Keynote address

by

Mr Harvesh Seegolam, G.C.S.K., Governor of the Bank of Mauritius,

at

Stock Exchange of Mauritius and Risk Insights ESG GPS Partnership Launch

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- Mr Mardayah Kona Yerukunondu, First Deputy Governor and Chairperson of the Financial Services Commission
- Mr Kevin Rangasami, Chairperson of the Stock Exchange of Mauritius
- Mr Sunil Benimadhu, Chief Executive of the Stock Exchange of Mauritius
- Mrs Anushka Bogdanov, Founder and Chair of Risk Insights
- Directors of the Stock Exchange of Mauritius
- Chief Executive Officers of Listed Companies
- Captains of the Industry
- Ladies and gentlemen

Good morning.

It is a great pleasure for me to deliver this address to mark a significant development in the ESG landscape of our country. This has indeed come at a critical juncture, the more so that our capital market will increasingly be called upon to play a prominent role in building a more inclusive and environmentally-sustainable nation.

Financial markets, climate change and economic development form a triumvirate and are a recurrent rhetoric in the conclaves of policymakers. With buzzwords, leitmotivs and catchphrases such as 'resilience' and 'sustainability' obstinately percolating through the strata of decision-making processes, one cannot remain oblivious to the fact that there is now a well-concocted dichotomy between environmental considerations and macroeconomic outcomes. For central bankers, climate change considerations are not just random tail-event shocks. The increased frequency, likelihood and severity of weather-related disturbances create state-contingencies on macroeconomic outcomes and we cannot, but, ensure that we build appropriate crisis-proof preventive mechanisms, whilst being fully poised to tackle any residual risks through targeted and robust mitigation measures. In a nutshell, we cannot expect a resilient economy in the absence of policies that favour environmental considerations. The World Economic Forum has estimated that around 50% of global GDP is highly or moderately dependent on nature. But this interpretation should be handled with utmost care. Let's not remain impervious to the fact that countries are generally heterogenous. Some are affected relatively more than others in the face of common shocks. In the case of Mauritius, our insular state, topographical features and geographic position in the Indian Ocean coalesce to make us highly vulnerable to weather-related hazards. I won't be thrifty on the use of harsh verbiage here: but events that would, in the past, occur once-every-1000 years can now materialize once-every-five years. Thus, we should be on our guards and have the wherewithal to accept apocalyptic scenarios as a fact of everyday life.

The climate crisis represents an existential threat to humanity due to its manifold, long-lasting and far-reaching consequences that easily cut across various aspects of our lives. At a time when the COVID-19 pandemic still serves as a poignant reminder of what an enormous shock of unimaginable proportions can do, we need to stand ready to accept the fact that the climate crisis, if mishandled, can generate shocks of even greater magnitude than the pandemic. We, ostensibly, can do what we can do. Scientists and so-called climate change experts have attributed the bulk of the genesis behind weather-related disturbances to human action. And that's where the lion's share of efforts must be geared towards. We must reduce our environmental footprint or else risk another global crisis that could sprawl beyond control. Remember that no vaccines can ever be developed as immunization strategies against climate change, unlike the pandemic!

The focus on ESG and sustainability is, therefore, timely as both the economic and environmental landscapes are now marred, among others, by extreme weather conditions and biodiversity loss. In this respect, at the corporate level, ownership, accountability and responsibility of the issues at hand should be showcased at the very top level. Indeed, corporate boards and senior management are the cornerstones for responding with alacrity by activating a corporate culture built on strong ethical considerations that epitomises inclusiveness and sustainability. Looking at the turnout this morning, I can easily sense that the topic has garnered the required attention on the agenda of your respective boards.

Ladies and gentlemen

While the public sector has a significant role to play in charting out the main contours and leading by example for accelerating the transition to a green economy, much of that transformation will, nevertheless, be investor driven. Mauritius requires funding of USD 6.5billion for meeting its Nationally Determined Contributions which would entail a reduction in our greenhouse gas emissions by 40 per cent by 2030. The government and domestic private sector would fund an amount of USD 2.3billion while the remaining USD4.2 billion would have to be financed externally. Tangible signs are already perceptible with an increasing demand for financial instruments and products that are ESG compliant.

The Stock Exchange of Mauritius (SEM) will have a critical role in spearheading the mobilisation of climate finance. I would like here to place on record the contribution of the SEM well before sustainability considerations became an over-arching priority in the financial world. It introduced the SEMSI in September 2015, a sustainability index which evaluates the practices of listed companies based on ESG criteria. To date, there are eighteen companies participating in this index. SEM has also proceeded with the listing of the first Green Bond in October 2023. The SEM remains a reference in the region. I am sanguine that it will continue to remain a pioneer in our region and position Mauritius as a hub for sustainable finance. I would, however, make an appeal to the SEM to ensure that all international norms and best practices are being adhered to as they pursue the development of this important niche.

The collaboration between the SEM and Risk Insights has come at an opportune time to elevate the sustainability agenda of our jurisdiction to new heights. Both listed and unlisted companies will now be able to access a comprehensive set of ESG rating tools, disclosure insights, analytics and ESG intelligence impact reports. This will indubitably improve the quality of ESG reporting within Mauritius while showcasing our ESG credentials on the global stage.

Ladies and gentlemen

We are all aware that climate change has already made significant inroads into the mainstream of finance by becoming a key consideration in the decision-making process. A study by Standard Chartered Bank in June 2021 concluded that by 2025, 78 per cent of multinational corporations (MNCs) will remove suppliers that endanger their carbon transition plan. These MNCs are expected to exclude 35 per cent of their current suppliers as they transition away from carbon.

Any company that deals with these MNCs, either directly or indirectly, run the risk of being excluded from future business opportunities if they do not start to adapt their businesses to ESG practices. You will need to redefine your processes and business strategy for a smooth transition. I concur that the re-engineering could entail additional expenses. However, I would urge you to consider the following two dimensions that stretch beyond pure cost-benefit imperatives: the intertemporal dimension, meaning that such adaptations are likely to yield 'green' benefits in the form of a less climate-sensitive environment and that stretch beyond pure pecuniary ones; and the intergenerational dimension, meaning that we are bequeathing to generations of tomorrow a cleaner and safer environment. Looking at things from the vantage point of both dimensions, I can assert that the benefits far outweigh the costs and will result in positive externalities. In fact, looking back 20 years from now or beyond, finance pundits will be in a better position to ascertain the 'green component' from various returns on investment or on capital metrics. I understand that the importance of green finance is gradually increasing in the banking sector. As at 30 June 2023, the banking sector's total exposure in MUR to sustainable projects was estimated at Rs 6.9bn, compared to Rs4.2bn a year earlier.

Ladies and gentlemen

At this juncture, it is imperative that we follow the international best practices to uphold our reputation as a trusted international financial centre. Investors will require adequate confidence to channel funds to our jurisdiction. A robust disclosure framework will need to take centre stage to calm down the nerves of potential investors regarding the possibility of greenwashing. On that front, Mauritius cannot lag behind in terms of the implementation of globally agreed standards and practices. Companies would have to master the reporting in accordance with the requirements of the International Sustainability Standards Board, more specifically Sustainability Standards 1 and 2. Failure to do so may result in small countries such as ours losing not only on climate finance flows, but on revenue as well as exports are likely to face difficulties fitting into value chains of developed country industries because of upstream climate reporting exigencies.

I take this opportunity to call upon listed and unlisted companies to start reflecting on how to take on board ESG considerations in their businesses and strategies in anticipation of the future phasing in of IFRS S1 and S2 disclosure requirements in Mauritius. I am informed that the Financial Reporting Council will hold a workshop in May 2024 on how to operationalise and implement the IFRS Foundation's International Sustainability Standards Board (ISSB) S1 and S2 Standards.

Ladies and gentlemen

Let me now provide you with some insights on climate change at the level of the Bank.

Climate change is already anchored in the realm of central banking given its crucial implications on our statutory objectives namely, price stability and financial stability. In fact, one of the first measures I took upon assuming Governorship of the Bank in March 2020 was to apply for membership at the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). The Bank was admitted as member of the NGFS in July 2020. In October 2021, I set up the Bank's Climate Change Centre, amid the pandemic.

The main objectives of the Centre are to integrate climate-related and environmental financial risks into the Bank's regulatory, supervisory and monetary policy frameworks, while supporting the development of sustainable finance. The Centre is also expected to review the Bank's internal operations with a view to reducing its carbon footprint.

The Climate Change Centre has already pursued some key initiatives to drive its climate agenda. It has created awareness in the financial sector about climate-related risks and opportunities from the transition to net zero. In particular, the Guideline on Climate-related and Environmental Financial Risk Management, issued in April 2022, will assist financial institutions to better assess and manage climate-related risks in their lending and investment activities, thus minimizing risks of losses from the adverse impact of Climate Change. The Guideline contains disclosure requirements which enhances market transparency and support the assessment and pricing of risks for green projects by businesses and investors.

The Bank has also worked together with the Ministry of Finance, Economic Planning and Development and other stakeholders to put in place the appropriate regulatory frameworks for the issue of sustainable bonds by financial institutions, the corporate sector and Government.

In this respect, the Bank has released its Guide for the Issue of Sustainable Bonds in June 2021. The Guide acts as a preliminary yet compulsory consultative document which lays the foundation for the issuance of Green, Blue, Social, Climate and Sustainability bonds in Mauritius. The Guide sets out the requirements to be followed by the issuer such as pre-issuance structure, use of proceeds and reporting. Disclosure requirements with regard to Use of Proceeds which constitutes one of the major criteria that an issuer of Green Bond need to fulfil prior to engaging with potential investors.

The Sustainable Finance Framework for Mauritius was published in August 2023. It governs the issuance of specific types of sustainable debt instruments by the Government of Mauritius, aimed at financing the implementation of the Mauritius sustainability roadmap. The proceeds from these instruments will be channelled towards ESG projects such as renewable energy and access to essential services such as education and healthcare.

The adoption of ESG by Central Banks should be consistent with the existing reserve management framework. In our case, we consider ESG not only for financial reasons but also to manage reputational risk and to set a good example. We strongly believe that ESG analysis could improve risk management functions and support the safety objective of reserves in the long run. Nevertheless, for the portion of reserves allocated to high quality agency and corporate bonds, we have incorporated ESG considerations. We also focus on impact investing. Over the past few years, we have gradually built up a portfolio of labelled bonds, commonly known as Green bonds, social bonds and sustainable bonds. We believe that ESG integration, using tools like ESG scores, can broaden investment and risk analysis and allow our reserve management team to account for emerging risks from a new lens.

There is broad consensus across the world that sound climate information architecture, in terms of reliable data, green taxonomy and disclosures as per global standards, is key to improving market confidence, safeguarding financial stability, and fostering sustainable finance. Lack of data severely impedes the ability of Governments, regulators and businesses to prepare for and respond to climate change. Investors need reliable, accurate, timely, relevant and comparable data to assess risks and identify investable green and transition projects.

Unfortunately, the climate-related data capture ecosystem in many parts of the world, including Mauritius, is limited due to numerous challenges. This is a common phenomenon plaguing nearly all countries in Africa. Currently, climate disclosure requirements are not mandatory for private and public firms in many countries but we expect this state of affairs to evolve with time.

Let me share with you how data gaps have constrained the Bank of Mauritius from imposing wider disclosure requirements on our regulatees.

Our Guideline requires banks to disclose, in their annual reports as from 31 December 2023, information on climate risks on four pillars, namely Governance, Strategy, Risk Management and Metrics and Targets. Banks have also been advised to consider guidance provided by the Financial Stability Board's Task Force on Climate-related Financial Disclosures.

The Bank conducted a survey in September 2023 to assess the level of compliance of banks with respect to the provisions of the Guideline. It was noted that while banks have incorporated climate risks in their governance, strategy and risk management frameworks, they were facing challenges with respect to disclosures on Metrics and Targets due to the lack of reliable GHG emissions data from their clients' portfolio. As a result, the Bank issued revised disclosure requirements on 08 December 2023 such that financial institutions would not be required to compulsorily disclose information on their climate-related metrics and targets for the time being.

The Bank and the Ministry of Environment, Solid Waste Management and Climate Change have collaborated on the development of a comprehensive database comprising historical and projected data points for a set of pre-identified climate-related risk drivers. This database has been made available to financial institutions since July 2023. Collaborative efforts under the ambit of a goal congruence initiative are currently ongoing between the Bank of Mauritius, the Ministry of Environment, Solid Waste Management and Climate Change, the University of Mauritius as well as the private sector to address numerous aspects including the lack of granular climate data for use in stress testing and scenario analysis.

In addition to data and disclosures, the development of a National Green Taxonomy is key to promote investor confidence and catalyse climate investment in Mauritius and in the African region, while addressing greenwashing concerns. A green taxonomy is a classification system for identifying activities or investments that will move a country toward meeting specific targets related to priority environmental objectives. The Bank is actively following up on the matter.

Ladies and gentlemen

We are sailing in unchartered waters but do have the advantage of knowing the destination (global temperature rise must be limited to a maximum of 1.5 degrees above pre-industrial level). But getting to our destination is what matters and we need to ensure that we successfully navigate our ship firmly against all vagaries of the ocean and vicissitudes of thunderstorms. We have a Sisyphean responsibility towards the future generations who will judge us by the quality of legacy we shall bequeath to them. Our actions will impact generations to come and may be irreversible. In this labyrinth of shocks-actionsreactions that is eerily reminiscent of a snakes-and-ladders game of grand scale, we have the moral compass of convincing our future generations that we did everything we could since timing is of essence. We need to act now and to do so smartly! I shall ostensibly never fail to end my remarks on climate change issues with this hope-carrying message. We, therefore, need to join forces collectively to tackle the looming climate crisis before it is too late.

With these words, I thank you for your attention and wish you plenty of success in your sustainability journey.

Governor Harvesh Kumar Seegolam, G.C.S.K.
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