MAURITIUS

Finding the Right Foreign Investors remains the challenge

No one seems to have a realistic answer to one of world economy’s most urgent problems: how to improve access to finance for millions of Small and Medium Enterprises (SMEs)? Secretary General of IOSCO, David Wright, gave us some insight on the problem before focusing on the issue of long term financing.

The shift from Banking to Capital Markets

IOSCO Secretary General, David Wright, pointed out that long term financing has become a complex topic. What investors have to do is to see how they can match the demand for long term financing – which is huge – with the supply. It means that those who need capital can get access to it; and those who offer the capital can get the expected returns. Moreover, there are different forces at work. In general, there has been a shift to short term. People, in general, hold equities for a much shorter time than they did before. They trade much more. Trading has also become much easier today and people take their profits quickly and churn on their portfolios more often. That makes ETFs more difficult. Another factor is that the accounting rules tend to push towards the shorter end of the market. For example, there are quarterly reports for big companies. So, there is a short-term pressure to tend towards the short term.

In the process, the share of capital market is increasing day by day. There is a global shift from banking system to capital market, which represents an important change in history.

The capital markets are composed of different elements: equity markets, bond markets, securitization markets, asset management. There are also different types of funds - investment funds, pension funds among others. However, the first challenge is the source of the needs. To match up the demand and supply side across the globe is extremely difficult. That’s why different parts of the financial market - equity markets, corporate bond markets will have different roles to play. Banks are indeed facing more capital requirements. That means they have less credit available for others. "Some people think they need to hold more capital in the future, which will mean even less credit available. Particularly if they cannot leverage their balance sheets as they did in the past. So, this means there is a shift in capital markets," he said.

The challenge for Mauritius is exactly the same. We need to find the right type of capital to invest in the necessary infrastructure needs of the economy. "For some of these needs, you are probably going to need to find some outside investors. So, the conditions for these investors are going to be very important. If you think about an investor, be it or the can invest in millions of different products around the world," he said.

But they will invest in good projects, which are well managed, deliver good returns, and in a market where there is proper regulation, strong security, and an international valuation of the local regulatory system.

For Clairene Koen, Chief Executive Officer of the FSC, well-functioning capital markets are vital for everyone. They support businesses and growth across the world. They also provide important services for investors - from large pension funds to the smallest individual investors. "Capital market help in the effective allocation of resources from savers to entrepreneurs and bring toward economic development," she said.

Raising of finance, either through equity, with a long term perspective, or through less risky securities such as bonds, can create the dynamism and long term perspective that all of us are yearning for.

A SECONDARY BOND MARKET?

In one of the recent issues of Capital Publications, a local economic actor complained about the lack of a secondary bond market. David Wright, however, says that Mauritius is not the only country which does not have a secondary bond market. If one takes a look at the "so-called leading and liquidity of corporate bonds", they are not so many countries in the world that have a liquid secondary market.

"A secondary bond market is important because some people who would have bought a particular bond might want to sell if there is more demand in the market. It's a way of locking in capital for a long period of time."

And this isn't what people always want. They want to sell and the problem gets more difficult when there are smaller markets.

"So, what people do - what had been done in the past - is, instead of having a small issue of say USD 500 million, you stack up and have different issues [USD 100 million for the Water Authority, USD 300 million for roads, USD 100 million for education or a new airport]. You add them up and create a securitised product and try and sell a much bigger security composed of all those issues.

What is interesting to note, according to him, is that the security and its distribution was damaged by what happened in the US. It is not the same with the Subaburs. Now however, there seems to be a revival of interest in securitisation. IOSCO and the Basel Committee have set up a new working group to work out how to make these markets function better. "In the end, the idea is to develop the secondary bond market," concludes David Wright.