

Research Briefing

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Climate change: "Loss and damage" fund

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Summary

The mobilisation of finance to help countries mitigate, and adapt to, the effects of climate change has been a central part of UN climate negotiations for many years. To date, the majority of climate finance has aimed to [help countries reduce carbon dioxide emissions to constrain global warming](#) ("mitigation") or "[adapt](#)" to future impacts (such as through new crops).

From 1991 the [Alliance of Small Island States](#) (AOSIS) and developing countries ([as defined by the UN Climate Framework](#)), have been seeking funds for "loss and damage" as a third pillar of climate finance. There is no agreed definition of this, but it generally refers to [the negative consequences arising from climate change that cannot be avoided by adaption or mitigation](#).

The costs of loss and damage may be substantial. The [V20 group of 58 vulnerable countries estimate for them this totals US\\$525 billion since 2000](#).

At the Sharm el-Sheikh Climate Change Conference (COP 27), [countries established a transitional committee](#) to develop an organisational and funding model for loss and damage.

This Commons Library research briefing sets out the background to the decision, countries committing funding, and related debates.

What was agreed at COP 27?

In November 2022, at COP 27, [countries agreed to establish a transitional committee to determine the structure and financial commitments for a loss and damage fund](#). The committee will report at COP 28 in November 2023.

The [UK is one of the committee's members](#), and the Government says [it will be encouraging the committee to consider mobilising a broad range of finance. It will not announce any funding plans](#) until the fund's structure is clearer.

While a loss and damage funds is often framed as an act of compensation or reparation from more developed countries, [these terms are not used in the COP agreement](#). However, [some small island states are exploring avenues of legal redress on the liability of historically high emitters](#) (particularly in North America and Europe but also emerging economies such as China) for human-induced climate change.

However, the [United States has said "under no circumstances" would it pay reparations](#). Prime Minister Rishi Sunak has said ["reparations" for climate change were "not on the table" at COP 27](#).

What are the challenges facing the fund?

The [COP 27 agreement](#) states the fund will target those countries “particularly vulnerable” to climate change. [This suggests that not all countries in receipt of wider climate finance will be eligible](#) (it may exclude China, for example). [The European Union is among those who have called for China to contribute to the fund](#), while the [AOSIS has called for India and other substantial contributors to global emissions to provide funding](#). India and China have opposed their mandatory participation. Other challenges include:

- How to raise climate finance [additional to the existing US\\$100 billion a year commitment](#) from developed countries in grants, loans and export credits to developing countries (the target has never been met but [may be in 2023](#)).
- The role of the private sector, other [non-government sources, and multilateral development banks](#) (including the World Bank and International Monetary Fund). [The UN Secretary General has also proposed a windfall tax on oil and gas profits](#).

Debate and actions in the UK

At COP 26 in Glasgow in 2021, [the Scottish Government became the first government to commit funding to address loss and damage](#) (its [commitment now stands at £7 million](#)). Then First Minister, Nicola Sturgeon, acknowledged the sum was small but hoped it would encourage other governments to act. In contrast to other governments, [she described it as an “act of reparation.”](#)

In 2022, the first UN-member states pledged loss and damage funding: [Denmark, Germany, Austria, Belgium, Ireland, New Zealand and Canada](#). Pledges ranged from US\$2.7 million (Belgium) to US\$180 million (Germany).

In the UK, the [Labour Party have welcomed the COP 27 agreement as an “important step forward.”](#) and called for the government to set out its funding commitments. The Shadow Secretary of State of Climate Change and Net Zero, Ed Miliband, has said [UK funding should go towards countries where the UK has existing aid commitments, and exclude China](#).

Green Party MP, Caroline Lucas, has also called for [any finance to be grant-based](#) and to be additional to the UK’s [existing aid commitments](#).

At COP 27, [the UK committed £5 million to the Santiago Network](#). This provides technical support for developing countries to respond to climate change. The [UK Government says it is “actively engaging” with the transitional committee](#) to ensure it “delivers results” at COP 28. [It will not set out any UK funding](#) until the committee has determined the fund’s structure.

1 Introduction: Loss and damage

1.1 What is "loss and damage"?

While an agreement was reached in November 2022 at the UN Climate Conference, COP 27, to establish a fund on "loss and damage," there is no universally agreed definition of it.

Analysis by the London School of Economics and Political Science (LSE) describes "loss and damage" as the:

Policy that supports vulnerable, developing countries manage their loss and damage due to climate change. It acknowledges that the people and countries least responsible for climate change are being affected first and most severely.¹

The UN Environment Programme further describes loss and damage as "the negative consequences that arise from unavoidable risks of climate change."²

In being "unavoidable", loss and damage covers the negative impacts of climate change that cannot be avoided through "mitigation" (reducing the emissions that contribute to climate change) or "adaption" (making adjustments, such as flood defences or sowing drought-resistant crops).³

The UN body for assessing the science relating to climate change, the Intergovernmental Panel on Climate Change (IPCC), sets out the potential effects of climate change in its report, [Climate change 2022: Impacts, adaptation and vulnerability](#):

Widespread and severe loss and damage to human and natural systems are being driven by human-induced climate changes increasing the frequency and/or intensity and/or duration of extreme weather events, including droughts, wildfires, terrestrial and marine heatwaves, cyclones (high confidence) and flood (low confidence). [...]

Extremes are surpassing the resilience of some ecological and human systems and challenging the adaptation capacities of others, including impacts with irreversible consequences (high confidence). [...]

Vulnerable people and human systems and climate-sensitive species and ecosystems are most at risk (very high confidence).⁴

¹ LSE, [Why COP27 will be remembered as the Loss and Damage COP and what to expect next](#), 28 November 2022. Sources in section 1 accessed 31 July and 1 August 2023

² UN Environment Programme, [What you need to know about the COP27 loss and damage fund](#), 29 November 2022.

³ UN Climate Change, [Introduction: adaption and resilience and loss and damaged](#).

⁴ IPCC, [Climate Change 2022: Impacts, Adaptation and Vulnerability](#), 2022, para TS.B.2

1.2

Other climate finance

Any new loss and damage fund would sit alongside existing climate finance mechanisms.

Three major UN climate conventions all call for financial assistance from parties with more financial resources to those that are less endowed and more vulnerable to climate change.⁵ These conventions are:

- The [UN Framework Convention on Climate Change](#), which came into force in 1994,
- The [Kyoto Protocol](#), which entered into force in 2005, and
- The [Paris Agreement](#), which entered into force in 2016.

Financial mechanisms established under these are set out below.

The UNFCCC and US\$100 billion goal since 2009

Under the [United Nations Framework Convention on Climate Change](#) (UNFCCC, the “convention”), industrialised states agreed to support climate change activities in developing countries by providing financial support.⁶

Since 2009, these countries have committed to mobilise US\$100 billion each year to support climate adaption and mitigation in developing countries (defined under the UNFCCC as [non-Annex 1 countries](#)). This target has been missed every year, though may be achieved in 2023. Climate finance can be drawn from a range of sources, including aid, export credits, loans, and grants.⁷

The UK has pledged £11.6 billion in climate finance to 2026 (see next page).

Many of the following schemes are funded as part of this US\$100 billion goal.

Global Environment Facility, 1992

Since 1992, a system of grants and loans has also been set up and is managed by the [Global Environment Facility](#) (GEF).⁸

Funds under the GEF have been awarded to help reduce biodiversity loss, climate change, pollution, and strains on land and ocean health in

⁵ UN Climate Change, [Introduction to Climate Finance](#)

⁶ UN Climate Change, [What is the UN Framework Convention on Climate Change?](#)

⁷ Organisation for Economic Cooperation and Development, [Climate finance and the US\\$ 100 billion goal](#)

⁸ UN Climate Change, [Introduction to Climate Finance](#),

developing countries. The majority of UK funding for the GEF comes from its climate finance budget (see the below box on UK aid and climate change).⁹

The facility also includes some targeted funds:

- The [Special Climate Change Fund](#), which was established under the UNFCCC in 2001. It finances projects relating to adaptation, technology transfer and capacity building, energy, transport, industry, agriculture, forestry and waste management, and economic diversification.¹⁰
- The [Least Developed Countries fund](#), established in 2001 support a work programme to assist [Least Developed Country \(LDC\) parties](#) carry out the preparation and implementation of national adaptation programmes of action (which identify their most urgent risks from climate change).¹¹

Adaptation Fund, 2001

The Adaptation Fund finances adaptation projects in developing countries that are particularly vulnerable to the adverse effects of climate change. It was established in 2001 to support developing countries under the Kyoto Protocol.¹²

In December 2022, the UK contributed US\$17.2 million to the fund.¹³ This includes funding from the UK's climate finance budget.¹⁴

Green Climate Fund, 2010

At COP 16 in 2010, parties established the [Green Climate Fund](#). This financial mechanism is accountable to the COP, which decides on its policies, programme priorities and eligibility criteria for funding.¹⁵ For 2020 to 2023, the UK has pledged £1.44 billion to the Fund, which will be drawn from its £11.6 billion climate finance commitment.¹⁶

UK aid, climate finance, and climate change

Addressing climate change is one of the four priorities of the UK's 2022 international aid strategy (though it does not make any specific commitments on loss and damage).¹⁷

The UK has pledged £11.6 billion in international climate finance (ICF) from 2021 to 2026, building on the £5.8 billion it provided from 2016 to 2021.¹⁸ ICF aims to help countries adapt to, and mitigate the effects of, climate change. It can take a variety of forms, including loans, guarantees, export credits, and grants. UK ICF is intended to be evenly split between mitigation and adaptation.

Around 87% of UK climate finance between 2014 and 2021 was delivered as grants (£4.9 billion), and only 0.1% through loans.¹⁹

In response to reports in 2023 that the Government may not meet its £11.6 billion commitment in the context of a reduced overseas aid budget, it has said it remains committed to meet the pledge by 2026.²⁰

The UK's ICF commitment forms part of the annual US\$100 billion target for climate finance for developing countries. While the target has consistently been missed since 2009, it is expected to be achieved in 2023.²¹

The Commons Library research briefing, [UK aid and climate change](#) and [The UK's 2022 aid strategy](#), provide more on UK commitments.

1.3

What would the cost of a loss and damage fund be?

To date, there is no agreement on what the financial size of any loss and damage fund should be.

A June 2022 report from the Ministers of Finance of the [58-strong Vulnerable Twenty \(V20\) group of countries](#) (a group of economies considered systemically vulnerable to climate change) estimated that climate change had already caused a substantial level of financial loss and damage:

- Climate change has eliminated one fifth of the wealth of the V20 over the last two decades: initial evidence shows that the V20 would have been 20% wealthier today had it not been for climate change and the losses it incurred for poor and vulnerable economies.

⁹ Foreign, Commonwealth and Development Office, [Written answers to the Environment, Food and Rural Affairs Committee](#), 15 June 2022

¹⁰ UN Climate Change, [The Special Climate Change Fund](#) and GEF, [Special Climate Change Fund](#)

¹¹ UN Climate Change, [Least Developed Countries Fund](#)

¹² UN Climate Change, [Adaptation Fund](#)

¹³ Adaptation Fund, [UK: Contributions to the adaptation fund](#)

¹⁴ HM Government, [Together for people and planet: UK international climate finance strategy](#) (PDF), March 2023, p32

¹⁵ [Green Climate Fund](#)

¹⁶ HM Government, [Together for people and planet: UK international climate finance strategy](#) (PDF), March 2023, p32

¹⁷ FCDO, [The UK Government's strategy for international development](#), 16 May 2022, paras 26-27

¹⁸ As above, para 27

¹⁹ Commons Library, [COP26: Delivering on \\$100 billion climate finance](#), 3 November 2021

²⁰ [UK risks shattering global standing by dumping £11.6 billion climate pledge, ministers told](#), The Guardian, 5 July 2023; PQ 906052 [[Climate change: Finance](#)], 18 July 2023

²¹ Commons Library, [UK aid and climate change](#), section 3.2

- In aggregate dollar terms, V20 economies have lost approximately US\$525 billion because of climate change's temperature and precipitation patterns affects.
- For the most at-risk countries (10% of worst affected V20 economies), economic losses due to climate change are estimated to exceed half (51%) of all growth since the year 2000 (2000-2019): the most at-risk of the world's most climate vulnerable nations would be twice as wealthy today were it not for climate change.²²

A study published in 2019 calculated that loss and damage for [developing countries](#)²³ could rise from between US\$290 billion and US\$580 billion in 2030, to US\$551 billion to US\$1,016 billion in 2040, and reach US\$1,372 billion to US\$1,741 billion in 2050.²⁴

Further reading on "loss and damage"

- Chatham House, [What is loss and damage?](#), December 2022
- Organisation for Economic Cooperation and Development, [Financial resilience to climate impacts: A framework for governments to manage the risks of losses and damages](#), December 2022
- The Forum Network, [Loss and damage finally took the stage at COP 27 - now what?](#), 21 February 2023

²² V20, [Climate Vulnerable Economies Loss Report](#), June 2022

²³ Defined in this article as being [non-annex 1 Parties to the United Nations Framework Convention on Climate Change](#)

²⁴ Anil Markandya and Mikel González-Eguino, [Integrated Assessment for Identifying Climate Finance Needs for Loss and Damage: A Critical Review](#), in R. Mechler and others, eds, Loss and damage from Climate Change, 2019

2

Historic trends in global emissions

Whether wealthy and historically higher-polluting countries should take more responsibility for funding loss and damage has long been a source of contention at climate negotiations. Many countries that suffer severe loss and damage, such as least developed countries and small island states (SIDS), are generally the least responsible for global carbon emissions.²⁵

Measuring historic greenhouse gas emissions

Data on historic greenhouse gas emissions, going back to the 1800s or earlier, tends to focus on the sources that were measured at the time especially those with a clear link with emissions. This means that the earliest data looks at CO₂ emissions from combustion of fossil fuel only.

More recent estimates include emissions linked to land use change and cement production. Estimates for some economies, particularly developing countries, do not go back as far, but this is not likely to have a major impact on global estimates.

Complete greenhouse gas figures, covering the full range of gases and sources, are much harder to estimate because of the lack of historical data on what are highly dispersed sources, particularly agriculture, land use and waste management. This means that detailed estimates are only available back to around 1990. In 2021, CO₂ emissions from fossil fuels and industry are thought to make up around 68% of the total CO₂ equivalent of all greenhouse gases from all sources.²⁶

Cumulative CO₂ emissions by continent

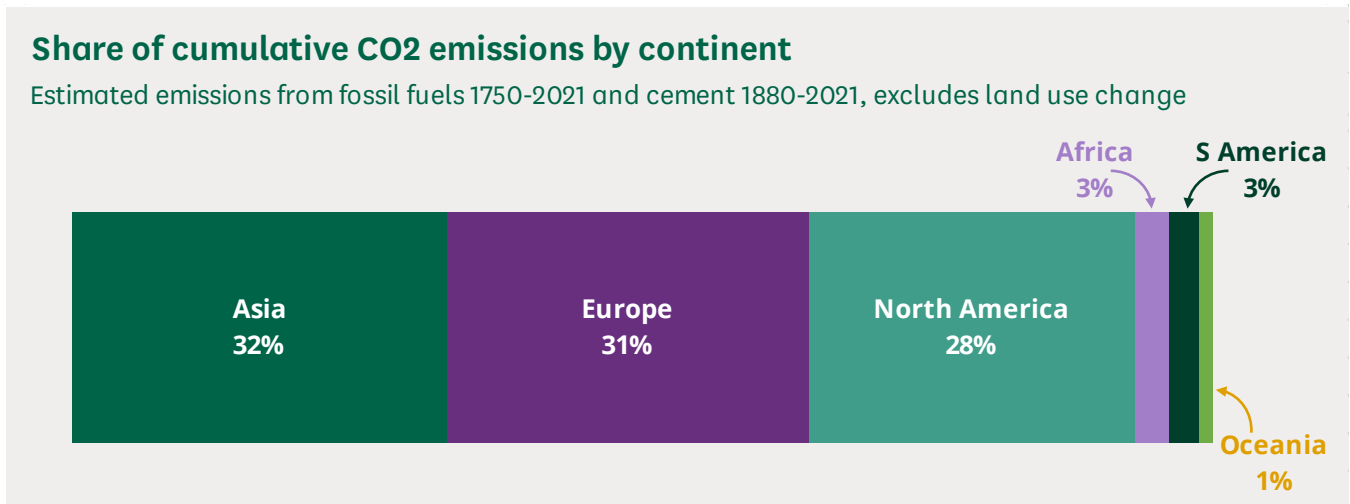
The chart on the next page breaks down cumulative CO₂ emissions by continent. Asia, Europe and North America are relatively close on this measure with just under one third of estimated global emissions since 1750.

However, populations in these regions very different. In 2021 almost 60% of the world's population lived in Asia, 18% in Africa, 9% in Europe and 8% in North America.²⁷

²⁵ Chatham House, [What is loss and damage](#), 6 December 2022

²⁶ Hannah Ritchie, Max Roser and Pablo Rosado in Our World in Data, [CO₂ and Greenhouse Gas Emissions](#), 2020.

²⁷ This excludes the 2.5% of emissions from international sources.



Source: Hannah Ritchie, Max Roser and Pablo Rosado (2020) - "CO₂ and Greenhouse Gas Emissions". Published online at OurWorldInData.org. Retrieved from: <https://ourworldindata.org/co2-and-greenhouse-gas-emissions>

Top-20 country emitters

The next chart looks at the top 20 countries using the same definition of historical emissions from 1750.

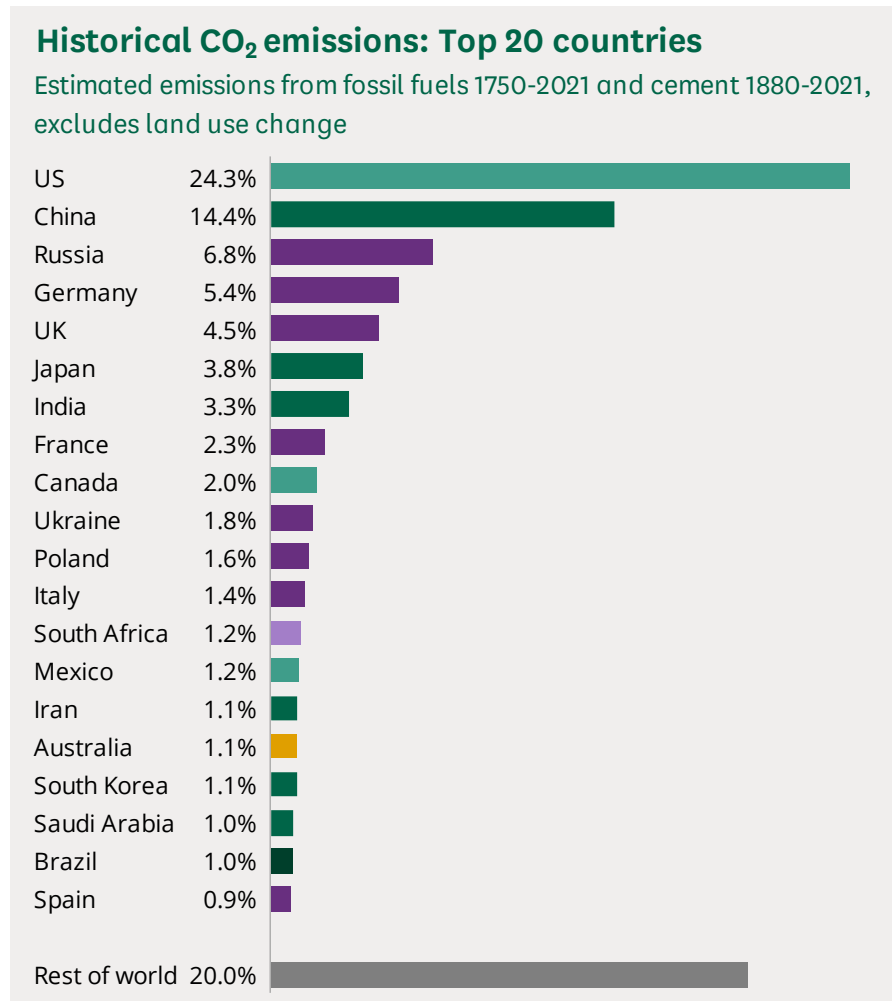
The United States was responsible for almost a quarter of historical emissions across the world, followed by China with 14% and Russia with just under 7%.

The UK was fifth on this measure at 4.5% of historical emissions. These 20 countries were responsible for 80% of all historical emissions since 1750.

The relative positions and values of some countries has changed substantially over time:

- China's emissions up to 1950 made up less than 1% of the global total at the time. This increased to 5% in 1998 and 10% in 2010.
- The UK was the sole source of fossil fuel emissions for the early years covered by this data due to its early adoption of coal. It was still responsible for 90% of cumulative global emissions up to 1829 and 50% up to 1882.
- The US's share of historical emission peaked at 40% in the early 1950s. It has fallen steadily since then due to faster growth in emissions in the rest of the world.²⁸

²⁸ Hannah Ritchie, Max Roser and Pablo Rosado in Our World in Data, [CO₂ and Greenhouse Gas Emissions](#), 2020.



Source: Our World in Data, "[CO₂ and Greenhouse Gas Emissions](#)", 2020

If estimated CO₂ emissions from land use change are included with the earlier data the top three countries remain the same, but there are large increases for Brazil, India, and Indonesia (among other countries) which move into 4th, 5th and 7th places respectively. This is due to the large areas of land converted to agriculture in these countries. The UK is ranked 7th on this measure with 3.1% of estimated historical emissions.²⁹

All the data above assigns emissions to the country where they are produced, regardless of whether they are linked to goods which are exported. This is known as territorial or production-based emissions. An alternative approach, "[consumption-based emissions](#)," aims to assign CO₂ to a country on the basis of emissions linked to everything it consumes (regardless of where it is produced). These estimates have not been made for all countries and are only for recent years so cannot be used to estimate historical emissions.

International agreements do not take these consumption-based emissions into account.

²⁹ Hannah Ritchie, Max Roser and Pablo Rosado in Our World in Data, "[CO₂ and Greenhouse Gas Emissions](#)", 2020.

3 Climate negotiations

3.1 Loss and damage in past climate negotiations

First proposal at UN climate talks, 1991

In 1991, the Alliance of Small Island States (AOSIS), which today has 39 members, proposed an international insurance mechanism (or a pooled global fund) for inclusion in UN climate frameworks.

This group proposed a mechanism which would have seen “industrialised states” pay for the “loss and damage” that would harm small island states because of rising sea levels. States would pay into the fund based on their historic responsibility for climate change and their economic size.

The proposal did not succeed.³⁰

First mention in negotiated text, 2007

While the potential for an insurance mechanism to help countries minimise the negative effects of climate change were cited in later climate protocols, it was not until 2007 and COP 13 in Bali that loss and damage was cited in a negotiated UN text. Here the parties agreed to begin a process to reach agreement on addressing loss and damage at a future meeting.³¹

Warsaw International Mechanism, 2013

In 2019, the [Warsaw International Mechanism](#) was established at COP 19. It has a mandate to address loss and damage associated with climate change, “including extreme events and slow-onset events in developing countries that are particularly vulnerable to the adverse effects of climate change.”

The Warsaw mechanism does not provide funding. Rather, it is centred on sharing expertise and supporting dialogue between countries. It is supported by the Santiago network (see below, page 13).³²

³⁰ Carbon Brief, [Timeline: the struggle over “loss and damage” in UN climate talks](#), 27 September 2022. Sources in this section accessed 2 August 2023.

³¹ UNFCCC, [Report of the COP on its 13th session, \[...\] 3 to 15 December 2007](#) (PDF), 14 March 2008

³² UN Climate Change, [Warsaw International Mechanism for Loss and Damage \[...\]](#)

Paris Agreement, 2015

In Article 8 of the 2015 [Paris Agreement](#), adopted at COP 21, parties recognised the importance of “averting, minimizing and addressing loss and damage associated with the adverse effects of climate change.”³³

The agreement, however, does not refer to finance related to loss and damage and explicitly states Article 8 “does not involve or provide a basis for any liability or compensation.”³⁴

Santiago network for Loss and Damage, 2019

In 2019, the [Santiago Network](#) was established at COP 25. It is responsible for providing technical support to help developing countries respond to loss and damage from climate change. However, final details of the network and how it will work were only confirmed at COP 27 in 2022 (see below, section 3.2).

The Santiago Network is separate from loss and damage funding as its aim is to help identify, coordinate, and provide technical support.³⁵

COP 26, 2021

COP26 at Glasgow reached two key agreements on loss and damage:

G77 call for a loss and damage financing facility

In 2021, [the Group of 77 \(G77\)](#) (a bloc of 134 developing countries, including China) called for the establishment of a dedicated loss and damage finance facility.³⁶ However, the proposal did not gain sufficient support.

Instead, the COP agreed for a dialogue to be established (known as the “[Glasgow dialogue](#)”) to discuss the arrangements “to avert, minimize and address loss and damage associated with the adverse impacts of climate change.”³⁷ The dialogue will run until 2024.

Agreement of the structure of the Santiago Network

The COP also agreed the functions of the Santiago Network. These were to support technical assistance and approaches to avert, minimise, and address loss and damage:

[To] catalyse the technical assistance of relevant organizations, bodies, networks and experts, for the implementation of relevant approaches for

³³ UNFCCC, [Article 8 of the Paris Agreement](#) (PDF) 2015

³⁴ As above

³⁵ UNFCCC, [Santiago network for averting, minimising addressing loss and damage under the Warsaw International Mechanism \[...\]](#), (PDF) 18 November 2022

³⁶ [Developing countries, China seek 'loss and damage' fund - draft proposal](#), Reuters, 15 November 2022

³⁷ UN Climate Change, [First Glasgow Dialogue \(GD1\)](#)

averting, minimize and addressing loss and damage at the local, national and regional level, in developing countries that are particularly vulnerable to the adverse effects of climate change."³⁸

Further reading on past negotiations on loss and damage

- Carbon Brief, [Timeline: The struggle over loss and damage](#), 2022
- European Parliament, [Understanding loss and damage](#) (PDF), 2022

3.2

Commitments at COP 27

Creation of a committee to establish a fund

COP 27 was held in Sharm El Sheikh, Egypt, from 6 to 18 November 2022. The final decision text from this COP, known as the [Sharm el-Sheikh implementation plan](#) was published on 20 November 2022. In relation to the loss and damage fund it stated that the conference:

24. Welcomes the consideration, for the first time, of matters relating to funding arrangements responding to loss and damage associated with the adverse effects of climate change, including a focus on addressing loss and damage, under the Conference of the Parties and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement and also welcomes the adoption of decisions -/CP.2712 and -/CMA.4,13 on matters relating to funding arrangements responding to loss and damage associated with the adverse effects of climate change.³⁹

The Sharm el-Sheikh implementation plan cited the “growing gravity, scope and frequency in all regions of loss and damage associated with the adverse effects of climate change.” It also referred to the negative effects for the debt burdens of climate-vulnerable countries and their attempts to achieve the [sustainable development goals by 2030](#).⁴⁰

During the conference, governments agreed to:

- Establish a transitional committee to operationalise the new funding commitments and to establish a fund for responding to loss and damage. The commitment’s plan will be considered at the next climate

³⁸ UN Climate Change, [About the Santiago Network](#)

³⁹ UN Climate Change, [Sharm el-Sheikh Implementation Plan](#), 20 November 2022

⁴⁰ As above, para 22 and 23

conference, COP 28. This is due to be held in the UAE in November and December 2023.⁴¹

And:

- For the fund to be targeted at those “particularly vulnerable” to the adverse effects of climate change (see below, section 3.3, for the debate on the potential countries this covers).

The agreement makes no reference to compensation, liability, or reparations. In 2023, the US Climate Envoy John Kerry reemphasised that “under no circumstances” would the United States consider reparations.⁴²

Makeup and role of the transitional committee

The transitional committee comprises 24 members from parties to the UNFCCC and Paris Agreement, with 10 members from developed country parties and 14 members from developing country parties. The UK is a member of the Committee as a developed country party.

Other members include the United States, Japan, France, the Maldives, Barbados, China, and India.⁴³

The transitional committee will consider:

- Establishing institutional arrangements, modalities, structure, governance and terms of reference for the fund;
- Defining the elements of the new funding arrangements;
- Identifying and expanding sources of funding;
- Ensuring coordination and complementarity with existing funding arrangements.⁴⁴

Further information about the Committee and its work is available from the UN Climate Change website, [Transitional Committee](#).

⁴¹ UN Climate Change, [Funding arrangements for responding to loss and damage associated with the adverse affects of climate change \[...\]](#), 20 November 2022

⁴² [“Under no circumstances”: John Kerry rules out US paying climate reparations to low-income countries](#), CNBC, 14 July 2023

⁴³ UN Climate Change, [Membership - Transitional Committee](#) 26 May 2023As above

⁴⁴ As above

Current state of negotiations

Eligibility for the fund, the terms of any funding arrangements, and the potential beneficiaries are yet to be agreed.

In March 2023, both Climate Change News and Reuters reported on a statement from Egyptian negotiators that the committee is expecting to reach an agreement by COP 28. They noted significant outstanding issues included who will pay into the fund and how the funds will be disbursed.⁴⁵

At their meeting in May 2023, G7 leaders (the US, UK, Japan, Germany, Italy, France and Canada, and the EU) stated they would “scale up action and support to avert, minimise and address loss and damage, especially for the most vulnerable countries.” This include working through the committee to establish a fund to support such countries.⁴⁶

3.3

Issues for the committee for COP 28

Which countries are defined as “particularly vulnerable?”

The Sharm El Sheikh declaration states the fund is intended to support “developing countries that are particularly vulnerable to the adverse effects of climate change.”⁴⁷

Alternative views have been put forward by country negotiators on who should be judged “particularly vulnerable.”

Under the existing UNFCCC, under which climate conference conferences take place and the arrangements for mobilising US\$100 billion in climate finance for developing countries each year are made, countries are divided into “developed” and “developing” ones. This list has not been amended since 1998.⁴⁸

Under this schema, [there are 155 “developing countries”](#) (in receipt of the funds, called non-Annex 1 countries) and [43 others](#) (who contribute to the US\$100 billion goal, and referred to as Annex 1 countries).⁴⁹

⁴⁵ [At Luxor talks, splits remain but hopes high for loss and damage fund this year](#), Climate Change News, 31 March 2023; [“Loss and damage” climate fund should be in place this year—Egyptian official](#), Reuters, 30 March 2023

⁴⁶ G7, [G7 Hiroshima Leaders’ communiqué](#), 20 May 2023, para 19

⁴⁷ UN Climate Change, [Funding arrangements for responding to loss and damage associated with the adverse effects of climate change \[...\]](#), 20 November 2022

⁴⁸ Organisation for Economic Cooperation and Development, [List of Annex 1 countries](#)

⁴⁹ UN Environment, [Parties to the UNFCCC](#), Annex 1 and non-Annex 1

Non-Annex 1 covers what are termed in the UNFCCC as “developing countries” and includes China, India and Saudi Arabia alongside Bangladesh, Malawi, and small island states (SIDS) such as St Kitts and Nevis.

The language of developing countries that are “particularly vulnerable” is suggestive that not all developing countries will be eligible for support.

AOSIS has proposed this definition is centred on countries with the least capacity to cope and adapt, alongside their susceptibility to harm and to be adversely affected. This is interpreted as excluding the Middle East and countries with higher incomes in Asia but including most Africa states and SIDS. The European Union has reportedly backed a narrower definition.⁵⁰

Financing the fund: which countries might contribute?

As set out below, section 4, governments making financial commitments to loss and damage include those of Scotland, Denmark, Belgium and Scotland, and the European Union.

Debate has centred on whether China and other states with higher incomes and oil-producers (such as Saudi Arabia) should also contribute.

The European Union has argued that China, as the world’s second largest economy but classed as a “developing country” in the UNFCCC, should contribute to the loss and damage fund.⁵¹ SIDS have also called for China and India to contribute to the fund “as major polluters.”⁵²

While China is a recipient of climate finance from Annex 1 countries, since 2015 it has also begun to provide climate finance to other countries.⁵³

Chinese and Indian officials have said that while they support the loss and damage mechanism, they would not contribute, citing the role of historic emitters (Chinese emissions have grown greatest since the 1990s).⁵⁴

Analysts have also suggested that high-income oil-producing states such as Saudi Arabia, Qatar and the United Arab Emirates could contribute to the loss and damage fund, while acknowledging these states are also vulnerable to the economic impacts of a low-carbon transition due to the importance of oil to their economies.⁵⁵

⁵⁰ [Which countries are particularly vulnerable to climate change?](#), Climate Change News, 8 December 2022

⁵¹ [EU says China should contribute funding for climate “loss and damage.”](#) Reuters, 16 November 2022

⁵² [COP27: Island nations want China, India to pay for climate damage.](#) Reuters, 8 November 2022

⁵³ E3G, [China’s climate finance to developing world falls short of its own pledges](#), 27 April 2023

⁵⁴ [China says it won’t pay into climate fund for developing countries](#), VOA, 10 November 2022; [COP 27: India says no to mandatory contribution to loss and damage finance \[...\]](#), Times of India, 16 November 2022

⁵⁵ Overseas Development Institute, [A fair share of climate finance?](#) (PDF), June 2022, pp46-7; [Who should pay for loss and damage? Spoiler: Not China.](#) Climate Change News, 29 November 2022

How might funding be raised and disbursed?

Status and operation of the fund

The AOSIS have called for a “fit-for-purpose multilateral fund designated as an operating entity of the UNFCCC Financial Mechanism.” This would mean the fund had the same status as other initiatives such as the Global Environment Facility, and which would allow COPs to create guidance and management for the fund.⁵⁶

Christian Aid argues including the fund as part of the UNFCCC agreements would make it “part of a set of softer ‘norms’” that set expectations that state parties will contribute to the new fund.⁵⁷

An article published by the Commonwealth Secretariat in December 2022 argues the fund should be capable of providing immediate financial support and function like an insurance company (note the Commonwealth has no formal position on the loss and damage fund):

It is expected that the LDF [Loss and Damage Fund] could be similar to that of an insurance company underwriting a parametric insurance product and paying policyholders immediately after an unexpected shock evaluated according to the intensity of the event and based on a checklist of eligible criteria. [...]

There is also a need to define the scope of LDF and distinguish it from existing humanitarian and disaster management funds that might resemble loss and damage support. The percentage of losses and damages covered by the LDF have to be according to risk coverage to be determined. Too low-risk coverage will not serve the purpose of LDF, while a very high or blanket coverage could disincentivise investment in climate adaptation.⁵⁸

“Innovative” funding and “broadening” the donor base

A November 2022 UN Environment Programme article argues that “a broadened donor base and innovative finance tools would be needed to respond to the magnitude of loss and damage.”⁵⁹

In a 2021 discussion paper the UK Government highlighted it is undertaking looking at establishing “innovative financial measures”:

We are working with partners to develop innovative financial protection measures such as forecast based financing, Index based risk insurance pools and contingent credit. We are also working to help develop markets for private sector disaster risk responses. These innovative financial measures can enable

⁵⁶ Alliance of Small Island States, [Media briefing note on the Loss and Damage Response Fund](#), 19 October 2022; UN Climate Change, [Introduction to climate finance](#)

⁵⁷ Christian Aid, [The loss and damage fund: where does the money come from?](#) (PDF), May 2023, p16

⁵⁸ The Commonwealth, [Blog: Loss and Damage Fund - Size, design and agility are essential](#), 5 December 2022

⁵⁹ UN Environment Programme, [What you need to know about the COP27 Loss and Damage Fund](#)

access to more rapid finance in emergencies and strengthen preparedness of local systems for disaster response and recovery.⁶⁰

Analysis by Christian Aid argues that funding is likely to mirror estimates of fair burden-sharing in mitigation and adaptation funding, with countries contributing on the same proportionate basis.

Citing analysis by the Overseas Development Institute, which calculates a country's "fair share" based on each country's gross national income, cumulative territorial emissions since 1990 and population size, it argues the UK should contribute around US\$10 billion to US\$20 billion per annum in 2030 for loss and damage (depending on if total costs for loss and damage are between US\$290 billion and US\$580 billion in 2030).⁶¹

Role of the private sector

The UK Government has emphasised that climate finance cannot solely come from the aid budget, and that the transitional committee should consider "sources and funds from outside traditional donors."⁶²

The AOSIS has argued that fossil fuel companies "could carry a proportion" of the costs through a tax on their profits.⁶³ A windfall tax on oil and gas companies' profits has also been proposed by the UN Secretary General António Guterres.⁶⁴

A [review commissioned by the Scottish Government](#) also suggested measures including crowd-funding and taxes on large polluters such as shipping companies and airlines as well as fossil fuel companies. This would be in addition to public mechanisms such as increasing funding from multilateral development banks (which include the World Bank and International Monetary Fund).⁶⁵

Further reading on potential funding mechanisms

Carbon Brief, [Q&A: Should developed nations pay for "loss and damage" from climate change?](#), September 2022, has more on the debate. See sections on:

- "How should loss and damage be paid for?"
- "How should loss and damage finance be spent?"

⁶⁰ HM Government, [Discussion paper: UK action to support countries to avert, minimise and address the risk of loss and damage from climate change](#), 8 November 2021

⁶¹ Christian Aid, [The loss and damage fund: where does the money come from?](#) (PDF), May 2023, p19

⁶² HL Deb, [30 March 2023](#), c407; PQ 166365 [[Climate change: Finance](#)], 20 March 2023

⁶³ [COP 27: Time to pay the climate bill—vulnerable nations](#), BBC News, 8 November 2022

⁶⁴ UN, ["Cooperate or perish:" At COP27 UN chief calls for climate solidarity pact, urges tax on oil companies to finance loss and damage](#), 7 November 2022

⁶⁵ Scottish Government, [Addressing loss and damage conference—practical action: Summary report](#), November 2022, section 4

4

Financial pledges for loss and damage

Seven UN-member state Governments have pledged funding for loss and damage: Denmark, Belgium, Germany, Austria, New Zealand, Canada, and Ireland, following earlier pledges from the Scottish and Wallonia governments. Most of these sums are relatively small, but analysts see them as attempts to pressurise larger states into making commitments.

Scotland, 2021 and 2022

In November 2021, to coincide with COP 27, the Scottish Government announced a £2 million pledge for loss and damage.

While acknowledging the small size of the contribution, then First Minister Nicola Sturgeon said she hoped it would “galvanise other organisations [...] and show world leaders that where small nations lead, they can follow.”⁶⁶ She said the pledge should be seen “not as an act of charity, but as an act of reparation” for the historic contribution of the UK to climate change.⁶⁷

In 2022, the Scottish Government announced a further £5 million pledge.⁶⁸

International development is a reserved issue for the UK Government and Parliament, but both the Scottish and Welsh Governments have small international aid budgets (less than 0.1% of total UK aid spending). From 2012 to 2021 Scottish Government aid spending averaged £13.3 million per year.⁶⁹

Wallonia, 2021 and 2022

The Belgian region of Wallonia pledged €1 million in 2021 for loss and damage.⁷⁰ Its government said it was an “important gesture” alongside that of Scotland. The region pledged a further €2 million in 2022.⁷¹

Denmark, 2022

In September 2022, Denmark committed DKK100 million (US\$13million) in loss and damage funding. It was the first UN-member state to commit funding.

⁶⁶ Scottish Government, [Scotland to show leadership on climate justice](#), 1 November 2021. Sources in section 4 accessed 31 July and 1 August 2023.

⁶⁷ [Sturgeon calls on world leaders to follow Scotland with “reparations.”](#) The Herald, 11 November 2021

⁶⁸ Scottish Government, [Funding pledge for loss and damage](#), 8 November 2022

⁶⁹ FCDO, [Statistics on international development: final UK aid spend 2021](#), November 2022, Table A3

⁷⁰ [Wallonia earmarks one million euros for loss and damages](#), The Brussels Times, 14 November 2021

⁷¹ [Wallonia to double funding for countries impacted by “loss and damage.”](#) The Brussels Times, 15 November 2022

Around a third will be spent to subsidise insurance in low-income countries and a further third on “strategic partnerships” with civil society on climate-related loss and damage, particularly in the Sahel. The remainder will be focused on supporting climate negotiations and wider resilience efforts in lower-income states.⁷²

Austria, 2022

In November 2022, the Austrian Government said it would provide US\$50 million in loss and damage funding over the next four years. The funds could support the Santiago Network and an early-warning weather system.⁷³

Belgium, 2022

Belgium pledged US\$2.5 million in loss and damage funding for Mozambique, as part of wider support for the country to address climate change.⁷⁴

New Zealand, 2022

The Government have committed NZ\$20 million (US\$12 million) from its existing climate finance commitments for loss and damage in the Pacific.⁷⁵

Global Shield against climate risks—G7, 2022

The Global Shield was launched at COP 27 in November 2022, with the support of the G7 and the Vulnerable 20 (“V20”) (this has [58 members](#)).

The fund will channel grants to developing countries to increase financial protection against climate risks, provide needs-based support, and to issue immediate finance when disasters affect a country. It includes a loss and damage aspect, among other programmes.

Those pledging funds include Germany, France, Ireland, Denmark, Canada, and the United States. Aside from Germany, which is providing €170 million (around US\$180 million), the remainder are providing less than €23 million each (around US\$25 million).⁷⁶

Ireland has confirmed its contribution is not new funding.⁷⁷

⁷² [Denmark breaks ranks on paying for climate damage](#), Politico, 21 September 2022

⁷³ [COP27: Austria commits \\$50 mln for climate “loss and damage.”](#) Reuters, 8 November 2022

⁷⁴ [Belgium pledges climate “loss and damage” funding for Mozambique](#), Euronews, 8 November 2022

⁷⁵ [COP27: Climate change conference: New Zealand announced loss and damage funds for \\$20 million](#), New Zealand Herald, 8 November 2022

⁷⁶ Global Shield, [The Global shield against climate risks: Presentation for the transitional committee workshop](#) (PDF), 30 April 2023

⁷⁷ [Ireland to move on “loss and damage” climate disaster funds \[...\]](#), Independent Ireland, 7 November 2022

5 Debate in the UK

For UK aid commitments on climate change, see the box on pages 6 to 7.

5.1 UK Government position

Commitment to implement the COP27 agreement

In response to the commitments reached at the COP meeting in Sharm El Sheikh in 2022, the Government says it is “actively engaging” with the transitional committee and other conference parties to “ensure funding arrangements deliver effectively for those most vulnerable climate change” and that the committee “delivers results” at COP 28.⁷⁸

As funding arrangements are yet to be established, the UK Government has not committed to say if, or what amount, it might contribute,⁷⁹ and that it would “assess the value of providing a contribution once the modalities of the fund have been agreed.”⁸⁰ The Government has also said the transitional committee should “consider the widest possible sources of contributions.”⁸¹

Funding announced in support of Santiago Network

While the UK Government has not committed funding for loss and damage, at COP 27 it announced £5 million for the Santiago Network for Loss and damage. This will help provide technical assistance for developing countries. This formed part of a wider £13 million adaption and loss package.⁸²

5.2 UK Parliament

International Development Committee, 2021

In advance of COP 26 in 2021 which was hosted by the UK, the Commons International Development Committee called upon the Government to:

- Ensure the operationalisation and adequate funding of the Santiago Network for Loss and Damage by 31 January 2022.

⁷⁸ PQ 185331 [[Climate change: Finance](#)], 23 May 2023. Sources accessed 31 July 2023.

⁷⁹ PQ 114601 [[Climate change: International assistance](#)], 13 January 2023

⁸⁰ HL Deb, [24 November 2022](#), c1516

⁸¹ HC Deb, [21 November 2022](#), c24

⁸² FCDO, [Foreign Secretary at COP27 pledges new support for developing countries to deal with climate change](#), 7 November 2022

- “Keep up the momentum” for policies and interventions on loss and damage during its COP presidency.
- Work with least developed countries and SIDS on “practical measures” to address loss and damage.⁸³

In response to the Committee, the Government said the UK COP presidency “gave adaption, loss and damage greater prominence than at any other COP”. It referred to the Glasgow Climate Pact’s acknowledgment that climate change will increasingly cause loss and damage and pledges to pursue further work with the Santiago Network.⁸⁴

In November 2021 then Minister for Pacific and the Environment Lord Goldsmith said that “although we did not secure what was rightly demanded on loss and damage” at COP from climate-vulnerable countries, the UK would use its COP presidency to ensure the Santiago Network for loss and damage “leads to something.”⁸⁵

Parliamentary debates in 2022 and 2023

In November 2022 the shadow Foreign Secretary, David Lammy, said the Loss and damage fund agreed at COP27, was an “important step forward” that reflects “those most likely to be affected by climate change are the least able to afford to adapt to it.”⁸⁶

The Shadow Secretary of State of Climate Change and Net Zero, Ed Miliband, has said UK funding should go towards countries where the UK has existing aid commitments, and exclude China.⁸⁷

The outcomes of COP 27 were considered in both houses in November 2022.

In the Commons, Caroline Lucas MP raised an urgent question on the COP outcomes. She described the loss and damage agreement as a “historic step forward” but called on the Government to ensure it is adequately financed, provides grants, and that the UK provides new funding for it, above that already committed in its climate finance budget (see above box, page 6).⁸⁸

The responding Minister, Nusrat Ghani, said the Government could not respond to questions on funding until further details are agreed on the fund.⁸⁹

⁸³ International Development Committee, [Global Britain in demand: UK climate action and international development around COP26](#) (PDF), HC 99, 19 October 2021, pp27-8

⁸⁴ [Government response to the International Development Committee, Global Britain in demand](#), 14 January 2022, paras 7 and 8

⁸⁵ HC Deb, [18 November 2021](#), c462

⁸⁶ Labour Party, [David Lammy delivers Christian Aid’s Annual Lecture](#), 22 November 2022

⁸⁷ [Help poorer countries cover cost of climate disasters, Britain told](#), The Times, 7 November 2022

⁸⁸ HC Deb, [21 November 2022](#), c24

⁸⁹ HC Deb, [21 November 2022](#), c30

In the Lords, Lord Harries of Pentregarth led the debate, and asked the Government to confirm that any UK funding would be additional and that wider UK aid projects would not be affected by any commitments. Other peers also called for further information on the Government's approach.⁹⁰

Lord Bassam of Brighton, the then Labour Shadow Spokesperson (Business, Energy and Industrial Strategy and International Trade), called the loss and damage fund "very welcome," but said he would have liked to have seen more detail on the funding commitment.⁹¹

Responding for the Government, Lord Callanan said no UK commitments had been agreed and the scope and design of the fund would be something established through the transitional committee.⁹²

Westminster Hall debate, September 2023

Chris Law MP [led a debate in Westminster Hall](#) on climate finance for loss and damage on 5 September 2023.⁹³

⁹⁰ HL Deb, [24 November 2022](#), c1486

⁹¹ HL Deb, [24 November 2022](#), c1513

⁹² HL Deb, [24 November 2022](#), c1516

⁹³ Backbench Business Committee, [Oral evidence](#), 27 June 2023, Q9 and HC Deb, [5 September 2023](#), cc44-66WH

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