

Harvesh Seegolam: Keynote address - UN Country Team Strategic Retreat

Keynote address by Mr Harvesh Seegolam, Governor of the Bank of Mauritius, at the UN Country Team Strategic Retreat, Balaclava, 4 April 2024.

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- The Hon Mr Naadir Hassan, Minister of Finance, National Planning, and Trade, Republic of Seychelles
- The Hon Mrs Marie-Celine Zialor, Minister for Youth, Sports, and Family, Republic of Seychelles
- The Hon Mr Justin Valentin, Minister of Education, Republic of Seychelles
- The Hon Mr Flavien Joubert, Minister of Agriculture, Environment and Climate Change, Seychelles
- Ms Charlotte Pierre, British High Commissioner to Mauritius
- Mrs. Lisa Singh, United Nations Resident Coordinator for Mauritius and Seychelles
- United Nations Regional Directors
- United Nations Heads of Agency
- Members of the Diplomatic Corps in Mauritius and Seychelles
- Distinguished Guests
- Ladies and Gentlemen

Good morning.

It is a pleasure to be with you today at the 2024 United Nations Country Team Strategic Retreat. I would like to thank you for inviting me to share a few thoughts on the topic of Sustainable Development Goal (SDG) financing among Small Island Developing States (SIDS), a topic of utmost relevance and importance for us here in Mauritius, as we chart the way forward in an increasingly unpredictable global economic context.

Ladies and gentlemen,

Over the next fifteen minutes, I will contextualise the macroeconomic issues that SIDS are subjected to, as these will form the basis of our discussions on scaling SDG financing. Although SIDS are quite diverse, ranging from high-income to least developed countries, they share inherent structural vulnerabilities due to their small populations, geospatial remoteness, narrow resource base and susceptibility to climate change and natural catastrophes.

The narrow resource base results in heavy reliance of SIDS on external markets for goods. As a result, many SIDS grapple with heavy fluctuations in import and export prices. In the current post pandemic context, these economic and financial vulnerabilities have been amplified even further by macroeconomic factors. These include global inflationary pressures, high fiscal deficits and public debt levels and capacity limitations that restrict the ability of SIDS to scale domestic resource mobilization, private finance and FDI opportunities towards Sustainable Development Goals. Further, the impact of climate change has added to the financial quagmire of many SIDS.

In fact, the pandemic had particularly disastrous consequences for SIDS in economic and fiscal terms, most of which are largely dependent on international trade, external finance and few key sectors, often tourism. In 2020, it was estimated that GDP of SIDS dropped by 6.9 per cent versus 4.8 per cent in all other developing countries. In Mauritius, we equally witnessed a major GDP contraction of around 15 per cent in 2020, one of the highest in the world I must say.

Ladies and gentlemen,

Against such precarious macroeconomic backdrop, we all agree that an effective implementation of the SDGs is key to our development to achieve a more equitable and sustainable future for all.

However, as most of you here may be aware, the UNCTAD reported that in 2022, SIDS collectively received around USD 8 billion, representing 0.6 per cent of global FDI flows and a 39 per cent increase from 2021. While this is certainly a step in the right direction, it is still inadequate and disproportionately distributed as the top five SIDS recipients received around 85 per cent of the inflows. The top five recipients were Dominican Republic, Bahamas, Maldives, Jamaica and Timor-Leste. Among the five **African SIDS**, Mauritius saw its FDI flows grow by 48 per cent from 2021 to reach USD 625 million in 2022.

Climate funds were set up by developed nations to assist less-developed countries. While these amounted to USD 35 billion, it is estimated that only some USD 11 billion has been actually disbursed, with the share flowing to SIDS being even less significant. SIDS are on the frontline of the climate emergency, bearing the brunt of more frequent and intense extreme weather events, increasing temperatures and sea level rise, all of which threaten people's livelihood and food security, with important ripples on economic and financial stability.

These figures are disconcerting but more importantly, they emphasise the urgency of the work ahead of us for removing potential obstacles to mobilise adequate SDG finance. Allow me to illustrate with the case of Mauritius: to meet its climate obligations by 2030 under the 2015 Paris Agreement alone, Mauritius requires funding estimated at USD 6.5 billion, 35 per cent of which would be funded by the Government and domestic private sector while the remaining 65 per cent or USD 4.3 billion would have to be financed externally by 2030. This results in a yearly financing requirement of around USD 700 million, which is no small feat.

There is no magic formula or one-size-fits-all solution when it comes to mobilising SDG finance. Each country needs to muster its capital requirements in consideration of its own local needs, capacity and priorities. However, in order to accelerate the momentum of moving capital towards the SDGs, there are three key considerations:

FIRST, there is the need for a concerted and urgent effort by all stakeholders including government, NGOs, financial institutions, regulators, academics, investors and even consumers. By leveraging public-private partnerships, we can complement FDI inflows through blended finance initiatives towards sustainable projects. In this vein, the

Mauritian Government is actively engaged in developing, under the National Vision 2030, investment opportunities that align with the objectives of the SDGs to attract private capital to sustainable development needs.

SECOND is the imperative of incentivising domestic and international investors to mobilise private financing into SDG projects by maximising the financial returns on such investments. Project bankability is especially challenging for SIDS due to limited technical expertise and access to natural resources which may explain why less than one-third of the available climate funds has been disbursed so far to developing countries and SIDS.

In this regard it may be helpful to seek technical and financial assistance from external institutions like the World Bank, the IMF, the United Nations and the Agence Française de Développement (AFD) to mention but a few. International banks must also develop relevant instruments and vehicles that will attract private investors. In Mauritius, with the expertise of international partners, two private companies were able to issue green bonds in 2022 and 2023. The bonds are currently listed and trading on the Stock Exchange of Mauritius (SEM). The SEM introduced the SEMSI in September 2015, a sustainability index which evaluates the practices of listed companies based on ESG criteria. To date, there are eighteen companies participating in this index. Some local banks have also availed of external financing in the form of credit lines and guarantees from institutions like the AFD for subsequent deployment as green/sustainable loans.

Ladies and gentlemen,

I will also say that for SIDS which are the stewards of some of the largest ocean territories, the sustainable blue economy agenda could be transformative for national development agendas. Blue bonds are emerging as an innovative way to fund ocean and water-related solutions, create sustainable business opportunities, and signal responsible ocean stewardship to the market. I would invite all SIDS to give due consideration to the opportunities that can be untapped through such issuances.

The THIRD key aspect is the building of robust regulatory frameworks that enhance the resilience of the financial system and increase the credibility of the SDG strategies and products being offered. As I iterated earlier, SIDS tend to have structural vulnerabilities that make them more susceptible to external shocks.

It is therefore primordial to have the right policies in place to preserve monetary and financial stability and thus boost public confidence and facilitate capital flows across the financial system. In addition to maintaining a resilient and credible financial system, SIDS central banks may also be strategically positioned to promote the growth of domestic climate financing through enhanced risk and opportunity discovery by working towards improving climate information architectures and climate finance market structures.

Ladies and gentlemen,

When it comes to the climate agenda, the Bank of Mauritius has taken the lead in facilitating an enabling environment for the development of sustainable finance across Mauritius. The reality is that SIDS generally, have less developed financial markets

which makes raising funds on the international markets difficult. SIDS equally face the challenge of rating agencies actions. As you are aware, rating agencies play a vital role in generating trust and confidence in debt instruments beings issued by sovereigns in the private sector.

In Mauritius, we have given due consideration to these challenges and have invested ourselves in developing the right eco-system to accompany the development of SDG-financing. This adds to the fact that Mauritius is rated by both Moody's and S&P as the only investment grade IFC in Africa. The banking sector in Mauritius also continues to play a pivotal role in attracting international investors. At the level of the Bank of Mauritius, we have left no stone unturned when it comes to further modernising the banking sector and its offerings to compete in international markets for sustainable finance.

Starting in June 2020, the Bank engaged with financial institutions to create awareness of climate-related risks as well as opportunities from the transition to net-zero. In July 2020, the Bank joined the Network of Central Bank and Supervisors for Greening the Financial System (NGFS) to widen its collaboration with other central banks regarding sustainability-related research and technical resources.

In June 2021, the Bank of Mauritius published a guide on the issuance of sustainable bonds which aims to ensure the integrity of the sustainable finance ecosystem in Mauritius and prevent greenwashing. The guide recommends that the bonds be aligned with international standards such as the Green Bond Principles of the International Capital Market Association and the International Climate Bonds Standards of the Climate Bonds Initiative.

In October 2021, the Bank set up a Climate Change Centre (CCC). The Climate Change Centre acts as a focal point for addressing the macroeconomic implications linked to climate-related and environmental financial risks by integrating such risks into our regulatory, supervisory and monetary policy frameworks. With a view to further consolidating the appeal of Mauritius for international sustainable finance investors, the Climate Change Centre has also collaborated with the Government and other key stakeholders on a number of projects.

These projects include amongst others the development of a nation-wide ESG framework for issuing green and blue bonds, and collaboration in view of the elaboration of a National Green Taxonomy to provide a common framework for investors wishing to invest in sustainable goods and services. Currently, the Climate Change Centre is also working with international partners to develop a high-integrity carbon trading framework for both blue and green credits. All of these initiatives aim to promote a resilient and credible sustainable finance ecosystem in Mauritius and through the Mauritius International Financial Centre in the region.

I am pleased to report that the work of the Climate Change Centre over the past three years is on the right track as demonstrated through a 64 percent increase in bank exposures towards sustainable projects, and a 53 percent increase in loan applications for sustainable project financing over the period June 2022 to June 2023 as per the survey conducted by the Bank in 2023.

Ladies and gentlemen,

Like most SIDS, we have much work in front of us to bridge the SDG-financing gap. We have started this journey and are going in the right direction. However, to reach our destination, it is important that we continue to develop collaborative partnerships, incentivisation strategies and credible architectures that will help maximise our full potential for mobilising SDG finance.

We have the responsibility towards the future generations who will judge us by the quality of legacy we shall bequeath to them. Our actions will impact generations to come and may be irreversible. In this labyrinth of shocks-actions-reactions that is eerily reminiscent of a snakes-and-ladders game of grand scale, we have the moral compass of convincing our future generations that we did everything we could since timing is of essence.

I therefore call on all of you to do your utmost best in contributing to build a sustainable and resilient SDG friendly financial system.

Before I end, I will equally suggest that like-minded SIDS come together to reflect on the challenges and also share expertise and learnings on this journey. Central Banks of SIDS can undoubtedly begin with this collaborative approach. On this front, I would suggest that the Bank of Mauritius and the Central Bank of Seychelles set the tone. Other central banks from the SIDS region may subsequently join us in the process.

Ladies and gentlemen,

We need to act now and we need to do it smartly.

With these words, I thank you for your attention.