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A Bank of Actions: Making Good on Losses and Damages

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In the seat of the COP27 Presidency, Egypt has the chance to reframe the Conference of the Parties as a forum for action based on accountability

By Arunabha Ghosh

Egypt assumed the presidency of the Conference of the Parties (COP) under the United Nations Framework Convention on Climate Change (UNFCCC) during a devastating year of heat waves, droughts, lost crops, and extreme floods. These events made it impossible to ignore climate-related damages to lives and livelihoods. They also made clear that the long-held assumptions that the rich would escape the impact and the poor would need to adapt to it no longer held true. The undeniable truth is that the climate crisis is impacting vulnerable communities across the world.

The agreement on a loss and damage finance facility was the most consequential outcome from the twenty-seventh round of negotiations (COP27) held in Sharm El-Sheikh. But the goal of keeping temperature rise to levels that could minimize loss and damage continues to slip away. Egypt, which will hold the COP presidency until November 2023, has an opportunity to orient COP away from conversation and commitments and toward action and accountability. To do so, it will need to implement a suite of reforms based on protecting vulnerable populations, ensuring party compliance, increasing transparency, and democratizing the energy transition.

Returns Undelivered

Just over eighty years ago Sir Stafford Cripps, a member of the British War Cabinet, visited India on a special mission. In return for support for the Allied war effort, he promised that India would be granted dominion status within the British Empire. India's leaders wanted complete

◁ A chimney is reflected in a puddle polluted with chemicals at an industrial area of the western Indian city of Surat, Nov. 25, 2009. *Arko Datta/Reuters* independence. In response to Cripps' proposal, Mahatma Gandhi said, "It was a post-dated cheque on a failing bank."

Banks are filled with money. But they run on something non-monetary, namely trust. If trust in a bank falls, depositors start pulling out their savings. If many depositors do the same, there is a run on the bank, and it collapses.

The global climate regime is complex and multi-institutional. At its heart sits a bank called the UNFCCC. Its customers are nearly every country in the world, rich and poor, large and small, landlocked and island. For three decades, the UNFCCC has served as a "bank of commitments". Earlier, one set of countries had to capitalize the bank with their periodic commitments to reduce emissions, give money to another set of countries, and transfer climate-friendly technology. From 2015, all clients started depositing commitments in the form of nationally determined contributions. The bank accepted all sorts of deposits: some related to emissions reduction, others related to emissions intensity reduction, some related to clean energy, and others to afforestation and adaptation.

But banks do not run only on deposits. The deposits are, in turn, loaned out to generate better returns for all parties. If the returns on investment are poor, trust in the bank can fall. The UNFCCC, in effect, has now become a vault for more and more valuable deposits, including commitments for net zero emissions. If the near-term returns remain poor, the long-term commitments will likewise become post-dated cheques on a failing bank.

Concentrations of carbon dioxide in the atmosphere have risen from 359.99 parts per million in 1992 to 420.14 in late January 2023. Global average surface temperatures are now 1.06 degrees Celsius—roughly 2 degrees Fahrenheit—above the pre-industrial period, or since 1880. All major industrialized countries have together reduced emissions by only 3.7 percent since 1990. Of thirty-six climate and clean energy technology initiatives launched since 2010, only four implemented technology transfer to developing countries. Sectoral partnerships and technology codevelopment are likely to be the way forward. Of twenty-six clean energy finance initiatives launched since 2011, only nine consider de-risking investments for emerging economies, and none do it at scale. For damages caused by climate change that have impacted countries that had little to do with causing the crisis, so far, no compensation has arrived.

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COP summits to "recapitalize" with more commitments but little evidence of delivering on them. In short, these are post-dated cheques. If the UNFCCC wants to avoid a run on its bank of commitments, it must transform itself into a "bank of actions".

Gandhi's Talisman for the Vulnerable

The concept of loss and damage (or L&D) recognizes the adverse impacts that vulnerable communities and countries face as a result of a changing climate—including the increased incidents and intensity of natural disasters and extreme weather as well as slow-onset temperature increase, sea-level rise, or desertification—and seeks wealth redistribution as a means of addressing harm. Rich countries have resisted L&D payments for years, worried that their historical emissions would impose large calls for compensation. This year, under pressure, they could no longer duck their responsibility. The first test of UNFCCC's conversion into a bank of actions would be how the decision on loss and damage financing is implemented.

Once again, Mahatma Gandhi offers some guidance. Just a few days before his assassination, he said:

"I will give you a talisman. Whenever you are in doubt, or when the self becomes too much with you, apply the following test. Recall the face of the poorest and the weakest man [woman] whom you may have seen, and ask yourself, if the step you contemplate is going to be of any use to him [her]. Will he [she] gain anything by it? Will it restore him [her] to a control over his [her] own life and destiny? In other words, will it lead to swaraj [freedom] for the hungry and spiritually starving millions? Then you will find your doubts and your self melt away."

Following Gandhi's talisman would mean that one of the UNFCCC's core purposes should be to protect the most vulnerable, which can be done by prioritizing the COP27 decision on L&D and avoiding suppression by procedural wrangles. The decision includes the development of a Transition Committee dedicated to L&D, with equal representation across rich and poor countries. In order to operationalize the funding arrangements, this committee has been tasked with configuring institutional arrangements, identifying and expanding sources of funding, and coordinating with existing funding arrangements by COP28. While the sticking points of negotiations remain, the Egyptian presidency can promote five supportive steps.

Firstly, develop a Global Vulnerability Index to quantify vulnerability to the adverse effects of climate change. In 2021, the Council on Energy, Environment, and Water (CEEW) developed a Climate Vulnerability Index for India based on exposure to extreme events, sensitivity of the communities, and adaptive capacity of local administrations. It found that over 80 percent of Indians are highly vulnerable to extreme climatic disasters. Such data and research in the public domain help map critical vulnerabilities and plan strategies to build resilience by climate-proofing communities, economies, and infrastructure. Granular-level indices like these do not exist in the public domain across countries. A global index, based on climatic risks and compounding impacts, would transparently—and scientifically—establish the sheer size of the problem that the L&D facility would have to address.

Secondly, encourage attribution science to assess whether and to what extent human-caused climate change altered the likelihood and intensity of extreme climatic events. Unfortunately, contributions from the Global South are limited. A recent study found that only 3.8 percent of global climate research spending is dedicated to Africa; 78 percent is spent in Europe and North America. A South-led research consortium dedicated to scientific exploration of event attribution science should be encouraged to build research capacity in developing countries and strengthen the L&D framework.

Thirdly, champion the Early Warning Systems Initiative. The Executive Action Plan for the Early Warnings for All Initiative, unveiled at COP27, aims to ensure every person on Earth is protected by early warning systems for oncoming natural disasters within five years. It has called for targeted investments of 3.1 billion dollars between 2023 and 2027, which could avoid annual losses of 3-16 billion dollars against natural hazards in developing countries. The value of early warning systems—and related administrative capacities—is demonstrated when thousands of lives can be saved. For instance, the deployment of early warning systems and last-mile administrative and community engagement ensured that less than one hundred lives were lost to cyclone Fani in 2019 in Odisha, India, as compared to about ten thousand lost in 1999's super cyclone, which hit the same region.

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Fourthly, leverage the Coalition for Disaster Resilient Infrastructure (CDRI). India founded the CDRI "to promote the resilience of new and existing infrastructure systems to climate and disaster risks in support of sustainable development". The CDRI is currently undertaking a fiscal risk assessment to support the development of a comprehensive disaster-risk financing strategy across its membership of over thirty-five countries and multilateral entities. In 2021, it kickstarted an initiative called Infrastructure for Resilient Island States.

Fifthly, Egypt's COP presidency and India's Group of Twenty (G20) presidency can collaborate on promoting multilateralism for chronic risks by proposing a Global Resilience Reserve Fund (GRRF). In 2021, natural catastrophes caused 270 billion dollars in losses globally, but only 111 billion dollars were insured. With the global protection gap rising, the lack of insurance coverage imposes macroeconomic shocks. This requires a more systemic response that goes beyond disaster relief. Capitalized by International Monetary Fund (IMF) Special Drawing Rights, or reserve assets maintained by the IMF to support its members, the GRRF could pool risks across vulnerable regions, lower the peaks of risk curves in individual areas, and leverage public funds to fix a market failure of lack of insurance coverage for much of the disaster-impacted infrastructure in the Global South.

Currency Appreciation, Not Depreciation

Another structural challenge the UNFCCC has faced is that some of the biggest polluters have bailed out on their commitments or even exited agreements with impunity. A bank's main shareholders cannot afford to bail out before other depositors. But this is exactly what happened with the nonparticipation of major developed countries in the Kyoto Protocol (such as Canada and the United States) and the Doha Amendment (such as Canada, Japan, New Zealand, the Russian Federation, and the United States), as well as the United States' exit from the Paris Agreement. Although partially mitigated by reentry, each time these unilateral withdrawals happen, the currency (i.e. trust) stored in the bank depreciates. This must stop. An easy exit from a climate agreement, with no punitive measures in place, not only leads to more emissions from the country in question but also undermines trust in the process and discourages other nations from undertaking ambitious climate actions.

One way to minimize such instances is to enhance the scope of the Compliance Committee under Article 15 of the Paris Agreement. The committee's mandate could include specific discussions on noncompliance among members and nonparty stakeholders, and the exploration of punitive measures such as a requirement of additional emissions reductions via internationally transferred mitigation options (ITMOs).

Another approach is to formalize the role of nonparty stakeholders in the climate regime, who play critical functions in helping member states meet their obligations and in bridging transparency gaps. Their role would be even more important in providing inputs and analysis for the technical phase of the Global Stocktake.

International regimes serve five functions to varying degrees, namely agenda-setting, negotiations, implementation, monitoring, and enforcement. The UNFCCC has primarily focused on the first two and has almost no provision to serve as an enforcement body. As part of its reform, it should organize every alternate COP to focus on implementation and monitoring of committed actions, rather than negotiating new commitments.

Finally, increasing the integrity of commitments and credibility actions of corporations, cities, and regions could counteract non-performance by Parties. For example, 11,361 cities, 286 regions and 13,909 companies across the globe are supporting climate actions. In addition, there are many cooperative initiatives—such as the C40 Cities Clean Bus Declaration, RE100, and others—which have taken measures toward reducing emissions. The parallel announcements at Glasgow—the Methane Pledge, First Movers Coalition, and the Industrial Deep Decarbonisation Initiative, for example—must also be incorporated into an enhanced framework of climate actions. At the same time, double counting by cities, businesses, and countries must be avoided. The UN Secretary-General's High Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities recommended during COP27 that such entities should set clear interim targets, announce transition plans, invest in just transitions, and transparently report and verify their actions.

Trust, but Verify

The finalized enhanced transparency rulebook of the Paris Agreement will drive more transparency and accountability in the international community and facilitate mutual trust. There will be more granular information, leading to comprehensive understanding of climate actions. Transparency has normative value in open societies and instrumental value in applying peer pressure and nudging action.

However, there still exist several challenges in the enhanced transparency framework. Extensive reporting obligations can be burdensome, especially for developing countries. While these are important disclosures, sometimes it becomes difficult to relate the achievements of countries since disclosures are qualitative or are based on broad assumptions. Several gray accounting areas persist, which protect nonperformers. These include inflated base year emissions, accounting of emissions from source instead of consumption, and the definition of climate finance, to name a few. Climate reporting does not relate achievements to the socioeconomic parameters of a country or to science that would showcase the country's achievement in real terms. And, the focus of the transparency frameworks is on creating elaborative reporting and review guidelines without assessing their usefulness. It becomes difficult to meaningfully assess the often-assumed links between transparency, progress, trust, accountability, and enhancing ambition.

The existing arrangement must be restructured to explore ways to communicate the reported information coherently and provide evidence of what a country's true climate progress looks like. One way of doing this is by developing environmental performance indicators that are objective, quantifiable, and demonstrate change in a country's performance over time in both developed and developing nations, thus strengthening transparency in the process. For example, indicators such as share of global emissions, a country's sectoral emissions versus the global sectoral average, greenhouse gas emissions per capita, investment in renewables versus fossil fuels, and market share of electric vehicles could help with reporting and reviewing overall progress and showcasing key variables salient for exhibiting a party's climate performance.

Moreover, given their analytical capacity, nonparty stakeholders could also carry out independent assessments of parties and collaborative platforms and initiatives (launched during the Paris negotiations). Based on the credible data, they could compare climate actions across countries, identify good practices, establish a learning process, and create conditions conducive to international benchmarking. Examples include the pre-2020 ranking by CEEW, the Climate Action Tracker, and the Climate Change Performance Index. If done right, these suggestions could result in a reinforcing cycle of verified actions that build trust, accountability, and confidence among governments, investors, and within multilateral processes of climate governance. This approach would only succeed—in legitimate process and outcomes—if nonparty stakeholders from the Global South are included.

Bring the Energy Transition to the People

Ultimately, the COP process will draw legitimacy not only from how emissions were abated, but how energy was provided to billions of people who remain energy poor. The energy trilemma—affordability, security, and sustainability—must be overcome. For human development to progress in developing countries, the energy transition must be brought closer to the people.

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Recent studies show that 770 million people still do not have access to electricity worldwide, and that energy poverty remains one of the key barriers to sustainable development. Additionally, more than 2.6 billion people do not have access to clean cooking fuel while household air pollution, mostly from cooking smoke, is linked to roughly 2.5 million premature deaths annually.

In the developing world, distributed renewable energy (DRE) systems can provide energy access at far lower costs than extending existing grids. DRE solutions benefited about 150 million people around the world in 2019 alone by providing new energy access. Decentralized solutions could be the least costly way to provide power to the Global South, which comprises more than half of the global population that is likely to gain access this decade.

The DRE sector is a significant employer in emerging economies and has positively impacted job creation in many countries. In Kenya, DRE systems have created ten thousand formal jobs. A recent survey of DRE companies in India revealed that the sector provided direct employment to about 309,000 people in formal and informal jobs. The market potential is in the tens of billions. The market in India, aimed at using clean energy for productive enterprises in rural areas, is worth more than $50 billion. In Sub-Saharan Africa, an investment of $11.3 billion could support efficient solar-based appliances to provide various services, such as irrigation, cooling, and crop processing, to twelve million farms.

Leveraging energy for livelihoods and income generation increases the overall capacity and resilience of communities to invest in their development. Yet, productive uses of DRE technologies are missing in existing donor and philanthropic initiatives. Of thirty-six programs globally that focus on DRE, only three programs explicitly focus on promoting livelihoods.

In the aftermath of the COVID-19 pandemic and with the growing threat of recession in many economies, the COP presidency could draw attention to the jobs and growth potential of leveraging clean energy access for income-generating activities. Powering Livelihoods Globally—a multistakeholder platform—could drive large-scale adoption of productive uses of clean energy to stimulate jobs and growth in rural economies globally. The platform would catalyze local innovation and entrepreneurship to deploy sustainable technologies for livelihoods, such as green cold storages, agro-processing machinery, solar-based irrigation, or textile processing. With contributions from philanthropy and development finance institutions, and buy-in from the public sector, such a program could catalyze innovations from lab to market and generate value for communities at the bottom of the pyramid. Doing this at scale and tapping into the vast market would lend legitimacy to a COP process that remains disconnected from the lives of billions of people.

A Crisis of Empathy

Climate change is only the second greatest crisis facing humanity. The first is a lack of empathy: a lack of understanding of the lived reality of people of other colors, cultures, genders, and geographies.

COP27 began with little hope and ended (two days beyond schedule) with a faint glimmer. The success in negotiating an L&D financing facility is also an admission of the gravest failure of the COP process: accountability. Future COPs must focus almost exclusively on ensuring delivery and holding laggards accountable.

Some of the suggestions in this essay could be actioned under the current framework. Others will need a rethink of the rules. Some will face stiff opposition from conference parties. Within the recommendations are embedded core principles, such as the responsibility of principal shareholders in a bank, the need to protect vulnerable depositors, ensuring the credibility of transactions, imposing independent oversight for checks and balances, and helping individual customers in using resources well for the bank to deliver better returns overall. We accept these principles as a given when we entrust our monetary savings to a bank. Protecting the value of the asset that is a stable climate demands nothing less. Egypt's COP presidency can begin this transformation toward making UNFCCC a bank of just, credible, and accountable actions.