Climate Change Centre

Building Resilience By Integrating ESG In Lending Practices

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Alignment with Global Benchmarks

- IFC Status of Mauritius - Integrity, Sustainability and Transparency in the Financial System are critical

- ESG and Climate Risk Management Frameworks aligned with Global Standards
  - Enhance the attractiveness of Mauritius for international sustainable finance investors

- Disclosure Requirements
  - As the custodians of public trust, banks have to be transparent and accountable on the environmental and social impact of their operations
  - Guidance provided by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)

The Guide for the Issue of Sustainable Bonds in Mauritius

- The Bank of Mauritius published the "Guide for the Issue of Sustainable Bonds in Mauritius" in June 2021. It provides an overview of the requirements and processes for the issuance of Sustainable Bonds in Mauritius.

- Aligned with International Standards, Green Bond Principles (GBP), published by International Capital Markets Association (ICMA) and structured along the four core Principles:
  - Use of Proceeds
  - Management of Proceeds
  - Reporting
  - External Review

- The Guide provides clarifications on the issue Green Washing which is one of the major concerns related to the Use of Proceeds from the issuance of Bonds.

- The guide also provides a list of projects that needs to be excluded in line with the International Finance Corporation (IFC)Exclusion List (2007), such as exploration and production of fossil fuels, production or trade in weapons, forced labor, amongst others.

- The Guide also provides the steps for the listing of Sustainable Bonds on the Stock Exchange of Mauritius.

Mauritius Sustainable Finance Framework

❖The Bank also collaborated with the Ministry of Finance, Economic Planning and Development (MOFEPD) to develop a Sustainable Finance Framework for Mauritius, which was rolled out in August 2023.

❖The Framework provides the basis under which the MOFEPD, acting on behalf of the Republic of Mauritius, intends to issue:

a. Green, Social, Sustainability and Thematic Bonds, Loans or other debt instruments (collectively "Sustainable Use of Proceeds Finance Instruments"); or

b. Sustainability-Linked Bonds, Loans or other debt instruments (collectively "Sustainability-Linked Finance Instruments)

❖The Framework is structured along 4 core components, notably:

I. the use of proceeds,

II. the process for project evaluation and selection,

III. the management of proceeds and

IV. reporting

Mauritius Sustainable Finance Framework

1. Use of Proceeds

- Mauritius commits to allocate an amount equivalent to the net proceeds from the issuance of Sustainable Finance Instruments under this Framework towards eligible projects (renewable energy, biodiversity conservation and access to essential services like healthcare, education, affordable housing) in line with our Nationally Determined Contribution, 3-Year Strategic Plan and Vision 2030

2. Process for Project Evaluation and Selection

- Mauritius will establish a Sustainable Finance Working Group comprising representatives from different Ministries and chaired by a representative of the MOFED.

3. Management of proceeds

- The net proceeds from the issuance of Sustainable Finance Instruments will be deposited by Mauritius in a general funding account and earmarked for allocation in a Sustainable Finance Register.

4. Reporting

- Mauritius intends to publish a report on the allocation of net proceeds together with impact metrics within one year from issuance of the Sustainable Finance Instruments.

Alignment of Sustainable Finance Framework with Global Standards

Sustainable Use of Proceeds Instruments aligned with

Supervisory Expectations

Guideline on Climate-related and Financial Risk Management

❑ The Guideline sets out the Bank's expectation for financial institutions to:

- **Identify** risks and **assess** their impact under different time horizons
- **Monitor** risks through regularly updated metrics
- Understand risks and opportunities through **Scenario Analysis**
- **Manage** risks through mitigation plans and engaging with stakeholders
- **Report** risk information to board and senior Management. Implement **market disclosures**

Innovative and **forward-looking** risk management toolkit. More **resilience** at sector level

Risk management considerations are aimed at **Business Strategy**, **Governance**, **Risk Management function**, **Scenario Analysis** and **Disclosure** levels.

Implementation period of 21 months

01 April 2022
Guideline issued & effective

30 September 2022
Submission to Bank of **internal roadmaps** on implementation of risk management framework

31 March 2023
1) **Draft Disclosures** to the Bank only (*See table below*)
2) FIs to submit **progress reports** on implementation of risk management framework

31 December 2023
Full implementation including release of public disclosures

Submission of draft disclosures to Bank	
Financial Year Ending	Draft disclosures submission deadline
31 December 2022	31 March 2023
31 March 2023	30 June 2023
30 June 2023	30 September 2023
30 September 2023	31 December 2023

Integration of Climate Risks into lending Practices

- Inclusion of material climate-related and environmental financial risks into the risk policies and procedures.
- Requirement for frontline staff to undertake climate-related and environmental financial risk assessments for instance during client onboarding, credit application and credit review process.
- Consideration of material climate-related and environmental financial risks into the entire credit life cycle, including client due diligence as part of the onboarding process and ongoing monitoring of clients' risk profiles.
- Need to identify, measure, evaluate, monitor, report and manage the concentrations within risk types associated with climate-related and environmental financial risks such as exposure to geographies and sectors with higher climate-related and environmental financial risk.
- Assessment at loan origination stage and at subsequent reviews which shall include the ability and willingness of the borrowers to manage and reduce the risks and the potential impact on the probability of defaults and the value of the collaterals.
- Scenario analysis and stress testing to determine the size and potential impact of climate-related and environmental financial risks and to assess the resilience and vulnerabilities of their business model to such events.

How far are banks integrating ESG in their Lending Practices?

- Our guideline requires banks to consider climate/ environmental risks during the entire credit life cycle.

- The Guideline on Climate-related and Financial Risk Management is effective as from 31 December 2023.

- Such assessments would be dependent on the availability of information. At this stage, it is not expected that banks (specially local banks) would be able to conduct detailed assessment.

- Based on preliminary information, a couple of banks have started to gather information about climate change as part of their credit granting process.

Implementation of Guideline – Transitory Disclosure Requirements

- Disclosure Requirements as per Guideline – Main Challenges
  - Lack of granular climate data mostly in terms of GHG emissions reporting from their client portfolio. Thus, banks have to calculate estimates which are not necessarily accurate in relation to scope 1, 2 and 3 emissions;
  - Lack of sustainable finance knowledge in smaller sectors (Small Medium and Micro Enterprises) as well as a low demand for sustainable finance products due to their high compliance costs at client-level; and
  - the lack of data and other expertise in conducting relevant scenario analysis/ stress testing and for compiling relevant metrics and targets.
- Transitory disclosure requirements, effective from 8 December 2023 until further notice
  - Financial institutions would not be required, at this stage, to disclose their climate-related metrics and targets and would be left to their discretion.
  - Disclosure will focus on governance, strategy and risk management.

Challenges and Way Forward

- Collaborative efforts are currently on-going between the Bank of Mauritius, the Ministry of Environment, the University of Mauritius as well as the private sector to address numerous aspects, which include the lack of granular climate data for use in stress testing and scenario analysis, as well as measurement mechanisms for the estimation of scope 1, 2, and 3 emissions for disclosure purposes.

- Enhanced disclosure requirements could accelerate the availability of reliable and comparable climate data and facilitate forward-looking risk assessments by banks and investors

- Development of a National Green Taxonomy to complement the ESG framework.
  - Define criteria for sustainable activities and address greenwashing concerns

Thank You For Your Attention