UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Taking Responsibility

Towards a Fit-for-Purpose Loss and Damage Fund

Report Summary

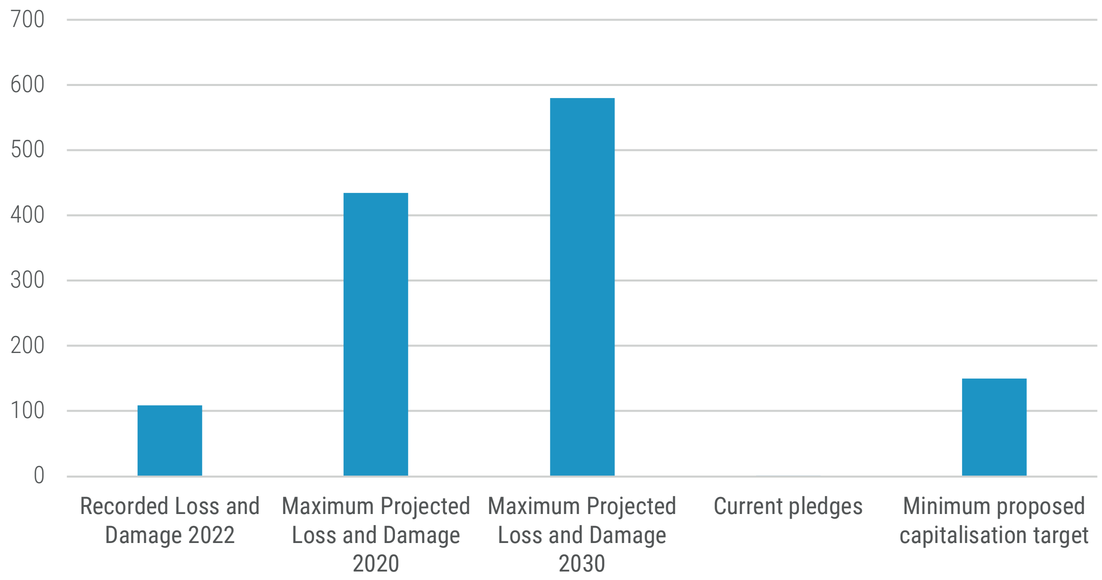
UNITED NATIONS
UNCTAD

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

Climate-related extreme and slow onset events are increasing every year in intensity and frequency, and the same countries that are the least responsible for climate change find themselves suffering the most devastating consequences.

Estimations for recorded loss and damage costs in developing countries in 2022 stood at $109 billion, which is a significant underestimation considering it excludes smaller events, slow onset impacts and non-economic losses.[1] Prior to the pandemic, total loss and damage costs in developing countries were projected to be as much as $580 billion per year by 2030,[2] by which time as many as 132 million more people could be pushed into poverty by the impacts of climate change.[3]

Figure 1: *Comparison of loss and damage financing needs and pledges ($ billions)*



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

1. Richards J et al. (2023). *The loss and damage finance landscape*. The loss and damage collaboration. Available at https://www.lossanddamagecollaboration.org
2. Markandya A and González-Eguino M (2019). *Integrated Assessment for Identifying Climate Finance Needs for Loss and Damage: A Critical Review*. In: Mechler R et al., eds. Loss and Damage from Climate Change. Springer Cham. 343–362
3. Bramka Arga J et al. (2020). *Revised Estimates of the Impact of Climate Change on Extreme Poverty by 2030*. Policy Research Working Paper No. 9417. World Bank.

Developing countries do not have the financial means to respond to climate-related loss and damage, let alone to meet adaptation and mitigation objectives. The support available at the international level, whether through the humanitarian system or International Financial Institutions, is also far short of need.

The Transitional Committee's recommendations on the operationalization of the new Loss and Damage Fund (LDF) will be considered for adoption at COP28 in the United Arab Emirates, as per decision 2/CP.27 and 2/CMA.4. The months ahead will be crucial in defining the success or failure of the LDF.

At COP28, Parties have the opportunity to address the glaring gap in loss and damage support and get it right. The time taken to ensure that institutional arrangements and resourcing are fit for purpose will be well worth the boost to trust, global stability and climate-resilient development. An LDF designed with these recommendations in place will reverberate beyond immediate beneficiaries, reinvigorating multilateralism in a moment of compounding global crises and demonstrating the collective priority of delivering the Paris Agreement and Sustainable Development Goals for a safe and secure future for all.

Recommendations

- A **new, dedicated fund** is needed for loss and damage, established as an operating entity of the UNFCCC's financial mechanism for reasons of accountability, scale, and the uniqueness and significance of its purpose. The LDF should possess juridical personality and legal capacity, be governed by a board responsible for decisions, and have a Secretariat responsible for day-to-day operations.

- The LDF should be **led by the principle of Common But Differentiated Responsibilities and Respective Capabilities**, enshrining developing country leadership in its governance and taking on the unique role of coordinating the mosaic of financing levers involved in addressing loss and damage.

- The LDF should be **sufficiently capitalized** from the beginning with **stable, predictable, additional, and adequate resourcing.** UNCTAD proposes an initial capitalization figure of **$150 billion per year as a floor**, based on both estimated and recorded assessments of current loss and damage. Since under-ambitious mitigation and under-resourced adaptation persist, the LDF must build in a mechanism to progressively increase replenishments to align with updated projected and recorded costs, aiming for an annual replenishment of **$300 billion by 2030**.

- Loss and damage support should be **disbursed as grants**, aimed towards recovery, rehabilitation and reconstruction. Most of these resources must come from contributions from developed countries, who should consider domestic measures to raise ringfenced revenue for the LDF.

- Sources such as levies, taxes, and recycled Special Drawing Rights (SDRs) that can offer secondary benefits of tackling inequality and reducing high-emitting activities can play an important role but **innovative financing sources must be rigorously assessed to avoid regressive distributional impacts** on developing countries and marginalized groups. In this regard, insurance mechanisms have proven wholly inadequate for the scale of support needed.

- The LDF should be accessible to all developing countries. Negotiations around eligibility should focus on identifying best practices, frameworks, parameters, and triggers to establish effective access criteria for diverse circumstances that reflect the needs of developing countries, with particular focus on simplified and rapid access through self-declaration and independent assessments of need.

- Three access windows should be available: a rapid access window for extreme weather events for immediate and short-term recovery; a longer-term window for reconstruction, rehabilitation and resettlement and slow onset events; and a smaller window for sub-national entities and civil society organizations.

- Global economic governance needs to align with the realities of loss and damage to support countries facing climate-related threats before, during and after the event. Existing activities at the Bretton Woods institutions fall short in their response to loss and damage, with a heavy reliance on debt instruments, regressive policy conditionality, and an emphasis on risk management rather than on investment-led resilience-building.

- One of the most important roles the Bretton Woods institutions can play in this respect is in addressing sovereign debt distress. This should include putting pre-emptive safeguards in place that can protect countries in the throes of a loss and damage process, as well as leading the charge for wider debt restructuring involving all creditors through a much-needed multilateral debt workout process.

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