Can the World Bank Deliver on Climate Change? Testing the Evolution Roadmap through Loss and Damage

MICHAEL FRANCFZAK

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## CONTENTS

Abbreviations ................................................................. iii

Executive Summary ......................................................... v

Introduction ................................................................. 1

The Context for the World Bank’s Engagement with Loss and Damage ........................................ 2

  The Mosaic of Funding Arrangements for Loss and Damage .................................................. 2

  The World Bank’s Evolution Roadmap ................................................................................. 4

  Complementary Processes for Reforming the International Financial Architecture ................... 7

The Agreement on Loss and Damage at COP28 ................................................................. 11

  The Debate over Hosting the Fund in the World Bank ......................................................... 11

  Priority Actions for the High-Level Dialogue ................................................................. 14

Conclusion ........................................................................... 17
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>AfDB</td>
<td>African Development Bank</td>
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<td>AF</td>
<td>Adaptation Fund</td>
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<td>AMA</td>
<td>Accra-Marrakech Agenda</td>
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<td>AU</td>
<td>African Union</td>
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<td>CBDR</td>
<td>common but differentiated responsibilities</td>
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<td>COP</td>
<td>UN Climate Change Conference</td>
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<td>CRDCs</td>
<td>climate-resilient debt clauses</td>
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<td>DAC</td>
<td>Development Assistance Committee</td>
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<td>FAO</td>
<td>Food and Agriculture Organization</td>
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<td>FIF</td>
<td>financial intermediary fund</td>
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<td>GCF</td>
<td>Green Climate Fund</td>
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<td>GEF</td>
<td>Global Environmental Facility</td>
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<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
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<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>IDB</td>
<td>Inter-American Development Bank</td>
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<td>IFIs</td>
<td>international financial institutions</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IMO</td>
<td>International Maritime Organization</td>
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<td>IOM</td>
<td>International Organization for Migration</td>
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<td>L&amp;D</td>
<td>loss and damage</td>
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<td>LMICs</td>
<td>lower-middle-income countries</td>
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<td>MDBs</td>
<td>multilateral development banks</td>
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<td>OCHA</td>
<td>Office for the Coordination of Humanitarian Affairs</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>SDGs</td>
<td>Sustainable Development Goals</td>
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<td>SDRs</td>
<td>special drawing rights</td>
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<td>TC</td>
<td>Transitional Committee</td>
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<td>Acronym</td>
<td>Full Name</td>
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<td>UNDP</td>
<td>UN Development Programme</td>
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<td>UNDRR</td>
<td>UN Office for Disaster Risk Reduction</td>
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<td>UNESCO</td>
<td>UN Educational, Scientific and Cultural Office</td>
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<td>UNFCCC</td>
<td>UN Framework Convention on Climate Change</td>
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<td>V20</td>
<td>Vulnerable Twenty Group</td>
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<td>WFP</td>
<td>World Food Programme</td>
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<td>WHO</td>
<td>World Health Organization</td>
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The establishment of a new Loss and Damage Fund and Funding Arrangements at COP27 and the Fund’s operationalization and initial capitalization at COP28 were milestones in the UN climate regime. The World Bank engaged in the Transitional Committee process as a potential host and trustee for the Fund, a member of a new “High-Level Dialogue,” and a direct provider of loss and damage (L&D) support. The implementation of the Fund and Funding Arrangements is the first big test of the World Bank’s commitment to evolving its policies, practices, and relationships.

The World Bank’s engagement with loss and damage takes place against the backdrop of efforts to address L&D within and beyond the UN climate regime, including through the “mosaic approach.” The mosaic recognizes that existing resources and modalities for addressing L&D from extreme and slow-onset events are inadequate and tasks the new Fund with critical interventions in the disaster-response process. The Fund is meant to intervene in the early- to medium-term recovery window, when humanitarian agencies have left and the real work of reconstruction and rehabilitation must begin.

The World Bank’s engagement with L&D also ties into a broader set of reforms aiming to modernize the Bank, including the Bank’s Evolution Roadmap. This roadmap identifies three guiding elements for the Bank’s evolution: a new mission and vision, a new playbook, and new resources. One of the key components of the Bank’s evolution is the introduction of climate-resilient debt clauses, or “pause clauses,” to existing and new loans. Pause clauses feature prominently in recent initiatives to reform the international financial architecture, such as Bridgetown 2.0, the Africa Climate Summit’s Nairobi Declaration, and the Vulnerable Twenty Group’s (V20) Accra-Marrakech Agenda. In these initiatives, pause clauses are one part of a larger set of reforms to global trade, finance, and development—most of which have gone unanswered by the Bank and its major shareholders.

The World Bank also has an essential role in addressing L&D as the host of the Loss and Damage Fund. There was significant debate over the World Bank’s hosting of the Fund. Some developing countries were skeptical of the Bank’s commitment and feared that the Fund would be bound by the Bank’s rules and culture. Nonetheless, they were willing to consider a World Bank–hosted Fund due to the Bank’s expertise on leveraging and accessing capital markets and its overall capacity. To ensure that their concerns would be addressed, the developing countries in the Transitional Committee outlined a set of conditions and safeguards that the World Bank would have to meet to host the Fund.

Finally, the World Bank contributes to addressing L&D as a member of the High-Level Dialogue. This forum can be a pilot for a working mosaic by going beyond ensuring coordination and coherence to mobilize new resources across institutions and catalyze new relationships between global institutions and countries. Priority actions for the High-Level Dialogue include resource mobilization, institutional protocols, and the losses and damages of the future.

The World Bank—and its major shareholders—have a responsibility and a self-interest to make good on these promises. Donor countries must share the resources needed to deliver on climate change, but they and the Bank must also exercise political leadership to ensure that the agreement on the Loss and Damage Fund is fully implemented and that the High-Level Dialogue results in high-level action. Failure to do so would have serious economic consequences for developing countries and serious political consequences for developed countries.
Introduction

The establishment of a new Loss and Damage Fund and Funding Arrangements at the 2022 United Nations Climate Change Conference (COP27) and the Fund’s operationalization and initial capitalization at COP28 in 2023 were milestones in the UN climate regime, but their impact extended beyond it. In particular, the World Bank engaged in the Transitional Committee (TC) process as a potential host and trustee for the Fund, a member of a new “High-Level Dialogue,” and a direct provider of loss and damage support.\(^1\)

The World Bank’s engagement with loss and damage (L&D) accompanied another significant development. In January 2023, in response to calls from shareholders (including the G20), the Bank announced an “Evolution Roadmap” to make it fit for purpose in the twenty-first century. On the sidelines of its 2023 Spring Meetings, senior World Bank management met with members of the TC, saying that “you do not have to convince us [the Bank] that we should act on loss and damage.”\(^2\) The updated September 2023 Evolution Roadmap (prepared for the 2023 Fall Meetings) identified three elements—a new mission and vision, a new playbook, and new resources—to guide a “bigger, better, and faster” bank, in the words of President Ajay Banga.\(^3\) This included a new crisis and disaster “toolkit” for countries facing loss and damage, with the notable addition of “pause clauses” in future bank loans.\(^4\)

Loss and damage is the result of our failure to deal with the collective action problem of climate change. Thus, the Bank’s involvement in addressing global challenges like climate change is welcome. However, addressing L&D is particularly challenging, as it involves actions including and beyond humanitarian and development interventions, leaving it unclear who should be responsible for addressing what. Further, unlike mitigation and even adaptation, addressing L&D would bring no obvious profits or direct returns for foreign investors, even though governments and societies would reap many benefits.

Addressing loss and damage requires novel forms of multilateral coordination, resource mobilization, and institutional culture. These novel approaches are central to the “mosaic approach” to addressing L&D, introduced and advanced by the Maldives’ Environment Minister Aminath Shauna and State Minister Khadeeja Naseem and discussed in previous IPI papers.\(^5\) Such approaches are now embedded in the COP28 decision, which incorporates the recommendations of the Transitional Committee.

This paper argues that the implementation of the Fund and Funding Arrangements for loss and damage—the mosaic—is the first big test of the World Bank’s commitment to evolving its policies, practices, and relationships. The Bank is involved in loss and damage in three key areas: as the Fund’s host, as a member of the High-Level Dialogue, and as a direct provider of L&D funding. The High-Level Dialogue in particular can be a pilot for a working mosaic by going beyond ensuring coordination and coherence to mobilize new resources across institutions and catalyze new relationships between global institutions and countries.

The paper begins by providing the context of the World Bank’s engagement with loss and damage,

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1 COP27 and CMA 4 (2022) agreed to establish a new Fund and Funding Arrangements for loss and damage and established a transitional committee (TC) to make recommendations on their operationalization. The TC was co-chaired by Richard Sherman (South Africa) and Outi Honkatukia (Finland) and comprised of twenty-four members from Parties to the Convention and Paris Agreement, with ten members from developed country Parties and fourteen members from developing country Parties. It met five times throughout 2023: March 27–29 in Luxor, Egypt; July 15–16 in Bangkok, Thailand; August 29–September 1 in Santo Domingo, Dominican Republic; October 17–20 in Aswan, Egypt; and November 3–4 in Abu Dhabi, United Arab Emirates.

2 Meeting between members of the Transitional Committee and the World Bank, April 11, 2023.


4 At the Summit for a New Global Financial Pact, World Bank President Ajay Banga announced an expanded toolkit for crisis preparedness, response, and recovery that includes (1) pausing debt repayments, (2) redirecting financing, (3) linking crisis preparedness and financing, (4) backstopping development projects with private sector support, and (5) building enhanced catastrophe insurance without debt.

including the escalating climate emergency and calls for global economic reform at the Bank, at the COP, and beyond. It then turns to the recommendations from the TC adopted at COP28, explaining the decision’s terms, significance, and implications for the Fund and Funding Arrangements’ operations. Finally, it identifies specific challenges facing the High-Level Dialogue and recommends how it can promote understanding between and provide direction for COP negotiators, officials in finance ministries, and World Bank executives as they implement this landmark decision.

The Context for the World Bank’s Engagement with Loss and Damage

The World Bank’s engagement with loss and damage takes place against the backdrop of efforts to address L&D within and beyond the UN climate regime. It also ties into a broader set of reforms aiming to modernize the Bank, as well as several initiatives to reform the international financial architecture.

The Mosaic of Funding Arrangements for Loss and Damage

The mosaic is an approach to addressing the adverse impacts of climate change at scale by enhancing the system we have while building the system we need. First proposed by Aminath Shauna of the Maldives on the sidelines of the seventy-seventh UN General Assembly in September 2022, the mosaic recognizes that existing resources and modalities for addressing L&D from extreme and slow-onset events are inadequate and tasks the new Fund with critical interventions in the disaster-response process. It also recognizes that fully addressing L&D from extreme and slow-onset events will take resources and actions far beyond the Fund’s capacity. It therefore tasks a new High-Level Dialogue with leveraging the resources and aligning the actions of national governments and international humanitarian, development, and financial entities before, during, and after disasters. Actions undertaken by entities within the mosaic to address L&D can include support for immediate response; support for rehabilitation and reconstruction; use of instruments that increase fiscal space; use of debt reduction and cancelation instruments; use of risk transfer instruments; anticipatory initiatives at the interregional, regional, bilateral, and national levels; and development of modalities that catalyze transformative adaptation.

In a previous paper, IPI imagined what a working mosaic could look like in practice.\(^6\) It used the scenario of the fictional Delta Republic, a low- to middle-income coastal country of 43 million people who increasingly see their livelihoods threatened by climate change. In the scenario, Delta is experiencing a combination of slow-onset and extreme events. Rising sea levels threaten agriculture and fisheries when back-to-back cyclones cause food shortages, disease outbreaks, and displacement. High public debt and lack of fiscal space limit the government’s ability to act, and Delta is considering delaying its ambitious development plans. The country’s compounding environmental catastrophes and economic shocks lead to political unrest as the opposition party criticizes the government’s handling of the situation.

For slow-onset events such as coastal erosion and loss of fresh water, there is a gradual decay in development that will increase in the future (see Figure 1). For the Delta Republic, this slow decay manifests in declining incomes and jobs for fisherfolk and farmers and rising food insecurity for residents. The goal of loss and damage funding arrangements in this case should be to bend the slope back up—to change the development trajectory with systemic and transformative solutions. The key is that this intervention is not a one-off project but a sustained and sustainable long-term strategy. This requires significantly higher levels of long-term and low- or no-cost financing through international institutions, governments, and markets.

For extreme events such as tropical storms, there is a specific day of impact where development gains are lost (see Figure 2). In the Delta Republic, back-
to-back cyclones displaced residents and triggered an economic crisis. The first step for addressing loss and damage here is to provide humanitarian assistance that keeps the country from falling too far by meeting basic needs. The funding arrangements must also go beyond restoring the country to its development path by changing the slope of that path—it should use the opportunity to “build back better.” This, too, will require significantly higher levels of long-term and low- or no-cost financing through international institutions, governments, and markets.

From this exercise, IPI identified several organizations who could be considered members of the funding arrangements. These organizations have a direct stake in addressing loss and damage in the ex ante and ex post timeframes and could thus join the Fund and the High-Level Dialogue. These include, among others:

- UN Office for the Coordination of Humanitarian Affairs (OCHA) and UN Office for Disaster Risk Reduction (UNDRR) on humanitarian and anticipatory action.
- World Health Organization (WHO) on public health
- Food and Agriculture Organization (FAO), World Food Programme (WFP), and International Fund for Agricultural Development (IFAD) on food security
- Multilateral development banks (MDBs) and UN Development Programme (UNDP) on development finance
- UN Framework Convention on Climate Change (UNFCCC) climate funds on climate finance
- World Bank and International Monetary Fund (IMF) on debt and fiscal and policy space
- International Organization for Migration (IOM) on displacement and migration
- UN Educational, Scientific and Cultural Organization (UNESCO) on cultural and other noneconomic loss

The Fund has a specific role in the mosaic. Decision -/CP.28 describes the Fund’s scope:

> The Fund will provide support for responding to economic and non-economic loss and damage associated with the adverse effects of climate change. This support may include funding that is complementary to humanitarian actions taken immediately after an extreme weather event; funding for intermediate or long-term recovery, reconstruction or rehabilitation; and funding for actions that address slow onset events.

This means that the Fund should intervene in the early- to medium-term recovery window, when humanitarian agencies have left and the real work of reconstruction and rehabilitation must begin. This “window of opportunity” is where there is an institutional as well as a financial gap and where intervention can have the highest marginal impact. In the Delta Republic scenario, that could include actions to improve livelihoods and local economies; lower the cost of long-term loans for reconstruction, rehabilitation, and transformative adaptation; and address noneconomic losses, particularly damage to mental health.

The World Bank’s Evolution Roadmap

The World Bank’s Evolution Roadmap is a proposed set of reforms aimed at modernizing the institution to better address the complex development challenges of the twenty-first century. At the 2022 Annual Meetings in October, shareholders formally called on the World Bank Group to develop a roadmap for engagement with the Board of Executive Directors to respond to the challenges of poverty reduction and shared prosperity, as well as global challenges—first among them, climate change.

The updated September 2023 Roadmap (prepared for the 2023 Fall Meetings) identifies three guiding elements. First, it identifies a new vision and mission. The roadmap adds “on a livable planet” to the Bank’s vision of a world free from poverty and its mission of poverty reduction and shared prosperity. This means that for the first time, the Bank will have a formal mandate to both fight poverty and address “global challenges” such as climate change, conflict, and pandemics that pose collective action dilemmas.

Second, the roadmap identifies a new playbook. The Bank is refining its “playbook” to increase impact and modernize its approach. This includes making its investments more scalable and replicable, strengthening country partnerships, diversifying its culture and expertise, and assisting with domestic resource mobilization. In addition, the “One World Bank” approach promises to unite different arms of the World Bank Group to maximize impact, which the Bank will measure with a new “scorecard.” The Bank also plans to revamp the ways it collects, processes, and distributes data, guided by a new Knowledge Compact for Action, so that its methods are more practical and

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7 UNFCCC, Operationalization of the New Funding Arrangements, Including a Fund, for Responding to Loss and Damage Referred to in Paragraphs 2–3 of Decisions 2/CP.27 and 2/CMA.4, Decision -/CP.28 and -/CMA.5, available at https://unfccc.int/sites/default/files/resource/cma5_avv_10g_LnDfunding.pdf.
8 World Bank and IMF Development Committee, “Ending Poverty on a Livable Planet.”
9 The Bank identifies eight global challenges: climate change adaptation and mitigation, fragility and conflict, pandemic prevention and preparedness, energy access, food and nutrition security, water security and access, enabling digitization, and protecting biodiversity and nature.
are produced more collaboratively with developing countries.  

Third, the roadmap identifies new resources. Implementing the new vision, mission, and playbook will require new money. The Bank has implemented some measures in the G20’s Capital Adequacy Framework, freeing up $50 billion more in lending capacity over the next ten years. The bulk of this capacity will go to the International Bank for Reconstruction and Development (IBRD), which provides loans to all developing countries, rather than the International Development Association (IDA), which focuses on grants for low-income countries and small island states. The Bank has also proposed “additional innovative measures” but admits that these “depend on the interest and actions of our shareholders and development partners.”

The COP process and loss and damage played an important role in the Bank’s decision to launch the roadmap. Introducing the roadmap in January 2023, the Bank explained that shareholder calls for reforming the Bank were “echoed at COP27, with calls for loss-and-damage financing for developing countries and demands for the international community to enable the multilateral development banks (MDBs) to significantly increase their climate finance, both for adaptation and mitigation.”

Loss and damage remains a significant part of the roadmap’s implementation. At the Summit for a New Global Financial Pact in June 2023, World Bank President Ajay Banga announced an expanded toolkit for crisis preparedness, response, and recovery that includes pausing debt repayments, redirecting financing, linking crisis preparedness and financing, backstopping development projects with private sector support, and building enhanced catastrophe insurance without debt. The most significant of these reforms, climate-resilient debt clauses (CRDCs) or “pause clauses,” will allow countries to defer principal and interest payments on IBRD loans and IDA credits for up to two years in the case of certain natural disasters. While not a debt reduction measure, pause clauses can provide eligible countries with much-needed fiscal space during emergencies.

At COP28 in December 2023, the Bank announced a significant expansion of its CRDCs to cover all existing loans in eligible countries (as opposed to just new loans), include a pause on interest payments (in addition to principal payments), and allow CRDC fees to be covered by concessional resources. It has since hailed the expanded toolkit as a “major milestone in the World Bank Group’s Evolution.” Developing countries, too, have recognized pause clauses as an important part of this evolution. South African Minister of Finance Enoch Godongwana, on behalf of the Africa Group 3 Constituency, said at the Bank’s Development Committee meeting in October, “We commend the launch, under the Crisis Preparedness and Response Toolkit, that is tailor made for countries vulnerable to natural disaster, particularly small states. Despite public debt distress not being part of the initial list of global challenges, we view the CRDC as a step in the right direction to re-enforce debt sustainability.”

The Bank’s introduction of pause clauses is significant for several reasons. First, it is scalable: the Bank was able to determine how much of its balance sheet could handle pause clauses, announcing them first for new loans and then, just months later, for all past loans. Markets did not
appear to respond to the decision, and there was no change or challenge to the Bank’s credit rating. Second, it is simple: “All we are asking for at this stage is that we include these clauses in all of our debt instruments,” said Barbados Prime Minister Mia Mottley at COP28. Third, it is spreadable: at COP28, the United Kingdom, France, the Inter-American Development Bank, the European Investment Bank, the European Bank for Reconstruction and Development, and the African Development Bank all pledged to include CRDCs in their lending. As of February 2024, a total of seventy-three countries have called for expanded use of the clauses by 2025. Finally, it is structural: pause clauses are a legally enforceable change to a rule in global finance that will govern the future. The savings will only increase over time.

This does not mean that pause clauses are a silver bullet. The Bank’s pause clauses apply only to specific extreme events—“tropical cyclones/hurricanes and earthquakes”—meaning, they do not help countries facing slow-onset loss and damage such as sea-level rise. As of February 2024, the World Bank has only made them available to forty-five small island and other small states. This suggests that some banks (including and beyond the MDBs) may be unwilling to extend pause clauses in loans to large or lower-middle-income countries (LMICs). The Bank’s pause clauses also do not help seriously indebted countries, as the borrower must be current on its World Bank loan payments at the time of the deferral request.

LMICs have already criticized the Bank for their restricted access to IDA resources, which depend first and foremost on a country’s relative poverty. Pause clauses are more like low-hanging fruit,

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18 WBG, "World Bank Extends New Lifeline for Countries Hit by Natural Disasters.”
19 WBG, "Borrowing Countries," July 24, 2023, available at https://ida.worldbank.org/en/about/borrowing-countries. The World Bank defines lower-middle-income countries as those with a gross national income (GNI) per capita of $1,086–4,255 and upper-middle-income countries as those with a GNI per capita of $4,256–13,205. Three in every four people on the planet live in a middle-income country, and this group is extremely diverse in its development needs. Some middle-income countries are still borrowers in World Bank lending programs, while others are transitioning to using the Bank for advisory services.
20 Some countries are trying to change how vulnerability is assessed regarding access to concessional finance, including through a multidimensional vulnerability index (MDVI) in the UN. Others have proposed alternatives, such as the Commonwealth Secretariat’s proposal for an index it calls GDP+. The main feature of
adopted now precisely because they cost little or nothing today. That political advantage suggests that these and other ideas have limits shared by leading global economic reform agendas, discussed in the next section.

**Complementary Processes for Reforming the International Financial Architecture**

Countries are converging on an increasingly common set of reforms to the international financial architecture. These reforms combine policy prescriptions to reduce debt, grow fiscal space, and mobilize resources for sustainable development, with larger challenges to the distribution of power in global governance. Though distinct, these reform agendas overlap in their diagnosis of the most urgent economic challenges developing countries face and the solutions for addressing them (see Box 1). While the Loss and Damage Fund plays a role in each major agenda, an even bigger role is given to the World Bank and the MDBs.

The Bridgetown Initiative is a proposal to reform the global financial system and achieve sustainable development, spearheaded by Barbados Prime Minister Mia Mottley. Bridgetown 1.0, released in September 2022, diagnosed three problems in the global economy: a cost-of-living crisis stemming partly from the war in Ukraine and the COVID-19 pandemic, a developing country debt crisis following the COVID-19 pandemic and climate-related disasters, and the climate crisis as glaciers melt and storms and droughts intensify. Bridgetown 1.0 focused on short-term initiatives to provide liquidity and fiscal space (by rechanneling special drawing rights, introducing pause clauses, and implementing the G20’s Debt Service Suspension Initiative); boost MDB lending by $1 trillion (by implementing the G20’s Capital Adequacy Framework, including the use of callable capital, special drawing rights, and more risk); and promote investment and raise reconstruction grants (through new mechanisms).  

Bridgetown 2.0, released in April 2023, integrated these objectives into an evolving, long-term strategy to achieve sustainable development in line with the Paris Agreement and to reform the international financial architecture. It is both more climate-focused and more comprehensive than Bridgetown 1.0, covering six areas—immediate liquidity, debt sustainability, private sector investment, official development aid, global trade, and international financial institution (IFI) governance—with recommendations for each. Bridgetown 2.0 reflects a strategy of “pushing on the doors that are open,” which means that many of its recommendations for new policies and reforms center on the World Bank (and, to a lesser extent, the IMF). The flip side is that while Bridgetown 2.0 provides detailed recommendations on debt and fiscal policy, its recommendations for reforming trade are brief, and those for IFI governance are general. These doors do not appear to be open.

Bridgetown 2.0 does have specific and actionable recommendations for the doors that are open. On mitigation, it calls on the IMF and the MDBs to cut excessive macro-risk premiums on developing countries, with $100 billion per year of foreign exchange guarantees for investments in a just green transition. In February 2024, Brazil announced a pilot of this idea in partnership with the Inter-American Development Bank (IDB). IDB head Ilan Goldfajn was confident that the model could be replicated in other countries: “If it works, and I think it will, it would be an example for the world.”

On adaptation, Bridgetown 2.0 calls for reforming the GDP+ measure is that it accommodates the vulnerability and resilience characteristics of every country investigated and produces a new value for per capita income, having accounted for their inherent characteristics. Therefore, the new per capita income, adjusted for vulnerabilities, will reflect the true income capacity of a country, often thought of as their potential resilience, after accounting for their vulnerability and available resilience measures.” This would potentially increase the number of countries eligible for greater access to IDA funding, among other resources. Economic Policy and Small States Section, “GDP+: A Vulnerability Inclusive Measure,” 2022.


22 “5. Ensure that the multilateral trading system supports the green and just transformation. WTO, ILO, UNCTAD, and major trading partners to: Work with governments to ensure supply chains become resilient, benefit raw materials producing nations and protect the vulnerable. 6. Reform the governance and operations of International Financial Institutions (IFIs). Shareholders of IFIs to: Update the 1945-based institutions to be more inclusive and equitable, including issues of governance, voice, representation, and access to finance.” Prime Minister of Barbados, “Bridgetown 2.0,” April 2023, available at https://pmo.gov.bb/bridgetown2-0-2page-3/.

23 Marcela Ayres, "Brazil Unveils FX Hedge Program for Sustainable Investments," Reuters, February 26, 2024.
and expanding MDB lending, since long-term concessional loans are what is most needed to fund adaptation projects. The World Bank can implement some of these recommendations, such as moving beyond GDP per capita to capture vulnerability, streamlining and harmonizing loan procedures across the MDBs and IFIs, and financing country-led national resilient development plans and multi-country programs that protect the global commons.

Indeed, the Evolution Roadmap has promised to do just that in its embrace of “One World Bank” and commitment to address collective action problems like climate change and pandemics. However, the money to implement these ambitions—such as the massive rechanneling of special drawing rights (SDRs) and an additional $100 billion of paid-in capital contributions to the MDBs—must come from major shareholders, which have yet to step up. This is partly why Bridgetown 2.0 calls for new instruments (“taxes, charges, or other sources”) to provide $100 billion in financing to the new Loss and Damage Fund per year. That figure is vastly higher than the $700 million pledged by governments at COP28, reflecting both the scale of developing countries’ loss and damage estimates and the initiative’s pragmatism regarding the scale of official development assistance.

The Nairobi Declaration, released in September 2023 by African leaders at the Africa Climate Summit, outlines these leaders’ common position on climate change at COP28 and beyond. The declaration called for accelerating other global initiatives, including Bridgetown, the Vulnerable Twenty Group’s (V20) Accra-Marrakech Agenda (see below), the UN secretary-general’s Sustainable Development Goals (SDGs) Stimulus Proposal, and the Paris Summit for a New Global Financing Pact. It affirmed that multilateral finance reform is necessary but not sufficient to provide the scale of climate financing the world needs and proposes new taxes—on fossil fuel trade, maritime transport and aviation, and global financial transactions—to fund the transition in Africa. Additionally, it endorsed “time-bound action on the proposals to reform the multilateral financial system currently under discussion,” including key Bridgetown elements like new SDR issuances, the spread of pause clauses, and partial foreign exchange guarantees. The summit also proposed a new financing architecture that is responsive to Africa’s needs, including debt restructuring and relief and the development of a new Global Climate Finance Charter through the UN General Assembly and the COP processes by 2025.

Also in September 2023, the V20 Group of Finance Ministers released its Accra-Marrakech Agenda (AMA). Representing sixty-eight countries from Africa, Asia, the Caribbean, Latin America, and the Middle East, the V20, under Ghana’s presidency, outlined four priority areas for its members: debt, international and development finance, carbon pricing, and risk management. Like Bridgetown 2.0 and the Nairobi Declaration, the AMA calls for revising the G20 Common Framework for Debt Treatments, expanding the use of pause clauses and SDRs, increasing MDB lending for climate-related needs, and treating risk differently. However, the AMA sets out a more ambitious agenda for carbon markets, insisting on the “full use of the Paris Agreement’s international emissions exchange instruments” and on risk-based instruments, such as prearranged finance and the use of trigger-based designs in relevant public and private financial instruments. The AMA also calls for the IMF and all lead credit ratings agencies to fully account for all climate risks in their analysis and lending. Notably, the AMA proposes a “dedicated OECD [Organisation for Economic Co-operation and Development] DAC [Development Assistance Committee] marker for climate-related loss and damage,” which could be used to track development finance contributions focused on addressing growing climate impacts and shocks among the most vulnerable economies.

24 Mark Plant, “The IMF’s Shareholders Disappoint on SDRs,” Center for Global Development, March 26, 2024.
25 Prime Minister of Barbados, “Bridgetown 2.0.”
There are also some areas of political convergence between these agendas (see Box 1). There are many African countries in the V20, and the group’s incoming chair is Barbados Prime Minister Mia Mottley. Additionally, Bridgetown 2.0 cites the African Development Bank (AfDB) in its proposal to add $100 billion in paid-in capital contributions and rechannel more SDRs, which the AfDB has been advocating for, including at the COP. These and other shared ideas were collected at the Paris Summit for a New Global Financial Pact in June. The results of the summit were limited to a restatement of current commitments and a roadmap of future events, with one exception: in response to calls from the COP and elsewhere to act on loss and damage, the World Bank announced a new “crisis toolkit” including the adoption of pause clauses in future loans.

Implementation of some aspects of these agendas has already begun, though with mixed success. The World Bank has implemented elements of the Capital Adequacy Framework but has resisted calls to further use callable capital, citing risks to its credit rating. The other source of new funding for liquidity and loans (both in Bridgetown 2.0 and other areas) is special drawing rights. However, little rechanneling has taken place, and only a few countries have been able to access the Resilience and Sustainability Trust due to conditionalities (countries must have the IMF’s Upper Credit Tranche rating). Several countries with large SDR reserves, including France, Japan, Spain, and the United Kingdom, have all indicated their support for the African Development Bank and Inter-American Development Bank’s (IDB) plans to leverage SDRs through hybrid capital-based mechanisms. “The MDBs can multiply by at least four times the SDRs allocated to them,” AfDB President Akinwumi Adesina said at the COP28 roundtable where Japan and France expressed their support. However, Christine Lagarde, the head of the European Central Bank, suggested that EU member states lending SDRs to the multilateral development banks for that purpose would violate the European Union’s prohibition on monetary financing.

Developing countries have gained representation in some informal global governance structures. In September 2023, the African Union (AU) was made a permanent member of the Group of 20 (G20), giving it the same status as the European Union. However, calls for a more equitable distribution of power in the Bretton Woods institutions have gone unheeded by developed country shareholders.

Box 1. Common traits of international financial architecture reform agendas

Some of the common traits shared by international financial architecture reform agendas, such as Bridgetown 2.0, the Nairobi Declaration, and the Accra-Marrakech Agenda, include:

- Massively scaling up MDB lending, particularly for adaptation, through taking on more risk;
- Retooling the global financial system to incorporate and reduce risk, especially for investment;
- Increasing fiscal space through the expanded issuance and use of special drawing rights (SDRs) and debt-reduction measures;
- Incorporating pause clauses into all future lending, public and private;
- Expanding the base for resource mobilization through new taxes and levies, especially for loss and damage; and
- Enacting deeper reforms to global governance, including to representation, voting, and the link between quotas and SDRs.

Calls for a more equitable distribution of power in the Bretton Woods institutions have gone unheeded by developed country shareholders.

31 The permanent members of the G20 are now Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, South Korea, Mexico, Russia, Saudi Arabia, South Africa, Türkiye, the United Kingdom, and the United States, along with the EU and the AU. Chido Munyati, “The African Union Has Been Made a Permanent Member of the G20 – What Does It Mean for the Continent?” World Economic Forum, September 14, 2023.
bution of power in the Bretton Woods institutions, such as by reforming the IMF’s quota system (particularly the link to SDRs), have gone unheeded by developed country shareholders. This has stimulated the growth of new global economic institutions dominated by major developing countries, such as the Asian Infrastructure Investment Bank (where China and India hold 30 percent and 8 percent of votes, respectively) and, to a lesser extent, the BRICS New Development Bank.

Elsewhere, some light may be shining through the cracks. At the Paris Summit, more than twenty countries announced their support for a shipping levy proposed by the Marshall Islands and the Solomon Islands. The revenues from this levy could be redistributed to fund adaptation and loss and damage. At the International Maritime Organization (IMO) meetings in July 2023, more countries (particularly small island states and European countries) voiced support for the proposal. However, Brazil, China, and other countries with large shipping industries argued that they would face disproportionate impacts from the levy, that its imposition violated the principle of common but differentiated responsibilities (CBDR), and that developed countries had already assumed responsibility for financing such efforts in developing countries in the UNFCCC. In the end, the levy made it into the final agreement as part of a “basket” of options that the strategy says “should be developed and finalized” over the next year.32 At the eighty-first session of the IMO’s Environment Protection Committee in March 2024, member states agreed to a draft outline of a possible IMO net-zero framework. Under the proposed framework, the IMO would create “an economic mechanism(s) to incentivize the transition to net-zero,” a first step at creating a carbon price. While details have yet to be agreed upon, the agreement is a major step toward the first carbon-pricing policy at the global level.33

Momentum from the IMO’s step forward may translate into other sectors if countries and civil society actors are properly organized and aligned and momentum is maintained and spread across international fora. At COP28, Antigua and Barbuda, Barbados, France, Kenya, Spain, and the African Union Commission, with the European Commission as an observer, announced the launch of a new taskforce on international taxation. The taskforce is co-chaired by France and Kenya and, reflecting the convergence of views expressed at the Paris Summit and African Climate Summit, will examine options including a carbon tax, levies on shipping and aviation, and a financial transactions tax. The objective is to present an initial assessment at COP29 in 2024 and to agree on specific proposals, which can be developed and put forward in appropriate fora ahead of COP30 in 2025.34 Noting the challenges of a global agreement, Benito Müller and the late Saleemul Haq have called on countries to implement national levies on the basis of solidarity. In this case, developed countries would send their revenues to the Loss and Damage Fund, while developing countries could choose to spend their revenues at home.35

In the last two years, loss and damage has gone from a niche issue within the UNFCCC to an essential component of major global economic reform agendas led by diverse coalitions of developing countries. These agendas treat the new Fund as an important component of an integrated system that, through a massive expansion of support from the IFIs and the MDBs, can address developing countries’ growing and specific mitigation, adaptation, and loss and damage needs.

At the same time, the World Bank acknowledged calls from countries and shareholders inside and outside the COP to integrate L&D into its programming. This resulted in the introduction of a new crisis toolkit including pause clauses for small states—a key ask of the Bridgetown, Nairobi, and V20 agendas and, according to the Bank, a “major milestone” in its evolution.

The collaboration initiated by these agendas and the COP process aligns with and gives momentum to the mosaic approach to loss and damage. In a disaster, pause clauses and fiscal space, combined with humanitarian assistance, can keep a country

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from falling too low. However, to bend the development trajectory upward, a country must have rapid access to grants and concessional loans for recovery, reconstruction, and rehabilitation. The World Bank and other MDBs have the experience, mandates, and capacity necessary to support reconstruction and rehabilitation in countries facing extreme and slow-onset events. The recovery, reconstruction, and rehabilitation period is also when the Loss and Damage Fund is mandated to intervene, including to provide programmatic support and lower the cost of loans.

The Agreement on Loss and Damage at COP28

Beyond the crisis toolkit and financing for reconstruction and rehabilitation, the World Bank has two other essential roles in addressing loss and damage: as the Fund’s host and as a member of the High-Level Dialogue.

The Debate over Hosting the Fund in the World Bank

After five meetings around the world (Luxor, Santo Domingo, Bonn, Aswan, and Abu Dhabi) and three workshops, in October 2023, the Transitional Committee agreed on a set of recommendations to operationalize a new Loss and Damage Fund and Funding Arrangements. The package was sent as an “agreed text” to COP28 and was swiftly adopted on the conference’s first day.

Countries, particularly donors to the Fund, celebrated the agreement and explained its significance. COP28 President Sultan al-Jaber called the move a “significant milestone” and evidence that countries were ready to act with ambition on climate change. The United Arab Emirates, a developing country under the UNFCCC, even pledged $100 million for the Fund’s initial capitalization. Germany pledged $100 million, the European Union $245 million, the United Kingdom “at least” $51 million, the United States $17.5 million, and Japan $10 million.36 Reflecting on the decision in February 2024, German Foreign Minister Annalena Baerbock told her G20 counterparts,

What we achieved in Dubai in December was multilateralism at work for everybody. We came together with different partners from around the world, big and small, joining hands from Latin America, Asia, Africa to the Pacific Island States, to make it clear that we can only fight the climate crisis together. To make it clear that tackling the climate crisis is also a question of justice. That’s why we set up the Loss and Damage Fund together.37

Developing countries, too, recognized the significance of the agreement but were more sanguine about the challenge ahead. Avinash Persaud, a former senior adviser on climate to Mia Mottley and the Barbados representative on the TC, said,

This is a hard-fought historic agreement. It shows recognition that loss and damage is not a distant risk but part of the lived reality of almost half the world’s populations and that money is needed to reconstruct and rehabilitate if we are not to let the climate crisis reverse decades of development in moments.38

The agreement in Dubai was not the first time countries created a new climate fund to address a new problem, so what made this agreement different? Why did multilateralism succeed?

The Fund’s relationship to the World Bank was a central issue for the TC. Countries agreed that the Bank would serve as the Fund’s trustee, thus designating it as a financial intermediary fund (FIF), a type of trust fund for which the World Bank provides administrative, operational, legal, and financial services. Most FIFs are large multilateral financial mechanisms that support global development initiatives or partnerships, often focused on the provision of public goods, and they typically involve innovative financing and governance arrangements. FIF arrangements are tailored to the needs of the partnership and

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agreements with the World Bank and range from “basic” to “additional” to “customized.” The Green Climate Fund (GCF), Global Environmental Facility (GEF), and Adaptation Fund (AF) are all examples of FIFs with tailored trustee arrangements and accountability to the COP.\(^{39}\) The question was whether the Fund would remain a “stand-alone” FIF, with its own independent legal personality and secretariat, or whether the World Bank would fill those roles as the Fund’s “host.”

Many developing countries favored the stand-alone option, where the World Bank’s role would be limited to trusteeship. (An example of this is the Green Climate Fund, which exists as its own legal entity under the Financial Mechanism of the UNFCCC and uses the Bank for “basic” trustee services only.) This means that the Fund would need to provide its secretariat, legal status, governance and administrative documents, and accreditation framework and financial procedures agreements with all receiving institutions before beginning its operations. These arrangements take significant time and money to prepare from scratch and could add years to the Fund’s operationalization, as occurred with the GCF.\(^{40}\)

Still, developing countries were skeptical of the World Bank’s commitment to host the Fund and feared that it would be bound by the Bank’s rules and culture. During the TC meetings, the representative of Antigua and Barbuda expressed that the Bank did not have in mind the interests of small island countries, whose size and income limits the amount of aid they can receive despite rising climate costs. Other developing countries, such as Colombia and Timor-Leste, cited the Bank’s overall institutional culture (“condescending”), financial model (mostly loans), and board model (generally favorable to donors) as reasons for their support for a stand-alone Fund.

While the Fund’s governance structure would be independent under this option, the Board of Governors of the World Bank would still need to approve that structure.\(^{41}\) It was also assumed that a Bank-hosted FIF would use the MDB lending model, which typically only allows for lending to governments and national entities rather than “direct access” for subnational entities. Lack of clarity on whether the direct-access funding model would be possible under this option was a major point of contention.

However, some developing countries were willing to consider the World Bank–hosted FIF as an option due to the Bank’s expertise on leveraging and accessing capital markets and its overall capacity. The Maldives, for example, argued that the Fund needed scale, which could be more easily and rapidly achieved through an existing institution. Barbados and Egypt also expressed openness to the World Bank option due to the Bank’s financial tools and capacity to deliver. Most importantly, if hosted by the Bank, the Fund would inherit the necessary legal capacity to enter into contracts, allowing it to start working in countries soon after its establishment as an FIF. This is a perceived advantage over the stand-alone option, which would require obtaining new privileges and immunities to work in countries, new human resources procedures, and new staff, potentially delaying the Fund’s operations.\(^{42}\)

To ensure that their concerns would be addressed, the developing countries in the Transitional Committee outlined a set of conditions and safeguards that the World Bank would have to meet to host the Fund.

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39 The GCF has the simplest arrangement with the Bank, for basic financial management services only. The GEF uses the Bank for basic and additional financial management services, including secretariat support and as trustee for the GEF’s hosted funds. The AF has a customized arrangement with the Bank dating to its inception. The Bank was involved in the development and design of the AF, including the guidelines for the monetization of certified emissions reductions (CERs) and “direct access” to resources by recipient countries.
40 An additional capacity burden comes during implementation. One study of GCF projects found that the organization takes an average of two years to approve a project, and one-fifth of projects take between three and five years. Since 2010, the GCF has allocated $13.5 billion in grants and loans but disbursed only $3.6 billion. “Loss and Damage” – The Most Controversial Words in Climate Finance Today,” Nature 623 (November 2023).
41 In this context, the Bank defines “governance” as “decision-making arrangements between the Bank and Development Partners (DP) related to a trust fund’s operations.” WBG, “Guidance Note: Governance in IBRD/IDA Trust Funds,” March 2020.
42 Under the stand-alone option, the Fund would need to establish a new secretariat, obtain legal status, and finalize all governance and administrative documents, including an operations manual for all funding applications and allocations, conflict-of-interest policy, procurement policy, a salary and benefits structure for staff, and accreditation framework and financial procedures agreements with all receiving institutions.
to host the Fund. Critical measures included access to the Fund by non–World Bank members (namely, Cuba), direct access to funding from national and subnational entities, and a commitment to use the Fund’s investments in capital markets.

The presence of World Bank representatives throughout the process allowed for a direct and sustained exchange of views on these provisions. Juergen Voegele, the vice president of the Sustainable Development Practice Group, and Stephen Hammer, an adviser to the Transitional Committee, assured delegations of the Bank’s willingness to host the Fund under the conditions developing countries were asking for (see Table 1). Signaling that it is willing to forge a new path, the World Bank’s vice president told delegates that the Fund would provide direct access (a modality rarely used by the Bank), along with the ability to invest in capital markets, a feature no longer employed in other FIFs. These Fund safeguards broke a long-standing mold at the Bank, which provided an opening for those countries most opposed to this option to consider it. However, many developing countries were still hesitant to take such a big leap of trust. The deal was only completed after the Bank agreed to an interim period of four years to meet the conditions outlined in the text. After this period, both the Loss and Damage Transitional Committee and the board at the World Bank will have a chance to review the Fund’s performance and consider whether to continue with it.

Multilateralism “worked” in the hosting agreement between the Bank and the Loss and Damage Fund because developing countries insisted on holding the World Bank accountable—and the Bank agreed. The agreement shows that genuine cooperation is indeed possible, but only when accountability is allowed to run both ways—toward creditor and toward debtor, lender and borrower. It also demonstrates the growing influence of the COP on other forums and institutions, as the success of the Fund came to be seen as a litmus test for the Bank’s commitment to evolving.

Of course, even the best designed fund will not have impact unless it is equipped with resources. At COP28, major donors were hopeful. As one analyst noted, “The European Union has clearly signalled… its willingness to support this with contributions that are substantial, which is likely going to be on the level of billions of euros.”

US Special Envoy for Climate John Kerry expressed optimism that the Fund “will draw from a wide variety of sources” as “the scale of the challenge is simply too large for any government to be able to finance alone.”

### Table 1. Concerns and safeguards of developing countries regarding a World Bank–hosted Fund

<table>
<thead>
<tr>
<th>Concerns</th>
<th>Safeguards</th>
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<tr>
<td>• Board would not be independent</td>
<td>• Autonomy of board reaffirmed</td>
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<tr>
<td>• Eligibility would be biased against middle-income countries (as in the World Bank)</td>
<td>• Ability to set own eligibility criteria reaffirmed</td>
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<tr>
<td>• World Bank rules would outweigh those of the Fund</td>
<td>• Precedence of the Fund’s rules over those of the Bank reaffirmed</td>
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<tr>
<td>• Access mechanism would be for governments only (as for the World Bank)</td>
<td>• Use of implementing entities beyond the MDBs, the IMF, and UN agencies established in new provision</td>
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<tr>
<td>• Non-members of the World Bank would not have access</td>
<td>• Direct access for subnational, national, and regional entities, including small grants for communities, ensured in new provision</td>
</tr>
<tr>
<td>• World Bank fees are too high</td>
<td>• Ability to access capital markets guaranteed in new provision</td>
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<tr>
<td></td>
<td>• Reasonable cost recovery affirmed</td>
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The scale of the challenge is also too large for any fund to finance alone. As of March 2024, the Fund’s pledged capitalization sits at $661.39 million.\(^4\) By comparison, the total damages caused by the 2022 floods in Pakistan were estimated to exceed $14.9 billion, and the total economic losses were estimated to reach about $15.2 billion.\(^4\) The Fund could only cover a fraction of the cost of that single disaster—and then it would be empty. Madeleine Diouf Sarr, the chair of the Group of the 46 Least Developed Countries, warned, “The progress we’ve made in establishing a loss and damage fund is hugely significant for climate justice, but an empty fund can’t help our people.” Fully addressing loss and damage will require an empowered fund as well as coordinated funding arrangements to leverage resources and impact.

**Priority Actions for the High-Level Dialogue**

The Fund must play a central role within a “mosaic” of funding arrangements for addressing loss and damage, and the mosaic requires coordination at the highest political level. It is essential that agencies and institutions outside of the UNFCCC collaborate with the new Fund to maximize its impact. Similarly, the Fund must collaborate with outside entities that can suspend debt payments, transfer resources and technologies, address legal and administrative hurdles, provide safe mobility, evaluate noneconomic losses, and do everything else required to address loss and damage.

The COP28 decision offers an opportunity to meet these ambitions. Annex II on Funding Arrangements establishes “an annual high-level dialogue on coordination and complementarity (the dialogue) with representatives from the main entities that form part of the funding arrangements.” This High-Level Dialogue will be co-convened by the Fund and the UN secretary-general and will consist of “no more than 30 high-level representatives” from the funding arrangements. This includes the Fund, the World Bank and the MDBs, and “relevant” UN agencies and climate funds, as well as civil society, Indigenous peoples, and the philanthropic sector.\(^5\)

The dialogue is tasked with carrying out the following five functions for the funding arrangements:

1. “Facilitate a structured and timely exchange of relevant knowledge and information, including between the entities that form part of the funding arrangements and the Fund;
2. Strengthen capacity and synergies to enhance the integration of measures to respond to loss and damage into sources, funds, processes, and initiatives under and outside the Convention and the Paris Agreement by drawing on the experience of others, exchanging good policies and practices, and leveraging research and data systems;
3. Promote the exchange of country and community experience in undertaking action to respond to loss and damage;
4. Identify priority gaps and new opportunities for cooperation, coordination and complementarity;
5. Develop recommendations on scaling up or enhancing existing as well as initiating new funding arrangements for responding to loss and damage.”\(^6\)

Fully addressing loss and damage through the mosaic requires both a new loss and damage fund and a new alignment of global institutions, financial flows, and rules through which the Fund’s impact can be maximized. The dialogue could become a vehicle to help get us there. Its emergence now is also significant given the context of the ambitious “outside” reform agendas for the MDBs (such as Bridgetown 2.0) and the cautious “inside” reform agenda of the World Bank’s roadmap. The MDBs play essential roles in the mosaic as providers of grants and loans for reconstruction and rehabilitation and as the host of the Fund. The

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\(^{4}\) UNFCCC, “Pledges to the Loss and Damage Fund.”

\(^{5}\) The post-disaster needs assessment, conducted jointly with the World Bank, Asian Development Bank, EU, and UNDP, calls for “building back better”, based on the principles of the poor first, transparency, inclusion, and climate resilience.” The assessment estimated “needs for rehabilitation and reconstruction in a resilient way” to be at least $16.3 billion, not including “much needed new investments beyond the affected assets, to support Pakistan’s adaptation to climate change and overall resilience of the country to future climate shocks.” 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.

dialogue will bring together the MDBs to discuss loss and damage at precisely the time shareholders are calling on them to take on new challenges with greater ambition. The dialogue thus speaks directly to the World Bank’s priority in its roadmap to leverage its resources by working with other institutions to address new global challenges that fall inside and beyond any one institution’s remit.

The challenge for the dialogue will be overcoming the inertia of having thirty representatives from different institutions simply reporting on what they have done. Currently, the dialogue is focused on talk: exchanging knowledge and identifying synergies and gaps. However, much of this work has been done in the last two years through the UNFCCC process, including through the Warsaw International Mechanism and the Santiago Network for Loss and Damage, and the question of priority gaps was further refined through the TC process. Instead, the dialogue could distinguish itself by focusing on three actionable areas already suggested within the above mandate: resource mobilization, institutional protocols, and the losses and damages of the future.

First, the dialogue could focus on resource mobilization. Like other FIFs, the Fund is set up to take in “a wide variety of sources of funding, including grants and concessional loans from public, private and innovative sources, as appropriate.”

Developed countries are expected to “continue to take the lead” in financing the Fund, but a number of civil society groups and countries have called for additional funding through new taxes and levies, namely on air travel, shipping, financial transactions, and fossil fuel production and extraction. As mentioned above, support is growing for using taxes to fund climate change action, including taxes on the shipping industry (responsible for 4 percent of global emissions). New taxes and levies are also a component of global reform agendas like Bridgetown 2.0, which calls for “new international resources (whether taxes, charges, or other sources)” to provide the Fund with $100 billion annually.

The challenge, as seen in shipping, is to design a tax that can be applied globally but does not disproportionately impact key developing countries. This challenge is magnified when the proceeds of that tax are assigned to or earmarked for the Fund rather than the tax authorities or treasury in the country in which the tax is collected. Designing a fair global tax and ensuring its proceeds go to the Fund requires both economic analysis and political coordination across negotiating spaces. The board of the Fund is tasked with preparing its “long-term fundraising and resource mobilization strategy,” which includes “guid[ing] the mobilization of new, additional, predictable and adequate financial resources from all sources of funding.” But the dialogue, which issues recommendations to the board, could also take up the topic of resource mobilization under its mandate (“sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement”). Discussing taxes and levies in the dialogue would raise the profiles of ongoing efforts, including and beyond the IMO, and could provide the board of the Fund with clarity for its own resource mobilization strategy.

Second, the dialogue could focus on institutional protocols. One of the biggest challenges countries face in a disaster is uncertainty: how much money will be available, when, and on what terms? As mentioned above, one way to ease this uncertainty is to include pause clauses in loans so that in an emergency, scarce resources will go first to governments and people, not banks and creditors. The World Bank made pause clauses the central part of its Crisis Disaster Toolkit, a suite of tools that countries can use to free up fiscal space. There is no reason that organizations with a direct interest in addressing loss and damage cannot develop their

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49 Ibid., Annex I, para. 54.
51 UN Doc. FCCC/CP/2023/11/Add.1, Annex I, para. 56.
52 Ibid., Annex II, para. 11.
own toolkits or institutional protocols and procedures. These protocols would be different for each organization, but they must also be designed in a way that responds to what other organizations are doing or intend to do. The goal of the protocols is to add predictability and automaticity to the system, giving countries a greater capacity to address loss and damage and giving investors more reason to keep their money in that country’s economy, thus preventing a vicious cycle of disinvestment and debt downgrades. The dialogue’s mandate for coordination and complementarity provides a clear justification for having this conversation under its auspices.

Third, the dialogue could focus on the losses and damages of the future. The OECD estimates that, depending on mitigation efforts, climate-related losses and damages for developing countries could reach $290–580 billion by 2030. More frequent and severe extreme weather events, rising sea levels, and disruptions to agriculture are just some of the factors expected to drive these costs. Developing countries are particularly vulnerable and will face some of the highest costs, with projections suggesting damages reaching $1.0–1.8 trillion annually by 2050. However, their specific needs will vary widely in cost and the type of action required. In Africa, increased heatwaves, droughts, and floods are expected to significantly reduce agricultural yields, leading to food insecurity and economic hardship. In Asia, rising sea levels threaten densely populated coastal areas, with megacities like Shanghai and Mumbai facing potential inundation and economic disruption. Meanwhile, sea-level rise and increasingly powerful storms pose an existential threat to many low-lying islands. Saline intrusion could contaminate freshwater supplies and devastate agriculture, while the loss of reefs and biodiversity threatens livelihoods in fishing and tourism.

The COP28 decision on L&D invites onto the board “individual experts on loss and damage chosen on the basis of their expertise and their representation of different regions and perspectives.” These experts will be needed to provide valuable analysis, advice, and projections regarding key unanswered questions about the evolving nature of loss and damage in its extreme and slow-onset forms. These questions include the following:

- How should funding arrangements be organized and sequenced to address those displaced by adverse climate impacts?
- What are the implications of changing coastlines for loss and damage, and how should funding arrangements be organized to address these losses?
- What system of triggers could be used for designing parametric systems to address losses and damages caused by slow-onset as well as extreme events?
- How can a system of funding arrangements be designed to address noneconomic loss?
- What barriers stand in the way of coherence and complementarity in the distribution of existing funds to address loss and damage?

To summarize, the dialogue can take several specific actions in its first year. It should contribute to the mobilization of additional financial resources, including and beyond grant-based and non-debt financing, for addressing loss and damage. It should promote a more coordinated approach to loss and damage investments by overseeing the development of protocols or threshold-based mechanisms among its members, which would help organizations and countries respond to crises rapidly and at scale. It should bring together key stakeholders and serve as a platform for discussion and advocacy around strengthening loss and damage responses from the Fund, including policy formulation under and outside the UNFCCC and the Paris Agreement, and it should also promote better coordination among bilateral and multilateral channels at the operational, national, and programmatic levels. Finally, the dialogue should engage in serious deliberation about future loss and damage needs as the world’s changed climate has new climate impacts.

Conclusion

The agreements on a Loss and Damage Fund and Funding Arrangements at COP27 and COP28 and in the Transitional Committee were bright spots for multilateralism in a dark two years. An uneven pandemic recovery, wars in Ukraine and Gaza, and continued high prices for food and fuel have revealed deep structural inequalities and growing mistrust between developed and developing countries. While rich countries with reserve currencies spent trillions during the pandemic on counter-cyclical fiscal policy, paying people to stay home to lessen the strain on hospitals, others were forced to borrow or wait for charity. Then, when the pandemic recovery and Russia’s invasion of Ukraine led to global inflation, rich countries pulled the reins, raising interest rates and contributing to many middle- and low-income countries’ current debt crunch.

To change those dynamics, countries are organizing around reforms to the international financial architecture. Agendas such as Bridgetown 2.0, the Accra-Marrakech Agenda, and the Nairobi Declaration share common goals of reducing debt, increasing fiscal space, vastly expanding concessional lending, and retooling risk, along with reforming the distribution of power in global governance. Most of all, these agendas ask the World Bank to supercharge its lending for climate and development challenges and for highly profitable industries to help pay for a just transition through new taxes and levies.

At the same time, countries in the COP agreed on plans to operationalize the Loss and Damage Fund and Funding Arrangements, based on a novel agreement between the Fund and the World Bank. This agreement named the Bank as the Fund’s host, provided the Bank fulfills eleven conditions set out by developing countries. The agreement also provides a new forum, the High-Level Dialogue, to rethink coordination between humanitarian, development, financial, and government actors and to mobilize new resources for loss and damage through new taxes and levies. Together, the Fund and Funding Arrangements provide countries and institutions with an opportunity to implement the mosaic of solutions for addressing loss and damage.

During the TC discussions, the World Bank began speaking about loss and damage as part of its Evolution Roadmap. However, the World Bank and other international development and financial institutions can only do so much without shareholder support. That is perhaps the biggest challenge. According to Dirk Reinermann, the World Bank’s head of resource mobilization, “the International Development Association (IDA) is in need of the ‘largest replenishment ever’ of financial resources to provide cheap loans and grants to seventy-five developing countries.” The reasons are clear: “A wave of sovereign debt crises and costs related to mitigating the effects of climate change will require big increases in development funding... at the same time as elections and cuts to aid budgets limit the spending appetites of IDA’s biggest donor nations such as the US and UK.”

Another path to capital increases at the World Bank and other MDBs, special drawing rights (SDRs), is also facing obstacles from shareholders. In March, the IMF Executive Board postponed “a formal decision on whether special drawing rights (SDRs) could be recycled to the hybrid capital scheme proposed by the African Development Bank (AfDB) and the Inter-American Development Bank (IDB)” and endorsed by major global reform agendas. According to Mark Plant, “This adds fuel to the fire of the many advanced countries turning away from helping vulnerable developing countries, as evidenced by the recent announcements of decreased aid from France, Germany, the European Union, and others.”

The World Bank—and its major shareholders—have a responsibility and a self-interest to make good on these promises. Donor countries must share the resources needed to deliver on climate change, but they and the Bank must also exercise political leadership to ensure that the agreement on the Loss and Damage Fund is fully implemented and that the High-Level Dialogue results in high-level action. Failure to do so would have serious economic consequences for developing countries and serious political consequences for developed countries.

57 Plant, “The IMF’s Shareholders Disappoint on SDRs.”
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