Promoting Mauritius as a Sustainable Finance Hub for the Region

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Table of Abbreviations:

Abbreviation	Full Form
AfDB	African Development Bank
AFMI	African Financial Markets Initiative
ASFI	Asia Sustainable Finance Initiative
BOM	Bank of Mauritius
BREEF	Building Retrofit Energy Efficiency Financing
CASG	Green and Sustainable Finance Cross-Agency Steering Group
CMA	Capital Market Authority
CSRD	Corporate Sustainability Reporting Directive
DNSH	Do No Significant Harm Principle
EASe	Energy Efficiency Improvement Assistance Scheme
EFS-Green	Enterprise Financing Scheme – Green
EFSD	European Fund for Sustainable Development
EFSD+	European Fund for Sustainable Development Plus
EIRP	Energy Innovation Research Programme
ESG	Environmental, Social, and Governance
FiNZ	Finance for Net Zero Action Plan
FMO	Netherlands Development Finance Company
GBIC	Green Buildings Innovation Cluster
GFANZ	Glasgow Financial Alliance for Net Zero
GFIT	Green Finance Industry Taskforce
GIP	Green Investments Programme
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GMIS-EBP	Green Mark Incentive Scheme for Existing Buildings and Premises
GREET	Grant for Energy Efficient Technologies
GRI	Global Reporting Initiative
GSLS	Green and Sustainability-Linked Loan Grant Scheme
HKMA	Hong Kong Monetary Authority
IBF	Institute of Banking and Finance
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IPCC	Intergovernmental Panel on Climate Change
ISSB	International Sustainability Standards Board
JSE	Johannesburg Stock Exchange
KBA	Kenya Bankers Association
MBA	Mauritius Bankers Association Limited
MAS	Monetary Authority of Singapore

NGFS	Network for Greening the Financial System
NDC	Nationally Determined Contributions
SBGS	Sustainable Bond Grant Scheme
SDS	Sustainability Disclosure Standards
SEFA	Sustainable Energy Fund for Africa
SFDR	Sustainable Finance Disclosure Regulation
SGX	Singapore Exchange
SMEs	Small and Medium-sized Enterprises
SSE	Sustainable Stock Exchanges
SVhk	Social Ventures Hong Kong
TCFD	Task Force on Climate-related Financial Disclosures

1. Executive Summary

Objective

The initiative is grounded in the implementation of the Future of Banking in Mauritius (FBM) Report, which has set forth the development of a Banking Sector Environmental, Social, and Governance (ESG) Strategy as a pivotal recommendation. Created in response to a request by HSBC to support the Mauritius Bankers Association's (MBA) Taskforce, which is focused on formulating a Banking Sector ESG Strategy, this document embodies a joint effort. HSBC, in partnership with ABSA as co-chair of the MBA ESG Taskforce, highlights the industry's dedication to embedding ESG principles. The report aims to support the greening of Mauritius' domestic financial system, to establish Mauritius as a leader in ESG practices in Africa and become a sustainable finance hub for the region. This objective is pursued by embedding robust ESG standards within the domestic market as well as in relation to the cross-border financing business. This Report provides a high-level comparative analysis of what certain other jurisdictions have done or are doing in prioritizing ESG and Sustainable Finance to better inform the thinking on the subject matter to take this opportunity forward.

Global Context and Trends

This document delves into the global shift towards sustainable finance, spotlighting significant advancements across the European Union (EU), the United Kingdom (UK), Singapore, and Hong Kong, alongside emerging trends in Africa. It underscores the critical role of sustainable finance in facilitating the transition to a low-carbon economy, highlighting the collective global effort towards integrating ESG principles into financial markets.

Strategic Recommendations for Mauritius

Immediate/Short-Term Proposals

Green Finance Taxonomy Development

Action: Create a detailed classification system to guide investments towards projects with significant environmental benefits, fostering transparency and reducing greenwashing.

Stakeholder: Government bodies such as the Ministry of Finance, in collaboration with BoM and the Financial Services Commission (FSC) and in consultation with the Banking Industry.

Environmental and Social Risk Management

Action: Develop robust risk management frameworks to identify, assess, and mitigate environmental and social risks associated with financial activities.

Stakeholder: Mauritius Bankers Association (MBA) and its members, with guidance and regulatory frameworks provided by BoM and FSC.

ESG Data Collection and Disclosure Enhancement

Action: Propose systematic ESG data gathering and reporting mechanisms to enable informed decision-making and promote transparency.

Stakeholder: MBA and its members, under the regulations and standards set by BoM, FSC, and possibly the Ministry of Finance.

Medium-Term Action Points

Adherence to International ESG Standards

Action: Explore aligning the financial sector with global ESG benchmarks to ensure competitiveness and attractiveness to international investors.

Stakeholder: Government bodies (BoM, FSC, Ministry of Finance) in coordination with the MBA.

Capacity Building in Sustainable Finance

Action: Develop continuous education and training programs for financial institutions to enhance their ability to integrate ESG considerations into operations and decision-making processes.

Execution Pathway

The document outlines a collaborative approach involving government agencies, financial institutions, and international partners to implement these strategies. This collective effort is expected to drive Mauritius towards its goal of becoming a sustainable finance hub.

Impact and Vision

By adopting these strategic measures, Mauritius aims to establish itself as a leader in sustainable finance in Africa, attracting green investment and fostering a sustainable and inclusive economy. The initiative is poised to set a benchmark for other African nations, contributing significantly to the global sustainability agenda.

Conclusion

Mauritius stands on the brink of a significant transformation towards sustainable finance. The strategic recommendations provided herein offer a roadmap for embedding ESG standards across the financial sector, heralding a new era of green and inclusive growth for the nation. By moving forward with these initiatives, Mauritius can realize its ambition of becoming a beacon of sustainable finance in Africa.

2. Market Overview

2.1 Background

The global sustainable finance trend is closely linked to major global and regional climate commitments, which are profoundly influencing the financial sector. The EU and the USA's pledges to become CO2 neutral by 2050, alongside China's goal for 2060, reflect a significant shift towards sustainability that financial markets must adapt to. The 2015 Paris Agreement and the EU Green Deal further underscore the urgency and necessity for the financial sector to support sustainable economic activities, drive investments in green technologies, and develop financial products that contribute to a sustainable and low-carbon economy.

The EU stands out as a frontrunner in ESG and sustainable finance, with the Sustainable Finance Disclosure Regulation (SFDR) setting a precedent for transparency and investor guidance in sustainable investments. Moreover, the Task Force on Climate-related Financial Disclosures (TCFD) plays a pivotal role in shaping the global sustainable finance landscape, which is deeply intertwined with major climate commitments at both global and regional levels. With major economies such as the USA, the EU, the UK, Australia, New Zealand Canada and Japan having committed to TCFD, we see increasing harmonization of sustainable finance on a global level. Hong Kong and Singapore, as Asia's leading financial hubs, are rapidly advancing in green finance, demonstrating innovative approaches to embedding sustainability in financial services. Importantly, in 2023 the TCFD was also integrated into the new and leading IFRS Sustainability Standards by the International Sustainability Standards Board (ISSB). These regions offer valuable insights into the evolving dynamics of sustainable finance globally.

2.2 Sustainable Finance Approaches in Key Global Markets

European Union

The EU's Action Plan on Financing Sustainable Growth of 2018 marks the beginning to its commitment to sustainable finance. The EU's sustainable finance strategy is comprehensive, incorporating the Sustainable Finance Disclosure Regulation (SFDR) for investment transparency, the EU Taxonomy for classifying sustainable activities, and the EU Green Bond Standard for green bond issuance practices. Additionally, Climate Benchmarks offer investors low-carbon investment benchmarks, while the Corporate Sustainability Reporting Directive (CSRD) mandates large companies to disclose their social and environmental impact management. Together, these initiatives aim to steer capital towards more sustainable economic activities.

United Kingdom

The UK's finance sector plays a crucial role in the global shift towards a sustainable economy, underscored by its commitment through the 2021 Glasgow Financial Alliance for Net Zero (GFANZ) and the 2019 Green Finance Strategy. This dedication shows the UK's ambition for leadership in sustainable finance and also aligns with its broader goal of achieving net-zero carbon emissions by 2050. By prioritizing economic opportunities alongside environmental challenges, the UK aims to reinforce its position as a global frontrunner in this field, contributing substantially to worldwide sustainability initiatives.

Central to this ambition is the UK's 2023 Green Finance Strategy, which builds on preceding efforts to position the country at the vanguard of the expanding sustainable finance market globally. The strategy aims to cement the nation's role as a global leader in green finance through five main objectives:

1. **Growth and Competitiveness of UK Financial Services**: Enhancing the financial sector's ability to support the transition to a sustainable economy, including funding for innovative climate solutions and renewable projects.
2. **Investment in the Green Economy**: Mobilizing an additional £50-60 billion annually for the UK's net-zero targets and up to £97 billion for nature-related goals, to foster new technologies and adapt traditional sectors for the transition.
3. **Financial Stability**: Mitigating economic risks from climate change and environmental degradation, with projections of significant potential losses for banks and insurers in scenarios of disorderly transition.
4. **Incorporation of Nature and Adaptation**: Integrating nature conservation and climate adaptation into green finance policies, in response to international biodiversity commitments and domestic policy developments.
5. **Global Financial Alignment**: Leveraging the UK's financial expertise to align global financial flows with climate and nature objectives, promoting investment in emerging and developing markets to support their transition efforts.

Singapore

The Monetary Authority of Singapore (MAS) is leading the charge to establish Singapore as a global center for sustainable finance. This endeavor is driven by a comprehensive strategy that includes the establishment of green markets and the advancement of technological innovations. A cornerstone of this strategy is the MAS Green Finance Industry Taskforce (GFIT), launched in 2020, which seeks to weave sustainable finance into the fabric of Singapore's reputation as an international financial center. GFIT focuses on fostering sustainable markets and solutions, alongside spreading awareness and expertise in sustainable finance practices.[1]

Further amplifying these efforts, the Green Finance Action Plan, unveiled in 2019, outlines a multifaceted approach to bolster Singapore's environmental sustainability and aid Asia's shift towards a low-carbon economy. Key objectives of the plan include enhancing the financial sector's resilience against environmental risks via guidelines and scenario analysis, creating markets and solutions for a sustainable economy exemplified by the USD 2 billion MAS Green Investments Programme, and improving sustainability disclosures by endorsing TCFD recommendations and developing a taxonomy for green activities. Additionally, the plan commits to expanding knowledge and capabilities in sustainable finance through educational institutes and training programs, and leveraging technology

[1] Green Finance Industry Taskforce

through initiatives like the SGD 50 million Green FinTech Grant and Project Greenprint to facilitate ESG data flow.[2]

In 2023, MAS introduced the Finance for Net Zero (FiNZ) Action Plan, focusing on accelerating Asia's transition to net-zero emissions. The FiNZ plan outlines four strategic pillars: ensuring access to reliable climate data, definitions, and disclosures; fostering a climate-resilient financial sector; promoting credible transition plans for the real economy; and supporting the development of green and transition solutions and markets. This plan underscores the importance of blended finance and funding for decarbonization initiatives.

Critical to the FiNZ plan's execution are enabling factors like Green FinTech, which offers innovative tech solutions to aid financial institutions and corporates in their sustainable transition, including Project Greenprint for efficient sustainable data management. Additionally, the plan emphasizes the importance of cultivating skills and capabilities to prepare a workforce adept at deploying these green solutions.[3] [4]

Through these initiatives, MAS is taking a holistic approach to integrate environmental sustainability into financial strategies, aiming to mitigate emissions and champion green technology within the financial sector. This comprehensive framework not only reinforces Singapore's commitment to sustainability but also positions it as a leader in the global green finance landscape.

Hong Kong

Hong Kong's strategy to become a sustainable finance hub revolves around enhancing ESG integration within its financial sector. Plans entail mandatory climate-related disclosures aligned with TCFD by 2025 and adopting a Common Ground Taxonomy, alongside supporting the IFRS Foundation's sustainability reporting work and promoting climate-focused scenario analysis.

The Green and Sustainable Finance Cross-Agency Steering Group (CASG) established in 2020 in Hong Kong plays a central role in coordinating green finance initiatives. It fosters green bond markets, enhances ESG reporting frameworks, and builds an ecosystem supporting sustainable investment. [5]

The Centre for Green and Sustainable Finance, launched by the CASG in 2021, serves as a collaborative platform. It coordinates efforts among financial regulators, government agencies, industry stakeholders, and academia for capacity building and policy development. Additionally, the Centre acts as a repository for resources, data, and analytics supporting the transition to sustainable development. Working groups within the Centre develop strategies and consult other stakeholders to formulate recommendations.[6]

Pan-African Initiatives

African Green Bond Market Development: Several African countries are embracing green bonds as a tool for raising capital for sustainable projects. The African Development Bank (AfDB) is crucial in

[2] Green Finance Action Plan
[3] Finance for Net Zero Action Plan
[4] Project Greenprint
[5] CASG
[6] Centre for Green and Sustainable Finance

this domain, offering technical assistance to countries and corporates for green bond issuance. The AfDB's African Financial Markets Initiative (AFMI) also supports the development of domestic bond markets, including green bonds, to finance sustainable growth.

Sustainable Energy Fund for Africa (SEFA): Managed by the AfDB, SEFA provides catalytic finance to unlock private sector investments in renewable energy and energy efficiency. SEFA supports small- and medium-scale renewable energy projects, aiming to increase access to clean energy across the continent.[7]

Regional and National Initiatives in Africa

South Africa's Sustainable Finance Initiative: South Africa has emerged as a leader in sustainable finance in Africa, with the Johannesburg Stock Exchange (JSE) introducing a Green Bond Segment in 2017. The South African government and financial sector regulators are also working on a sustainable finance framework to guide the integration of ESG factors into financial services.

Nigeria's Green Bond Program: Nigeria became the first African country to issue a sovereign green bond in 2017, financing renewable energy and afforestation projects. The Nigerian government has continued to issue green bonds, demonstrating a commitment to leveraging capital markets for environmental objectives.

Kenya's Green Bond Market: Kenya's first green bond was issued in 2019, financing sustainable and climate-resilient student housing. The Kenyan government and capital market authorities are actively promoting green bonds as part of the country's broader strategy to transition to a green economy.

Egypt's Green Economy Transition: Egypt is prioritizing green projects in its investment agenda, with the issuance of the country's first sovereign green bond in 2020. The proceeds are earmarked for renewable energy, clean transportation, and water management projects, aligning with Egypt's sustainable development goals.

Morocco's Sustainability Efforts: Morocco is focusing on green finance to support its ambitious renewable energy goals. The Casablanca Stock Exchange launched an ESG index in 2018 to track performance of companies excelling in sustainability. Morocco has also issued green bonds to fund renewable energy projects, part of its plan to increase the share of renewable energy in its total energy mix.

Rwanda's Green Fund (FONERWA): Rwanda's strategic investments through FONERWA, launched in 2012 as one of Africa's largest environmental funds, support projects that aim to make the country's economy more resilient to climate change. Rwanda's approach to sustainable finance is integral to its vision of becoming a carbon-neutral nation. FONERWA aims to mobilize significant resources for Rwanda's transition to a green economy. The issuance of Rwanda's first sovereign green bond in 2019 further underscores its commitment to sustainable finance, positioning the country as an attractive hub for green investments and sustainable development in Africa.

[7] SEFA

These initiatives represent a fraction of the sustainable finance activities underway across Africa. They illustrate a growing recognition of the importance of aligning financial systems with sustainable development goals. Through these efforts, African countries are not only addressing their environmental and social challenges but also unlocking new economic opportunities in the process. The success of these initiatives will depend on continued collaboration between governments, financial institutions, and international partners to scale up sustainable finance and achieve long-term sustainability and economic resilience.

2.3 Conclusion

The global sustainable finance trend marks a critical shift towards incorporating environmental sustainability into financial markets, propelled by significant climate commitments worldwide. This movement is evident in the ambitious CO2 neutrality goals set by major economies like the EU, the USA, and China, and reinforced by comprehensive strategies in regions such as the UK, Singapore, Hong Kong, and across Africa.

The EU leads with robust regulations that guide sustainable investments, while the UK demonstrates global leadership in aligning finance with net-zero emissions targets. In Asia, Singapore and Hong Kong innovate in green finance, embedding sustainability deeply within financial services. Meanwhile, African countries are harnessing green bonds and sustainable finance to support renewable energy projects and bolster economic resilience against climate change.

These efforts underscore a global consensus on the urgent need to align financial systems with sustainable development goals. The collective push towards sustainable finance across various regions highlights a global commitment to transition to a low-carbon, environmentally sustainable economy, emphasizing the essential role of financial markets in achieving these objectives.

3. External Enablers: The 3 S

The annual investment gap to achieve the global warming objectives of the 2015 Paris Climate Agreement[8] remains substantial. The financial sector and its financing activities to reduce greenhouse gas emissions and enhance resilience are a critical enabling factor for the needed decarbonization of the global economy while ensuring a just transition. Within the financial sector itself, central bankers, financial regulators, and investors are becoming increasingly aware of the impact of climate change on the sector and financial stability overall. These so-called climate-related financial risks stem from the physical impacts of climate change such as flooding, and from the transition to a low-carbon economy such as exposure to firms with high-carbon emissions throughout their value chains[9]. Global and national institutions as well as financial regulators responded to these climate-related financial risks with various voluntary and regulatory initiatives. However, climate-related financial risks still remain largely underestimated by the market and financial institutions, which hinders the capital reallocation towards low-carbon investments. Despite the increase in climate financing by the private and public sector, the Intergovernmental Panel on Climate Change (IPCC) found that the progress on the alignment of financial flows with the low greenhouse gas emissions pathways remain slow which shows the persistent misallocation of global capital[10]. While the need to decarbonize is evident from a scientific standpoint, the disadvantages of not aligning financial flows towards a low-emission pathway are clear as well. Research has found that a limited alignment of investment and capital flows overall can lead to significant stranded assets, carbon lock-ins and additional costs for capital holders. Strong climate policy signals are highlighted by the IPCC as measures to guide and redirect investment decisions as credible and clear signaling by governments can reduce uncertainty for financial decision-makers. Furthermore, the public sector's direction in addressing barriers and market failures, the availability of reliable information and risk-sharing tools can encourage private sector mobilization.[11]

3.1 Sustainable Finance Taxonomies and Standards

Taxonomies are one climate policy instrument to achieve high-level climate objectives such as the alignment with the Paris Agreement. However, as described below, they need to be accompanied by standards and guidelines.

3.1.1. Sustainable and Green Taxonomies Explained

As highlighted before, governments, authorities, regulators, and the wider public sector can play a pivotal role in guiding and redirect investments, while addressing market challenges like information asymmetries, through their climate policies and regulations. Sustainable or green taxonomies are one of the key instruments to scale up private financing for the transition into a just sustainable economy. In its simplest terms a taxonomy refers to a classification system that classifies economic activities based on their sustainability and contribution to ex-ante defined sustainability objectives. Initially

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[8] The Paris Agreement established a commitment to cutting annual greenhouse gas (GHG) emissions over the next ten to fifteen years as well as a long-term commitment to 'net-zero' to achieve a global mean temperature of "well below 2°C above pre-industrial levels" (United Nations Framework Convention on Climate Change, 2015, Art.2) with the aim of 1.5°C.

[9] Climate-related risks to financial stability (europa.eu)

[10] Climate financial flows (which refers to local, national, or transnational financing from public, private, multilateral, bilateral and alternative sources to support mitigation and adaptation actions addressing climate change) exhibit large regional and sectoral differences.

[11] Chapter 15: Investment and finance (ipcc.ch)

adopted voluntarily by the market, taxonomies are increasingly being mandated by governments and regulatory bodies. However, it is crucial to note that while taxonomies are instrumental, they alone are insufficient for establishing a sustainable or green finance market; they must be complemented by further coherent policies, standards, and regulations (please see section on standards and guidelines below).

3.1.2 Implementation of Taxonomies Through Standards and Guidelines

Sustainability considerations are increasingly integrated into investment assessments and demanded by authorities and further stakeholders. There is a growing demand for companies to furnish reliable, internationally standardized data concerning **climate-related financial risks and opportunities** as well as the overall ESG performance and efforts.[12] To cater to this demand for reliable information and signalling, sustainability standards have emerged to provide such demanded comparable and reliable data on organizations' sustainability efforts. Disclosure standards and frameworks as one type of sustainability standards are crucial in this regard, as their aim is to provide internal and external stakeholders of an entity a comprehensive and transparent picture on the sustainability performance. However, there is no global reporting regime, rather, the global sustainability standard landscape is fragmented. Standards differ largely in their origin, objectives, the application of the materiality principle and their target group. Further, while many standards were originally developed by the private sector, many of them like the Global Reporting Initiative or the TCFD standard as self-regulating measures by organizations have been translated into mandatory public regulation such as the TCFD in the United Kingdom or the incorporation of the GRI into the European Union's new CSRD.

As noted, sustainability reporting as well as disclosure standards, guidelines and frameworks have evolved rapidly. Within the financial sector, the TCFD has become the leading disclosure standard for ensuring reliable climate-related financial information. This impact of the industry gets heightened by the fact that the TCFD is set to become mandatory in jurisdiction, hence it is translated from a private voluntary regulation towards enforceable public regulation. Given this, this report puts an emphasis on the TCFD, although it acknowledges the role and impact of other disclosure frameworks.[13]

As of February 2024, the TCFD has gained over 4,900 supporters, spanning across 103 jurisdictions and over 50 industries[14]. Following the publication of the inaugural International Sustainability Standards Board Standards – IFRS 1 and IFRS 2 which fully incorporate the TCFD recommendations – the FSB asked the IFRS Foundation to take over the monitoring of the TCFD progress.[15] Companies can and in some jurisdictions must continue to use the TCFD as a disclosure framework, however, they can also adopt the new ISSB standards 1 and 2.[16] Of course, the choice only applies to companies (and banks therefore) in jurisdictions, where the ISSB and its IFRS standards are not mandatory yet.

The Network for Greening the Financial System

[12] Investors lead the way on sustainable standards - OMFIF
[13] - OMFIF
[14] Task Force on Climate-Related Financial Disclosures | TCFD) (fsb-tcfd.org)
[15] IFRS - IFRS Foundation welcomes culmination of TCFD work and transfer of TCFD monitoring responsibilities to ISSB from 2024
[16] IFRS - ISSB and TCFD

In regard to taxonomies, standards, and guidelines the Network for Greening the Financial System (NGFS), established in 2017 by eight central banks and supervisors, is one of the key and most well-recognized institutions within the sustainable finance sphere. NGFS is a global voluntary network of central banks and supervisory authorities that is committed to a more sustainable financial system. Its aim is to analyze the consequences of climate change for the financial system and redirect global financial flows to enable low-carbon economic growth. In April 2019, the NGFS published their first report "A call for action – climate change as a source of financial risk[17]" which at its heart provides six guidelines for central banks and related authorities as well as policymakers. While the six NGFS recommendations[18] focus on the one hand on financial stability and supervision, they emphasize on the other hand the robust and internationally consistent climate and environmental-related disclosure as well as the development of a taxonomy of economic activities highlighted in the paragraphs above. As of December 2023, the NGFS consists of 134 members and 21 observers (including the Asian Development Bank, the Basel Committee on Banking Supervision, the European Bank for Reconstruction and Development, the European Investment Bank, the FSB (see TCFD), the International Monetary Fund, the OECD, and the World Bank Group).[19] Especially the IMF is to be highlighted here as it increasingly requests "climate information architecture"[20] and central banks will be required to act.

There is an increased trend towards the implementation of green or sustainable finance taxonomies across jurisdictions and especially in those who seek to become or are already so-called sustainable finance hubs. The following part of the report aims to highlight and benchmark different existing taxonomies and standards with Mauritius. This is then used to develop recommendations for the Mauritian approach to sustainable finance practices later in the report.

3.1.4 Sustainable Finance Taxonomies and Standards Across Major Sustainable Finance Hubs

The following section provides an overview of existing sustainable and green finance taxonomies and such that are currently developed. The following jurisdictions are included in the overview: the EU, the UK, Singapore, Hong Kong and Rwanda.

The European Union

Leading in the development and the implementation of sustainable finance taxonomies is the EU. The EU Taxonomy economic activity level criteria are aligned with the EU's high-level policy objective of reaching net-zero GHG emissions by 2050. It incorporates social and environmental objectives[21] and classifies economic activities from a variety of economic sectors. When multiple objectives are anticipated, like in the EU's taxonomy, an eligible activity must substantially contribute to one or more environmental objectives but also must do no significant harm to any of the others – the Do No

[17] NGFS - First comprehensive report
[18] The six recommendations are the following: (1) integrating climate-related risks into financial stability monitoring and micro-supervision; (2) integrating sustainability factors into own-portfolio management; (3) bridging the data gaps; (4) building awareness and intellectual capacity and encouraging technical assistance and knowledge sharing; (5) achieving robust and internationally consistent climate and environment-related disclosure; (6) supporting the development of a taxonomy of economic activities
[19] Membership | NGFS
[20] International Monetary Fund, World Bank Group, OECD - Climate Alignment
21 The environmental objectives include (1) climate change mitigation, (2) climate change adaptation, (3) sustainable use and protection of water and marine resources, (4) transition to a circular economy, (5) pollution prevention and control and (6) the protection and restoration of biodiversity and ecosystems.

Significant Harm (DNSH) principle. Additionally, each economy must guard minimum social safeguards. Further, in regard to the scope, the EU Taxonomy incorporates transition activities which can be understood as activities to the net-zero objective by 2050 but are not low-carbon or 'green' already. The taxonomy applies to financial market participants, including occupational pension providers, that offer and distribute financial products in the EU (including therefore those from outside the EU but with business in the EU). European regulators like the European Banking Authority, the European Securities and Markets Authority and the European Central Bank as well as the banks and authority of the EU members (i.e., Bundesbank, Banque de France, Banco de Espana) are members in the NGFS. With respect to the financial sector, the EU-Taxonomy is accompanied by multiple standards and sustainability-related disclosure requirements. First, the EU has not adopted the TCFD into public law, but the European Central Bank and the European Banking Authority instead published in 2021 the Sustainable Finance Disclosure Regulation (SFDR) which covers harmonized rules for financial market participants. The SFDR mandates that financial market players and advisors disclose how they assess sustainability risks impacting investment value and returns (the 'outside-in' perspective) and the negative effects investments may have on the environment and society (the 'inside-out' perspective). Overall, financial market participants are obliged to publish company specific information about how sustainability risks are integrated into their investment decision process and need to publish a statement about the adverse impacts of investment decisions on sustainability factors and their due diligence process with respect to those impacts.[22] Should they not integrate adverse impacts, a firm must disclose the reasons and information on whether and when it intends to consider such adverse impacts. Among the company-related disclosure obligations, Article 4 SFDR, which regulates the Principle Adverse Impacts statement, should be emphasized. According to this, financial market participants must state on their website whether they consider the most significant adverse impacts of investment decisions on sustainability factors. Second, the EU Commission implemented in 2022 the Complementary Climate Delegated Act[23] on climate change and adaptation covering a selection of gas and nuclear investments. It sets out gas and nuclear activities which are in line with the taxonomy's climate and environmental objectives. Third, the EU taxonomy is accompanied by the Corporate Sustainability Reporting Directive (CSRD), the new corporate sustainability framework. It extends the previous Non-financial Reporting Directive by its scope and came into force in January 2023 with eligible companies due to report on FY2024 in their 2025 reports. The CSRD is backed and concretized by the new European Sustainability Reporting Standards[24] which were adopted in July 2023. Fourth and relevant for the financial sector are the guidelines on use in fund's names of ESG or sustainability related terms[25] by the European Securities and Markets Authority. They provide a clear framework to prevent greenwashing and against the mislead of investors.

United Kingdom

In 2019, the UK government released the Green Finance Strategy, a seminal document outlining a comprehensive set of ambitious policy pledges aimed at directing UK financial activities towards a low-carbon future and net-zero emissions by 2050.[26] The strategy emphasized two primary objectives. First, it emphasized 'greening finance', which involves facilitating the alignment of the financial services

22 Taking into account the size, nature and scale of their activities and types of financial products
23 EU Taxonomy: Complementary Climate Delegated Act (europa.eu)
24 The first set of ESRS - the journey from PTF to delegated act (adopted on 31 July 2023) - EFRAG
25 ESMA34-1592494965-554 Public statement on Guidelines on funds' names (europa.eu)
26 https://climateactiontracker.org/countries/uk/

sector with the UK's commitment to achieving net zero emissions and broader environmental objectives. Secondly, it highlighted ‘financing green’, which entails mobilizing substantial private investment to bolster clean and resilient economic expansion. Additionally, the strategy pledged to seize the opportunities arising from the transition to net zero, solidify the UK's position as a leader in green finance, and ensure that businesses can capitalize on these opportunities. The United Kingdom is also participating in the NGFS via its central bank – the Bank of England.[27] Part of disseminating the UK’s green finance strategy is the mandatory TCFD disclosure standard and the commitment on implementing a UK green taxonomy to provide a shared understanding on what can be understood as green. Aside from the TCFD, other mandatory rules on sustainability-related disclosures – the UK Sustainability Disclosure Standards (SDS) are currently under consideration. It is intended that the SDS are the basis of any future requirements in UK legislation or regulation for companies to report on risks and opportunities relating to sustainability matters including **climate-related financial risks and opportunities**. The SDS will be based on the aforementioned IFRS Sustainability Disclosure Standards by the ISSB. The UK Secretary of State for Business and Trade will consider the endorsement of the IFRS Sustainability Disclosure Standards, to create UK SDS by July 2024. However, it should be noted that this endorsement will focus on the first two published ISSB standards – IFRS S1 and IFRS S2. To assist the endorsement of IFRS S1 and IFRS S2, the UK government has established the UK Sustainability Disclosure Technical Advisory Committee (TAC) and the UK Sustainability Disclosure Policy and Implementation Committee (PIC) which is overseen by the Department of Business and Trade.[28] It should be noted here that the TCFD recommendations are already integrated in the new IFRS standards. At this point, the UK’s sustainable finance taxonomy is currently still under development and not implemented yet. As shown also in the case of Singapore below, the government began to work on a taxonomy by launching an advisory (or task force respectively) - the Green Technical Advisory Group (GTAG) in 2021. The government initiated the GTAG with the aim of furnishing impartial advice on market and regulatory considerations pertaining to the taxonomy. By October 2022, GTAG had disseminated its advisory on the taxonomy development prior to the Government's inaugural consultation on the screening criteria for two of the six environmental objectives [29] within the taxonomy. While the expectation was for the taxonomy to largely align with EU regulations, GTAG has advocated for an approach of 'adopt some and revise some', wherein a select set of technical criteria are adjusted to align with UK-specific targets and frameworks. Furthermore, GTAG highlighted that the UK Government retains the flexibility to adopt the EU’s screening criteria in the interim.[30] [31]

Singapore

By 2050, Singapore is aiming to reach 2050 net-zero as a high-level climate change objective[32]. Singapore is currently on the way to implement its Green and Transition Taxonomy. The GFIT, convened by the MAS, is mandated to establish, and propose a taxonomy for Singapore-based financial institutions by identifying activities that can be considered green or as transitioning towards green. The May 2022 draft[33] sets out thresholds and criteria for the transport, energy, and real-estate sector. The

[27] Membership | NGFS
[28] UK Sustainability Disclosure Standards - GOV.UK (www.gov.uk)
[29] The eight sectors are: Energy, Real Estate, Transportation, Agriculture and Forestry/Land Use, Industrial, Information and Communication Technology, Waste/Circular Economy, Carbon Capture and Sequestration.
[30] https://www.greenfinanceinstitute.com/wp-content/uploads/2022/10/GTAG-Advice-on-the-development-of-a-UK-Green-Taxonomy.pdf
[31] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1031805/CCS0821102722-006_Green_Finance_Paper_2021_v6_Web_Accessible.pdf
[32] PMO | DPM Lawrence Wong at the Singapore International Energy Week
[33] Industry Taskforce Consults on Second Version of Green and Transition Taxonomy (mas.gov.sg)

taxonomy's classification differentiates between green, transition, and harmful activities. The taxonomy also incorporates a user guide for financial markets participants on the application of the taxonomy. In December 2023 Singapore launched the Singapore-Asia Taxonomy which sets out detailed thresholds and criteria for defining green and transition activities that contribute to climate change mitigation across eight focus sectors. It differs from the EU Taxonomy through its clear focus on transition activities. A traffic light system is used (green, amber, red) to guide investments towards specific measures rather than entire activities. This approach seeks to reduce confusion and the risk of greenwashing, guaranteeing that financial offerings effectively promote environmental sustainability.[34] The taxonomy is not currently mandatory but a date of entry into force will be set in the future. In regard to standards and guidelines in December 2020, the MAS established supervisory standards concerning strong governance, comprehensive risk management, and transparent disclosure of environmental risks. These standards were outlined in the issuance of the Guidelines on Environmental Risk Management for Financial Institutions (ENRM Guidelines). In May 2022, MAS published information papers on the environmental risk management practices of banks, insurers, and asset managers to help FIs adopt the ENRM Guidelines and raise industry standards[35]. The papers provide an overview of selected financial institutions' progress in adopting the ENRM Guidelines, indicate developing and/or strong environmental risk management practices, and highlight areas for future development. In Singapore, climate reporting in line with TCFD recommendations is mandatory for all Singapore Exchange (SGX) listed financial sector companies from January 2023. Effective 2022, SGX-listed entities must offer climate reporting on a 'comply-or-explain' basis. SGX-listed firms in industries recognized by TCFD as most affected by climate change will gradually be subject to mandatory climate reporting.[36] In addition, MAS will be setting out a roadmap for mandatory climate-related disclosures for financial institutions in line with the 2023 published ne IFRS standards by ISSB[37]. In regard of the financial sector, MAS also published the CFC 02/2022 Disclosure and reporting guidelines[38] for retail ESG funds in 2022 which requires to disclose for example the scheme's ESG focus (e.g., climate change) and the relevant ESG criteria, methodologies or metrics applied as well as the investment strategy. Additionally, the MAS and therefore Singapore is also a member of the NGFS which is reflected in the standards and guidelines mentioned before.[39]

Hong Kong

Hong Kong's high-level objective in regard to climate change is the 2050 net-zero target with the ambition to cut total carbon emissions by 26-36% from 2005 level by 2030.[40] Like the UK and Singapore, Hong Kong's Common Group Taxonomy is, at the time of writing, still under development. The relevant authority includes Hong Kong's Monetary Authority (HKMA) Securities and Futures Commission within the 2020 established Green and Sustainable Finance Cross-Agency Steering Group (SFC).[41] Hong Kong has collaborated through its membership of the International Platform on Sustainable Finance, with other members on the recently revised Common Ground Taxonomy Instruction Report, jointly led by the European Union and China and respectively oriented on their

[34] gfit-taxonomy-consultation-paper (abs.org.sg)
[35] Regulatory and Supervisory Approach (mas.gov.sg)
[36] conclusion (sfc.hk)
[37] information-paper-on-environmental-risk-management-banks.pdf (mas.gov.sg)
[38] cfc-02-2022-disclosure-and-reporting-guidelines-for-retail-esg-funds.pdf (mas.gov.sg)
[39] Membership | NGFS
[40] Sustainable Finance Policy Tracker - OMFIF
[41] The SFC published in 2020 the strategic plan which set out six key focus areas for strengthening Hong Kong's financial ecosystem to support a greener and more sustainable future.

taxonomies. The taxonomy is likely to be focused on the following sectors: electricity and power generation, transport, water supply and waste management and construction. An exact date for the final publication and implementation is currently not available, but likely to be in 2024.[42] [43] [44] [45] Hong Kong, like the EU, the UK, and Singapore, is a member of the NGFS via the HKMA.[46] Approximately 85% of listed companies in Hong Kong have recognized the importance of climate risks and have begun to disclose information aligned with the requirements of the TCFD. This high level of participation indicates a strong corporate commitment to transparency and accountability in addressing climate risks. Announced in 2021, all authorized institutions[47] should make their first disclosures in accordance with the TCFD no later than mid-2023. Recognizing the difficulty of publishing in full compliance with the TCFD, HKMA will be respecting this in their supervision and monitoring. However, by 2023 the HKMA expects full alignment by no later than 2025. Should authorized institutions in Hong Kong be local subsidiaries of foreign banks, they may rely on the disclosure arrangement of the group or head office level as long as they are applicable to the Hong Kong local branch.[48] Alongside the mandatory reporting of climate-related disclosures, Hong Kong has also other sustainability-related disclosures in place. These include, among others, the Environmental, Social and Governance Reporting Guide[49] which set out the (mandatory) disclosure obligations for listed companies, the Principles for Adopting Sustainable Investment and Risk Management Processes of MPF Funds[50], and the Guideline on Enterprise Risk Management[51] which required authorized insurers to consider climate risks in their ERM framework.

Rwanda

While the EU, the UK, Singapore and Hong Kong are leading the sustainable finance trend and are not comparable to Mauritius in terms of market size and region, Rwanda could serve as a somewhat comparable market to Mauritius in terms of size, region and ESG maturity within the African continent. Rwanda has set its high-level objective to being a climate-resilient and carbon-neutral economy by 2050.[52] The current ongoing development of the Rwandan taxonomy focusing on four sectors represents a pioneering effort, being the inaugural taxonomy tailored specifically for a nation classified as a Least Developed Country. Not only does it account for this distinctive context by incorporating nuanced criteria pertinent to the economy (e.g., incorporating special provisions for smallholder farmers within the agricultural sector), but it is also poised to play a pivotal role in shaping the allocation of development aid by international agencies. The development of Rwanda's Green Taxonomy[53], along with complementary materials, has been a collaborative endeavour with GIZ, facilitated by the support extended on behalf of the German Federal Ministry for Economic Cooperation and Development. Rwanda's Green Taxonomy is undergoing a phased development approach. The initial phase focuses on four pivotal economic sectors—agriculture, construction, transport, and energy—which are

[42] https://finance.ec.europa.eu/sustainable-finance/international-platform-sustainable-finance_en
[43] https://www.hkma.gov.hk/eng/news-and-media/press-releases/2022/06/20220621-5/#1
[44] https://www.scmp.com/business/banking-finance/article/3253002/hong-kong-prepares-transition-finance-framework-support-development-international-green-finance-hub
[45] https://www.hkgreenfinance.org/wp-content/uploads/2023/09/CGTIIIEng03_10_1730_final_revised_242201.pdf
[46] Membership | NGFS
[47] As defined in Hong Kong's Banking Ordinance
[48] GS-1: Climate Risk Management (hkma.gov.hk)
[49] Appendix C2 Environmental, Social and Governance Reporting Guide | Rulebook (hkex.com.hk)
[50] cir-20211126.pdf (mpfa.org.hk)
[51] Guideline on Enterprise Risk Management (ia.org.hk)
[52] rwandagreentaxonomy (minecofin.gov.rw)
[53] rwandagreentaxonomy (minecofin.gov.rw)

significant contributors to both climate change mitigation and adaptation efforts. In the first phase, the taxonomy is likely to be focused on Rwanda's following high-emitting sectors: agriculture, livestock and forestry; construction, energy, and transport. In the second phase on the following sectors: Manufacturing (IPPU); water; waste; and ICT.[54] Next to the taxonomy development, Rwanda is like the other jurisdiction described before member of the NGFS via its National Bank of Rwanda.[55] Additionally, Rwanda has been actively working towards enhancing its ESG standards, particularly in the context of sustainable and green finance. Key initiatives and collaborations in this area include among others a collaboration with Sustainable Stock Exchanges (SSE) and the World Bank's International Finance Corporation (IFC). Here, the Rwandan Capital Market Authority (CMA) and the Rwanda Stock Exchange, have partnered with SSE and IFC. This partnership aims to raise ESG standards among listed companies in Rwanda. The efforts also include the development of an ESG Scorecard and Reporting Guidelines to improve Rwanda's investment climate. However, as of February 2024 there is no mandatory disclosure framework in place aligned with the TCFD. [56] [57]

3.1.5 Status Quo of Sustainable Finance Taxonomies and Standards in Mauritius

In 2021, Mauritius submitted its updated Nationally Determined Contributions (NDC) as part of its commitment to the Paris Agreement. Here, Mauritius raised its ambition to reduce greenhouse gas emissions by 40% in 2030 compared to business-as-usual, instead of its former 30% target. The Mauritian government aims to achieve this objective by sourcing 60% of its energy production from green sources by 2030 while phasing out the use of coal and increasing energy efficiency by 10% based on a 2019 baseline. In all, domestic sources of public and private finance will fund 35% of costs of climate action. Adaptation and resilience areas in the NDC covered are tourism, biodiversity and ecosystem, agriculture, forestry, coastal zones, health, infrastructure, and Disaster Risk Management.[58] Mauritius already took valuable steps in the context of sustainable finance standards and guidelines. In 2020 for example, Mauritius has become a member of the NGFS via the Bank of Mauritius (BOM) which is a crucial step in signalling the country's commitment of playing a leading role within the sustainable finance sphere. In line with NGFS recommendations highlighted in the previous section, the BOM established its Climate Change Centre in 2021 to facilitate the achievement of its objectives regarding climate change and environmental issues. Commitments include that the BOM provides its full support to the Climate Change Centre to achieve its objective vis-a-vis climate change and environmental issues. Second, the Bank will continue its outreach sessions with the financial sector players and relevant stakeholders to build awareness and knowledge on climate-related and environmental risks and their impact on the financial system. Third, the BOM published a Guideline on Climate-related and Environmental Financial Risk Management in April 2022 that is intended to assist financial institutions in embedding sound governance and risk management frameworks for climate-related and environmental financial risks within their existing risk management frameworks.[59] It applies to all bank and non-bank deposit taking institutions licensed by the BOM. Within the design of the Guideline, Mauritius already considered the NGFS recommendations as well as further guidance issued by the FSB, the Basel Committee on Banking Supervision, and other regulators. Regarding disclosure,

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[54] https://www.minecofin.gov.rw/index.php?eID=dumpFile&t=f&f=92689&token=1a7c9f17b69f1e7630bd1a89fa6cd961b2b1e943
[55] Membership | NGFS
[56] Disclosure - Integrated ESG Rwanda (ifc.org)
[57] index.php (minecofin.gov.rw)
[58] Mauritius | Climate Promise (undp.org)
[59]

financial institutions shall disclose, at least on an annual basis, in their annual report effective from the financial year ending 31 December 2023. It explicitly highlights that financial institutions may consider the guidance provided in wider initiatives on disclosures such as by the TCFD. Like Rwanda, Mauritius sought support in 2023 from Multilateral Development Banks – particularly the African Development Bank – to develop an ESG framework as well as an ESG monitoring and implementation plan to attract sustainable investments to further position the country as Africa's financial hub. It is set to be completed by 2024.[60]

As part of preliminary discussions at the level of a Task Force set up between the Bank of Mauritius (BOM) and the Mauritius Bankers Association Limited (MBA) under the Future of Banking in Mauritius project, banks have expressed the need for an integrated Climate Risk Model for Mauritius. The objective of this would be to create a level playing-field and ensure that all Financial Institutions in Mauritius use the same basis when evaluating the Climate Risks (e.g. flooding, erosion or wind-damage) associated with specific areas or region. A common approach would also be cost-efficient. This project would require the collation of existing data sources and studies conducted by several Government bodies and experts, and input from technical experts.

In 2021, the Bank of Mauritius set up a Climate Change Centre, and created a Task Force including banks and key BOM officers. It is a platform for discussion and exchanges on 3 key areas:

- Embedding Climate Risk into the current prudential framework
- Climate-related Financial Disclosures and reporting
- Facilitating access to Climate Finance

Furthermore, Mauritius is planning to develop its own green taxonomy.

3.1.6 Recommendations for Mauritius regarding Sustainable Finance Taxonomies and Standards

As highlighted in the section above, Mauritius set itself an (1) ambitious target of cutting its greenhouse gas emissions by 40% in 2030 compared to a business-as-usual scenario and (2) a funding scenario where domestic sources of public and private finance will fund 35% arising with the cost of climate action. This leads to the result that additional green public and private investments need to be mobilized to reach the 40% target. It is estimated that the remaining 65% equivalent to USD 4.3bn must be financed externally by 2030 which leads to a yearly financing requirement of USD 264m[61]. Hence, sustainable finance products, tools and practices are crucial elements.
They must always take local factors into consideration, such as the high-emitting sectors and country-level climate change impact.
As highlighted before, a taxonomy lies at the heart of a greening of the financial system and attracting sustainable investment. By a taxonomy, transparency can be fostered, trust and accountability towards financial market participants built and greenwashing be prevented which in turn strengthens Mauritius' credibility and commitment to climate change action. A well-designed taxonomy will define the environmental goals, relevant sectors, and activities that are included. It will establish metrics and benchmarks to categorize activities as green or transitioning based on their alignment with

[60] Mauritius - Environment, Social and Governance Support Project (ESG-SP) | African Development Bank Group (afdb.org)
[61] How Mauritius is mobilizing climate finance - OMFIF

environmental targets. This clarity will aid financial institutions in providing transition finance to the wider economy, thereby promoting a shift towards a more sustainable and environmentally friendly economy. The taxonomy needs to cover transition activities that enable a steady progression towards increased sustainability, acknowledging initial starting points and promoting inclusive economic and social advancement. Since no taxonomy is currently set in place, Mauritius should focus on environmental objectives first and then slowly add social objectives – hence Mauritius should rather aim for a green finance taxonomy instead of a sustainable taxonomy. This green finance taxonomy should incorporate country-specific and regional factors in the setting of environmental objectives underpinning the taxonomy. Here, the World Risk Report 2023 finding that Mauritius belongs to the group of Small Islands Developing States and its ranking as the 106th out of 193 countries most vulnerable to climate change should be especially factored in.[62] While cyclones and heavy rains have been a usual event, the impact of climate change can lead to beach erosions and negative impact on Mauritius' coral reefs caused by rising sea levels. This leads to the result that Mauritius should put an emphasis on climate adaption as an environmental objective within a green finance taxonomy. Given the sector focus in the NDC, the taxonomy should focus on these sectors and identify economic activities aligned with the NDC high-level objective and the environmental objective of climate change adaptation. It is emphasized here, to take climate change adaptation as the key environmental objective in conjunction with climate change mitigation as the second objective. Within these two environmental objectives it must be ensured that Mauritius' taxonomy is interoperable with other sustainable and green financing frameworks of investors' home countries such as the jurisdictions described before – e.g., the EU Taxonomy. Note that the focus is on interoperability and the Mauritian taxonomy must not be an exact replica of one of the taxonomies described.

Overall, the Green Finance Taxonomy could be used by different stakeholders in diverse ways:

- Policymakers
- Banks and financial institutions
- Investors
- Regulators
- Issuers of green bonds
- General public

With the ongoing evolution of global sustainable finance standards, it's essential to adapt these into actionable and feasible guidelines for institutions facing the market (at the micro-level). It is crucial to identify and prioritize the standards that align most effectively with Mauritius's goals in sustainable finance. Given the extensive range and intricacy of these emerging global standards, addressing them all at once is impractical. Therefore, policymakers at both macro- and meso- levels should embrace a methodical, step-by-step, and realistic strategy. This approach would ensure that global standards are leveraged for Mauritius' advantage, transforming them from potential obstacles into beneficial tools. It is recommended here to focus on the existing standards and tailor them further towards the taxonomy. With the Guideline on Climate-related and Environmental Financial Risk Management the BOM already set an important step in regard to standards and guidelines. Importantly, the Guideline already requires that financial institutions understand their material climate-related and environmental financial risks on their business environment, consider Mauritius' NDC in their business models, strategies, and risk appetites as well as the implementation of risk mitigation plans. Since the Guideline already

[62] The WorldRiskReport 2023 - Disaster Risk and Diversity - World | ReliefWeb

considers NGFS recommendations where the BOM is a member, the Guideline can already be compared to other jurisdictions described in the section on market overview. Since the disclosure requirement of the Guideline began to be effective as from the financial year ending 31 December 2023, the BOM shall review the disclosure quality provided and require the financial institutions to regularly review and reinforce their disclosures. However, since the Government of Mauritius is already working on a new ESG Framework with the African Development Bank as part of a Technical Assistance Project, it is recommended to await the formulation of the ESG framework and its respective governance structure and ESG monitoring and implementation plan.

Climate Risk Assessment Model

Regarding the development of a climate risk assessment model, the following considerations are recommended:

- **Integrated Data Management**: Consider developing a centralized database integrating climate, geographic, and socio-economic data. Use advanced data management tools and protocols to ensure real-time updates and data integrity, essential for accurate risk modelling.
- **Advanced Geospatial Analysis**: Explore utilizing Geographic Information Systems (GIS) for detailed geospatial analysis to map out climate risk vulnerabilities across Mauritius. Incorporate high-resolution satellite imagery and remote sensing data for dynamic risk mapping.
- **Machine Learning Algorithms**: Implement machine learning algorithms to analyze large datasets for pattern recognition, future climate risk predictions, and scenario analysis. This approach enables the modeling of complex relationships between multiple risk factors.
- **Sensitivity and Scenario Analysis**: Integrate sensitivity and scenario analysis to evaluate the impact of varying climate and economic variables on risk assessments. Use these analyses to test the resilience of the financial sector under different climate change scenarios, including extreme weather events and long-term climatic shifts.
- **Dynamic Risk Assessment Framework**: Develop a dynamic, modular risk assessment framework that can be updated with new data and insights. Incorporate adjustable parameters to reflect changing climate conditions, economic factors, and mitigation strategies.
- **Regulatory Integration and Compliance**: Work in close collaboration with the Bank of Mauritius and financial institutions to embed climate risk assessment into regulatory frameworks and compliance requirements. Ensure that the model aligns with international standards and best practices for climate risk management.

By focusing on these recommendations, experts at commercial banks and the Mauritian central bank can develop a technically robust, adaptable, and forward-looking Climate Risk Assessment Model. This model will not only facilitate accurate and uniform climate risk evaluation across the financial sector and enable a level playing field among the banks but also enhance the resilience and sustainability of Mauritius's economy in the face of climate change.

Green Taxonomy

Regarding the development of a green taxonomy, Mauritius is in a special situation. It finds itself at a unique crossroads of financial and environmental policy development, owing to its robust connections with markets across Europe, Asia, and Africa. These regions are characterized by distinct sustainability frameworks and taxonomies, particularly evident with South Africa and India developing their own green taxonomy standards. Concurrently, Mauritius's financial institutions are compelled to align with the European Union's taxonomy for reporting purposes, a necessity dictated by a significant portion of their funding origins. This dual obligation underscores the critical need for Mauritius to craft a green taxonomy that not only meets international best practices but also caters to the nuanced requirements of a Just Transition model suitable for the Global South.

In this context, we would recommend a comprehensive research initiative aimed at mapping the current landscape of green taxonomy development within emerging markets, and assessing the leading International Taxonomies prevailing in countries and regions with which Mauritius has significant trade and investment relationships to ensure alignment. This endeavour will serve as a foundational step towards identifying potential partnerships for constructing a taxonomy that reflects Mauritius's unique position as an international financial hub with diverse financial exposures. The development of such a taxonomy should prioritize the following recommendations:

- **Inclusive Stakeholder Engagement**: Engage a broad spectrum of stakeholders, including government entities, financial institutions, NGOs, and the private sector, to ensure the taxonomy reflects the needs and aspirations of all sectors of the Mauritian economy.
- **Adaptation of Best International Practices**: While aligning with global standards such as the EU taxonomy, Mauritius must adapt these practices to the local context, ensuring they support the island's sustainable development goals without stifling economic growth.
- **Focus on a Just Transition**: Emphasize policies that support a Just Transition, recognizing the importance of social equity and job creation in the shift towards a green economy. This approach is particularly crucial for Mauritius, given its diverse economy and the need to support communities potentially affected by the transition.
- **Interoperability with Existing Taxonomies**: Ensure the Mauritian taxonomy is interoperable with existing frameworks, particularly those of key partners like South Africa and India, to facilitate seamless reporting and compliance for multinational corporations operating in or financed through Mauritius.
- **Transparent and Dynamic Framework**: Develop the taxonomy with transparency and flexibility in mind, allowing for regular updates as international standards evolve and new sustainable technologies emerge.

By undertaking a balanced approach that marries the adherence to international standards with the unique needs of the Global South, Mauritius can establish a green taxonomy that not only facilitates sustainable investment but also promotes economic resilience and social inclusiveness. This strategic initiative will further solidify Mauritius's role as a sustainable financial hub, driving the transition towards sustainability within the region and beyond.

3.2 Subsidies

3.2.1 Sustainable Finance Subsidies and Incentives in Singapore and Hong Kong

Subsidies and incentives are crucial for aspiring sustainable finance hubs because they lower the financial barriers for businesses and investors engaging in green practices, thereby encouraging investment in environmentally friendly projects. These financial mechanisms make it economically viable to pursue sustainability goals, stimulate innovation in green technologies, and attract companies and capital to the sustainable finance sector. By demonstrating commitment through fiscal support, governments can foster a robust ecosystem where sustainable finance can thrive and grow, aligning economic development with environmental conservation and social responsibility.

This chapter presents an overview of the sustainable finance landscape in Singapore and Hong Kong, highlighting key developments and trends within these leading financial markets. Analyzing Singapore and Hong Kong's approach to sustainable finance can inform Mauritius' ambition to become Africa's sustainable finance hub. These jurisdictions have successfully integrated green finance into their financial sectors through effective subsidies and incentives, offering valuable lessons on fostering an environment that attracts green investment and innovation. Understanding their strategies can provide Mauritius with a blueprint to develop its own framework, positioning it as a leader in sustainable finance within the African continent.

Singapore

Singapore has embarked on an extensive journey to enhance the growth of sustainable finance, marked by a suite of subsidies and supportive measures catering to a wide spectrum of environmental projects and investments. This endeavor is captured in the subsequent overview, highlighting the major subsidies and incentives put in place.

A significant milestone for Singapore in its sustainable finance journey is the ambitious goal set for green bonds, with plans to issue up to SGD 35 billion by 2030. This initiative is part of Singapore's larger ambition to become a leading global center for green finance, guided by the Singapore Green Bond Framework, which sets out the criteria and goals for these bonds, focusing on financing environmentally beneficial projects. [63]

To further bolster the issuance of sustainable bonds, the MAS introduced the Sustainable Bond Grant Scheme (SBGS) in 2017. The scheme aids in offsetting up to SGD 100,000 of the costs for external reviews related to issuing green, social, and sustainability bonds, making it economically feasible for entities to pursue sustainable bond issuance in Singapore. [64]

November 2020 saw the launch of the MAS Green and Sustainability-Linked Loan Grant Scheme (GSLS), a pioneering global initiative aimed at encouraging businesses to secure green and

[63] Singapore Green Bond Framework
[64] Singapore Sustainable Bond Grant Scheme

sustainability-linked loans by subsidizing the costs associated with sustainability advisory and assessment services, up to SGD 100,000 per loan over a span of three years.[65]

The Green Investments Programme (GIP) is another strategic move by the MAS, allocating USD 2 billion for investment in public market strategies with a strong emphasis on green principles. This program is designed to foster the growth of green financing capabilities in Singapore, focusing on investments that make a substantial contribution to environmental goals. [66]

On the financing front, the Enterprise Financing Scheme – Green (EFS-Green) supports projects in clean energy and green infrastructure, offering loans with a 70% risk-share to encourage financial institutions to lend to projects with environmental benefits.[67]

Singapore's dedication to fostering a green economy is further evidenced by a range of incentives and subsidies aimed at promoting energy efficiency and sustainable practices across different sectors. These include:

- Incentives for Green Retrofit, which encourages energy-efficient upgrades in energy-intensive buildings by covering up to 50% of the costs (capped at SGD 3 million) for retrofitting and co-funding 50% of the cost for an energy audit of air-conditioning plants.[68]
- The Green Mark Incentive Scheme for Existing Buildings and Premises (GMIS-EBP), offering co-funding for retrofitting costs to enhance energy efficiency, with caps set at SGD 3 million for building owners and SGD 20,000 for tenants, focusing on SMEs and buildings where at least 30% of tenants are SMEs.[69]
- The Green Buildings Innovation Cluster (GBIC), aimed at supporting the research, development, and demonstration of technologies to improve building energy efficiency.[70]
- The Building Retrofit Energy Efficiency Financing (BREEF) Scheme, providing an eight-year loan of up to SGD 5 million for energy-efficient building retrofits, with shared risk between the BCA and financial institutions.[71]
- The Green Mark Incentive Scheme - Design Prototype (GMIS-DP), encouraging the early involvement of Environmentally Sustainable Design consultants in new developments, funding up to 70% of qualifying costs or SGD 600,000, whichever is lower.[72]

Additionally bolstering efforts toward energy efficiency, the Energy Efficiency Improvement Assistance Scheme (EASe) alongside the Grant for Energy Efficient Technologies (GREET) provide joint funding for energy assessments and the adoption of energy-saving technologies. These initiatives offer financial support covering up to 50% of the costs for energy evaluations in buildings and industrial sites, and as much as 20% of the expenses associated with the purchase of energy-efficient machinery or technology. [73]

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[66] Green Investments Programme
[67] Enterprise Financing Scheme – Green
[68] Incentives for Green Retrofit
[69] Green Mark Incentive Scheme for Existing Buildings and Premises
[70] Green Buildings Innovation Cluster
[71] Building Retrofit Energy Efficiency Financing Scheme
[72] Green Mark Incentive Scheme - Design Prototype
[73] Energy Efficiency Improvement Assistance Scheme and Grant for Energy Efficient Technologies

Research and development in sustainability are supported through various funds and grants, such as the Ministry of National Development’s SGD 50 million Research Fund for the Built Environment, the NEA’s Innovation for Environmental Sustainability (IES) Fund,[74] and the Energy Innovation Programme Office’s Energy Innovation Research Programme (EIRP)[75]. The BCA also backs training initiatives for green specialists, reinforcing Singapore’s commitment to sustainable finance and green economic growth.

Hong Kong

The Hong Kong government has recognized the crucial role financial incentives play in promoting ESG and sustainable finance practices, establishing a variety of subsidies and financial support systems to ease this shift. These measures aim to lessen the financial load for organizations eager to adopt greener practices, as outlined below.

One notable initiative is the Green Bond Grant Scheme, which reimburses issuers for the costs of obtaining green bond certifications, thereby encouraging an increased issuance of green bonds. Reflecting Hong Kong's commitment to green finance, the Government Green Bond Programme's cap has been raised to HKD 200 billion[76], alongside the launch of innovative financing methods, such as the world's first tokenised government green bond, valued at approximately HKD 800 million[77].

Additionally, the Green and Sustainable Finance Grant Scheme significantly contributes to the growth of Hong Kong's green finance sector by subsidizing green debt issuances. This scheme, which covers over 210 debt instruments totaling around USD 70 billion, illustrates Hong Kong's ambition to broaden its sustainable loan market. It offers financial aid to bond issuers and borrowers for costs related to external reviews and reporting, making it more economically viable to engage in green finance activities.[78]

The variety of ESG-focused fund products has also seen a substantial increase, ranging from mutual funds and exchange-traded funds (ETFs) to bond funds that invest according to ESG criteria. This diversification aims to offer investors more sustainable and responsible investment avenues, directing capital towards greener projects.

Beyond these initiatives, Hong Kong has launched several programs and financial incentives to promote green building practices and enhance urban sustainability. These comprehensive approaches aim at reducing greenhouse gas emissions, improving building energy efficiency, and fostering an environmentally friendly urban environment.

The BEAM Plus Assessment, endorsed by the Hong Kong Green Building Council (HKGBC), evaluates the sustainability performance of buildings in categories like New Buildings, Existing

[74] Environmental Sustainability (IES) Fund
[75] Energy Innovation Programme Office’s Energy Innovation Research Programme
[76] Government Green Bond Programme
[77] Tokenised Green Bond
[78] Green and Sustainable Finance Grant Scheme

Buildings, Interiors, and Neighbourhoods. This encourages developers to incorporate sustainable designs and practices, promoting eco-friendly urban development.[79]

To further incentivize sustainable building practices, the government offers tax deductions for energy efficiency improvements and funding for retrofitting buildings to higher sustainability standards. Notable examples include the CLP Eco Building Fund[80] and the HK Electric Smart Power Fund[81], which subsidize energy-saving upgrades in buildings, aiming to reduce energy use and carbon emissions.

The CLP Eco Building Fund, specifically, offers up to HKD 500,000 for energy-efficiency projects in communal areas of buildings, targeting support for 400 buildings annually with an aim to conserve up to 48 gigawatt-hours of energy each year, under a HKD 100 million annual budget.

Under the Energy Efficiency Registration Scheme for Buildings[82] (HKEERSB), buildings with a Final Bronze rating or above in the BEAM Plus assessment can receive an accelerated tax deduction for installing energy-efficient features. This scheme not only encourages property owners to invest in green technologies but also aligns with Hong Kong's goals to lower carbon emissions and boost the energy efficiency of its built environment.

3.2.2 Recommendations on Subsidies for Mauritius

To bolster its green and sustainable finance sector, Mauritius may look into deploying a suite of subsidy initiatives designed to spur investments and efforts that align with its ESG ambitions. By integrating global best practices with adjustments for its unique environmental and economic landscape, Mauritius could enact the following types of subsidies:

1. **Subsidies for External Reviews and Certification**: Covering part or all of the costs associated with the external review and certification of green bonds and sustainability-linked loans. This can make it financially viable for more projects and companies to pursue certification, thus ensuring the integrity and attractiveness of these financial instruments.
2. **Grants for Green Technology and Innovation**: Financial support for research and development in green technologies can drive innovation in sectors crucial for sustainability, such as renewable energy, water management, and waste reduction.
3. **Tax Incentives for ESG Investments**: Offering tax credits or deductions for individuals and corporations that invest in ESG-compliant companies or projects. This can stimulate private investment in green initiatives.
4. **Low-Interest Financing for Green Projects**: Partly subsidize interest rates to allow favorable loan terms for projects with clear environmental benefits, such as renewable energy installations, energy efficiency improvements, and sustainable agriculture practices.
5. **Subsidies for Energy Efficiency and Green Retrofitting**: Financial assistance or tax deductions for projects aimed at making buildings more energy-efficient or retrofitting them with green technologies.

[79] BEAM Plus Assessment
[80] CLP Eco Building Fund
[81] HK Electric Smart Power Fund
[82] Energy Efficiency Registration Scheme for Buildings

6. **Support for Sustainable Agriculture**: Offering subsidies or technical assistance for adopting sustainable agricultural practices.
7. **Seed Funding for Green Startups**: Establishing a fund to provide seed capital for startups focusing on sustainable technologies and business models. This can foster innovation and entrepreneurship in the green sector.
8. **Public-Private Partnerships (PPPs) for Green Infrastructure**: Encouraging the development of green infrastructure projects, such as public transport, renewable energy, and water management systems, through financial incentives that attract private investment.
9. **Training and Development Programs**: Investing in education and training programs that build capacity in green jobs and sustainable finance professions. This can include subsidies for professional certification in sustainability-related fields.
10. **Performance-Based Subsidies**: Implementing subsidies tied to the achievement of specific environmental performance metrics, encouraging companies to not only initiate but also successfully implement green projects.
11. **Enhanced Subsidy for Green Tourism Development**: Establishing a comprehensive subsidy program specifically for developing sustainable tourism infrastructure and services, including incentives for businesses that achieve high standards of environmental stewardship and cultural preservation.
12. **Tax-offset against Green Credits**: Develop a green accounting framework that would allow companies to offset tax liabilities with green credits such as a carbon accounting framework that would allow companies to pay tax with carbon credits.
13. **Subsidy for Coastal Line Protection**: Introducing a new subsidy aimed at protecting and restoring coastal and marine ecosystems. This could include financial support for projects that address erosion, promote coral reef restoration, implement sustainable fishing practices, and enhance natural coastal defences through mangrove reforestation and other nature-based solutions.

By integrating such subsidies into its sustainable finance framework, Mauritius can lower financial barriers, incentivize green investments, and support the transition to a more sustainable economy. This approach would not only contribute to the country's environmental goals but also position Mauritius as a leading hub for green finance in the African region.

3.2.3 Recommendation on Blended Finance for Mauritius

In addition to subsidies provided by Mauritius itself, Mauritius can also look towards integrating blended finance more systematically into its financing landscape. Development Finance Institutions have been developing more and more blended finance instruments such as guarantees, grants and first or second loss tranches which effectively lower the risk of financing and increasing the commercial viability of financing programs.

A typical problem Mauritian banks are facing is the lack of collateral making it difficult to unlock financing for a large number of projects. Given this impediment, an interesting program to highlight is the European Fund for Sustainable Development (EFSD). Under EFSD, there are fifteen programs and another eighteen will be added within the next batch under EFSD+.
The EFSD+ is a key component of the EU Global Gateway initiative, facilitating sustainable

investments in the EU's partner nations. With a range of risk-sharing instruments totalling up to €40 billion, its goal is to leverage up to €135 billion in both public and private investment to support partner countries in meeting the SDGs. The EFSD+ open architecture guarantee is transmitted via Development Finance Institutions, which in turn work directly or via intermediaries who then lend to riskier clients (here mostly MSMEs). This will then increase economic development while also achieving other SDGs. Examples include the NASIRA Facility via FMO and the Accelerating Human Development Facility via the European Investment Bank and the Bill & Melinda Gates Foundation. This represents an opportunity specifically for financial intermediaries such as banks, insurers and funds to tap into blended finance at favourable terms and drive the Mauritian financing landscape further towards sustainable finance. Specifically for banks a guarantee can replace the lack of a security and unlock financing that would otherwise not have been possible.

3.3 Skills

3.3.1 The Role of Skills in Building a Sustainable Financial Ecosystem

Supporting the financial industry, businesses, and individuals in enhancing their sustainable finance capabilities is essential for any region aiming to become a hub for sustainable finance. This effort is crucial for a multitude of reasons.

First, it attracts investment by creating an ecosystem that appeals to investors with ESG criteria at the forefront of their decision-making. Such a focus on sustainable investments positions a region as a prime destination for capital that seeks not only financial returns but also positive environmental and social impact.

Secondly, fostering sustainable finance drives innovation and competitiveness within the financial sector. This includes the development of new financial products and services, such as sustainable loans and climate risk insurance, which cater to the growing demand for investments in renewable energy, sustainable agriculture, and other green initiatives. Such innovation not only advances sustainability goals but also enhances the financial sector's appeal and competitiveness on a global scale and attractiveness as an employer.

Moreover, deepening sustainable finance capabilities helps businesses and financial institutions navigate the increasingly complex regulatory landscape surrounding sustainability, effectively managing risks, and capitalizing on opportunities presented by the global shift towards a low-carbon economy. This proactive approach to regulatory compliance and risk management is critical in an era marked by rapid environmental and social changes.

3.3.2 Market Overview on Skills

Singapore

The Monetary Authority of Singapore (MAS) is actively cultivating an ecosystem dedicated to research and the advancement of skills in sustainable finance. This ecosystem is enriched by Centers of Excellence established within universities, sustainability hubs initiated by financial institutions across the Asia Pacific, and an array of training providers. Furthermore, MAS has formed a strategic partnership with the Institute of Banking and Finance Singapore (IBF). This collaboration aims to bolster the sustainable finance acumen of the financial sector, businesses, and individuals, facilitating a deeper understanding and broader implementation of sustainable finance practices.

MAS is homing in on two critical initiatives aimed at bolstering the sustainable finance landscape. The first pillar, Centers of Excellence, involves the cultivation of hubs dedicated to research and expertise in sustainable finance. These hubs facilitate collaboration between academia and the financial industry to push the frontiers of knowledge and application in green finance. The second pillar revolves around the development of Sustainable Finance Technical Skills and Competencies, focusing on equipping professionals with the requisite skills and knowledge to navigate and innovate within the sphere of sustainable finance.

The Singapore Green Finance Centre (SGFC) is one such Centre of Excellence, dedicated to creating sustainable capital markets and solutions that support Asia's green transition. Founded in collaboration with nine financial sector partners, the SGFC conducts industry-relevant research and offers training courses on Climate Risk Management, ESG Reporting, and more, catering to finance professionals as well as students from diverse academic backgrounds.[83]

Another key institution is the Sustainable and Green Finance Institute (SGFin) at the National University of Singapore (NUS), which aims to influence sustainability outcomes and policy in both the real economy and financial sectors. SGFin's research encompasses broad sustainability issues like the circular economy, and its training programs are designed to help companies and financial institutions integrate sustainability into their strategies and operations.[84]

The Sustainable Finance Institute Asia (SFIA) focuses on promoting sustainable finance policies, especially in ASEAN, by fostering collaboration among a wide range of stakeholders. SFIA addresses the need for high-quality ESG data and offers policy-focused training and webinars to support sustainable finance initiatives in the region.[85]

These centers are instrumental in addressing the research and talent development needs in Asia-focused sustainable finance, paving the way for a sustainable future in the region.

To complement these efforts, MAS, in partnership with IBF, has outlined 12 technical skills and competencies essential for the sustainable finance sector. The Sustainable Finance Technical Skills and Competencies Framework aims to set a standard for proficiency in this field. Supporting this, the IBF is set to develop training programs aligned with this framework, offering professionals subsidies through the IBF Standards Training Scheme to cover training costs.[86]

Moreover, the Association of Banks in Singapore, in collaboration with WWF-Singapore and the Asia Sustainable Finance Initiative (ASFI), has launched the ASFI Academy. This online platform offers courses designed to enhance ESG competencies among finance professionals, featuring practical and

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[83] Singapore Green Finance Centre
[84] Sustainable and Green Finance Institute
[85] The Sustainable Finance Institute Asia
[86] Sustainable Finance Technical Skills and Competencies Framework

interactive content on key sustainability topics, supported by multi-stakeholder contributions including WWF, the Sustainability Accounting Standards Board (SASB), and EDHECinfra.[87]

These comprehensive measures signify Singapore's commitment to advancing ESG skills and sustainable finance practices.

Hong Kong

The Hong Kong Management Association (HKMA) is making strides towards establishing Hong Kong as a leading hub for green and sustainable finance, leveraging partnerships with academic institutions and the financial industry to nurture an educational and skill-building ecosystem in sustainable finance. Central to these efforts are initiatives like the Pilot Green and Sustainable Finance Capacity Building Support Scheme, which offers subsidies for training in green finance, and the launch of the Executive Diploma in Sustainability, ESG, and Green Finance. Additionally, the creation of the HKMA Global Centre for ESG Education and Research underscores the HKMA's commitment to developing sustainability competencies within the financial sector and the wider community.

The Pilot Green and Sustainable Finance Capacity Building Support Scheme, backed by HKD 200 million, is designed to boost training and professional development in the green finance realm for residents of Hong Kong. By covering training expenses, the scheme encourages enrolment in accredited courses, facilitating skill acquisition and attracting a skilled workforce to propel Hong Kong forward in green finance and towards a sustainable, eco-friendly economic model.

One of the notable programs eligible under this scheme is the Executive Diploma in Sustainability, ESG, and Green Finance, offered by HKMA. This program provides participants with comprehensive insights into green finance, ESG reporting, and compliance, aiming to arm professionals with the knowledge and skills needed to thrive in the ESG and sustainability domains, thus meeting the professional development requirements of this burgeoning sector. [88]

The establishment of the HKMA Global Centre for ESG Education and Research marks a significant step in advancing ESG education and research, particularly for management and executives. This initiative plays a critical role in supporting Hong Kong's ambition to become a global center for green finance by delivering a range of programs on subjects like carbon trading, ESG compliance, and sustainability practices.[89]

Furthering these educational endeavours, the Business with Purpose Platform, a collaborative effort between HKMA and Social Ventures Hong Kong (SVhk), focuses on aiding corporate and social leaders to integrate sustainability into their business models. This platform is geared towards embedding a sense of purpose and fostering a collective movement towards a sustainable future, showcasing HKMA's holistic approach to promoting green and sustainable finance in Hong Kong.[90]

[87] ASFI Academy
[88] The Pilot Green and Sustainable Finance Capacity Building Support Scheme
[89] HKMA Global Centre for ESG Education and Research
[90] Business with Purpose Platform

3.3.3 Building a Sustainable Talent Ecosystem in Mauritius

Drawing inspiration from the pioneering approaches of Singapore and Hong Kong, Mauritius is poised to enhance its sustainable finance capabilities and cultivate a workforce adept in this increasingly vital domain. This strategy outlines a multifaceted plan to leverage Mauritius' unique position, focusing on the creation of centers of excellence, partnerships with local universities, and attracting ESG external review firms, setting the stage for Mauritius to emerge as a leader in sustainable finance and technology in Africa.

Establishing Centres of Excellence and Strategic Partnerships

Mauritius should establish centres of excellence for sustainable finance, dedicated to research and education in sustainable finance. These centers would work closely with local universities and financial institutions to develop programs that address both global sustainability challenges and the local context, equipping participants with the necessary skills and knowledge.

Forming strategic partnerships between the government, educational institutions, and the financial sector is essential for aligning goals and maximizing resource efficiency. These collaborations will ensure that Mauritius' initiatives in sustainable finance are well-coordinated and impactful, driving towards the shared goal of becoming a sustainable finance hub.

Creating a Skilled Workforce in Partnership with Local Universities

Tailored academic programs should be developed in collaboration with local universities to meet the demands of key industries such as ESG, sustainable development, finance, technology, and renewable energy. These programs must focus on equipping students with the relevant skills for careers in these sectors, thus creating a pipeline of qualified professionals.

Research and development (R&D) initiatives that align with Mauritius' economic and sustainability goals should be supported. Encouraging collaborations between universities and industry will not only foster innovation but also provide students with practical experience, bridging the gap between academic learning and industry needs.

Enhancing the capacity building for university faculty by offering professional development opportunities in cutting-edge areas ensures that educators are well-equipped to deliver high-quality, relevant education. This initiative will keep both students and faculty abreast of the latest developments in sustainable finance and related fields.

Attracting ESG External Review Firms

Developing a strong regulatory framework that promotes transparency, accountability, and sustainability will make Mauritius an attractive destination for ESG-focused firms. This framework should encourage practices that are in line with global sustainability standards.

Providing incentives for ESG firms, such as tax breaks, subsidies, or streamlined business setup processes, highlights Mauritius' commitment to becoming a center for sustainable finance and ESG consulting. These incentives are crucial for attracting reputable firms to the region.

Building a reputation for sustainability is key. Through government policies, public-private partnerships, and international collaborations, Mauritius can showcase its dedication to sustainability, attracting firms that are keen to associate with eco-conscious jurisdictions.

Facilitating networking and collaboration opportunities will encourage the exchange of ideas and best practices among local businesses, international firms, and government agencies. Hosting international events focused on sustainability and ESG topics can help build a community around these practices, further attracting external review firms.

3.3.4 Implementation Roadmap for Mauritius

By concentrating on educational quality, enhancing regulatory frameworks, and fostering global partnerships, Mauritius has the opportunity to become a leading center for sustainable finance, supported by a proficient workforce prepared for the future's sustainability challenges. Outlined below is a proposed strategy to achieve this objective:

Phase 1: Setting the Stage	**Phase 2: Program Development and Launch**	**Phase 3: Ecosystem Strengthening and Expansion**
- **Conduct comprehensive landscape analysis** while simultaneously **engaging with stakeholders** across government, academia, and the financial sector to forge strategic partnerships and align on objectives. - **Begin preliminary establishment of centres of excellence for sustainable finance**, identifying key focus areas and initiating collaborations with universities.	- **Develop and enhance the regulatory framework** alongside **launching tailored academic programs** in sustainable finance and related fields, ensuring these programs incorporate practical experiences through industry partnerships. - **Initiate training programs** offering subsidies to encourage wide participation, aimed at both new entrants and the current workforce.	- **Roll out R&D initiatives** in collaboration with industry partners, focusing on sustainability challenges and innovation - **Strengthen the regulatory framework** further and **develop incentive packages** to attract ESG external review firms, enhancing Mauritius's attractiveness as a sustainable finance hub. - **Promote Mauritius's sustainability reputation** through policies, international collaboration, and networking events, building a global profile.

Continuous Improvement Phase: Evaluation and Adaptation

4. Internal Enablers and ESG Integration

4.1 The Imperative of ESG Integration in Finance

To foster sustainable finance practices, incorporating ESG considerations into the operational ethos of financial institutions is essential. This integration is facilitated by key internal enablers such as robust environmental and social risk management systems, effective ESG data collection and disclosure practices, and adherence to relevant standards. These elements are crucial in directing the financial sector toward sustainable operations, highlighting the importance of mitigating risks and enhancing transparency and accountability. By enhancing their level of ESG compliance, financial institutions can also significantly increase their likelihood of obtaining financing from ESG and impact investors such as Development Finance Institutions, pension funds and sovereign wealth funds and thus broaden their pool of refinancing options and optimize financing terms and cost of capital.

4.2 Environmental and Social Risk Management System

4.2.1 The Role of Environmental and Social Risk Management in Financial Institutions

First, an environmental and social risk management system stands out as a foundational element. It enables financial institutions to identify and assess risks related to environmental and social factors, which vary from challenges such as climate change to social concerns. Early recognition of these risks allows institutions to develop strategies to mitigate negative impacts, ensuring both operational and financial stability. This forward-thinking approach not only protects against possible setbacks but also promotes long-term sustainability. Furthermore, showing a dedication to managing these environmental and social risks increases stakeholder trust, meeting the increasing desire for transparency and accountability in these areas.

4.2.2 Tailoring Risk Management Approaches for Mauritian Financial Institutions

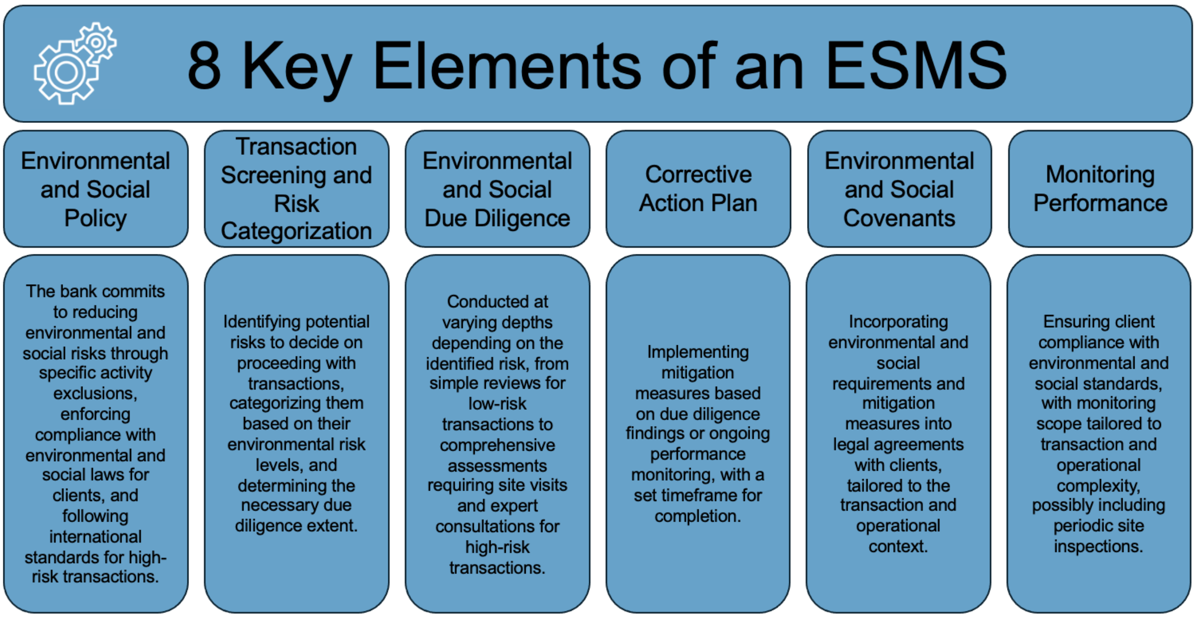
The level of environmental and social risk in banking varies significantly based on the clientele and the nature of financial dealings. This variance should be mirrored in the environmental and social risk management system.

Banks engage in a wide range of financial transactions including corporate and project financing, residential lending, retail banking, short-term loans, and support for small-medium enterprises (SMEs). The risk of environmental and social harm is notably higher in large-scale, long-term corporate or project financing due to the complex nature of the operations funded, which often carry significant environmental and social footprints. Conversely, the risk is lower for short-term loans or those catering to SMEs. Financing for housing (excluding construction) and retail sectors is typically seen as posing little to no environmental and social risk.

Banks should begin by evaluating their current loan portfolio, identifying the transaction types, and assessing exposure across various industry sectors. The process within the environmental and social risk management system involves implementing customized strategies for managing environmental and social risks for each transaction, as part of the bank's overarching risk management framework. This entails a thorough environmental and social review for high-risk transactions and a simpler screening process for lower-risk ones.

A banking institution's system for managing environmental and social risks typically features a management policy and risk assessment procedures, complemented by strategies such as corrective action plans and compliance monitoring, to adhere to environmental and social standards. Below, find an illustration outlining the eight essential components of a standard risk management system for banking institutions in accordance with IFC guidelines.

Exhibit 1: Key Elements of an environment and social risk management system (ESMS) for financial institutions



In addition, Banks should maintain records of environmental and social considerations for all transactions and ensure staff are trained to recognize and manage environmental and social risks effectively.

4.2.3 Conclusion

The adoption of environmental and social risk management systems by financial institutions significantly boosts Mauritius's ambition to become the sustainable finance hub of Africa. By meticulously identifying and addressing environmental and social risks, the framework guides financial institutions towards investments that are not only sustainable but also socially responsible. This strategic approach helps in steering the financial sector away from harmful practices and towards initiatives that support a green economy. The emphasis on sustainable investments is crucial, as it aligns with the increasing demand for financial services that contribute positively to the environment and society.

Compliance with stringent environmental and social policies under this framework ensures that Mauritius meets international standards, setting it apart as a leader in green finance. This commitment to high standards is key to attracting global investors looking for responsible and sustainable investment opportunities. The trust garnered from stakeholders through this commitment is invaluable, underpinning the island's reputation as a reliable and forward-thinking financial center.

4.3 ESG Data Collection and Disclosure

4.3.1 Empowering Informed Decision-Making with ESG Data Collection and Disclosure

The second enabler, ESG data collection and disclosure, underpins informed decision-making. Gathering comprehensive and accurate ESG data equips financial institutions with the insights needed to assess the sustainability performance of investments and identify avenues for positive impact. This practice transcends mere data gathering, enhancing transparency and accountability through regular disclosures. Such transparency allows stakeholders to scrutinize an institution's sustainability endeavors, facilitating more informed interactions. Additionally, benchmarking against industry standards and peers through ESG data not only identifies areas for improvement but also propels continuous advancement in sustainability practices.

4.3.2 Recommendation for Mauritius

Mauritian-based financial institutions are poised to support the greening of the domestic financial system significantly by adopting and promoting sustainable practices. By implementing strategies in ESG data collection and disclosure, Mauritian-based financial institutions can make a profound impact. Collaborating with regulators, industry bodies, and other stakeholders to develop local ESG reporting standards tailored to the Mauritian context is a key step, aiming to address local environmental and social challenges effectively. Investing in capacity building through training staff and clients on ESG issues enhances the ability to collect and report ESG data accurately, utilizing workshops, seminars, and online resources designed for the Mauritian market's unique needs.

Leveraging technology such as AI, and remote sensing is crucial for gathering accurate and timely ESG data, helping to overcome common challenges in emerging markets related to data availability and quality. Partnering with universities and research organizations allows for conducting studies on local ESG issues, providing valuable data and insights that inform investment decisions and policy advocacy.

On the disclosure front, leading by example and adopting international best practices in ESG reporting is essential. This includes aligning disclosures with global frameworks like the TCFD, SASB, or the GRI and adapting them to reflect local priorities. Financial institutions can use their influence as investors to encourage companies in their portfolios to adopt ESG reporting practices, offering technical assistance or preferential terms for those demonstrating strong ESG performance.

Working with other financial institutions and the government to develop a common platform for ESG reporting can streamline the process for companies and improve ESG data accessibility for investors and the public. Engaging in dialogue with regulators and policymakers to advocate for supportive policies and regulations that encourage or mandate ESG disclosure can raise the standard for ESG practices across the Mauritian financial sector. Additionally, developing and promoting investment products based on ESG criteria can attract investors interested in sustainable options and signal the institution's commitment to the green transition. One such example could be the possibility of introducing an industry green procurement framework to prioritize ESG for core service providers - over reasonable time frames - to allow for a just transition; such an initiative could spread the impact and transition more widely across the ecosystem of banks and their suppliers/service providers.

4.4 Compliance with Applicable Standards

Lastly, compliance with applicable standards ensures that financial institutions align with ESG-related regulations and standards. This alignment mitigates legal risks and underscores a commitment to societal responsibilities, enhancing an institution's standing in the marketplace. Furthermore, adhering to recognized ESG standards can distinguish an institution, attracting eco-conscious investors and customers, which, in turn, can bolster financial performance. Compliance also fosters a harmonized approach to sustainability across the financial sector, essential for collective efforts in tackling global issues like climate change.

4.5 Capacity Building for Mauritian Financial Institutions

4.5.1 Empowering Mauritian Financial Institutions through Strategic ESG Capacity Building

In the context of the evolving financial landscape, the relevance of ESG and sustainable finance capacity building cannot be overstated, especially when considering the critical role of skills in building a sustainable financial ecosystem, as outlined in the previous chapter on skills.

For Mauritian financial institutions, embracing ESG principles is not just a regulatory imperative but a strategic necessity to foster long-term resilience and sustainable economic growth. Capacity building in sustainable finance equips these institutions with the knowledge, skills, and tools to effectively integrate ESG considerations into their operations, lending, and investment decisions. This shift is critical for aligning financial services with Mauritius's broader sustainability goals, including climate change mitigation, social inclusion, and good governance. By enhancing their ESG capabilities, Mauritian financial institutions can attract more international investors, meet the growing demand for green finance, and contribute to the nation's commitment to sustainable development.

4.5.2 ESG Capacity Building Approach

Mauritian financial institutions can adopt a multi-faceted approach to ESG capacity building by:

- **Developing an ESG Framework**: Establishing a comprehensive ESG framework that outlines clear goals, strategies, and metrics for integrating sustainability into financial services.
- **Training and Development**: Implementing targeted training programs for employees at all levels to enhance their understanding of ESG issues, risk assessment methodologies, and sustainable finance products.
- **Leveraging Technology**: Utilizing digital tools and platforms for ESG data collection, analysis, and reporting to enhance decision-making and transparency.
- **Stakeholder Engagement**: Engaging with clients, investors, and the community to align financial products and services with stakeholders' sustainability needs and expectations.
- **Partnership and Collaboration**: Collaborating with local and international organizations to share knowledge, best practices, and resources in sustainable finance.

4.5.3 Learning from Regional Initiatives: The KBA-GIZ Initiative

A notable example of effective collaboration in sustainable finance is the partnership between the Kenya Bankers Association (KBA) and the Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ). This partnership aimed to enhance financial access for entrepreneurs and SMEs in Kenya's agricultural sector, focusing on capacity building and the development of financial products tailored to the needs of sustainable agriculture businesses.[91]

Drawing inspiration from the KBA-GIZ initiative, Mauritian financial institutions, in cooperation with the Mauritius Bankers Association Limited (MBA), could embark on a similar project. This collaboration could focus on sectors critical to the Mauritian economy, such as tourism, agriculture and the ocean economy, which are ripe for sustainable investment. Key components of this project could include:

- **Joint Capacity Building Workshops**: Organizing workshops and seminars in partnership with international organizations like GIZ to build local capacity in sustainable finance.
- **Development of Specialized Financial Products**: Creating financial products and services specifically designed to support SMEs in adopting sustainable practices and technologies.
- **Pilot Projects**: Launching pilot projects in selected sectors to test and refine sustainable finance strategies, with the goal of scaling successful models nationwide.

Such a collaborative project would not only enhance the capacity of Mauritian financial institutions to integrate ESG criteria into their operations but also position Mauritius as a leader in sustainable finance in the region. By learning from the KBA-GIZ partnership, Mauritian financial institutions can adopt a proven framework for driving sustainable economic growth, ultimately contributing to a more resilient and sustainable future for Mauritius.

In conclusion, ESG capacity building is a critical step for Mauritian financial institutions to remain competitive and relevant in a rapidly evolving financial landscape. By approaching this through comprehensive frameworks, targeted training, and strategic partnerships, these institutions can significantly contribute to Mauritius's sustainability goals. Drawing inspiration from the KBA-GIZ initiative, the cooperation between Mauritian financial institutions and the MBA could pave the way for innovative sustainable finance projects, demonstrating the transformative power of collaboration in achieving sustainable development.

4.6 Conclusion

In essence, these internal enablers - ESG risk management frameworks, ESG data collection and disclosure, and compliance with applicable standards - are not just mechanisms for risk mitigation or regulatory alignment; they are foundational to embedding sustainability into the core practices of financial institutions. They ensure that these entities not only navigate the complexities of the present landscape but also thrive, contributing to a sustainable global economy. Through these enablers,

[91] KBA GIZ partnership

financial institutions can align their operations with broader societal goals, securing their relevance and success in a future where sustainability is paramount.

By enhancing their level of ESG compliance, Mauritian financial institutions can broaden their pool of refinancing options and optimize financing terms and cost of capital.

By concentrating on these strategies, Mauritian-based financial institutions can play a crucial role in enhancing the domestic financial system's sustainability. These efforts are instrumental in attracting sustainable investments, reducing environmental and social risks, and aiding Mauritius in achieving its sustainable development goals, thereby making a significant contribution to the greening of the domestic financial system.