PRIME 35 YEARS

Sustainable Finance in the Global South - An Imperative for Private Sector

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The pursuit of sustainable development is a global imperative, yet its realization faces formidable challenges—especially across the diverse and rapidly evolving economies of the Global South. Due to depredations by the developed world and their geographical locations, the Global South faces significant challenges in achieving sustainable and equitable development. The most pressing of these is funding—estimated at around US$4 trillion for developing countries—yet current progress barely scratches the surface.[1]

The article explores how private capital can and needs to supplement government and multilateral initiatives and what financial instruments are available to do so.. It is clear that leaving it to Government and Multilaterals alone will not solve the problems. Private sector needs to supplement and in many cases lead efforts for Sustainable Development and not only because it is the right thing to do but it is in the long term interest as we discuss in this article.

The Private Sector

The private sector has grown significantly, and Corporations are increasingly becoming more dominant and powerful across the world. The scale of large corporations as a proportion of world GDP is increasing rapidly. The business sector overall contributes 63 percent of GDP in the OECD, and corporations with more than $1 billion in revenue account for an increasingly large share of that[2]. The top 50 companies by value added $6 trillion of stock market capitalization in 2024, taking their combined worth to about 30.5% of global gross domestic product.[3,4] Three decades ago, the equivalent figure was less than 5%.[5] India is no different. Corporates control significant wealth in India, and we see the wealth of the top corporates and their leaders growing by leaps and bounds. The market capitalization of the listed companies in India accounted for 133.5 % of its Nominal GDP in 2024, compared with a percentage of 120.9 % in the previous year.[6]

The largest corporations control large portion of the global assets, employ a huge number of people directly and indirectly impact several more through their supply chains. They also supply goods and products and therefore directly or indirectly to most of the world's population. The concentration of economic power also leads to a disproportionate ability to influence policy and society.

This is not purely altruistic but a recognition that Corporates have a key role to play in issues related to Sustainability and if they don't play it, it will impact their performance in the medium to long term. It is clear now that if these issues are not addressed it will destroy markets for corporates and hence impact their long-term sustainability.

> *"As a result of these impacts, the public has formed social expectations that have guided the corporate sector's increased involvement in contributing to social and environmental solutions. Notwithstanding the moral argument, the economic argument suggests that environmental and social-related investments could protect or enhance shareholder value. To the extent that this is the case, corporate managers are creating value for all stakeholders. In contrast, where trade-offs between "doing good" and "doing well" exist, managers face tough choices over how to optimize long-term financial value subject to constraints"*
> **Prof George Serafeim,.**

As nations and corporations confront urbanization, resource stress, and the escalating impacts of climate change, the need for effective and forward-looking financing mechanisms has never been more pressing. Sustainable finance has emerged as a critical enabler, offering structured pathways to mobilize capital for development priorities while meeting return expectations of investors. Notably, sustainable finance is not only a vehicle for impact but also a growing market segment, driven by strong investor demand and real market need, and supported by well-defined instruments, credible frameworks, and established platforms, making it both a developmental necessity and a compelling financial opportunity.

1. The Urgent Need for Sustainable Finance in the Global South

The Global South is disproportionately affected by the adverse effects of climate change, despite contributing the least to global emissions. Rising sea levels, erratic weather patterns, food insecurity, and public health crises have intensified socio-economic challenges across the region. Many of these can be attributed to the high consumption societies in the developed world which have caused these issues. There have been many efforts to create appropriate financing mechanisms for transfer of resources from the west but many of these fall short. Simultaneously, many of these countries face high debt burdens, limited fiscal space, and underdeveloped capital markets, which severely constrain their capacity to respond to climate risks and build resilience.

Some of the specific priority areas where private sustainable finance can play a catalytic role include:

1. **Climate Change Adaptation and Mitigation**: Significant investments are required for climate-resilient infrastructure, early warning systems, sustainable agriculture, and renewable energy to both mitigate emissions and adapt to unavoidable changes.
2. **Infrastructure Development**: There is a pressing need for sustainable infrastructure across sectors such as energy, water, transport, and digital connectivity.
3. **Poverty Eradication and Social Inclusion**: Millions still live in extreme poverty, lacking access to basic services like healthcare, education, and clean water. Sustainable finance can channel resources toward projects that address these inequities and support inclusive growth.
4. **Biodiversity Conservation and Ecosystem Protection**: Many Global South countries are home to critical biodiversity hotspots facing increasing threats from deforestation, pollution, and unsustainable resource extraction. Financing is crucial for conservation, sustainable land use, and development of nature-based solutions.
5. **Economic Diversification and Job Creation**: Sustainable finance can support the development of new green industries, driving economic diversification and creating decent jobs, especially for youth and marginalized populations.
6. **Capital Exports from the Global South**: Ironically, a significant portion of savings from emerging markets is invested in financial centres of advanced economies. Reversing this capital outflow and mobilizing domestic savings toward local sustainable investments is essential.

Without sufficient and well-targeted sustainable finance, the Global South risks falling further behind in its development trajectory, exacerbating global inequalities and undermining collective efforts to address the planetary crisis and impact private capital's efforts to sustained growth and profitability in the long term.

2. Unlocking Growth: Emerging Opportunities in Sustainable Finance Across the Global South

Despite historical underinvestment relative to need, the sustainable finance landscape is experiencing growing momentum. There is increasing interest from both public and private investors, as well as policy-makers, to scale up sustainable finance in these regions—recognizing its centrality in achieving global sustainability goals and the outsized impact that targeted investments can yield.

1. **Growing Awareness and Commitment**: There is a discernible increase in awareness among governments, financial institutions, and corporations in the Global South regarding the importance of sustainable finance. Many central banks and financial regulators are beginning to integrate climate and environmental risks into their supervisory frameworks.
2. **Rising Sustainable Bond Issuance**: The GSS+ bond market has seen remarkable growth globally. In 2024 alone, social and sustainability bond issuance volumes rose by 9% and 32% year-on-year, respectively, signalling growing market maturity.[7]
3. **National Roadmaps and Taxonomies**: Several countries are establishing sustainable finance strategies and green taxonomies to provide direction and consistency for issuers and investors alike.
4. **Digital Finance and Innovation**: Digital platforms and fintech are enabling broader access to capital and improving transparency in sustainable finance transactions.
5. **Support from Multilateral Institutions**: Development banks such as the World Bank, Asian Development Bank, and African Development Bank continue to provide concessional finance, blended finance solutions, and technical assistance to scale sustainable projects.
6. **Demographic and Development Potential**: The Global South's young and rapidly growing populations create strong demand for infrastructure, housing, education, and jobs, areas that align directly with sustainability-focused investments.

With large pools of untapped demand, a growing policy push, and improving institutional frameworks, the Global South presents a compelling ecosystem for issuers to raise capital and for investors to generate long-term, high-impact returns.

3. Key Initiatives and Success Stories

Several pioneering initiatives across the Global South are already demonstrating what is possible when ambition is matched with innovation, strategic financing, and institutional support. From sovereign issuances to corporate innovation and multilateral collaboration, the success stories seen in the Global south showcase how diverse actors are mobilizing capital to address both local priorities and global sustainability targets.

1. **India**: Govt of India issued eight tranches of a Sovereign Green Bonds since 2023, totalling USD 5.7 bn for green infrastructure and to help reduce the carbon intensity of the economy.[8,9,10] The National Investment and Infrastructure Fund (NIIF) manages over USD 4.9 billion, with significant investments in renewables and a USD 600 million India-Japan Fund focused on sustainable infrastructure.[11] In 2025, Larsen & Toubro (L&T) issued India's first sustainability-linked bond, raising ₹500 crore in line with its water and carbon neutrality targets.[12]

2. **China**: In Q4 2024, three of the largest state-owned commercial banks, Bank of China, China Construction Bank, and Industrial and Commercial Bank of China, issued five green bonds totalling USD 8.61 billion. These funded renewable energy and public transport projects in both domestic and international markets.[7]
3. **Brazil**: Issued a USD 2 billion sovereign sustainable bond in November 2023 under its new Sovereign Sustainable Bond Framework. Proceeds were allocated to projects aligned with Brazil's climate targets, including energy, food, and water security.[13]
4. **Kenya**: Acorn Holdings, a real estate developer, successfully dual-listed a green bond on both the London Stock Exchange and Nairobi Securities Exchange in 2019.[14]
5. **Zambia**: Copperbelt Energy Corporation listed a USD 200 million green bond on the Lusaka Stock Exchange in 2024 to support renewable energy expansion.[15]
6. **Africa-wide**: The African Development Bank launched a Green Bond Initiative in collaboration with European development institutions to provide technical assistance for green bond issuance across the continent.[16]

While the instruments and contexts vary, common threads emerge: a clear policy signal, institutional readiness, and the strategic use of capital can all play a catalytic role in mobilizing large-scale investment. Equally important is the ability of these initiatives to align sustainability goals with financial returns, thereby attracting a broader pool of investors. As the sustainable finance ecosystem matures, these early successes provide valuable blueprints for replication and scaling. They also reinforce the notion that with the right enabling conditions, the Global South is not only ready to absorb sustainable capital but also to lead the next wave of innovation and impact in global finance.

4. Foundations of Sustainable Finance: Structures and Principles

At its core, sustainable finance refers to the integration of environmental, social, and governance considerations into financial decision-making processes. It aims to reorient capital flows towards sustainable investments, foster long-term value creation, and mitigate risks associated with environmental degradation and social inequality. This is driven by three forces

a. Growing awareness and consumer pressure on companies to operate more sustainably
b. Regulatory pressure through more disclosures, fines and duties and
c. Long term investors who realise that they need to incorporate sustainable financial principles without which their investments will lose value.

Unlike traditional finance, which prioritizes only financial returns, sustainable finance explicitly seeks to optimize both broader societal and environmental benefits and financial viability. It is believed that these investments will outperform investments not using these principles in the long term and hence it is suitable for long term investors. Investors make small, short term sacrifices in the form of reduced coupon rates or lower returns to benefit the larger global needs for sustainability and gain through improved sustainability not just of the earth and society but of the corporation itself in the long term.

Reflecting this growing shift in priorities, 2024 saw the total volume for GSS+ bonds globally reach USD 1.05 trillion, with 64% of aligned deals priced under the green theme, followed by sustainability, social, and sustainability-linked bonds.[7]

Key structures and principles underpinning sustainable finance include:

1. **Blended Finance**: The strategic use of public or philanthropic capital and private capital in a combination such that it encourages private capital to invest in areas that generate inferior returns but enable the efficiencies that private capital brings in by derisking or subsidising returns. As of 2024, the global blended finance market, both developed and emerging economies, has mobilized approximately $213 billion across 1,123 deals. [17]
2. **Transition Finance**: Supports carbon-intensive sectors committed to decarbonization. Global investment across countries, in the low-carbon energy transition reached a record $2.1 trillion, an 11% increase from the previous year[18]
3. **Microfinance**: Providing financial services to low-income individuals or groups, often lacking access to conventional banking, to support small businesses and promote economic inclusion
4. **Impact Investing**: Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. This often involves patient capital and a hands-on approach to ensure impact. The global impact investing market reached $1.571 trillion in assets under management (AUM), managed by 3,907 organizations, according to the Global Impact Investing Network (GIIN)[19]

The following are the typical instruments used to channel private capital toward sustainable development:

1. **Green Bonds**: Debt instruments exclusively used to finance or refinance eligible green projects based on use of proceeds e.g., renewable energy, clean transportation, lending for such projects, etc.
2. **Green Funds/ETFs**: Investment funds that primarily invest in companies with specific environmental themes eg: Air pollution, water quality, waste management, emissions reduction
3. **Green Equity**: Equity investments in companies or projects that generate measurable environmental benefits (or Plus Zero companies), such as renewable energy, clean technology, or sustainable agriculture.
4. **Green REITs**: Real Estate Investment Trusts that invest primarily in environmentally sustainable buildings or projects, focusing on energy efficiency, renewable energy, and green certifications.
5. **Social Bonds**: Financing for social objectives (e.g., housing, healthcare). In 2024, social bonds contributed 16% to GSS+ volume, reaching USD 167.6 billion.[7]

6. **Orange Bonds**: Bonds specifically designed to finance projects that promote gender equality and women's empowerment, often aligned with the UN Sustainable Development Goals.
7. **Transition Bonds**: Debt instruments issued to fund a company's shift from high-carbon to low-carbon or climate-resilient operations, supporting incremental progress toward sustainability.
8. **Sustainability-Linked Finance**: Instruments where financial terms (e.g., interest rates) are tied to the borrowers' sustainability performance targets.

These instruments are reinforced by globally recognized frameworks that ensure transparency, credibility, and financial integrity through their monitoring and reporting guidelines. Key among them are ICMA's Green and Sustainability-Linked Bond Principles, the EU's Sustainable Finance Disclosure Regulation, IFC's Performance Standards, and the Climate Bonds Initiative's certification scheme, all of which help standardize practices and enable sustainable finance to scale across markets.

5. Mauritius: A Strategic Inroad to the Global South

As sustainable finance gains traction across the Global South, the question of *how* and *where* to channel capital efficiently becomes critical. Mauritius has emerged as a trusted and strategic financial hub that offers a robust gateway for both issuing and investing in sustainable assets across Africa, Asia, and other emerging markets. Its geographic location, business-friendly ecosystem, and strong regulatory environment make it a preferred jurisdiction for structuring cross-border transactions and unlocking capital flows into high-impact markets through a tax friendly jurisdiction.

Key advantages include:

1. **Strategic Location**: Mauritius is strategically located at the crossroads of Africa, Asia, and Europe, making it an ideal gateway for accessing emerging markets
2. **Business-Friendly Environment**: The country boasts a stable political climate, a strong legal framework, a pro-business government that encourages foreign investment and a robust regulatory framework that ensures investor protection
3. **Tax Benefits**: Mauritius has a favourable tax regime, including no capital gains tax, no inheritance tax, and a corporate tax rate of 15%. Additionally, it has Double Taxation Avoidance Agreements (DTAAs) with many countries, providing further tax benefits for international investors
4. **International Approval**: Mauritius as a jurisdiction is approved by the Financial Action Task Force (FATF)

The Stock Exchange of Mauritius (SEM) has set up a dedicated platform for the listing and trading of all the Sustainable finance instruments listed above to create a single hub where sustainable finance investors and seekers can engage with each other. The platform adheres to all extant international guidelines and standards and is competitive in cost and efficient in process. (Disclosure: The authors work for ECube (www.ecubeindia.in) which has a partnership with SEM for this board.).

6. Charting the Way Forward

It is clear that there is role for Private Sector to do more in making the world sustainable and this requires finance which is the most powerful instrument to use its "influence" to ensure that capital flows for more sustainable investments. This is in the long term interest as we are well aware that if we do not address the Environment and Social issues, the private sector will have far fewer customers . SO it is not only necessary to do it as something good but as something that is necessary.

Views are personal. The authors gratefully acknowledge the various public sources for the article and list the specific sources below.

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