The Loss and Damage Fund

Where does the money come from?

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Ugandan Climate Justice activist Vanessa Nakate calls for ‘Loss and Damage finance now’ on Parliament Square as part of Christian Aid's campaign

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List of acronyms

CBDR-RC	Common But Differentiated Responsibilities and Respective Capabilities
CDT	Climate damages tax
COP	Conference of the Parties (to the UNFCCC)
FTT	Financial transaction tax
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
RST	Resilience and Sustainability Trust
SDR	Special drawing rights
UNFCCC	United Nations Framework Convention on Climate Change

Executive summary

At the United Nations Framework Convention on Climate Change 27th Conference of the Parties (COP27), governments agreed to establish a Loss and Damage Fund to provide money to people experiencing loss and damage – the impacts of climate change that surpass adaptation – in developing countries particularly vulnerable to climate change. The agreement to set up the fund[1] marks a major recognition that loss and damage is happening, that those experiencing it are disproportionately poorer people in lower-income countries and that it is incumbent on richer, polluting countries to provide financial redress. During 2023, the Transitional Committee is tasked with proposing how the fund should be governed, and how money should be channelled into it.

Christian Aid and our partners therefore set out some ideas for raising funds, based on the principles we articulated in our *Loss and Damage Finance Facility: why and how?* discussion paper last year[2]:

1. International cooperation and solidarity, historical responsibility and the polluter pays principle
2. New and additional
3. Needs-based, adequate, predictable and precautionary
4. Locally driven with subsidiarity – enveloping gender responsiveness and equitable representation
5. Public and grant-based
6. Balanced and comprehensive.

Governments need to agree how to raise the requisite money for the Loss and Damage Fund during 2023. Funding for loss and damage needs to be additional to funding for climate mitigation and adaptation. Currently, the financial costs associated with losses and damages are borne by those experiencing these climate impacts. As a matter of justice, this needs to change so that polluting companies and richer taxpayers – who bear much more responsibility for causing climate change – bear the financial cost of addressing loss and damage impacts. As well as fulfilling a monetary commitment, this measure of redistribution will symbolise an attempt to redress and rebalance failing relationships between richer and poorer and also between ourselves and our planet.

We identify potential sources of revenue for rich, polluting countries to contribute their fair share to the Loss and Damage Fund, from using general progressive taxation – including net wealth taxes – to specific measures such as expanding air passenger levies and other taxes that target the production and consumption of fossil fuels. The potential revenue raised by the measures differs greatly. Some will only provide a small proportion of the likely needed funds, estimated to be in the range of $290–580bn in 2030 and growing thereafter.[3] Options that adhere closely to our principles and are likely to raise the kind of money needed include wealth taxation and the Climate Damages Tax. Other options such as specific taxes on fossil fuel producers' profits or international transport levies could likely raise substantial sums but would need to be complemented by other measures. But it is clear there are ways governments can mobilise the necessary amounts to address those affected by loss and damage in lower-income countries.

Christian Aid calls on the Transitional Committee – tasked with establishing how the Loss and Damage Fund should ensure it is properly funded – to set out clear proposals in advance of COP28 to build commitments for already-rich countries to fulfil their fair share of finance. This money for loss and damage must be additional to climate finance dedicated to mitigation and adaptation. Having agreed to establish the Loss and Damage Fund, it is incumbent on rich countries to provide the funding that means people in poorer countries experiencing climate impacts that can't be adapted to can rebuild their lives.

Introduction

At COP27, governments agreed to establish a Loss and Damage Fund to provide money to people experiencing loss and damage – the impacts of climate change that surpass adaptation – in developing countries particularly vulnerable to climate change. The agreement to set up the fund[4] marks a major recognition that loss and damage is happening, that those experiencing it are disproportionately poorer people in lower-income countries and that it is incumbent on richer, polluting countries to provide financial redress. During 2023, the Transitional Committee is tasked with proposing how the fund should be governed, and how money should be channelled into it.

The COP27 decision text about the Loss and Damage Fund highlights that 'existing mechanisms' are expected to provide money but are unlikely to be sufficient. Given the failure of developed countries to meet the long-standing commitment to provide $100bn for mitigation and adaptation. a new approach is clearly needed, including new sources of finance. Funding for addressing loss and damage needs to be additional to funding for mitigation and adaptation since loss and damage occurs when the limits of adaptation have been breached. In this paper, we outline a range of options governments can consider to raise money for the Loss and Damage Fund in line with their responsibility. Far too much climate finance has tended to be in the form of loans; Loss and damage finance must be in the form of grants from rich countries to poorer ones via the fund to acknowledge that loss and damage is a consequence of climate impacts caused by rich countries and to avoid exacerbating developing countries' growing debt burden, which is already impeding their climate responses and impairing their progress towards the Sustainable Development Goals.

As our understanding of loss and damage improves, it is getting easier to attribute climate change impacts to anthropogenic causes. Estimates of the financial costs of losses and damages are less precise as impacts increase in scope, frequency and intensity but the range of $290–580bn a year by 2030 is widely cited,[5] and is the most credible available estimate. Updating this estimate to take account of inflation and rising climate impacts based on recent years provides a midpoint cost of $400bn in 2030.[6] This is a quantum higher than existing climate finance, making it crucial that governments grasp the nettle of new funding sources.

The COP27 decision text envisages that governments and other parties will discuss new funding arrangements and a dedicated fund during 2023. It 'invite(s) international financial institutions to consider, at the 2023 Spring Meetings of the World Bank Group and the International Monetary Fund [emphasis added], the potential for such institutions to contribute to funding arrangements, including new and innovative approaches, responding to loss and damage associated with the adverse effects of climate change'. The UN Framework Convention on Climate Change (UNFCCC) and other international processes will be important through 2023. The Transitional Committee of the Loss and Damage Fund will need to oversee the finance and governance questions carefully. In summary, the World Bank 'evolution roadmap' recognises that the World Bank is not sufficiently equipped to deal with multiple crises, including the climate crisis. But the governance of the Loss and Damage Fund needs to remain within the UNFCCC system, which has the most legitimacy to oversee it. 'The committee will decide which countries will pay into the fund, which countries will be eligible to receive money, and through which channels the funding will flow… [and] is expected to finish its work in time to submit a plan for approval at COP28 in Dubai late this year.'[7] Here we look at the options on finance, covering coordinated modalities agreed within the UNFCCC and voluntary contributions parties can make. To be supported effectively, the Transitional Committee could invite observer organisations to the committee – governments have valued the participation and contributions of observer organisations in designing and operationalising funds including the Green Climate Fund.[8]

Christian Aid and our partners therefore set out some ideas for raising funds, based on the principles we articulated in our *Loss and Damage Finance Facility: why and how?* discussion paper last year.[9] Governments

need to agree how to raise the requisite money for the Loss and Damage Fund during 2023. Currently, the financial costs associated with losses and damages are borne by those experiencing these climate impacts. As a matter of justice, this needs to change so that polluting companies and richer taxpayers – who bear much more responsibility for causing climate change – bear the financial cost of addressing loss and damage impacts. While recommending general progressive tax measures for economic, social and climate reasons, we also propose specific measures that governments can use to raise money to fund their 'fair share' of the Loss and Damage Fund. As well as fulfilling a monetary commitment, this measure of redistribution will symbolise an attempt to redress and rebalance failing relationships between richer and poorer and also between ourselves and our planet.

Principles for sources of finance

Loss and damage occurs when the limits to adapting to climate change are breached. It describes climate impacts felt be people who cannot adapt sufficiently to a rapid- or slow-onset climate change impact. A loss is something that cannot be recovered (such as land being eroded into the sea) while a damage (such as damage to a building) may be able to be repaired but will incur financial and possibly other costs. Much of our understanding about loss and damage is premised on financial costs – how much it will cost to repair or replace physical assets that may or may not be insured. But there are also non-economic losses and damages including loss of life, health or mobility, loss of culture or knowledge and damage to the environment.

Box 1: The human failure of loss and damage requires action now

Based on Bob Kikuyu's theological reflection on loss and damage

Nations including the Pacific Islands face an existential threat – a cruel and unfair outcome of the ongoing climate crisis. Human and natural resources are being exploited in the name of continuing 'growth' and 'development' and more and more harmful substances are being sent into the atmosphere in this process. The environment has been scarred beneath and suffocated above – the wellbeing of human and all other species is at risk.

Those living in poverty are more likely to experience losses and damages because they are less likely to be able to adapt to a given climate impact. They have neither adequate tools nor resources to plan for climate crises, particularly considering that the challenges they face are often multi-dimensional. Yet at the same time, they are also far less responsible for contributing to climate change; loss and damage is therefore firstly a matter of justice.

While the conversation of who takes the responsibility of the ongoing losses and damages, and for how much, navigates the steep and thorny way, we need to help each other in creating a thriving and flourishing world where everyone can live with dignity. Going beyond supporting climate-affected communities with finance, technology and capacity-building support, the loss and damage discussion needs to consider the reconciliation for the enablement of just and sustainable communities believing 'we are each other's neighbours, regardless of who we are or where we live' as John Sentamu highlights in the Christian Aid *Poverty Report: Reimagining paths to human flourishing*.[10]

Ultimately, addressing loss and damage means we need to *reconcile* ourselves to each other, recognising where we have fallen short or over-extended our power. And we need to reconcile our relationship with nature. The pathways to reconciliation are often obstructed by claim and counter-claim. Justice is delayed in the back and forth as lives continue to be affected in the ongoing climate crisis. But there can be more than that. A theological reflection around this suggests that loss and damage needs to go beyond recompense and reparations – vital though these are. We also need reconciliation for the enablement of just communities. It is then that we can speak of the redemptive actions of restitution and reparations.[11]

In terms of the ground rules for the fund, the *Loss and Damage Finance Facility: Why and how* discussion paper proposed six overarching principles deriving from different sources including the UNFCCC, the Paris Agreement and the Rio Declaration.[12] While the operationalisation of these principles happens at different levels (global, national and subnational) in line with climate justice principles, these also must be guided by a human rights approach.[13] Climate change raises fundamental questions of rights, fairness and equity.[14]

Alongside partners, Christian Aid put forward the following principles to which a loss and damage fund should adhere (see our *Loss and Damage Finance Facility: Why and how?)*:

1. **International cooperation and solidarity, historical responsibility and the polluter pays principle**
2. **New and additional funding**
3. **Needs-based, adequate, predictable and precautionary**
4. **Locally driven with subsidiarity – enveloping gender responsiveness and equitable representation**
5. **Public and grant-based**
6. **Balanced and comprehensive**

Box 2: We are in a doom loop now!

Inspired by *1.5C dead or alive?* , an IPPR and Chatham House report

It is important for UNFCCC negotiators to know when and why loss and damage entered the climate policy discourse and how it is related to the creation of the convention. Countries joined an international treaty in 1992, the UNFCCC, as a framework for international cooperation to combat climate change by limiting average global temperature increases and the resulting climate change, and coping with impacts that were, by then, inevitable.[15] Historically, the ultimate objective of the convention is to stabilise the greenhouse gas concentrations 'at all levels that would prevent dangerous anthropogenic (human-induced) interference with the climate system'.[16] The first (in 1990) and the second (in 1995) Intergovernmental Panel on Climate Change (IPCC) assessment reports were the foremost evidence bases in the early history of the UNFCCC.

The third IPCC assessment report published in 2001 revealed that emissions were rising as countries, in particular developed countries, didn't take carbon reduction measures seriously. In the absence of timely mitigation measures, the poorest communities need support to adapt to the enviable impacts of climate.[17] Our continuous and consistent failures to respond to the climate crisis in a timely and adequate way were confirmed by the IPCC's Sixth Assessment Working Group I Report published in 2022 – the scientists stated that: 'It is unequivocal that human influence has warmed the atmosphere, ocean and land. Widespread and rapid changes in the atmosphere, ocean, cryosphere and biosphere have occurred'.[18] The findings also uncovered that the observed changes are unprecedented over many hundreds to many thousands of years and some changes, such as sea level rise are irreversible over hundreds to thousands of years.[19]

Relocating or relabelling mitigation and adaptation finance as loss and damage finance or freeing up money from mitigation and adaptation interventions and putting that into the Loss and Damage Fund is not only adding to people's and the environment's losses, sufferings and damages but also undermines the task to keep the 1.5°C goal alive. The IPPR and Chatham House authors conclude that 'we are in a doom loop now' – the consequences of the climate crisis and the failure to address it are drawing focus and resources away from tackling its causes. This in turn means that climate impacts will be bigger, meaning yet higher costs will be needed to address greater loss and damage.[20]

Box 3: The gendered impacts of loss and damage

According to the IPCC's Sixth Assessment Working Group II Report: 'Observed mortality and losses due to floods and droughts are much greater in regions with high vulnerability and vulnerable populations such as the poor, women, children, Indigenous Peoples and the elderly due to historical, political and socioeconomic inequities.' Among these vulnerable populations, women and female-headed households tend to be more vulnerable to losses and damages because of the social, cultural, political and economic forms of marginalisation and exclusion that cause them to have limited access to economic resources, assets, decision-making power and political influence.[21]

A recent study conducted in Bangladesh shows that the climate-affected female-headed households are spending double on risk reduction activities compared to male-headed households – as much as 30% of their households' expenses.[22] Compared to men, women have fewer choices to adapt to changing conditions, and many face increased unpaid care and domestic work because of climate-related shortages of food, fuel or water, while men are more likely to migrate for work post-disaster.[23] Though poor women face higher burdens and greater risks from climate impacts, they are often refused land and assets ownership after a disaster strikes. Currently, 80% of the climate-induced displaced population is women.[24]

Therefore, locally led and gender-responsive climate finance has long been an ask by women's rights and feminist organisations. For women who are already living in poverty or on the edge, the loss and damage incurred during a disaster or from a slow-onset event may push them into further poverty and vulnerability. Therefore, to have a just response to loss and damage, it must be gender responsive.

The polluter pays principle

The COP27 decision text places the onus on developed country parties to contribute to the Loss and Damage Fund.[25] This paragraph also encourages the 'operating entities of the Financial Mechanism, United Nations entities and intergovernmental organizations and other bilateral and multilateral institutions, including non-governmental organizations and private sources … to provide enhanced and additional support for activities addressing loss and damage associated with the adverse effects of climate change.'.[26] The UNFCCC has already examined what existing international funding streams are relevant for addressing loss and damage, and recognised that new, additional and 'innovative' types of funding including expansion of the Air Passenger Levy provide options that necessitate international cooperation through institutions or between governments.[27]

UNFCCC agreements are predicated on the Common But Differentiated Responsibilities and Respective Capabilities (CBDR-RC) principle. This means that richer countries are expected to provide financial resources, given greater 'capabilities', to 'developing' countries to support their climate action. The differentiated responsibilities also recognise that many 'developed' countries have become rich through emitting large absolute and relative amounts of greenhouse gases. This is particularly important for addressing loss and damage, which has resulted in climate impacts that cannot be adapted to because of high emissions, largely from rich countries. Therefore, it is expected that rich, 'developed' countries will shoulder the main financial responsibilities for ensuring the Loss and Damage Fund is financed.

These rich countries significantly undermined their own credibility by not living up to the commitment to provide $100bn of climate finance a year for mitigation and adaptation from 2020 onwards; this target is yet to be fulfilled.[28] Discussions to broaden the contributor base from the existing Annex I parties to include more recently developed countries have failed to reach agreement. It is also important for UNFCCC parties to

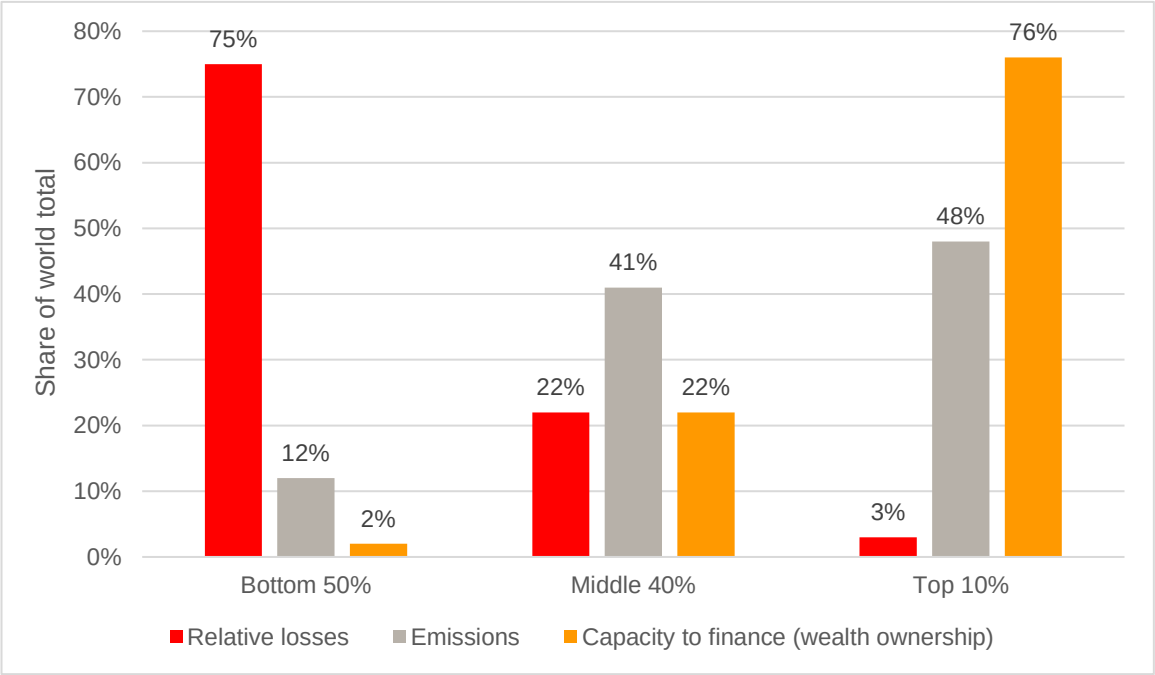
recognise that as climate impacts intensify, there will be more loss and damage to address. All countries will need to identify how they can contribute to the shared challenges in line with the CBDR-RC principle. For example, there are numerous high- and upper middle-income countries that provide development aid and climate finance, including through the Green Climate Fund, to lower-income countries. Many of these richer countries are also significant polluters. It is reasonable to look at how responsibilities for providing climate finance evolve as countries get richer and are responsible for more pollution, and as the global need for climate finance increases as climate impacts grow. But recommending new criteria for contributors to the Loss and Damage Fund is beyond the scope of this paper. Therefore, we use the same 'fair share' approach applied to mitigation and adaptation finance and apply it to the Loss and Damage Fund.[29]

Meeting the growing need of loss and damage

In 2021, the Scottish Government announced £2m to address loss and damage, and in advance of COP27 other governments made commitments to fund loss and damage including Austria, Belgium, Denmark and Germany.[30] Some of these pledges are earmarked for the 'Global Shield' (for more information, see box below). A few small pledges will do little to bridge the gap in what is needed for loss and damage finance. The scale of loss and damage today is already significant: the economic cost of weather disasters in the first half of 2022 was estimated to be more than $40bn.[31] An academic analysis found that cumulative loss and damage estimates of the twenty most vulnerable low- and lower middle-income countries between 1998 and 2017 amounted to over half a trillion dollars ($593 billion), with 293,000 deaths from extreme weather events.[32] An Oxfam report found that the total economic cost of extreme weather events in 2021 was estimated at $329bn, the third-highest year on record, behind 2017 and 2005. The study, based on data from insurer Aon, did not include non-economic loss and damage.[33] Loss and damage costs in developing countries alone are estimated to be $290–580bn by 2030.[34] Longer-term estimates for a 1.5°C temperature increase scenario are estimated to cause losses of gross domestic product of 13.1% by 2050 and 33.1% by 2100 for least developed and climate vulnerable countries.[35]

The Global Assessment Report on Disaster Risk Reduction 2022 confirms a projected 40% increase in disasters annually indicating the number of disasters is likely to increase from 400 in 2015 to 560 per year by 2030.[36] A lack of mitigation and adaptation spending and effective disaster risk reduction activities are increasing the loss and damage burden in the face of increasingly severe and intense climate hazards. Vulnerable countries are left with little or no option than to increase their already high debt burden to finance recovery.[37] In addition to increasing mitigation and adaptation finance, it is a moral imperative to address climate loss and damage.

Figure 1: *Financial capacity to deal with climate change (from the Climate Inequality Report)*



It is clear that the inequality between those experiencing climate impacts despite contributing a negligible amount to climate change and those largely responsible for climate change yet experiencing far fewer impacts is already one of the core injustices of loss and damage. This is exacerbated by the inequality in relative financial capability to deal with climate change, as shown in the Figure 1 above from the *Climate Inequality Report*.[38] This inequality underscores the practical and moral case for rich countries to provide the finance for the Loss and Damage Fund – they are responsible for causing climate change and have the means to deal with its impacts. Insurance schemes are but one tool in the toolbox to deal with climate impacts. It is unreasonable to expect poorer people who are not responsible for creating climate change to pay for its impacts. Currently, poorer people in lower-income countries are themselves paying to prevent climate impacts or deal with loss and damage. For example, rural households in Bangladesh are estimated to pay almost $2bn a year to prevent or address climate impacts – more than their government's climate programmes, which are among the largest official ones in the world.[39]

Box 4: The Global Shield – key to addressing loss and damage or a distraction?

The Group of Seven (G7) with the backing of the Vulnerable 20 Group (V20) countries launched the 'Global Shield', building on the previous InsuResilience initiative, at COP27, aiming to help the people hardest hit by disasters.[40] Despite the political and financial backing from rich countries, the boundaries of the Global Shield remain unclear. It appears to provide financial support to social protection schemes and other public service-based approaches, but the examples cited in its own documentation only highlight insurance models.[41] Insurance can have a role to play in addressing climate impacts, particularly in helping wealthier communities to mitigate some of the disaster risks, but it is not a comprehensive strategy for addressing loss and damage – and in many instances it is deeply unjust and inadequate.

It is not reasonable to expect poorer people who are not responsible for creating climate change to continue to pay for its impacts, be that through rebuilding after disaster strikes or through costly insurance premiums. Funding to subsidise insurance premiums can improve inclusion, but only if it ensures thorough, adequate cover and protection rather than simply expanding the pool of assets covered by insurance companies.

Crucially, the track record of insurance companies paying out in the wake of climate disasters shows that an insurance-focused approach does not provide a comprehensive answer (see, for example, the limited insurance payouts made after hurricane Irma wreaked havoc in Antigua and Barbuda).[42] Other payouts have also been inadequate. For example, Typhoon Haiyan caused damages of $10bn dollars in 2013 but only a tiny portion, between $300–700m, was covered by insurance.[43] In the case of Malawi's extended drought followed by a historic flood in 2015, which caused around $36.6m in damages with losses (projected to March 2017) of $329.4m, Africa Risk Capacity (ARC) paid out only $8.1m after the country declared an emergency, undermining the advantage of climate insurance. As a result, it was up to Malawi government to look for funds to cover the drought and the hardship of its citizens.[44]

There are also forms of climate-induced loss and damage that insurance will not cover, including slow-onset events such as sea level rise — for example, in Bangladesh where land is being lost to the sea, and Pacific Islands at risk of submergence — and other incidences of forced migration as livelihoods become untenable. Yet these will have significant financial implications. Non-economic losses such as loss of traditions and culture tied to land and place cannot be monetised and insured against, but people will need support to manage these.

As critics have highlighted, even if the Global Shield is part of a comprehensive set of actions to address loss and damage, by itself it is clearly insufficient and is far from delivering the solutions needed to address loss and damage.[45,46] Moreover, those championing comprehensive finance to address loss and damage are concerned that the institutional arrangements of the Global Shield deliberately shift funding and governance for addressing loss and damage outside the UNFCCC. The UNFCCC is barely referenced in the Global Shield, which appears to have its own parallel structure linking it to international finance institutions such as the World Bank.[47] Above all, from an ethical and justice perspective, the question remains why the affected communities and countries who contributed least to global greenhouse gas emissions have to pay for insurance interventions at all.[48]

The Bridgetown Initiative and global financial reform

The urgency of the climate crisis throws into sharp relief many of the inadequacies of the existing global financial architecture. Recognising the need for new loss and damage finance is leading to more urgent questions about how international financial transfers operate, whether they are sufficient and who pays for them. The structure of international financial institutions, the paucity of flows to lower-income countries – particularly given that the large majority of these flows are loans – and the fact that decision making is done mainly by developed countries, make international financial institutions unfit to host any climate finance arrangements. While it is encouraging that some governments are speaking out about the need for significant reform, not least to mobilise serious sums to tackle climate change, some of the proposals should be treated cautiously. Foremost among the proposals is the 'Bridgetown Initiative' announced by the Prime Minister of Barbados, Mia Mottley.[49] The Bridgetown Initiative is premised on many lower-income countries having insufficient access to finance, particularly to tackle climate change. Some specific recommendations in the Bridgetown Initiative are welcome, including that the International Monetary Fund (IMF) should improve access to its unconditional rapid credit and financing facilities, temporarily suspend interest surcharges, and rechannel at least $100bn of unused special drawing rights (SDRs) to those who need it. But critics are concerned that the prescription to increase the lending capacity of multilateral development banks also carries risks – it could increase the long-term debts of many countries without addressing the power imbalances inherent in regional and global financial institutions, or in climate where the main perpetrators of climate change and those affected by its impacts have vastly unequal resources. It is therefore not yet clear whether The Bridgetown Initiative and discussions around it, such as the proposed summit hosted by France and India in June, will help or distract from mobilising significant amounts of finance in a fair way.

Mobilising and paying out loss and damage finance

Establishing (legal) climate responsibility is difficult, but is getting easier thanks to climate science. However, over three decades of UNFCCC negotiations haven't led to agreed commitments on either mitigation or the duty to repair climate harms. An increasingly robust area of climate science known as 'attribution research' has the potential to build momentum to change that trajectory.[50] This work is likely to be important in determining what triggers entitlement to claim from the new Loss and Damage Fund. Lower-income countries experiencing disproportionate impacts of climate change should be prioritised to receive funding, especially when resources in the fund are limited.

Will there be a legal responsibility for countries to contribute to the Loss and Damage Fund?

The text establishing the Loss and Damage Fund builds on the Paris Agreement, which explicitly precluded any liability on the part of states or companies for loss and damage that would entail any form of redress (including finance). There is no legally binding requirement for any government or other entity (such as a company) to pay a certain amount into the new Loss and Damage Fund. However, as part of the evolving set of agreements within the UNFCCC, the COP27 decision agreeing the establishment of a Loss and Damage Fund develops the commitments made by parties to the UNFCCC and can therefore be seen as part of a set of softer 'norms' where there are existing principles (see above, particularly CBDR-RC) that set parameters on the relative expectations of different state parties to contribute to the new fund.

How should governments raise funds for the Loss and Damage Fund?

As Mohamed Adow of PowerShift Africa remarked at the end of COP27, referring to the agreement to establish a Loss and Damage Fund: 'It's worth noting that we have the fund but we need money to make it worthwhile. What we have is an empty bucket. Now we need to fill it so that support can flow to the most impacted people suffering right now at the hands of the climate crisis.'[51] The text from COP27 indicates that the main ways money will flow into the Loss and Damage Fund will be from existing financial initiatives (many of which we look at below). But because the need is big – and growing – and because the nature of loss and damage is an expression of a systemic failure to steward our earth well enough, resulting in more fractured relationships between people and planet and between peoples living on the planet, Christian Aid recommends that a systemic approach is needed to mobilise the scale of resources needed in an equitable way.

The most sustainable way to generate collective revenue is through taxation. Depending on the design and type of tax used, it can also be the most progressive way to raise revenue. By taxing people on the basis of wealth or income, governments are already taking into account the ability to pay. These kinds of taxation (such as income tax or capital gains tax) are raising revenue from those with greater financial and (in the case of some wealth taxation) other assets. There is a clear correlation between both income and wealth and carbon emissions, as demonstrated by Oxfam's recent *Carbon Billionaires* report.[52] It is therefore practically as well as ethically compelling to use general progressive taxation for governments to raise revenues to fulfil their fair share of the Loss and Damage Fund.

The *Climate Inequality Report 2023* concludes that 'relatively modest progressive taxes on wealth ownership could yield hundreds of billions of dollars of tax revenues every year given the very high level of wealth concentration. High income countries fulfilling their obligation to contribute to global "Loss and Damage" funds as well as global adaptation or mitigation funds should start from such taxes. A "1.5% for 1.5C" progressive tax on extreme wealth (individuals owning over US$100 million would raise about US$295 billion per year, more than enough to fill the current adaptation gap as reported by the United Nations Environmental Programme'.[53] This would also mean some resources for the Loss and Damage Fund, which could be supplemented by improved wealth taxation at the national level.

Possible specific sources of finance

Paragraph 5 of the decision text on the Loss and Damage Fund from COP27 refers to 'identifying and expanding sources of funding' and 'ensuring coordination and complementarity with existing funding arrangements'. Paragraph 6 also notes that the Transitional Committee setting up the fund should draw on 'potential sources of funding, recognizing the need for support from a wide variety of sources, including innovative sources'.[54] The implication of the decision text from COP27 is that the Loss and Damage Fund will rely on both existing financial flows and newer sources.

Christian Aid is concerned about there being enough funding for the Loss and Damage Fund, and that the funding is mobilised in line with the six principles set out above (international cooperation and solidarity, historical responsibility and the polluter pays principle; needs-based; adequate; grants-based; balanced and comprehensive). Where the means of finance have an impact on other factors such as the speed of finance and the capacity of those affected by loss and damage to access the funding, it is important that those sources that enable a participatory, speedy and accountable approach are prioritised.

In analysing potential sources of finance, the UNFCCC parties will need to agree directly or through the governing entity of the Loss and Damage Fund:

- which parties have responsibility for raising the finance for the Loss and Damage Fund
- what the total amount should be in a given year using an estimate of needs
- how contributing countries should share the burden.

The exact scope of what the Loss and Damage Fund decides for itself will be determined to some extent by the work of its Transitional Committee during 2023.[55] It is likely that countries' fair shares will mirror estimates of fair burden-sharing in mitigation and adaptation funding,[56] with countries contributing on the same proportionate basis. Commitments to the Loss and Damage Fund need to be considered separately from the pre-existing $100bn commitment on mitigation and adaptation. However, there is a case to be made to incentivise greater fulfilment of the need to finance mitigation and adaptation by mechanically increasing the share of a country's loss and damage finance contribution according to a shortfall in mitigation and/or adaptation funding, on the basis that shortfalls in the latter lead to even greater loss and damage in the future (all things being equal). Whilst this approach may lead to relatively and absolutely less loss and damage finance as countries strive to prevent paying this 'penalty' premium, there needs to be agreement of a minimum amount for the loss and damage already caused.

While Christian Aid recommends that parties to the UNFCCC look at how non-state parties such as companies can be consistently co-opted into contributing to the Loss and Damage Fund on an equivalent basis to states, our analysis of possible sources of finance assumes that governments at the national level enact or amend legislation and regulations in order to assess which options work best for them to raise their identified fair share. Such legislation would need to generate relevant tax payments from individuals and companies – including multinational corporations – consistently. For example, a multinational corporation's production of oil within the borders of a country implementing a new carbon damages tax would be subject to the tax for the oil produced in the country, whatever the ownership structure of the company or where the oil was refined or ultimately consumed. Governments should ensure that the polluter pays principle is followed so that the production of fossil fuels is disincentivised through stringent taxes. A comprehensive approach could entail using some of these tax receipts to subsidise the transition to renewable energy sources. Rich, developed countries should use additional tax revenues to pay into the Loss and Damage Fund given their historic responsibility for causing climate change; 'developing' countries can prioritise the transition to renewable energy and improve adaptation measures.

The principles we use and the fair share approach require taking into account greenhouse gas production and consumption, and the scientific analysis that shows fossil fuel production needs to decline rapidly. We use the UK as an example of a 'developed' country to provide an illustration of how each possible measure could be utilised to generate some or all of the fair share amount.

The UK's nominal fair share contribution to the Loss and Damage Fund

The exact criteria for calculating a fair share may mirror those used to determine mitigation and adaptation contributions, or have some specific criteria (such as the historic contribution of highly polluting companies headquartered and ultimately regulated in the given country). For example, ODI calculated what each of different 'developed' countries' fair share of the $100bn target was and how far each had met this target. The fair share was calculated on the basis of each country's gross national income (GNI), cumulative territorial emissions since 1990 and population size.[57] Criteria for working out contributions to the Loss and Damage Fund may place a greater emphasis on cumulative emissions, while retaining an element of income given the

CBDR-RC principle. Organisations in the USA have estimated that the US fair share of public loss and damage financing would amount to $20 billion in 2022, rising to about $117 billion annually by 2030;[58] this estimate is based on a more steeply escalating responsibility than our more basic illustration for the UK.

Christian Aid estimated that for mitigation finance, the UK should provide 3.5% of the total global effort in addition to reaching net zero domestically.[59] We expect 'burden sharing' for loss and damage finance to follow the CBDR-RC principles and use this 3.5% UK fair share of mitigation effort as a proxy for contribution to the Loss and Damage Fund until disaggregated fair share contributions are agreed. Applying this percentage to the forecast of loss and damage costs in 2030 equates to $10bn at the lower bound of $290bn or $20bn at the upper bound of $580bn. This range of $10–20bn seems reasonable given that ODI estimated the combined fair share of climate and development finance for the UK to be almost $29bn in 2019. The UK fell short of this by around a third, contributing 68% of this amount.[60] In Table 1 we examine how far towards a target of $15bn or £12.57bn (mid-way between the lower and upper estimates suggested above and approximately the same amount as the UK's fair share commitments for each of mitigation and adaptation financing in the early 2020s) a given measure might provide. The revenue estimates are based on existing published research, detailed and referenced in the fuller table in the appendix. A slightly higher fair share from the UK would be apportioned following the same criteria ODI used to calculate contributions to the $100bn target for mitigation and adaptation financing. For a needs-based total amount of $290bn, the UK share would be 5.84% equating to around $17bn (or roughly £14bn). Whatever the total target or the experience of 'developed' countries in contributing to the $100bn target for mitigation and adaptation, it is reasonable to assume that new sources of finance will be needed for the Loss and Damage Fund.

Table 1: Comparing sources of finance

Source of funding/ mechanisms	Existing fund? (eg GCF)	Who pays?	What is the potential revenue?	Potential revenue in UK context (reference £12.57bn for benchmark 'fair share')	Redistributive impacts	How likely (political and social feasibility)
Redirect fossil fuel subsidies towards funding for loss and damage	No	Fossil fuel companies	$245bn a year (but likely subsidies go to renewable energy)	£5.7bn for one subsidy in the Energy Price Guarantee	Higher consumer prices likely	Very unlikely
Financial transaction tax (FTT) (known as Tobin Tax, or Robin Hood tax)[61]	No	Financial institutions including banks	$60 billion a year	£6.5bn	Effects on wealthier individuals and financial institutions	Likely in some countries building on existing national approaches
Climate damages tax (CDT)	No	Oil, gas, and coal companies	$75–150bn a year (at a rate of $6 per tonne of CO_2)	Just under £1bn in 2021 but rising steeply as the unit price increases	May not be wholly progressive	Depends on whether there could be coordination internationally so that tax regime is applied consistently

Source of funding/ mechanisms	Existing fund? (eg GCF)	Who pays?	What is the potential revenue?	Potential revenue in UK context (reference £12.57bn for benchmark 'fair share')	Redistributive impacts	How likely (political and social feasibility)
International air passenger levy	Not international	International air passengers	$8–10bn a year	£3.5bn in current guise	Applies to fliers, the majority of whom are wealthy, especially for frequent fliers	Some experience with air passenger levies, which could be expanded and coordinated
Solidarity levy (modest)[62]	Yes	Air passengers (those in transit are exempt)	$5–10bn a year	Unclear but likely under £500m	Small increase on air passengers' costs	Feasible though would have to be coordinated with similar measures
Emissions trading levies	Yes (at national and EU levels)	Polluting companies	Not clear as no attempt at international coordination so far	About £6bn a year	Unclear where the final cost lies	Could build on existing national and regional schemes but unclear how well they incentivise transition to renewable energy
Bunker fuels levy	No	Maritime and aviation transport fuel	About $25bn	Around £1bn	Some sectoral impacts expected	Highly unlikely since significant difficulty in assigning emissions to countries
Fossil fuel producers corporate tax surcharge	Modification of measures	Fossil fuel producers (could also include financers)	Not clear globally	One proposal estimated to raise £12.5bn	Unclear where the cost ultimately falls	Already happening at national level in various guises
Resilience and Sustainability Trust (RST)/special drawing rights (SDRs)	Yes	IMF	At least 10% of the $650 billion in SDRs was proposed to provide seed funding for the Loss and Damage Fund	The UK received around £19bn of SDRs in 2021; 10% therefore would be just under £2bn	Needs careful coordination and not imposing policy conditions	Likely since V20 and UN Economic Commission for Latin America and the Caribbean among others are advocating for this
Debt cancellation and debt relief/debt swap and suspension	Yes	Multilateral agencies, government and private creditors	Potentially $100bns of debt that could be written off	Little debt owed to UK government but some to private creditors	Debt relief won't provide new resources to finance a Loss and Damage Fund	Unlikely, some small-scale debt for climate swaps are happening

Table 2: How well do these proposals meet our principles?

Source of finance	Polluter pays principle	New and additional	Needs-based	Locally driven	Public, grants-based	Balanced and comprehensive	Likely annual revenue*
Redirect fossil fuel subsidies towards funding for loss and damage	Y	(Y)	?	?	(Y)	?	?
Financial transaction tax (FTT) (known as Tobin tax, or Robin Hood tax)	(N)	Y	?	?	Y	?	10%
Climate damages tax (CDT) (progressive)	Y	Y	(Y)	(Y)	Y	(Y)	100%
International air passenger levy	(Y)	(Y)	?	?	Y	?	10%
Solidarity levy (modest)	(Y)	(Y)	?	?	Y	?	1%
Emissions trading levies	Y	(Y)	(Y)	?	Y	?	?
Bunker fuels levy	(Y)	Y	?	?	(Y)	?	1%
Fossil fuel producers corporate tax surcharge	Y	Y	?	?	Y	?	5%
Resilience and Sustainability Trust (RST)/special drawing rights (SDRs)	(N)	Y	(Y)	(Y)	(Y)	?	10%
Debt cancellation and debt relief/debt swap and suspension	(N)	(Y)	(Y)	(Y)	(N)	(N)	1%
Progressive tax (eg net wealth tax)	(Y)	Y	(N)	(N)	(Y)	(Y)	100%

*Likely global annual revenue as a proportion of the 2030 needs-based estimate of $290bn – order of magnitude based on evidence in table above.
Y = Yes
(Y) = Yes, maybe
? = Unclear

Aligning sources of finance with our principles

Starting with Christian Aid's preference for revenue to be raised through general taxation, an estimate of an annual wealth tax levied on those with net wealth of over £1m at a rate of 0.5% for assets above this level indicates estimated revenue of around £15bn.[63] This would see the top 5% of households paying this wealth tax, with the top 1% contributing significantly more than others. It is one way to cover the £12.7bn we use as a benchmark for a UK fair share. Similar research by Oxfam in 2019 found that a net wealth tax on those with assets over £750,000 (excluding pensions and the value of an average home) starting at just 0.2% would generate around £10bn in revenue.[64] Given asset price inflation, this is equivalent to the kind of revenue that might be expected from the UK in the early days of the Loss and Damage Fund.

A general, progressive tax meets many of the principles outlined at the start of the paper and in the table above for specific measures, though it is less explicitly following the polluter pays principle. Revenue would be new and additional assuming increasing tax rates, or new taxes altogether. Like many specific measures, it is not directly clear whether general progressive taxation fulfils the aim to be needs-based and locally driven (the latter really depends on how the Loss and Damage Fund is governed). It is feasible that such tax regimes could be adopted in 'developed' countries, with the proceeds earmarked and transferred to the Loss and Damage Fund. It would be possible to increase rates or the tax base to generate more revenue, though behavioural changes are more likely as such steps are taken. While the idea of hypothecating tax revenues (where those raised in a particular way are earmarked or directly spent on a particular area) can reduce democratic oversight of budgets, there is a strong argument for greater hypothecation where the funding source is highly polluting and taxing it disincentivises production or consumption. The corresponding challenge – that a hypothecated tax successfully reduces production or consumption of greenhouse gases so that revenues are depressed – will need to be tackled, as is becoming clear as electric vehicles reduce the fuel levies raised from petrol and diesel vehicles in many economies.

Of the specific measures considered, the climate damages tax fits more of the principles outlined than other measures, and is one of the few that alone could generate the kind of revenue likely to be needed for the Loss and Damage Fund across contributing countries. Christian Aid's previous analysis has questioned whether this kind of carbon tax would ultimately be borne by companies or consumers, and what the impact would be if the price level leads to significant market distortions. In the case of broadly consistent adoption across countries, there would likely be a significant reduction in the production of fossil fuels, which would aid mitigation efforts but lead to much less revenue than estimated. This is an intrinsic paradox of measures that combine revenue generation and the polluter pays principle, particularly where there are readily available energy alternatives that will be increasingly cheaper – particularly relative to fossil fuels that are more steeply taxed. But there is a large pool of taxable profit to target, given that the oil and gas industry has made $2.8bn a day in profit for the last 50 years and an average annual profit of $1tn from 1970 to 2020, which is projected to be twice as high in 2022.[65]

It is somewhat unlikely that governments can coordinate nimbly to ensure that price levels are adjusted to hit the 'sweet spot' of deterring fossil fuel production and generating sufficient revenue. Recent experience shows the volatility of market prices of fossil fuels; this volatility could be significantly reduced if much of the final price was accounted for with a tax, although the higher the tax, the greater offsetting subsidies to poorer consumers would need to be. Concerns over market manipulation and trade policy would likely further cloud the implementation of such options. Stepping back from the implementation of fiscal measures, Christian Aid advocates that sources of finance should not promote profit making or private finance over the wellbeing of communities, countries and the environment. Initiatives that seek to profit from the climate crisis, or that either add to debt burdens or shift financing responsibility to climate-impacted countries, shouldn't be considered as appropriate sources of finance to address loss and damage.[66]

Christian Aid is concerned that, as well as adhering to the principles outlined above, any measures to generate revenue have fair distributional consequences within as well as between countries. It is reasonable to assume that as the cost of fossil fuels increases through direct taxation or indirect levies on consumption, the greater expense of consumption will be disproportionately borne by poorer households, particularly where they are less able to substitute fossil fuels for alternative renewable energies. So while there is a climate imperative to switch from fossil fuel production subsidies, there is a corresponding 'social justice' imperative to cushion impacts for poorer consumers, hence the design and timing of reducing consumption subsidies needs particular care. Since our premise is that developed countries bear the major responsibility for providing finance to the Loss and Damage Fund, there is less concern about whether and how to redirect consumption subsidies in lower-income countries. But given the wider importance of this agenda, it is relevant to note that in more challenging fiscal contexts, there is a need for fossil fuel subsidies to be redirected in ways that achieve climate and economic justice objectives.[67]

What are the most promising options for governments at the national level and for agreement at the UNFCCC?

How far do we expect specific measures (as outlined in Table 1) to provide the funding compared to a more generalised increase in progressive taxation in rich countries (particularly on wealth and excess consumption of the rich given disproportionate emissions)? As the authoritative Climate Inequality Report notes: 'Progressive wealth taxes on top-wealth holders could generate substantial resources, without asking for more financial efforts from 99.9% of the population in rich and developing countries. Individual-based levies such as air passenger taxes and progressive wealth taxes, or taxes on specific, polluting economic sectors of the economy can also be mobilized. The removal of fossil fuel subsidies can also save significant amounts of funding, but careful design and timing are critical.'[68]

It is reasonable to anticipate that once fair shares are established for governments that are expected to contribute, those governments will determine how best to raise the revenues themselves. This does not preclude cooperation on one or more of the specific sources of finance such as extending the air passenger levy approach or similarly broadening the financial transaction tax; indeed these options are likely to be more politically salient than instigating coordination of a new carbon tax across countries, such as the CDT. Already there are discussions within the UNFCCC and beyond about how to build on existing experience with tools such as air passenger levies to provide loss and damage funding; similarly taxing shipping is recognised as a natural fit for generating revenue for the Loss and Damage Fund.

Governments may not choose finance options that meet our principles and may choose options that have regressive distributional impacts (for example, increasing VAT on energy consumption where renewable alternatives are either not yet readily available or costly to switch to, such as heat pumps for residential heating in the UK). We deliberately recommend choosing more progressive options and subsidising poorer consumers to make switches to renewable energy.

There may, though, be options for governments to coordinate on taxing companies more directly, perhaps by extending existing emissions trading schemes, or potentially developing ideas based on the carbon border adjustment tax originating in the EU. But given the wider importance of using taxation as a tool not just to raise revenue but to re-price activities and thus incentivise the move to sustainable renewable energy, taxes on polluting companies should aim to reduce the production of fossil fuels as effectively as possible. Such taxes may therefore be 'transition' taxes with an intentional limited lifespan as a successful transition to renewable energy is achieved. Alternative Loss and Damage Fund sources of finance would then need to be identified from our options, ultimately resting on progressive tax options, including effective wealth taxation.

A surcharge on the profits of fossil fuel producers meets many of our principles. The surcharge principle was applied to banks in the UK following the global financial crisis of 2007–2008, partly as a way to recoup state bailouts and support to the sector. The proposed surcharge targets the producers of pollution, raises revenue progressively (profits are income after costs essentially), and because the level of tax is higher for producing fossil fuels it incentivises production of cleaner energy. Given the volatility of energy prices, and the volatility around the costs of extraction of fossil fuels, such a measure is unlikely to produce a stable source of revenue. Greater stability would be ensured by governments coordinating on a common level of surcharge but such coordination is unusual in tax and would need to implemented in a way that is consistent with internal trade laws on competition policy. To make the surcharge tax more broad, governments could apply it not only to producers of fossil fuels but also to financers and guarantors (including insurers) of production. This approach would also increase incentives to invest in renewable energy rather than increasingly costly fossil fuels, which with wider regulation may become 'stranded' physical and financial assets.

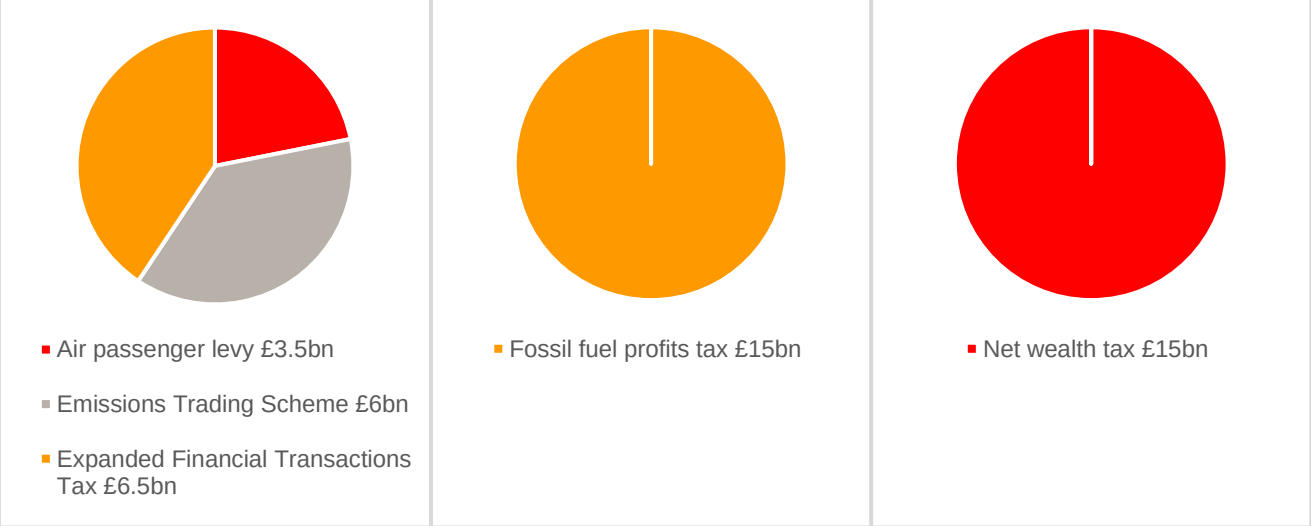
How much revenue might specific measures raise?

Many specific measures are likely to raise significant sums but exactly how much at a global level is hard to determine in the absence of agreement on the rate of a levy/taxation, what exactly the measure applies to and for international measures how the relevant production or activity would be taxed consistently. In some cases (for example where cross-border activities are involved) there needs to be agreement about which government collects the revenue, and how it is accounted and then channelled to the Loss and Damage Fund as a contribution to two or more countries' share. Measures that directly adhere to the polluter pays principle are likely to be subject to the paradox of diminishing returns as the effectiveness of taxing such activities 'bites'. Governments will need to be clear how to generate financially sustainable revenues to pay increasing amounts to the Loss and Damage Fund, for example by gradually moving away from specific measures to more general progressive taxation.

Box 5: Meeting the UK's fair share contribution to the Loss and Damage Fund

If the UK 'fair share' contribution is assumed to be $15bn or £12.57bn, there are different ways for the UK government to consider to raise this amount in line with our principles and taking into account the likely distributional impacts on taxpayers in the UK. One option would be to implement a national net wealth tax in line with the parameters set out by the Wealth Tax Commission. A rate of 0.5% levied on wealth in excess of £1m is estimated to raise in the region of £15bn. This has the advantage of being targeted on those who are likely to be disproportionately high polluters in their consumption and personal investment. But to target fossil fuel companies, governments such as the UK's should consider options such as more stringent profit taxes on fossil fuel production, which could raise around £15bn according to Tax Justice UK. The Climate Damages Tax could be a longer-term model, which could raise significant sums for spending in the UK as well as providing the basis for a contribution to the Loss and Damage Fund to meet the UK's fair share. Combining smaller targeted taxes, such as the existing International Air Passenger Levy (£3.5bn), and revenues from two of either (a) the Emissions Trading Scheme (£6bn); (b) an expanded Financial Transactions Tax (£6.5bn) or (c) the existing Energy Profits Levy (around £5bn annually), would bring in more than enough revenue to pay the illustrative £12.57bn fair share contribution to the Loss and Damage Fund.

Figure: How the UK could meet its fair share



Proponents of the climate damages tax (CDT) estimate that were their proposal implemented, global revenue for loss and damage would be around $250bn in 2025, an amount not far short of the lower bound estimate of what will be needed in 2030. The CDT would raise increasing amounts through to the mid-2030s, with around $300bn annually raised specifically to address loss and damage.[69] Revenues thereafter would start to plateau and then decline as it is envisaged that less fossil fuel production will occur in line with the average pathway identified by the IPCC to keep to the 1.5°C target, more than offsetting the increasing price per tonne of the tax. Although the vast majority of the revenue earmarked to address loss and damage internationally derives from countries that already contribute climate finance, a portion is projected to come from other higher-income countries.

Some specific measures covered in Table 1 could build on examples already in practice, making them more feasible in the short term. For example, the French-initiated air passenger levy to provide funding to Unitaid (see Box 6) has been emulated by other countries. Given the direct connection between flying and climate change, it is reasonable to propose additional taxes or levies on passengers. So far these kinds of levies have

not had a discernible impact on flight numbers though some national examples raise significant sums. For example, the UK's Air Passenger Duty is anticipated to generate around £3.5bn in 2022/23, or around a quarter of the proposed UK fair share contribution to the Loss and Damage Fund.[70]

Box 6: French levy on air tickets ('solidarity levy')

This predictable and robust source of revenue collected more than €1bn between its establishment in 2006 and 2013.[71] Applied to all passengers on all flights out of France, €1 for economy class and €40 for business class tickets is collected to help fight against diseases such as HIV/AIDS, tuberculosis and malaria. Unitaid, a global health agency, is the principal beneficiary of this levy and has achieved success by exploiting its purchasing power to drive down medicine prices and making affordable health products for some of the poorest communities in the world. Described as a 'French success story' by the French National Assembly, the levy hasn't reduced flying, nor has it had an adverse impact on France's tourism industry. Though France was the first country to implement this levy on airline tickets, later on countries such as Cameroon, Chile, Congo, Guinea, Madagascar, Mali, Mauritius, Niger and the Republic of Korea adopted it. This special solidarity levy is one Unitaid's key sources of income.

Combining air travel levies with shipping levies could raise significant sums globally. Both of these sectors tend to fall outside the commitments made by countries when presenting their greenhouse gas emissions reduction plans to the UNFCCC because there are no binding agreements about how to deal with cross-border activities. Yet both air and sea transport are responsible for a significant portion of global emissions so taxing them effectively is in line with the polluter pays principle. Estimates including those from the UN Special Rapporteur on Human Rights and the Environment indicate that comprehensive levies on air and sea transport could potentially raise most of the lower-bound value of $290bn to compensate those experiencing loss and damage.

Box 7: Air travel and maritime shipping levies recommended by the UN Special Rapporteur on Human Rights and the Environment

Consistent with the polluter pays and CBDR principles, if all 195 signatories of the Paris Agreement participate in both air travel and maritime shipping levies, and if air passenger travel returns to pre-pandemic level, these levies could generate between $132 and $392bn of funding annually.[72] The more the industries contribute greenhouse gas emissions, the more revenue will be available to respond to the negative impacts of climate change.

The aviation and shipping industries are major greenhouse gas polluters contributing about 2.5% of global CO_2 equivalent emissions each year. Not only are their emissions largely unregulated and uncovered by carbon pricing mechanisms, but the CO_2 equivalent emissions are also projected to multiply several times over by 2050. The IMF has estimated that a carbon tax of $75 per tonne of CO_2 (and $240 per tonne of bunker fuel) would reduce maritime CO_2 emissions below business-as-usual (BAU) levels by nearly 15% in 2030 while raising revenues of about $75bn.[73]

These two international levies could help to close the gap in climate finance for loss and damage, adaptation and in an 'expeditious, equitable and efficient manner'.[74] Implementing these levies would be a step towards climate justice – benefiting the most harmed climate victims who contributed minimal to the climate crisis.

Another specific measure we consider that is partly in operation already is a financial transactions tax (FTT). While it does not adhere to the polluter pays principle as closely, it is notable that those ultimately bearing its cost are investors, who by definition have some wealth, and the tax tends to be proportionate to the value of the shares being traded. Although implemented at different rates and only applicable in some contexts, the FTTs currently in operation raise around $30bn a year.[75] Expanding the number of countries implementing an FTT from the current forty or so would lead to higher overall revenues. Together with greater consistency on the rate and how it is levied, it is reasonable to expect that annual global revenue could reach around $50bn, thus contributing a significant portion of the likely required resources for the Loss and Damage Fund.

Box 8: Financial transaction tax

The UK has a FTT in the form of a 0.5% tax on the purchase of UK-listed shares, which currently raises around £3.5bn annually.[76] Researchers have looked at how the tax can be reformed so that it applies more broadly and consistently. A more comprehensive FTT could generate an additional £6.5bn per year by addressing existing loopholes and expanding its tax base.[77] This tax falls on one of the wealthiest groups in society ensuring that those most financially capable are the ones to contribute. This is progressive taxation in nature – financial firms undertaking the greatest transaction volumes would pay the greater portion of the tax receipts.[78]

Looking across the range of revenue-generating measures we propose governments consider, the more broad-based taxes provide the greatest potential to meet the likely needs of the Loss and Damage Fund. The cost of most measures falls directly or indirectly on a mix of the producers of fossil fuels and consumers. Even broad-based measures such as wealth taxes are likely to adhere to the polluter pays principle, but to target the production of fossil fuels complementary corporate taxes are likely to improve overall effectiveness, including reducing, and then eliminating, the incentives to keep producing fossil fuels. Where revenue potential is directly linked to fossil fuel production or consumption governments will likely need to develop more broad-based taxes to maintain a fair share of contributions to the Loss and Damage Fund as the transition to renewable energy is fulfilled.

Conclusion and recommendations

Loss and damage is a symptom not only of climate change unleashing impacts beyond our ability to adapt but also of our fractured relations with each other, and humanity's failure to fulfil the stewardship of the earth entrusted to us. While financial recompense from the polluting to those affected by unadaptable climate impacts can ameliorate some of those impacts and expresses some sense of relational responsibility between the powerful polluters and the less powerful at the sharp end of loss and damage, finance is a limited response. No amount of money can undo lasting climate impacts or the resulting changes in lives and livelihoods. The limits of financial recompense should remind us that the symbolic act of redistributing resources should be part of a more complete approach to reconciliation – with each other and in our relationship with earthly resources. Thus, a properly resourced and effective Loss and Damage Fund will be a necessary but insufficient part of wider efforts towards climate justice.

It is vital that parties to the UNFCCC recognise the promise of justice embodied in the Loss and Damage Fund. While financial transfers are only a partial way of addressing loss and damage, funding that is insufficient and does not get to those who need it will render the fund ineffective and unjust from the start. It is therefore vital that governments overcome this risk by assessing which sources of funding will generate enough money

to contribute a fair share and align with the polluter pays principle. Wider governance issues beyond the scope of this paper need to be addressed holistically by the Transitional Committee.

Reflecting on the principles we set out in advance of the COP27 agreement to establish the Loss and Damage Fund, we think that a mix of general progressive taxation – particularly wealth taxes – alongside some form of carbon damages tax, provides a sure and fair basis of revenue to be dedicated to the Loss and Damage Fund. In all cases, governments should ensure incentives to reduce production and consumption of greenhouse gases are aligned and that where negative distributional impacts may occur, sufficient financial and other support is provided to poorer consumers and taxpayers. The exact amount needed in the Loss and Damage Fund and countries' corresponding fair shares should be considered within the context of all needed climate finance to be negotiated through the 'New Collective Quantified Goal', recognising that loss and damage funds need to be grants, in payment for damage caused, and additional to amounts dedicated to mitigation and adaptation.

Recommendations

For the UNFCCC and the Transitional Committee

- Responsibility for funding the Loss and Damage Fund should initially rest with 'developed' countries.
- Funding must be in the form of grants, not loans.
- Funding needs to flow from 2024.
- Funding must be needs-based.

For 'developed' countries

- Governments must provide the Loss and Damage Fund with their 'fair share' of funding.
- Governments should use progressive taxation, particularly wealth taxation, as the main long-term option for raising new money, whilst in the shorter term utilise other options on the basis of our principles including higher taxes of fossil fuel producers' profits.
- Of the additional funding options, the climate damages tax aligns most closely with our principles but care should be taken to address any regressive distributional consequences.
- Governments should communicate to taxpayers (citizens and companies) about the rationale for raising additional revenue for the Loss and Damage Fund, in the context of the growing climate emergency.
- Governments should recognise the need for a Loss and Damage Fund as extra motivation to improve mitigation and adaptation measures.

For 'developing' countries

- Countries whose populations are experiencing loss and damage should ensure economic and non-economic costs of loss and damage are researched and shared with the Loss and Damage Fund. Much work lies ahead in ensuring the fund is operationalised in a consistent and equitable way.
- Social protection and other measures to address the impacts of loss and damage should be accelerated in parallel to accessing money from the Loss and Damage Fund.
- Governments should facilitate the direct engagement of affected communities with the Loss and Damage Fund and enable decisions about how funds are used to be taken by those affected.

Appendix: Comparing sources of finance – full details

Source of funding/ mechanisms	Existing fund? (eg GCF)	Who pays?	What is the potential revenue?	Potential revenue in UK context (reference £12.57bn for benchmark 'fair share')	Redistributive impacts	How likely (political and social feasibility)
Redirect fossil fuel subsidies towards funding for loss and damage	No	Fossil fuel companies	'A 4 per cent annual reduction in fossil fuel subsidies by G20 countries could raise US$245 billion to support efforts to address L&D between now and 2030.'[79] Meanwhile the UN Development Programme estimated the size of fossil fuel subsidies at $423bn a year.[80] Note subsidies are likely to be re-directed to renewable energy.	The special subsidy incorporated in the Energy Profits Levy (2022) is likely to be up to £5.7bn over three years according to E3G.[81] The UK government denies providing subsidies to the fossil fuel industry but there are preferential treatments for the industry.	Pushes up prices for consumers where there are few alternatives to fossil fuels – therefore need more consumer subsidies (and potentially more alternative sources of energy).[82]	Very unlikely in short term (recent trends show more support by governments for fossil fuel production).
Financial transaction tax (FTT) (known as Tobin tax, or Robin Hood tax)[83]	Not for climate finance – exists at national levels (and some agreement among EU members)	Financial institutions including banks	$60 billion per year[84]	Reformed FTT in UK could raise £6.5bn a year – roughly half of the benchmark amount for the UK contribution to the Loss and Damage Fund[85]	Highly unlikely to impact the poor whether in the global North or South. It would be generated through transactions involving shares, bonds, currency, derivatives and other financial instruments. However, responsible consumer protection regulations need to be in place in case financial institutions increase charges beyond the scope of the tax.	Likely since some countries in the EU agreed to implement FTT in 2014.[86] The UK already has a form of FTT but reforms could make it more comprehensive and incentivise long-term investment while raising more revenue. France introduced it already and was able to finance climate actions in the global South. Some G20 countries including Brazil, India and South Africa already implemented some form of FTT. There is, however, strong opposition from the financial sector.

Climate damages tax (CDT) (progressive)	No	Oil, gas, and coal companies	$75–150bn per year (at a rate of $6 per tonne of CO2) and $500–1,000bn per year (at $40 per tonne of CO_2).[87]	Just under £1bn in 2021 but rising steeply as the unit price increases. The CDT assumes that for countries like the UK half the revenue would go to a Loss and Damage Fund, with the other half remaining in the UK.[88]	Operationalised by CBDR-RC and the polluter pays rule of international environmental law – those with higher consumption pay more but it is not clear if it is wholly progressive. It might still add a financial burden on consumers if (i) the tax is passed to the consumers (especially problematic where richer consumers can switch to renewable energy sources but poorer ones can't), and (ii) the renewable energy market fails to provide for its new consumers. Therefore, government intervention to protect consumers' interest becomes a pre-requisite in this regard. The proposed CDT incentivises governments to support fossil fuel extraction in their country because even richer countries keep half of the proceeds.	Possible since there are pressures from UN bodies, civil society organisations and media to impose a windfall tax on the biggest fossil fuel companies. However, if fossil fuel taxes were established in some countries but not all, then fossil fuel giants could simply shift their operations around to avoid the levies. Austria has applied the windfall tax and Netherlands made a legislative proposal to introduce a windfall tax. Across Europe, at least 14 countries have a windfall mechanism in place or have proposals to be approved.

International air passenger levy	Not international	International air passengers	$8–10 billion annually (initiated to benefit adaptation fund initially).[89] Countries could decide to increase the levy on frequent fliers and/or those flying first class/private jet to try to raise more revenue and modify behaviour.	In the current financial year, the UK Air Passenger Duty (a particular version) is likely to raise £3.5bn based on rates from £6.50 to £601 depending on length of journey, type of aircraft and class.[90]	Positive redistributive impact if it is based on class of travel or 'frequent flier' miles (possibly with sliding scale so levy rises at high marginal rate). No significant effects on the passenger numbers, ie $6 for economy trip and $62 dollars for business and first-class trip (in international version). Minimal to no significant impact on tourism-dependent economies.	Likely since the level and travel class differentiation is to be according to the tried and tested formula of the French levy. French levy on air tickets has been used to support the treatment and care for HIV/AIDS, tuberculosis and malaria particularly in low-income countries.
Solidarity levy (modest)[91]	Yes	Passengers (those in transit are exempt)	$5–10bn a year.[92] Currently it raises only $160m a year, operated by 11 countries.	Unclear – needs to be computed in addition to Air Passenger Duty or similar international levy but likely under £500m.	It represented a marginal increase in costs to the passenger. Has no 'observed effects' on domestic economies.	Highly feasible. At least 10 countries including France (the only developed country) and other countries from the global South. French levy on air tickets has been used to support the treatment and care for HIV/AIDS, tuberculosis and malaria particularly in low-income countries (funding Unitaid). Countries such as the UK, USA and Ireland already implement ticket taxes – therefore not something very new for the system.

Emissions trading levies	Yes (at national and EU levels)	Polluting companies		UK scheme generates around £6bn at current price of £85 per tonne and current level of economic activity.[93]	Some industries are inherently more reliant on fossil fuels where alternatives are limited. Unclear whether the cost is borne by companies or consumers, and whether this varies within and across industries.	Uses existing schemes in place at national and regional levels already. Consistent international price and scope would particularly help companies operating internationally. Price can be raised and permits to pollute capped more stringently to incentivise lower emissions (with corresponding potential reduction in overall revenues). Does not necessarily incentivise investment in new, green technologies.
Bunker fuels levy	No	Maritime and aviation transports	$25bn (based on 2014 figures) if carbon tax is imposed at $30 per tonne of CO_2.[94]	Around £1bn (assuming little inflation since 2011 analysis) but more with higher inflation and higher price per tonne.[95]	A generic levy would have impact on economies. If levy is imposed in isolation, the respective area's bunker market would be negatively impacted, ie, California's bunker market would be reduced by 70%.	Highly unlikely since significant difficulty in assigning emissions to countries. There are many proposals on the technicalities of implementation. A levy would be more successful if implemented globally in conjunction with wider carbon taxes imposed on other transport industries.

Fossil fuel producers corporate tax surcharge	Modification of measures such as Energy Profits Levy in the UK	Fossil fuel producers (could also including financers)	In the UK, energy profits levy means oil and gas production is subject to an extra 35% tax on profits until 2028, but there are huge opportunities to reduce the bill because investment allowance is 91p for every pound. Refining and retail are not covered and there are different rules for electricity. Expected to raise £40bn over six years.[96] Meanwhile Tax Justice UK estimated a 95% profits tax would raise £12.9bn in a year.[97]	The Tax Justice UK's excess profits proposal could raise around £12.5bn a year.[98] Looking at other sectors, UK governments have introduced various surcharges on bank profits and levies on balance sheets – these have tended to raise £1–3bn depending on factors.[99]	If the aim is to raise revenue, then the levy needs to be set at a level that is high enough to make it worthwhile but low enough not to deter investment – but this then means more fossil fuel production (ie if it is successful in raising revenue it is because companies are extracting more fossil fuels). If companies pass on higher costs/ lower profits to consumers, then the distributional impact is negative without compensatory measures.	This form of revenue raising is already happening but at a national level. Very unlikely governments would choose to divert revenue from supporting consumers to those impacted by climate change overseas.
Resilience and Sustainability Trust (RST)/special drawing rights (SDRs)	Yes	IMF – it complements the existing lending toolkit by helping low-income and vulnerable middle-income countries to support climate change and pandemic preparedness.	Some proponents of international financial reform are calling for a new round of SDRs of $650bn – of which 10% could be directed to the Loss and Damage Fund.[100]	The UK received around £19bn of SDRs in 2021; 10% therefore would be just under £2bn. The UK committed to recycle some of its SDRs to the Poverty Reduction and Growth Trust.[101]	May add to country's debt burden depending on the type of fund, and may come with policy conditions. A well-designed RST should avoid the onerous conditions of the analogous Poverty Reduction and Growth Trust to bring positive changes rather than act as a deterrent. SDRs would need to be quickly 'recycled' and converted into liquid funds that could be transferred to a Loss and Damage Fund.	Likely since V20 and UNECLAC among others are advocating for this. The IMF approved the global allocation of $650bn in SDRs to support liquidity and foster resilience in the wake of the COVID-19 pandemic.

Debt cancellation and debt relief/debt swap and suspension	Yes	A trillion dollars could be made available (if applied in response to the COVID-19 crisis)	There are tens, if not hundreds of billions in arguably unsustainable debt. But even if much of this were written off, it is not clear whether any could contribute to a Loss and Damage Fund since the mechanism essentially frees up resources in countries rather than providing new money to use for the global Loss and Damage Fund.	There is little bilateral debt owed to the UK government but the UK could make it harder for private creditors using UK law to claim more than they are owed from debtor countries.	Where a country requests debt relief and uses 'freed up' resources to deal with climate change there may be gains. But debt relief in itself will not provide 'new' money to be transferred to a Loss and Damage Fund.	Unlikely. Though civil society organisations have long been demanding for it, according to the Organisation for Economic Co-operation and Development it is 'not an easy task'.[102] Though Georgia and Kyrgyz Republic qualified for debt swaps during the first half of 2000s, both efforts were unsuccessful.

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