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Discussion Abounds over Loss and Damage Schemes

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COP 27 concluded on November 20 with an agreement to provide "loss and damage" funding for the adverse effects of climate change. Governments decided to establish new funding arrangements and a dedicated fund for responding to loss and damage. Governments also agreed to establish a "transitional committee" to make recommendations at COP 28 to operationalize the new funding arrangements and the fund.

Over the past year, there have been a number of proposals for loss and damage schemes.

On World Meteorological Day, March 23, Secretary-General of the United Nations António Guterres announced the UN will spearhead new action to ensure every person on Earth is protected by early warning systems that allow us to anticipate storms, heat waves, floods and droughts within five years. He also asked the World Meteorological Organization (WMO) to lead this effort and present an action plan at COP 27.

In their meeting communiqué of May 19, the G7 development ministers committed to work towards a Global Shield against Climate Risks to strengthen existing frameworks and mechanisms and make them more systematic, coherent, and sustained, to ensure the protection of people and countries vulnerable to climate change and disaster risks. Global Shield, working with the V20 group of 58 climate-vulnerable countries, facilitates instruments designed to provide rapid financial relief directly to households and businesses to respond to disaster-related losses, or instruments that pre-arrange finance for governments for disaster preparedness and rapid response. In a first for a central government, the Danish government announced at the UN General Assembly it would provide 100 million Danish kroner (approximately 14 million dollars) for loss and damage, of which 35 million (approximately 5 million dollars) would be contributed to Global Shield.

On September 20, at the UN General Assembly, UN Secretary-General Guterres called "on all developed economies to tax the windfall profits of fossil fuel companies. Those funds should be re-directed in two ways: to countries suffering loss and damage caused by the climate crisis; and to people struggling with rising food and energy prices."

On October 16, in the V20 Ministerial Communiqué of Ministerial Dialogue IX, V20 Finance Ministers called on all creditors to the V20 economies to consider debt restructuring options including the redirection of debt servicing payments to climate resilience and energy transition investments and debt for climate swaps.

On November 7, Prime Minister Mia Mottley of Barbados put forward the Bridgetown Initiative in her opening speech at COP 27. The initiative includes; 1) special loan clauses that allow for suspending payments when a country is hit by a natural disaster or pandemic; 2) setting up a Climate Mitigation Trust backed by $500 billion worth of Special Drawing Rights, dues that member countries pay-in to the

IMF that can be drawn in times of crisis; 3) a levy on fossil fuel production (to avoid raising the cost of living, if the price of fossil fuels falls by 10% points, a 1% levy would go to a loss and damage financing facility) or an international carbon border tax, as sources of funding.

Discussions about the operationalization of the new funding arrangements and the fund will continue over the next year until COP 28, and the above proposals will serve as inputs for further discussion. Of particular interest are the discussions on sources of funding for responding to loss and damage and reforms for the IMF, World Bank, and multilateral development banks. Regarding the former, the focus will be on fossil fuel taxes, although domestic legislation is likely to be difficult to implement. For the latter, the focus will be on debt payment deferral and debt-for-climate swaps. The IMF issued a working paper touching on these topics in August titled "Debt-for-Climate Swaps: Analysis, Design, and Implementation."

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