been frustratingly slow and all of us, not just the Bank, need to step up our efforts considerably, if we are to have a financial market which is more aligned with our financing needs as a middle-income country. Some of the building blocks are already in place. We now issue single-maturity instruments at our regular auctions of Government paper. We have introduced benchmark bonds of 3-year and 5-year maturities. We have been working closely with the Stock Exchange authorities to start trading of Government securities on the stock market. This can be expected to result in a reference yield curve, a key element in the development of a corporate bond market. Our financial sector is dominated by bank lending.

A recent IMF study on bond markets in Africa¹ finds that these markets are at a nascent stage, with corporate bond market capitalization accounting for just 1.12% of GDP in the last decade. For us Mauritians who are used to see our country in the top rung of African league

¹ Yibin Mu, Peter Phelps & Janet G. Stotsky, "Bond Markets in Africa", IMF Working Paper No. WP/13/12 (Washington: International Monetary Fund).

tables, it may come as a jolt to learn that this is one area where we do not have bragging rights. Quite the opposite, in fact. Out of 28 Sub-Saharan countries analysed, we trail in as Number 13 just behind the Central African Republic, at one-fifth of one percent of GDP. We must do better, much better.

The Medium Term Note Programme, whose second issue within one year we are celebrating, does take us in the right direction. This Rs2 billion Multicurrency Medium Term Note (MTN) Programme is a serious contender for the record book. It is the very first such instrument issued by a listed entity in Mauritius. Also, the amount raised under a single issue is a record for the Mauritian market. Although not a bond, the MTN is an alternative source of financing to bank lending. The participation of banks in the MTN illustrates that alternative debt instruments and bank financing are clearly complementary. Our well-capitalised banking system, our creditable inflation record, and our exchange rate stability augur well for faster growth of the corporate bond market. This will in turn have a favourable impact on financial and economic stability.

So, this is one box that I tick enthusiastically, with a well-deserved pat on the back to both the issuer and the lead-arranger, while also renewing my call for greater diligence to the other partners with a crucial role in domestic bond market and secondary market development to catch up on the 12 Sub-Saharan countries that have trounced us in this field.

Second, the transformation of the erstwhile Sugar industry into a cane industry.

Government embarked last year on an Economic Transformation Programme. It can draw some inspiration from the example of the sugar industry which has undergone a total transformation on the back of some Schumpeterian “creative destruction”. As is well-known, the local sugar sector found itself with its back to the wall when faced with a drastic 36 per cent cut in sugar export prices following the reform of the EU Sugar Protocol to make it WTO-compatible. There were dire predictions that the industry was going the way of the dodo. It had to shed excess fat and had literally reinvent itself to survive.

With public/private collaboration of a kind rarely seen before, an industry that was widely seen as being on its last legs successfully transformed itself into a modern cane cluster. This cane cluster has emerged from an industry that until recently, owed its survival to the continued generosity of the EU taxpayer and was content to export raw sugar in bulk for refining in Europe. It now produces several types of sugar such as raw sugar, special sugars, industrial sugar and white sugar; it also supplies firm power to the national grid from bagasse/coal co-generation using state-of-the-art technology; and it will soon produce ethanol using molasses. Today, Mauritius is a successful and reliable exporter of refined sugar to Europe.

With its flexi-factory, Omnicane is the very emblem of this transformation. There are useful lessons in this transformation for others operating in other sectors of the economy: Adapt or Perish. I had the pleasure of visiting Omnicane last year. I was quite impressed by what I saw there, particularly by the spirit of innovation and efficiency that permeates the whole organization. I am trying not to sound like a publicist for Omnicane – but it is quite an operation, believe me.

I congratulate all those who played a role in transforming an industry, doomed to a slow death in the view of many, into an *avant-garde* cane industry with impeccable green credentials. Sugar may not be King anymore, but it certainly does not show any sign of becoming plain common Citizen cane anytime soon. There’s life in the old dog yet. After its important contribution to the integration of the sugar sector in Mauritius, I am delighted to note that the company has consolidated its position on export markets by acquiring a 20% equity stake in a large UK-based non-refining distributor of sugar in Europe. Omnicane clearly has the wind in its sails. It is hardly surprising that investors and lenders are rewarding it by subscribing to this second issue of Notes of Rs920 million, bringing the total

issue to-date to Rs2 billion – and doing so with a fixed rate coupon which is 145 basis points lower than the first issue. This brings me neatly to my next point.

Third, growing regional interest

Part of the proceeds of this second Notes issue will finance OMNICANE's domestic investment in the next stage of the flexi-factory. The remainder will support their ventures overseas, especially in the region. And this is where the US\$120-million loan package comes in. Omnicane has a 25% equity stake in Kwale International Sugar Company Limited near Mombasa in Kenya, with an option to increase its participation to 50%. Omnicane will operate and manage the complex which will produce ethanol, electricity and cane sugar, on the lines of what it does in Mauritius. This is the latest chapter in successful Mauritian involvement in the sugar industry in Africa, which has a long and respectable history.

In a previous capacity, I was involved in a Lenders' meeting to mount a financing package for the first major investment from Mauritius into Mozambique – the MARROMEU Sugar Project. This followed in the wake of the SUCRIVORE Project in the Ivory Coast, to be followed later by the TPC project in Tanzania. Let me salute the boldness of the different sugar groups concerned which did not hesitate to invest in Africa at a time of negative perception about the Continent and its prospects.

Besides the co-arrangers, Standard Bank and the East and Southern African Trade and Development Bank, known as the PTA Bank, five other banks have participated in this loan, including two Kenyan banks, Kenya Commercial Bank and Cooperative Bank of Kenya. I note that three Mauritian banks are also participating in the financing, namely State Bank of Mauritius, Mauritius Commercial Bank and AfrAsia Bank. Which gives me an extra reason for satisfaction. Our banks are increasingly playing an important role by extending their footprints in the region and accompanying our investors in their overseas ventures. The latest ranking of the *African Banker* shows that seven Mauritian banks now figure among the top 100 African banks. Our banks are robust and have undoubtedly contributed to the resilience of our economy during the global financial crisis. Far be it for me to trumpet this, but let us never forget that this happy state of affairs is the result of the strong regulatory and supervisory framework put in place by the Bank of Mauritius.

Let me say a word about our relations with Kenya. Last year, I was in Nairobi to sign a Memorandum of Understanding with Governor Ndung'u of the Central Bank of Kenya to enhance mutual co-operation in the supervision of our financial institutions.

It is a little-known fact that our relations with Kenya in the financial sphere go back to pre-independence days. The Kenya-based Jubilee Insurance invested then in an operation in Mauritius, which is still present today. More recently, I & M Bank of Kenya joined forces with a Mauritian conglomerate, with diversified interests in agriculture, hotels, tourism and manufacturing to take over a local bank.

In the other direction, another large Mauritian multinational conglomerate, involved in diverse activities ranging from insurance and leasing to banking and distribution, invested as a minority partner in one of the rapidly-growing Kenyan banks, Equity Bank. The same conglomerate ended the year with another joint venture in Kenya, this time in the furniture retail business. So Kenya and Mauritius are living examples of increased South-South cooperation and South-South investment, which mean more FDI flows among the Southern countries. It seems that the wish I had expressed at the signing ceremony with my Kenyan counterpart that the relations between Mauritius and Kenya tighten further, is fast being fulfilled.

Conclusion

Let me now conclude. This financing and investment package that we are celebrating this evening has allowed us to tick so many boxes on the long to-do list on our financial sector

development agenda. We are slowly but surely moving forward. The road ahead is long, bumpy, and certainly not risk-free. But I have no doubt that the Notes issue by Omnicane will prove to be a milestone in this long journey.

It would be remiss of me to conclude without giving some good marks to Standard Bank for taking the lead in this initiative. Since the bank set up shop here in 2001, its business has expanded significantly. During the last five years, the bank's total assets have increased three-fold. It now ranks 6th in terms of total assets of the banking sector. The bank's previous CEO, Chris Clarkson, was constantly fighting for financial deepening and the development of the domestic debt market. It became something of a hobby horse of his – one that I was quite happy to share with him. His successor, Lakshman Bheenick, has continued the struggle. The bank is now reaping its just reward. We invite the bank to continue to include Mauritius in their growth plans for the region and to make greater use of the Mauritian jurisdiction for their regional operations. We can give a terrific boost by overcoming the resistance we see in some quarters to the introduction of new financing instruments such as *sukuks* and inflation-protected paper of different maturities. These would work wonders for the financial market, attract new business, and ease intermediation between savers and investors. So, I say to Standard Bank: Keep pushing.

Let me reiterate my congratulations to the promoters of Omnicane who had the foresight to take the right decisions at the right time, contributing to convert a sector that was heading for the rocks, into a model of how an industry can reinvent itself in the face of daunting challenges.

Thank you and the very best of luck in your future endeavours.