

# Climate finance for tackling loss and damage

## Westminster Hall debate briefing

5 September 2023



### Background

- A key outcome of COP27 last year was the establishment of the first ever [‘loss and damage’ fund](#) for vulnerable countries hit by climate disasters. This follows decades of pressure from countries who face the brunt of climate change impacts, but who contribute the least in greenhouse gas emissions.
- While a breakthrough agreement, key agreements are still needed on which countries will contribute to the fund, how much each country should pay in, and which countries will be able to benefit.
- Governments established the [Transitional Committee](#), which the UK is a member of, to make recommendations on how to operationalise both the funding arrangements and the fund at COP28 this year. The committee has met [five times](#) since COP27 and, in May 2023, G7 leaders [stated](#) they would “*scale up action and support to avert, minimise and address loss and damage*”.
- The House of Commons Library recently published a research briefing ‘Climate change: Loss and Damage fund’, which you can access [here](#).

### What is loss and damage?

- Climate change has increased the frequency and severity of extreme weather events such as heatwaves, floods, wildfires and droughts. For instance, a heatwave that had a one in 50 chance of occurring in any given year in the pre-industrial climate will now occur [4.8 times](#) more frequently, or 13.9 times more frequently for global warming of 2°C.
- ‘Loss and damage’ refers to the destructive impacts of these events that cannot be avoided by mitigation or adaptation, where large scale damage is done to people, ecosystems, culture, infrastructure and economies.
- The financial implications of extreme weather events are significant. One paper has calculated that, globally, disasters led to direct total damage costs of [\\$1.17 trillion](#) between 2000 and 2020. Projections of future loss and damage costs vary, but are consistently high. One paper suggests that costs will amount to [\\$4 trillion](#) in 2030, while others suggest projections in the range of [\\$1 to \\$2 trillion](#) by 2050.

### What is considered a climate vulnerable country?

- The loss and damage agreement reached at COP27 states that it will fund countries [‘particularly vulnerable’](#) to climate change. Often, the impacts of climate change are concentrated in places that have historically contributed the least to global warming. Africa, for example, has contributed only [3.8 per cent](#) to global greenhouse gas emissions but is the most vulnerable continent to the impacts of climate change. Meanwhile, G20 nations have contributed to [75 per cent](#) of greenhouse gas emissions.
- Alongside the climate risk comes significant financial implications. It is estimated that the economies of the V20, the world’s most climate vulnerable countries, have lost around [\\$525](#)

[billion](#) in the last 20 years, equivalent to [one fifth](#) of their wealth. The need to pay for immediate climate damage reduces the capacity for climate vulnerable countries to also invest in mitigation and adaptation.

#### **What is included in current climate finance commitments?**

- As per the COP27 agreement, any new loss and damage fund would sit alongside existing climate finance mechanisms. In the UK, existing avenues focus on adaptation and mitigation, rather than loss and damage. Between 2021 and 2026, the UK has pledged [£11.6 billion](#) which will be split evenly between adaptation and mitigation, and which can take the form of grants, loans, guarantees and export credits.
- The £11.6 billion commitment derives from the UK's aid strategy, while Scotland has separately announced a [£5 million pledge](#) specifically for loss and damage. The government has [acknowledged](#) that the fund cannot solely come from the aid budget, and urged the transitional committee to consider additional, alternative sources of funding. Climate vulnerable countries and climate justice campaign groups have [consistently called](#) for loss and damage funding to be new and additional, rather than rebranding existing finance streams.

#### **How substantial is the climate finance gap?**

- Even within existing climate finance, there remains a shortfall. The UNEP [2022 Adaption Gap report](#) revealed that international adaption finance flows to developing countries are five to ten times below estimated needs, which are likely to be in the order of [\\$300 billion](#) per year by 2030.
- At COP15 in 2009, developed countries agreed to mobilise \$100 billion in climate finance for developing countries by 2020. However, in 2020 only [\\$83.3 billion](#) had been raised. The target of \$100 billion could potentially be met this year.
- Of the \$83.3 billion raised by 2020, analysis by [Carbon Brief](#) demonstrates that the UK only provided 76% of its 'fair share' of climate finance (calculated by comparing national historical emissions against the overall climate finance target), equating to a shortfall of \$1.4 billion. This puts the UK in the minority of developed countries who paid less than their fair share towards the target, whilst most other contributors (such as France, Japan, Switzerland and Germany) paid more than their fair share.

#### **Which finance mechanisms are available?**

- The mechanism through which climate finance is delivered to climate vulnerable countries has an impact on its effectiveness in tackling loss and damage.
- Of the countries who delivered more than their fair share in contributing to the \$100 billion climate finance target, much of this was distributed as [loans](#) rather than grants. This stands in contrast to a [key ask](#) from many developing countries at COP27, advocating for the opposite. Organisations such as [Oxfam](#) have argued that loans should not count towards the climate finance target, as they place undue financial burden on climate vulnerable nations.
- While the UK contributed less than its fair share to the 2020 target, only [0.1%](#) was distributed through loans in 2014 to 2021, and 87% was delivered via grants.
- Another proposed mechanism to fund loss and damage is via insurance schemes, which would shift some of the costs onto the private sector and is an idea [frequently backed](#) by developed countries. However, current gaps in insurance coverage mean that pilot insurance schemes are ineffective, with poorer countries [less likely to benefit](#). Between 1990 and 2022, the economic coverage for damages was [19 times higher](#) in developed countries than developing countries.

- Elsewhere, more closely following the 'polluter pays principle', Antonio Guterres has called for greater windfall taxes on fossil fuel companies to help finance loss and damage, and analysis by Carbon Brief suggests that general taxation on polluting activity (eg flight levies, shipping levies, and fossil fuel majors levies) could provide almost [\\$200 billion](#) in funding for loss and damage. Analysis by Oxfam suggests that a one off emergency tax on new, pandemic-era billionaire wealth of the top ten richest men would raise [\\$812 billion](#), a portion of which could dedicated towards loss and damage.
- A combination of mechanisms will be necessary to meet the scale of loss and damage in the coming decades, with financial shortcomings still [likely](#).

#### **What do voters think?**

- Polling indicates that most people agree that the UK and other rich countries should pay more of the costs of climate action, being responsible for more cumulative damage.
- [Polling by Omnis](#) found 49 per cent of Britons agreed that the UK had a responsibility to provide climate funding, and 65 per cent of those polled across G7 nations agreed that richer countries should pay more of the costs.
- [Polling by Omnis](#) also found young people are particularly in favour of payments to climate vulnerable countries, with 65 per cent of 18 to 34 year olds expressing support, compared to 37 per cent of 65 to 74 year olds.
- [Polling](#) by Christian Aid found that 63 per cent of respondents would support taxing oil companies to fund loss and damage. In the same survey, only 6 per cent deemed it fair that oil and gas giants made record profits without taking responsibility for the damage caused.