

FINANCING LOSS & DAMAGE

Shazia Z. Rafi, Convenor, AirQualityAsia
Asif Nawaz Shah, Consultant, AirQualityAsia

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Context

[Since 2000](#), climate change and associated natural disasters have impacted 4 billion lives and incurred \$2.9 trillion in damages, the bulk of which are attributable to extreme weather events. This “[loss and damage](#)” is central to our understanding of the impacts of runaway climate change, particularly on the most climate vulnerable nations within the Global South.

Across 2019-2020, the average annual global financing for climate action came to [\\$632 billion](#). Of this total, about 90.3% went to mitigation and 7.2% went to adaptation; the remaining 2.4% went to activities that covered both. While some of this likely addressed loss and damage, there is no clear estimate for how much it was, nor is there a clear or comprehensive understanding of mechanisms to directly address loss and damage once a climate catastrophe hits.¹

[Article 8](#) of the Paris Agreement, signed in 2015, focuses on loss and damage. It states that signatory countries recognise “the importance of averting, minimizing and addressing loss and damage associated with the adverse effects of climate change,” and that they should enhance cooperation on implementing solutions.

While the inclusion of this language foregrounded the concerns of developing countries, [Paragraph 52](#) of the Decision adopted alongside the Paris Agreement states: “Article 8 of the Agreement does not involve or provide a basis for any liability or compensation.”, thereby absolving Global North nations of direct responsibility for financing loss and damage recovery.

This means the Paris Agreement does not place any legally binding obligations on countries to address loss and damage associated with climate change, and makes no mention of financial commitments to support those countries facing significant loss and damage.²

At COP26, held in Glasgow in November 2021, a network of countries known as the G77 and China called for a formal ‘facility’ to be set up to provide financial support to vulnerable nations.

However, due to opposition from the EU, US and other rich nations, leaders failed to establish a relief fund to help developing countries deal with climate change-related loss and damage.

Ultimately, the agreement signed in Glasgow, known as the Glasgow Climate Pact, recognised the need for assistance from developed countries to address loss and damage but ended without concrete measures in place to deliver financial support.

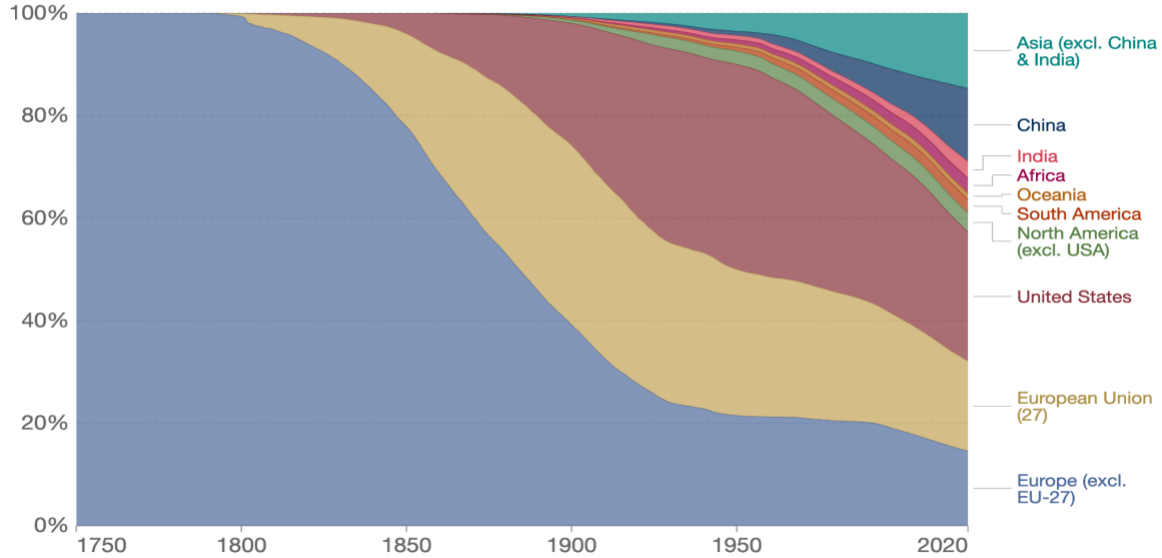
¹ [The Current State of Play on Financing Loss and Damage | World Resources Institute.](#)

² [Loss and damage: what does it mean for South Asia? | The Third Pole](#)

Figure 1³

Cumulative CO₂ emissions by world region

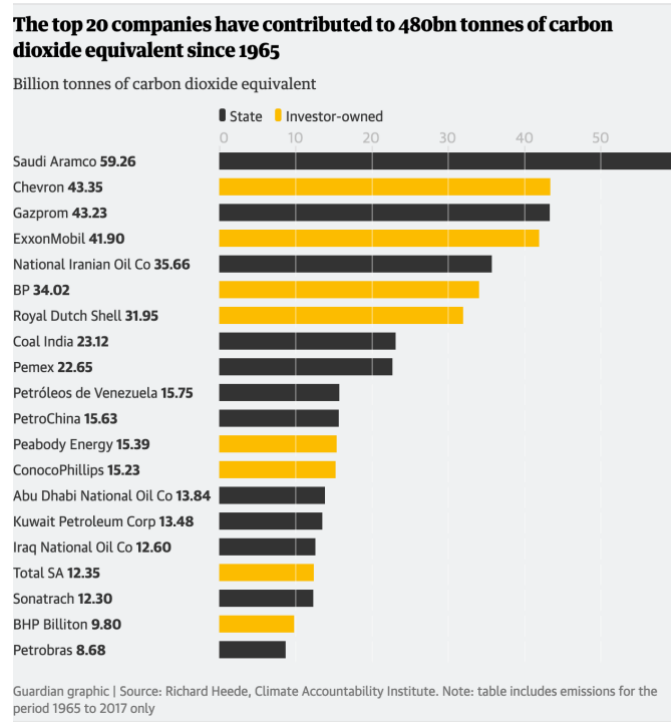
Cumulative carbon dioxide (CO₂) emissions by region from the year 1750 onwards. Emissions are based on territorial emissions (production-based) and do not account for emissions embedded in trade. This measures CO₂ emissions from fossil fuels and cement production only – land use change is not included.



Source: Our World in Data based on the Global Carbon Project

OurWorldInData.org/co2-and-other-greenhouse-gas-emissions • CC BY

Figure 2⁴



³ [Cumulative CO₂ emissions by world region](#) | Our World in Data

⁴ [Revealed: the 20 firms behind a third of all carbon emissions](#) | The Guardian

As we see from the charts above the regions and countries contributing the highest carbon emissions are not the ones facing the greatest impacts of climate change. Climate Finance is both a financial issue and ultimately, a justice issue. At COP27, it is essential that this conversation be reinvigorated and prioritised. Nearly \$29 billion in loss and damage has been incurred by extreme weather events throughout 2022⁵, from the summer drought and heat wave that has plagued Europe, to the torrential flooding that has claimed thousands of lives and uprooted rural communities in Pakistan.

In 2020, losses from disasters caused by climate-exacerbated natural hazards totaled \$210 billion and that annual amount will increase. [One study](#) predicted that total residual damages for non-Annex-1 regions ranges from \$290-580 billion by 2030, \$551 billion-1.016 trillion by 2040, and \$1.132–1.741 trillion by 2050.⁶

Loss and Damage Financing - Structure and Options

Economists from the World Bank/IFC have estimated developing countries' funding of adaptation, mitigation and transitioning to green economies from national resources is maximum 14-15%. The rest has to come from global resources including private equity funds. Development banks have continued to fund carbon and to date private equity markets have stayed on the side-lines continuing to fund carbon investments. At COP27 governments, parliamentarians and experts must now lead the private sector away from carbon to green investments.

A new purpose-built L&D finance facility could reside in one or more of the existing global mechanisms for channelling finance such as the IMF (working with the GCF). Situating the facility in the World Bank/IMF would place loss and damage at the centre of the global financial system; put the responsibility on the countries' finance ministries and treasury departments to work and help accelerate existing mitigation and adaptation efforts in the Global South. Climate impacts are a negative hit on GDP, at country and global levels; redress therefore must also be through multilateral climate financing that advances the goals of the Paris Agreement.

There are several potential funding sources to address this growing L&D burden - encompassing both existing mechanisms within international financial processes, or new instruments that would merit discussion in upcoming climate dialogues.

- **Global Carbon Tax:** Carbon pricing can be used to make polluters absorb the societal and environmental costs associated with their GHG footprint. Approximately 90 countries comprise $\frac{2}{3}$ of global carbon emissions as of December 2021. Approximately 60 carbon tax and pricing programs are in place already, including in the majority of G20 economies. Europe and Canada remain G-20 leaders for robust carbon policies. In particular, prices are close to or far above the level needed to limit global warming to 2 degrees C above pre-industrial levels by the end of the century. The World Bank estimates this range to be \$40-80 per metric ton by 2020 and \$50-100 by 2030.⁷ **To accelerate that transition AQA would propose that a Global Carbon Tax of \$60-**

⁵ [World rocked by 29 billion-dollar weather disasters in 2022](#)

⁶ [The Current State of Play on Financing Loss and Damage | World Resources Institute.](#)

⁷ [Climate Policy Factbook: COP27 Edition | BNEF](#)

\$100 be discussed at COP27 and agreed by the 2024 Spring Meetings of the World Bank/IMF.

A global carbon tax, levied on the carbon content of fossil fuels and applied to the most polluting industries - fossil fuel energy, low quality transport fuels, steel and cement) would simultaneously finance loss and damage while promoting substitution of cleaner energy sources. The tax could also be levied on CO2 emissions, rather than on the fuels themselves, to similar effect.⁸ Such a taxation mechanism has the potential to raise US\$210 billion increasing to US\$300 billion a year as the tax rate increases to incentivise phaseout of fossil fuels.⁹

- **Debt Cancellation and Debt Relief - A “Brady Plan” for Climate:** A disproportionate amount of the most climate-vulnerable countries are from the Global South. These nations are not only facing the brunt of the climate crisis, but also suffering from the highest levels of debt since the 1980s. In light of this, debt cancellation and relief, as well as innovative debt-for-climate swaps, are critical tools to increase the fiscal space of developing and vulnerable countries for climate actions and especially for addressing L&D.^{10,11}

Re-evaluating and re-engineering global debt arrangements is even more critical due to the certain impact that climate change will have, both on the “creditworthiness” of these vulnerable countries, and their ability to make debt repayments further augmented with a climate markup.¹² It is important to note that this “climate markup” will impact sovereign debt, even if temperature rise is contained within 2 degrees of warming.¹³ This means climate risks must be priced in to the terms of debt to prevent damage to the ability of nations to pay off existing debt or equally, enter into new agreements. Mainstreaming climate risk is also essential to incentivising greater investment in activities that reduce emissions help aid the transition to greener economies.¹⁴

⁸ [Durand, Alexis & Hoffmeister, Victoria & Weikmans, Romain & Gewirtzman, Jonathan & Natson, Sujay & Hug, Saleemul & Roberts, J. \(2016\). Financing options for loss and damage: a review and roadmap.](#)

⁹ [The Loss and Damage Finance Facility: Why and How | Heinrich Böll Stiftung | Washington, DC Office - USA, Canada, Global Dialogue](#)

¹⁰ [The Loss and Damage Finance Facility: Why and How | Heinrich Böll Stiftung | Washington, DC Office - USA, Canada, Global Dialogue](#) they are suggesting it be located in the WiM the Warsaw International Mechanism]

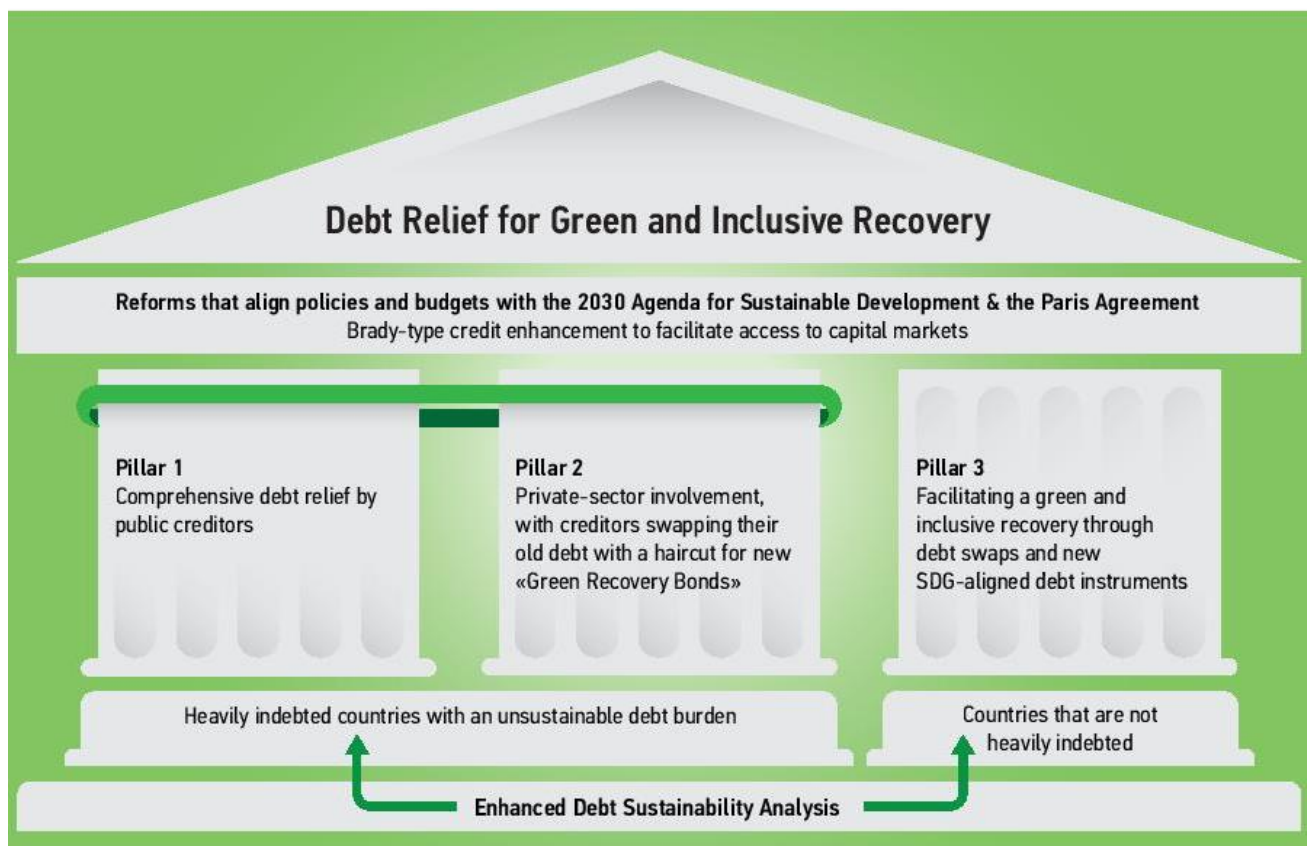
¹¹ The UN Conference on Trade and Development estimated that US\$1 trillion could be made available to developing countries if debt relief was offered as a response to the COVID-19 pandemic.

¹² [Rising Temperatures, Falling Ratings: The Effect of Climate Change on Sovereign Creditworthiness.](#) Bennett Institute for Public Policy, University of Cambridge. March 2021.

¹³ Zenios, S.A. [The risks from climate change to sovereign debt.](#) *Climatic Change* 172, 30 (2022).

¹⁴ [National COVID debts: climate change imperils countries' ability to repay.](#) *Nature* 592, 184-187 (2021)

Figure 3¹⁵



A new system for debt sustainability analysis to be carried out by the World Bank/IMF, proposed in 2020¹⁶ calls for debt assessments to incorporate climate risks. Such a mechanism would help avert situations of climate-induced default, and enable governments to reduce debt service burdens while committing to sustainable development policies.

¹⁵ [Debt Relief for a Green and Inclusive Recovery](#). A proposal by Ulrich Volz, Shamshad Akthar, Kevin Gallagher, Stephany Griffith-Jones and Jörg Haas

¹⁶ Ibid.

Table 1¹⁷

Country	Bond type	Issue Date	Maturity Date	Issue Amount (USD millions)	Coupon type
Brazil	PAR	15/04/1994	15/04/2024	10,489	Fixed (4 to 6%)
Brazil	DISCOUNT	15/04/1994	15/04/2024	7,286	Libor + 0.8125%
Poland	PAR	27/10/1994	27/10/2024	930	Fixed (3 to 5%)
Poland	DISCOUNT	27/10/1994	27/10/2024	2,970	Libor + 0.8125%
Mexico	PAR	28/03/1990	31/12/2019	17,875	Fixed (6.25%)
Mexico	DISCOUNT	28/03/1990	31/12/2019	11,507	Libor + 0.8125%
Argentina	PAR	30/09/1993	31/03/2023	12,489	Fixed (4 to 6%)
Argentina	DISCOUNT	31/03/1993	31/03/2023	4,136	Libor + 0.8125%
Philippines	PAR	01/12/1992	01/06/2018	1,894	Fixed (4.25 to 6.25%)
Bulgaria	DISCOUNT	28/07/1994	28/07/2024	1,850	Libor + 0.8125%

AQA proposes a comprehensive debt relief plan akin to (but going beyond) the 1980s Brady Plan, that should be discussed at COP27 and agreed by finance ministries led by the United States Treasury at the 2024 Spring meetings of the World Bank/IMF. The Brady Plan rescued Latin American and other economies from the risk of default and offered them credit enhancement and other guarantees for a total relief of over US\$60 billion, which in today’s value would be US\$1.5 trillion¹⁸. For climate, this plan would have to be geared towards incentivising sustainable development, in line with the 2030 Agenda, with varying levels of relief and assistance for countries with different levels of debt. The international financial institutions and environmental experts would have to provide policy, technical and financial support to the global south to implement those sustainable development projects and to help issuing countries to meet the standards of the global certification bodies for green, climate or sustainability bonds.

¹⁷ [Brady Bonds and the Potential for Debt Restructuring in the Post-Pandemic Era](#). Global Development Policy Center

¹⁸ [The Brady Plan and Market-Based Solutions To Debt Crises](#). Cato Journal, Vol. 16, No. 2 (Fall 1996)