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Financing Loss and Damage at Scale: Toward a Mosaic Approach

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Cover Photo: Hurricane Tomas floods the streets of Gonaives, Haiti, November 6, 2010. UN Photo/UNICEF/Marco Dormino.

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ABBREVIATIONS

ADP	adaptive social protection
CAF	Capital Adequacy Framework
CAT bond	catastrophe bond
CCRD	Country Climate and Development Report
CCRT	Catastrophe Containment and Relief Trust
CERF	Central Emergency Response Fund
COP27	2022 UN Climate Change Conference
COP28	2023 UN Climate Change Conference
CRDC	climate-resilient debt clause
DAC	Development Assistance Committee
DSSI	Debt Service Suspension Initiative
GNI	gross national income
IDA	International Development Association
IFFIm	International Finance Facility for Immunisation
IMF	International Monetary Fund
JGT-FIT	Just Green Transition Financing Investment Trust
L&D	loss and damage
MDB	multilateral development bank
MVI	Multidimensional Vulnerability Index
OCHA	Office for the Coordination of Humanitarian Affairs
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
RCF	Rapid Credit Facility
RFI	Rapid Financing Instrument
RST	Resilience and Sustainability Trust
SDRs	special drawing rights
TC	Transitional Committee
UNEP	UN Environment Programme
UNFCCC	UN Framework Convention on Climate Change

Executive Summary

The historic decision on loss and damage (L&D) at the 2022 UN Climate Change Conference (COP27) calls for a new fund and funding arrangements focused on addressing L&D. It also tasks a Transitional Committee to prepare recommendations on the new fund and funding arrangements for adoption at the 2023 UN Climate Change Conference (COP28) in Dubai.

This decision reflects a recognition that existing funding arrangements are grossly inadequate to address the escalating scale of L&D. There is currently little explicit funding for L&D activities, and the non-L&D-specific mechanisms that could contribute to addressing L&D all have structural and financial shortcomings. The global humanitarian system, which is the largest source of L&D-related funding, already suffers from funding shortfalls and mainly delivers ex post funding. What little funding exists under official development assistance is earmarked for lowest-income countries, while extensive paperwork and high premiums prevent access to insurance products. For low- and middle-income countries alike, debt and the cost of capital make borrowing on international markets undesirable or unfeasible.

Several enhancements to these existing funding arrangements could begin to address these obstacles and bridge the finance gaps. For example, anticipatory aid and other prearranged finance measures could provide ex ante support for both extreme and slow-onset events. Global Shield is promising a similar approach, with an emphasis on rapid support through social protection systems that could address short-term L&D. For long-term support for rehabilitation and reconstruction, the World Bank is uniquely positioned to step up by lending more to finance global public goods. The International Monetary Fund has an important role to play in managing and reducing debt, including by expanding special drawing rights to low-income countries.

But these enhancements, while valuable, will not be enough to finance L&D at scale. New funding arrangements and a new fund will be necessary to bring different initiatives together, raise large amounts of capital for them, and leverage that capital's reach across markets and institutions for the benefit of developing countries that are vulnerable to the adverse effects of climate change. This fund will need to be: (1) anticipatory to enhance predictability and allow for the rapid mobilization of resources where and when they are needed; (2) adequately capitalized and accessible to the countries that are most in need of financing, with minimal conditionalities; (3) coordinated with other funding arrangements; and (4) flexible to the growing severity of climate shocks.

With roughly six months left until COP28, the Transitional Committee will need to work efficiently to achieve its mandate, which includes determining the fund's institutional arrangements, modalities, structure, governance, sources of funding, and coordination and complementarity with existing funding arrangements. To this end, it should:

- Begin securing financing before COP28, particularly innovative financing, which takes longer to secure than traditional donor contributions;
- Consult with the private sector to determine its role, including in the use of insurance mechanisms and risk pools, frontloading, and connections between L&D and jobs;
- Determine the form and role of triggers, including for slow-onset events;
- Consider how to address noneconomic losses, including displacement and forced migration; and
- Identify the actions, mechanisms, and institutions required to operationalize the fund, including an internal or external coordination mechanism.

Introduction

The decision on loss and damage (L&D) at the 2022 UN Climate Change Conference (COP27) in Sharm el-Sheikh was a historic achievement.[1] For the first time, it calls for a new fund and funding arrangements focused on addressing L&D. It also tasks a Transitional Committee of twenty-four developed and developing countries to prepare recommendations on the new fund and funding arrangements for adoption at the 2023 UN Climate Change Conference (COP28) in Dubai (see Annex).[2]

Delivering on that mandate will not be easy. In some countries, extreme events like floods, droughts, and storms have become more frequent and intense, damaging local infrastructure and markets while driving up borrowing costs for reconstruction. In others, slow-onset events such as sea-level rise, glacial retreat, and land degradation have already caused irreversible damage to water and soil quality, forcing city-dwellers to continue relying on costly imports and causing permanent loss of income and nutrition for smallholder farmers and their communities. Others still have been simultaneously affected by extreme and slow-onset events with irreversible impacts on their territory, culture, or economy. In all cases, these countries' capacity to respond to these impacts is limited and often further weakened by external factors beyond their control.

These adverse impacts of climate change—hereafter referred to as loss and damage (L&D)—force countries to take on more debt, make that debt more expensive, and take away resources needed for economic and social development. As of 2022, two-thirds of developing countries were at risk of or in debt distress, and of the twenty-nine low-income countries that have submitted estimates of their adaptation needs, only seven have sufficient fiscal space to protect themselves from climate impacts.[3] There cannot be a one-size-fits-all solution to L&D; instead, we need a mosaic of solutions across countries, institutions, and markets.

> There cannot be a one-size-fits-all solution to loss and damage; instead, we need a mosaic of solutions across countries, institutions, and markets.

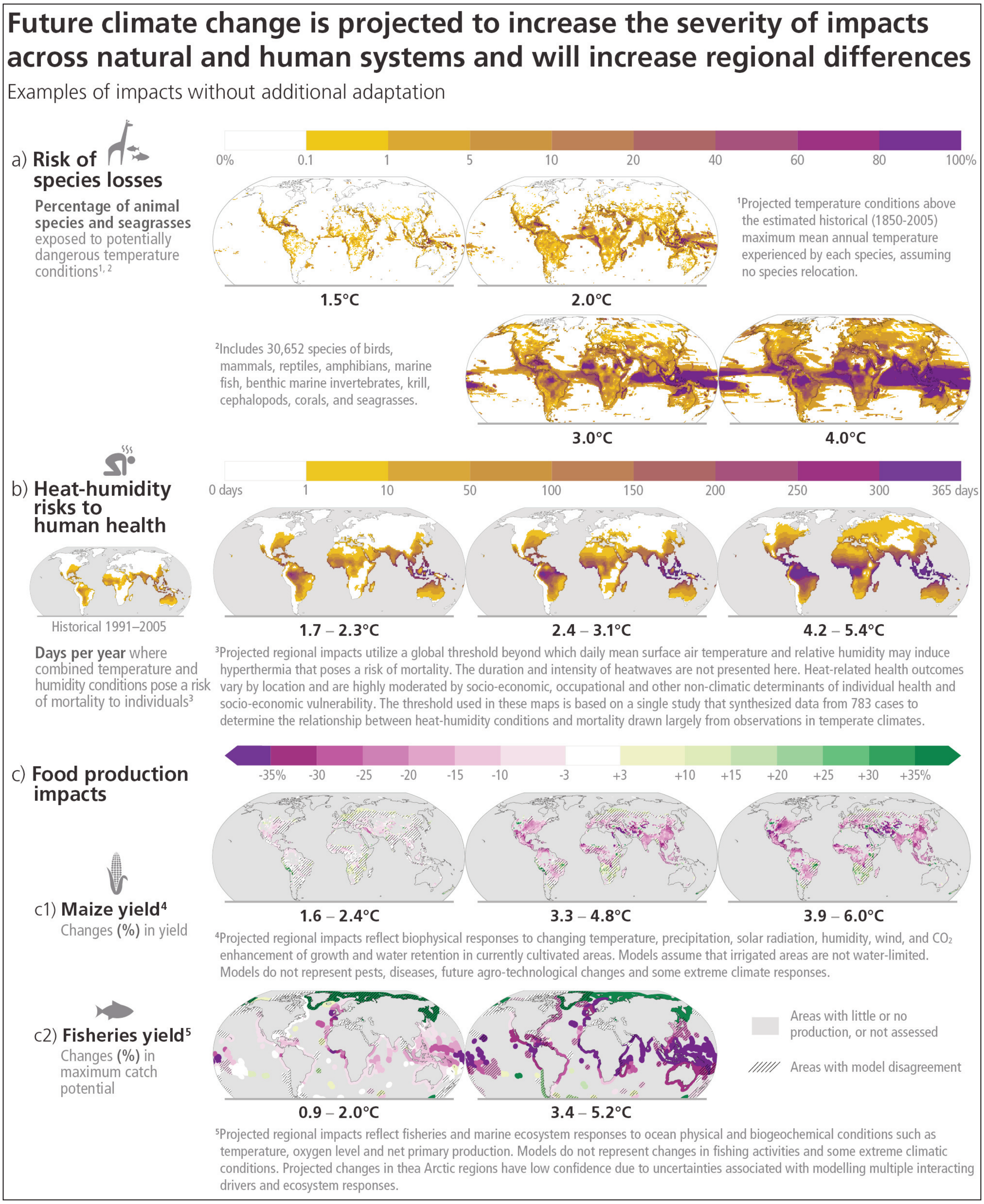
This paper aims to aid the Transitional Committee (TC) and other stakeholders by providing an initial sketch of that mosaic. First, it examines existing arrangements, modalities, and sources of funding for addressing loss and damage from UN humanitarian agencies, multilateral development banks and international financial institutions, and insurance and bond markets. It finds that while some money is available for relief in the immediate aftermath of an event, there are few dedicated sources of financing for rehabilitation and reconstruction. Second, it proposes reforms to existing arrangements, based on interviews with relevant government and UN officials, that would address key finance gaps and bottlenecks countries face. Third, it identifies elements of a new loss and damage fund that would complement existing arrangements and make use of innovative finance (including levies and bond issuances) to operate at scale. Finally, it takes stock of what an enhanced system would look like and what is missing and provides a series of actions for the TC and other stakeholders to undertake before COP28.

1 Loss and damage (L&D) refers to the impacts of climate change that will not be or have not been avoided through mitigation or adaptation. Although no formal definition exists, a consensus understanding of L&D includes "climate-related impacts and risks from both sudden-onset events, such as floods and cyclones, and slower-onset processes, including droughts, sea-level rise, glacial retreat, and desertification." In addition to economic losses and damages to households, communities, infrastructure, and industries like agriculture, forestry, fisheries, and tourism, L&D also encompasses nonmarket or "noneconomic" losses to lives, cultures, territories, and more. See: Reinhard Mechler et al., "Loss and Damage and Limits to Adaptation: Recent IPCC Insights and Implications for Climate Science and Policy," *Sustainability Science* 15, no. 4 (2020). For a brief history of L&D in UNFCCC negotiations, see: Michael Franczak, "Options for a Loss and Damage Finance Mechanism," International Peace Institute, October 2022.

2 The decision also calls on the international financial institutions and "other relevant entities" to identify how they can respond to loss and damage and for the IMF and World Bank to consider, at their 2023 Spring Meetings, the potential for the international financial institutions to contribute to loss and damage funding arrangements, "including new and innovative approaches." UNFCCC, Decision 2/CP.27, UN Doc. FCCC/CP/2022/10/Add.1, November 2022, available at https://unfccc.int/sites/default/files/resource/decision%202%20CP%2027.pdf .

3 Marcos Chamon, Erik Klok, Vimal Thakoor, and Jeromin Zettelmeyer, "Debt-for-Climate Swaps: Analysis, Design, and Implementation," IMF, August 2022.

Figure 1. The stakes: 1.5 degrees on life support, and the world we will likely inhabit[4]



4 Figure SPM.3 from Intergovernmental Panel on Climate Change, "Summary for Policymakers," in *Climate Change 2023 Synthesis Report: A Report of the Intergovernmental Panel on Climate Change*, Contribution of Working Groups I, II, and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change, Core Writing Team H. Lee, and J. Romero, eds. (Geneva: IPCC, 2023), forthcoming.

Existing Arrangements for Addressing Loss and Damage

There is currently very little explicit funding for L&D activities (see Table 1). Most climate-related funding is for mitigation and adaptation, whether through the UN climate funds or the multilateral development banks (MDBs). While this could be considered funding for *minimizing* and *averting* L&D, there is no substantial funding for *addressing* L&D. The little funding for addressing L&D that does exist includes donations from Scotland, Wallonia, and Denmark and some philanthropies.[5] There are also processes for assisting with L&D technical activities under the UN Framework Convention on Climate Change (UNFCCC), including the Warsaw International Mechanism and the Santiago Network. In addition, there are funding mechanisms that support activities that contribute to addressing L&D, such as responses to extreme events, even if L&D is not explicitly

Table 1. Current international sources for loss and damage financing

Type of financing mechanism	Type of L&D	Timeframe of support	Type of support	Purpose	Single payment or multiple?	Who pays?
Humanitarian funding: Central Emergency Fund, UN agencies, NGOs	Extreme and slow-onset events	Ongoing and ex post	Concessional aid	Relief	Multiple	Donor countries, NGOs
Development funding: International Development Association Crisis Response Window	Extreme and slow-onset events	Ongoing	Concessional grants and loans	Relief and resilience-building	Single	Donor countries
Private finance: Catastrophe bonds	Extreme events	Ex post	Sovereign debt instrument	Fiscal space/ access to finance	Single	Developing country government (issuer)
Risk pooling: African Risk Capacity, Caribbean Catastrophe Risk Insurance Facility	Extreme events	Ex post	Insurance product	Recovery and reconstruction	Single	Developing country government (policyholder)
IMF: Rapid Credit Facility, Catastrophe Containment and Relief Trust	Extreme events	Ongoing and ex post	Concessional grants and loans	Fiscal space/ access to finance	Single	IMF and developing country government fund
National social protection	Extreme and slow-onset events	Ongoing and ex post events	Government transfer	Social and economic relief and recovery	Multiple	Developing country government (national fund)

5 At COP26, philanthropies including the Children's Investment Fund Foundation, European Climate Foundation, Global Green Grants Fund, Hewlett Foundation, and Open Society Foundations pledged $3 million to address loss and damage, and the governments of Scotland and Wallonia committed £2 million (approximately $2.5 million) and €1 million (approximately $1 million), respectively. In September 2022, Denmark pledged 100 million Danish krone (approximately $13 million) for loss and damage. At COP27, Scotland and Wallonia increased their pledges and commitments, and several developed countries added specifications to existing pledges that would redirect some money toward L&D. See: Preety Bhandari, Nate Warszawski, and Chikondi Thangata, "Current State of Play on Financing Loss and Damage," December 28, 2022, World Resources Institute.

mentioned in their mandate. However, many of these mechanisms lack sufficient funding to carry out their existing mandates.

Humanitarian Funding

The global humanitarian system is the largest source of L&D-related funding. It includes UN pooled funds (e.g., the Central Emergency Response Fund and country-based pooled funds), as well as bilateral funding from donor governments and philanthropies. Humanitarian assistance focuses primarily on relief to provide for basic needs, often following a natural disaster. In practice, this comes down to "rice, water, and tents"—enough to keep people alive, but not enough for them to rebuild and thrive. In fact, over the last ten years, 90 percent of international disaster financing has gone to emergency relief for disasters, with just 4 percent going to disaster preparedness and prevention and 6 percent to rehabilitation and reconstruction.[6]

While the overall level of humanitarian funding has grown, it has not kept pace with the growth in global appeals.[7] In 2021, the total funding requested in global humanitarian appeals reached $37.6 billion, but donors delivered only $19.9 billion—a 47 percent shortfall. The war in Ukraine and continued high prices for food and energy pushed the total 2022 appeal to a staggering $51.7 billion, its highest ever, while funding only rose to $29.7 billion.[8]

Development Funding

The global development system, consisting of relevant UN entities such as the UN Development Programme, the World Bank Group and other MDBs, and donor governments, is another potential source of funding for addressing L&D. This system could be particularly helpful for funding rehabilitation and reconstruction, but it has its own challenges. For one, most of the biggest donor countries do not meet the UN target of devoting 0.7 percent of their gross national income (GNI) to official development assistance (ODA). In fact, in 2022, only five of the thirty-one members of the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC) met or exceeded this target, with an average of just 0.36 percent.[9] In 2022, ODA from DAC members amounted to $204 billion, an increase of 13.6 percent over 2021. However, a significant portion of that increase was due to countries spending more on refugees inside their borders (14.4 percent of total ODA), support for Ukraine (7.8 percent), and pandemic support (5.5 percent).[10]

Additionally, while middle-income developing countries (including many small island developing states) are eligible for climate finance, they are not eligible for some forms of ODA. For example, the International Development Association (IDA) operates a Crisis Response Window for countries experiencing severe trouble, including natural disasters, public health emergencies, and economic crises. This window includes financing for early response to slow-onset crises.

However, because of the World Bank's mission of promoting economic growth and reducing poverty, the level and scale of IDA assistance is linked to a country's per capita income, not climate vulnerability.[11] Since 1985, IDA's small island exemption has allowed small island states to continue accessing IDA funding even with higher per capita incomes.[12] However, GNI per capita remains the primary determinant of ODA eligibility.[13] In 2022, the UN joined with small island developing states to develop a Multidimensional Vulnerability Index (MVI), which would allow states to communicate their vulnerability through a shared indicator. According to its proponents, the MVI would "help

6 UN Office for Disaster Risk Reduction, "International Cooperation in Disaster Risk Reduction: Target F," 2021.

7 "Between 2012 and 2017, international humanitarian assistance grew annually by more than 10 percent, but it has grown by just 2.6 percent in the four years since then." Development Initiatives, "Global Humanitarian Assistance Report 2022," July 12, 2022.

8 UN OCHA, "Appeals and Response Plans 2022," accessed May 2, 2023, available at https://fts.unocha.org/appeals/overview/2022 .

9 These were Denmark, Germany, Luxembourg, Norway, and Sweden. OECD, "Net ODA," accessed May 2, 2023, available at https://data.oecd.org/oda/net-oda.htm

10 OECD, "April 2023 Preliminary Figures," April 11, 2022, available at https://public.flourish.studio/story/1882344/ .

11 Graduation from the DAC ODA list is based on per capita income alone. Graduation from multilateral concessional assistance is based primarily on both per capita income and creditworthiness.

12 The exemption applies to island states with populations less than 1.5 million.

13 UN Department of Economic and Social Affairs, "Improving the Criteria to Access Aid for Countries That Need It the Most," July 2022.

small island nations gain access to concessional financing…, improve their long-term national planning, service their debts, and sign up to insurance and compensation schemes that may be their last hope when the waters rise.”[14]

Climate Funding

The UNFCCC climate funds are another obvious source of support, but their role in addressing L&D is less straightforward than at first glance. For example, although there is some overlap between L&D and adaptation, the Adaptation Fund needs to respond to many needs and has a substantial finance gap. According to the UN Environment Programme (UNEP), “International adaptation finance flows to developing countries are 5–10 times below estimated needs and the gap is widening.”[15] The Green Climate Fund splits its activities and resources between mitigation and adaptation, and its slow disbursement, eligibility requirements, and complicated process for board approvals make it hard to add L&D to its work. Smaller funds, like the Least Developed Countries Fund and Special Climate Change Fund, offer limited support as well but do not have the capacity or mandate to support substantial L&D activities.

> Existing climate-related funding contributes to minimizing and averting L&D, but there is no substantial funding for addressing L&D.

Private Finance and Risk Pooling

Private finance, particularly insurance and bonds, also has a role to play in addressing L&D. A catastrophe (CAT) bond is a debt instrument that allows the issuer to get funding from the capital market if and only if a catastrophic event such as a hurricane occurs. In March 2023, the International Bank for Reconstruction and Development executed its largest single-country catastrophe bond and swap transaction with Chile, consisting of $350 million of catastrophe bonds and $280 million of catastrophe swaps.[16] The package provides coverage for three years, with payouts triggered if an earthquake meets the predefined criteria for location and severity.

The role of CAT bonds is limited, however. The International Monetary Fund (IMF) reports that the market for CAT bonds is shallow, and only a few countries have insured themselves against natural disasters. Further, the preparation process for CAT bonds and other bonds is lengthy and expensive, and even the largest CAT bonds such as Chile’s only cover a small portion of the total possible damage.[17]

Programs like the Global Risk Financing Facility, funded by Germany and the UK and housed in the World Bank, attempt to address this by providing financial and technical support for accessing and underwriting disaster-risk insurance (as opposed to subsidizing policy premiums or sharing risk). Risk pools, such as the African Risk Capacity Group, have had difficulty getting countries to join, likely due to high costs for policy premiums and low payouts (relative to the costs of reconstruction). For instance, the Caribbean Catastrophe and Risk Insurance Facility maintains a $12 million cap on its payouts. Antigua and Barbuda have suggested the creation of a new global institution that would increase the scale and scope of insurance payouts by consolidating regional mechanisms under one roof.[18]

International Monetary Fund

Countries have access to some support from the IMF during extreme weather events. The Rapid Credit Facility (RCF) provides fast concessional financing to low-income countries with urgent

14 UN Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, “Multidimensional Vulnerability Index,” available at https://www.un.org/ohrlls/mvi .

15 UNEP, “Adaptation Gap Report 2022,” November 1, 2022.

16 World Bank, “World Bank Executes Its Largest Single Country Catastrophe Bond and Swap Transaction to Provide Chile $630 Million in Financial Protection against Earthquakes,” press release, March 17, 2023.

17 Sakai Ando, Francisco Roch, Ursula Wiriadinata, and Chenxu Fu, “Sovereign Climate Debt Instruments: An Overview of the Green and Catastrophe Bond Markets,” IMF, July 7, 2022.

18 Interview with Diann Black-Layne, Ambassador for Climate Change of Antigua and Barbuda and TC member, April 2023.

balance-of-payments needs through its Exogenous Shock and Large Natural Disaster windows. The Rapid Financing Instrument (RFI) is a similar tool available to all IMF member countries. Both the RCF and the RFI are available without conditionalities. Because they are unconditional, however, they provide one-off payments, and both have high triggers: the damage from a natural disaster must be equivalent to or exceed 20 percent of the country's gross domestic product.[19]

Debt Relief

Debt relief could be another source of support for addressing L&D. The Catastrophe Containment and Relief Trust (CCRT) "provides grants for debt relief for the poorest and most vulnerable countries hit by catastrophic natural disasters or public health disasters."[20] In April 2020, the IMF expanded its provision of debt-service relief under the CCRT to cover exceptional balance-of-payments needs arising from the COVID-19 pandemic. Although it promises immediate debt relief, accessing CCRT support requires a lengthy process and up-front costs, including assessments made by national governments, the World Health Organization, the World Bank, and other relevant institutions as well as a detailed "letter of intent." Like the RCF and RFI, the amount of CCRT support is determined not by need or vulnerability but by quota size (20 percent of a country's IMF quota), meaning that small countries with big debts receive small debt-relief packages.[21]

There have also been some efforts to renegotiate and reduce debts within the G20. For instance, early in the pandemic, G20 countries launched the Debt Service Suspension Initiative (DSSI), but this provision expired in December 2021. Even with the DSSI, IDA-eligible countries' debt-service payments on long-term public and publicly guaranteed external debt for 2021 totaled $46.2 billion—equivalent to 10.3 percent of their exports of goods and services and 1.8 percent of their GNI.[22]

In addition, there have been efforts to expand the Paris Club of wealthy creditor nations to include China and India as part of the G20's Common Framework, which includes the DSSI. This is essential considering the composition of developing countries' debts. Between 2011 and 2021, the external debt of developing countries more than doubled, while the external debt of IDA countries nearly tripled. Over the same period, the share of debt owed to private creditors has soared, to over 60 percent, as has the share owed to non–Paris Club countries including Saudi Arabia, the United Arab Emirates, India, and especially China.[23] Geopolitical tensions between the US and China over trade, human rights, and influence have further stalled progress under the Common Framework. According to the Center for Global Development, "The IMF, World Bank, Paris Club members, and India claim that China is frustrating debt relief talks, while Beijing argues that multilateral and commercial creditors hold significantly more debt and should therefore absorb most of the debt writedown."[24] Further, it is not clear that the Common Framework is "common"—countries are still dealt with on a case-by-case basis, and none of the three countries that have engaged with the framework (Chad, Ethiopia, and Zambia) have been able to complete the process.

Enhancements to Existing Arrangements for Addressing Loss and Damage

Existing funding arrangements are inadequate for addressing L&D. There is some money for relief in the global humanitarian system, but not nearly enough, and it is mainly delivered ex post (with a

19 See: IMF, "The Rapid Credit Facility (RCF)," available at https://www.imf.org/en/About/Factsheets/Sheets/2023/Rapid-Credit-Facility-RCF ; and IMF, "The Rapid Financing Instrument (RFI)," available at https://www.imf.org/en/About/Factsheets/Sheets/2023/Rapid-FinancingInstrument-RFI .

20 IMF, "Catastrophe Containment and Relief Trust," available at https://www.imf.org/en/About/Factsheets/Sheets/2023/Catastrophe-containment-relief-trust-CCRT .

21 IMF, "Frequently Asked Questions on the Catastrophe Containment and Relief Trust," available at https://www.imf.org/external/np/fin/ccr/index.htm .

22 IMF, "Debt-Service Payments Put Biggest Squeeze on Poor Countries Since 2000," press release, December 6, 2022.

23 Ibid.

24 W. Gyude Moore, "Breaking the Logjam on African Debt Relief: A Third Way?" Center for Global Development,

bias toward extreme events). There is almost no dedicated funding for the more difficult (and costly) task of rehabilitation and reconstruction from extreme and slow-onset events. What little funding exists under ODA is earmarked for lowest-income countries, while extensive paperwork and high premiums prevent access to insurance products. For low- and middle-income countries alike, debt and the cost of capital make the last option—borrowing on international markets—undesirable or unfeasible. Several enhancements to existing funding arrangements could begin to address these obstacles and bridge major finance gaps (see Table 2).

Anticipatory Aid and Adaptive Social Protection

In the global humanitarian system, anticipatory aid (or action) is needed for countries to prepare for addressing the climate loss and damage they know is coming. Anticipatory action prioritizes upstream or early planning and financial commitments and is carried out in close cooperation with communities and first responders. It entails identifying funding arrangements in advance and tying them to observable triggers. Those triggers are agreed to in cooperation with actors and funding partners on the ground, and they kick in automatically when a

Table 2. How existing arrangements could be enhanced to better address loss and damage

Type of financing mechanism	Type of L&D	Timeframe of support	Type of support	Purpose	Single payment or multiple?	Who pays?
Humanitarian funding: anticipatory aid	Extreme and slow-onset events	Ex ante and ongoing	Concessional aid	Relief	Multiple	Donor countries, NGOs
Development funding: IBRD pilot trusts for rehabilitation and reconstruction	Extreme and slow-onset events	Ongoing and ex post	Concessional grants and loans	"Building forward better" from extreme weather	Multiple	Donor countries
IMF: special drawing rights	Extreme and slow-onset events	Ongoing and ex post	International reserve asset	Fiscal space/ access to finance	Single (Resilience and Sustainability Trust) or multiple (administered account)	Gift, loan, or new allocation
Private finance: climate-resilient debt clauses	Extreme and slow-onset events	Ex ante (preventive)	Parametric trigger	Fiscal space/ access to finance	Single	Leader or investor
National social protection: operationalized G7/V20 Global Shield	Extreme and slow-onset events	Ex ante, ongoing, and and ex post	Government transfer	Recovery and resilience	Multiple	Donor countries

severe event is forecast.[25] This contrasts with most current humanitarian engagements, which begin with an appeal by the affected state after the severe event, followed by attempts to raise money from donors and arrange financing. Thus, the provision of immediate, ex ante relief would fill a major gap in responding to L&D.

Through its Central Emergency Response Fund (CERF), the UN Office for the Coordination of Humanitarian Affairs (OCHA) has piloted anticipatory aid in a dozen countries, and other UN entities like the Food and Agriculture Organization (FAO) employ a similar model. However, anticipatory aid is still a small fraction of overall humanitarian funding, which, like most existing avenues for L&D support, focuses on ex post relief. There is thus potential for scaling up anticipatory aid for extreme and slow-onset events. This could include new and additional lines of support within CERF or the addition of a new window alongside IDA's Crisis Response window.

> Anticipatory aid and other prearranged finance measures fill a critical gap in ex ante support and can be used for both extreme and slow-onset events.

The humanitarian community is also embracing a related approach, adaptive social protection (ASP), which integrates social protection interventions with disaster risk management and climate change adaptation measures to better anticipate and respond to shocks. In practice, this means adapting existing social protection programs, such as healthcare and unemployment insurance, to cover injuries, income loss, and other impacts of natural hazards and climate change.[26] ASP includes climate adaptation through disaster-risk reduction and early-warning systems, but its end goal—scaled-up cash transfers via national social insurance to citizens affected by disasters—is squarely in the realm of addressing loss and damage.

Global Shield

Anticipatory aid, including prearranged financing for relief and recovery, could also be an area of cooperation between humanitarian actors and the Global Shield against Climate Risk. Announced at COP27 by the G7 and V20 (a group of fifty-seven climate-vulnerable countries), Global Shield aims to provide more and better prearranged financing for countries facing climate risks and to make that money available to countries within twenty-four to forty-eight hours of a disaster. Initial funding for Global Shield comes mostly from Germany, which has pledged €170 million, with smaller pledges from Canada, Denmark, France, and Ireland.[27]

Global Shield's proponents have promised that it is much more than a coordinating mechanism for existing private insurance programs and risk pools, which, as noted above, many countries cannot access due to high prices for policy premiums. They promise that in addition to helping countries pay their policy premiums, Global Shield will directly subsidize national and local social insurance schemes. This is especially critical since national governments and local communities already take the lead on financial and operational responses to L&D events. A 2017 review of the aftermath of flooding in Nepal showed that one-third of support was provided by family, friends, community-based organizations, and government agencies.[28] This means that there is an opportunity to scale up national and local contingency funds through direct subsidies and cash transfers—as has been done with food aid, where donors provide countries and individuals funds to spend in local markets.

Reforms and Enhancements to Multilateral Development Funding

Multilateral development institutions have also shown willingness to consider reforms and enhancements in their funding mechanisms that may help address L&D. In 2017, nine MDBs

25 UN OCHA, "Anticipatory Action," accessed at https://www.unocha.org/our-work/humanitarianfinancing/anticipatory-action .

26 United Nations University, "Five Facts on Adaptive Social Protection (ASP)," May 18, 2020.

27 German Federal Ministry for Economic Cooperation and Development, "Global Shield against Climate Risks," accessed at https://www.bmz.de/en/issues/climate-change-and-development/global-shield-against-climate-risks .

28 Barnaby Willitts-King and Anita Ghimire, "The 2017 Nepal Flood Response: Resources beyond International Humanitarian Assistance," Overseas Development Institute, August 2019.

pledged to align financial flows with the objectives of the Paris Agreement via six "building blocks" including "aligning their operations against mitigation and climate-resilience goals; ramping up climate finance; capacity building support for countries and other clients; plus an emphasis on climate reporting."[29] Most recently, the World Bank launched its Country Climate and Development Reports (CCRDs), which identify the main pathways to reduce greenhouse-gas emissions and climate vulnerabilities and assess these pathways' costs and challenges as well as benefits and opportunities. According to the World Bank, the CCDRs are more than a diagnostic tool for lending; they "can be an opportunity for governments and private sector investors, citizens, international financing institutions, and World Bank partners to engage on development and climate action, with better country-level coordination."[30] It is entirely reasonable for the bank to adopt L&D as an additional CCDR "building block" in order to mainstream L&D considerations into its lending.

The World Bank has also been working on an "Evolution Roadmap" to meet today's challenges, including an increased focus on global public goods. The bank has promised to release the full roadmap at the 2023 Fall Meetings, but so far, three key elements have emerged: the bank should lend more (i.e., increase its risk appetite), fully integrate climate risk into its activities (resulting in more appropriate loan sizes and terms), and expand access to bank resources for middle-income countries (the "One Bank" approach).[31]

The World Bank is well positioned to help countries address climate loss and damage. It is responsible to the 189 countries that are its shareholders, and L&D is clearly a priority for the 134 member states of the G77—and a matter of life and death for some. Including L&D in the bank's updated mission is therefore appropriate. To do this, the bank's first step could be to accept the recommendations of the G20's Capital Adequacy Framework (CAF) and adopt a clear timeline for its implementation.[32] The CAF does not give specific targets for lending, but it is likely to be in the hundreds of billions of dollars per year. Increasing the World Bank's risk appetite will enable it to increase funding for existing programs and initiate new ones. This could include pilot trust funds to help countries address specific medium- and long-term L&D needs, which could provide rehabilitation grants for slow-onset damages and reconstruction grants for "building forward better." By creating these pilot trusts, the World Bank would be returning to its original mission: rehabilitation and reconstruction to ensure peace among nations and prosperity within them.

The World Bank is well positioned to help countries address climate loss and damage.

Debt Management and Reduction through the IMF

Debt management and reduction is another way to address loss and damage. The IMF's special drawing rights (SDRs) can be expanded in a flexible and noninflationary manner. Introduced in 1969, SDRs are essentially "IMF coupons" distributed to central banks or national treasuries, which can hold them indirectly to increase their fiscal capacity, use them to pay back money owed to the IMF, or (less commonly) exchange them with other member countries for cash. The IMF could initiate a new SDR allocation or redistribute existing SDRs through new issuances to MDBs, direct transfers to countries, the IMF's Resilience and Sustainability Trust, or a new Global Climate Mitigation Trust (as suggested in the Bridgetown Initiative).[33] Some have expressed skepticism about the political feasibility of additional SDR redistribution, as

29 The nine MDBs are: the African Development Bank Group, Asian Development Bank, Asian Infrastructure Investment Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank Group, Islamic Development Bank, New Development Bank, and World Bank Group (World Bank, International Finance Corporation, and Multilateral Investment Guarantee Agency). World Bank, "Multilateral Development Banks (MDBs) Announced a Joint Framework for Aligning Their Activities with the Goals of the Paris Agreement," press release, December 3, 2018.

30 World Bank, "Climate and Development: An Agenda for Action," November 3, 2022.

31 World Bank, "World Bank Group Statement on Evolution Roadmap," January 13, 2023.

32 Arunma Oteh, René Karsenti, Elizabeth Nelson, and Chris Humphrey, "Reforming Capital Adequacy at MDBs: How to Prudently Unlock More Financial Resources to Face the World's Development Challenges," Overseas Development Institute, September 28, 2022.

33 For more on SDRs, See: Franczak, "Options for a Loss and Damage Finance Mechanism."

donor countries have failed to meet the "global ambition" set out by the IMF to rechannel $100 billion in SDRs to low-income countries. As of March 2023, only around $34 billion of the initial $44 billion medium-term goal for the RST has been pledged.[34]

Another option for transferring SDRs and other resources through the IMF is the creation of an administered account, which has several procedural and practical advantages over a trust (see Table 3). For one, an administered account is flexible, with conditionalities determined by donors. This is why Western countries created an administered account for Ukraine following Russia's invasion in February 2022, when Ukraine already had substantial outstanding obligations to the IMF. In April 2022, the IMF approved a multi-donor administered account "providing donors with a secure vehicle to direct financial assistance to Ukraine." Just a few weeks later, this account included $1.4 billion in SDRs "as well as grants and loans aimed at assisting Ukraine to meet its balance of payments and budgetary needs and help stabilize its economy."[35] As of March 2023, Western countries have committed *and disbursed* €5.2 billion in multilateral economic assistance to Ukraine, including €2.6 billion in loans, SDRs, and cash grants through the administered account.[36]

This is in addition to the more traditional $115 billion IMF support package for Ukraine. In contrast to the administered account, where conditions are set by donors, this money requires adherence to the IMF's Upper Credit Tranche standard. However, in another act of support for Ukraine, on March 17th, the IMF's Executive Board approved changes to that policy "to apply in situations of exceptionally high uncertainty, involving exogenous shocks that are beyond the control of country authorities and the reach of their economic policies, and which generate larger than usual tail risks."[37] Climate change was not mentioned in the IMF's press release, so whether or not the fund will use this policy for that purpose in the future is uncertain.

In addition to reducing debt now, loss and damage can be addressed by improving lending procedures to reduce the incidence and severity of debt distress and default in the future. The International Capital Markets Association has proposed using climate-resilient debt clauses (CRDC) to defer countries' debt repayments to private creditors for an agreed

Table 3. Rechanneling SDRs through the IMF: Trust vs. administered account

	Trust	Administered account
Setting up requires...	2/3 vote of IMF members	Simple majority vote of IMF members
Can provide...	Concessional, interest-free loans, including SDRs	Cash, grants, or loans, including SDRs
Conditionalities are...	Required; must meet IMF's Upper Credit Tranche standard	At discretion of donors
Established for...	Specific issues	Specific issues or countries
Examples include...	Resilience and Sustainability Trust; Poverty Reduction and Growth Trust	Administered account for Ukraine; post-conflict emergency assistance subsidy account

34 IMF, "2023 Review of Resource Adequacy of the Poverty Reduction and Growth Trust, Resilience and Sustainability Trust, and Debt Relief Trusts," April 26, 2023.

35 IMF, "IMF Executive Board Approves the Establishment of a Multi-Donor Administered Account for Ukraine," press release, April 8, 2022.

36 European Parliament, "Multilateral Financial Assistance to Ukraine," February 2023.

37 IMF, "IMF Executive Board Concludes Changes to the Fund's Financing Assurances Policy in the Context of Fund Upper Credit Tranche Financing under Exceptionally High Uncertainty," press release, March 17, 2023.

period of time in the event of predefined, severe climate shocks or natural disasters, including slow-onset events.[38] Creditor countries including the Paris Club and China could include CRDCs or similar clauses in all new lending agreements with developing countries, including in all new public-private partnerships, to help address loss and damage.

The Bridgetown Initiative offers another path toward some of the reforms listed above. In her address to the 2022 UN General Assembly, Prime Minister Mia Mottley of Barbados introduced the initiative to guide the urgent and decisive transformation of the global financial system. Step one calls for the IMF Board of Directors to provide emergency liquidity to vulnerable countries by suspending interest surcharges and operationalizing the IMF's Resilience and Sustainability Trust (RST). Step two calls for multilateral development banks to increase their lending and risk appetite, including through the holding of new SDRs. Step three calls for a new Global Climate Mitigation Trust inside the IMF, based on the RST and capitalized in part by a new issuance of 500 billion XDR (the currency denomination for SDRs; equivalent to about $675 billion). A new proposal from the special envoy to the prime minister of Barbados on investment and financial services, calls for the establishment of a Just Green Transition Financing Investment Trust, which would lower developing countries' borrowing costs (the cost of capital) by providing investors with a currency hedge in exchange for an up-front fee. The special envoy estimates that, in the case of India, such a mechanism would lower the cost of capital from a "barely profitable" 10 percent to a "far more profitable" 6–7 percent.[39]

> In addition to reducing debt now, loss and damage can be addressed by improving lending procedures to reduce the incidence and severity of debt distress and default in the future.

Loss and Damage Bonds

It is also worth exploring the issuance of "L&D bonds" by large creditor countries with reserve currencies. For example, the US already funds climate change–related initiatives alongside other public expenditures by issuing Treasury bonds. As opposed to these conventional Treasury bonds, which fund a wide range of public expenditures, the proceeds of green government bonds would be allocated exclusively to funding climate change mitigation, adaptation, and loss and damage efforts. There is historical precedent for government-issued bonds targeting a specific objective, and present-day investors—including mutual funds, pension funds, and sovereign wealth funds—may find these securities appealing. According to S&P, at the beginning of 2022, over $8 trillion in US investment assets were held by firms that integrate environmental, social, and governance factors into their investment decisions.[40] In light of recent regulatory pressures, firms are likely to seek unambiguously "green" assets for their portfolios. Furthermore, investment managers may express a preference for higher-quality and more liquid green assets. Consequently, green bonds could play a significant role in financing efforts to address climate change loss and damage.

38 Private Sector Working Group, "Climate Resilient Debt Clauses (CRDCs): Chair's Summary," November 9, 2022, available at https://www.icmagroup.org/assets/Chairs-Summary-UK-Chaired-Private-Sector-Working-Group-SubGroup-on-CRDCs.pdf .

39 Personal communication with Avinash Persaud, April 2023.

40 Karin Rives, "Even as ESG Market Narrows, Money Managers in the Space Prioritize Climate," S&P, December 14, 2022.

* * *

The enhancements listed above would begin to address finance gaps for addressing L&D. Anticipatory aid and other prearranged finance measures fill a critical gap in ex ante support and can be used for both extreme and slow-onset events. However, prearranged financing is not the province only of humanitarian agencies, as Global Shield is promising a similar approach with an emphasis on social protection systems. The rapid and direct distribution of cash transfers and other benefits to affected populations through established national systems is a proven and scalable way for countries to address short-term L&D, and Global Shield has promised to prioritize this type of support. Yet it remains to be seen how much of the more than $200 million promised by donors at COP27 for Global Shield will be delivered and directed to social protection.

For long-term support for rehabilitation and reconstruction following extreme and slow-onset events alike, the World Bank is uniquely positioned to step up. With or without the Capital Adequacy Framework, the bank will be increasing its risk appetite (i.e., lending more) to finance global public goods. Further, the bank has a long history of supporting rehabilitation and reconstruction, as has its wartime predecessor, the UN Relief and Rehabilitation Administration, which saved the lives of millions of displaced people during and immediately after World War II. More importantly, the bank is responsible to its shareholders, which are the same countries that agreed on new funding arrangements for addressing L&D at COP27.

A New Fund for Addressing Loss and Damage

These enhancements, while valuable, will not be enough to finance L&D at scale. As the decision on L&D at COP27 notes, there is an "immediate need for new, additional, predictable and adequate financial resources."[41] New funding arrangements and a new fund will be necessary to bring different initiatives together, raise large amounts of capital for them, and leverage that capital's reach across markets and institutions for the benefit of developing countries that are vulnerable to the adverse effects of climate change.

Take the case of Pakistan. The summer 2022 floods affected 33 million people, with at least 1,739 lives lost. In October, the World Bank estimated Pakistan's flood damages and losses at $30 billion dollars, with $16 billion in reconstruction needs alone.[42] Pakistan's government now estimates the figure at $40 billion and climbing.[43] Humanitarian relief to Pakistan comes primarily as food, water, and tents, and the World Bank has provided $370 million in relief. But Pakistan will have to find the money for reconstruction on international markets—a daunting prospect for a developing country. Support from the IMF could help improve the government's finances, giving it better access to capital and a better shot at beginning reconstruction. However, Pakistan and the IMF have been negotiating a long-awaited loan since February 2023, and on April 4th, the rupee hit an all-time low.[44]

To meet challenges like those faced by Pakistan at the necessary speed, scope, and scale will require a mosaic of solutions, including a new, fit-for-purpose fund. This fund will need to be anticipatory, adequate, coordinated, and flexible:

- **Anticipatory:** The L&D fund should enhance predictability and allow for the rapid mobilization of resources where and when they are needed. Prearranged financing and parametric tools will require large amounts of liquidity to operate consistently and at scale, so a fund that contributes to such tools must be nimble and able to keep raising money and making it immediately available. One way to do this is "frontloading" new contributions through the issuance of bonds. For instance, a new fund could take an extended aid pledge from one or

41 UNFCCC, Decision 2/CP.27.

42 World Bank, "Pakistan: Flood Damages and Economic Losses Over USD 30 Billion and Reconstruction Needs Over USD 16 Billion: New Assessment," press release, October 28, 2022.

43 Faseeh Mangi, "Flood Losses Now Estimated at $40 Billion: Pakistan Officials," Bloomberg, October 19, 2022.

44 "IMF Official Says Pakistan Must Explain Fuel-Pricing Scheme Before Any Loan Deal," Reuters, March 24, 2023.

more countries and then securitize and sell it with the confidence that the bond will be paid back as the donor pledges are paid out. Funding in the amount of the extended pledge could thus be accessed rapidly enough to respond to emergency events. In short, if countries know the money is coming in, or that the bond will be paid back, they can securitize it. A successful example of this practice is the International Finance Facility for Immunisation (IFFIm), which issues vaccine bonds in partnership with Gavi, the Vaccine Alliance. Since 2006, the IFFIm has raised nearly $7.9 billion from investors, which it made available for Gavi programs.[45]

- **Adequate:** The fund should provide assistance that is predictable, additional, rapid, and concessional, with minimal conditionalities. A new fund for addressing loss and damage will almost certainly require capitalization through a combination of old and new paths. Based on trends in ODA, contributions from developed country governments, though important, are unlikely to be sufficient to capitalize a new fund at the scale needed. Thus, it will likely be necessary to include new, or what have been called "innovative," sources of finance. One idea is to combine conventional (public) contributions from donor countries and contributions from private donors using a specially designed tax. Such a tax could involve levies on air travel, bunker fuel, fossil-fuel extraction, greenhouse-gas emissions, or financial transactions.

  Despite concerns about the incidences of such a tax, support is growing among developing countries, especially for a levy on air travel and fossil-fuel profits. Levies on air travel are popular among the public in surveys, straightforward to administer, and easy to collect (upon purchase of a ticket or at departure).[46] Air-travel demand is growing annually, and there is precedent for the successful use of such levies to fund Unitaid in the fight against malaria and Ebola.[47] In contrast, fossil-fuel profits (and thus revenues from a tax on them) should fall as renewable energy grows in scale and market share. However, there is a strong justice-based argument for taxing fossil-fuel profits now, as the economic effects of Russia's war in Ukraine have been a boon for the world's major oil companies, with Chevron, ExxonMobil, BP, Shell, and TotalEnergies all recording record-breaking profits for 2022.[48]

> New funding arrangements and a new fund will be necessary to bring different initiatives together, raise large amounts of capital for them, and leverage that capital's reach.

- **Coordinated:** Current and new tools should be connected to enhance impact. A new fund would contribute to and work within an enhanced L&D funding landscape, including new funding arrangements. One possibility is for a new fund with two windows, one for slow-onset and one for extreme events, with urgently needed projects financed in either or both categories.

- **Flexible:** The new fund must promote stability in the face of the kinds of climate shocks we see at present and promote flexibility to ensure well-being as climate shocks become more severe. It should be designed so that its objectives can change as the world changes. As climate losses and damages increase, so will the incidence of slow-onset and extreme events occurring simultaneously within and across

45 IFFIm, "About IFFIm," available at https://iffim.org/about-iffim ; Gavi, "International Finance Facility for Immunisation," available at https://www.gavi.org/investing-gavi/innovative-financing/iffim .

46 Interviewees in one recent study were asked how they believed funds should be mobilized for loss and damage, and an international airline levy was the most popular option, followed by levies on bunker fuel and fossil-fuel extraction. See: Matthew Lai et al., "Climate Justice for Small Island Developing States: Identifying Appropriate International Financing Mechanisms for Loss and Damage," *Climate Policy* 22, nos. 9–10 (2022).

47 Unitaid's funding comes from a combination of donor contributions from France, the United Kingdom, Norway, the Bill & Melinda Gates Foundation, Brazil, Spain, the Republic of Korea, and Chile, and air-passenger levies collected at airports in Cameroon, Chile, the Democratic Republic of the Congo, France, Guinea, Madagascar, Mali, Mauritius, Niger, and the Republic of Korea. To mitigate the risk of an airline levy impacting consumers' behavior and reducing air travel, France kept its levy for Unitaid low (€1 for economy travel but €40 for business travel). See: Unitaid, "French Levy on Airline Tickets Raises More Than One Billion Euros for World's Poor since 2006," January 25, 2013.

48 Isabeau van Halm, "Big Oil Profits Soared to Nearly $200bn in 2022," *Energy Monitor*, February 8, 2023.

countries. A new fund should be adaptable to new challenges.

The design of the fund is fundamental, and form should follow function. If the priority of the fund is the scale of resources, scope of activities, and speed of delivery, then its governance structure needs to reflect these three priorities. Its governance should be nimble enough to respond in a timely manner and remain needs-based. Moreover, the new fund needs to capture a combination of public and innovative financing to be capitalized at scale. Lastly, the leadership of this new fund needs to have the political gravitas to coordinate between the fund and the larger ecosystem of funding arrangements described above.

Conclusions and Recommendations

The goal of this report is to bring clarity to current discussions on a new fund and funding arrangements for loss and damage, per the decision at COP27. It demonstrates that the current provision of finance and financial arrangements that could be used for addressing adverse climate impacts are quantitatively and qualitatively insufficient for the size, scale, and scope of the problem.

The humanitarian system provides some relief for countries, but this relief is mostly ex post and is biased toward extreme events. Prearranged financing and anticipatory aid can help address the adverse effects of both slow-onset and extreme weather events, but this aid is only a small fraction of humanitarian funding. The multilateral development system is well positioned to contribute to long-term rehabilitation and reconstruction, but the international financial institutions and MDBs only provide concessional aid for adverse climate impacts in the form of one-time relief payments from specialized windows. Further, qualification for most concessional aid is still based on the Cold War–era metric of per capita gross national income, though countries are increasingly pushing for lenders to adopt more wholistic metrics such as a Multidimensional Vulnerability Index. Still, the World Bank and MDBs have the capacity to lend at the scale and timeframe needed (long-term, or more than ten years) to support large, country-level rehabilitation and reconstruction projects, and the bank's "Evolution Roadmap" should be seen as an opportunity.

There are some avenues for support from private financial markets, but they come with limitations. Countries can issue catastrophe bonds, purchase private insurance, or join regional risk pools, but payouts are small relative to the problem, transaction costs are high, and developing countries must pay the policy premiums. Moreover, insurance mechanisms cannot be applied to irreversible loss and damage resulting from slow-onset processes like sea-level rise. Still, initiatives like the G7/V20 Global Shield can make a valuable contribution by subsidizing premiums as well as national and subnational disaster funds, a country's first line of defense in an emergency. It is also important to examine institutional or rules-based changes that can reduce future capital outlays for loss and damage, especially capital flows out of a country and to creditors during emergencies. The insertion of a climate-resilient debt clause or similar provision in all future public and private lending will ensure that, in an emergency context, resources are directed where they are needed most—toward vulnerable citizens, not foreign creditors.

A new loss and damage fund is urgently needed to close these and other critical finance gaps. With roughly six months left until COP28, the TC will need to work efficiently to achieve its mandate, which includes, inter alia, determining the fund's institutional arrangements, modalities, structure, governance, sources of funding, and coordination and complementarity with existing funding arrangements.[49] Below are recommendations for priority actions for the TC and other stakeholders to take in the coming months.

- **Begin securing financing before COP28:** Countries do not need to wait until the fund is established and operational to secure financing. This is particularly true for innova-

49 UNFCCC, Decision 2/CP.27.

tive financing, which takes longer to secure than traditional donor contributions. As noted, support for a levy as part of the new fund's capitalization has grown since COP27, and there is successful precedent for the application of an air-travel levy in Unitaid.[50] What is needed now is political leadership by one or more countries, which could announce their support for the imposition of a levy on their respective national airlines. The Summit for a New Financial Pact between the leaders of Barbados (Mia Mottley), France (Emmanuel Macron), and India (Narendra Modi) offers an opportunity for such an announcement. To create momentum in the TC, countries should make an announcement on innovative funding sources before COP28 in December.

- **Consult with the private sector to determine its role:** The TC should begin consultations with relevant private sector entities to discuss the role of the private sector in the fund. These consultations should address insurance mechanisms and risk pools, as well as the potential for the fund to issue bonds carrying the donor's credit rating and purchased by institutional investors. Frontloading is another attractive idea; it not only makes the money available immediately and in full but also makes countries' commitments legally binding by turning them into securities. This is a proven and effective accountability mechanism for donors and would contrast with commitments to UNFCCC funds, which are nonbinding and not always met. Another way to engage the private sector is by connecting loss and damage to jobs and unemployment. For instance, in September 2021, the UN secretary-general launched the Global Accelerator on Jobs and Social Protection for Just Transitions. This initiative aims to create 400 million decent jobs, including in the green, digital, and care economies, and to extend social protection coverage to the 4 billion people currently excluded. Initially, the Global Accelerator will be implemented in a select number of countries that have considerable potential and are committed to amplifying investments in jobs and social protection.[51]

With roughly six months left until COP28, the Transitional Committee will need to work efficiently to achieve its mandate.

- **Determine the form and role of triggers:** Triggers will likely play a role in how the fund distributes money, particularly for addressing extreme events where several parametric mechanisms exist. However, there are fewer examples of parametric mechanisms to address slow-onset events. The TC should commission a study to determine the form and role of these triggers, including for slow-onset events.

- **Consider how to address noneconomic losses:** The TC should consider how the fund will address noneconomic losses, including displacement and forced migration. It should also consider where noneconomic losses such as loss of territory and ways of living intersect with economic losses.

- **Identify the actions, mechanisms, and institutions required:** Discussions on existing arrangements, as well as traditional and innovative sources of funding, are vital. However, we still need a clear picture of what actions need to be taken, what mechanisms and modalities are needed to take these actions, and what institutions are needed to bring coherence to these mechanisms. Understanding the actions required and what might stand in their way is critical to addressing future large-scale climate impacts, including

50 There is also precedent for the idea within the UNFCCC. In October 2006, following the successful French initiative, Benito Müller and Cameron Hepburn of Oxford University produced a technical report proposing an International Air Travel Adaptation Levy to fund adaptation. Their estimate of revenues for the Kyoto Protocol Adaptation Fund was $8–10 billion annually. In 2008, the Least Developed Country Group submitted the idea of an International Air Passenger Adaptation Levy to the UNFCCC's Ad Hoc Working Group on Long-Term Cooperative Action in Poznań, Poland. As Müller explains, several of the idea's early backers (including the International Centre for Climate Change and Development, the Innovative Finance Foundation, and Oxford Climate Policy) are again promoting it as a revenue source for a new L&D fund. See: Saleemul Huq, Robert Filipp, and Benito Müller, "International Climate Solidarity Levies," *Oxford Climate Policy Blog*, April 20, 2023.

51 International Labour Organization, "The ILO and the Global Accelerator on Jobs and Social Protection for Just Transitions," available at https://www.ilo.org/global/topics/sdg-2030/WCMS_846674/lang--en/index.htm .

those that are spatially large (e.g., extreme heat), socially large (e.g., displacement), systematically large (e.g., sea-level rise and the compounding effects of storms), and large in intensity (e.g., extreme tropical storms). The TC should consider establishing a coordinating mechanism—either within or outside the fund—that will have the bird's-eye view necessary to bring together different entities and enable them at the correct times. Such a mechanism should be designed with insight from vulnerable countries and frontline communities, which have the most experience with disasters and can identify what does and does not meet their needs.

Annex: Decision 2/CP.27

Funding Arrangements for Responding to Loss and Damage Associated with the Adverse Effects of Climate Change, Including a Focus on Addressing Loss and Damage

The Conference of the Parties and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement…

1. Acknowledge the urgent and immediate need for new, additional, predictable and adequate financial resources to assist developing countries that are particularly vulnerable to the adverse effects of climate change in responding to economic and noneconomic loss and damage associated with the adverse effects of climate change, including extreme weather events and slow onset events, especially in the context of ongoing and ex post (including rehabilitation, recovery and reconstruction) action;

2. Decide to establish new funding arrangements for assisting developing countries that are particularly vulnerable to the adverse effects of climate change, in responding to loss and damage, including with a focus on addressing loss and damage by providing and assisting in mobilizing new and additional resources, and that these new arrangements complement and include sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement;

3. Also decide, in the context of establishing the new funding arrangements referred to in paragraph 2 above, to establish a fund for responding to loss and damage whose mandate includes a focus on addressing loss and damage;

4. Establish a transitional committee on the operationalization of the new funding arrangements for responding to loss and damage and the fund established in paragraph 3 above (hereinafter referred to as the Transitional Committee), in accordance with the terms of reference contained in the annex, to make recommendations based on, inter alia, elements for operationalization included in paragraph 5 below, for consideration and adoption by the Conference of the Parties at its twenty-eighth session (NovemberDecember 2023) and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its fifth session (November–December 2023) with a view to operationalizing the funding arrangements referred to in paragraph 2 above, including the fund referred to in paragraph 3 above;

5. Agree that the recommendations to operationalize the funding arrangements and the fund referred to in paragraphs 2–3 above respectively shall consider, inter alia:

   a. Establishing institutional arrangements, modalities, structure, governance and terms of reference for the fund referred to in paragraph 3 above;
   b. Defining the elements of the new funding arrangements referred to in paragraph 2 above;
   c. Identifying and expanding sources of funding;
   d. Ensuring coordination and complementarity with existing funding arrangements;

6. Decide that the Transitional Committee referred to in paragraph 4 above will be informed by the following, inter alia: 29

   a. The current landscape of institutions, including global, regional and national, that are funding activities related to addressing loss and damage, and ways in which coherence, coordination and synergies among them can be enhanced;
   b. (b) The gaps within that current landscape, including the types of gap, such as relating to speed, eligibility, adequacy and access to finance, noting that these may vary depending on the challenge, such as climate-related emergencies, sea level rise, displacement, relocation, migration, insufficient climate information and data, or the need for climate-resilient reconstruction and recovery;
   c. The priority gaps for which solutions

should be explored;

d. The most effective ways in which to address the gaps, especially for the most vulnerable populations and the ecosystems on which they depend;
e. Potential sources of funding, recognizing the need for support from a wide variety of sources, including innovative sources;

7. Also decide to undertake the following activities for informing the recommendations referred to in paragraphs 4–5 above:

    a. Request the secretariat to conduct two workshops in 2023, with the participation of a diversity of institutions, relevant to addressing loss and damage associated with climate change impacts;
    b. Request the secretariat to prepare a synthesis report on existing funding arrangements and innovative sources relevant to addressing loss and damage associated with the adverse effects of climate change;
    c. Invite Parties and relevant organizations to submit via the submission portal by 15 February 2023 views on topics for and the structure of the 2nd Glasgow Dialogue and the workshops referred to in paragraph 7(a) above;
    d. Invite United Nations agencies, intergovernmental organizations, and bilateral, multilateral and international financial institutions to submit inputs on how they might enhance access to and/or the speed, scope and scale of availability of finance for activities relevant to addressing loss and damage, including potential limitations and barriers and options for addressing them;

8. Further decide that the activities and considerations referred to in this decision will be undertaken taking into account the discussions at the 2nd and 3rd Glasgow Dialogues, to take place at the fifty-eighth (June 2023) and sixtieth (June 2024) sessions of the Subsidiary Body for Implementation respectively;

9. Decide that the 2nd and 3rd Glasgow Dialogues will build on the 1st Glasgow Dialogue, held at the fifty-sixth session of the Subsidiary Body for Implementation, and that the 2 nd Dialogue shall focus on the operationalization of the new funding arrangements established in paragraph 2 above and the fund established in paragraph 3 above as well as on maximizing support from existing funding arrangements relevant for, inter alia, responding to economic and non-economic losses, slow onset events and extreme weather events, and that they will inform the work of the Transitional Committee;

10. Request the Chair of the Subsidiary Body for Implementation to provide a summary report on each Glasgow Dialogue no later than four weeks thereafter;

11. Invite the United Nations Secretary-General to convene the principals of international financial institutions and other relevant entities with a view to identifying the most 30 effective ways to provide funding to respond to needs related to addressing loss and damage associated with the adverse effects of climate change;

12. Also invite international financial institutions to consider, at the 2023 Spring Meetings of the World Bank Group and the International Monetary Fund, the potential for such institutions to contribute to funding arrangements, including new and innovative approaches, responding to loss and damage associated with the adverse effects of climate change;

13. Reiterate decision 1/CMA.3, paragraph 64, in which developed country Parties, the operating entities of the Financial Mechanism, United Nations entities and intergovernmental organizations and other bilateral and multilateral institutions, including non-governmental organizations and private sources, are urged to provide enhanced and additional support for activities addressing loss and damage associated with the adverse effects of climate change;

14. Request the President of the Conference of the Parties at its twenty-seventh session, in collaboration with the incoming President of the Conference of the Parties at its twentyeighth session, to convene ministerial consultations prior to the twenty-eighth session of the Conference of the Parties and the fifth session

of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement to advance consideration and understanding of a possible outcome on this matter at that session;

15. Also request the secretariat to prepare a synthesis report on the outcomes of the activities and deliverables referred to in paragraphs 7(b), 11, 12 and 14 above to inform the recommendations to be developed by the Transitional Committee;

16. Decide that the secretariat shall support and facilitate the work of the Transitional Committee;

17. Take note of the estimated budgetary implications of the activities to be undertaken by the secretariat referred to in paragraphs 2–16 above;

18. Request that the actions of the secretariat called for in this decision be undertaken subject to the availability of financial.

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