The Luxembourg Africa Investments Association

LuxAfrica Newsletter

FEBRUARY 2019

INTRODUCTION

First of all, LuxAfrica is taking this opportunity to wish you a very pleasant new year!

A 2019 full of success in your projects and positive experiences in both personal as well as professional undertakings.

The LuxAfrica Committee is delighted to share this second edition of the LuxAfrica Newsletter with you. This issue reflects the activity occurred during the second semester of 2018.

The second half of 2018 has been a great occasion to contribute to several events, among which the Boosting Africa day, ICT conferences, Malawi entrepreneurship and the Economic Mission in Cote d'Ivoire and Ghana.

We wish you a pleasant read!

The LuxAfrica Committee

ABOUT LUXAFRICA

The Luxembourg Africa Investments Association ('**LuxAfrica**') is a non-profitable association located in the **Grand Duchy of Luxembourg**

Our primary goal is to actively **promote business relationship** between Luxembourg and Africa, and in general between Europe and Africa.

Our members are active professionals with skills in various sectors (Private Equity, Real Estate, Accounting and Audit, Tax, Legal, Investment Management, Fund Administration and Fund Management, among others).

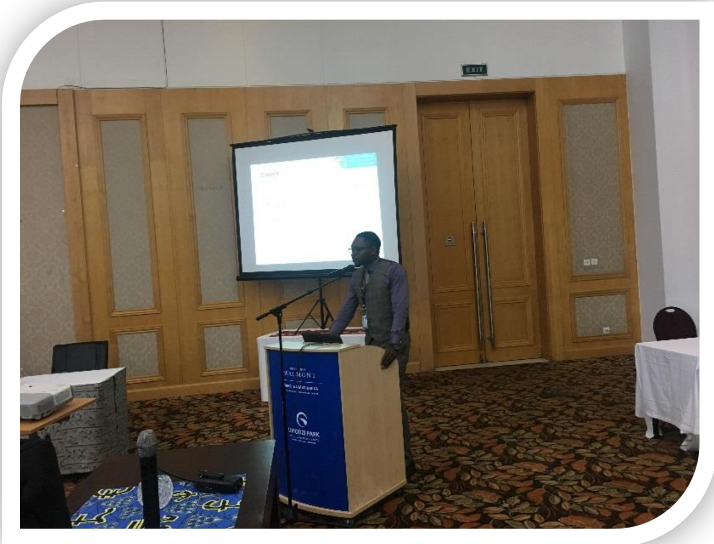
Objectives

In pursuing our primary goal, we have set the different objectives including the following:

- To organize, activate, motivate, promote and support Luxembourg - Africa related business initiatives and events such as meetings, seminars and conferences, in order to capture long-term opportunities with a regular focus on areas of mutual interest to accelerate these opportunities;
- To build and share a knowledge base and platform for our members containing useful information in respect of the African and Luxembourg business environments;
- To provide members with a value added professional networking environment

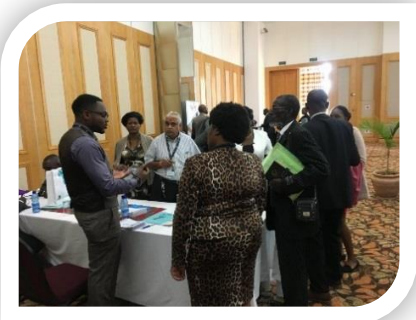
CONTENT

MALAWI MISSION



Participation at the Malawi Investment Forum

As a joint initiative with the Embassy of Malawi in Brussels, and with the support from the Luxembourg Chamber of Commerce, LuxAfrica participated at the 2018 Malawi Investment Forum ('MIF') held at the Bingu International Conference Centre in Lilongwe, Malawi, from 11 June to 12 June 2018.



The MIF is the largest annual gathering of most influential stakeholders in business and investments opportunities in Malawi and attracts government officials (including heads of state) and business captains in the region as well as investors from around the globe.

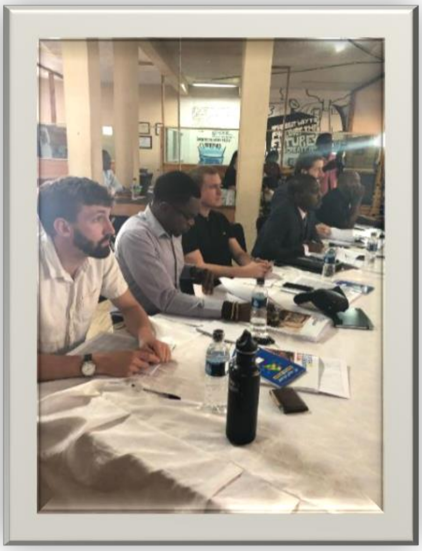
The Association was represented by a member of its Executive Committee and Vice President, Mazowe Bingala who had an opportunity to network and connect with Business Opportunities and Entrepreneurs in Malawi and the Southern African region. Mazowe shared with the MIF participants the nature and activities of LuxAfrica and also LuxAfrica's view of what Luxembourg can offer to the Southern Africa region through a presentation entitled "Why connect with Luxembourg?"

Supporting the Malawi Growth Accelerator Programme

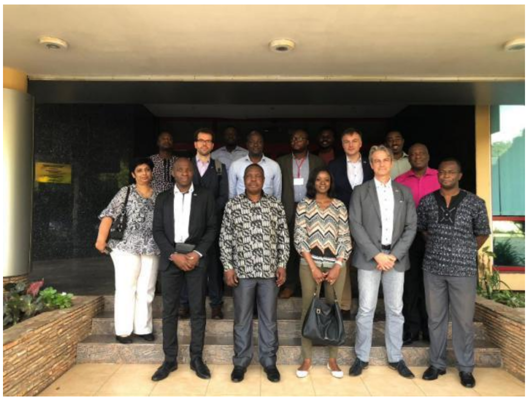
In November 2018 Mazowe was invited by the Malawi Growth Accelerator partners - GrowthAfrica, mHub, the Norwegian Embassy in Malawi and UNDP, to be a member of the Investment Committee for Malawi's first acceleration programme. This invitation materialized from an established relationship between LuxAfrica and mHub - Malawi's first technology and innovation hub which serves as a social enterprise that champions the development of local technology solutions. mHub's a mission is to provide sustainable platform, technology skills, development knowledge, mentoring, coaching. mHub nurtures young innovators and entrepreneurs with technical and business skills to create sustainable business solutions. mHub develops software solutions to solve business and social-economic challenges.

The Growth Accelerator programme seeks to unlock the growth potential of Malawian entrepreneurs with innovative business models that are addressing development challenges through the delivery of sustainable solutions.

Following days of pitching by over 20 shortlisted entrepreneurial ventures in Lilongwe Malawi, Mazowe and the four other members of the Investment Committee selected 12 top ventures to receive grant money for capital to kick-start their businesses with monitoring from the Investment Committee and Growth Africa. As a follow up, LuxAfrica is creating a working group that will comprise of different profession profiles based in Luxembourg who will provide e-mentorship and business advice to the ventures as they make an effort to grow their businesses.



TRADE MISSION ABIDJAN (COTE D'IVOIRE)/ACCRA (GHANA)



LuxAfrica had the honour to be represented by Bertrand Moupfouma (vice-president), Aissata Coulibaly and Christian Sia at the Trade mission in Abidjan (Cote d'Ivoire) and in Accra (Ghana), organized by the Luxembourg Chamber of Commerce from September 30, 2018 to October 4, 2018.

LuxAfrica had the pleasure of being part of the business delegation visiting two of the fastest growing economies in West Africa: Côte D'Ivoire and Ghana. This trade mission aimed to reinforce Luxembourg business relationships with these two locomotives particularly on the ICT, Ecotech and logistic sectors, connecting Luxembourg based investors to Ivorian and Ghanaian opportunities.

More than 30 Luxembourgish companies joined the trip.

During the official receptions in Abidjan and in Accra, Aïssata and Bertrand had the opportunity to present the potential of Luxembourg as a financial hub for African investments. The mission has started with the Luxembourg-Cote d'Ivoire economic forum which gathered more than 120 participants with particular focus on ICT. The mission in Cote d'Ivoire has afforded large number of business to business as well as business to government catch ups.

Aïssata and Bertrand furthermore seized the opportunity to meet with the president of the A2IC (Association Ivoirienne des Investisseurs en Capital), the equivalent of the Luxembourg Private Equity Association in Abidjan. They presented and discussed more in detail Luxembourg's private equity solutions for African investors.

In Ghana, number of 'business to business' and 'business to government' meetings have also took place. The government of Ghana has notified its intention to increase bilateral relations with Luxembourg.

TAX ARTICLE:

NEW ETHICAL LUXEMBOURG–SENEGAL DOUBLE TAX TREATY MEANS OPPORTUNITY

On 10 February 2016, Luxembourg and Senegal reinforced their co-operation on an international level by signing a double tax treaty. Entering into force on 14 June 2018, and applicable from 1 January 2019, the treaty differs greatly to previous treaties between Luxembourg and African countries in that it is the first one to include specific guidance and provisions of the OECD/G20 Base Erosion and Profit Shifting project (BEPS) while combining influences from both the OECD and the UN models. The result is an economically balanced convention.

Will this brand-new format of treaty become a new standard of tax ethics in conventions between so-called developed and developing countries?

Ethics is increasingly important in tax, as this treaty shows. Rules everywhere are thus being adapted—or are in need of being adapted—to obtain balanced and fair taxation. When it was signed, the treaty with Senegal was the sixth double tax treaty (DTT) between Luxembourg and an African country, showing Luxembourg's willingness to improve its economic relationship with Africa.

However, it remains to be seen whether this treaty will affect future policy with Africa, notably with regard to the recently signed treaty with Botswana.

A MIXED TAX TREATY: THE BEST OF BOTH PILLARS OF THE INTERNATIONAL TAX FIELD

The international tax framework has been built over the last few decades by the globalization of commercial and financial exchanges. In response to a fundamental need to avoid double taxation on a global scale, DTTs have been a core element of this international cooperation.

In pursuit of a coherent system and support for developing countries, various DTT models have emerged. Nowadays, most DTTs worldwide are based on either the OECD model or the UN model.

THE TAX INFLUENCE OF THE 2014 OECD MODEL AND BEPS ACTIONS

Importantly, Senegal and Luxembourg are both members of the BEPS Inclusive Framework,[1] a fact which without a doubt represents the cornerstone of the treaty and its being signed. The influence of the OECD—the body that initiated the BEPS project—on the Luxembourg–Senegal DTT is particularly noticeable in the preamble, its articles, and in the inclusion of a Principal Purpose Test (PPT).

Even though a preamble is often considered less important than the text itself, it is nevertheless an integral part of the treaty. It is legally binding and certainly a key factor in interpreting the text.

In the Luxembourg–Senegal treaty, both title and preamble emphasize the goal of preventing double taxation but also, more relevantly, the goal of preventing the creation of opportunities for double-non-taxation—one of the principal objectives of the BEPS project.

The inclusion of measures to prevent double-non-taxation is new, and appears all throughout the treaty. Indeed, a similar wording excluding the use of the treaty for tax evasion purposes is stipulated in Articles 10, 11, 12, and 22 (respectively, the tax treatment for dividends, interest, royalties, and other income).

These articles further evidence the BEPS influence on the treaty. The wording goes beyond a simple willingness to oppose tax abuses: rather, it instates a real PPT in the treaty. Directly inspired by BEPS Action 6 ("Preventing the Granting of Treaty Benefits in Inappropriate Circumstances"), this PPT aims to prevent treaty shopping and stipulates that the benefit of the treaty should be denied if one of the principal purposes of an arrangement or transaction is to obtain a tax advantage.

Additional clues of the OECD's influence can be found in Article 30 of the treaty, which allows each contracting state to fight against tax evasion by applying their own domestic anti-abuse rules.

[1] Progress report – OECD/G20 Inclusive Framework on BEPS

THE TAX INFLUENCE OF THE UN MODEL

Taking into accounts all these facts, the BEPS influence on the treaty is undeniable. But the reason why this treaty can be seen as a small revolution in the Luxembourg international tax framework is the fact that other significant tax characteristics of the treaty are clearly influenced by the UN model.

One of the main differences between the OECD and UN models is in the criteria for the allocation of the right to tax. In the OECD model, the right to tax is shared between the source country and the residence country. And while the OECD tends towards residence taxation criteria, the UN model is oriented more towards source taxation.

It is interesting to highlight that the Luxembourg–Senegal treaty demonstrates a reinforced orientation towards source-based taxation. In most of the articles, withholding tax is allowed, demonstrating a willingness to avoid depriving a State from its taxing rights. In fairness to taxpayers, this withholding tax maximum rate is, however, capped.

This influence by the UN model may not appear very significant, but it is: it should have sizeable consequences, and majorly transform the traditional double tax treaties signed with African countries. Why? Because all these tax influences tend towards fairer treaties.

Importantly, the idea of fair taxation brings an ethical side in a field more known nowadays for its controversy.

BENEFICIAL CO-OPERATION: A FAIR SHARE OF TAXING RIGHTS FOR BOTH STATES

Assuming that this treaty does show Luxembourg's willingness to meet the goal of fairer taxation, one could reasonably wonder why and how the different models were mixed.

One of the recurrent criticisms of the OECD model, and also of the BEPS project, is that the allocation of taxing rights and the proposed measures are efficient only if the flow of transaction between the contracting states is similar. In this case, if a treaty taxation is residence-based then no significant impact should be observed, as the contracting states should reciprocally receive an equal number of taxed transactions.

However, between a developed country and a developing one, the situation is different: the number of transactions could significantly differ. Most of the time, the investors are tax residents in the developed country, which is usually more internationally oriented, and the income is taken from the developing country and put in the other state. This means, from a practical point of view, that under the OECD model most of the income is taxed by the developed country. Furthermore, a double tax treaty, in most cases, offers lower rates than the domestic ones—this leads to an unfair situation where the developing country doesn't benefit from its fair share of tax.

Senegal's DTT with Mauritius could serve as an example of problematic residence-based taxation. Unlike its treaty with Luxembourg, Senegal's DTT with Mauritius states that dividends, interests, and royalties should only be taxed in the country of residency of the beneficial owner. This results in an impossibility for Senegal to tax the revenue insofar as the beneficial owners are based in Mauritius, whereas through the Luxembourg treaty Senegal keeps the ability to tax, at source, the profits generated.

This is the reason why the UN's influence on the treaty is so central, making it more than a show of willingness. Indeed, the treaty is a balanced and ethical one.

AN OPPORTUNITY FOR THE AI FUNDS INDUSTRY

In an environment where public opinion is skeptical, and often negative, about tax—and thus where businesses are under growing reputational risk—this treaty should reduce uncertainty for investors considering doing business in Senegal. It will also help prevent reputational damages.

Most importantly, perhaps, it could also bring many opportunities to investors: trade, exchanges, knowledge, technology transfers, investments, growth… Senegal is a fast-growing market in Africa and a significant business location for Luxembourg investors, as shown by financial exchanges in 2017, which amounted to nearly 140 million euros.[2]

From an alternative investment standpoint, the treaty provisions generally offer more favorable withholding tax rates than those of competing treaties with Senegal (5% for dividends, 10% for interest, and 10% for royalties). By signing the treaty, Luxembourg has positioned itself well for investors interested in a business relationship with Africa.

Should you want further information or advice regarding this topic, please use the below contacts.

[2] Article *Forum économique: Luxembourg à la conquête du marché sénégalais* - Le Quotidien (Cf. Webographie)

The author would like to thank Adrien Le Léonnec for his meaningful assistance on this article.

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BOOSTING INVESTMENTS IN AFRICA

The event took place on 29 November 2018. The EY Private Equity practice in collaboration with the Luxembourg Africa Investments Association and the European Investment Bank together with the African Development Bank, organized a forum on “Boosting Investments in Africa: Connecting global investors to African opportunities”.

Together with EY PE Leader, Olivier Coekelbergs, Aissata Coulibaly and Claude Grunitzky, Chairman of True Africa, and President of Byrd Hoffman Water Mill Foundation, a number of experts shared their views on the opportunities the African market is bringing. We saw through different lenses and practical experiences, how to successfully invest in Africa, navigate operational obstacles and benefit from one of the most exciting opportunities in the global economy.

We had the pleasure to welcome speakers like Adrian Kamenitzer, Director Equity at European Investment Bank, Fatoumata Ba, CEO and Founder of Janngo, Rajaa Mekhouar, President of the Luxembourg Private Equity Association (LPEA), Udayan Goyal, Managing Partner at APIS, Maurizio Caio, Founding Partner at Tlcom Tide Africa Fund, Eline Blaauboer, Managing Partner at Africa Tech Ventures, Khaled Ben Jilani, Senior Partner Head Financial Sector at Africinvest and Jean-Thomas Lopez, Portfolio Manager at Amethis.

OTHER EVENTS

Africa Impact investing leaders Forum - London

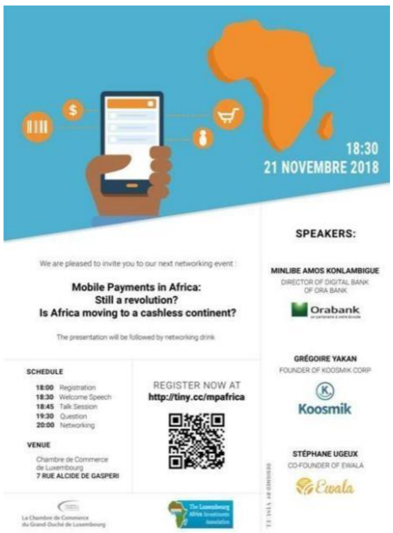
Lux Africa participated in the third edition of the Africa Impact Investing Leaders Forum. This edition was held in London on the 25th of October. Aïssata Coulibaly had the opportunity, as a speaker, to cover the following 2 topics:

"Partnering to Build High-Growth, High-Impact Enterprises "
- Supporting Entrepreneurs: the issues, trends and challenges – Entrepreneurs perspectives
- What impact investors/funders and large companies must know
- Investing in startups and early-stage social entrepreneurs – experiences and lessons learned.

"The State of Social Impact Investing and Technology "
- How is technology shaping the impact investing space?
- Identifying and investing in disruptive technologies to solve global problems – challenges, experiences
- Blockchain for impact investing: what effects on impact and investing?
- Does the scaling of impact investing depend on technology?
- The multi-trillion-dollar security token opportunity in Africa

This event has been a great networking opportunity for LuxAfrica.

Mobile Payments in Africa: Still a revolution? Is Africa moving to a cash-less continent?



Event organized in November 2018 at the Chamber of Commerce.

Mobile payment has revealed to be an exceptional opportunity for financial institutions to serve clients not having bank accounts, besides commercial and innovative companies are also benefiting from this vector to sell products and render services in an efficient way.

The presentations were done by market players, all addressing challenges in the African market: Mr Grégoire Yakan (founder of Koosmik Corp), Stéphane Ugeux (Founder of Ewala) and Minlibe Amos Konlambigue (Digital bank Director at Oragroup SA).

ALFI Roadshow - South Africa

Organized by the ALFI, Aïssata Coulibaly represented Lux Africa during the roadshow in Johannesburg on 4 December and Cape Town on 5 December in South Africa.
Lux Africa had the pleasure of being part of the ALFI (Luxembourg Investment Fund Association) delegation visiting the two biggest business centers in South Africa, Johannesburg and Cape Town. This roadshow aimed to promote Luxembourg as a global fund center, presenting Luxembourg’s toolbox and dispelling the myths of complexity /cost associated to Luxembourg.

LUXAFRICA PARTNER AND CORPORATE MEMBERS

LuxAfrica partner

LuxAfrica Corporate members

New Corporate member

We are happy to announce our new Corporate member Sustain, Luxembourg based Consulting firm expert in Company Social Responsibility and Smart City.

For more detail, please reach sustain.lu

We invite you to visit our website *www.luxafrica.*org for further information about the Association and upcoming events.

Do not hesitate to contact us on: committee@luxafrica.org