

---

# CONCESSIONAL CLIMATE FINANCE: TAKING VULNERABILITY INTO ACCOUNT

11 December 2022, Mauritius

Matthieu Boussichas

---

F&Di

FONDATION POUR LES ÉTUDES  
ET RECHERCHES  
SUR LE DÉVELOPPEMENT  
INTERNATIONAL

---

Special Event F1 :

Five Steps Towards Closing  
the Climate Finance Gap for Africa



Balaclava, Mauritius  
9-11 December 2022

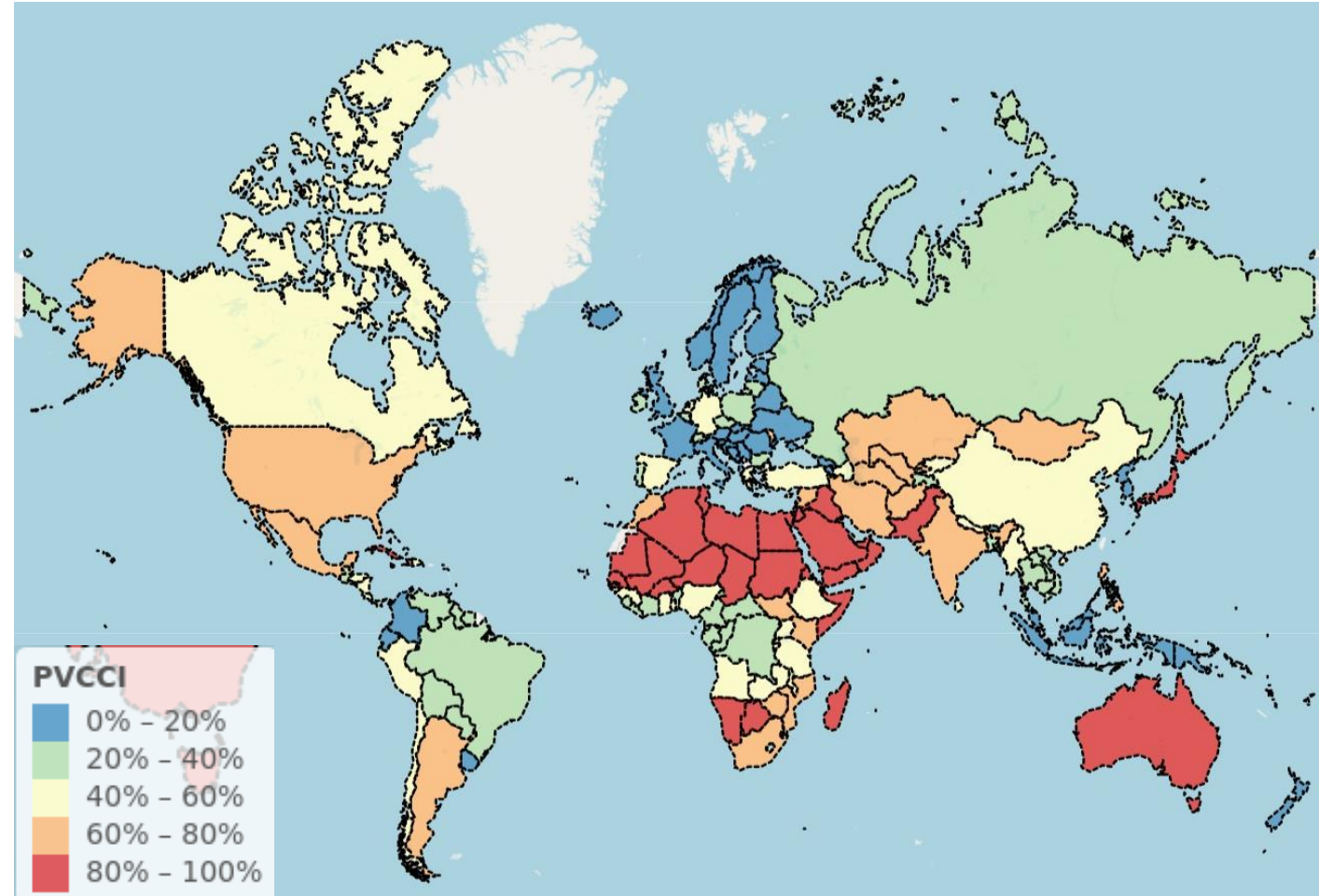
# 1. Climate finance: what are we really talking about?

- A more complex issue than it seems
  - Of course, climate finance = funds that are intended to deal with climate change
  - But this can be understood in two different ways:
    - Broad sense: funds that have among other things the purpose of addressing climate change
    - Narrower sense: funds that are specifically intended for this purpose
  - Adaptation: the largest share of development spending contributes to adaptation to CC  
→ So where do we find the boundary?
  - Mitigation: same ambiguity
    - Broad sense : Total cost of all low-carbon investments
    - Narrower sense: concessional financing to cover the additional cost of greening investments (reducing their carbon footprint)
- Concessional climate finance = Narrow definition

## 2. Africa, SIDS, LDC: vulnerable but also future contributors to the CC: High needs

- **Adaptation:**

- Many African countries are particularly exposed to CC and therefore have a crucial need to be helped to adapt
- According to Physical Vulnerability to Climate Change Index (PVCCI): LDCs and SIDS are significantly more vulnerable to CC than other countries
  - ➔ Strong argument in favor of aid to adaptation for these countries
- But part of climate finance dedicated to adaptation is usually low, notably in SIDS (OECD, 2022)



## 2. Africa, SIDS, LDCs: vulnerable but also future contributors to the CC

- **Mitigation**

- Africa should not be seen simply as a victim of climate, it is also a future major contributor of CO<sub>2</sub>!
  - African emissions: 2000 = Belgium; 2020 = France; 2050 = European Union
  - If the development of African countries is carbon-based, the efforts of other continents will be useless!
- Aid to mitigation must also target poor countries that don't contribute a lot today
- Problem for these countries, notably SIDS: donors are increasingly basing their mitigation assistance on the rate of return of mitigation projects (the amount of CO<sub>2</sub> avoided for each \$ spent).
  - This penalizes countries with low emissions today (like SIDS).
- This is an important question for donors: How to measure the rate of return of a mitigation project in a low-emission country with a high transition need?

### 3. Financing for loss and damages?

- Concept (claimed for a long time) of “compensation” for vulnerable countries hit hard by CC
    - Why? Stock of CO<sub>2</sub> is not the responsibility of vulnerable countries but of developed countries
      - ➔ developed countries must compensate for the damage that their development is causing today on countries that have not developed but are seeking to do so.
    - Essential principle of international justice
    - Satisfaction that poor countries get from COP27 (vs non-additionality of the 100 billion US\$ promised)
  - But this concept is not fully relevant to attend this principle of justice:
    - Impossible to assess
    - Risk of moral hazard (adaptation reduces loss and damages)
    - Insufficient available amounts ➔ conditionality to obtain compensation while compensation was thought as a unconditional transfer
- ➔ Probably less favorable than an agreement about the 100 billion US\$ according to clear criteria, notably vulnerability to CC

## 4. Allocation according to vulnerability to climate change

- Need for rules to allocate concessional climate finance (in a narrow sense)
- Ferdi : Physical Vulnerability to Climate Change Index (PVCCI)
  - Reflect structural vulnerability to climate change, i.e., an **exogenous** vulnerability that reflect only the physical shocks that countries are experiencing or facing;
  - It does not depend on the current policy of the countries;
  - It cannot, of course, be the only allocation criterion. It must be used in an allocation formula alongside the other traditional allocation criteria (per capita income, human capital or other performance criteria)
- This indicator is the result of a long-term work, which has been refined over the years until it was recently published in Ecological Economics;
- The United Nations is currently developing, with significant technical support from Ferdi, a multidimensional vulnerability index (MVI). The work on the PVCCI is feeding heavily into this work for the environmental dimension of the UN index.