COP27 and the ambiguity about responsibility

This year, at COP27 in Egypt, a dizzying array of topics was on the table for discussion – from the more familiar emissions reductions to the more detailed rules to govern carbon markets. But of significance to developing countries, India included, are the stories to do with climate finance. As developing countries have rising energy needs and vulnerable populations, they need financial support for low-carbon transformations, building resilience to inevitable climate impacts, and other steep challenges, important among these being loss and damage (L and D) from climate-induced impacts. Possibly the biggest headline after COP27 was the establishment of a new L and D fund.

The main L and D agendas for developing countries since the Paris Agreement (2015) have been to change the existing narrative of averting L and D to addressing losses that have already occurred, and to start holding developed countries morally responsible and financially liable for the same.

Widespread droughts in Africa, floods in Pakistan, and wildfires globally were the prelude to this COP. Given these climate events are rampant, developing countries have been trying to separate L and D from adaptation. They argue that losses from these events have not and likely cannot be adapted to. And as scientists today are able to attribute these events to climate change, and derivatively, to greenhouse gas emissions, developing countries maintain that developed countries should inherit the resultant responsibility and liability.

L and D in ratified UN texts has mostly entailed prevention and pre-disaster preparation, thus conflating L and D with adaptation. This is in the interest of developed countries that do not want any new responsibilities. The decision text accompanying the Paris Agreement even took liability and compensation for L and D off the table – and developing countries were only able to get L and D on the COP27 agenda by once again foregoing conversation about liability.

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The L and D burden and responsibility

Against this backdrop, the new L and D fund introduced at COP27 seems a narrative failure, save the distinction between adaptation and L and D. Following the recommendation of the G77+China, the text finally frames L and D as post-event “rehabilitation, recovery, and reconstruction”. But it excludes mention of historic responsibility and the principle of Common but Differentiated Responsibilities (CBDR). What is more, there is no clear indication that the fund will be paid for by developed countries. The decision explores a “mosaic” of solutions, encouraging a miscellany of actors to contribute, which might simply mean a slow shift of the L and D burden onto the private sector, and perhaps even to richer developing countries such as China.

The ambiguity about responsibility is in fact carefully phrased to dilute the notion that there are distinct victims and perpetrators in the case of L and D. Once liability and CBDR are removed from L and D – in essence, an adversarial notion to hold developed nations morally and financially accountable – it risks becoming toothless: more voluntary reward than recompense.

With the new Loss and Damage fund, the line between victim and perpetrator has been blurred

On climate finance

COP27 also focussed on avenues for increasing finance flows to support positive climate action in developing countries.

In 2009, developed countries had promised developing countries $100 billion in climate finance annually by 2020, which still remains unmet. Developing countries expected this amount to come from public sources, though the sources were never clearly defined. And although it is a fraction of what developing countries need, it is an important symbol of trust. Much deliberation around finance has focused on assessing progress towards this goal, which developed countries now aim to meet by 2023. Lessons learned from this progress should also inform ongoing discussions around a new, enhanced developed country target that is meant to replace this $100 billion commitment by 2025. Meeting the current pledge and developing a meaningful new pledge - based on developing countries’ needs - will be important trust-building exercises encouraging greater cooperation towards climate action.

With this track record, developing countries have been keen to maintain focus on developed country obligations. Consequently, there was no discussion on Article 2.1c of the Paris Agreement, which seeks to make all finance flows compatible with low-carbon development. Developing countries feared a dilution of attention to developed country obligations, while developed countries argue that this Article can play a transformative role in mobilising the trillions actually needed to respond to climate change. Consequently, this element of the finance agenda was deferred, but is likely to be raised next year. With a growing sign that developed country public finance will, in reality, fall very short of meeting developing country needs, COP27 also saw momentum build towards encouraging finance through other channels.

Multilateral system and carbon markets

For the first time, the COP27 decision text included a call for reforming the global financial system, particularly multilateral development banks (MDBs), to make them more supportive of climate action. This, importantly, entreated MDBs to reduce the costs of borrowing for climate projects, increase finance for adaptation, and better align their operations with the Paris Agreement. In parallel, carbon markets emerged as more prominent vehicles for channelling private finance. In carbon markets, some entities sell credits by reducing their emissions below a threshold, while others buy these credits to offset emissions they are unable to reduce. Under Article 6 of the Paris Agreement, two types of markets will allow countries and companies to trade in emissions reductions. Although many questions regarding the design of these markets were addressed at COP26, discussions on unresolved issues raised concerns about whether these markets would be transparent, lead to actual emissions reductions, and risk reductions being counted twice – by the buyers and the sellers of credits. Such lack of transparency and double-counting can open the door to greenwashing.

Carbon markets are also increasingly featuring in just energy transition partnerships (JETP), which are emerging as avenues for developed countries to quickly channel finance to developing countries transitioning towards clean energy systems. As India explores such partnerships for its own energy transition, plans for using carbon credits to enable private investments raise similar risks about the sufficiency and predictability of finance; whether it can reach sectors that need more support, and whether this is an attempt by developed countries to offload responsibility.

While developing countries at COP27 wanted to focus on the public finance that developed countries should provide, the finance conversation is becoming multi-stranded and spreading to arenas outside formal negotiating channels. India will need to carefully watch these trends, and what they might imply for amounts, sources, predictability, impacts, and equity.

With the new L and D fund, the line between victim and perpetrator has been blurred. But given that all the practical mechanisms of the fund are yet to be decided, it will be interesting to see if developing countries can, in future negotiations, redraw the lines of responsibility, and perhaps even liability.