

The Loss and Damage Fund: Where does the money come from?

At COP27 in November 2022, countries agreed to set up a global fund to provide money to developing countries experiencing loss and damage – the impacts of climate change which cannot be adapted to. This represents a major turning point in international recognition that loss and damage is disproportionately affecting lower-income countries, and that it is the responsibility of polluting, richer countries to pay. Throughout 2023, a “Transitional Committee” is working to propose how this fund will be governed, who should pay into it, and how this responsibility will be shared between contributing countries.

How much is needed? As natural disasters related to climate change become more frequent and more severe, the costs of loss and damage are increasing. Estimates place the costs of loss and damage in developing countries alone as approximately \$290–580bn by 2030¹.

The UK’s fair share: In a [new report](#), Christian Aid estimates that the UK’s fair contribution to this fund could be 3.5%, equivalent to \$10–20bn². This calculation is based on the UK’s income and historic emissions and builds on earlier estimates that the UK’s fair share of the global effort to achieve net zero should be 3.5%³. Regardless of the exact figure agreed upon, it is clear that new sources of finance will be needed, so the following suggestions show how a contribution of a midpoint figure of \$15bn (£12.57bn) might be achieved. All these options are based on the polluter pays principle.

Where could the UK’s fair share come from?

1. Fossil fuel profits tax: Increasing the tax on excess profits from fossil fuel production to 95% could raise £12.5bn⁴. This would target the major polluters, which are currently receiving record profits.

2. Wealth tax: A Net Wealth Tax (in line with the parameters set out by the Wealth Tax Commission) at a rate of 0.5% levied on wealth in excess of £1m could raise approximately £15bn. This would target people who are likely to be disproportionately high polluters in their consumption and personal investments. This would be expected to become increasingly important as fossil fuel profits decrease with time.

3. Smaller targeted taxes, which could be combined, such as the existing International Air Passenger Levy (£3.5bn), plus revenues from a combination of a) the Emissions Trading Scheme (£6bn); b) an expanded Financial Transactions Tax (£6.5bn) or c) the existing Energy Profits Levy (around £5bn annually).

Further details and options can be found in [the report](#).

What principles should this finance adhere to?

Given there are multiple sources of funding available to contribute the UK’s fair share of the Loss and Damage Fund, the options chosen must align as far as possible with the following principles. Firstly, funding sources should adhere to the **polluter pays principle**, as loss and damage has resulted in climate impacts that cannot be adapted to because of high emissions, largely from rich countries, so it is expected that rich, ‘developed’ countries will shoulder the main financial responsibilities in line with this historical responsibility. In addition to this, methods of financing should be **new and additional** to already pledged sources of funding; **needs-based, adequate, predictable and precautionary; locally-driven; public and grant-based** (rather than in the form of loans which add to a debt-burden), as well as **balanced and comprehensive**.

Recommendations

The UK government must recognise its own obligation to contribute its fair share of funding to the Loss and Damage Fund. Multiple options exist for providing this money which align with the polluter pays principle. These include, but are not limited to, **profit taxes on fossil fuel producers, wealth taxes, and smaller targeted taxes** like an international air levy. The options (or combination of options) chosen must generate new and additional funding beyond existing climate finance commitments, and adhere to the above principles.

¹ A Markandya and Mi González Eguino, 2019. https://link.springer.com/content/pdf/10.1007/978-3-319-72026-5_14?pdf=chapter%20toc

² Christian Aid, 2023 www.christianaid.org.uk/sites/default/files/2023-04/the-loss-and-damage-fund_final.pdf

³ Climate Equity Reference Project, 2019. “The UK’s climate fair share to limit global warming to 1.5C”, available on request. For more information about the Climate Equity Reference Project: www.climateequityreference.org

⁴ Tax Justice UK, 2022. www.taxjustice.uk/blog/44bn-a-year-could-be-raised-from-higher-tax-on-oil-and-gas-profits