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The Loss and Damage Fund: Climate Disaster Relief for the Most Vulnerable Countries

By Dipinder S. Randhawa

SYNOPSIS

Nearly three decades after it was first proposed, an agreement on a Loss and Damage Fund was reached at the close of COP27 in Egypt. This agreement is designed to provide funding to the poorest economies most vulnerable to climate change. It will help to restore a measure of trust between the rich, industrialized economies held responsible for the massive accumulation of carbon in the earth atmosphere, and the poor nation states that bear the brunt of the damage resulting from the consequent climate change.

COMMENTARY

The timing could not have been less propitious – a war raging in Europe with no end in sight; the most serious energy crisis since the OPEC price hikes of the 1970s; an approaching winter; unprecedented increases in food prices; widening disparities in income distribution worsened by the escalating prices of day-to-day living essentials.

Political leaders are averse to committing resources for climate change abatement strategies during a period of fiscal tightening, and rising energy and food prices. Yet, it was imperative that talks at COP27 – Conference of the Parties of the United Nations Framework Convention on Climate Change (UNFCCC) at Egypt's resort town of Sharm al Shaikh in November 2022 – had to succeed, as they dealt with an existential threat to life on earth: global warming.

Global warming stems from the increasing accumulation of carbon dioxide and other greenhouse gases (GHG) such as methane and ozone in the atmosphere. These gases prevent heat from escaping into the outer atmosphere and result in the warming of the planet. The increase in carbon concentrations can be traced directly to the exponential increase in the use of fossil fuels and hydrocarbons in activities such as

manufacturing, construction, and transportation since the beginning of industrialisation.

Such activities have added more carbon into the atmosphere over the last 50 years than since the beginning of human civilisation, threatening polar icecaps and raising sea levels. The manifestations of climate change such as increases in the incidence of flooding, droughts, and forest fires, have been accelerating in recent years. The growing costs are evident.

Notwithstanding low expectations in this fraught geoeconomic environment, COP27 broke new ground. After marathon sessions extending well beyond the scheduled closure of the conference, diplomats from nearly 200 nations reached a landmark “Loss and Damage” (L & D) agreement.

The Loss and Damage Agreement

The demand for financing relevant actions started in the early 1990s when the [Alliance of Small Island States](#), a group comprising low-lying coastal and small island countries threatened by rising sea levels, called for the establishment of a “fund to provide resources for vulnerable countries hit hard by the unavoidable effects of climate disasters”.

As the climate crisis increases in severity, so will the consequences, including severe drought, forest fires, heavy, and often unseasonal rainfall, rising sea levels resulting in the submersion of coastal areas and low-lying oceanic islands. For years, developing nations have been pressing the rich, industrialized countries without any success to provide compensation for the environmental destruction caused by the accumulated GHG released by the latter during their earlier development. In lieu of compensation, the L & D Fund would provide the vulnerable states with the resources to prepare for and to cope with the damages inflicted by climate change.

With less than 10 per cent of the global population, the rich, industrialized countries generated more than 50 per cent of carbon-dioxide emissions in the atmosphere while the other 90 per cent from the poorer countries generated less than 50 per cent. Today, scientists can quantify the role GHG play in a climate disaster using a rapidly growing field of study called “[attribution science](#)” which includes findings of the associated liabilities.

The Cost of Climate Disasters

The foundations of policies to address the challenges of climate change were laid during the COP21 meetings held in Paris in 2015, resulting in a watershed agreement on a global action plan to limit global warming to 1.5 degrees Celsius above pre-industrial levels.

COP21 produced a template for climate financing at national, regional and international entities around two pillars: i) climate adaptation strategies to deal with the effects of climate change, including developing resilient infrastructure, improving crop production, and protecting coastlines; and, ii) climate mitigation strategies to deal with

the causes of carbon emissions by reducing emissions and stabilizing GHG in the atmosphere, including switching from hydrocarbons to sustainable energy sources.

The L & D Fund coming out of COP27 can be considered the third pillar of climate financing. The fund meets the unavoidable costs incurred by states affected by the growing incidence of climate disasters, including the loss of biodiversity, extreme weather events, and existential threats to the poorest and most vulnerable economies.

Small Pacific Island nations at the risk of being submerged by rising waters have been pressing the International Court of Justice to consider climate change as a threat to their existence. Poor countries too weak to implement adaptation and mitigation measures have the most to lose. Parts of the Solomon Islands, Tuvalu, and Dominica are already submerged. [Estimates](#) indicate that the cost of extreme weather, climate, and water events between 1970 and 2019 accounted for 50 per cent of all disasters, 45 per cent of all reported deaths and 74 per cent of all reported economic losses. The numbers are growing at an exponential rate.

Aside from the small island economies, lower middle-income countries are also vulnerable. A third of Pakistan was inundated by unprecedented flooding in 2022, with damages estimated to exceed US\$50 billion. Scientific findings confirmed that global warming had worsened the floods. A report by [55 vulnerable countries](#) estimated their combined climate-linked losses over the last two decades at a total of US\$525 billion, or 20 per cent of their collective gross domestic product. The economic losses will reduce their GDP growth by one per cent per year.

Operationalising the Loss and Damage Fund

The immediate priorities being worked on include defining how the L & D Fund will operate, where it will be located institutionally, the sources and scope of funding, norms for funding eligibility, a timeline of steps for operationalising the fund, and how the fund will be governed.

The fine print on what constitutes “loss and damage”, and the scope will be articulated through the work of committees and further meetings. While many developed economies see this L & D Fund as contributing towards climate adaptation, there are limits to the extent to which adaptation measures can mitigate the risks. Damage from climate change to the most vulnerable countries is inevitable.

Existing funds available to developing economies in the L & D Fund fall far short of needs. Of the funds provided, 71 per cent are in the form of loans, rather than grants, further aggravating the debt burden on poor countries. Representatives from 24 countries are tasked with addressing these questions along with questions on how to assist the poorest countries on problems such as the loss of biodiversity, desertification of arable lands, and the flow of refugees and migrants from areas affected by the climate crisis.

Multilateral institutions will have to play a big role in mobilising funds for the L & D Fund as well as to administer them. At the review meetings in March 2023, COP27’s president, Sameh Shoukry (who is Foreign Minister of Egypt) stated that the fund is expected to be operational by the end of 2023.

The L & D Fund is intended to address gaps where the most vulnerable countries are not eligible for adaptation funding, and where the funding gap cannot be plugged through humanitarian aid. The L&D Fund will help bridge the credibility gap rich countries suffer from on account of past unwillingness to acknowledge the material damage being inflicted on the most vulnerable countries due to the accumulated carbon in the environment, from the time rich countries started industrialising to the present.

Dipinder S Randhawa is a Senior Fellow with the Office of the Deputy Executive Chairman, S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University (NTU).

S. Rajaratnam School of International Studies, NTU Singapore
Block S4, Level B3, 50 Nanyang Avenue, Singapore 639798
T: +65 6790 6982 | E: rsispublications@ntu.edu.sg | W: www.rsis.edu.sg