THE 4-4-2

4 NEWS – 4 GLANCES – 2 QUESTIONS

ECONOMIC BULLETIN

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CoP27: Limitations, breakthroughs and implications for Mauritius and Seychelles as SIDS

UNITED NATIONS
Mauritius and Seychelles

4 NEWS OF...

No progress on climate ambition

The “Implementation CoP” renewed the Parties’ commitment towards the 1.5ºC target alive but failed to agree on a detailed roadmap to ensure GHG emissions are reduced accordingly

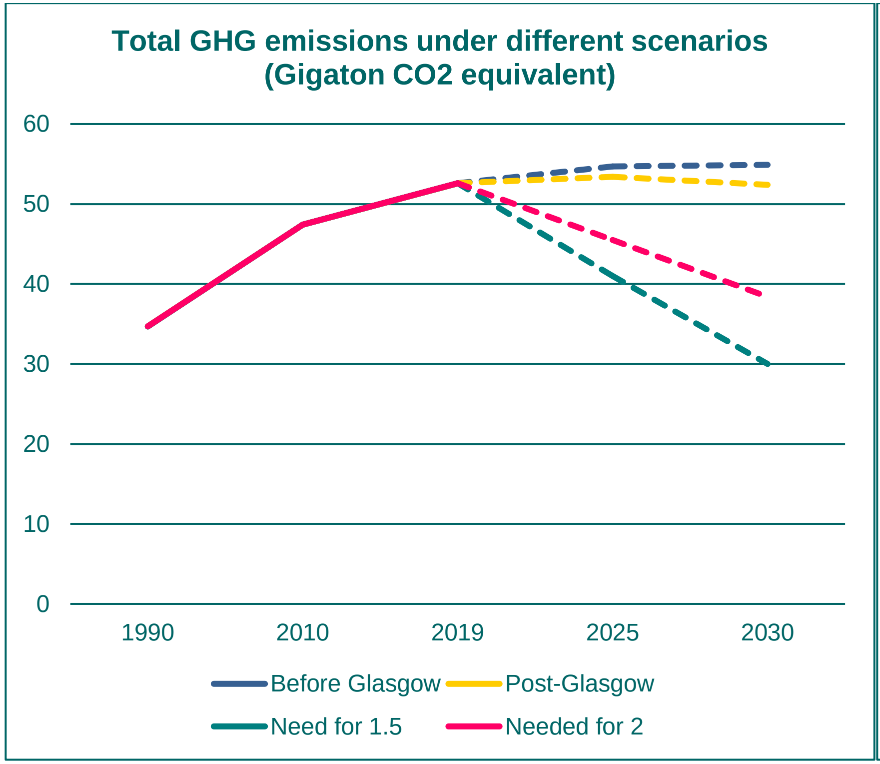
No reference is made to the phasing out of fossil fuels. A discrete mention of the acceleration of technology transfer towards emerging countries to boost renewable energies was included.

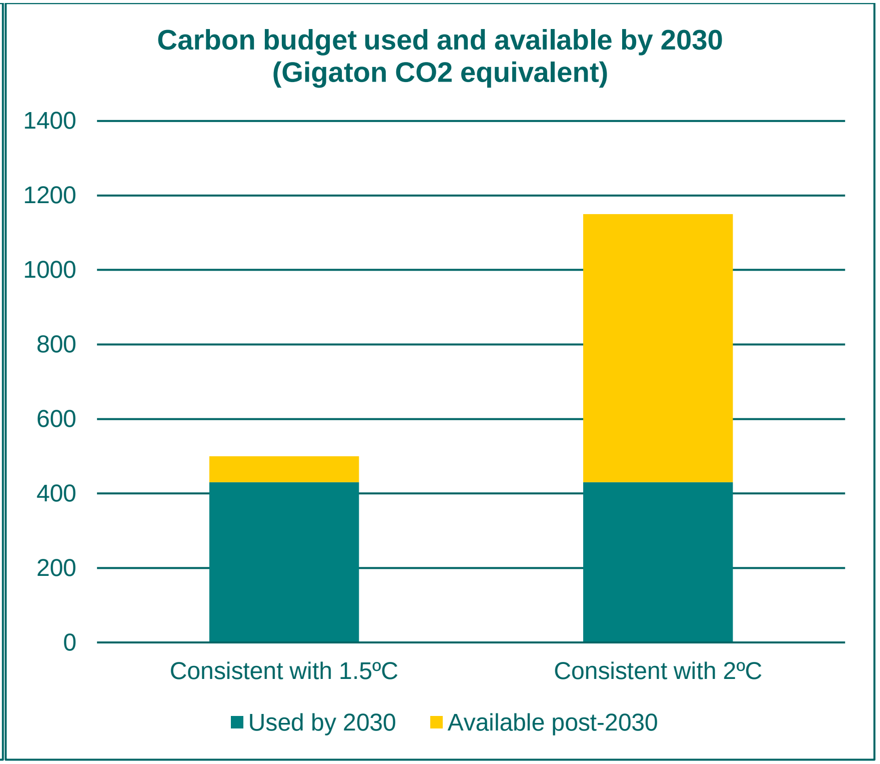
Some room for hope concerning climate justice

Adaptation occupies an important place in the Agreement, yet no hard commitment was made despite increased pressure on bilateral partners and financial institutions

The compensations for “Loss and damages” made their way into the Agreement at the last minute, turning into the CoP’s only significant achievement.

Glance #1: The 1.5ºC target is still alive (yet barely moving)

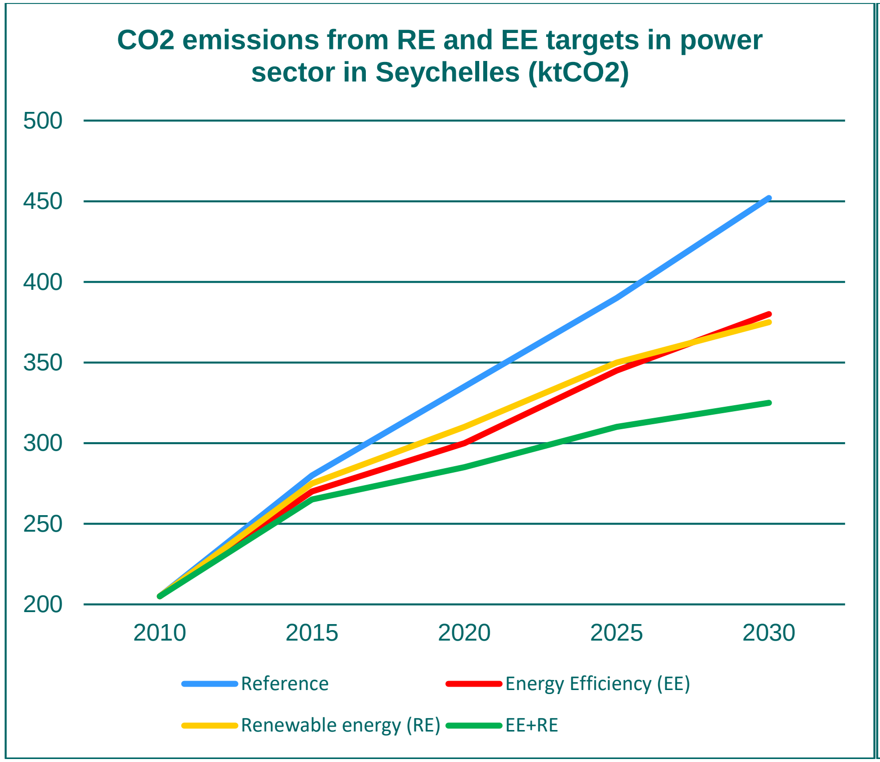


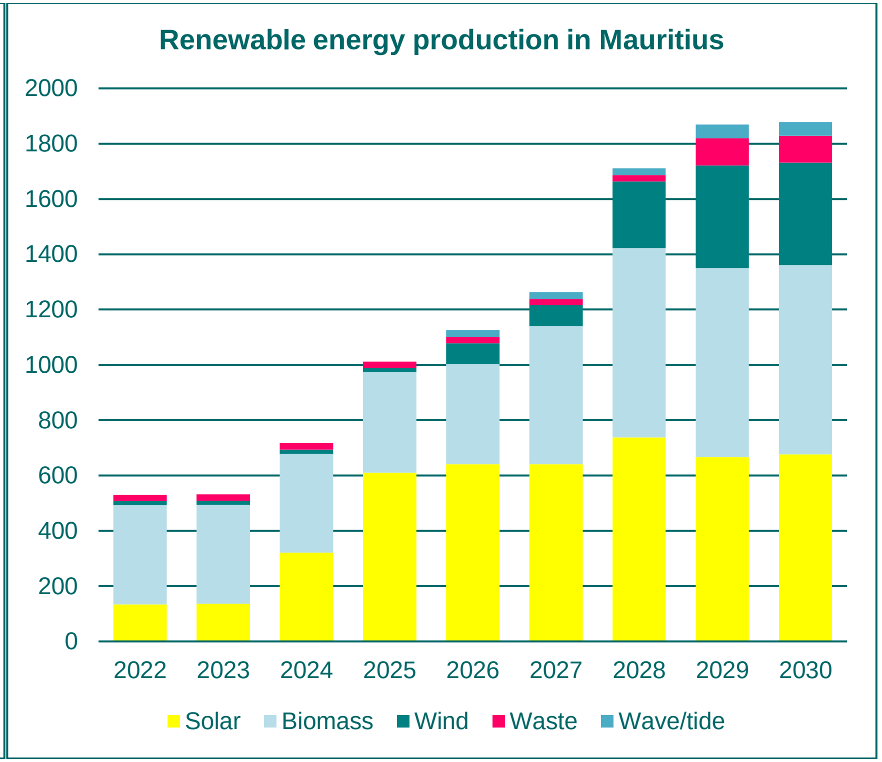


1. In 2015, the Paris agreement set a target of 1.5ºC above pre-industrial levels for 2030, stating that the Parties should do anything they could to keep global warming under this threshold, to avoid chain reactions. The **World is already 1.1 ºC warmer**, and GHG emissions will keep growing until 2030 (around **+3.1% compared to 2019**). Above +1.5ºC, **coral reefs would die, sea ice would melt, and low-lying areas would disappear**.
2. To keep the World below +1.5 ºC, **emissions should be cut by 43% by 2030**, according to the CoP27 Agreement. During the Conference, some countries and a group of 1,000 scientists advocated to drop this target, calling the target unrealistic, but SIDS fought back and succeeded in keeping it.
3. The final Agreement reiterates the commitment towards this target, acknowledges the importance of the gaps, and points at the responsibility of the biggest GHG emitters in strong terms, calling for more ambitious emissions cut embedded in new Nationally Determined Contributions (NDCs).
4. For SIDS like Mauritius and Seychelles, this matters much, as the **intensity and the frequency of extreme weather events**, as well as the **slow onset events such as sea-level rise or ocean acidification**, grow exponentially with each fraction of a degree.

Source: Author's calculation based on IPCC, NDCs synthesis report, October 2022 and UNFCC, COP27 draft agreement, November 2022

Glance #2: Fossil fuels are there to stay, renewable energy to receive a (small) nudge

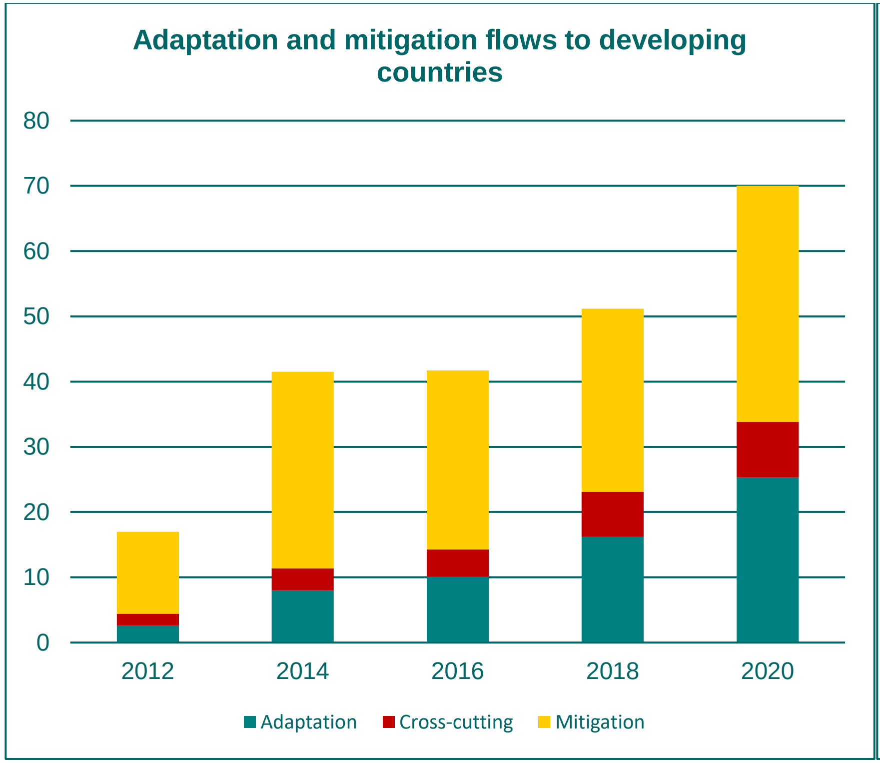


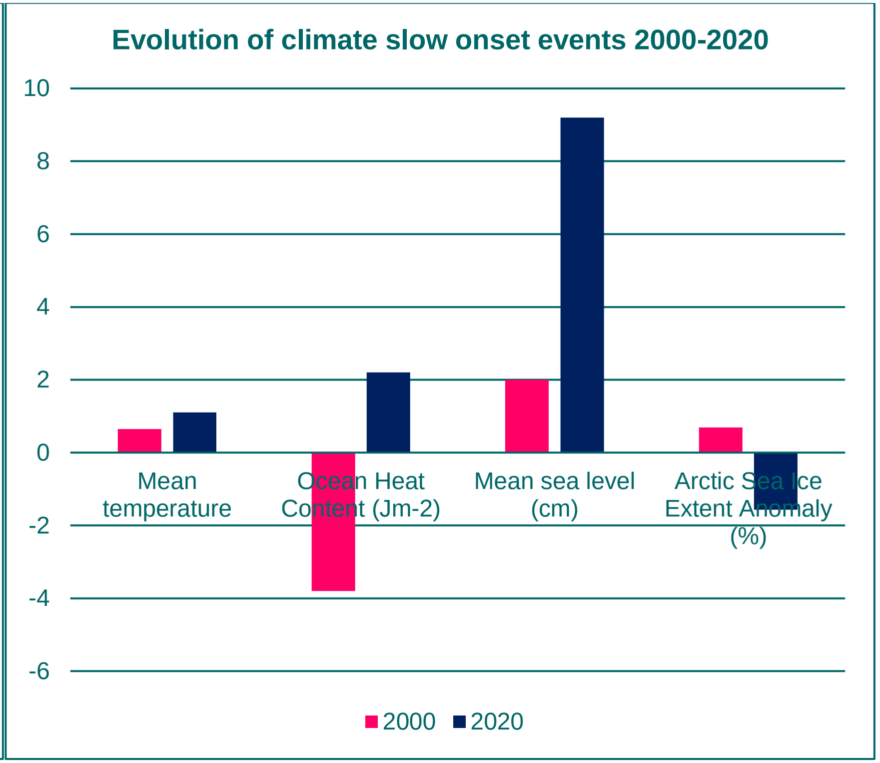


1. No agreement was reached on the **phasing out of fossil fuels**, only mentioned once in the Agreement, which limits itself to encouraging "efforts towards the phasedown of unabated coal power and phase-out of inefficient fossil fuel subsidies".
2. The CoP27 Agreement highlights that about **USD 4 trillion per year needs to be invested in renewable energy** (RE) up until 2030 to be able to reach net zero emissions by 2050. It does not specify which mechanism or specific contributions should spur these investments.
3. Due to their structural constraints as SIDS, public and private investments in RE in Mauritius and Seychelles are **hampered by limited fiscal space and economies of scale.** The potential is substantial though, with offshore wind, tide, and waves as major potential sources.
4. The share **of RE in both countries is limited (5% in Seychelles, 24% in Mauritius), so are targets for RE penetration** (15% for Seychelles, 60% for Mauritius in 2030, 100% for Mauritius and a net-zero emissions economy for Seychelles in 2050), with much potential still untapped, especially in ocean energy, mainly due to restricted options for catalyzing investments.

Source: Author's calculations based on Gov. of Seychelles, Updated Nationally determined contribution, and Ministry of Energy, Roadmap 2030 for the Energy Sector Review 2022.

Glance #3: Adaptation (timidly) emerging as a priority issue

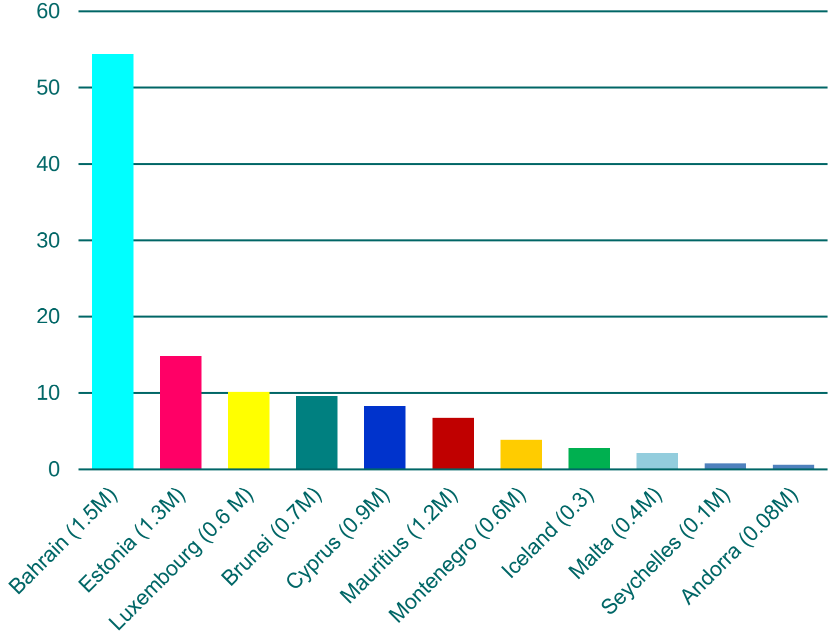


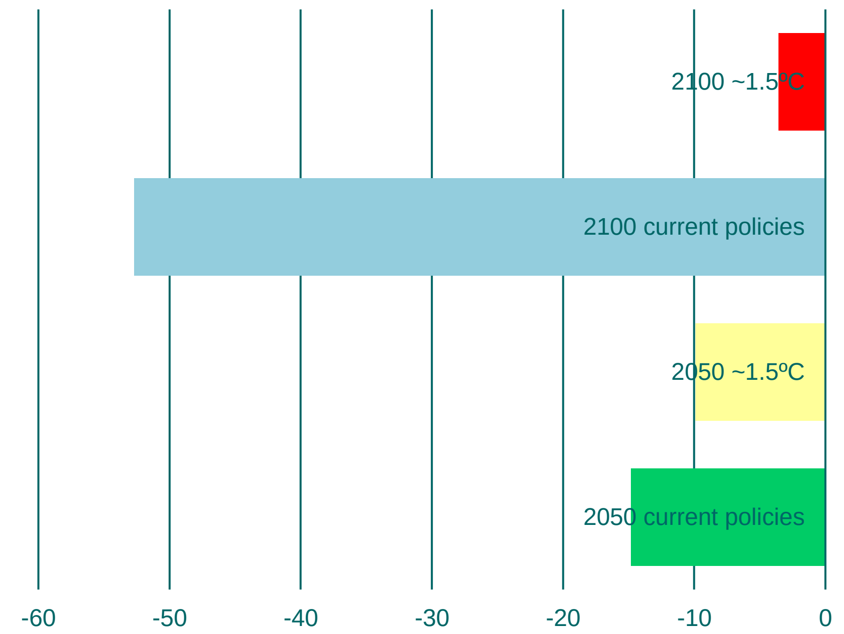


1. The CoP27 Agreement insists on the urgency for developed countries to **meet their pledge of making 100 billion USD per year available** for both mitigation and adaptation in developing countries. It also reiterates the **need to double adaptation finance**, around 36% of the climate finance in 2020.
2. These **targets are still far away**, with finance not only falling short of commitments, but also limited transparency making reckoning limitedly reliable. especially for SIDS. Although their share of adaptation finance doubled from 3% in 2019 to 6% in 2020, the total amounts received fall short by much to allow them to adapt. Adaptation gender issues are also missing, apart from a reference to the implementation of the Lima Work Program on Gender.
3. Nationally Determined Contributions of Mauritius and Seychelles **identify adaptation needs at 4.1 billion and 331 million USD** respectively. Globally, the need is estimated at around 202 billion USD for adaptation for all developing countries, **almost ten times the finance available in 2020**.
4. Both extreme weather events and slow onset climate events (ocean warming, sea-level rise, sea ice melting) are **accelerating, making climate risks rise swiftly**, and therefore the need to invest in resilience building at all levels urgently.

Source: Author's calculations based on UNEP, Adaptation Gap Report 2022, and World Meteorological Organization, State of the Climate 2022.

Glance #4: Climate finance may be boosted by the "Loss and Damages" Fund





1. SIDS are minor GHG emitters and among the main victims, yet they receive **only 1.5 billion climate finance annually**, mostly in the form of concessional loans.
2. They have been pushing for years for enhanced access to finance, especially in the forms of grants and including **financial compensations** known as "Loss and damages" (L&Ds). The inclusion of L&Ds in the final agreement is **the major - and only significant - breakthrough** of the CoP27. N**o concrete decision nor commitment** was taken on the modalities, but a **Transitional Committee was installed** for the preparatory work in 2023.
3. Access to "**new and additional sources of funding**", as stated in the Agreement, can **mean a lot for Mauritius and Seychelles**, both struggling to create fiscal space and catalyze private investments for climate action in a context of small fiscal basis and limited access to concessional finance due to their income status, high indebtedness, and high concentration of Foreign Direct Investment in non-sustainable sectors.
4. International Financing Institutions and developed economies are asked to contribute to the Fund, and the Multidimensional Vulnerability Index (not mentioned in the Agreement), could be among the eligibility criteria. **Pledges so far only amount to 200 million USD** but should increase exponentially.

Source: Climate Watch, Global Historical GHG Emissions, 2022 and Christian Aid, Lost & Damaged - Economic impact of climate change on vulnerable countries, 2021

Mr Niklas Hagelberg, UNEP lead on the climate change subprogramme

What are the key takeaways from the outcomes of the negotiations conducted during the COP27?

The decisions around Loss and Damage (L&D) are historic. The call for dedicated funding for loss and damage was first brought into international process, by Vanuatu, in 1991. And thus, the agreement, to establish a L&D fund, is long overdue and much welcomed by Small Island and Developing States. The agreement to move forward with operationalizing the Santiago Network[1] is also great progress so that countries can get technical assistance to respond to losses and damages from climate change.

In terms of adaptation and mitigation, the progress was not as impressive but at least countries agreed to move forward with the process on the global adaptation goal and they maintained the importance of the 1.5-degree goal. While the USD100 billion/year goal has not been met yet, the call on a transformation of the financial system and multilateral development banks can be a game change, especially as that can improve access to finance in developing countries.

What are the implications for SIDS like Mauritius and Seychelles?

In terms of the Loss and Damage outcome, I believe CoP27 was a success. It is still too early to say how SIDS and other particularly vulnerable countries will be benefit from the fund and it depends on the proposals of the Transitional Committee, and parties' agreement on the functions, capitalization, and operational set-up (which are still to be negotiated). In best case scenario, the fund will receive substantial resources and have a lean, rapid response structure which can deploy resources on a short time frame.

In a worst-case scenario, the Fund will not attract sufficient resources to respond to Loss and Damage needs in a meaningful way, and it will suffer from lengthy processes that hamper the finance flow to those that need it the most.

As Small Island Developing States, Mauritius and Seychelles are likely to be beneficiaries of the Loss and Damage Fund once its operational, but they should also continue to push for increased mitigation ambition and finance for adaptation as to minimize the adverse effects of climate change, such as forced displacement, loss of cultural heritage and livelihoods.

[1] The Santiago Network was installed by the COP25, held in Madrid in 2019, to ***catalyze the technical assistance*** of relevant organizations, bodies, networks, and experts, for the implementation of relevant approaches for averting, minimize and addressing L&D at the local, national and regional level, in developing countries that are particularly vulnerable to the adverse effects of climate change. It provides only technical assistance and no financial support. It has no Secretariat so far and is yet to become fully functional.