

COP27: LOSS AND DAMAGE FUND

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(Views expressed in the brief are those of the author, and do not represent those of ISSI)



Introduction

The establishment of a Loss and Damage Fund was the main highlight of the United Nations Climate Conference (COP27) held in Egypt after the culmination of decades of pressure from climate vulnerable developing countries. Creating a specific fund for loss and damage marks an important point of progress, with the issue added to the official agenda and adopted for the first time at COP27. The hard won deal is a turning point in acknowledging the vast inequities of the climate crisis. For the first time in 30 years of climate talks, developed countries will provide finance towards recovery and rebuilding of poorer countries stricken by climate-related disasters.¹

Government representatives at the Summit took the ground-breaking decision to establish new funding arrangements, as well as a dedicated fund, to assist developing countries in responding to loss and damage. They also agreed to establish a transitional committee with members from 24 countries to make recommendations on how to operationalize both the new funding arrangements

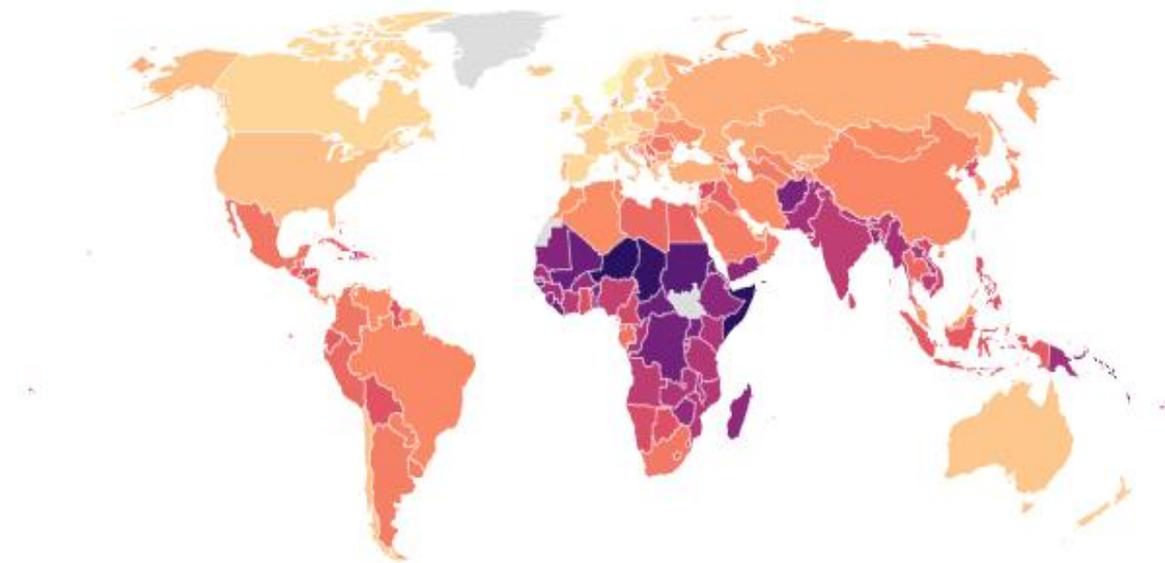
¹ "What you need to know about the COP27 Loss and Damage Fund," UN Environment Program, November 29, 2022, <https://www.unep.org/news-and-stories/story/what-you-need-know-about-cop27-loss-and-damage-fund>

and the fund at COP28 next year. The first meeting of the transitional committee is expected to take place before the end of March 2023.²

What is Loss and Damage Fund

Loss and damage refer to the most severe impacts of extreme weather on the physical and social infrastructure of poor countries, and the financial assistance needed to rescue and rebuild them. It was the most contentious issue at the conference. For nearly two weeks, the EU and the US refused demands from poor countries for a new fund to address loss and damage, arguing that existing funds should be redirected for the purpose. Therefore, the developing countries celebrated as crucial climate talks ended with a historic deal. However, the deal is far from perfect, with several key elements flawed or lacking.³

Vulnerability to climate change
Low High



Darker colors reflect greater vulnerability; gray indicates no data available

Map: The Conversation/CC-BY-ND • Source: ND-GAIN • [Get the data](#) • [Download image](#)

Pakistan, as Chair of the Group of 77 and China, galvanised support for establishment of the Fund in COP 27 in Sharm el Sheikh, first by having it placed on the Agenda of the Conference, and then

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- ² UN Climate Press Release, “COP27 Reaches Breakthrough Agreement on New “Loss and Damage” Fund for Vulnerable Countries,” united Nations Climate Change, November 20, 2022, <https://unfccc.int/news/cop27-reaches-breakthrough-agreement-on-new-loss-and-damage-fund-for-vulnerable-countries>
 - ³ Fiona Harvey, Nina Lakhani, Oliver Milman and Adam Morton, “Cop27 agrees historic ‘loss and damage’ fund for climate impact in developing countries,” The Guardian, November 20, 2022, <https://www.theguardian.com/environment/2022/nov/20/cop27-agrees-to-historic-loss-and-damage-fund-to-compensate-developing-countries-for-climate-impacts>

pushing for a consensus agreement. Ms Sherry Rehman, Climate Change minister of Pakistan hailed the historic loss and damage deal and said that “this is not about accepting charity, this is a down payment on investment in our futures, and in climate justice.” The Ministry of Foreign Affairs also welcomed the establishment of a fund to address loss and damage caused by climate induced disasters and termed the consensus decision taken to this effect by the COP27 as a momentous achievement, especially for the Group of 77 and China. Pakistan, Ghana, and Bangladesh would be among the first nations to receive funds from a G7 project called Global Shield.⁴

Developed countries have made it very clear that the fund will be voluntary and should not be restricted only to developed country contributions. Given that the much trumpeted US\$100 billion a year that wealthy nations promised in 2015 to provide for developing nations has not yet materialised, the new venture is based more on hope. Importantly, for now, developing countries got what they wanted: a fund for loss and damage. And developed countries were able to avoid what they have always been unwilling to give: any concrete funding commitments or any acknowledgment of responsibility for reparations.⁵

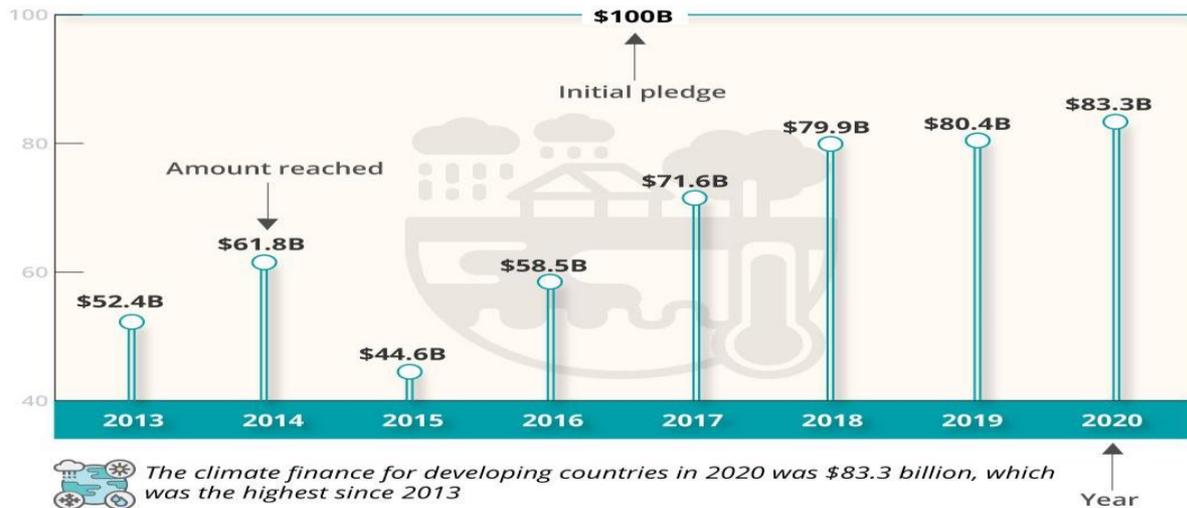
The mechanism is expected to be operational within two years, but there are concerns that its funding is heavily dependent on developed countries whose financial commitments to the Adaptation Fund are still lacking. In addition, China has already revealed that it will not contribute to the fund. The final document still left big gaps by failing to address the mechanism of payment and not coming out clearly about putting a timeline for the transition from fossil fuels to clean energy. The formal agenda also did not include issues like how to keep warming below 1.5 degrees Celsius and how to align global financial flows with climate targets. Yet, like any other international funding mechanism, it will be very difficult for a developing country like Pakistan, with very weak capacity and resources, to access these funds.⁶

4 Press Release, “Pakistan welcomes the historic decision of COP27 to establish the Fund for Loss and Damage,” MOFA, November 20, 2022, <https://mofa.gov.pk/pakistan-welcomes-the-historic-decision-of-cop27-to-establish-the-fund-for-loss-and-damage/>

5 Adil Najam, “COP27’s ‘loss and damage’ fund for developing countries could be a breakthrough – or another empty climate promise,” The Conversation, November 21, 2022, <https://theconversation.com/cop27s-loss-and-damage-fund-for-developing-countries-could-be-a-breakthrough-or-another-empty-climate-promise-194992>

6 Thomas Burelli, “COP27 ‘loss and damage’ fund: A historic decision amid discouraging results,” The Conversation, November 27, 2022, <https://theconversation.com/cop27-loss-and-damage-fund-a-historic-decision-amid-discouraging-results-195186>

CLIMATE FINANCE FOR DEVELOPING COUNTRIES (MOBILISED BY DEVELOPED COUNTRIES, IN USD BILLIONS)



Source : OECD

MUSTARD INSIGHTS



Conclusion

The severe impacts of climate change are becoming more frequent, more intense, causing more damage and loss of lives. Therefore, greater resources are required to respond and rebuild. UN Secretary General, António Guterres at COP27 said the fund is an important step towards justice for poor countries that have done little to cause the climate crisis but are suffering its worst impacts. While the historic decision was welcomed by vulnerable nations, this is only the first step, and success will depend on how quickly this fund gets off the ground. Now comes the difficult part; the fund must be set up and financed. Institutional arrangements and governance still must be detailed; new sources of funding identified and expanded.⁷

There is also a need to define the scope of the Loss and Damage Fund and distinguish it from existing humanitarian and disaster management funds that might resemble loss and damage support. It is important that a Loss and Damage Fund tackles the gaps that current climate finance institutions such as the Green Climate Fund do not fill. Combined adaptation and mitigation finance flows in 2020 fell at least US\$17 billion short of the US\$100 billion pledged to developing countries. But for the fund to be effective, the root cause of climate change must be tackled and that involves reducing emissions. Unless emissions are drastically reduced, more and more countries will face the devastating effects of climate change. The world urgently needs to find more resources for

⁷ "What the new "loss and damage" fund needs for success," UNDP, November 22, 2022, <https://www.undp.org/blog/what-new-loss-and-damage-fund-needs-success>

mitigation, adaptation and loss and damage so that climate change will not erode humanity's chances to deliver on the Sustainable Development Goals.⁸

⁸ Dr Ruth Kattumuri, Unnikrishnan Nair, Labanya Jena and Alexander Lee-Emery, "Blog: Loss and Damage Fund - Size, design and agility are essential," The Commonwealth, December 5, 2022, <https://thecommonwealth.org/news/blog-loss-and-damage-fund-size-design-and-agility-are-essential>