SPI Journal, Autumn 2023
Amplifying voices

OMFIF Sustainable Policy Institute

How Mauritius is mobilising climate finance

As a small island developing state vulnerable to climate change, Mauritius is setting ambitious transition objectives, write Sadhna Gopal, second deputy governor, Urvashi Soobarah, assistant director, supervision, and Arjun Munbodh, bank officer, enforcement and sanctions, Bank of Mauritius.

The World Risk Report 2023 has ranked Mauritius, a small island developing state in the Indian Ocean, 106th out of 193 countries most vulnerable to climate disaster risk. As a tropical island, Mauritius has always been vulnerable to climate events such as cyclones and heavy rains. The impact of cyclones was mostly felt on agriculture and some damage was caused to infrastructure.

However, the impact of climate change has taken a different turn – the livelihoods of the islanders may be at stake in the coming years. Mauritius is now vulnerable to risks on which the tourism industry is dependent, notably erosion of its pristine beaches. This is due to rising sea levels as the ice sheets of the Arctic and Antarctic regions melt. Mauritius has experienced beach erosion of up to 20m in places over the last few decades. It is estimated that half of our beaches are at risk of disappearing over the next 50 years. The rise in temperature of the sea also affects the coral reefs that make up the blue lagoon.

Although climate adaptation is more crucial for SIDS, most of these countries have taken bold climate mitigation commitments. The government of Mauritius has set ambitious objectives, such as reducing the country's greenhouse gas emissions by 40% by 2030, in its national determined contributions under the 2015 Paris agreement. Mauritius requires funding estimated at $6.5bn for meeting its NDCs and the government and domestic private sector would fund up to 35% of that amount. The remaining 65% or $4.3bn would have to be financed externally by 2030. This results in a yearly financing requirement of $264m, which is no small feat.

The worldwide events of the last few years have taken their toll on the economy of most small countries like Mauritius. The pandemic was both a health and an economic crisis. Mauritius suffered a contraction in gross domestic product of around 15%, one of the highest in the world, primarily on the back of impacts from the international travel shutdown on our tourism sector. Climate change could potentially reverberate on our structural weaknesses. Climate change-driven beach erosion in Mauritius could impact tourist arrivals, resulting in revenue loss of up to $50m by 2050.

The pandemic, global inflationary pressures and the heightened uncertainty in the geopolitical landscape have had profound impacts on emerging markets and developing economies. Today, like most African countries, Mauritius is faced with high inflation, high debt and limited fiscal space. Financing the transition to net zero by mobilising funds on the international financial markets to mitigate and adapt to climate change is challenging for small states like Mauritius.

Financing the fight against climate change

Mauritius is one of only two countries in sub-Saharan Africa that are investment grade, with the other being Botswana. This means raising funds on the international markets is difficult. The fact that financial markets in countries like Mauritius are shallow and not sophisticated only aggravates the problem.

Small countries need to create the right infrastructure for private sector investment in sustainable finance. In June 2021, the Bank of Mauritius published a guide on the issuance of sustainable bonds, which aims to ensure the integrity of the sustainable financing ecosystem in Mauritius and prevent greenwashing. With a view to further consolidating the appeal of Mauritius for international sustainable finance investors, the guide recommends that the bonds be aligned with global benchmarks and standards such as the Green Bond Principles of the International Capital Market Association and the International Climate Bonds Standards of the Climate Bonds Initiative.

We started our journey in 2020 by focusing on the grassroots aspects of the climate financing ecosystem. Our first priority was to engage with financial institutions to create awareness of climate-related risks as well as opportunities from the transition. We believe central banks can help build a nexus between domestic providers of finance and pools of climate-related opportunities, while shedding more light on risk areas. Work by the Bank of Mauritius' Climate Change Centre has been effective in mobilising domestic funding towards adaptation and mitigation projects.

SIDS central banks can promote the growth of domestic climate financing through enhanced risk and opportunity discovery by working towards improving climate information architectures and climate finance market structures.

Taxonomies and frameworks

Data considerations form an important aspect of climate financing ecosystems. The bank's Climate Change Centre has, since inception in 2021, completed a number of data initiatives at the micro level. These have provided useful insights that we have integrated in a wider sustainable finance framework for the country, which provides a roadmap for sectoral climate financing needs.

The government of Mauritius eventually plans to issue sustainable bonds and the framework delineates the allocation of the funds for specific areas to achieve Mauritius' NDC target. This would provide an additional layer of accountability and transparency to the market, helping to instill greater trust for fund providers.

Developed nations have set up climate funds to assist less-developed countries. It is estimated that these funds have accumulated around $35bn in deposits, of which only some $11bn has been actually disbursed with the share flowing to SIDS being even less significant. Unfortunately, small countries have inherent limitations, such as a lack of project accreditation services, which makes meeting the requirements of climate funds difficult.

Small countries need to develop sustainable finance taxonomies that are interoperable with sustainable financing frameworks of investors' home countries. At the same time, our taxonomies should be sufficiently versatile to accommodate different types of transition finance because we currently lack the technological maturity for originating projects that are strictly net zero.

In the same vein, small countries require transitional arrangements, technical support and capacity building to scale up their sustainable finance reporting requirements to meet new climate investor standards such as those imposed under the European Green Deal. Otherwise, small countries would not only lose out on climate finance flows but may also face revenue loss as their exports face difficulties fitting into value chains of developed country industries because of upstream climate reporting exigencies.

The role of multilateral development banks

As highlighted at the most recent G20 summit, multinational development banks have an important role in financing the EMDE transition to net zero. They can act as facilitators, guaranteeing the loans which would be disbursed by the local banks to small- and medium-sized enterprises. More importantly, MDBs can leverage their vast expertise and networks to link up entrepreneurs from small countries with specialised resources for project support, thereby promoting transfer of technology.

MDBs could have a further role to play. The setting up of second-party opinion providers in our home markets would be crucial for sustainable finance to take off and MDBs could support this initiative by extending financial and technical assistance. In the immediate future, MDBs could help cover accreditation costs of climate entrepreneurs.

We must all join forces to ensure an orderly transition to net zero. A disorderly transition will be much more costly than what we can afford in terms of its impact on our economies, land, homes, livelihoods and nation.

Link to article: https://www.omfif.org/spi-journal_autumn23_bank-of-mauritius/