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Options for a Loss and Damage Financial Mechanism

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Executive Summary

As efforts to mitigate and adapt to the impacts of climate change fall short, discussions around loss and damage (L&D) resulting from climate change have gained urgency. These discussions pivot on questions around financing: without money, other action to address L&D is limited. To this end, the G77 and the Alliance of Small Island States (AOSIS) have repeatedly emphasized the importance of L&D at the annual UN Climate Change Conference (COP). These efforts have yielded some concrete results, including the recognition of L&D in Article 8 of the 2015 Paris Agreement, but financing for L&D remains very limited. Going into COP27, the call for a new L&D financial mechanism has been raised by developing countries.

Negotiations around an L&D financial mechanism will need to consider four key questions: (1) Where will a financial mechanism be located? (2) Who will pay for it? (3) Who will control it? and (4) What will it do? This paper presents a range of options for each question:

1. **Location**: A new L&D financial mechanism could be located within the climate regime, whether as a new entity under the COP's Financial Mechanism or as a new window or trust inside the Green Climate Fund or the Warsaw International Mechanism. However, there could also be complementary mechanisms outside the climate regime, including in another UN agency, the International Monetary Fund (IMF) or World Bank, the G7 or G20, or a new UN trust fund.

2. **Funding**: There are two broad options for funding: ask for public contributions from donors (e.g., developed and developing countries, philanthropies, sovereign wealth funds, and the IMF and World Bank) or impose new taxes (e.g., levies on air travel, bunker fuel, fossil fuel extraction, greenhouse gas emissions, and financial transactions). An L&D financial mechanism could adopt both approaches, though some taxes could negatively impact some of the very countries advocating for L&D.

3. **Governance**: While the specific governance mechanisms will depend on the mechanism's funders and activities, any mechanism should be guided by the principle of Common But Differentiated Responsibility and should be new and additional; needs-based, adequate, and predictable; public and grant-based; guided by vulnerability criteria; and locally driven.

4. **Actions**: The fund should make clear how L&D is both distinct from and linked to mitigation and adaptation and should take special care to address critical gaps in financing for slow-onset and noneconomic losses.

Introduction

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.[1] 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."[2] In addition to economic losses and damages to households, communities, infrastructure, and industries like agriculture, forestry, fisheries, and tourism, L&D also encompasses non-market or "non-economic" losses to lives, cultures, territories, and more.

The need for greater L&D finance is clear: without money, data and technical assistance are of limited use for developing countries. Three decades after the earliest calls for L&D, this need is greater than ever. One study conservatively estimated the bill from extreme weather events in the twenty most vulnerable low- and lower-middle-income countries at $593 billion for the twenty-year period between 1998 and 2017 (see Figure 1).[3] Climate-induced loss and damage is not incurred only through extreme weather events. By 2050, sea-level rise will threaten 300 million people living in low-lying coastal areas.[4] That and other slow-onset threats like ocean acidification, salinization, and forest degradation are already wreaking havoc on the health, economies, and territories of vulnerable countries.

This paper provides a brief overview of the state of play of global negotiations on L&D and explores options for funding arrangements for addressing L&D in the context of the positions of the G77 and Alliance of Small Island States (AOSIS) going into the twenty-seventh UN Climate Change Conference (COP27) and fourth conference of parties to the Paris Agreement (CMA4) in Sharm El Sheikh, Egypt, in November. It presents options for each of four basic questions concerning a new mechanism for financing loss and damage:

1. **Location**, or where will it sit?
2. **Funding**, or who will pay for it?
3. **Governance**, or who will control it?
4. **Actions**, or what will it do?

These options are based on a review of the literature and informal conversations with stakeholders from developing countries.[5] They were developed with three criteria in mind: economic impact, political reality, and climate justice.

The need for greater L&D finance is clear: without money, data and technical assistance are of limited use for developing countries.

L&D is a complex and sometimes contentious issue with varying degrees of impact both between developed and developing countries and within the G77 itself. A new financial mechanism inside the UN Framework Convention on Climate Change (UNFCCC) can play a critical role in helping countries address L&D but should be understood as part of a mosaic of support designed to meet the scale and diversity of countries' needs. Fully addressing loss and damage will require, inter alia, stabilizing at-risk economies; enhancing social protection and insurance; supporting displaced peoples; and developing new tools for addressing losses to cultures, identities, and species. The goal of this paper is to provide negotiators and other stakeholders a clear analysis of options for new L&D financial mechanisms before they meet in Sharm El Sheikh. We hope that this will help lay the groundwork for more efficient and advanced negotiations and for agreement on a viable and substantial plan for financing L&D for the most vulnerable and affected countries.

1 This is a common definition in the literature. See: Liselotte Jensen with Paulina Jabczyńska, "Understanding Loss and Damage: Addressing the Unavoidable Impacts of Climate Change," European Parliament, July 2022, p. 2.

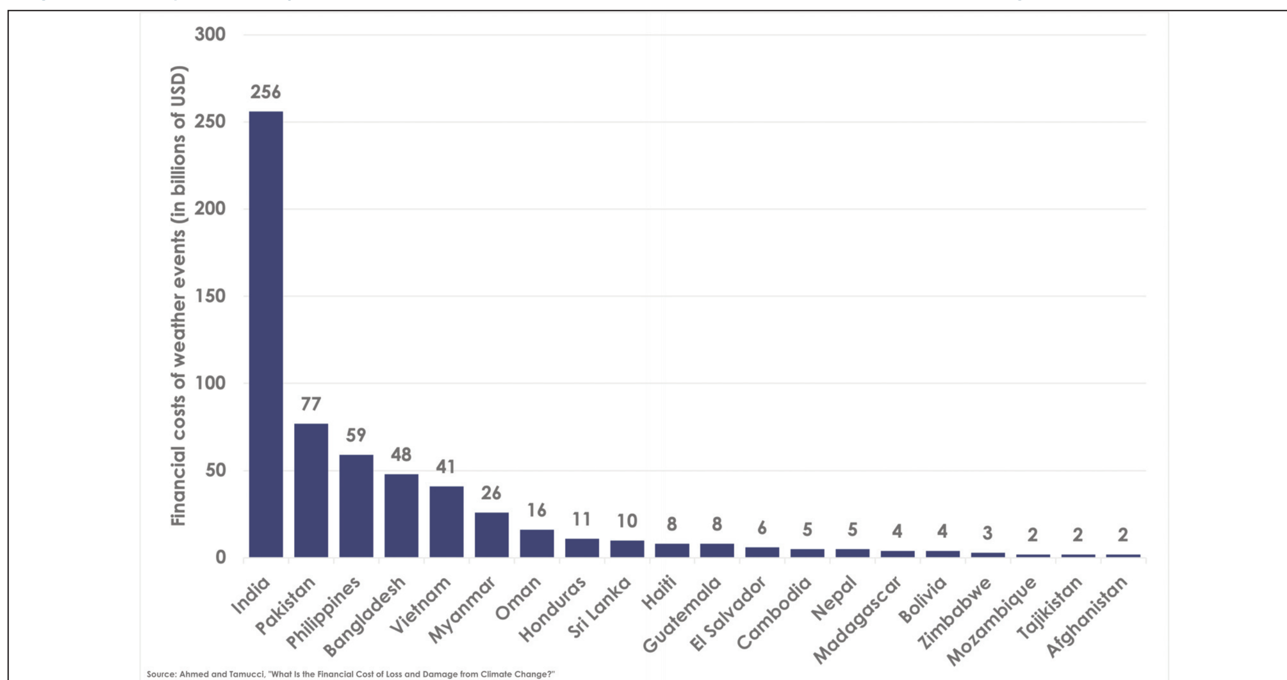
2 R. Mechler et al., "Loss and Damage and Limits to Adaptation: Recent IPCC Insights and Implications for Climate Science and Policy," *Sustainability Science* 15, no. 4 (2020).

3 This "conservative" calculation assessed only the immediate damage from extreme weather events and does not cost in externalities for health, food security, and state capacity. A. Karim Ahmed and Jeffrey D. Tamucci, "What Is the Financial Cost of Loss and Damage from Climate Change?" Economic, Land & Climate Insight, June 12, 2022.

4 Laura Schäfer et al., "Slow-Onset Processes and Resulting Loss and Damage: An Introduction," Germanwatch, January 2021, p. 7.

5 The author would like to thank Dr. Michael Weisberg, as well as interview and workshop participants. IPI is grateful for the continued partnership with the Republic of Maldives, particularly Aminah Shauna, Minister of Environment, Climate Change and Technology, and Khadeeja Naseem, Minister of State for Environment, Climate Change and Technology. IPI is also grateful to Yamide Dagnet from the Open Society Foundations and Iain Keith and Sarah Millar from the Climate Emergency Collaboration Group.

Figure 1. Top twenty low- and lower-middle-income countries with highest L&D



State of Play of Global Negotiations

Developing countries have been requesting L&D support since the beginning of the UN Framework Convention on Climate Change (UNFCCC), which was signed in 1992. As early as 1991, the Alliance of Small Island States (AOSIS) called for "the financial burden of loss and damage suffered by the most vulnerable small island and low-lying countries… [to] be distributed in an equitable manner amongst the industrialized countries."[6] This far-sighted proposal even included plans for an international insurance pool tied to sea-level rise and funded by developed countries based on GNP and relative greenhouse gas emissions.[7]

At COP16 (2010), the parties established a program of work to consider approaches to L&D. Subsequent decisions at COP17 (2011) and COP18 (2012) led to the establishment at COP19 (2013) of the Warsaw International Mechanism for Loss and Damage (WIM) to "address loss and damage associated with impacts of climate change, including extreme events and slow onset events, in developing countries that are particularly vulnerable to the adverse effects of climate change."[8] When the Paris Agreement was negotiated at COP21 (2015), the importance of "averting, minimizing, and addressing loss and damage" was given substantial recognition in Article 8, although the accompanying decision text limits its scope, noting that Article 8 "does not involve or provide a basis for any liability or compensation" (see Annex). Further work in the subsequent years led to the establishment of the Santiago Network for Loss and Damage at COP25/CMA2 (2019), which contributes to the implementation of the WIM through data gathering and technical assistance.[9] One-third of countries' nationally determined contributions (NDCs) now

6 "The financial burden of loss and damage suffered by the most vulnerable small island and low-lying developing countries (Group 1 countries) as a result of sea level rise shall be distributed in an equitable manner amongst the industrialized developed countries (Group 2 countries) by means of an Insurance Pool." Intergovernmental Negotiating Committee for a Framework Convention on Climate Change Working Group II, "Vanuatu: Draft Annex Relating to Article 23 (Insurance) for Inclusion in the Revised Single Text on Elements Relating to Mechanisms (A/AC.237/WG.ii/Misc.13) Submitted by the Co-Chairmen of Working Group II," December 17, 1991, available at https://unfccc.int/sites/default/files/resource/docs/a/wg2crp08.pdf .

7 UNFCCC Subsidiary Body on Implementation, "Submission of Nauru on Behalf of the Alliance of Small Island States," September 28, 2012, p. 4, available at https://unfccc.int/sites/default/files/aosis_submission_on_loss_and_damage_submission_2_october_2012.pdf .

8 See Decision 2/CP.19 in: UNFCCC, *Report of the Conference of the Parties on Its Nineteenth Session, Held in Warsaw from 11 to 23 November 2013*, UN Doc. FCCC/CP/2013/10/Add.1, January 31, 2014.

9 UNFCC, "Introduction to Loss and Damage," available at https://unfccc.int/topics/adaptation-and-resilience/the-big-picture/introduction-to-loss-and-damage ; International Centre for Climate Change and Development, "Operationalization of the Santiago Network on Loss and Damage: Road to COP 27," June 5, 2022.

mention L&D explicitly; of that third, over half are small island developing states (SIDS) and least-developed countries (LDCs).[10]

Despite recognition of L&D in Article 8, countries' NDCs, and pressure from climate activists, financing for L&D remains very limited. At COP26 (2021), developing countries' push for a new L&D fund (the Glasgow Loss and Damage Facility) was sidelined in favor of developed countries' proposed "Glasgow Dialogue."[11] These tensions continued at the June 2022 meeting of the UNFCCC subsidiary bodies in Bonn, during which the G77 + China called for a subitem in the COP27 agenda under "matters relating to finance" on "matters relating to funding arrangements for addressing loss and damage." This proposed subitem would address:

- The status of funding to avert, minimize, and address L&D;
- The further elaboration of the design and operational modalities of the facility; and
- Other matters relating to the operationalization of the facility.[12]

Shortly after the conclusion of the Bonn meetings, the UNFCCC Secretariat confirmed that the G77's proposed subitem would be included in the provisional agendas of COP27 and CMA4.[13]

L&D was central to discussions at the thirteenth Petersberg Climate Dialogue among around forty countries in July. According to a statement from co-chairs Germany and Egypt, "Disappointment was expressed by some participants at the lack of progress [on L&D] so far, including in negotiations around operationalizing the Santiago Network." Additionally, "Parties discussed the need for a space to address loss and damage funding arrangements, and some delegations suggested assessing the existing architecture and the ways to effectively use and strengthen it, and whether additional adjustments are needed in the overall financial architecture." There was general agreement on the importance of existing initiatives such as the World Meteorological Organization's work on developing a universal early-warning system in the next five years, and Germany highlighted the G7's proposal for a Global Shield against Climate Risks.[14]

> Despite recognition of L&D in Article 8 of the Paris Agreement, countries' nationally determined contributions, and pressure from climate activists, financing for L&D remains very limited.

In early August, representatives from AOSIS member states met to discuss the operationalization of a Loss and Damage Finance Facility (LDFF; see Box 1). According to a statement, the group is "leading the charge" on L&D finance (or "L$D") at COP27.[15] It is expected that the G77 will exercise its strength in numbers to force a major debate on the LDFF or a similar arrangement while the US and EU will prefer to work within the "existing architecture."[16]

Options for Financing Loss and Damage

As they prepare for these debates on L&D financing at COP27, negotiators can consider options for L&D financing mechanisms across four areas: (1) where a financial mechanism will be located; (2) who will pay for it; (3) who will control it; and (4) what it will do.

10 Ben Ryder and Elisa Calliari, "How Does Loss and Damage Feature in Nationally Determined Contributions?" Politics of Climate Change Loss and Damage Project, October 2021.

11 The proposal from AOSIS at COP26 read: "Decides to establish the 'Glasgow Loss and Damage Facility' as a standalone facility under the financial mechanism of the Convention pursuant to Article 11, to provide support to AMALD and requests the SBs jointly to undertake work in 2022 with the aim of providing recommendations to COP27 on its operationalization." The G77 + China formally submitted the proposal to the COP26 presidency, but it is absent from the final decision. UNFCCC, "Decision -/CMA.3: Glasgow Climate Pact," November 2021, available at https://unfccc.int/sites/default/files/resource/cma3_auv_2_cover%20decision.pdf .

12 "Letter from Amb. Nabeel Munir, Chair of G77 and China," June 13, 2022.

13 "Letter from Patricia Espinosa (UN Climate Change Secretariat, Executive Secretary) to Amb. Nabeel Munir (Chair of G77 and China," June 27, 2022.

14 "G7 Climate, Energy and Environment Ministers' Communiqué," May 27, 2022, available at https://www.bundesregierung.de/resource/blob/974430/2044350/84e380088170c69e6b6ad45dbd133ef8/2022-05-27-1-climate-ministers-communique-data.pdf?download=1 ; "Co-Chair Conclusion, Germany and Egypt, Petersberg Climate Dialogue, Berlin, 17–19 July 2022."

15 AOSIS, "AOSIS Pushes Progress on Loss and Damage Finance Facility," August 11, 2022.

16 This may affect the finalization of the Santiago Network's institutional arrangements, which is also expected at COP27.

Box 1. Loss and Damage Finance Facility: What's in a name?

It is common in discussions about L&D finance to use "fund" and "facility" interchangeably. This is understandable: L&D finance remains limited and, where it exists, unspecified. What little money is distributed for L&D activities like disaster risk and resilience and post-disaster recovery and response comes under the guise of funding for climate change adaptation or humanitarian aid. For L&D that does not fall under pools of funding in these other areas—such as responding to slow-onset events like sea-level rise and "noneconomic" losses to biodiversity, culture, and lives—countries are largely on their own. Thus, at COP26, the G77 countries called for a Glasgow Loss and Damage Facility, and, post-Glasgow, they have coalesced around a new Loss and Damage Finance Facility (LDFF).

Based on discussions with stakeholders, some believe the reason the LDFF is called a "facility" rather than a "fund" is simple but important. A fund is a pot of cash countries can reach into—a one-way exchange between holder and recipient. A facility, on the other hand, is a mechanism that allows countries to reach into multiple pots of cash. The two are not mutually exclusive: a facility can have its own funds and financing, but it could also be mandated to get other things. One developing-country representative put it this way: "Do you want to be the pot-holder that disperses or [to] facilitate getting money from other pots?"

Location: Where Will It Sit?

The first question to answer regarding an L&D financial mechanism is: Where will it be located, institutionally speaking? The answer—inside the UN climate regime—may seem obvious. However, there are also options for complementary mechanisms outside the climate regime.

Options within the Climate Regime

Countries will be negotiating at the COP, so any formal agreement made in Sharm El Sheikh or after will have standing within the Framework Convention on Climate Change and/or the Paris Agreement. However, there are a number of possibilities as to where within these architectures an L&D mechanism could sit. While Article 8 embedded the WIM into the COP, it does not limit the task of "enhanc[ing] understanding, action and support" for L&D to the WIM exclusively. Table 1 lists three options for locating a financial mechanism for L&D inside the climate regime.

One option is to create a new entity under the Financial Mechanism of the COP. While this is often regarded as the most ambitious option, that is not because it is unreasonable or infeasible. A number of funds have been developed inside the Financial Mechanism. For example, as it became recognized that major emitters were failing to mitigate rapidly and as new emitters emerged, adaptation grew in importance both for developing countries in general and for SIDS in particular. Thus in 2001 (COP7), the parties established the Adaptation Fund to provide countries with dedicated financing to strengthen climate resilience and lessen vulnerability. The legal framework for this fund was completed in 2008 (COP14).[17] Similarly, in 2010, the parties established the Green Climate Fund (GCF) with the aim of balancing between financing for mitigation and adaptation and with a minimum of 50 percent of adaptation financing reserved for particularly vulnerable countries, including LDCs, SIDS, and African states.

Article 8 of the Paris Agreement brought L&D under international climate law and established it as distinct from mitigation and adaptation and, nominally, with equal standing.[18] Locating an L&D financial mechanism under the COP's Financial Mechanism is, prima facie, no more or less radical than was the Adaptation Fund. The difference is that this time around, an exemplary legal framework already exists, so developing countries may obtain a dedicated financial mechanism more

17 Achala Chandani and Sven Harmeling, "The Adaptation Fund: A Model for the Future?" International Institute for Environment and Development, 2009.

18 Morten Broberg, "State of Climate Law—The Third Pillar of International Climate Change Law: Explaining 'Loss and Damage' after the Paris Agreement," *Climate Law* 10, no. 2 (2020).

Table 1. Financing options inside the climate regime

Location	Opportunities	Challenges
New entity under the Financial Mechanism, alongside the Green Climate Fund (GCF), Global Environment Facility (GEF), and Adaptation Fund (AF)	• Favored by G77 and AOSIS • Could fund full range of L&D activities	• Viewed as redundant by developed countries • Potential for competition with GCF, GEF, and AF
New window or trust inside the GCF	• Compromise with developed countries • GCF already active in L&D • Would affirm legal standing of L&D in the GCF	• Difficulty accessing GCF funding for many developing countries • New window would require amending the 50/50 funding split between mitigation and adaptation • Risk of earmarking and lack of additionality
New window or trust inside the WIM	• Compromise with developed countries • Would complement the WIM's technical and knowledge-gathering activities	• Slow processes and lack of capacity within the WIM • Potential for obstruction from developed countries on the WIM's Executive Board • Risk of lack of additionality

quickly if negotiations move in this direction.[19]

If an entirely new financial mechanism for L&D proves impossible to establish, another possibility is to establish a new window inside the GCF or a mechanism inside the WIM. The GCF is currently the only multilateral source of funding within the UNFCCC that explicitly funds L&D.[20] The GCF—funded by member contributions, mostly from developed countries—does not mention L&D in its "integrated results management framework" for project investment,[21] and developing countries' frustrations with accessing GCF funding are well known.[22] However, about 24 percent of GCF projects approved in 2020 referred to L&D, and 16 percent mentioned L&D as their main activity.[23] Opening a third window for L&D would affirm L&D's legal standing alongside mitigation and adaptation, at least within the GCF. However, this would presumably require amending the GCF's 50/50 split between mitigation and adaptation (the GCF currently counts L&D as part of adaptation). Moreover, the earmarking requirement for SIDS, LDCs, and African states would leave less money for middle-income developing countries, especially in Latin America.

To minimize these challenges, the parties could instead establish an L&D Trust Fund to operate alongside the GCF's existing Trust Fund. An L&D Trust Fund could receive funding from developed countries, philanthropies, the private sector, and

19 It is notable that this argument has appeared again and again over the years. A 2017 paper evaluating L&D finance options held that "the case for establishing a new fund it not exceedingly strong. The design, set-up and full operationalization of a new multilateral climate fund takes time, not to mention how long it takes to get to actual disbursements even after projects and programmes have been approved. The GCF, created with a COP decision in Cancun in 2010 and approving its first projects only five years later in November 2015 with very little disbursement of the USD2.2 billion approved so far, is the latest example, but it is by no means the only one." Julie-Anne Richards and Liane Schalatek, "Financing Loss and Damage: A Look at Governance and Implementation Options," Heinrich Böll Stiftung North America, May 2017, p. 45. Now, in 2022, developing countries are still being told that setting up an LDFF would take too long.

20 Preety Bhandari, Nataniel Warszawski, and Chikondi Thangata, "The Current State of Play on Financing Loss and Damage," World Resources Institute, June 3, 2022.

21 Green Climate Fund, "Integrated Results Management Framework," 2021, available at https://www.greenclimate.fund/sites/default/files/document/irmf-policy.pdf

22 See: Louise Brown and Natalia Alayza, "Why the Green Climate Fund Should Give Developing Countries Greater Direct Access to Finance," World Resources Institute, June 4, 2021; and Avantika Goswami, "Most Vulnerable Countries Unable to Access Green Climate Fund for Adaptation," *Down To Earth*, January 28, 2022.

23 Laura Kempa et al., "Financing Measures to Avert, Minimise and Address Loss and Damage: Options for the Green Climate Fund (GCF)," Frankfurt School-UNEP Centre, January 2021.

other donors. By prioritizing alternative or "innovative" funding sources (see below), an L&D Trust Fund could help secure additionality and avoid extensive earmarking of funds.[24]

Locating an L&D financial mechanism within the WIM is another option. The WIM's three-part mandate is to enhance knowledge, strengthen dialogue, and enhance action and support.[25] It is supported by the not yet operational Santiago Network, which has a mandate to catalyze technical assistance.[26] Establishing an L&D financial mechanism in the WIM would address the "enhancing action and support" part of its mandate. According to the Stockholm Environment Institute, "Such a structure could complement the WIM's technical and knowledge-gathering activities," and the WIM could "keep track of other sources of finance… that are being used to cover the costs of L&D activities, and account for them when assessing the total amount of finance flowing to L&D."[27] However, to be successful, this option may require a substantial change to the workplan of the WIM's executive committee and a strong additionality clause, to ensure that an L&D fund in the WIM was not used to pay for existing commitments (like the Santiago Network).

Options outside the Climate Regime

It is also important to consider options for an L&D mechanism outside the climate regime. Like the climate funds, an L&D mechanism would neces-

Table 2. Financing options outside the climate regime

Location	Opportunities	Challenges
New window in the IMF or World Bank	• Substantial resources and capabilities • Access to special drawing rights (for the IMF) • Ability to provide long-term confessional finance (for the World Bank) • Legitimacy among developed countries	• Lack of climate knowledge or experience • Likelihood of conditionalities
Non-UN multilateral financing mechanism (G7 or G20)	• Could unite recent G7 proposals like Global Shield • Legitimacy among developed countries	• May lack additionality • Not inclusive of many countries • Vulnerable shifts in foreign and domestic policy
New UN trust fund	• Fallback option if negotiations collapse • Involvement of secretary-general could provide political prodding • Could provide immediate funds • Could take fuds from wide variety of sources • Could provide funds to wide variety of recipients • Potential for participatory governance	• Would indicate lack of political will in the Global North • Dependent on action or sign-off from the secretary-general

24 Richards and Schalatek, "Financing Loss and Damage."

25 UNFCC, "Frequently Asked Questions: Warsaw International Mechanism for Loss and Damage," available at https://unfccc.int/topics/resilience/resources/questions-and-answers-ld-mechanism .

26 UNFCCC, "About the Santiago Network," available at https://unfccc.int/santiago-network/about .

27 Z. Shawoo et al., "Designing a Fair and Feasible Loss and Damage Finance Mechanism," Stockholm Environment Institute, October 27, 2021.

sarily partner with institutions working in areas outside climate change for project implementation. Even in its best form, a single mechanism is not a panacea, and the parties would be wise to consider all available resources (direct and indirect) that may enable greater action on L&D.

Table 2 presents several options for financing mechanisms outside the climate regime. These options could be used to complement mechanisms within the regime. Even the best of these options provides little to no voice for developing countries and little accountability for developed countries, both of which are notable achievements of the climate regime. Nonetheless, the more L&D can be mainstreamed into global multilateral financial mechanisms outside the UNFCCC, the more likely much-needed financing for L&D will become available.

One option outside the climate regime is a new window in the International Monetary Fund (IMF) or World Bank. These institutions have lagged on climate finance but possess tremendous resources and capabilities. The COP26 decision text mentioned special drawing rights (SDRs)—an international reserve asset created by the IMF—and the IMF has been developing a Resilience and Sustainability Trust (see below).[28] The World Bank could provide the kind of long-term concessional finance needed for slow-onset L&D. While these options would benefit from the IMF and the World Bank's legitimacy among developed countries, these institutions lack knowledge or experience working on climate, and their funding often comes with conditionalities that developing countries find objectionable.

A second option would be a non-UN multilateral financing mechanism. The G7 or G20 could agree on a jointly funded mechanism to unite existing programs and proposals made this summer, such as the Global Shield spearheaded by Germany. While such a mechanism would only ensure that these countries meet the promises they have already made, this in itself would be no small achievement. However, such a mechanism would only bring together a small subset of countries and would be vulnerable to shifts in the foreign and domestic policies of member states.

In the case of a breakdown or stalemate in negotiations, the parties could consider a third option: a special L&D trust fund within the UN.[29] UN trust funds can take contributions from a variety of sources (e.g., member states, philanthropies, the private sector, and wealthy individuals). They can also fund a variety of entities (e.g., government agencies, other UN funds, and some accredited civil society groups) and can provide funds quickly. While the secretary-general appoints the board of most trusts, a multi-donor trust fund would be a more flexible option that would allow beneficiary countries to participate in governance via membership in steering committees.[30]

A good example of how an L&D trust fund could operate is the Central Emergency Response Fund (CERF). In 2005, the UN General Assembly adopted Resolution 60/124 by consensus, establishing CERF to enable timely and reliable humanitarian assistance to people affected by disasters and emergencies. CERF's "live-saving" framework specifies what activities can be funded by CERF grants and lists activities eligible for its Rapid Response and Underfunded Emergencies window by sector and cluster. CERF defines life-saving actions as "those that, within a short time span, remedy, mitigate or avert direct loss of life and harm to people, and protect their dignity," and its list of eligible activities has been updated several times through regular consultations with UN agencies and the CERF advisory group. CERF grants can also be used for "common humanitarian services that are necessary to enable these life-saving activities."[31] An L&D trust fund could operate similarly, identifying where and for what activities L&D finance is needed while allowing for multi-sector action on adaptation and mitigation.

28 The Glasgow Climate Pact "re-emphasizes the need for scaled-up financial resources to take into account the needs of those countries particularly vulnerable to the adverse effects of climate change, and in this regard encourages relevant multilateral institutions to consider how climate vulnerabilities should be reflected in the provision and mobilization of concessional financial resources and other forms of support, including special drawing rights."

29 Most UN trust funds are established via a General Assembly resolution, which requires only the submission of a report by the secretary-general on the proposal's administrative and financial implications. Alternatively, the secretary-general has the authority to establish a trust fund to channel voluntary contributions toward a specific purpose at any time. UN Economic Commission for Europe, "Modalities of Trust Fund Establishment and Administration in the UN," August 2015.

30 Ibid.

31 UN Central Emergency Response Fund, "Central Emergency Response Fund Live-Saving Criteria," available at https://cerf.un.org/sites/default/files/resources/CERF%20Life-Saving%20Criteria%202020.pdf .

Funding: Who Will Pay for It?

Article 8 of the Paris Agreement uses the phrase "averting, minimizing and addressing" L&D. Since averting and minimizing require large emitters to mitigate and support adaptation, it is this crucial third part—addressing—that most concerns L&D finance. However, the only clue Article 8 provides regarding funding or finance is what it does not do. Per paragraph 52 of Decision 1/CP.21, it "does not involve or provide a basis for any liability or compensation."[32] Setting aside what is and is not compensation (see below), a mechanism for L&D could obtain funding from several public and private sources.

In practice, the question of funding comes down to whether and whom to ask and whether and what to tax. Both approaches have their own weaknesses: funds derived from taxes are subject to the vagaries of global markets and may come with domestic externalities, while funds committed by governments are subject to the vagaries of domestic politics and foreign policy priorities. Table 3 lists several options for funding sources for an L&D financial mechanism.

> In practice, the question of funding comes down to whether and whom to ask and whether and what to tax.

Table 3. Options for funding sources

Source of funding	Opportunities	Challenges
Contributions from developed countries	• Would fulfill Common But Differentiated Responsibilities (CBDR) • Would provide immediate funds and market legitimacy	• Voluntary and subject to political, economic, and foreign policy shifts in the Global North
Contributions from developing countries	• Could put pressure on developed countries to increase contributions • Still consistent with CBDR • Historical precedent of OECD/OPEC cooperation on IFAD	• Initiative would have to come from China and OPEC
Sovereign wealth funds	• Public relations and diplomatic benefits for donors • Requires little to no bureaucracy • Precedent of climate action by Norway's sovereign wealth fund	• Small size of sovereign wealth funds among developed countries (apart from Norway) would mean lopsided contributions from China and the Gulf States
Philanthropies	• Could provide significant start-up funds • Recent move toward funding adaptation among many philanthropies	• No experience in L&D and less likely to earmark for causes other than disaster risk reduction • Often fund one-off, short-term projects
Taxes and levies	• Automatic, easy to collect, and can be tailored to CBDR	• Unclear institutional arrangements • Uneven distribution of impact (see Table 4)
IMF and World Bank	• Potential for IMF support via SDRs • Potential for World Bank financing for slow-onset L&D	• Likelihood of unacceptable conditionalities • IMF has ignored GCF's request to become an SDR holder

32 UNFCCC, "Paris Outcome on Loss and Damage: Article 8 of the Paris Agreement and Decision 1/CP.21 Paragraphs 48–52 (FCCC/CP/2015/L.9/Rev.1," available at https://unfccc.int/files/adaptation/groups_committees/loss_and_damage_executive_committee/application/pdf/ref_8_decision_xcp.21.pdf .

Government Contributions

For contributions from governments, stakeholders might consider broadening the donor base beyond the Global North to encompass other countries, particularly China and members of the Organization of the Petroleum Exporting Countries (OPEC) with large foreign exchange reserves or sovereign wealth funds. All contributions under the COP and CMA would have to be voluntary, so those countries could contribute as little or as much as they like. Increased funding from these donors could also put pressure on developed countries to raise their own ambitions.

Such an outcome is not unprecedented. At the 1974 Rome World Food Conference, OPEC and progressive members of the Organisation for Economic Co-operation and Development (OECD) proposed (against the wishes of the US) a new International Fund for Agricultural Development (IFAD), with half of the funds coming from each organization. This was at the height of North-South conflict over food, oil, and the G77's New International Economic Order. After realizing its isolation and considering the costs, the US delegation changed course and joined other OECD members in support of the initiative, and three years later IFAD was operational.

Taxes and Levies

Combining voluntary contributions with a climate-related and justice-based global tax would be a robust and secure way to fund an L&D financial mechanism. One recent study involving interviews with L&D stakeholders evaluated five popular options for levies—on air travel, fossil fuel extraction, greenhouse gas emissions, bunker fuel usage, and financial transactions—on the criteria of fairness, dependability, feasibility, and suitability (see Table 4).[33]

Levies on air travel are popular in surveys, straightforward to administer, and easy to collect (upon purchase of ticket or at departure).[34] Air travel

Table 4. Financing options inside the climate regime[35]

Tax or levy option	Opportunities	Challenges
Air travel	• Popular with NGOs • Easy to collect • Precedent of Unitaid	• Could negatively affect GDP of SIDS by reducing air travel
Bunker fuel usage	• Dependable source of revenue • Has been proposed by SIDS	• Could negatively affect GDP of SIDS by raising import prices • Unclear where to collect
Fossil fuel extraction	• Could contribute to mitigation goals by reducing emissions	• Would disproportionately impact some fossil fuel-producing SIDS and other developing countries
Greenhouse gas emissions (global carbon tax)	• Could contribute to mitigation goals by reducing emissions	• Would disproportionately impact newly industrialized countries like China and India
Financial transactions	• Precedent at the national level • Could raise vast sums	• Difficult to collect • Unpopular with governments and corporations

33 Matthew Lai et al., "Climate Justice for Small Island Developing States: Identifying Appropriate International Financing Mechanisms for Loss and Damage," *Climate Policy* (2022).

34 Interviewees in one study were asked directly 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 fuels and fossil fuel extraction. Ibid.

35 This table is adapted from: Lai et al., "Climate Justice for Small Island Developing States"; and Melanie Pill, "Towards a Funding Mechanism for Loss and Damage from Climate Change Impacts," *Climate Risk Management* 35 (2022).

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.[36] On the other hand, the tax could negatively impact the GDPs of SIDS that depend on tourism (five of the world's ten most tourism-dependent economies are Caribbean SIDS).[37] To mitigate the risk of an airline levy impacting consumers' behavior and reducing air travel, France kept its levy for Unitaid low (1 euro for economy travel but 40 euros for business travel.[38]

The particular economies of SIDS similarly complicate proposals for levies on bunker fuel—the fuel used for some ships—which could lead to higher prices for imports, which SIDS tend to depend on disproportionately. There is also a question of where to collect a levy on bunker fuel, especially considering that many ships are registered in SIDS, potentially placing a burden on the very states the levy is meant to help. Nevertheless, in 2018, Antigua and Barbuda, Kenya, Marshall Islands, Palau, Solomon Islands, Tonga, and Tuvalu submitted a proposal to the International Maritime Organization tying a bunker fuel levy to mitigation support for SIDS and LDCs.[39]

The impact of levies on fossil fuel extraction and greenhouse gas emissions would also fall unevenly across the Global North and South, leading to disagreements over who should pay them. According to a 2022 survey in which L&D stakeholders were asked about using fossil fuel and emissions taxes for L&D finance, "Developing countries and NGOs referred to major polluters as national governments and private corporations whereas developed country representatives would like to see the [polluter pays principle] only enacted on major private polluters such as the fossil fuel industry."[40] Regardless of whether the tax's burden falls on states or companies, it would impact some developing countries. A levy on fossil fuel extraction would impact the developing countries that remain among the world's top coal, natural gas, and oil producers.[41] It would also likely be opposed by oil-producing SIDS such as Trinidad and Tobago, Papua New Guinea, Cuba, Timor-Leste, and Singapore.[42] A tax on greenhouse gas emissions, meanwhile, would hardly fall on SIDS at all, which are (and will remain) among the lowest per capita emitters in the world, but would fall heavily on China, India, and other newly industrialized countries in the G77.

Finally, the parties could consider a financial transaction tax (FTT) to help fund an L&D financial mechanism. An FTT would entail a modest levy on the buying and selling of a stock, bond, option, or derivative.[43] Most major developed countries already have some form of FTT, including fourteen members of the G20, while ten members of the EU are in talks to establish a regional FTT.[44] In fact, the US's own Securities and Exchange Commission is funded by an FTT ($5.10 for every million dollars traded, an effective tax rate of .00051 percent).[45] The burden of FTTs would mainly fall on the wealthy—who hold and trade the most assets—and even a miniscule tax could raise vast sums. However, the optimal rate for a market or class of assets is difficult to predict, and small increases in transaction costs can lead to large decreases in trading volume. For instance, FTTs in France and Italy in 2012 and 2013 decreased the trading volume of equities subject to the taxes by 24 percent and 8 percent, respectively, and government revenues collected from the taxes were 50 percent and 85 percent lower than anticipated.[46]

36 Unitaid is funded by air passenger levies collected from ten countries, including Cameroon, Chile, Mauritius, and Chad, as well as South Korea and France.

37 Lai et al., "Climate Justice for Small Island Developing States," pp. 7–8.

38 Unitaid, "French Levy on Airline Tickets Raises More Than One Billion Euros for World's Poor since 2006," January 25, 2013.

39 International Maritime Organization, "Action Plan for Implementing the IMO GHG Strategy and Candidate Measures Submitted by Antigua and Barbuda, Kenya, Marshall Islands, Palau, Solomon Islands, Tonga, Tuvalu," 2018.

40 Pill, "Towards a Funding Mechanism for Loss and Damage from Climate Change Impacts," p. 3.

41 Between now and 2030, most coal production will take place (in declining order) in China, India, Australia, Indonesia, and the US; most natural gas production will take place in the US, Russia, Iran, China, and Canada; and most oil production will take place in the US, Saudi Arabia, Russia, Canada, and Iraq. Lai et al., "Climate Justice for Small Island Developing States," p. 6.

42 Ibid.

43 Aaron Klein, "What Is a Financial Transaction Tax?" Brookings, March 27, 2020.

44 Leonard E. Burman et al., "Financial Transaction Taxes in Theory and Practice," Tax Policy Center, June 30, 2015.

45 US Securities and Exchange Commission, "Fee Rate Advisory #2 for Fiscal Year 2021," January 15, 2021.

46 Colin Miller and Anna Tyger, "The Impact of a Financial Transaction Tax," Tax Foundation, January 23, 2020.

Special Drawing Rights at the IMF

Finally, proponents of an L&D mechanism could consider indirect but complementary funding sources outside of the CMA and COP. One such tool with several benefits and few drawbacks is special drawing rights (SDRs) at the IMF. Introduced in 1969, SDRs are essentially "IMF coupons" distributed to central banks or national treasuries, which can either hold them or exchange them with other member countries for cash. Parties have already indicated their desire to use SDRs as a form of climate finance. At COP26, the head of the Caribbean Development Bank called on developed countries to reallocate 2 percent of their SDRs to finance adaptation in SIDS,[47] and pressure from developing countries resulted in the inclusion of SDRs in the COP26 decision text.[48] The IMF Board of Governors would have to approve the mechanism as a prescribed holder in order for it to receive or transfer SDRs, which is unlikely given that the fund has ignored the same request from the GCF.[49] Nonetheless, large SDR holders could still provide support through both existing and new channels.

In August 2021, the IMF Board of Governors approved $650 billion in new SDRs, its largest allocation since 1945 and more than double the amount it approved in 2009 at the height of the global financial meltdown. However, because SDRs are allocated by quota, low-income developing countries received just 1.4 percent of that massive sum. Middle- and upper-middle-income countries such as China did better, at 22 percent, but high-income countries took the lion's share—over 60 percent (and 17 percent for the US alone). Despite this lopsided allocation, rich countries use little if any of their SDRs, while SIDS rely on these reserves to supplement their credit for responding to emergencies of all kinds, from pandemics to natural disasters.

A key part of the new IMF allocation is the establishment of the Resilience and Sustainability Trust Fund (RST). In October 2020, G7 finance ministers endorsed the RST's establishment, which would allow countries to voluntarily channel their SDRs to the RST, which could then lend them to distressed central banks in developing countries. In late July 2022, the G20 finance ministers' meeting ended with close to $40 billion in pledges, $10 billion short of its modest initial goal. Some G20 members have called for raising the target to $100 billion. But since the RST is voluntary, there is no law or entity preventing any single member or group of members from increasing their share or donating the full amount of their August 2020 reallocation.

Large SDR holders can do more to make fiscal space for high-risk developing countries. These countries

Box 2. SDRs in the Bridgetown Agenda

A prominent example of creative thinking on SDRs is the Bridgetown Agenda (BA). In her address to the 2022 UN General Assembly, Prime Minister Mia Mottley of Barbados introduced the BA as a guide for 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 Fund (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 $650 billion).

47 Caribbean Development Bank, "CDB Calls Upon Developed Countries to Allocate 2% of SDR for Adaptation Investment in SIDS," November 8, 2021.

48 CP.26.5.29 "re-emphasizes the need for scaled-up financial resources to take into account the needs of those countries particularly vulnerable to the adverse effects of climate change, and in this regard encourages relevant multilateral institutions to consider how climate vulnerabilities should be reflected in the provision and mobilization of concessional financial resources and other forms of support, including special drawing rights."

49 Only members that are not participants in the SDR Department, non-members, and official entities may be prescribed as holders of SDRs under the Articles of Agreement. Currently there are fifteen prescribed holders: four central banks (the European Central Bank, Bank of Central African States, Central Bank of West African States, and Eastern Caribbean Central Bank); three intergovernmental monetary institutions (the Bank for International Settlements, Latin American Reserve Fund, and Arab Monetary Fund); and eight development institutions (the African Development Bank, African Development Fund, Asian Development Bank, International Bank for Reconstruction and Development and the International Development Association, Islamic Development Bank, Nordic Investment Bank, and International Fund for Agricultural Development). IMF, "Questions and Answers on Special Drawing Rights," available at https://www.imf.org/en/About/FAQ/special-drawing-right#Q1.%20What%20is%20an%20SDR .

are facing levels of debt not seen since the early 1980s, as well as interrelated food and fuel crises. Yet unlike in the 1980s, developing countries are now equally, if not more, likely to owe money to a bank in Shanghai or Beijing as they are to one in New York, London, or Paris.[50] In 2016, the IMF added the Chinese renminbi to the SDR currency basket, where—after a May 2022 increase by the IMF Board of Governors—it now represents nearly 11 percent of the value of an XDR (the currency denomination used for a unit of SDR), against 31 percent for the euro, 42 percent for the US dollar, and 8 percent each for the yen and pound sterling.[51] Avoiding a generalized debt crisis across the Global South is in the interest of all basket members, and countries in the Global North have already shown their willingness to act outside the RST to help countries facing interrelated crises. In April 2022, the IMF approved a multi-donor Administered Account "providing donors with a secure vehicle to direct financial assistance to Ukraine." By March 9th, 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."[52]

The RST could be a useful vehicle for SDRs, but basket members do not need it to use SDRs to address L&D. The US, EU, China, Japan, and the UK can establish a new administered account within the IMF for countries facing budget crises due to L&D from extreme weather and climate-related events. From an economic perspective, an SDR-financed administered account tied to climate damages would be relatively painless for donors (since they do not spend their SDRs) and relatively noninflationary for recipients (since it is for existing debt and service charges). Like the example of IFAD, multilateral cooperation among the basket countries—especially the US and China—would also send an important political message, with potential knock-on effects on other negotiations inside and outside the COP. Most of all, it would provide the affected countries much-needed relief, staving off a general economic crisis that could torpedo even the best-laid plans for an L&D mechanism.

Governance: Who Will Control It?

The question of how an L&D financial mechanism should be governed is difficult to answer, because it is inseparable from questions over who is financing it and what it will do. Further, the mechanism's governance will depend on its relationship to the COP and the CMA.

Putting aside these questions, developing countries have prioritized several guiding principles for an L&D financial mechanism. Most developing countries would argue that an L&D financial mechanism should be:

- **Based on solidarity and Common but Differentiated Responsibility** (CBDR): CBDR is the cornerstone of global environmental governance, from the 1972 Stockholm Declaration on the environment to the 1987 Montreal treaty banning chlorofluorocarbons and the 1992 Rio Earth Summit establishing the UNFCCC.
- **New and additional**: Considering that developed countries' pledges on mitigation and adaptation to date have fallen short of global goals, as well as the scale of L&D countries have already incurred, L&D finance needs to be new and additional. This is complicated, however, because there is significantly more overlap between adaptation and L&D than between adaptation and mitigation (see below). Despite this overlap in on-the-ground activities, global targets for L&D finance (such as a Collective Quantified Goal on L&D) should be specified and pursued with separate accounting.
- **Needs-based, adequate, and predictable**: Voluntary contributions from member states will not be sufficient to meet countries' needs. The parties should work carefully to include multiple sources of finance, such as revenues from a global tax or the provision of SDRs, to ensure that funding is adequate and predictable.

50 "China Reckons with Its First Overseas Debt Crisis," Financial Times, July 21, 2022.

51 IMF, "IMF Adds Chinese Renminbi to Special Drawing Rights Basket," September 30, 2016; IMF, "SDR Valuation," available at https://www.imf.org/external/np/fin/data/rms_sdrv.aspx .

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

- **Public and grant-based**: L&D finance should be accessible to the countries that need it and should primarily take the form of grants and concessionary financing. In the case of insurance, the private sector will play a key role, but governments and citizens should not bear the brunt of payments on principal.

- **Based on vulnerability criteria**: The Intergovernmental Panel on Climate Change defines vulnerability as "the degree to which a system is susceptible to, or unable to cope with, adverse effects of climate change, including climate variability and extremes. Vulnerability is a function of the character, magnitude, and rate of climate variation to which a system is exposed, its sensitivity, and its adaptive capacity."[53] While SIDS and LDCs are especially vulnerable to climate-induced L&D, not all vulnerable countries are SIDS or LDCs.

- **Locally driven with subsidiarity**: Local ownership at the macro and micro levels should be prioritized. Most countries already have national disaster funds, and Bangladesh has established a national fund for L&D.

- **Grounded in donor accountability**: Developed countries repeatedly fail to make good on aid promises, from official development assistance to GCF pledges. Donors need to be held accountable for both the amount of L&D funding they promise and its substance (e.g., loans over grants).

Countries have many options when it comes to the structure for an L&D financial mechanism. Table 5 maps out the key administrative features of the current climate finance regime, including the three climate funds (the GEF, GCF, and AF), multilateral development banks (including regional institutions and the World Bank), and bilateral aid (e.g., the US Development Finance Corporation and US Agency for International Development). Table 6 demonstrates how these features could be combined in an L&D financial mechanism.

Table 5. Comparative governance features of the climate funds[54]

	Global Environment Facility (GEF)	Green Climate Fund (GCF)	Adaptation Fund (AF)	Multilateral development banks	Bilateral aid
Voting	Council of 32: 16 developing, 14 developed, 2 economies in transition (EIC)	Board of 24: 12 developed, 12 developing, with seats for LDCs and SIDs	Board of 16: majority developing, with seats for LDCs and SIDS	Board reflects financial inputs as voting share	Not clear/ determined by donor country
Access	Primarily multilateral but has also started direct access	Multilateral and direct; enhanced-access pilot; simplified-access mandate	Multilateral and direct; pioneered direct access	No direct access	No direct access
Eligibility	All developing country and EIC parties to UNFCCC	All developing country parties to UNFCCC	All developing country parties to Kyoto Protocol	Developing countries that meet certain criteria	Determined by donor country

53 IPCC, "Working Group II: Impacts, Adaptation and Vulnerability," available at https://archive.ipcc.ch/ipccreports/tar/wg2/index.php?idp=689 .

54 This tale is adapted from: Richards and Schalatek, "Financing Loss and Damage," p. 47.

	Global Environment Facility (GEF)	Green Climate Fund (GCF)	Adaptation Fund (AF)	Multilateral development banks	Bilateral aid
Trusts	Multiple trust funds; World Bank is trustee	One trust fund; World Bank is trustee	One trust fund; World Bank is trustee	Multiple trust funds	Unclear
Instruments	Largely grants, with small non-grant pilot program	Grants, loans, equity, and guarantees	Grants	Grants, loans, equity, guarantees, and some bonds	Grants, loans, equity, and guarantees
Costing	Agreed incremental cost financing only	Agreed full and agreed instrumental, including grants	Agreed full-cost financing	Unclear	Unclear
Partners	18 partner agencies, 5 direct-access entities	48 accredited entities (14 national, 9 regional, 25 multilateral) including 6 private sector	42 accredited entities (24 national, 6 regional, 12 multilateral)	No implementing partners	No implementing partners
Private sector	Small pilot program of direct financial engagement	Separate Private Sector Facility; equity funds and commercial banks are accredited national and multilateral implementing agencies	No direct engagement with private sector	Always engage with private sector, sometimes through separate arms	Varies
Funding	Public country contributions via regular replenishment	Public country contributions; private sector and innovative funding	Public country and private sector contributions; 2 percent share of proceeds from the Clean Development Mechanism	Public country contributions (developed and developing)	Public host-country contributions
Project size	Micro to small (up to $50 million)	Micro to large (more than $250 million)	Micro (up to $10 million)	Micro to large (more than $250 million	Micro to large (more than $250 million

Table 6. Possible features of an L&D financial mechanism

CBDR	Yes
Voting	GCF 50/50 model with seats for SIDS and LDCs
Access	Direct access, to the extent possible
Eligibility	All developing countries, but targeted to the most vulnerable (i.e., SIDS and some LDCs)
Trusts	Option to add trusts as needed
Instruments	Preference for grants and bonds with subsidized premiums
Costing	Preference for full-cost financing
Partners	National implementing entities; regional development banks
Private sector	Yes, but not to the extent of the GCF
Funding	Donor contributions, tax proceeds, and other innovative funding sources
Project size	Micro to large

Actions: What Will It Do?

Loss and damage is both distinct from and linked to mitigation and adaptation. The Paris Agreement recognizes the importance of averting, minimizing, and addressing L&D, and it is understood that "averting" and "minimizing" refer to mitigation and adaptation, respectively, while "addressing" refers to L&D that cannot be avoided or meaningfully reduced through mitigation or adaptation. As previously noted, there is no universally accepted definition of loss and damage, and the lack of a definition in Article 8 was a deliberate compromise between developed and developing countries. However, Article 8 does offer the beginnings of a "positive" list for "areas of cooperation and facilitation to enhance understanding, action and support" for L&D, which "may include":

a. "Early warning systems;
b. Emergency preparedness;
c. Slow onset events;
d. Events that may involve irreversible and permanent loss and damage;
e. Comprehensive risk assessment and management;
f. Risk insurance facilities, climate risk pooling and other insurance solutions;
g. Non-economic losses; and
h. Resilience of communities, livelihoods and ecosystems."[55]

There is indeed a "gray area," particularly between adaptation and L&D. For example, actions related to disaster risk reduction, like early-warning systems, emergency preparedness, and infrastructure resilience, are adaptation actions that receive dedicated (albeit insufficient) funding, mostly from the climate funds. There is some money for post-disaster relief, recovery, reconstruction, and rehabilitation, mostly in the form of official development assistance, but not nearly enough for countries to manage today's superstorms, heatwaves, forest fires, floods, and droughts. When it comes to slow-onset damage and noneconomic losses, however, there is no action to scale up. Sea-level rise, desertification, glacial melt, and erosion are already causing irreversible losses to biodiversity, health, cultural practices and knowledge, and territories.[56] While an L&D financial mechanism could focus on a variety of actions, some of which are listed in Table 7, the absence of funding for slow-onset, irreversible, and noneconomic L&D is a strong argument for the creation of a dedicated mechanism.

55 UNFCCC, "Paris Outcome on Loss and Damage: Article 8 of the Paris Agreement and Decision 1/CP.21 Paragraphs 48–52."
56 Heinrich Böll Stiftung North America, "Unpacking Finance for Loss and Damage: Spotlighting the Finance Gap," May 2022, p. 6.

Table 7. Possible range of actions that an L&D financial mechanism could fund[57]

	Actions	Funding
Averting	• Decarbonization • Reforestation	Some (mitigation finance from climate funds, multilateral development banks, donor countries)
Minimizing	• Early-warning systems • Retrofitting of infrastructure • Contingency planning • Capacity building • Physical risk reduction • Climate-resilient agriculture	Some (adaptation finance from climate funds, multilateral development banks, donor countries)
Addressing (economic losses)	• Social protection and solidarity • Short- and long-term recovery and rehabilitation • Assisted relocation and migration* • Insurance and risk pooling or transfer • Debt relief and debt-for-climate swaps	Some (official development assistance and humanitarian aid (not climate-specific)
Addressing (noneconomic losses)	• Official recognition and repair • Active remembrance • Support and transfers to rectify health and wealth disparities • Assisted relocation and migration*	None

*Can be understood as both economic and noneconomic loss

Conclusions

The goal of this paper is to expand the possibilities for enhancing loss and damage finance currently under discussion. Financial mechanisms could be located within the climate regime, whether as a new entity under the COP's Financial Mechanism or as a new window or trust inside the Green Climate Fund or the Warsaw International Mechanism. However, there could also be complementary mechanisms outside the climate regime, including in another UN agency, the IMF or World Bank, the G7 or G20, or a new UN trust fund.

Regarding funding, countries have two broad options: ask for public contributions from donors (e.g., developed and developing countries, philanthropies, sovereign wealth funds, and the IMF and World Bank) or impose new taxes (e.g., levies on air travel, bunker fuel, fossil fuel extraction, greenhouse gas emissions, and financial transactions). While a new financial mechanism for L&D could adopt both approaches to maximize its volume and stability, taxes on air travel and shipping may carry negative externalities for some SIDS.

Regarding governance, mechanisms should be guided by the principles of Solidarity and Common But Differentiated Responsibility (CBDR). Aid should be new and additional; needs-based, adequate, and predictable; and public and grant-based. Vulnerability criteria should guide the way the mechanism distributes funds, and projects should be locally driven to the maximum extent possible.

Finally, L&D financial mechanisms should make clear how loss and damage is both distinct from and linked to mitigation and adaptation and should take special care to address critical gaps in financing for slow-onset and noneconomic losses.

57 Adapted from: Shawoo et al., "Designing a Fair and Feasible Loss and Damage Finance Mechanism."

Appendix I: Paris Outcome on Loss and Damage

Article 8 of the Paris Agreement

1. Parties recognize the importance of averting, minimizing and addressing loss and damage associated with the adverse effects of climate change, including extreme weather events and slow onset events, and the role of sustainable development in reducing the risk of loss and damage.

2. The Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts shall be subject to the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement and may be enhanced and strengthened, as determined by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement.

3. Parties should enhance understanding, action and support, including through the Warsaw International Mechanism, as appropriate, on a cooperative and facilitative basis with respect to loss and damage associated with the adverse effects of climate change.

4. Accordingly, areas of cooperation and facilitation to enhance understanding, action and support may include:

    a. Early warning systems;
    b. Emergency preparedness;
    c. Slow onset events;
    d. Events that may involve irreversible and permanent loss and damage;
    e. Comprehensive risk assessment and management;
    f. Risk insurance facilities, climate risk pooling and other insurance solutions;
    g. Non-economic losses;
    h. Resilience of communities, livelihoods and ecosystems.

5. The Warsaw International Mechanism shall collaborate with existing bodies and expert groups under the Agreement, as well as relevant organizations and expert bodies outside the Agreement.

Paragraphs 48–52 (Loss and Damage) of Decision -/CP.21

(The COP,)

48. *Decides* on the continuation of the Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts, following the review in 2016;

49. *Requests* the Executive Committee of the Warsaw International Mechanism to establish a clearinghouse for risk transfer that serves as a repository for information on insurance and risk transfer, in order to facilitate the efforts of Parties to develop and implement comprehensive risk management strategies;

50. *Also requests* the Executive Committee of the Warsaw International Mechanism to establish, according to its procedures and mandate, a task force to complement, draw upon the work of and involve, as appropriate, existing bodies and expert groups under the Convention including the Adaptation Committee and the Least Developed Countries Expert Group, as well as relevant organizations and expert bodies outside the Convention, to develop recommendations for integrated approaches to avert, minimize and address displacement related to the adverse impacts of climate change;

51. *Further requests* the Executive Committee of the Warsaw International Mechanism to initiate its work, at its next meeting, to operationalize the provisions referred to in paragraphs 49 and 50 above, and to report on progress thereon in its annual report;

52. *Agrees* that Article 8 of the Agreement does not involve or provide a basis for any liability or compensation;

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