In Conversation with

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1. When and why did your institution join the NGFS?

At the outset, let me seize this opportunity to commend the founding members of the NGFS for the brilliant idea of this coalition. This was much needed as climate change cuts across the different mandates of central banks.

I was appointed Governor of the Bank of Mauritius (Bank) in March 2020. As soon as I assumed office, one of my first priorities was to get the ball rolling on the climate related front. I, therefore, whole-heartedly took the decision to submit an application to join the NGFS. This was positively considered and the Bank was admitted as a member on 23 July 2020.

Let me say that several milestones culminated in our decision to join the NGFS. At the national level, in September 2015, Mauritius adopted the 2030 agenda for *Sustainable Development: Transforming our world – ending poverty, protecting our planet and ensuring that all people enjoy peace and prosperity.* The Sustainable Goal 13 specifically deals with climate change policies. Further, in April 2016, the country ratified the Paris Agreement on Climate Change.

As a Small Island Developing State, Mauritius is particularly vulnerable to the adverse impacts of climate change. This was emphasised in the 2018 World Risk Index wherein Mauritius was ranked as the 16th country with the highest disaster risk in the world and was also 7th on the list of countries most exposed to natural hazards worldwide. The potential threats and risks from climate change are thus causes of grave concern to Mauritius.

On the international front, in its 2018 Global Risk Report, the World Economic Forum identified the failure of climate change mitigation and adaptation risk as one of the top 5 global risks for the next ten years. The dangers of climate change and risks to the financial system are amply covered in different publications on which I need not dwell.

The financial sector has an important role to play in the build-up of a climate-resilient economy. As the apex institution in the banking sector, the Bank is best placed to chart out a roadmap for the sector as far as climate change is concerned. Many regulators, including the Bank of Mauritius, have recently embarked on this journey and the NGFS is the perfect springboard for sharing of experience, expertise and knowledge on climate related issues in the financial sector as well as providing a hands-on approach through participation in the various work streams. By adhering to this club, the Bank also stands to gain as it will be at the forefront of the latest developments in the field.

2. Can you share with us the key elements of the Bank of Mauritius's climate strategy and how it fits into the broader national strategy in your jurisdiction?

Mauritius aims to create "an inclusive, high-income and green country" through an array of initiatives. The related policy of the country is based on four pillars, namely (i) Investing in clean energy, (ii) Shifting to a cleaner and greener Mauritius; (iii) Mitigating risks from climate change; and (iv) Protecting our marine resources.

The financial sector has an important role to play in the decarbonisation of the economy as the success of policy measures will depend to a large extent on access to finance. The Bank's climate change approach has two aspects: domestic and international. On the local front, we will soon release a Guide for Issuance of Sustainable Bonds in Mauritius which sets out our approach to sustainable finance. This document has been finalised together with other stakeholders. Under this guide, the Bank may issue sustainable bonds, for investment in projects or companies, promoting the sustainable economic development of Mauritius. Sustainable bonds are any type of bond instrument where the proceeds will be exclusively applied to eligible environmental and/or social projects.

We are also working on including ESG-criteria in the investment analysis to improve the risk-return profile of the portfolio. For that, we are working on identifying financially material ESG criteria on asset classes before investing. This approach explicitly accounts for ESG risks without necessarily curtailing the investment universe. With its ESG policy, the Bank is also aiming to promote corporate social responsibility and improve its financial and reputational risk management in the pursuit of positive outcomes related to social and environmental impact.

An internal working group has also been set up to look into the integration of climate related and environmental risks into the supervisory framework. Other projects in the pipeline include the development of a set of ESG indicators, supervisory initiatives with respect to green assets and incorporation of climate related scenarios in stress testing exercise.

It is also worth noting that in November 2020, the Bank has invested in an ESG Fund managed by one of its external managers which aims to maximize total returns consistent with the principles of ESG. Going forward, the Bank will lay increased emphasis on ESG factors. A large portion of the foreign exchange reserves is currently invested with 6 external managers of international repute and ESG is at the heart of their investment considerations.

Climate change affects everybody and requires a global and coordinated approach. As already mentioned, the Bank of Mauritius became a member of the NGFS last year: sharing of experience and expertise is a key enabler as we are all navigating in unchartered territory. We are also collaborating with other central banks and at the beginning of this month, the European Central Bank organised a workshop for the benefit of the Bank's staff covering, inter-alia, incorporation of climate-related scenarios in stress testing exercises, supervisory expectations of climate change and the physical and transition risks involved.

3. To which extent did the Bank of Mauritius leverage the work of the NGFS in its own domestic journey? Any concrete examples?

At the level of the NGFS, the Bank is represented in two workstreams, namely those on microprudential and supervision and scaling up green finance. Our staff are contributing to the work through these forums. I must also say that in late December last year, I had a conversation with Mr Frank Elderson, the chair of the NGFS and who was recently appointed as a member of the Executive Board of the European Central Bank. We touched upon the climate change agenda and the potential challenges for small island states. This forum would surely enable Island States, having common challenges in the fight against climate change, to formulate effective and hopefully joint strategies.

The Bank intends to set out its supervisory expectations including the relevant disclosure requirements to ensure that climate-related and environmental risks are duly embedded in the enterprise wide risk assessment framework of its regulatees. The Bank is leveraging on the Guide for supervisors[1] issued by the NGFS and is looking into the implementation of the recommendations contained therein as well as into the adoption of the definition of climate-related/environmental risks as set out in the Guide. The Bank's presence in the workstream in scaling up green finance has also been helpful in our work for coming up with a Guide on Sustainable Bonds[2].

On an individual basis, we are also developing cooperative ties with specific central banks which are members of the NGFS and having reached an advanced stage in the area of climate change.

However, we need to conduct more research and collect relevant data to be able to have a good assessment of the climate-related and environment risks including their transmission channels and loss potentials in the financial system and come up with a relevant mitigating plan. We shall follow closely the work at the level of the workstream on data gaps to improve our processes.

4. One last word?

The fight against climate change is more than ever a priority and involves the responsibility of all of us. It is true that we are in an exceptional environment as the COVID-19 pandemic has brought the world economy to its knees and is still in the limelight. We do, however, take comfort in the fact that over time, the trend is likely to be reversed, particularly with the ongoing inoculation campaign in several countries. Unfortunately, unlike the pandemic, no vaccine can ever be developed against the effects of climate change which also transcend national borders. Worse, the damage is irreversible. History is littered with examples of the destructive force of nature across the globe. If we delay too much in pursuing the climate change agenda, I fear that we run the risk of humanity facing an existential threat down the line. With such dark clouds hanging on the horizon, a collective effort is required to accelerate the shift towards a greener economy. The pandemic has presented us with an opportunity to do things differently and I will say that the time is now perfect for climate change policies to take centre stage in the economic reconstruction that is under way globally.

[1] https://www.ngfs.net/sites/default/files/medias/documents/ngfs_guide_for_supervisors.pdf

[2] https://www.bom.mu/sites/default/files/consultation_document_issue_of_sustainable_bonds_0.pdf