

Taking Responsibility

Towards a Fit-for-Purpose
Loss and Damage Fund



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Loss and Damage Fund



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TABLE OF CONTENTS

Acknowledgements	iii
Executive Summary	vii
Chapter 1. Designing a loss and damage fund: structure and governance	1
Scope, scale and speed: implications for the design of the LDF	1
Principles of the establishment of the LDF	3
Elements of a terms of reference: institutional arrangements, governance, structure, and operational modalities	5
Chapter 2. Eligibility for a Loss and Damage Fund: Issues and Considerations	11
Non-Annex I Countries and the Global Financial Architecture	11
Methodological Challenges of Measuring ‘Vulnerability’	13
Covid-19 and asymmetric crisis response capacity	16
Access Policies: Parameters, Triggers, and Best Practice	18
Conclusion	19
Chapter 3. Innovative sources of financing for loss and damage: a comparative analysis	21
Insurance Mechanisms: an insufficient tool	22
Principles for Assessing Innovative Sources	24
Fossil fuel subsidy phase-out	27
Maritime Levy	29
Fossil fuel levy/Carbon Damage Tax	30
Financial Transactions Tax	31
Air Passenger Levy	32
Windfall tax on fossil fuel company profits	32
Special Drawing Rights (SDRs)	33
Official Development Assistance (ODA) expansion	35
Conclusion	36
Conclusion	37

LIST OF FIGURES

Figure 1: Spectrum of actions in responding to climate impacts.	2
Figure 2: Appeal funding gap 2012-2022 (as of 21 November 2022)	5
Figure 3: UNFCCC Annexes Group Countries with Different Classifications, Eligibilities and Levels of Development	12
Figure 4: ND-GAIN Vulnerability rankings significantly differ from rankings of those affected by natural disasters in 2021.	14
Figure 5: ND-GAIN Vulnerability rankings significantly differ from rankings of damages from natural disasters in 2021.	15
Figure 6: Discretionary Fiscal Response to Covid-19, percent of GDP	16
Figure 7: Public debt and interest on public debt, share of GDP	17
Figure 8: Comparison of loss and damage financing needs and pledges (\$ billions)	21
Figure 9: Quantitative comparison of potential financing sources for loss and damage	24
Figure 10: Qualitative comparison of potential sources for loss and damage financing	26
Figure 11: Global fossil fuel subsidies 2010-2022 (US\$, 2021 real)	28
Figure 12: Options for maritime fossil fuel levy	30

EXECUTIVE SUMMARY

Developing countries, many facing the prospects of another lost development decade, do not, on their own, have the financial means to meet adaptation and mitigation objectives let alone to cover the climate-related loss and damage many are already facing. Even if optimal mitigation and adaptation strategies in line with the latest assessment of the Intergovernmental Panel on Climate Change (IPCC) are adopted on time, existing projections still anticipate significant unavoidable loss and damage from climate-related shocks locked into our warming world.¹ Prior to the pandemic, loss and damage costs in developing countries were projected to be as much as \$580 billion per year by 2030,² by which time as many as 132 million more people could be pushed into poverty by the impacts of climate change.³

Currently, the support available at the international level does not provide financing on a scale commensurate with the loss and damage caused by climate shocks and the needs of households, communities and businesses to get back on their feet. Insufficient support means that developing countries are already on the hook for a warming world they did little to contribute to, at odds with the principle of common but differentiated responsibilities (CBDR) agreed in Paris. Since scarce resources must still be directed towards response and recovery from climate shocks, the investment gap for climate-resilient development grows, leaving developing countries more vulnerable to future impacts and perpetuating a vicious circle of climate shocks and lost development. As such, providing new and additional grant financing for developing countries to meet current and future loss and damage is critical to bolster the already stunted architectural foundations of our climate finance system.⁴

Recognized as the breakthrough outcome at the 27th Conference of the Parties (COP27) in Sharm El-Sheikh in November 2022, decisions 2/CP.27 and 2/CMA.4 on the operationalization of new funding arrangements for responding to loss and damage established a Transitional Committee (TC) to make recommendations on a new fund for consideration and adoption at COP28.⁵ The outcome acknowledged not only the necessity of a new fund, but also encouraged International Financial Institutions (IFIs) to consider how they can ‘contribute to funding arrangements, including new and innovative approaches’ to support developing countries as they deal with escalating climate impacts.⁶ With developing countries squeezed by compounding crises, a step forward on this outcome in 2023 would have a dramatic effect on the stability of developing countries and the security of their citizens.

The establishment of the TC has presented an opportunity for climate, development and financial policy networks to come together to consider the critical elements of a loss and damage package. While significant progress has been made in building a common understanding of the challenge, there are several outstanding issues which demand further consideration to ensure that a new fund and complementary arrangements will lead to optimal outcomes from a development perspective. These include issues of scale (the fund must be of sufficient size to address the recurrent and growing loss and damage from climate shocks), scope (eligibility criteria must be transparent and inclusive) and governance (support to countries must be disbursed rapidly during times of need).

-
1. IPCC (2022). *Climate Change 2022: Impacts, Adaptation and Vulnerability. Contribution of Working Group II to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change*. Cambridge University Press, Cambridge, UK and New York, NY, USA. McKinsey and Company. Available at <https://www.ipcc.ch/report/ar6/wg2/>
 2. Markandya A and González-Eguino M (2019). *Integrated Assessment for Identifying Climate Finance Needs for Loss and Damage: A Critical Review*. In: Mechler R et al., eds. *Loss and Damage from Climate Change*. Springer Cham. 343–362
 3. Bramka Arga J et al. (2020). *Revised Estimates of the Impact of Climate Change on Extreme Poverty by 2030*. Policy Research Working Paper No. 9417. World Bank.
 4. *Alongside mitigation and adaptation*.
 5. UNFCCC(2022). *Funding arrangements for responding to loss and damage associated with the adverse effects of climate change, including a focus on addressing loss and damage*. Draft decision -/CP.27 -/CMA.4. Available at: https://unfccc.int/sites/default/files/resource/cp2022_L18_cma2022_L20E_0.pdf
 6. *Idem*.

This report reflects on several aspects of the TC's mandate that have emerged in the course of its activities in 2023 and offers a series of recommendations that aim to enrich discussion on outcomes for COP28. It is structured around three chapters that are linked by a focus on tackling the systemic challenges that keep developing countries in crisis and out of climate-resilient development pathways.

The first Chapter considers how the structure and governance of a new Loss and Damage Fund (LDF)⁷ can be designed to add unique value to the existing climate, development and humanitarian architecture. It explores the scope, scale and speed of a new fund, proposing an initial capitalization figure of \$150 billion as a floor, rising progressively with annual replenishment targets that align with updated projected and recorded costs, for example aiming for a replenishment of \$300 billion by 2030. Principles that should guide LDF design are identified, including developing country leadership on the board and in operations; stable, predictable, additional, and adequate resourcing; adaptable to changing needs and circumstances; underpinned by equity and CBDR; non-debt creating; and enshrining the LDF as the core of coordination for loss and damage funding arrangements. The Chapter concludes with specific recommendations on the LDF's design and terms of reference, including making the case that the LDF should be established as an operating entity of the United Nations Framework Convention on Climate Change's (UNFCCC) financial mechanism for reasons of accountability, scale, and the uniqueness and significance of its purpose.

Chapter two considers eligibility criteria for accessing the resources of the proposed LDF. The analysis explores the risks inherent in relying on existing forms of country categorization or vulnerability rankings, demonstrating that the real gap in terms of vulnerability to and recovery from climate impacts is between developing and developed economies. Consequently, it makes the case that all developing countries should be able to access the facility and receive support for addressing loss and damage. It concludes that negotiations and technical discussions around eligibility should instead focus on identifying frameworks, parameters and triggers to establish access criteria for diverse circumstances that reflect the needs of developing countries.

Considering the urgent need to generate funds that move beyond the relatively small, voluntary pledges that have so far constituted loss and damage financing, the final Chapter explores options that have been put forward as potential 'innovative sources' and considers their pros and cons. It begins with an analysis of insurance mechanisms, arguing that they would require solving important constraints around scale and proportionality to provide substantial sources for financing climate-related loss and damage in a fair manner. The Chapter then appraises potential new sources of financing using a quantitative and qualitative comparison based on potential revenue raised and a framework for assessing suitability covering fairness, dependability, feasibility, suitability, and transparency.

It has become clear from the many workshops, presentations, dialogues, and reports written to aid the TC's activities that there is currently neither sufficient support for countries to address economic and non-economic losses from extreme and slow-onset processes, nor is the current humanitarian, disaster risk financing, and development assistance architecture suitable for this specific purpose. The decision to establish a new LDF is an opportunity to address this glaring gap and get it right. The time taken to ensure that institutional arrangements, funding, and institutional complementarity are fit for purpose will be well worth the boost to global stability and climate-resilient development trajectories.

7. Henceforth, the new fund will be referred to as the LDF for simplicity, recognizing that this is not the agreed name at the time of writing.

CHAPTER 1.

DESIGNING A LOSS AND DAMAGE FUND: STRUCTURE AND GOVERNANCE

This chapter considers how the structure and governance of the LDF can be designed to add unique value to the existing architecture around climate, development and humanitarian financing. It explores the scope, scale and speed of a new fund and outlines principles that should guide its design before going on to make specific recommendations on the LDF's terms of reference.

Scope, scale and speed: implications for the design of the LDF

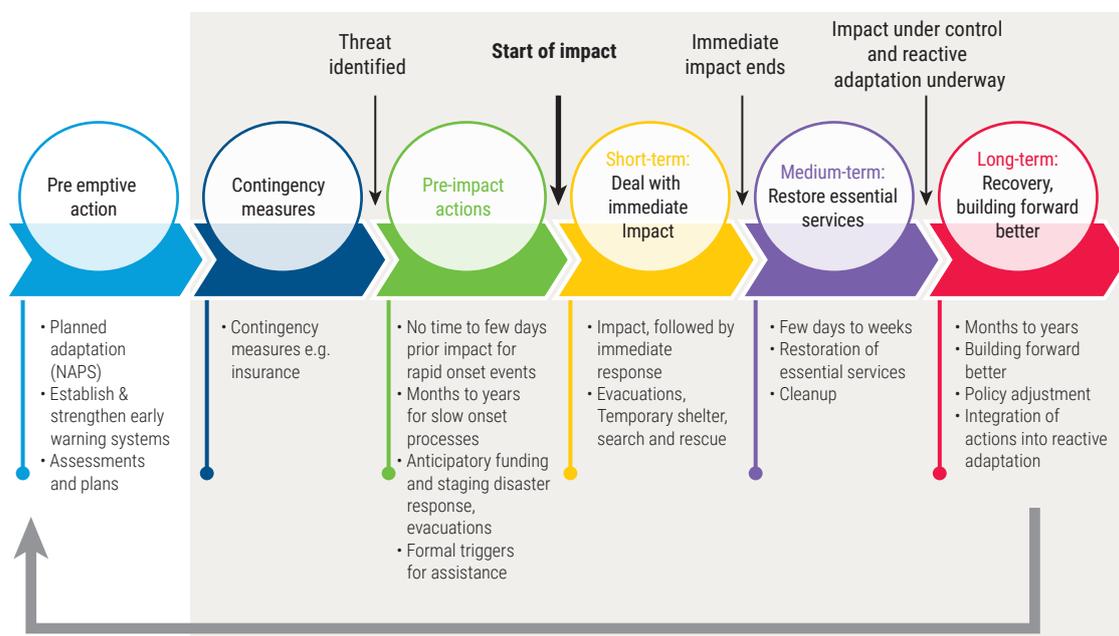
Boundaries around what constitutes 'loss and damage' are contested and form a backdrop for any discussion on the scope of the LDF.⁸ Developed countries have tended to consider it as a subset of the adaptation challenge, while developing countries have long argued for keeping loss and damage as a stand-alone item.⁹

The ongoing contestation around the scope of loss and damage is reflected in decisions 2/CP.27 and 2/CMA.4 to establish the LDF. Developing countries narrowed the potential scope with an emphasis on ongoing and ex post action including rehabilitation, recovery and reconstruction, that is, after an extreme weather or slow onset event has happened, excluding disaster risk reduction and adaptation approaches (averting and minimizing), and implying a clear focus on addressing loss and damage. Ongoing action includes actions that will be needed to address impacts from slow onset processes,¹⁰ which take place and increase in extent and severity over time. The scope defined in the decisions also includes responses to both economic and non-economic loss, inclusive of 'forced displacement and impacts on cultural heritage, human mobility and the lives and livelihoods of local communities.'^{11 12}

Actions to address loss and damage that has already been incurred are shown in stages 4 and 5 in the figure below: short- to medium-term recovery with the restoring of essential services beginning days and weeks after an event, and longer-term recovery of development losses suffered from climate impacts.

-
8. Vanhala L and Hestbaek C (2016). Framing loss and damage in the UNFCCC negotiations: the struggle over meaning and the Warsaw international mechanism. *Global Environmental Politics*. 16(4):111 – 129.
 9. The IPCC has documented that adaptation measures have limits, see: https://www.ipcc.ch/report/ar6/wg2/downloads/report/IPCC_AR6_WGII_SummaryForPolicymakers.pdf
 10. There is no explicit definition for slow onset events. Decision 1/CP.16 defines them indirectly by listing several in a footnote: "*including sea level rise, increasing temperatures, ocean acidification, glacial retreat and related impacts, salinization, land and forest degradation, loss of biodiversity and desertification.*"
 11. Sharm el-Sheikh Implementation Plan (2022), Decision -/CP.27. Available at: https://unfccc.int/sites/default/files/resource/cop27_auv_2_cover%20decision.pdf
 12. Non-economic loss can include harm to individuals (including to life itself, health and mobility); societies (e.g. loss of territory, cultural heritage, Indigenous and local knowledge, and certain untraded ecosystem services); and the natural environment (e.g. loss of and damage to biodiversity and habitats).

Figure 1: Spectrum of actions in responding to climate impacts.



Source: Initial Synthesis Report on the Existing Funding Arrangements and Innovative Sources Relevant to Addressing Loss and Damage Associated with the Adverse Effects of Climate Change

In consideration of the outcome at COP27 and the imperative to focus on short to long term recovery that addresses loss and damage, the scope of the LDF described here is distinct from anticipatory action delivered through various disaster risk reduction mechanisms and risk financing approaches such as those of the Global Shield. It should provide direct budgetary support to governments to fill in the extensive gaps in humanitarian response, as demonstrated by Figure 2, and enable recovery after humanitarian agencies have left. This includes direct support to governments for longer-term recovery efforts and, as such, would be distinct from traditional loan-based development projects and programs.

There is now broad recognition that the scale of extreme weather events can overwhelm existing national capacities, for economies of any size, including advanced economies.¹³ Moreover, the variance of climate impacts means that countries can sometimes face repeated extreme climate events within a narrow timeframe, which causes an additional fiscal strain for the country and communities.¹⁴ The LDF should be able to provide resources quickly to governments to deliver on the immediate population needs in the days, weeks, and, possibly, months after the event. But it should also be able to provide support for longer-term recovery, reconstruction, rehabilitation, and resettlement.

For many countries, addressing loss and damage from slow onset processes will be the most complex and difficult. Loss of livelihoods from soil erosion, declining fisheries, salinization of water supplies, or loss of pastoral lands due to desertification will affect the food security of communities and countries, and could cause large movements of people, whether forcibly displaced or who ‘choose’ to migrate.

13. For example, MunichRe estimates that the 2021 floods in Germany cost \$40 billion, “vastly” exceeding the amount covered by insurers. <https://www.bloomberg.com/news/articles/2022-01-10/german-floods-cost-a-record-40-billion-munich-re-estimates#xj4y7vzkg> (accessed 10 September 2023)

14. See example of the multiple disasters taking place in Indonesia in 2022: <https://dibi.bnppb.go.id/> (accessed 10 September 2023)

In the case of these events, the LDF will need to provide programmatic-type support to help countries identify and address complex economy- and society-wide impacts, multipliers of impacts, stressors of impacts, and geographical hotspots of impacts to ensure that communities are factored into programming. Reconstruction and rehabilitation are not likely to be possible in many contexts. For example, when the country's waters become too hot for fish and local fish populations migrate to cooler habitats, there is no repair possible to a collapsed fishing economy. In contexts like this, communities may need to relocate and develop alternative livelihoods which also comes with non-economic loss and damage in the form of loss of social connection, way of life and sense of place, among other impacts – both economic and non-economic in nature.

With regards to scale, in the coming decades, climate impacts will become more frequent, severe, deadly, and costly, and simultaneous events will rock countries and regions. Extreme weather events will layer on top of slow onset processes. These projections should form a baseline for how negotiators think about the scale of the LDF to ensure it can respond adequately to the loss and damage that is currently occurring and increasing around the world, where a single middle-income country (MIC) can suffer \$30 billion of losses in a single extreme event.¹⁵

An initial figure of \$150 billion a year is put forward here, as a floor, considering that estimations for recorded loss and damage costs in developing countries in 2022 stood at \$109 billion, which excludes smaller events, slow onset impacts and non-economic losses.¹⁶ In 2019, costs for loss and damage in developing countries were projected to be as high as \$435 billion in 2020 and \$580 billion in 2030¹⁷ – figures that are now vast underestimations when considering pandemic impacts and inflation. Therefore, Parties should commit to progressively increasing annual replenishment targets for the LDF to align with updated projected and recorded costs, for example aiming for a replenishment of \$300 billion by 2030. These numbers pale in comparison to the trillions of dollars of stimulus developed countries injected into the global economy to protect populations and keep economies afloat during the Covid-19 pandemic, proving what is politically and economically possible in times of crisis with political will.¹⁸

Principles of the establishment of the LDF

The following principles should underpin the design of the LDF:

Developing country leadership

First, developing countries should be represented by a majority of the members of the governing body for the LDF. Second, the LDF's operations should be country-driven and country-owned. Climate impacts and the needs across countries to address loss and damage differ significantly. The LDF should be designed with different access and disbursement modalities for national, regional, local, and civil society access in order to best address these differences, enabling countries as much as possible to identify their own needs and to drive funding decisions.

15. UNDP (2022). Pakistan Floods 2022: Post-Disaster Needs Assessment (PDNA). (United Nations publication, New York).

16. Richards J et al. (2023). The loss and damage finance landscape. The loss and damage collaboration. Available at <https://www.lossanddamagecollaboration.org>

17. Markandya A and González-Eguino M (2019). Integrated Assessment for Identifying Climate Finance Needs for Loss and Damage: A Critical Review. In: Mechler R et al., eds. Loss and Damage from Climate Change. Springer Cham. 343–362

18. Beyer J and Vandermosten A (2021). Greenness of Stimulus Index. Vivideconomics. Available at: <https://www.vivideconomics.com/casestudy/greenness-for-stimulus-index/>

Stable, predictable, additional, and adequate resources

Beyond their significance and predictability, new and additional resources to current international development and climate finance commitments must be stable. The precise nature, location and timing of the next large climate disasters cannot be predicted but a stable source of suitable finance is essential to address the loss and damage that results. Emissions and temperatures continue to rise as mitigation goals stall, and so the LDF must be designed for a future of increasing loss and damage, addressing the needs of countries in 10- and 20-years' time, when climate impacts are considerably greater and more frequent than currently experienced. The LDF should thus be adequately capitalized from the outset with annual replenishments in line with the growing scale of the problem.

Adaptable

The scope and scale of many climate disasters cannot be foreseen. Adaptability, therefore, should be a core consideration for LDF design, to evolve with the changing nature and growing severity of climate impacts, including from extreme weather events, slow onset processes, non-economic losses and cascading and compounding impacts.

Equity and common but differentiated responsibilities and respective capabilities (CBDR-RC)

As the LDF was established by the COP, the principles of equity and CBDR-RC, found in Article 3 of the Convention, should guide the overall design of the LDF, including the design of capitalization and replenishment strategies, as well as consideration of innovative funding sources, such as taxes and levies.

Non-debt-creating

Over 50 per cent of debt increase in vulnerable countries is now related to funding disaster recoveries.¹⁹ This has severe implications on countries' capacity to deliver on critical public spending such as health, education, infrastructure, and climate goals, in turn reducing resilience and holding back development.²⁰ The LDF should not create new debt burdens for countries that are addressing impacts for which they are not responsible.

LDF as the core coordinator of loss and damage funding arrangements

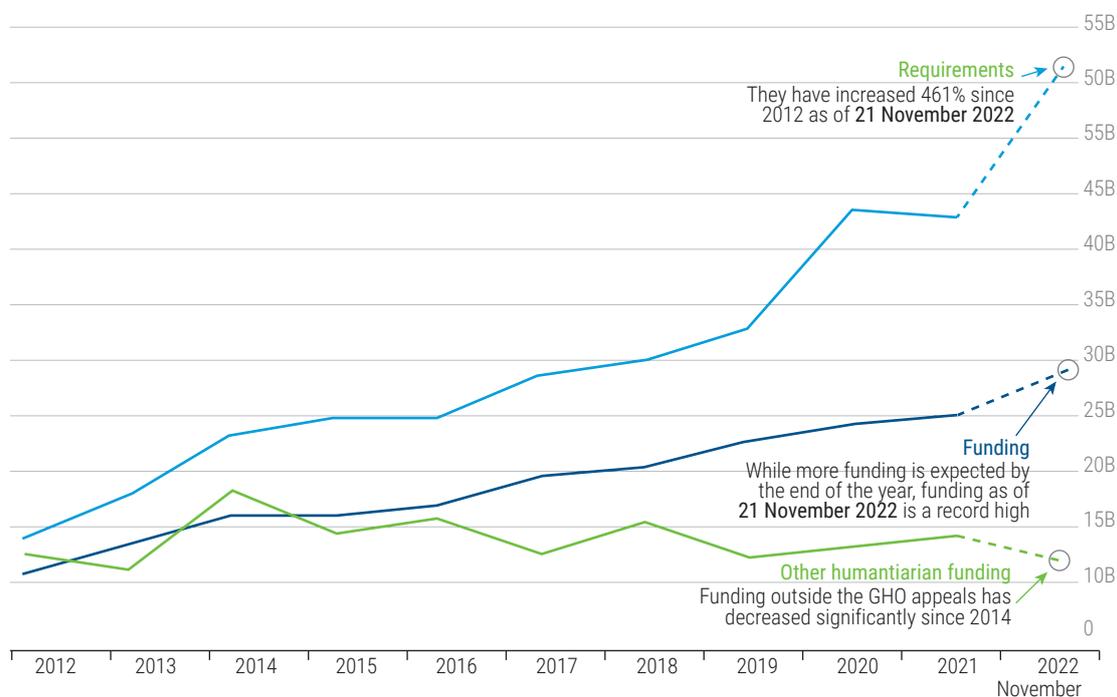
Ensuring coordination and coherence will increase the overall effectiveness across the landscape. The LDF can and should play the central role in the coordination and coherence across the mosaic²¹ of the loss and damage funding landscape and should be designed to include this as a core function.

19. Songwe V et al. (2022). Finance for climate action: Scaling up investment for climate and development. London: Grantham Research Institute on Climate Change and the Environment, London School of Economics and Political Science. London.

20. UNCTAD (2022). Staying afloat: A policy agenda for climate and debt challenges. COP 27 High Level Event Series. (United Nations publication. Geneva)

21. The mosaic of solutions is typically seen as the funding arrangements both inside and outside the UNFCCC. See: <https://www.lossanddamagecollaboration.org/pages/unpacking-the-mosaic-of-solutions-what-does-it-mean-to-mobilise-finance-at-the-scale-of-the-needs-to-address-loss-and-damage>

Figure 2: Appeal funding gap 2012-2022 (as of 21 November 2022)



Source: Office for the Coordination of Humanitarian Affairs, Response Plans: Results from 2022.²²

Elements of a terms of reference: institutional arrangements, governance, structure, and operational modalities²³

Considering the above analysis, this section provides some baseline recommendations for consideration of a terms of reference for the LDF.

1. Objective

The objective of the LDF should be to provide new, additional, predictable, and adequate financial resources to assist developing countries that are particularly vulnerable to the adverse effects of climate change to undertake ongoing and ex post actions (including rehabilitation, recovery, and reconstruction) to respond to and address the impacts of climate change, including economic and non-economic loss and damage from extreme weather events and slow onset processes.

22. Humanitarian Action (2022). Response plans: Results from 2022. Available at: <https://humanitarianaction.info/article/response-plans-results-2022> (accessed 10 September 2023)

23. A complete terms of reference would include content beyond what is provided here in detail. The elements included here are directly related to the structure and governance of the LDF. Other elements could include provisions on monitoring and evaluation, fiduciary standards, environmental and social safeguards, accountability mechanisms, and stakeholder input and participation.

2. Governance and institutional arrangements

The LDF should be established as an operating entity of the UNFCCC's financial mechanism for reasons of accountability, scale, and the uniqueness and significance of its purpose.

The LDF was established by the COP and CMA²⁴ and should remain directly accountable to those bodies, and to the principles and provisions of the UNFCCC and its Paris Agreement. The most direct way for Parties to maintain authority over the LDF will be to establish it as an operating entity subject to the authority and guidance of the two governing bodies.

The unique, growing, and evolving challenge of addressing loss and damage from both extreme weather and slow onset processes, with both economic and non-economic loss and damage, will require an institution that can grow and evolve along with the challenge. Current institutions that have been considered for hosting a fund do not fit these requirements. With regard to the three climate-specific funds under the UNFCCC: the Green Climate Fund (GCF) has a very specific governing instrument, which currently provides for only two windows for adaptation and mitigation; the Global Environment Facility (GEF) and its hosted funds are governed by a Council that has majority membership of developed countries; the Adaptation Fund (AF) provides finance for adaptation and is extremely small in size, only allocating about \$1 billion in total funding since 2010.

3. Legal status

The LDF should possess juridical personality and legal capacity and should enjoy privileges and immunities related to the fulfillment of its functions.

4. The LDF Board

The LDF should be governed and supervised by a Board that will have full responsibility for funding decisions.

The Board should receive guidance from the COP, take appropriate action in response to the guidance received, and submit annual reports to the COP for its consideration and further guidance.

The Board should have 16 members, with equitable and geographically balanced representation, and with a majority of members from developing countries. Representation from developing country Parties should include representatives of relevant United Nations regional groupings and include a dedicated seat each for small island developing states (SIDS) and least developed countries (LDCs). Affected communities should have representation on the Board, and active observer status should be granted for non-state stakeholders including civil society.

5. Secretariat

The LDF should establish an independently governed secretariat, which will service and be fully accountable to the Board and function under its guidance and authority. The secretariat may be fully independent or hosted in an existing institution such as the UNFCCC in order to take advantage of

24. Conference of the Parties serving as the meeting of the Parties to the Paris Agreement

existing administrative capacity and institutional resources. The secretariat should be responsible for the day-to-day operations of the LDF, providing administrative, legal and financial expertise.

The Board should appoint an Executive Director to head the secretariat who will be accountable to the Board.

6. Trustee

The LDF should have a trustee with administrative competence to manage its financial assets. The World Bank (WB) could serve as interim trustee for the LDF, subject to a review three years after operationalization. The trustee will be accountable to the Board for the performance of its responsibilities as trustee for the LDF.

7. Financial inputs

The LDF should receive financial inputs from developed country Parties to the UNFCCC and the Paris Agreement. The LDF should also be capable of receiving financial inputs from a variety of other sources, whether public or private.

8. Coordination platform

The Executive Secretary of the UNFCCC and the Secretary General of the United Nations should create the Impact Council on Loss and Damage. The objective of the Council would be coordination, coherence, and complementarity between the LDF and the range of actors in the mosaic of funding arrangements to address loss and damage. The secretariat of the LDF should serve as the secretariat to the Impact Council, which should provide yearly reports to the COP and CMA. The Council should also provide active observer status for non-state stakeholders, including civil society organizations.

9. Funding Arrangements

Public contributions from developed countries should be the primary source of funds (see Chapter three). The LDF should be designed to allow contributions from all sources, however, their uncertain nature means that possible innovative sources of finance should not be relied upon. Instead, innovative sources should be seen as complementary to public contributions from developed countries.

The initial replenishment cycle could be annually, however determination of the length of the cycle will ultimately depend on the scale of initial capitalization and of the support needed by countries to address ongoing loss and damage. The Board and Parties should integrate a reevaluation process to ensure an appropriate length for the replenishment period and target-setting as the scale of loss and damage increases.

The LDF, in collaboration with the Impact Council, should publish a biennial Loss and Damage Finance Gap report assessing loss and damage needs, finance provided, and shortfalls. The Gap report would be used to inform Parties during replenishment cycles.

10. Operational modalities

All developing countries should be eligible for funding under the LDF.

Scope of support from the LDF should focus on ex post and ongoing loss and damage through three windows: one for immediate and short-term recovery with quick disbursement modalities; one for ongoing programmatic approaches for addressing impacts from slow onset processes and longer-term recovery, reconstruction, rehabilitation, and resettlement; and a small-grants window for sub-national entities including civil society. The scope of support should include both economic and non-economic loss and damage.

The first window for immediate and short-term recovery should be modeled on the European Union's Solidarity Fund (EUSF - explored further in Chapter two), providing direct budget support after an extreme weather event towards inter alia:

- restoring the working order of infrastructure and plant in the fields of energy, water and wastewater, telecommunications, transport, health and education;
- providing temporary accommodation and funding rescue services to meet the needs of the population concerned;
- providing social protection for livelihood disruption for vulnerable population segments, including but not limited to loss of access to markets, loss of assets such as livestock, or supply or demand side shocks leading to loss or reduced livelihoods;
- securing preventive infrastructure and measures of protection for cultural heritage;
- cleaning up disaster-stricken areas, including natural zones, in line with, where appropriate, ecosystem-based approaches, as well as immediate restoration of affected natural zones to avoid immediate effects from soil erosion.

11. Access and disbursement modalities

The Board should design simple and direct access modalities that do not require accreditation of entities that will receive funding for each of the windows.

For access to the immediate and short-term recovery window, countries will prepare a request to the LDF based on a rapid loss and damage needs assessment. Disbursement will be made directly to a government-designated entity.

For access to the long-term window, countries will base requests on elements of a national-level loss and damage programme developed by a government-designated entity. After the programme is agreed, government entities could apply to the LDF for funding for specific support for elements of the programme, over a specific period of time, with specific deliverables. Implementing partners will be identified in the programme and may work in coordination with the requesting entity.

The sub-national entity window will be open to the most diverse array of applicants, including local government authorities, community groups, civil society organisations and grantmaking organisations who can better reach frontline communities. This window will provide both long term programmatic funding for economic and non-economic loss and damage, and rapid response funding to address

immediate needs. It should incorporate and learn from best practice principles of localization and equitable partnerships to ensure funds reach marginalized groups.²⁵

12. Financial instruments

The LDF should provide financing in the form of grants.

13. Allocation of resources

The Board should decide on the criteria for the allocation of resources across the three windows, based on analysis of projected and recorded loss and damage costs appropriate to each window and across regions.

25. Global Network of Women Peacebuilders et al. (2022). Fund us like you want us to win: Feminist Solutions for more Impactful Financing for Peacebuilding. Background Paper for the High-Level Meeting on Financing for Peacebuilding. Available at https://www.un.org/peacebuilding/sites/www.un.org.peacebuilding/files/documents/fund_us_like_you_want_us_to_win.gnwp_gppac_ican_wilpf_kvinnamadre_211122.pdf (accessed 12 September 2023).

CHAPTER 2.

ELIGIBILITY FOR A LOSS AND DAMAGE FUND: ISSUES AND CONSIDERATIONS

Conversations around the LDF have emphasized the need to provide developing countries that are ‘particularly vulnerable’ with the support and means to deal with the impacts of loss and damage. With ambiguities around the criteria for what it means to be ‘particularly vulnerable’, an important question arises. How does one decide who is eligible to receive funding from the LDF? How can the assessment be made in a clear, transparent, and inclusive manner? What types of events and needs should funding be available for, and what actors should be eligible to receive support?

Considering the broad scope of the different interventions and modalities needed to address loss and damage, the immense challenge of designing country-level eligibility thresholds becomes clear. However, the issue of country-level eligibility criteria is not exclusive to climate, with the current global financial architecture being fragmented in terms of the criteria deployed by different facilities to determine the terms of financing available.²⁶

This chapter provides an overview of some of the existing facilities, classifications, and thresholds, highlighting their limitations and contradictions and the risks and pitfalls of directing conversations on the eligibility for the LDF away from the CBDR approach and towards pushing developing countries to compete with each other to be designated more vulnerable. The analysis demonstrates that the real gap is between all developing countries and developed economies, illustrated through the experience of countries’ ability to respond to the global shock triggered by Covid-19.

In the context of support for loss and damage, instead of a country-level approach, this chapter stresses the need to develop best practices, frameworks and triggers that ensure the LDF provides timely and transparent support to all developing countries in need. The issues highlighted in this chapter emphasize the need for a conversation that moves beyond country eligibility to discuss what actors at international, national, and local levels should be eligible for support from the LDF.

Non-Annex I Countries and the Global Financial Architecture

Within the UNFCCC, countries are divided into Annex I and Non-Annex I, through a classification that reflects historical responsibilities for emissions. Annex I is made up of industrialized countries including several ‘Economies in Transition’ and Annex II countries which are required to provide financial resources to developing countries,²⁷ while Non-Annex I countries are primarily developing countries. Within other institutions, Non-Annex I countries are classified using different criteria, which is why usually only a small subset of these countries have access to grants or concessional finance.

26. UNFCCC (2023). Synthesis report on existing funding arrangements and innovative sources relevant to addressing loss and damage associated with the adverse effects of climate change. Transitional Committee. Available at https://unfccc.int/sites/default/files/resource/TC2_SynthesisReport.pdf

27. UNFCCC (1992). United Nations Framework Convention on Climate Change. FCCC/INFORMAL/84 GE.05-62220 (E) 200705. Bonn.

Figure 3 provides an overview of selected classifications and eligibility for certain facilities of Non-Annex I members.

Figure 3: UNFCCC Annexes Group Countries with Different Classifications, Eligibilities and Levels of Development

UNFCCC classification	Development level	Included countries	Eligible for				Classified as		
			DAC-OECD	G20 DSSI-CF	WB IDA	IMF CCRT	FCS	SIDS	CVF
Annex I	Developed	41	2	0	0	0	1	0	0
	Developing	1	1	0	0	0	0	0	0
	Total	42	3	0	0	0	1	0	0
Non-Annex I	Developed	10	6	1	0	0	0	0	0
	Developing	95	79	27	15	14	12	29	29
	Least Developed	46	46	45	44	28	22	8	28
	Total	151	131	73	59	42	34	37	57

Source: UNCTAD analysis

The 151 Non-Annex I United Nations member states continue to mostly fall under the United Nations classification of developing countries, with only 10 states currently classified as developed. Out of the 151 countries, 131 are eligible for development assistance under Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) guidelines. However, only 73 were included in the G20's Covid-era debt suspension initiative (DSSI) and its successor, the Common Framework (CF). Only 59 countries are eligible for concessional finance through the World Bank's International Development Association (IDA).

The United Nations classifies 46 countries as least developed, yet only 28 of those can access grants through the International Monetary Fund's (IMF) Catastrophe and Containment Trust (CCRT). For some countries, additional classifications such as Fragile and Conflict-affected States (FCS) or SIDS can unlock more favorable financing terms. Out of the 57 countries that are part of the self-identifying Climate-Vulnerable Forum (CVF), all members are Non-Annex I developing countries but only 38 are eligible for IDA funding.

The fragmented and somewhat ad-hoc criteria used to determine eligibility for any concessional finance, including climate flows, often leaves debt as the only source of finance available for Non-Annex I countries, including in response to climate-incurred loss and damage. As a result, in the aftermath of a shock, developing countries find themselves in much more fragile fiscal positions.²⁸ On the other hand, developed countries benefit from access to low-cost financing and many of them have central banks with the ability to quickly mobilize and provide the necessary liquidity. These positions within the global financial system are closely linked to countries' fiscal space, their borrowing costs, and debt-carrying capacity.²⁹

28. UNCTAD (2022). Trade and Development Report 2022: Development prospects in a fractured world. (United Nations publication. Sales No. E.22.II.D.44. Geneva).

29. Ferreira Lima K P (2022). Sovereign Solvency as Monetary Power. Journal of International Economic Law. 25(3):424 – 446.

Methodological Challenges of Measuring ‘Vulnerability’

For many SIDS, limitations of income-based thresholds have been clear for a long time. These countries face frequent natural disasters, are penalized by markets for these risks through higher borrowing costs yet are excluded from most concessional financing flows due to relatively higher per capita incomes. This exclusion prompted SIDS to advocate for broader measures of vulnerabilities that better reflect their precarious position in the current system, leading to United Nations efforts towards developing a Multidimensional Vulnerability Index (MVI) that can build on and improve previous attempts towards this end.³⁰ Such an index would attempt to capture economic, environmental, and social dimensions and distinguish between structural weaknesses and those resulting from current policies.³¹ Within the UN, other efforts to develop a multidimensional index include the Economic and environmental vulnerability index (EVI) developed by the United Nations Committee for Development Policy, which limits its focus to more narrow external shocks, leading some developed countries to encourage ways to better integrate debt and climate considerations.

These efforts have the potential to improve the overall understanding of vulnerability, provide a solid basis for risk management and identify possible interventions that can support building resilience. However, risk management and resilience building, while essential, are not able to support developing countries’ ongoing efforts to address previous or current loss and damage impacts. Moreover, questions around methodological limitations on the accuracy of predictions around physical climate risks and the future scale of climate impacts persist. Crucially, there is still no universally agreed upon or operational definition of ‘climate vulnerability’.

Indices focused on vulnerability-related rankings are increasingly cited in the context of climate negotiations, as well as in discussions around assessing eligibility for mechanisms to support ‘climate-vulnerable countries.’³² Despite the increased uptake in reference to various climate-vulnerability indices, country rankings and qualifiers yield varying results.

A recent study comparing the four most commonly cited indices – the World Risk Index (WRI), the INFORM Global Risk Index (INFORM), the ND-GAIN Country Index (GAIN), and the Global Climate Risk Index (CRI) – captured the inconsistencies and concerns around such rankings.³³ It found that the results and rankings from each index are correlated to a certain extent but still register large variations. In some cases, there are large differences in how the same components or subcomponents for the same country are assessed and ranked. Furthermore, with the frequency and scale of climate-related disasters increasing, past impacts cannot be relied upon as accurate predictors of future needs. When looking at historical data for loss and damage events and their relationship to risk rankings, the limitations of such methods become clear.

This can be demonstrated further using the rankings from the ND-GAIN Vulnerability Index³⁴ and available data from the International Disaster Database to contrast the scale of losses with perceived risks.³⁵

30. United Nations, Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (2023). Multidimensional Vulnerability Index. Available at <https://www.un.org/ohrls/mvi> (accessed 11 September 2023).i

31. United Nations, Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (2021). Multidimensional vulnerability index: potential development and uses. New York.

32. Garschagen M et al. (2021). Global patterns of disaster and climate risk—an analysis of the consistency of leading index-based assessments and their results. *Climatic Change*. 169(11).

33. *Idem*

34. ND-GAIN Notre Dame Global Adaptation Initiative (2023). ND-GAIN Country Index. Available at <https://gain.nd.edu/our-work/country-index/rankings/> (accessed 11 September 2023).

35. EM-DAT: The international disaster database (2023). See <https://www.emdat.be/> (accessed 11 September 2023).

Figure 4: ND-GAIN Vulnerability rankings significantly differ from rankings of those affected by natural disasters in 2021.

more vulnerable less vulnerable

People affected as a share of population	Country	ND-GAIN	People affected
1	São Tomé and Príncipe	24	31
2	Tuvalu		73
3	South Sudan		5
4	Palau	37	76
5	Afghanistan	5	4
6	Syrian Arab Republic	46	8
7	South Africa	72	3
8	Iraq	53	6
9	St. Vincent and the Grenadines		70
10	Philippines	45	2
11	Timos-Leste	31	37
12	Fiji	48	42
13	Zambia	38	15
14	Bosnia Herzegovina	97	29
15	Mozambique	33	12
16	Haiti	25	20
17	Iran, Islamic Rep.	79	9
18	Ethiopia	13	7
19	Venezuela, RB	77	18
20	Guyana	58	56

Additional 95 rows not shown

Source: Notre Dame GAIN, EM-DATA, and World Bank. Countries shown are those with data for damages.

Figure 4 ranks countries according to the proportion of the population impacted by a 'natural disaster', while comparing countries' positions in the ND-GAIN Index and rankings of absolute number of people impacted. Overall, the ND-GAIN vulnerability ranking is not a reliable predictor for the share of population that will be affected by natural disasters in a given year. Indeed, countries such as South Africa, Bosnia and Herzegovina, Iran, and Venezuela ranked as relatively less vulnerable yet were all in the top 20 for the proportion of their populations impacted by disasters in 2021.

Figure 5 ranks the cost of damages as a share of a country's Gross domestic product (GDP) incurred in the aftermath of 'natural disasters' in 2021, contrasting this with rankings in the ND-GAIN Index and cost in absolute terms. As with figure 4, the ND-GAIN ranking is a poor predictor for cost of damages

CHAPTER 2. ELIGIBILITY FOR A LOSS AND DAMAGE FUND: ISSUES AND CONSIDERATIONS

recorded in a given year, whether in absolute terms or relative to GDP. In 2021, both Germany and the United States of America rank in the top 5 in terms of damage as a share of GDP, and second and first respectively for damages in absolute terms, while being ranked towards the bottom by the ND-GAIN vulnerability index. The Figure reveals that in fact most countries that made up the top 20 of losses relative to their GDP in 2021 have vulnerability rankings that suggest they are at a far lower risk.

Figure 5: ND-GAIN Vulnerability rankings significantly differ from rankings of damages from natural disasters in 2021.

more vulnerable less vulnerable

Damages as a share of GDP	Country	ND-GAIN	Damages
1	St. Vincent and the Grenadines		21
2	Haiti	25	12
3	St. Lucia	69	33
4	Germany	117	2
5	United States	108	1
6	Malaysia	90	13
7	Belgium	102	11
8	Greece	101	18
9	Philippines	45	15
10	Czech Republic	119	17
11	India	32	5
12	Fiji	48	38
13	Australia	107	8
14	Brazil	85	7
15	Japan	81	4
16	France	110	6
17	Cyprus	93	32
18	China	73	3
19	Spain	112	10
20	Thailand	55	19

[additional 21 rows not shown](#)

Source: Notre Dame GAIN, EM-DATA, and World Bank. Countries shown are those with data for damages.

This exercise highlights the limitations of such rankings and the blind spots they can create if used as the only basis to assess climate risks, vulnerability or impacts, or indeed to determine eligibility for support.

The risks of relying on methodologically debatable rankings are emphasized by the inconsistent criteria and definitions of climate vulnerability that are often deployed within international organizations. For example, in a policy strategy on disaster resilience, the IMF introduced its own definition of climate vulnerability as limited to small states that are often impacted by natural disasters.³⁶ The list compiled is based on the relative size of cumulative past climate disasters and the size of their economies, as well as additions on the basis of ‘staff judgment’, assessments that are then carried into the IMF’s main climate resilience strategy.³⁷

In these circumstances, using vulnerability rankings to determine eligibility or the ability to access the LDF risks the exclusion of developing countries that bear little responsibility for climate change from accessing resources when they suffer severe climate impacts.

Instead, the LDF should adopt best practice from the understanding of vulnerability employed by the Adaptation Fund (AF). The UNFCCC sets out in its preamble a definition of ‘particularly vulnerable’, which Parties have referenced in decisions 28/CMP.1 and 1/CMP.3 in defining eligibility under the AF. The preamble to the UNFCCC recognizes that ‘low-lying and other small island countries, countries with low-lying coastal, arid and semi-arid areas or areas liable to floods, drought and desertification, and developing countries with fragile mountainous ecosystems are particularly vulnerable to the adverse effects of climate change.’³⁸ Following this definition, all developing countries are eligible to receive funding from the AF.

Covid-19 and asymmetric crisis response capacity

At a global level, Covid-19 illustrated the different abilities of countries to respond to a large-scale external shock, highlighting the inequalities between countries in the global financial system. In the midst of a life-and-death emergency, there was a glaring gap between developed countries and all developing countries in terms of fiscal space and the ability to mobilize and respond to the pandemic. This asymmetry is illustrated in Figure 6, which shows that while emerging economies were able to have a slightly larger fiscal response than low-income developing countries, the major distinction was between all developing countries and advanced economies.

Figure 6: Discretionary Fiscal Response to Covid-19, percent of GDP



Source: IMF Fiscal Monitor 2021.³⁹

36. IMF (2019), Building resilience in developing countries vulnerable to large natural disasters. IMF Policy Paper No. 2019/020. International Monetary Fund. Washington DC.

37. IMF (2021), IMF Strategy to Help Members Address Climate Change Related Policy Challenges—Priorities, Modes of Delivery, and Budget Implications. IMF Policy Paper No. 2021/057. International Monetary Fund. Washington DC.

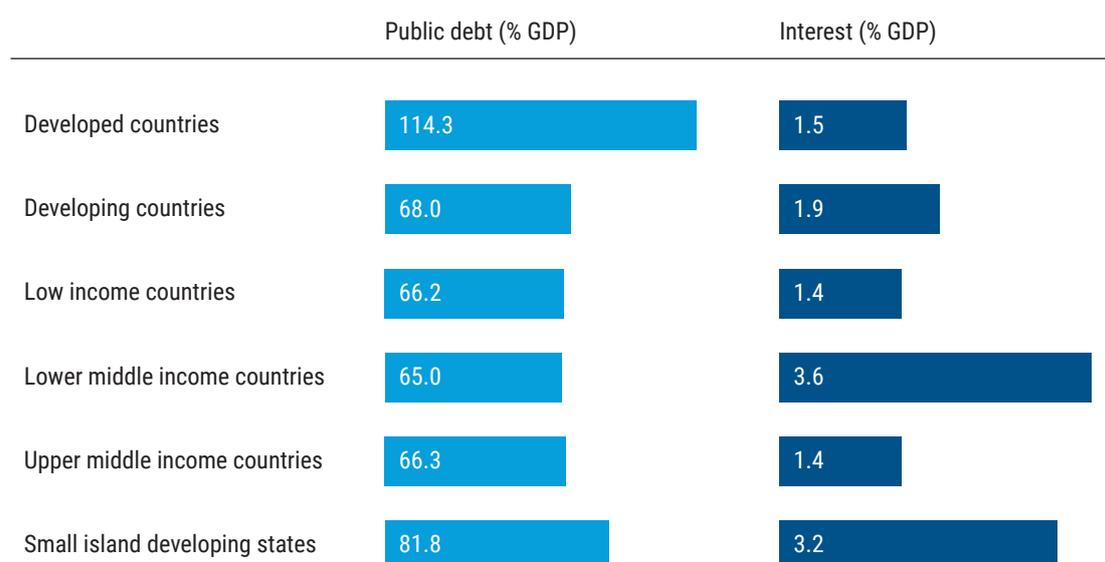
38. UNFCCC (1992). United Nations Framework Convention on Climate Change. FCCC/INFORMAL/84 GE.05-62220 (E) 200705. Bonn.

39. IMF (2021). Fiscal Monitor, October 2021: Strengthening the Credibility of Public Finances. International Monetary Fund. Washington DC.

This is further reflected by the terms and costs of financing for different groups, as shown in Figure 7. Developed countries have on average much higher debt ratios yet spend a much lower share of their GDP on interest payments than developing countries. The contrast is particularly stark for lower-middle income countries (LMICs), which are often excluded from concessional lending facilities but charged higher premiums by markets. SIDS, despite higher income levels, are also charged a higher risk premium, which is a penalty directly related to their perceived climate vulnerability.⁴⁰

While Covid-19 is not in itself a climate-related loss and damage event, it exemplifies how in the aftermath of a shock and during crises, available support for most developing countries is usually in the form of debt-creating flows at less favorable terms. This is particularly worrisome in a context in which many developing countries currently find themselves in or at high risk of debt distress.⁴¹ These debt burdens are also linked to climate resilience, both as the cause for incurring debt in the aftermath of a climate event and as an impediment to the ability to direct investments towards strengthening resilience.⁴²

Figure 7: Public debt and interest on public debt, share of GDP



Source: UNCTAD, World of Debt, 2022.⁴³

40. Buhr B, Volz U et al. (2018). Climate change and the cost of capital in developing countries: assessing the impact of climate risks on sovereign borrowing costs. United Nations Environment Programme, Imperial College Business School, & SOAS - University of London.

41. United Nations, Global Crisis Response Group (2023). A world of debt: a growing burden to global prosperity. (United Nations publication. New York.)

42. UNCTAD (2023). Global debt and climate crises are intertwined: Here's how to tackle both. Available at <https://unctad.org/news/global-debt-and-climate-crises-are-intertwined-heres-how-tackle-both> (accessed 12 September 2023).

43. United Nations, Global Crisis Response Group (2023). A world of debt: a growing burden to global prosperity. (United Nations publication. New York.) t

Access Policies: Parameters, Triggers, and Best Practice

In the absence of a facility that can fund and coordinate response to the spectrum of climate impacts, developing countries are currently faced with a mix of funding arrangements with different terms, eligibility criteria, and access procedures, generally touching on one of these five areas: adaptation finance, financial stability, humanitarian assistance, risk insurance, and international and domestic trusts.⁴⁴

Instruments designed around risk transfer, such as insurance products or catastrophe bonds, generally specify parametric triggers which qualify for payouts. These can cover a variety of hazards, including floods, droughts, storms, and wildfires and be designed with pre-determined payouts or to cover the actual estimated damages.⁴⁵ However, the cost of such instruments is relatively high and likely to increase as the pace of disasters picks up, while designing triggers is a difficult balancing act between cost management of the instrument and ensuring adequate coverage.⁴⁶

Parametric triggers can include economic losses as a share of GDP, disruptions in trade or other economic activities, number of people affected, or a combination of such criteria. In some cases, local authorities' disaster declarations suffice as a trigger for support. This includes a number of credit windows within the World Bank, which allow countries to immediately receive a certain percentage of their undisbursed loan balances, or access contingent financing through instruments such as the Catastrophe Deferred Drawdown Option (Cat DDO).⁴⁷ The African Union-led risk facility, Africa Risk Capacity (ARC) uses weather surveillance and employs a software model to estimate the level of damage from specific disasters and release funding accordingly.⁴⁸

Within the United Nations system, an Inter-Agency Standing Committee coordinates humanitarian responses and the delivery of grants and aid following the onset of a large-scale disaster. This response follows a set methodology for a 'Multi-Cluster/Sector Initial Rapid Assessment' (MIRA) to determine immediate needs and the scope of the response.⁴⁹ This assessment is initiated by a request from either the government impacted or in FCS by an already deployed and appointed Humanitarian Coordinator. The MIRA framework then provides the basis for coordinating a rapid response. However, the United Nations Office for Coordination of Humanitarian Affairs (OCHA) relies on ad-hoc funding appeals to support these measures. These appeals consistently fall short of raising the necessary funds, with under a quarter of appeal requirements met so far in 2023 (see figure 2).⁵⁰

Some regional funds work with the United Nations system, for example the Asia Pacific Disaster Response Fund provides up to \$3 million in assistance to developing country members of the Asian Development Bank (ADB) if three conditions are met: a disaster has happened, an emergency whose cost exceeds the capacity of the country alone to respond is officially declared, and the United Nations

44. UNFCCC (2023). Synthesis report on existing funding arrangements and innovative sources relevant to addressing loss and damage associated with the adverse effects of climate change. Transitional Committee. Available at: https://unfccc.int/sites/default/files/resource/TC2_SynthesisReport.pdf

45. *Idem*.

46. *Idem*.

47. *Idem*.

48. African Risk Capacity (2023). See <https://www.arc.int/about> (accessed 12 September 2023).

49. Inter-Agency Standing Committee, Needs Assessment Task Force (2015). Multi-sector initial rapid assessment (MIRA) guidance. Available at https://interagencystandingcommittee.org/system/files/mira_manual_2015.pdf

50. United Nations, Office for the Coordination of Humanitarian Affairs (2023). See <https://fts.unocha.org/plans/overview/2023> (accessed 12 September 2023).

humanitarian or resident coordinator has confirmed the scale and indicated a general amount of funding required to alleviate the situation.⁵¹

In developed country contexts, established agencies take the lead of both activities related to response and relief efforts as well as financing. For example, the European Union Solidarity Fund (EUSF) was established in 2002 to provide grant-based financial support to member states after a major disaster. In the context of this Fund, a major disaster is one that results, 'in at least one of the States concerned, in damage estimated either at over €3 billion in 2002 prices or more than 0,6 per cent of its GNI.'⁵² Access to the fund is designed to be direct, simple, and time-efficient: a swift allocation is made based on a request from the affected state and an assessment by the Commission, which is sent to the European Parliament to approve, after which aid is allocated in a single instalment. The Fund may also make a first payment 'more rapidly than is possible through the normal procedure,' of up to 10 per cent of the anticipated total payment, upon request by the member state. The EUSF provides support to Member States for efforts in both the recovery and reconstruction phases, and finance can be applied retroactively to both emergency and recovery actions taken by governments from day one after the disaster.

Similarly, in the United States, the federal government manages an emergency management agency which support states and local governments both financially and with their technical expertise.⁵³ The scope of the disaster determines a minimum baseline for support, with the federal government covering 75 percent of costs. States with worse fiscal health or who are impacted by an extraordinary disaster receive up to 100 percent of cost coverage, or concessional loans for their share of costs.

The success of these funds is an example of best practice to follow with the LDF, indicating the need for a well-resourced, coordinated fund which vitally allows for simple and straightforward access when countries are in need.

Conclusion

An LDF that is fit for purpose must ensure all developing countries vulnerable to climate loss and damage can access support. As this analysis highlights, there is no consistent way to predict or measure vulnerability in an accurate manner and such categorizations should not form the basis for exclusion of countries. The scale of ongoing loss and damage and interventions to reduce the risk and impact of anticipated events in themselves demonstrate the need for support. The question of eligibility must instead be reframed not around debates on which countries to include, but on what types of activities should be covered and how access should be triggered to ensure simplified and rapid access for countries in need.

Building on the findings presented in this chapter, the following guiding principles around eligibility to access an LDF are suggested:

51. Asian Development Bank (2023). Asia Pacific Disaster Response Fund. Available at <https://www.adb.org/what-we-do/funds/asia-pacific-disaster-response-fund-apdrf> (accessed 12 September 2023).

52. European Commission (2023). EU Solidarity Fund. Available at https://ec.europa.eu/regional_policy/funding/solidarity-fund_en (accessed 12 September 2023).

53. Federal Emergency Management Agency (2023). A guide to the disaster declaration process. Available at https://www.fema.gov/pdf/rrr/dec_proc.pdf (accessed 12 September 2023).

TAKING RESPONSIBILITY: TOWARDS A FIT-FOR-PURPOSE LOSS AND DAMAGE FUND

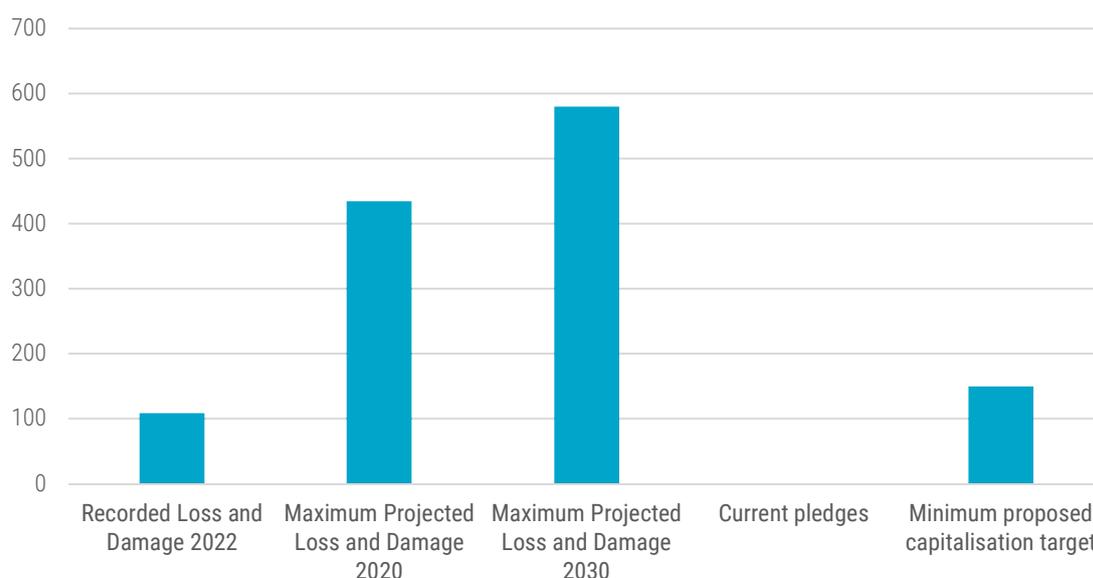
- All developing countries should be able to access the facility and receive support for loss and damage.
- The facility should reflect the needs and priorities of developing countries in every step in the establishment of the LDF, from negotiations to designing access modalities.
- Negotiations around eligibility should focus on identifying best practices and frameworks to establish simple and effective access criteria for funding windows that meet the diverse needs of developing countries.
- Technical discussions should establish parameters and triggers for specific circumstances, for example coordinating long-term disaster recovery, responding to slow-onset processes, as well as modalities to address non-economic losses.
- Further discussion on eligibility should expand to the actors eligible to access funding and the scale of funding appropriate for different actors to ensure adequate resources reach vulnerable communities as well as national actors and are well distributed and targeted locally.

CHAPTER 3.

INNOVATIVE SOURCES OF FINANCING FOR LOSS AND DAMAGE: A COMPARATIVE ANALYSIS

As previously discussed, the significant uncertainties around modelling the future development of climate change mean that the estimates for future loss and damage costs vary significantly. In Chapter one, the minimum volume of funding proposed to initially capitalize the LDF is \$150 billion, rising to a suggested \$300 billion by 2030, dependent on ongoing analysis of projected and recorded costs.⁵⁴⁵⁵ Current provision falls dramatically short of this sum, with existing pledges from developed countries amounting to only around \$300 million.

Figure 8: Comparison of loss and damage financing needs and pledges (\$ billions)



Source: UNCTAD analysis based on Loss & Damage Collaboration 2023 and Markandya and González-Eguino 2018.

This Chapter explores some of the options that have been put forward as potential ‘innovative sources’ to finance loss and damage, assessing the general pros and cons of each option. It begins with a review of the suitability of insurance mechanisms, before appraising different options for new sources of financing. This allows a comparison of potential sources, both in terms of potential quantum raised and suitability for financing loss and damage.

54. Richards, J R et al. (2023). *The Loss and Damage Finance Landscape*. Heinrich Boell Stiftung: Washington, D.C. Available at <https://www.lossanddamagcollaboration.org/publication/the-loss-and-damage-finance-landscape>

55. Stamp Out Poverty (2018). *The Climate Damage Tax: what it is and how it works*, p.2. Available at https://www.stampoutpoverty.org/live2019/wp-content/uploads/2019/06/CDT_guide_web23.pdf (accessed 8 August 2023).

Insurance Mechanisms: an insufficient tool

In theory, an insurance contract allows the transfer of risk from the insured to the insurer, who can be assumed to have a broader and more stable financial basis. By pooling these risks, a fairer distribution of costs can be obtained for both insured and insurers, even where an insurance premium has to be paid. In the ideal scenario, the set of possible risks will be known in advance, and the insurers will have full information about the characteristics of the insured, as well as being able to monitor and observe their behavior, creating an ‘actuarially fair’ market from which all participants can benefit.

These theoretical features can make insurance mechanisms seem an attractive option for climate risk. But real-world insurance markets are beset by the problems of information asymmetries and radical uncertainty – that is, risks becoming manifest that were not considered at the time of drafting the contract. These features apply very noticeably to climate risks.

Climate change presents possible future outcomes with a high degree of unknowable uncertainty, due to the complexity of the systems involved and the presence of strong feedback loops inside and between the natural and human systems, which tends to reduce the efficiency of insurance contracts away from the theoretical ideal.⁵⁶ Loss and damage, specifically, contains an inherent degree of information asymmetry, specifically moral hazard, as applied to the changes in behavior that may or may not have been undertaken by the different parties involved in seeking to mitigate or adapt to current and potential future risks.

The use of ‘index-based’ insurance methods, where payouts are made once certain objective criteria are met (windspeed or inches of rainfall, say), as opposed to more conventional ‘indemnity based’ schemes where payouts are made against an assessment of loss, might speed up the process of making assessments and payments, but leave the underlying problem of accurate risk assessment unresolved.⁵⁷ In practice, attempts to use ‘objective’ measures like this have been insensitive to the actual range of risks that manifest themselves for developing countries. For example, the World Bank’s Pandemic Emergency Financing Facility was established to provide financing in the event of a pandemic striking developing countries, dependent on meeting strict criteria of 250 pandemic deaths in the claimant country and 20 in a neighboring country. The rate of interest to investors was high, at 13 per cent, intended to compensate for the additional ‘risks’ of a payout being made. But when Ebola struck the Democratic Republic of Congo over 2018-20 killing 2,280 people,⁵⁸ the low numbers of deaths in neighboring countries meant Congo was unable to claim payments from the fund.⁵⁹

Two regional insurance schemes, the Caribbean and the Pacific Catastrophe Risk Insurance Companies, intended to pool risks from catastrophes within each region, have been in operation since 2007 and 2013 respectively operating through the World Bank. The ARC, established under the auspices of the African Union in 2014, is intended to provide a similar facility for Africa. But all three have been criticized as inadequate in the face of actual climate disasters, with payouts falling far short of monetary losses. Cyclone Pam caused \$449 million of damage in Vanuatu in 2015, for instance, but the total payout from the Pacific scheme was just \$1.9 million.⁶⁰

56. For a discussion of this “Knightian” uncertainty as applied to climate change, see Christian Mittelstaedt and Stefan Baumgartner, 31 January 2020, “Preference functions for Knightian uncertainty”, University of Freiburg working paper.

57. Nordlander L et al. (2019). Insurance schemes for loss and damage: fools’ gold?. *Climate Policy*. 20(6): 704–714.

58. BBC (25 June 2020). DR Congo’s deadliest Ebola outbreak declared over. Available at <https://www.bbc.com/news/world-africa-53179323> (accessed 8 August 2023).

59. Jones O (2019). Pandemic bonds: designed to fail in Ebola. *Nature*. 572(7769): 285.

60. Nordlander L et al. (2019). Insurance schemes for loss and damage: fools’ gold?. *Climate Policy*. 20(6): 704–714.)

It is the very nature of climate risk that makes an insurance-based and ‘market failure’ approach fundamentally inappropriate for the LDF – at least for the most significant forms of loss and damage. The empirical facts of loss and damage from climate change, notably including extreme weather alongside slow onset processes, make them extremely difficult for private insurers to cover adequately: the volume of costs involved and their occurrence is likely to render insuring against the totality of loss and damage from climate change, particularly in the most vulnerable countries, unviable for profit-seeking enterprises. Indeed, insurers may pull out of the market entirely, where risks are deemed too large and uncertain for their funding.⁶¹ In addition, the scope of non-economic losses, from the loss of human life to the devastation of cultural artefacts, makes monetary compensation extremely difficult to judge *a priori*, if it can be reasonably judged at all.⁶²

Moreover, the notion of actuarially fair insurance – the ideal-type to judge actually existing insurance by – is misaligned with the fundamental principles of loss and damage. Actuarially fair insurance is intended to generate an equal exchange – of different risk- and loss-aversions managed through the provision of an insurance market. But support for loss and damage is precisely *not* supposed to be an equal exchange in this sense. From the 1992 Rio Agreement onwards, the notion of CBDR has been a guiding principle, recognizing the indeed unequal allocations of responsibility for climate change (typically in developed countries) and impacts from climate change (typically in developing countries).

From the beginning of discussions of the concept, back in 1991, Loss and Damage has embodied the notion of CBDR, both spatially, with those regions most responsible for climate damage contributing the most to paying for its costs, and temporally, with future generations compensated for the damage caused by those prior. This is therefore not an ‘equal exchange’: rather, supporting climate-related loss and damage builds in the notion of redistribution.

Further, the kinds of risks resulting from a lack of climate action are likely to be cumulative in their nature – involving more frequent and repeated occurrences of similar events, like wildfires or flooding. This cumulative pattern will tend to undermine the basis for an insurance mechanism, since, instead of acting as a contingent contract that pays out for unpredictable events, with an implicitly fixed probability, the increased frequency of loss and damage impacts would make an insurance contract eventually unworkable. At the very least, the baseline of an ‘actuarially fair’ contract would involve high and rising premiums, to the point where the potential insured party is unlikely to be able to afford the contract.⁶³

Finally, there is the problem of irreversibility: at least in principle, a monetary payment for a loss should exactly compensate for the loss. But an increasing number of losses associated with climate change will be irreversible.⁶⁴ Together, these shortcomings highlight the unviability of insurance as a substantial source of financing loss and damage.

What this discussion underlies is that insurance markets, as traditionally considered, will be both insufficient because of concerns of scale, unfair because of concerns about equal transfers of risk, and indeed inoperable from a private sector perspective to deal with the massive loss and damage gap. The only potential solution to these constraints therefore implies the involvement in some form of the public sectors of advanced economies, who could theoretically meet the scale of the need

61. Thomas A and Leichenko R (2011). Adaptation through insurance: Lessons from the NFIP. *International Journal of Climate Change Strategies and Management*. 3(3):250–263.

62. Nordlander L et al. (2019). Insurance schemes for loss and damage: fools’ gold?. *Climate Policy*. 20(6): 704–714.

63. Moftakhari H R et. al (2017). Cumulative hazard: The case of nuisance flooding. *Earth’s Future*. 5:2, 214–223.

64. Songwe V et al. (2022). *Finance for climate action: Scaling up investment for climate and development*. London: Grantham Research Institute on Climate Change and the Environment, London School of Economics and Political Science. London.

while enshrining CBDR principles. Different schemes could perhaps be envisaged, including through the involvement of development finance institutions, but these are outside the scope of the current report. That said, if and when these schemes are to be pursued, it is important to consider the very real constraints discussed above.

Principles for Assessing Innovative Sources

Gewirtzman and others outline four criteria that should determine loss and damage financing options in the interests of ecological justice: ‘fairness, dependability, feasibility, and suitability.’⁶⁵ This framework has been used to assess the different potential mechanisms listed below but has been expanded by the inclusion of a fifth term: transparency. This is intended to reflect the need for stable financing to not only work, but to be accountable, with finance flows understood clearly by all Parties as well as wider civil society and frontline communities.

These five criteria can be summarized as:⁶⁶

- **Fairness:** costs fall on those most responsible for climate change and do not exacerbate inequality, such that developed and developing countries are equally equipped to address loss and damage.
- **Dependability:** immediate and long-term financing is predictable and not subject to major fluctuations.
- **Feasibility:** the financing mechanism can be implemented, given political, legal and financing constraints at the national and international levels.
- **Suitability:** the design of the financing mechanism aligns more generally with the anticipated modalities and institutional capacities of the LDF, both at the national and international levels.
- **Transparency:** finance flows can be understood clearly by all Parties as well as wider civil society and frontline communities.

With this framework, we make a quantitative and qualitative assessment of the proposed mechanisms below against these criteria (see figures 9 and 10). This provides a reasonably standardized method for making an assessment, whilst allowing a degree of flexibility given the substantial variation in proposed sources.

Figure 9: Quantitative comparison of potential financing sources for loss and damage

Option	Description	Example annual revenue forecasts
Fossil fuel subsidy phase out	Diversion of existing expenditures on fossil fuel subsidies to global loss and damage fund. Typically administered on developed country basis.	<ul style="list-style-type: none"> • \$527 billion global average subsidy, 2010-2021 (2021 USD). • Of this, the G20 average \$215 billion (40 per cent), the OECD average \$126 billion (24 per cent).
Maritime fuel levy	Carbon price fixed for the use of fossil fuel in shipping, varying with fuel type and use, geared to support Net Zero shipping by 2050. Overseen by International Maritime Organisation (IMO) in line with its Net Zero commitment.	<ul style="list-style-type: none"> • \$60-80 billion/year. • Cumulative totals of \$13.7 trillion proposed.⁶⁷

65. Gewirtzman J et. al (2018). Financing loss and damage: Reviewing options under the Warsaw International Mechanism. *Climate Policy* 18(8): 1076–1086.

66. Drawing on Lai M et. al 2022, Climate justice for small island developing states: identifying appropriate international financing mechanisms for loss and damage. *Climate Policy*. 22(9-10): 1213–1224.

67. Range of estimates, see section below for more details.

CHAPTER 3. INNOVATIVE SOURCES OF FINANCING FOR LOSS AND DAMAGE: A COMPARATIVE ANALYSIS

Option	Description	Example annual revenue forecasts
Fossil fuel levy/Carbon Damages Tax	A global tax imposed on fossil fuel producers. Charged per ton extracted at a level reflecting the carbon dioxide that is embedded. Payments made by producers directly into UNFCCC LDF.	<ul style="list-style-type: none"> • \$6/ton CO₂ globally would provide \$150 billion a year, assuming comprehensive, global coverage and enforcement.⁶⁸ • Alternatively, \$5/ton levy, but with a progression of \$5/ton each year until 2030 and then of \$10/ton until 2050 so as to reach a level of \$250/ton and a total of \$300 billion per year from mid-century.⁶⁹
Financial Transactions Tax	Small tax on financial transactions, scope varies. Global administration or else confined to developed economies.	<ul style="list-style-type: none"> • Estimate for global revenues of \$237.9 to \$418.8 billion annually.⁷⁰
Air passenger levy	Charge levied on each flight taken by passengers. Functioning model in 'Solidarity Levy' charged by group of African countries to raise funds for healthcare.	<ul style="list-style-type: none"> • 2 per cent global levy on flight ticket prices would raise \$17 billion (2019 flight numbers). • \$5/\$10 flat ticket levy would raise \$25.4 billion (2019 flights)
Windfall fossil fuel profits	Levied on unexpected fossil fuel profits during period(s) of exceptional price increases.	<ul style="list-style-type: none"> • Average global fossil fuel profit, 1970-2020, \$1 trillion.⁷¹ Net income for fossil fuel producers in 2022 was \$4 trillion.⁷² Implied windfall profit of \$3 trillion globally: 10 per cent tax is \$300 billion.
Redirect/reissue Special Drawing Rights (SDRs)	Issued by the IMF, typically in exceptional circumstances. Held as reserve asset by IMF member countries. New loss and damage SDR asset class that are not allocated according to quota could be reallocated across countries.	<ul style="list-style-type: none"> • Total developed country SDR holding of \$580 billion. • 2 per cent of developed countries' SDRs amounts to \$11.6 billion (Caribbean Development Bank proposal⁷³ – one of many live proposals).
Official Development Assistance (ODA) increase	Commitment from developed countries to meet 0.7 per cent GNI target for ODA. Raising current target to 1 per cent GNI for ringfenced support for loss and damage.	<ul style="list-style-type: none"> • On current levels, an additional \$193 billion would be available if the 0.7 target was met.⁷⁴ • If the target was raised to 1 per cent of GNI, an additional \$170 billion would be available.

68. Climate Action Network (2018). Submission on the Scope of the Technical Paper Exploring Sources of Support for Loss and Damage and Modalities for Accessing Support. Available at https://climatenetwork.org/wp-content/uploads/2020/11/can_loss_and_damage_submission_022018-1.pdf

69. Stamp Out Poverty (2018). The Climate Damage Tax: what it is and how it works. Available at https://www.stampoutpoverty.org/live2019/wp-content/uploads/2019/06/CDT_guide_web23.pdf (accessed 7 August 2023).

70. Pekanov A and Schratzenstaller M (2019). A Global Financial Transactions Tax: theory, practice and potential revenues. WIFO Working Papers no.582, Austrian Institute of Economic Research. Available at <https://www.econstor.eu/bitstream/10419/207155/1/166860552X.pdf> (accessed 8 August 2023).

71. Carrington D (2022). Revealed: oil sector's 'staggering' \$3bn-a-day profits for last 50 years. *Guardian*. 21 July.

72. International Energy Authority (2022). World Energy Investment 2022. Available at <https://www.iea.org/reports/> (accessed 8 August 2023).

73. Caribbean Development Bank (2021). CDB calls upon developed countries to allocate 2% of SDR for adaptation investment in SID. Available at: <https://www.caribank.org/newsroom/news-and-events/cdb-calls-upon-developed-countries-allocate-2-sdr-adaptation-investment-sids> (accessed 7 August 2023).

74. OECD(2023). Official Development Assistance. Available at: <https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/official-development-assistance.htm> (accessed 8 August 2023).

Figure 10: Qualitative comparison of potential sources for loss and damage financing

Option	Fairness	Dependability	Feasibility	Suitability	Transparency
Fossil fuel subsidy phase out	High – reduces investment in high -emitting industry and focused on developed countries, however, could fall heaviest on poorer households	Medium – fidelity to a coordinated scheme would provide a dependable sum, but could be redirected to domestic budgets	Low – would require significant political will to implement	Low – significant legal and governance challenges to channel financing into LDF	Medium – calculating existing flows allows for some transparency, but would depend on national measures
Maritime fuel levy	Medium – reduces investment in high -emitting industry but falls disproportionately on developing countries if they were included	High – an at source tax would be relatively consistent, if declining over time	Medium – significant political challenges, but has shown intergovernmental progress	Medium – significant legal and governance challenges, potentially aided by a global mobilisation mechanism	High – a multilaterally agreed levy would in principle be understood by all Parties
Fossil fuel levy/Carbon Damages Tax	High – reduces investment in high -emitting industry and can be designed to avoid regressive outcomes	Medium – leads to consistent resource but could be redirected to domestic budgets	Low – relatively simple to design but significant political barriers	Low – significant legal and governance challenges to channel financing into LDF	Medium – a multilaterally agreed levy would be clear but would ultimately depend on domestic policy
Financial Transactions Tax	High – impacts developed countries and higher income bands	High – would provide consistent resource with little anticipated decline over time	Low – would require significant, deep, international cooperation that does not yet exist	Low – significant legal and governance challenges to channel financing into LDF	Medium – a global tax could in principle be transparent, but the sector as a whole suffers from widespread opacity
Air passenger levy	High – impacts fall on developed countries and richer individuals	Medium – air travel is due to increase in the near future, but the sector could be hit with unanticipated shocks	Medium – Successful models already exist but depend on national-level legislation	High – Successful models already exist	Medium – straightforward model but depends on national tracking
Windfall fossil fuel profits	High – reduces investment in high -emitting industry and redistributes gains from exceptionally high profits	Low – would only be possible during years of exceptionally high prices	Low – despite increasing support in some jurisdictions, would be politically challenging to channel to LDF	Low – significant legal and governance challenges to channel financing into LDF	Medium – clear mechanism in principle, contingent on domestic policy

Option	Fairness	Dependability	Feasibility	Suitability	Transparency
Redirect/ reissue Special Drawing Rights (SDRs)	Medium – finance flows from developed to developing countries, but complicated by the basis on IMF quotas	Low – the current context shows little predictability to SDR flows	Medium – some developed countries have already recycled their SDRs, but the more ambitious proposal for quota reform lacks political will	Medium – an institutional link to the IMF could simplify transfer to LDF but could be disbursed as loans	High – SDRs can be internationally tracked
Official Development Assistance (ODA) increase	High – finance flows from developed to developing countries by design	Medium – ODA continues to play a crucial role but has seen a recent decline in real terms	Low – political will for ODA contributions is declining	Medium – transfer to LDF would be straightforward, but risks diverting development finance	Medium – Already tracked, however faces criticisms of double- and over-counting

Fossil fuel subsidy phase-out

Article 2.1c of the Paris Agreement commits countries to make ‘financial flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development,’ which together with the principle of CBDR⁷⁵ implies the responsibility of developed countries to phase down public financing for fossil fuels. The undesirability of fossil fuel subsidies has been acknowledged for many years for three primary reasons: they introduce inefficiencies in the market, divert funds from low-carbon investments, and directly endorse a high-emissions trajectory for future growth. These criticisms are reflected in commitments from the governments of major economies, if not in their actions: at the Copenhagen COP in 2009, leaders of the G20 group made a commitment to phase out ‘inefficient’ fossil fuel subsidies,⁷⁶ and the COP26 decision text calls for countries to ‘accelerat[e] efforts towards the phasedown of unabated coal power and phase-out of inefficient fossil fuel subsidies.’⁷⁷

Across countries, fossil fuel subsidies tend to be poorly targeted, with perverse distributional consequences. Coady, Flamini and Sears’s (2015) review of the evidence among developing countries found that 45 per cent of the benefits from fossil fuel subsidies go to the richest 20 per cent, while only 7 per cent goes to the poorest fifth of the population, findings confirmed by recent United Nations Development Programme (UNDP) research.⁷⁸ At least in principle, redirecting fossil fuel subsidies represent a relatively cost-effective opportunity to fulfil the goals of the Paris Agreement by redirecting existing subsidies and government support away from fossil fuels and towards climate goals.

However, despite international agreement, and after a number of years of declining subsidy payments, there has been a surge in fossil fuel subsidies over the last two years as energy prices have risen

75. Third World Network (2023). Submission to the standing committee on finance on its work on ways to achieve Article 2.1(c) of the Paris Agreement. Available at [https://www.twn.my/title2/climate/pdf/TWN%20submission%20on%202.1\(c\).pdf](https://www.twn.my/title2/climate/pdf/TWN%20submission%20on%202.1(c).pdf) (accessed 8 August 2023).

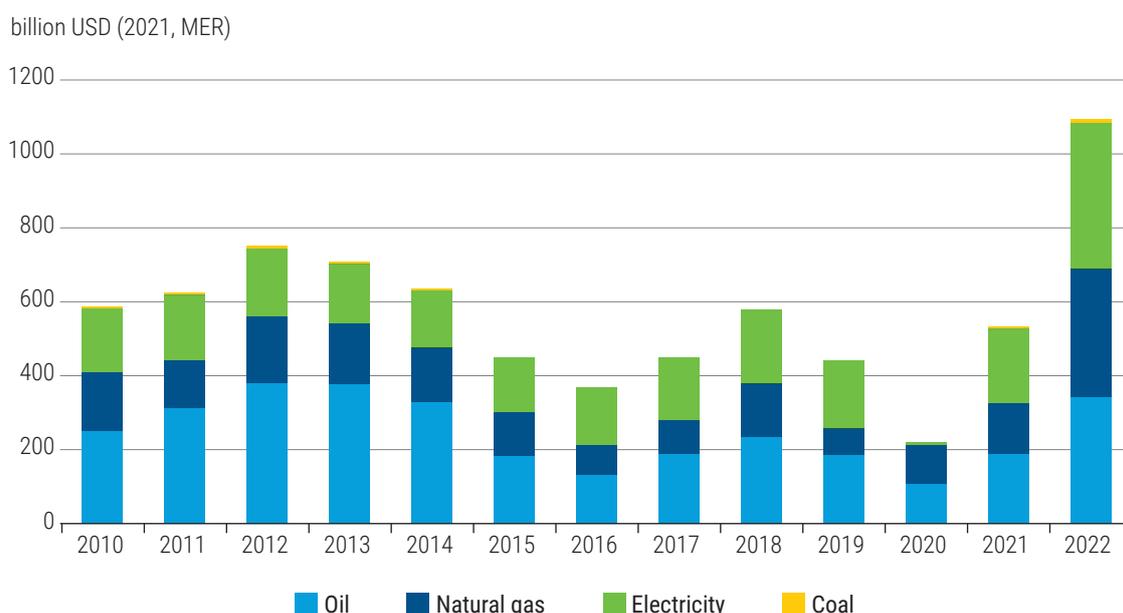
76. Bast E et. al (2015). *Empty promises: G20 subsidies to oil, gas and coal production*, Overseas Development Institute: London.

77. UNFCCC (2021). Glasgow Climate Pact, Decision -/CP.26. Available at https://unfccc.int/sites/default/files/resource/cop26_auv_2f_cover_decision.pdf (accessed 8 August 2023).

78. UNDP (2021). *Alternative Uses of Pre-Tax Fossil Fuel Subsidies Per Year*. (United Nations publication. New York.)

rapidly in the wake of repeated, major shocks, notably the Covid-19 lockdown and the war in Ukraine beginning in February 2022. Faced with soaring prices for essential fuels and substantial pressure on household budgets, governments across the world have adopted various forms of price subsidy, as monitored by the International Energy Agency (IEA). The combined OECD-IEA fossil fuel subsidies database covers 51 countries, drawn from the OECD and larger developing nations, which between them cover 85 per cent of global energy supply.⁷⁹ Excluding the exceptional year of 2022, average global fossil fuel subsidies stood at \$527 billion per year between 2010-21.

Figure 11: Global fossil fuel subsidies 2010-2022 (US\$, 2021 real)



Source: IEA, Fossil Fuel Consumption Subsidies 2022.

A further complication, from the viewpoint of loss and damage payments, is the international distribution of those fossil fuel subsidies. Although fossil fuel subsidies in developed countries are significant, they are typically a smaller fraction of the global subsidy than the significant payments made in developing countries, where subsidies more often also form part of household consumption expenditure. In the exceptional year of 2022, however, developed countries directed more than \$500 billion into fossil fuel subsidies. In consideration of the principles inherent to loss and damage negotiations, this analysis focuses on diverting those payments made in developed countries.

Taking OECD membership as a proxy for developed country status⁸⁰ shows an average annual subsidy of \$126 billion over 2010-21 (USD, 2021 real), or 24 per cent of global fossil fuel subsidies. Using the G20 as a representative for larger economies, including some major MICs with heavy fossil fuel subsidies, increases the average payment to \$215 billion over the same period, or 40 per cent of the total. The G20 has committed to phasing out fossil fuel subsidies, however this group includes

79. International Energy Authority (2023). *Fossil Fuel Consumption Subsidies 2022*. Available at: <https://www.iea.org/reports/fossil-fuels-consumption-subsidies-2022> (accessed 7 August 2023).

80. While a useful proxy, it should be noted that several OECD members are considered developing countries by the United Nations.

both developed and developing countries in the terms of the Paris Agreement. To this end, OECD membership is used as a proxy for developed country status in the calculations below.

We can forecast the hypothetical scale of potential funding for the LDF constructed on this basis. Assuming a steady rate⁸¹ of fossil fuel subsidy withdrawal and a matching transfer of these sums into the LDF gives an annual income flow until the subsidy payments have been phased out. Excluding 2021-22 and taking 2020 as the last 'normal' year for subsidies gives this income flow, with withdrawals starting in 2024. Assuming these can be placed into a managed fund earning a modest return,⁸² we can identify the available loss and damage resources that can be generated, with the size of the overall fund in 2030 dependent on the speed by which OECD countries meet their obligations to phase out subsidies as well as their bilateral contributions and inputs from other sources.

As would be expected, the faster rate of withdrawal of fossil fuel subsidies produces a bigger fund, with a significant decline of available funding for loss and damage as the pace of change slows down. Each of these targets implies a faster rate of subsidy withdrawal than was achieved by OECD members over the decade before 2020, however. Stepping up the pace of withdrawal would move a hypothetical LDF a substantial distance towards meeting likely requirements: for example, a total withdrawal of direct fossil fuel subsidies by OECD members by 2034 would produce a fund worth about \$77 billion annually, approximately 26 per cent of the \$300 billion proposed target by 2030. If the phase out was delayed to 2050 that would leave the annual resources available in 2030 at around 40 per cent of this figure (\$31 billion).

Maritime Levy

The Marshall and Solomon Islands proposed applying a universal mandatory levy on international shipping in October 2021, with the levy determined by the greenhouse gas (GHG) content of the fuel used on a journey and charged at the point of purchase of the fuel. The IMO, in its June 2023 meeting, updated its 2018 pledge to halve GHG output by 2050 to achieve Net Zero from the world's shipping,⁸³ creating an opportunity to both disincentivize fossil fuel use, and raise significant sums, potentially for loss and damage. The IMO's Intersessional Working Group on GHGs had agreed on the need for the industry to establish a carbon price for maritime fuel, in line with the decarbonization objective.

However, the proposed levy was opposed by some major exporter nations at the June meeting, at least in the absence of an impact assessment, with the larger commodity exporters fearing damaging consequences for their own trade. Independent modelling work, using a large computable general equilibrium model of countries and their trade, suggests that such concerns were well-founded: a global maritime levy could reduce maritime emissions by 7 per cent, but at a cost to exports and GDP that would fall most heavily on LMICs and MICs.⁸⁴

Nonetheless, a range of proposals have been put forward for carbon levies on maritime fuel, with the major options summarized in the figure below.

81. We assume strictly linear for simplicity.

82. We assume 4 per cent, somewhat below the average annual return on Norway's long-standing sovereign wealth fund but somewhat above the risk-free rate of recent decades.

83. Martin E P (2023). Green Seas: Charting the road ahead after IMO's 'huge step forward' on shipping's carbon. *TradeWinds: global shipping news service*. 12 July.

84. Pereda P et al. (2023). Carbon Tax in the Shipping Sector: Assessing Economic and Environmental Impacts. Working Paper 2023-04, FEA-USP. Available at: http://www.repec.eae.fea.usp.br/documentos/Pereda_Lucchesi_Diniz_Wolf_04WP.pdf (accessed 7 August 2023).

Figure 12: Options for maritime fossil fuel levy

	Levy proposed	Revenue range
Marshall and Solomon Islands (2018)	\$100/ton CO ₂	No estimate for total. \$80 billion/year annual average. ⁸⁵
Trafigura (2020)	\$250-300/ton CO ₂	\$3.7 trillion cumulative at the lower end. ⁸⁶
Maersk (2021)	Flat-rate \$250/ton CO ₂ in 2025 to decarbonise by 2050 \$100/ton in 2025, \$175/ton 2030, to decarbonise by 2050	Cumulative collected revenue of \$3.7 trillion Cumulative revenue total of \$0.5 trillion (with \$1.9 trillion for industry adaptation costs). ⁸⁷
UMAS (2022)	For full decarbonisation by 2050, \$11/ton CO ₂ in 2030, ramping up in stages to \$100/ton by 2030 and \$360/ton by 2050.	'Annually collected revenues would on average range between \$41 and \$81 billion, totalling between \$1-2 trillion.' ⁸⁸

Fossil fuel levy/Carbon Damage Tax

Envisaged as a global tax on fossil fuel producers, assuming the significant political and institutional barriers to its implementation could be overcome, a tax on GHG content of fuels would simultaneously provide a compensation mechanism for the externalities arising from such fuel use production (the 'polluter pays' principle) and incentivize the steady reduction in their production and use by increasing their costs. Typically, the levy is proposed as being paid by the fossil fuel producers themselves, with the two International Oil Pollution Costs (IOPC) funds providing an international precedent for the kind of fund envisaged.⁸⁹

The Climate Action Network (2018) have proposed a global flat tax on fossil fuel production (administered broadly and as simply as possible to reduce avoidance and evasion) at \$6/ton of GHG content that would produce revenues of \$150 billion a year.⁹⁰ The Stamp Out Poverty coalition have suggested an alternative scheme, with a steeply progressive levy that rises from \$5/ton to \$250/ton by 2050, sharply disincentivizing fossil fuel use whilst building in scope to rapidly transition from their use. They model this as providing \$210 billion per year in its early years, and up to \$300 billion per year by mid-century, as the levy is wound down.⁹¹

85. Wemaëre M, Vallejo L and Colombier M (2023). Financing loss and damage: Overview of tax/levy instruments under discussion. Institute for Sustainable Development and International Relations, Sciences Po. Paris.

86. Trafigura (2020). A proposal for an IMO-led global shipping industry decarbonisation programme. Singapore.

87. Mærsk Mc-Kinney Møller Center for Zero Carbon Shipping (2021). *Options paper on market-based measures*. Copenhagen.

88. Baresic D et. al. (2022). *Closing the Gap: An Overview of the Policy Options to Close the Competitiveness Gap and Enable an Equitable Zero-Emission Fuel Transition in Shipping*. UMAS. London.

89. For more information on the IOPC Funds, see: <https://iopcfunds.org/about-us/>

90. Climate Action Network (2018). Submission on the Scope of the Technical Paper Exploring Sources of Support for Loss and Damage and Modalities for Accessing Support. Available at https://climatenetwork.org/wp-content/uploads/2020/11/can_loss_and_damage_submission_022018-1.pdf

91. Stamp Out Poverty (2018). The Climate Damage Tax: what it is and how it works. Available at https://www.stampoutpoverty.org/live2019/wp-content/uploads/2019/06/CDT_guide_web23.pdf (accessed 7 August 2023).

Financial Transactions Tax

A Financial Transactions Tax (FTT) is a very small levy placed on a specified range of financial transactions. Originally proposed as a means to reduce speculation, it has found favor in more recent years as a potentially viable means of redistribution, mostly affecting the wealthiest people and institutions, who tend to be the highest GHG emitters.⁹² The aim is to keep the levy small but rely on the high volume of financial transactions to generate significant revenues.

The United Nations High-Level Advisory Group on Climate Change Financing considered using revenues from an FTT in 2010⁹³ and a number of major climate and development NGOs have since campaigned for a broad FTT. The United Nations Advisory Group estimated that in 2012, up to \$27 billion could be raised globally. The European Union estimated in 2013 that an EU-wide levy could generate €57 billion.⁹⁴ Most recently, a paper for the Austrian Institute of Economic Research, modelling the revenues from a truly global FTT and allowing for behavioral changes, suggested revenues could range from \$237.9 to \$418.8 billion annually.⁹⁵

The critical considerations on an FTT, like other taxes, are its distributional consequences and the potential for deadweight losses from the tax as those subject to it alter their behavior in response. On the former, the relatively limited scope of an FTT, falling only on those individuals and institutions engaged in particular kinds of financial activity, means that the short run impact is likely to be progressive, landing most heavily on higher-income individuals, as the European Commission's impact assessment noted.⁹⁶ In the longer-run, if an FTT increases the cost of capital then its impact could spread further down the income distribution. Even so, for the United States case, Burman et al suggest that the incidence of a US-only FTT would fall most heavily on the richest households, with 75 per cent of the burden carried by the highest-income quintile and 40 per cent by the top 1 per cent.⁹⁷ For a global tax, the concentration of payments is likely to be even greater, given the extremely heavy concentration of financial assets by value and by volume traded in the developed economies.⁹⁸

On potential deadweight losses from the tax, simulation exercises of hypothetical FTTs in the developed economies suggest these could become substantial at higher levels of the tax, although the Federal Reserve Bank of New York suggests the advantages in squeezing out poorly-informed and 'noisy' trades for informational efficiency are significant.⁹⁹ Again, for a global levy, any relative deadweight losses would be significantly smaller than the potential redistributive gains, given the incidence of the tax in developed countries relative to developing.

92. Oxfam (2021). Carbon emissions of richest 1% set to be 30 times the 1.5°C limit in 2030. Available at <https://www.oxfam.org.uk/mc/zyd5iv/>

93. United Nations, Advisory Group on Climate Change Financing (2010). Report of the Secretary-General's High Level Advisory Group on Climate Change Financing. Available at <https://www.cbd.int/financial/interdevinno/un-climate-report.pdf> (accessed 7 August 2023).

94. Euinside (2011). The EU Expects 57 Billion Euros a Year from a New Financial Tax. Available at <https://euinside.eu/en/news/the-eu-expects-57-billion-euros-a-year-by-a-new-bank-tax> (accessed 7 August 2023).

95. Pekanov A and Schratzenstaller M (2019). A Global Financial Transactions Tax: theory, practice and potential revenues. WIFO Working Papers no.582, Austrian Institute of Economic Research.

96. European Commission (2011). Impact Assessment: Proposal for a Council Directive on a Common System of Financial Transaction Tax and Amending Directive 2008/7/EC, Working Paper. European Commission. Brussels.

97. Burman L (2016). Financial Transaction Taxes in Theory and Practice. *National Tax Journal*. 69(1): 17 –216.

98. "...gross financial assets per capita in advanced economies amounted to EUR176,760 in 2021, which was almost 18 times the average EUR10,040 held by an inhabitant in the emerging markets." Allianz (2022). *The Last Hurrah: Global Wealth Report 2022*, p.8. Available at: [12-10-2022-GlobalWealthReport.pdf](https://www.allianz.com/content/dam/allianz-com/global-wealth-report-2022/global-wealth-report-2022.pdf) (allianz.com) (accessed 7 August 2023).

99. Cipriani M et al. (2021). Financial Transaction Taxes and the Informational Efficiency of Financial Markets: A Structural Estimation. Staff Reports no.93. Federal Reserve Bank of New York. New York.

Air Passenger Levy

A purchase tax applied to air tickets already exists in many jurisdictions (for example the United Kingdom's Air Passenger Duty). The principle under consideration is whether to extend a levy across multiple countries (potentially globally) and place the revenues in the LDF. There is already one example of such a pooled levy, in the 'solidarity levy' on plane flights, administered by Cameroon, Chile, Congo, Ivory Coast, Madagascar, Mauritius, Niger, South Korea and France to provide funding for health care in those developing countries. This is estimated to raise €356 million (\$400 million) annually, with France contributing just under half the total.

Using a similar model, LDCs proposed an International Passenger Airline Levy at 2008's COP14, levied at a flat rate of \$5 for economy or \$10 for business class flights. This was estimated then to raise between \$8-10 billion globally.¹⁰⁰ Growth in passenger airline traffic has been dramatic since then, prior to Covid-19. With 4.54 billion flights taken in 2019, and with approximately 12 per cent of them as business class, the same proposal would have raised \$25.4 billion. Recovery since Covid-19 has been steady: the 3.78 billion passenger flights in 2022 would have raised \$21.2 billion.¹⁰¹ Alternatively, a 2 per cent ticket price charge was modelled as generating \$17 billion a year, on 2019 flight numbers.¹⁰²

There are some complications with the implementation of such a scheme, not least including that the most rapid future growth in passenger numbers is expected to come from developing countries rather than the somewhat saturated markets of developed countries. But as Chambwera et al suggest, the distribution of these fliers is itself likely to be concentrated in the wealthier section of the population.¹⁰³

Nonetheless, we could adjust the hypothetical scheme to cover only flights taken by passengers from developed countries, as proxied by OECD membership. With 2.5 billion passenger flights taken from OECD countries in 2019, the IAPL on business flights would raise \$14 billion, assuming a recovery in passenger numbers to pre-Covid-19 levels.¹⁰⁴

Windfall tax on fossil fuel company profits

The surge in fossil fuel prices over 2021-22 created exceptional profits for producers with little to no real economic justification, appearing as pure 'economic rent'.¹⁰⁵ A number of countries moved to tax

100. Wemaëre M, Vallejo L and Colombier M (2023). Financing loss and damage: Overview of tax/levy instruments under discussion. Institute for Sustainable Development and International Relations, Sciences Po. Paris.

101. Author's calculations.

102. Wemaëre M, Vallejo L and Colombier M (2023). Financing loss and damage: Overview of tax/levy instruments under discussion. Institute for Sustainable Development and International Relations, Sciences Po. Paris.

103. Chambwera M, Njewa E D and Loga D (2018). The International Air Passenger Adaptation Levy: Opportunity or risk for Least Developed Countries?. International Institute for Environment and Development, working paper for Department for International Development.

104. World Bank figures for OECD air passenger number, 2019. Data is not yet available for 2022 for OECD flight numbers, so we are taking the last pre-covid year as representative of "normal" times. We further assume the same proportion of business class flights in the OECD as taken globally.

105. Baunsgaard T and Vernon N (2022). Taxing Windfall Profits in the Energy Sector. IMF NOTE/2022/002. International Monetary Fund. Washington DC.

these exceptional profits, and the United Nations Secretary General called for a redistribution of these profits from the fossil fuel producers to developing countries in September 2022.¹⁰⁶

There is, at present, no international mechanism for the levying of windfall taxes in this way, but, assuming the technical and political difficulties could be overcome, revenues could be significant. Using the (admittedly exceptional) year of 2022 as the example and taking the average profits of the fossil fuel industry over the last few decades as the ‘normal’ profit, above which is only windfall profit, gives some idea of the recent scope. Average global profits from fossil fuels over 1970-2020 was \$1 trillion a year.¹⁰⁷ Net global income from fossil fuel production in 2022 was \$4 trillion,¹⁰⁸ implying a windfall profit of \$3 trillion for producers. A 10 per cent tax on this extraordinary sum would be enough to twice deliver the proposed initial capitalization of the LDF. It is, of course, difficult to retrospectively levy any tax, let alone a novel system of redistribution at the global level, but at least in principle, if future price surges are likely, then a coordinated windfall tax could provide an effective means to boost loss and damage financing.

Special Drawing Rights (SDRs)

SDRs were created by the IMF in 1969 to address a perceived shortage of preferred reserve currencies. Initially proposed by the G10 group of developed countries to ease developed country liquidity issues, UNCTAD argued (and won) their extension to every IMF member, although at the cost of accepting SDR allocations on the basis of IMF quota sizes. Following the end of the Bretton Woods dollar-fixed exchange rate regime in 1973, each SDR has functioned as a claim on a basket of five major currencies held by the IMF. As such, SDRs are not a currency, or a loan, but a form of financial claim that can be made on the freely usable currencies of IMF members. Accounts denominated in SDR are held by member countries and a small number of participating multilateral organizations including Multilateral Development Banks (MDBs) with the IMF itself, which has the authority to allocate more of the SDRs to member countries with the backing of members.

There are now 20 prescribed holders of SDRs, having increased from 15 in February 2023¹⁰⁹: four central banks, three intergovernmental monetary institutions and eight development institutions.¹¹⁰ There has been only one special and four general allocations since 1969, the last general one made in August 2021, in response to what was believed to be a major liquidity shortage amongst the world’s economies on the back of the Covid-19 crisis. Then, 456 billion SDRs, the largest allocation in the IMF’s history and equivalent to about \$650 billion at the time, was distributed to the accounts of member countries and participating organizations. The last preceding general allocation was 161.2 billion in 2009, in response to liquidity fears globally in the wake of the financial crisis.

106. António Guterres (2022). Secretary-General’s address to the General Assembly. New York. 20 September. Available at <https://www.un.org/sg/en/content/sg/speeches/2022-09-20/secretary-generals-address-the-general-assembly> (accessed 12 September 2023).

107. Carrington D (2022). Revealed: oil sector’s ‘staggering’ \$3bn-a-day profits for last 50 years. *Guardian*. 21 July.

108. International Energy Authority (2022). World Energy Investment 2022. Available at <https://www.iea.org/reports/> (accessed 8 August 2023).

109. IMF (2023). Applications to become holders of SDRs. Policy Paper 2023/02. International Monetary Fund. Washington DC.

110. European Central Bank, Bank of Central African States, Central Bank of West African States, Eastern Caribbean Central Bank, Bank for International Settlements, Latin American Reserve Fund, Arab Monetary Fund, African Development Bank, African Development Fund, Asian Development Bank, the World Bank’s International Bank for Reconstruction and Development and International Development Association, Islamic Development Bank, Nordic Investment Bank, International Fund for Agricultural Development, Caribbean Development Bank, Development Bank of Latin America (known as Corporación Andina de Fomento or CAF), European Bank for Reconstruction and Development, European Investment Bank, and Inter-American Development Bank.

However, these allocations are not distributed equally: instead, allocations are made to member countries dependent on their prior contribution to the IMF itself, in an analogous fashion to the distribution of votes. This builds in a degree of inequity, since by default richer economies get more, and runs contrary to the basic assumption of global equity in the context of financing loss and damage. At the record-setting 2021 allocation, 60 per cent of new SDRs went to developed countries, matching their IMF quota payments, leaving low-income developing countries with only 1.4 per cent of the total.

It is important to note that, like other credit instruments, SDRs are both an asset and a liability. Any SDRs held by a government are an asset, but the allocations recorded by the IMF are a liability. Holdings earn interest (when greater than the IMF's allocation) or pay interest (when below the allocation).¹¹¹ Their general creation and allocation by the IMF therefore involves no increase in net wealth, being purely a credit instrument, and also no redistribution amongst members. Nor are SDRs a currency, since they cannot be used directly in general transactions, with exchange into actual currencies possible through the IMF or by agreement amongst member states. However, holders are themselves free to reallocate balances of SDRs – so, for instance, a few IMF member states have redistributed SDRs to Ukraine,¹¹² and some developed countries have previously reallocated parts of their holdings to IMF development funds. Of note, OECD countries express the cash flow of their export credits and credit guarantees as SDRs, indicating that SDRs may also be a way to provide export credit cash flow and/or credit guarantees to industries in developing countries.¹¹³

Developing countries have made extensive use of the 2021 SDR allocation, with ninety-eight in total putting SDRs into use by April 2022 – sixty more than had used the 2009 allocation at the equivalent point in time. Of these, 42 exchanged a portion of the allocation for hard currency, totaling \$17 billion; 55 used SDRs for debt relief, totaling \$7.6 billion, seven times more than in 2009; and 69 countries have included SDRs totaling \$81 billion in their government budgets, or otherwise used them for fiscal purposes, a sum 20 times greater than the equivalent in 2009.¹¹⁴ These examples demonstrate the great potential of SDRs to support developing countries in times of economic crisis.

The capacity of the IMF to allocate SDRs, and their capacity for reallocation amongst member states, does present some attractive features in terms of provisioning for loss and damage, including the relatively limited costs imposed on donor countries. The idea has started to gain some traction with a growing raft of proposals, for example the head of the Caribbean Development Bank called for 2 per cent of developed countries' SDRs to be allocated to 'adaptation' (here including loss and damage).¹¹⁵ Prime Minister Mia Mottley of Barbados has also detailed a scheme to expand issuance of SDRs for a new Global Climate Mitigation Trust, as part of the 'Bridgetown Initiative'¹¹⁶ and more recent academic work has explored some further options and live proposals.¹¹⁷

111. IMF (2022). *How to record the allocations of Special Drawing Rights in government financial statistics*. IMF Technical Notes and Manuals 2022/003. International Monetary Fund. Washington, DC.

112. *Reliefweb* (2022). IMF Executive Board Approves the Establishment of a Multi-Donor Administered Account for Ukraine. Available at: <https://reliefweb.int/report/ukraine/imf-executive-board-approves-establishment-multi-donor-administered-account-ukraine> (accessed 7 August 2023).

113. OECD (2021). OECD members cash flow results. Available at [https://www.oecd.org/trade/topics/export-credits/documents/Table%20I-V%20for%20web%202019%20data\(E\).pdf](https://www.oecd.org/trade/topics/export-credits/documents/Table%20I-V%20for%20web%202019%20data(E).pdf) (accessed 8 August 2023).

114. Arauz A et al. (2022). *Special Drawing Rights: The Right Tool to Use to Respond to the Pandemic and Other Challenges*. Center for Economic and Policy Research. Washington DC.

115. Caribbean Development Bank (2021). CDB calls upon developed countries to allocate 2% of SDR for adaptation investment in SID. 8 November. Available at: <https://www.caribank.org/newsroom/news-and-events/cdb-calls-upon-developed-countries-allocate-2-sdr-adaptation-investment-sids> (Accessed 7 August 2023).

116. UN Department of Global Communications (2023). With clock ticking for the SDGs, UN Chief and Barbados Prime Minister call for urgent action to transform broken global financial system. 26 April.

117. See, for an overview, Franczak M (2022). *Options for a Loss and Damage Financial Mechanism*, International Peace Institute. Stockholm.

The IMF's Resilience and Sustainability Trust (RST), established in October 2020 and intended to provide additional financing for developing countries to build resilience to public health and climate shocks, is one possible vehicle for SDR recycling for loss and damage, alongside the existing Poverty Reduction and Growth Trust (PRGT). The PRGT, as a pre-existing Trust, has some appeal as a vehicle for reallocating SDRs but is limited by its eligibility, conditionality, and the small size of its typical disbursements, expected to be only 2 billion SDRs over coming years.¹¹⁸ A new vehicle would be required, but the RST is voluntary, and on its initial funding round, raised \$10 billion less than the \$50 billion targeted – which is anyways well below what is needed for loss and damage. Both have the further problem that lending from either vehicle arrives in the developing country recipient as a loan with conditions attached, rather than as an unconditional reserve asset.¹¹⁹

One further option is to make use of the MDBs rights as 'participating organizations' in the SDR system and grant them allocations that they can then, in turn, leverage into far bigger sums for investment. Even the relatively conservative leverage ratios of the MDBs can expand initial commitments dramatically. The African Development Bank proposed an MDB allocation of SDRs in May 2022, gaining the in-principle support of the United Kingdom government.¹²⁰ This option, however, is encountering political opposition and would still deploy SDRs as debt, even if concessional.

A more ambitious proposal would be to end the relationship between SDR allocations and IMF quota payments, and instead revise SDR allocations on an assessment of climate vulnerability and development need. Since UNCTAD II (1968) UNCTAD has called for the link concept involving the allocation of SDRs to development banks either directly by the IMF, or rechanneled from the SDR receiving countries, to be determined by the need for development finance in the world economy, and particularly in developing countries. Then in UNCTAD V (1979), the institution called on the IMF Interim Committee to consider the establishment of a development link in the context of allocating SDRs based on the establishment of long-term global liquidity needs.¹²¹ This would rebalance the system significantly towards those countries most exposed to loss and damage from climate change but would require significant political will.¹²²

Official Development Assistance (ODA) expansion

The total volume of ODA from the OECD-DAC member countries, made up of larger developed economies, was \$204 billion in 2022. This is up 13.6 per cent in real terms from 2021, reflecting increased spending within developed countries on processing and hosting refugees, and a significant boost in aid to Ukraine, up from \$918 million in 2021 to \$16.1 billion in 2022.

However, the total spend remains well below the United Nations target of 0.7 per cent of Gross National Income (GNI), at 0.36 per cent of GNI, and there is evidence to suggest that stated figures

118. Lazard (2022). *Rechannelling SDRs in a responsible and efficient way*. Lazard Policy Brief, Box 1. Available at: <https://www.lazard.com/media/f0bbh2rg/20220208-lazard-white-paper.pdf> (Accessed 7 August 2023).

119. UNCTAD (2022). *Staying Afloat: a policy agenda for climate and debt challenges*. COP 27 High Level Event Series, (United Nations publication. Geneva.).

120. African Development Bank (2022). *Channel IMF Special Drawing Rights through multilateral development banks, urge African Development Bank Governors*. 26 May.

121. UNCTAD (2004). *Money Finance and Debt, in Beyond conventional wisdom in Development Policy: An intellectual history of UNCTAD 1964-2004*. (United Nations Publications. Sales No. E.04.II.D.39. Geneva)

122. UNCTAD (2022). *Staying Afloat: a policy agenda for climate and debt challenges*. COP 27 High Level Event Series, (United Nations publication. Geneva.).

are inflated by donor countries.¹²³ Just five of 32 DAC member countries spend at or above the decades-old target.¹²⁴ If the United Nations target was actually met by the DAC, a total of around \$400 billion would be spent on ODA. This additional support should be channeled into broad development initiatives, but some of it could also be in support of loss and damage activities. A more ambitious option would be to raise the ODA target to 1 per cent of GNI considering the exigencies of compounding crises facing diverse developing countries. If the additional 0.3 per cent were to be ringfenced for loss and damage, this could provide \$170 billion in additional funds based on 2022 levels.

This would be an expansion of the usual remit of ODA but an increasingly necessary one. However, a serious limitation would be eligibility, since as discussed in Chapter two, some developing countries are not eligible for ODA. Moreover, given that a new UNFCCC global climate finance goal will be set in 2024, more stringent DAC reporting requirements would be needed to ensure that this increase in ODA would be new and additional to climate finance flows. Lastly, it is important to note the concerns of some developing countries that an increasing role for ODA in climate finance could drain much needed resources from development initiatives.

Such an expansion, although significant in total, is only a comparatively small addition per country. For example, a hypothetical solidarity levy on the wealthiest 1 per cent globally, slightly less than all those individuals with more than \$1 million in total assets, of just 0.1 per cent would yield over \$220 billion.¹²⁵

Conclusion

Of the different options for innovative sources of finance for loss and damage, none are without their challenges, whether in distributional impacts, compliance with CBDR-RC or political feasibility. Bilateral, public resources should form the basis of the LDF, but ensuring a reliable and predictable replenishment is challenged by recent trends in development and climate finance.

A first order action must be for developed countries to find the political will to turn these trends around. At the same time, the discussion on innovative sources has allowed for consideration of how greater multilateral coordination around fiscal policies can not only raise revenue but offer second order benefits such as tackling inequality and reducing emissions-intensive activities.

In the months and years ahead as finance pressures mount, it will be crucial for developing countries to consider together which mechanisms offer the most promising way forward for their development trajectories: to raise revenue for climate-resilient development while avoiding regressive distributional impacts that put more pressure on the most marginalized populations.

123. Craviotto N (2023). *Little to celebrate: an assessment of Official Development Assistance in 2022*. Eurodad. Brussels.

124. OECD, Official Development Assistance. Available at: <https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/official-development-assistance.htm> (Accessed 7 August 2023).

125. There were reportedly 65 million individuals with more than \$1 million in assets globally in 2022, or about 1.2 per cent of the global population. Credit Suisse (2022). *Global Wealth Report 2022*. Available at: <https://www.credit-suisse.com/about-us/en/reports-research/global-wealth-report.html> (accessed 7 August 2023).

CONCLUSION

The months ahead will be crucial in defining the success or failure of the LDF. After decades of developing countries making the case for finance to address loss and damage and a year of intensive work from the TC and all Parties to establish funding arrangements, the biggest risk now is that a new fund falls short of the basic parameters developing countries need.

This report has surveyed several key topics in relation to the mandate of the TC in an effort to fortify upcoming negotiations with an evidence base. Its findings demonstrate the ongoing urgent need for a dedicated fund, established as an operating entity of the UNFCCC's financial mechanism. The LDF should be led by the principle of CBDR-RC, enshrine developing country leadership in its governance and take on the unique role of coordinating the mosaic of financing levers involved in addressing loss and damage. Delivering on its functions requires an institutional link to the broader multilateral system, for example through the creation of an Impact Council on Loss and Damage between the UNFCCC and the Secretary General of the United Nations to ensure coordination, coherence, and complementarity.

All developing countries should have access to the LDF. Access should be available through three windows: a rapid access window for extreme weather events for immediate and short-term recovery; a longer-term window for reconstruction, rehabilitation and resettlement and slow onset events; and a smaller window for sub-national entities and civil society organizations. Access criteria must be suitable for the diverse circumstances that reflect the various needs of developing countries, learning from best practice in existing funds which show the importance of simplified and rapid access through self-declaration and independent assessments of need.

The LDF must be sufficiently capitalized from the very beginning. Setting inappropriately low targets now will only ensure the LDF is ineffective in the long-term, rendering it an empty vessel that inflicts more harm by diverting much needed capacity into enfeebled processes. We propose a minimum initial capitalization target of \$150 billion based on both estimated and recorded assessments of current loss and damage. Since under-ambitious mitigation and under-resourced adaptation persist, the LDF must build in a mechanism to progressively increase replenishments to align with updated increasing costs, with an indicative target for annual replenishment of \$300 billion by 2030.

These funds should be disbursed as grants, aimed towards recovery, rehabilitation and reconstruction. Most of these resources must come from contributions from developed countries, who should consider domestic measures to raise ringfenced revenue for the LDF. New sources of financing such as levies, taxes, and recycled SDRs that can offer secondary benefits of tackling inequality and reducing high-emitting activities can play an important role but must be rigorously assessed to avoid regressive distributional impacts on developing countries and marginalized groups.

With loss and damage impacts increasing every year, evident in record-breaking weather across every region, there is no time to lose to establish a new fund dedicated to addressing loss and damage. Parties are on the cusp of a historic outcome that has the potential to provide a vital safety net to countries in need at the same time as reinforcing trust in the climate negotiations. An LDF designed with these recommendations in place will reverberate beyond immediate beneficiaries, reinvigorating multilateralism in a moment of compounding global crises and demonstrating the collective priority of delivering the Paris Agreement and Sustainable Development Goals for a safe and secure future for all.

