



EMBEDDING EQUALITY IN THE NEW LOSS AND DAMAGE FUND

Lessons from the Pacific and Asia

Paper 1. Centring equity, additionality and polluter
pays in the Fund

SAFE CLIMATE
EQUAL FUTURE



OXFAM



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This report is part of Oxfam Australia's 'Safe Climate, Equal Future' series which focuses on solutions to the interconnected crises of climate change and inequality.

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IMAGE (ABOVE): Loreto Island, Malaita province, Solomon Islands: Loreto Island, off the coast of Malaita, which is under threat from rising sea levels. Photo: Collin Leafasia/Oxfam.

COVER IMAGE: East Are'are, Malaita province, Solomon Islands: The Pacific Climate Change, Collaboration, Influencing and Learning Project (PACCCIL) Loss and Damage campaign supports communities of Manawai Bay, Solomon Islands, share their stories of climate impacts. Photo: Ivan Utahenua/Oxfam.

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EMBEDDING EQUALITY IN THE NEW LOSS AND DAMAGE FUND – A TWO-PART PAPER SERIES

In Paper 1 of the ‘Embedding Equality in the New Loss and Damage Fund’ two-part series, Oxfam outlines why we must centre addressing inequality in all aspects of the Loss and Damage Fund framework, including sources of funds. We explain the current gaps in funding for aid, climate finance and humanitarian relief and why the Loss and Damage Fund must have new and additional funds. We outline Oxfam’s guiding principles for the Fund and why a wealth tax is a critical source of revenue for the Fund.

In Paper 2 we argue for the Loss and Damage Fund to focus on addressing Loss and Damage comprehensively, including rapid- and slow-onset events, economic and non-economic losses and damage. We outline why the Fund must be designed not to replicate structures in other funds that have posed significant barriers to accessing funds for highly climate-vulnerable countries, including Pacific Island countries. Finally, we argue for the Fund to prioritise locally led, participatory structures to ensure it meets the self-determined needs of people on the frontline of the climate crisis and those living with inequality and poverty.

EXECUTIVE SUMMARY

The most profound challenges we face today are the intertwining crises of climate change and inequality. While extreme corporate and billionaire wealth are skyrocketing globally, often off the back of polluting industries, the impacts of climate change are deepening inequality and poverty.

Developed countries have contributed an estimated 92% of excess historical emissions, while low-income countries have contributed just 0.5%. Meanwhile, the costs of supporting countries and communities to deal with the impacts of climate change could reach up to USD \$671 billion by 2030, with the majority of the costs currently being borne by low-income and highly climate-vulnerable countries who simply cannot afford it. It is the world’s poorest and most climate-vulnerable people who are paying the price for climate change, despite contributing almost nothing to causing the problem. Without action to address this, loss and damage is an inequality multiplier which puts the Sustainable Development Goals further out of reach.

The success of the global response to climate change is fundamentally interrelated to the ability of nations to address these deep inequalities. Nations must build trust and cooperation to agree on a just and equitable transition, including support for countries to adapt to the heating climate and recover from and build resilience to unavoidable impacts.

Communities on the frontline of the climate crisis have, until now, had little support for recovery. They have not received any reparations for the loss of lives, homes,

livelihoods, damage to culture and the destruction of their ancestral homelands. For Small Island Developing States in particular, loss and damage funding is a key element of climate justice, and climate-induced displacement and migration will be of increasing importance, shaping the climate finance landscape in the near future. Despite facing these incredible challenges with only limited support, Pacific and other SIDS communities have survived, rebuilt and led global advocacy efforts calling for a loss and damage fund.

The establishment of the Loss and Damage Fund, agreed to at COP27 in 2022, is a crucial means to help ameliorate, where possible, the devastating and unavoidable impacts of climate change on low-income and highly climate-vulnerable communities and women. It is the third pillar of support in addition to finance for climate mitigation and adaptation. How successful the Fund is hinges on countries’ ability to achieve agreement on new and additional finances to meet the scale of the need and to fulfil their commitments, to learn the lessons of the past from humanitarian, development and climate finance efforts, and to ensure that funds actually reach local communities on the frontlines who are most in need of support. Already, funding for aid, climate finance and

humanitarian relief falls well short of need. In 2009, developed countries promised to give USD \$100 billion per annum in climate finance to low-income countries at the forefront of climate change. Oxfam research shows that, excluding non-concessional loans and overly generous accounting, only 24% of that amount has been contributed. The USD \$100 billion goal itself falls well short of need, with estimates of total climate financing need for developing countries, other than China, ranging from USD \$1 trillion annually in 2025 to USD \$2.4 trillion by 2030. Developed countries must do better, more quickly and at scale.

In the development of this new Loss and Damage Fund, Oxfam is calling for a new approach that puts addressing inequality and providing justice to frontline communities at the heart of the design. The design of current climate finance institutions for adaptation and mitigation are not fit for purpose when it comes to meeting the needs of the most vulnerable countries and local communities. Not only must these problems be addressed, we want to see the Loss and Damage Fund learn from the lessons of the past. It must set strong guiding principles and a design architecture that ensures funds reach communities and women most in need. To be most effective in tackling the inequality caused by climate change, the funds must also come from predictable sources of finance with an equitable distribution determined by the Fund governance body, not the contributor countries.

Due to the significant shortfalls in aid, humanitarian and climate finance, the Loss and Damage Fund must mobilise new and additional contributions to existing climate finance. It must be included as a separate sub-goal in the ambitious New Collective Quantified Goal on Climate Finance, which also includes climate adaptation and mitigation finance. It must be structured such that finance for humanitarian relief, official development assistance or adaptation cannot be double counted towards the Loss and Damage Fund at a global level. Experts advise a baseline of USD \$400 billion per annum for Loss and Damage is required. While this figure might seem large at first, governments in 2021 gave USD \$697.2 billion in fossil fuel subsidies and that figure is expected to rise in 2022, when accounting for the war in Ukraine.

Finally, the Fund must ensure the biggest polluters pay, and that funding sources do not deepen inequality. That means funds must come from those who can afford it and who are most responsible for historical pollution, specifically: 1) wealthy countries with high historical emissions; 2) multinational corporations, particularly those with high emissions; and 3) wealthy individuals whose

massive carbon footprint represents the biggest inequality in carbon emissions today.

To meet the scale of funding required for the Loss and Damage Fund, we must look to alternative sources of revenue that go beyond individual country budget allocations. There are a range of tax options available that, if introduced globally and earmarked for climate finance and the Loss and Damage Fund, would ensure there are sufficient contributions locked in. These include climate damages taxes, shipping and frequent flyer levies, windfall profits taxes, financial transitions taxes, and more.

However, in both the global and Australian contexts, our analysis shows a wealth tax is the single most straight forward and appropriate, predictable, equitable, new source of revenue that meets the scale of the funding need and is coherent with the principles of polluter pays, capacity to pay and historical responsibility. Oxfam has calculated that a wealth tax could raise \$1.7 trillion per annum globally and \$29.1 billion per annum in Australia. This progressive tax would go a long way to covering Australia’s fair share of loss and damage funding and climate finance for adaptation and mitigation.

Right now, Australia has a seat on the United Nations-convened Transitional Committee on Loss and Damage. This committee will be making crucial decisions and providing recommendations on the design of the Loss and Damage Fund and its sources of finance, to be considered at COP 28 in November 2023. We strongly recommend the Australian Government show leadership by advocating for a global wealth tax, and implementing a wealth tax domestically with revenues earmarked for a just climate transition at home and abroad.

The Transitional Committee is at a crossroads. The recommendations it makes about who pays and who benefits from the Fund will be pivotal in determining its success in tackling the interconnected global crises of inequality and climate loss and damage.

Oxfam Australia and Oxfam in the Pacific are united in calling on the Australian Government, as a member of the Transitional Committee, to make every effort to ensure the new Loss and Damage Fund centres the principles of equality, climate justice and polluter pays in its design, is large enough to meet the scale of loss and damage already being experienced, and is designed for reliable long-term funding that prioritises meeting the self-determined needs of climate vulnerable local communities across Asia and the Pacific.

This two-part series will show why we need a just and equal climate transformation.

1. INTRODUCTION

Loss and damage represent both the slow and rapid impacts and harms caused by climate change, impacts that are beyond the scope of mitigation and adaptation. It is the devastation left behind when cyclone after cyclone lands on the same villages. It is the heartbreak when rising sea levels inundate homes and farms, forcing people to move from their ancestral and spiritual homelands and burial grounds. It is the loss of life, the hunger and deepening poverty left in the wake of extreme flooding, drought and other forms of climate-fuelled disasters as a result of climate change.

From its causes to its impacts, the climate crisis is fundamentally unequal. At a global population level, almost half of all greenhouse gas emissions can be attributed to the top 10% of global emitters.¹ They only experience 3% of all relative losses (measured by country-level gross domestic product (GDP), while owning 76% of all wealth, enabling them to finance their safety and resilience against climate impacts.² Meanwhile, the bottom 50% of emitters, who have generated 12% of all global emissions, experience 75% of all relative losses, and own only 2% of all wealth.³ In other words, the poorest individuals who have contributed the least to climate change experience the vast majority of its impacts and have the least capacity to respond.

At the country level, developed countries have contributed an estimated 92% of excess historical emissions, while low-income countries have contributed just 0.5%.⁴ Much of that cost is borne by low-income countries.⁵ In 2022, for example, major climate-change-fuelled disasters alone, including floods, droughts, hurricanes and heatwaves, cost developing countries over USD \$109 billion.⁶ It must be noted that this figure does not account for smaller-scale, slow-onset events or non-economic loss and damage and is a gross underestimate of the real costs incurred. However, it does serve to illustrate how the costs of climate change impacts stack up.

Introduced by Vanuatu and the Alliance of Small Island States in 1991, loss and damage took three decades to emerge as a key policy area for the United Nations Framework Convention on Climate Change (UNFCCC). It recognises the unequal responsibilities, impacts and responsive capacities that developed and developing countries have for the climate crisis. The landmark Paris Agreement in 2015 makes clear the need for countries

to recognise “the importance of averting, minimising and addressing loss and damage associated with the adverse effects of climate change”.⁷

Thanks to the unceasing leadership and advocacy of small-island and low-income states vulnerable to the impacts of climate change, alongside civil society, an agreement was finally reached at COP27 to establish a Loss and Damage Fund to mobilise new and additional resources for developing countries particularly vulnerable to the adverse effects of climate change. This decision was hugely significant, as it establishes loss and damage as the key third pillar of climate finance. Subsequently, the Transitional Committee was established to develop the details of the fund, including what it covers, how it might work, its size and sources of funds. These will be presented for consideration and adoption at COP28 in 2023.

To its credit, Australia supported the agreement to establish the Loss and Damage Fund. Now Australia has a seat on the Transitional Committee, joining 23 other countries including China and the US, and is thus in a strong position to positively influence the process. Australia has made clear its intention to advocate for the unique position and needs of our Pacific Island neighbours who do not have a seat on the Transitional Committee.⁸

This two-part paper series aims to provide guidance on some of the key areas the Transitional Committee is considering. It draws on Oxfam’s extensive experience working with communities on the frontline of the climate crisis, using case studies that highlight Oxfam’s experience delivering humanitarian relief to communities in crisis and projects to support women and communities to empower themselves and rise out of poverty.



East Are'are, Malaita province, Solomon Islands: Shirley, who featured in Oxfam's new video about the climate impacts in Solomon Islands. Photo: Ivan Utahenua/Oxfam.



WATCH THE VIDEO

CASE STUDY 1: THIS IS MY HOME - LOSS AND DAMAGE IN SOLOMON ISLANDS

Shirley is featured in Oxfam’s video about the climate impacts in Solomon Islands. Shirley is from Su’u Community in the Manawai Bay in East Are’are, Malaita province. In this video, the communities of Manawai Bay share their stories of loss of livelihoods and land, and the generational adaptations they are forced to take for their survival. This video was documented as part of Oxfam’s Pacific Climate Change, Collaboration, Influencing and Learning Project (PACCCIL) Loss and Damage campaign. This campaign aims to highlight the climate impacts felt by communities of Manawai Bay in the Malaita province region of Solomon Islands.

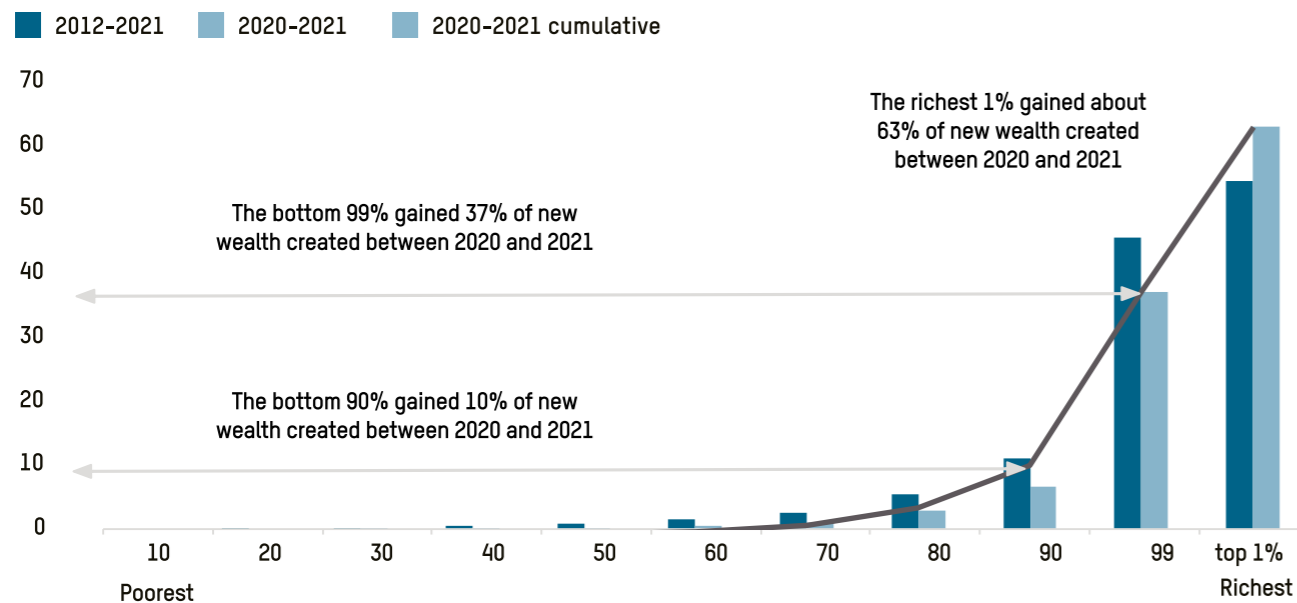
Oxfam acknowledges the support of the Australian Government through the Australian NGO Corporation Program (ANCP).

Click the image or scan the QR code to hear Shirley’s story.

2. WHY WE MUST CENTRE EQUALITY IN THE LOSS AND DAMAGE FUND

Right now, inequality is skyrocketing globally. Oxfam research has shown that since 2020 billionaire fortunes have increased by USD \$2.7 billion per day. The richest 1% have captured almost two-thirds of all new wealth – nearly twice as much money as the bottom 99% of the world’s population.⁹ The very richest have become dramatically richer and corporate profits have hit record highs, driving a rapid escalation in inequality. By contrast, poverty has increased for the first time in 25 years, with 685 million people now living in extreme poverty.¹⁰

SHARE OF NEW WEALTH GAINED (% OF TOTAL NEW WEALTH)



(Source: Christensen et al., ‘Survival of the Richest’)

Inequality is also on the rise in Australia. The richest 1% of Australians accumulated 10 times more wealth than the bottom 50% over the last decade, representing wealth gains of \$150,000 every minute.¹¹ All the while, more people are struggling with the rising costs of food and energy, and are going hungry.

At the same time, climate change is also causing significant loss and damage. This disproportionately affects communities already facing multiple crises related to conflict, food insecurity, and the economic aftershocks of the COVID-19 pandemic and the war in Ukraine. Climate-induced loss and damage exacerbates pre-existing crises and structural inequalities and threatens to further reverse hard-won gains to decrease poverty and inequality.

The devastating burden of loss and damage on the poorest and most vulnerable people

Countries worldwide are experiencing loss and damage in increasing frequency and intensity. However, those who have contributed the least to climate change and have the fewest resources to respond have borne and continue to bear the brunt of its impacts. Left unaddressed, loss and damage is an inequality multiplier, worsening conditions for low-income countries, poorer communities and marginalised groups who hold little historical responsibility for the climate crisis that affects them.

For climate-vulnerable communities in remote locations, too often their chance of survival lies in

the hands of those in power. With very little to no social safety net or individual means to recover, these communities are further pushed into poverty when climate impacts strike. Women and children are among these marginalised groups. They bear almost no responsibility for the climate crisis, yet are the ones who suffer most.

Analysis of extreme weather events from 2000 to 2021 showed that humanitarian needs linked to extreme weather events and their associated costs have ballooned by 800% over the last 20 years.¹² These trends are backed by historical analysis by the World Meteorological Organisation, which surveyed economic losses from extreme weather, climate and water-related events (rapid onset) from 1970 to 2021. Its research reveals vast gulfs in the share of economic losses incurred between developed and developing countries. The economic losses of developed countries

for rapid-onset events were equivalent to less than 0.1% of GDP in more than four-fifths of these disasters.¹³ However, for least developed countries (LDCs), economic losses were equivalent to more than 5% of their respective GDPs, with several disasters causing economic losses up to nearly 30%.¹⁴ In SIDS, some disasters are causing economic losses above 100% of their GDP.¹⁵

Future costing forecasts reiterate the unequal burden of loss and damage costs, with poorer communities disproportionately paying for loss and damage. Future costs to support countries and communities deal with extreme weather events are expected to increase by between USD \$200 and USD \$580 billion by 2030 (in 2005 dollars), with the majority of that cost borne by low-income countries.¹⁶ Updated to 2023 US dollars, these costs are estimated to be a minimum of USD \$425 billion.¹⁷ The World Inequality Lab estimates that more





Lilisiana village, Malaita province, Solomon Islands: Rising sea levels are inundating the town and eroding the cemetery. Photo: Collin Leafasia/Oxfam.

than 80% of climate-induced income losses will fall on tropical and sub-tropical countries by the end of the century, and within countries, income losses for the bottom 40% are estimated to be 70% larger than average in low- and middle-income countries.¹⁸

At the household level, Kingston University and the International Institute for Environment and Development surveyed 3,094 households from rural areas in Bangladesh to assess their exposure to climate change and their spending patterns on reducing the risks of climate-related disasters. Across the districts, they found households were spending about USD \$1.8 billion per year on measures to reduce their climate risk – 12 times the amount of climate finance Bangladesh receives from international donors.¹⁹ In the absence of large-scale financial mechanisms to address loss and damage, it is those from the poorest communities who are forced to finance their resilience and any resulting loss and damage.

The scales must be rebalanced in favour of communities at the forefront of the climate crisis. The Loss and Damage Fund is an opportunity to recognise the fundamental inequalities in responsibilities and impacts of the climate crisis, and compensate household and community resilience efforts to curb its effects. It must centre equity in its design and delivery.

Loss and damage affects women more and worsens gender inequality

With loss and damage increasing in frequency and severity, and no mechanisms at scale for remedies or support, women continue to be disproportionately affected by the climate crisis. They experience worse loss and damage through persisting norms and discriminations that exacerbate existing gender inequalities.²⁰

Women are denied income, legal rights and access to resources or political participation, while shouldering unpaid caring responsibilities in their families and communities, limiting their capacity to respond to loss and damage. Loss and damage impacts, particularly non-economic losses, place additional burdens on women, whose contributions to households and communities are non-monetised and therefore not recognised in the costs.²¹ With slow-onset impacts such as droughts and desertification increasing the scarcity of water, caring and domestic duties involving water (water collection, household hygiene, cleaning, cooking, childcare and care of sick family members) commonly done by women increase, extending already stretched workloads to search for water and provide for their families.²²

Women, women from ethnic minorities and remote locations, and those from gender-diverse communities are particularly vulnerable, simultaneously experiencing the increased effects of unaddressed loss and damage and continued poverty and discrimination. The Loss and Damage Fund must be actively and genuinely gender-responsive to address gender inequality.



Kwailau, Malaita province, Solomon Islands: Adriana in her vegetable garden. Photo: Collin Leafasia/Oxfam.



WATCH THE VIDEO

CASE STUDY 2: ADRIANA: ON THE FRONT LINES OF THE CLIMATE CRISIS IN SOLOMON ISLANDS

With the climate crisis bearing down in countries like Solomon Islands, many are at risk of being left without homes, food or clean safe drinking water. Due to rising tides, seawater has inundated Adriana's land rendering it unable to grow potatoes. Please watch the video of Adriana sharing her story.

Oxfam acknowledges the support of the Australian Government through the Australian NGO Cooperation Program (ANCP).

Click the image or scan the QR code to hear Adriana's story.



Pakistan: After the 2022 Pakistan flood, Nabi received basic water, sanitation and hygiene (WASH) items (hygiene kits – soap, bucket and temporary shelter) from Oxfam and a local partner, the Tameer-e-Khalaq Foundation. Through the Saving Lives Now and in Future program, Oxfam provides humanitarian assistance in Pakistan during emergencies, and prepares people for future disasters. Photo: Ingenious Captures/Oxfam.

Loss and damage puts global Sustainable Development Goals further out of reach

Climate change and the experience of loss and damage significantly impede progress on the 17 SDGs of the 2030 Agenda for Sustainable Development. Globally, the Organization for Economic Cooperation and Development (OECD) calculated that the financing gap for developing countries to achieve the SDGs is now at USD \$3.9 trillion, representing an increase of 56% since the pandemic.²³ In the Asia Pacific, overall progress on the SDGs is at 14.4%, with the region set to overshoot the 2030 goals by 34 years.²⁴ In a global environment where progress on the SDGs continues to lag and funding gaps continue to increase, loss and damage threatens to push the world irreversibly off track.²⁵

One example is Pakistan, where unprecedented floods in June and August 2022 left one-third of the country

under water. Some 1,739 lives were lost and 33 million people, or one out of every seven Pakistanis, was affected.²⁶ Total economic loss and damage alone has been estimated at USD \$30 billion, and Pakistan's GDP for the financial year 2022 decreased by around 2.2%.²⁷ Aside from the immediate impacts and the resultant loss and damage experienced by communities, the floods single-handedly stalled or reversed major gains on the SDGs in Pakistan, including poverty alleviation, food security and health and wellbeing.

On average, the Pacific needs about 6.3% of 2030 GDP in annual additional spending to achieve the SDGs in five key sectors – Water, Sanitation and Hygiene (WASH), Health, Education, Roads and Electricity. However, financing options to support the SDGs and climate adaptation spending are limited in the Pacific.²⁸ Many Pacific Island countries rely heavily on grants,

SDG	Prior to the floods (2021)	After the floods (2022)
SDG 1 (No poverty)	Poverty in Pakistan had been on a downward trajectory, from 2014–2015 to 2018–2019. 9.3 million people lifted out of poverty. ²⁹	An estimated 8.4 to 9.1 million people will be pushed back into poverty, directly as a consequence of the floods. ³⁰
SDG 2 (Zero hunger)	The food insecure population declined to 1.8% of the population in 2019–2020. ³¹	14.6 million people are now food insecure – 6.4% of the population. ³²

commodity exports and fishing revenues to finance development needs. However, these revenue sources are unstable and could substantially decrease in future given risks associated with climate change.³³ Grants, while less volatile than revenues from basic commodities and fishing, are beyond the control of Pacific Island governments. Market-based financing options are also scarce. Virtually none of the Pacific Island countries have access to international capital markets, and domestic capital markets remain shallow in the few countries where they do exist.³⁴

Climate change has cascading impacts across all sectors and at all levels of the economy, felt hardest by the poorest and most vulnerable communities who have contributed the least to it. As the Pakistan floods demonstrated, the loss and damage caused by one disaster can have deleterious repercussions for all sustainable and inclusive development. In the era of polycrises, climate change is reversing hard-won development gains in countries already struggling to make progress on the SDGs. If the international community is serious about achieving the 2030 agenda, the Loss and Damage Fund design must have equality as its organising principle. It must look to restore development gains lost as a result of climate impacts and protect current gains from future loss and damage.

Loss and damage is fuelling the debt crisis

The polycrises of COVID-19, the war in Ukraine and climate change have had catastrophic effects on global levels of public debt, felt particularly in low-income countries – 60% of low-income countries are either in debt distress or at risk of it. In the region, the most recent International Monetary Fund (IMF) – World Bank debt sustainability analyses classified seven Pacific countries as being at high risk of debt distress: Kiribati, Marshall Islands, Micronesia, Papua New Guinea, Samoa, Tuvalu and Tonga. Vanuatu and Solomon Islands are at moderate risk of debt distress.³⁵ These Pacific SIDS struggle to invest in climate actions due to their relatively small size and reliance

on a small number of key industries, such as tourism, agriculture or fisheries, which are highly exposed to climate risks. The Pacific SIDS experienced an average GDP contraction of 5.4% in 2020 and 0.3% in 2021, compared to a 2019 growth rate of 3.5%.³⁶

Several countries in Asia are also listed as being at risk of or in debt distress, including Afghanistan and the Maldives (at high risk of debt distress) and Laos.³⁷ Debt in Asia overall is also increasing, with total public (external and domestic) debt in Asia averaging 71% of GDP in 2021, an increase of 15% from 2019.³⁸ Higher debt burdens and the need to service these debts reduce the fiscal space governments have to invest in health, education and economic development, and to respond to climate change. In Asia, debt servicing was double education spending, triple health, five times social protection, and 16 times climate adaptation.³⁹

Loss and damage will increase country debt levels and threaten to push low-income countries into debt distress. The Jubilee Debt Campaign UK found that of 14 climate-related, rapid-onset disasters with estimated economic losses of more than 10% of GDP in those respective countries, government debt as a percentage of GDP was higher two years after the disaster in over 80% of cases.⁴⁰ In the absence of sufficient loss and damage finance, climate impacts force lower income and highly climate-vulnerable countries to saddle themselves with more debt in order to finance the reconstruction and recovery from climate events, such as cyclones or floods. The consequent need to service increasing debts diverts government investment away from climate adaptation and disaster resilience initiatives, among other social services, reducing countries' capacities to prepare and respond to future climate impacts.⁴¹ Debt vulnerabilities on the one hand and climate vulnerabilities on the other mutually reinforce each other in a downward spiral, with poorer, climate-vulnerable communities at the bottom.⁴²

The Loss and Damage Fund should be adequately resourced and accessible with grants, not loans, in order to offer much needed financial relief and



Vanuatu: Clerence, chair of her community's disaster and climate change committee, blows a conch shell—a warning signal for her community. "In my community, we blow the conch shell in emergencies, and it means 'act now!' I would like to blow the conch shell so everyone in the world can hear it, because climate change is an emergency, and to stop it, we all need to act now." Photo: Elizabeth Stevens/Oxfam America.

help break the cycle of debt, and climate loss and damage, for highly climate-vulnerable and low-income countries. Even better, debt forgiveness is currently being actively advocated by civil society and is critical for highly climate-vulnerable countries. Without debt relief, economic development in the face of climate impacts will be near impossible.⁴³

Key messages and recommendations

Climate-induced loss and damage is exacerbating inequality, harming those who are least responsible for the climate crisis and least equipped to respond to its impacts. Addressing the intertwining crises of inequality and climate destruction must be at the heart of the Loss and Damage Fund.

Responding to loss and damage is inherently intertwined with adaptation, mitigation, humanitarian assistance and the achievement of the SDGs. One cannot be addressed without the others and increased ambition is needed on all fronts for the Fund to have meaningful impact.

Oxfam recommendations:

- Centre addressing inequality as a guiding principle of the Fund's operation in its governance body and frameworks around allocation of funds (procedural justice and equality), in its sources of funds and in who receives them (distributive justice and equality), and the forms of support funded, including the restoration of dignity, agency and capabilities (restorative justice and equality).
- Mainstream gender equality in all aspects of the Fund. Ensure the Fund allocations take account of gender-differentiated needs and capacities and ensure that women, LGBTIQ+ people, youth, people with a disability, indigenous people and other often marginalised groups benefit equally, and that funds contribute to transformative change.
- Make the Fund available for climate loss and damage that occurs in combination with other crises, such as conflict, inequality or disruptions to global supply chains, which limit progress on poverty eradication and achieving the SDGs.
- Provide funding as grants as a matter of fairness and equity, as well as to avoid contributing to debt crises, and thus inequality and poverty in many climate-vulnerable, low-income countries.
- Australia should centre addressing inequality, gender mainstreaming and enhancing human rights at the core of its development policy and continue its strong record of contributing grants for climate finance.



Vanuatu: Clerence sits on tree roots that have been exposed by rising seas. As the trees on the shore topple, communities lose a crucial buffer from wind and erosion. "Sea-level rise is the most terrible disaster we're facing. It is making our island smaller. Where will my children and grandchildren live? One day we might lose our island." Photo: Elizabeth Stevens/Oxfam America.

CASE STUDY 3: HOW CLIMATE CRISES EXACERBATE DEBT VULNERABILITIES

After Vanuatu was devastated by Cyclone Pam in 2015, government debt almost doubled, from 21% of GDP beforehand to 39% afterwards. Four years after that, government debt to GDP was over 50%, mainly due to reconstruction lending after Cyclone Pam, according to the IMF. In its 2019 review of the country economic and financial prospects, the IMF stated that when a country suffers regularly from extreme weather events, "there is little fiscal space to address another natural disaster", mainly due to high debt levels.⁴⁴

3. THE URGENT NEED FOR NEW AND ADDITIONAL LOSS AND DAMAGE FUNDS

The COP27 decision recognises the “urgent and immediate need for new, additional, predictable and adequate financial resources”.⁴⁵ Communities least responsible for climate change cannot be expected to shoulder the burden of the costs alone and must be provided with the resources they need. A wide-ranging commitment to expand and coordinate loss and damage finance is long overdue, and must be actioned at COP28 in 2023.

There are currently no mechanisms to address loss and damage. The overwhelming majority of climate finance goes to mitigation and adaptation. Some loss and damage needs are met in limited ways through mechanisms for disaster response – humanitarian assistance, reconstruction loans from multilateral development banks, and some grants and bilateral support – but these do not address loss and damage as their first priority and are at levels far below actual need.

This section highlights the current gaps in Official Development Assistance (ODA), humanitarian relief and climate finance. These gaps underscore the importance of ensuring future commitments to loss

and damage finance do not come at the cost of these other areas. Governments must not “double count” into these already underfunded budgets to fund loss and damage. Doing so would only exacerbate the loss and damage experienced and the shortfall in support. Loss and damage finance must be new and additional, and made alongside more ambitious development, humanitarian and climate finance commitments.

Global gaps in climate, humanitarian and sustainable development funding

Despite an extreme excess of need across climate, poverty reduction and humanitarian emergencies,

global financing for all areas is faltering or going backwards, marked by ever-increasing gaps and a lack of political will. As it stands the global community is far from meeting global need.

Official development assistance

ODA, vital for achieving the SDGs, has remained far below global commitments. Among OECD Development Assistance Committee countries, ODA has fluctuated at around 0.3% of gross national income (GNI), less than half of the 0.7% United Nations global goal that developed countries agreed to in 1970.⁴⁶ In the decades since the goal was set, Oxfam has calculated that lower- and middle-income countries are owed USD \$6.5 trillion in unpaid aid from developed countries consistently failing to meet their 0.7% obligations.⁴⁷ Contributor countries are failing to meet basic quantity commitments.

Weak commitments on global aid do not meet the increasing need to accelerate action on the SDGs. Recent estimates have found that the annual SDG financing gap in developing countries increased to USD \$3.9 trillion in 2020, an increase of 56% from pre-COVID times.⁴⁸ Projections by the United Nations Conference on Trade and Development and the IMF suggest this gap could reach USD \$4.3 trillion per year from 2020 to 2025.⁴⁹ In comparison, total ODA from all OECD Development Assistance Committee (DAC) members in 2022 equalled USD \$204 billion, far from the amounts required to realistically achieve the SDGs.⁵⁰ Stagnating progress on the SDGs means

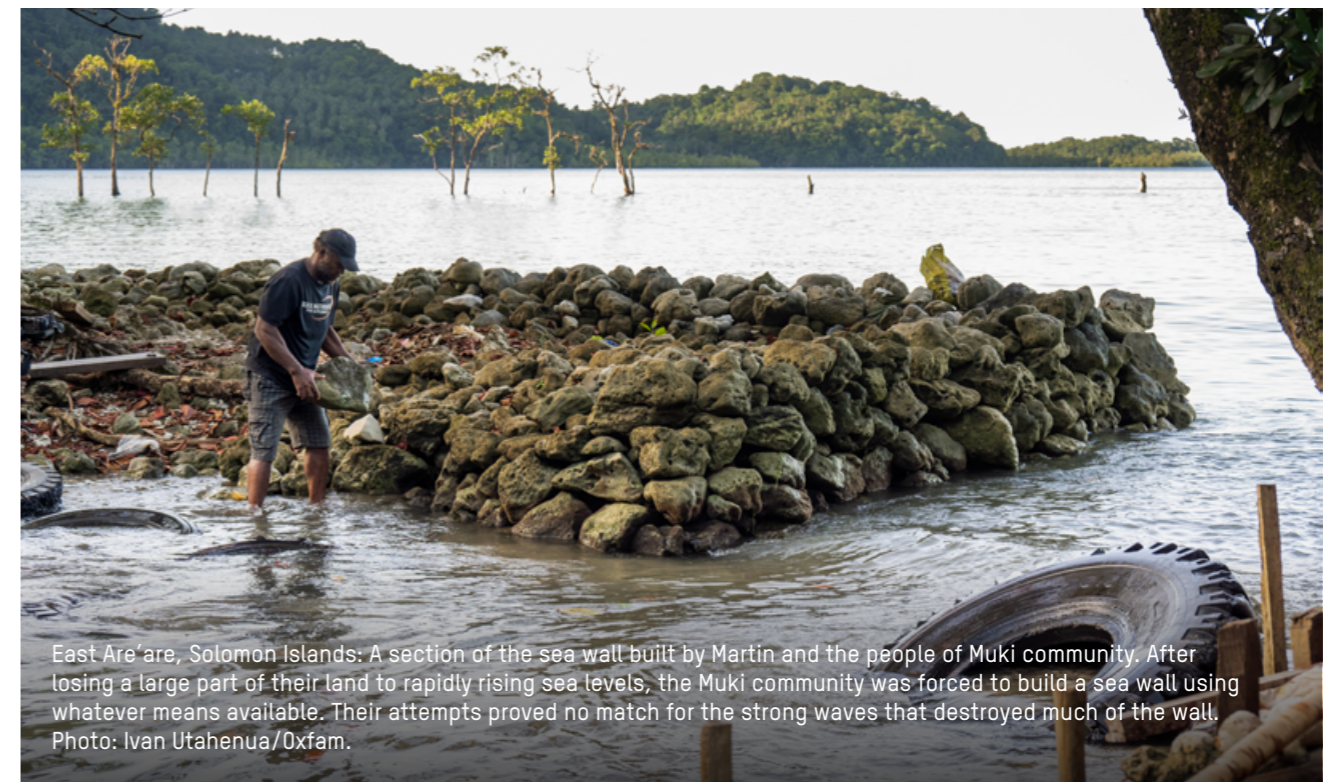
there are more people living in poverty, more people going to bed hungry, fewer children going to school, fewer people with access to basic services and widening multi-dimensional inequality. The 2030 Agenda for Sustainable Development is getting further out of reach, with the impacts of climate change falling mostly on countries with the greatest challenges, where progress on the SDGs was already low and slow.

Climate finance

Global climate finance has been chronically insufficient. In 2009, developed countries pledged to give USD \$100 billion annually by 2020 to support vulnerable states mitigate and adapt to climate change. This goal was an arbitrary target, not scientifically derived or based on an assessment of needs.⁵¹ In 2020, when the goal was meant to have been reached, climate finance flows fell short, hitting only USD \$83.3bn in 2020.⁵² Worse still, over-generous estimates of project climate relevance and the counting of loans and other non-grant instruments at face value inflates the real value of climate finance delivered to developing countries.⁵³ Oxfam estimates that, accounting for these factors, the real value of climate-specific net assistance in 2020 is USD \$21 billion to USD \$24.5 billion, representing a shortfall of 76% against the USD \$100 billion goal.⁵⁴ The USD \$100 billion goal itself falls well short of need, with estimates of total climate financing need for developing countries, other than China, ranging from USD \$1 trillion annually in 2025 to USD \$2.4 trillion by 2030.⁵⁵ On adaptation alone, the United Nations Environment Programme reports that adaptation



East Are'are, Solomon Islands: Martin stands in Muki community, where there used to be dry land and houses. To the left is what remains of a sea wall the community built using coral stones from deep in the ocean. The Muki community has grown smaller over the years and has moved back into the steep cliffs behind. Photo: Ivan Utahenua/Oxfam.



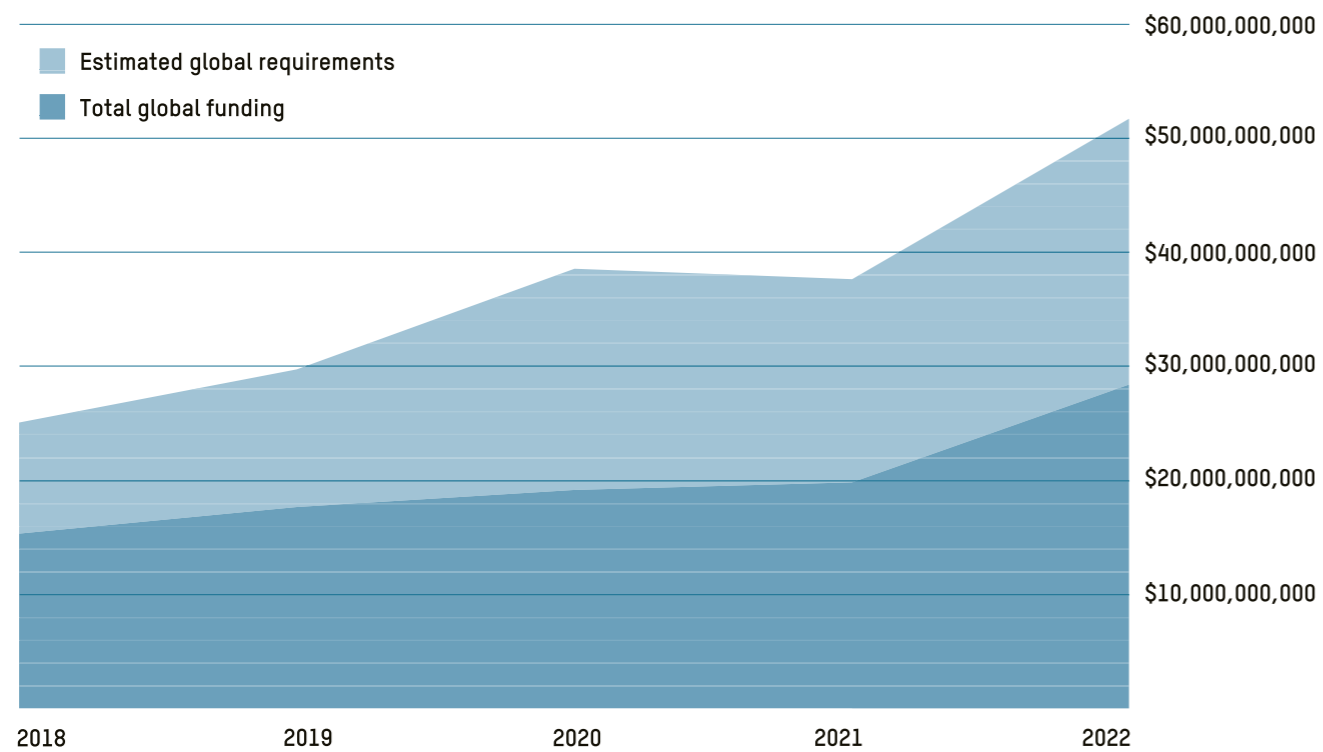
East Are'are, Solomon Islands: A section of the sea wall built by Martin and the people of Muki community. After losing a large part of their land to rapidly rising sea levels, the Muki community was forced to build a sea wall using whatever means available. Their attempts proved no match for the strong waves that destroyed much of the wall. Photo: Ivan Utahenua/Oxfam.

finance flows to developing countries are five-to-ten times below estimated current adaptation needs.⁵⁶ Against the backdrop of a stark adaptation funding gap, future annual adaptation needs are projected to increase to USD \$160 billion to USD \$340 billion by 2030 and could rise to USD \$315 billion to USD \$565 billion by 2050, far outstripping the USD \$100 billion global climate finance goal.⁵⁷ UNFCCC signatory countries are now in the process of negotiating a new collective quantified goal for climate finance due to conclude at the end of 2024. It will be essential that this goal is science-based and driven by need.

Humanitarian funding need

Humanitarian funding is marked by ever-widening gaps year on year, matched by ever-increasing need and exacerbated by loss and damage climate change impacts. The United Nations Office for the Coordination of Humanitarian Affairs (UN OCHA) 2023 Global Humanitarian Overview forecast a record 339 million people needing humanitarian aid and protection in 2023 – an increase of 65 million since the beginning of 2022.⁵⁸ Total humanitarian requirements are estimated at US \$51.5 billion for the year. This comes off the back of a 45% shortfall in humanitarian aid in 2022 (as of 23 February 2023), and a consistent average shortfall of 44.35% over the last five years.⁵⁹

GLOBAL HUMANITARIAN FUNDING NEED (\$ USD MILLIONS) *



*as of February 23, 2023

Source: UN OCHA, 'Operations: Inter-Agency Plans'.

Australia lagging behind on aid and climate finance

In a world of persistent funding gaps and multidimensional unmet needs, Australia is now 27th out of the 30 countries on the OECD DAC list, and proportionally the lowest contributor when compared to like-minded countries including USA, UK, Canada, Japan and New Zealand.⁶⁰ Australia's ODA sits at \$ 4.768 billion for 2023–2024, with nominal increases of 2.5% per year from 2026–2027 onwards.⁶¹ However, aid as a proportion of GNI for 2023–2034 is projected to be 0.19% and will decrease over the long term as Australia's economy grows.⁶² Our contribution falls well short of the 2022 OECD DAC average of 0.45% GNI going to ODA and the global United Nations goal of 0.7% of GNI going towards aid.⁶³

Australian climate finance remains static despite the increasing recognition of the impacts of climate change. The total budget allocation for climate change and environment this year remains unclear, but so far the Department of Foreign Affairs and Trade reports having expended \$989 million as part of the previous government's \$2 billion climate finance pledge over 2020–2025.⁶⁴ These funds are not new and additional, drawn from an already underfunded ODA budget, leaving Australia far from fulfilling its fair share of the

USD \$100 billion climate finance goal, calculated by Oxfam and ActionAid to be \$4 billion annually.⁶⁵

Key messages and recommendations

Funding responses from governments, including Australia, must address the gaps in adaptation, mitigation, development and humanitarian assistance. New and additional funds for loss and damage must also be forthcoming in order to truly respond to the multiple inequalities and vulnerabilities faced by communities living in poverty around the world.

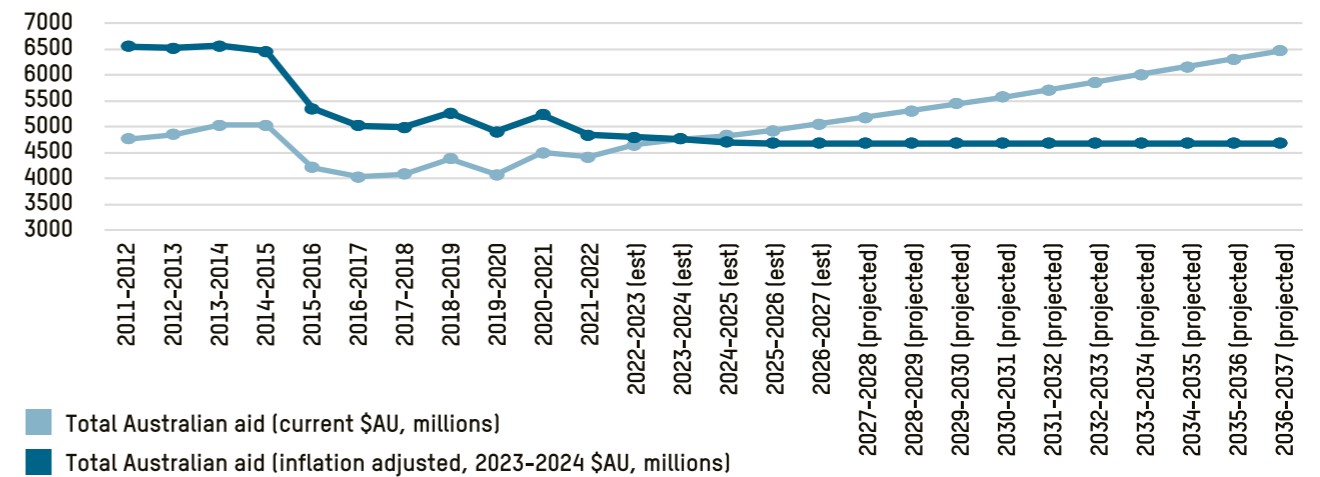
To ensure funding for loss and damage is not double counted towards adaptation, mitigation or humanitarian funding, the new collective quantified goals, being developed through UNFCCC negotiations

for the post-2025 period, must include delineated sub-goals for mitigation, adaptation, and loss and damage.

Oxfam recommendations:

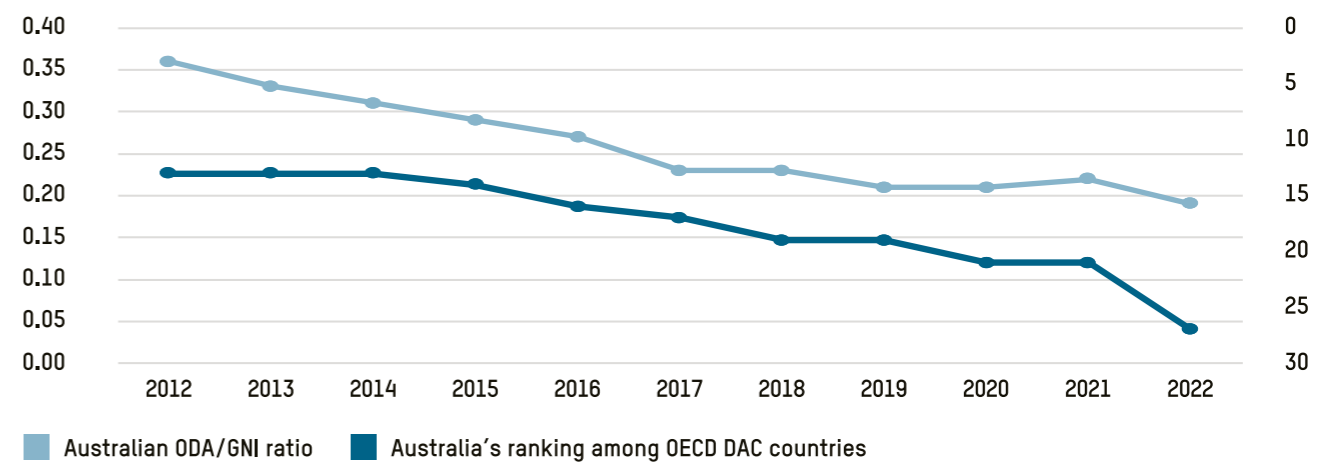
- Mobilise new and additional funding for the Loss and Damage Fund to meet the scale of need. We must not displace other critical activities, such as humanitarian relief, climate finance for mitigation and adaptation, or development, which are also severely underfunded, by double counting of funding.
- Set a sub-target for loss and damage finance within the new collective quantified goal for post 2025, in addition to sub-goals for mitigation and adaptation finance, and make clear how the goals will be met.

AUSTRALIAN AID OVER TIME (\$ AUD, MILLIONS)



Source: Development Policy Centre, 'Trends - Australian Aid Tracker'

AUSTRALIA'S ODA/GNI RATIO, AND RANKING AMONG OECD DAC COUNTRIES



Source: Development Policy Centre, 'Comparisons - Australian Aid Tracker'

4. OXFAM'S GUIDING PRINCIPLES FOR THE LOSS AND DAMAGE FUND

Oxfam, together with many leading civil society organisations, has been calling for a Loss and Damage Fund to be underpinned by the principles of climate justice.⁶⁶ By ensuring finance to the Fund adheres to the pillars of enhancing ambition; rebalancing power; centring affected communities; addressing intersectional inequalities; and improving accountability, transparency and quality, it can address the root causes of inequality and better position societies to face the impacts of climate change.⁶⁷

Table 2 outlines the principles for a loss and damage finance mechanism advocated for in Oxfam's 2022 Footing the Bill Report. In this report, we suggest

that addressing inequality be both an overarching consideration across all elements of the Fund design, and that it be noted specifically as the sixth principle in relation to resource mobilisation. Incorporating this principle will help ensure the Fund addresses the loss and damage experienced and ensure support reaches the most climate, socially and economically vulnerable communities who are currently struggling to access other climate finance. We have also added two new principles in relation to disbursement. These are that the Fund must be grant based and accessible to highly climate-vulnerable countries and communities. These are two crucial elements to ensure the Fund does not contribute to inequality and poverty, and leaves no one behind.

Table 2: Oxfam's guiding principles for the Loss and Damage Fund⁶⁸

Resource mobilisation:
1. Responsibility for harm caused – polluter pays
2. Capability – economic capacity
3. Adequate scale – to meet the needs
4. Predictable – Multi-year commitments of finance
5. Additional – to adaptation and mitigation climate finance and ODA
6. Equitable – addresses inequality; negligible negative impacts on low-income communities
Governance:
7. Gender balance and equitable representation – more than 50% developing countries. Impacted communities and indigenous people should also be represented
8. Transparency and accountability
Disbursement:
9. Accessible to highly climate-vulnerable country governments and communities – implemented via simple direct access, rather than excessive bureaucratic processes
10. Free from interests of contributors – allocated based on need with vulnerable countries at the decision-making table
11. Automatic rapid response – automatic finance based on trigger events within agreed parameters
12. Multiple channels – finance channelled through multiple relevant institutions
13. Grants-based – it must not contribute to countries' debt burdens
Implementation:
14. Immediate and sustained support – for rebuilding and investment in social protection
15. Country and locally led – decentralised, local and community-based mechanisms to identify and prioritise loss and damage needs, as well as plan and implement action
16. Gender equality – take into account gender-differentiated needs and capacities to contribute to transformative change. Gender mainstreaming in all aspects of the Fund.
17. Accountable to vulnerable populations – prioritises participation of vulnerable and marginalised populations, including women and indigenous peoples, in decision-making and implementation

Embedding equity and polluter pays in the sources of funds

For decades there has been intense debate over who should take responsibility for the adverse impacts of climate change. These impacts are being borne by developing and highly climate-vulnerable countries that have little responsibility for causing the problem. Reflecting this debate, the principle of Common but Differentiated Responsibilities and Respective Capabilities has been embedded in the UNFCCC. This principle recognises that nations have contributed and continue to contribute unevenly to climate change through historic and current emissions and they have different responsibilities and capabilities to respond to the climate crisis.

It is true that nations as governing institutions of the world must take central responsibility for responding to climate change, but there is more to the story when it comes to who should be responsible for paying. The polluter pays principle requires that the costs of pollution should be borne by those responsible for causing the pollution. It is a widely accepted principle that has been applied for decades in environmental law and generally refers to the countries, corporations or individuals responsible for paying economic reparations for environmental harm.⁶⁹

Fossil fuel corporations have benefited hugely from the exploitation of polluting natural resources and arguably have provided a totally inadequate financial return to the public for that privilege, especially in countries like Australia.⁷⁰ Worse, rather than stepping up to make reparations for the harms their industry has caused, they have a documented history of climate denial and using tactics of delay, and are complicit in slowing down or defeating climate legislation.⁷¹ It is long overdue that corporations pay their fair share for their role in causing dangerous climate change.

Beyond corporations and even nations, there is another group that needs to step up: wealthy people. Oxfam research has revealed that between 1990 and 2015 the carbon emissions of the richest 1% of people globally were more than double the emissions of the poorest half of humanity.⁷² Wealthy people's lavish lifestyles, coupled with their investments in polluting industries, mean their individual emissions are extremely high. Today, the top 10% of global carbon emitters generate almost half of global carbon emissions.⁷³ Between-country carbon inequality is no longer the greatest source of disparity in emissions. Within-country carbon inequality (i.e. between low-income and high-income households) now makes up the bulk of global emissions inequality, at about two-thirds of the total. This is an almost complete reversal compared to 1990.⁷⁴ It follows that the increase in billionaires

and ultra-rich individuals poses a significant threat to our climate. A recent study found that the increase in millionaires alone will eat up 72% of the world's remaining carbon budget to stay within 1.5 degrees Celsius.⁷⁵ This indicates that the continued growth in wealth at the top is not aligned with averting the climate catastrophe.

If we are to truly address the climate crisis, we need measures that reduce inequality, push polluting corporations and wealthy individuals to drastically cut their emissions, and ensure they pay their fair share for the harms of climate change. Funding sources for the Loss and Damage Fund must reflect the unequal responsibility wealthy countries, corporations and individuals bear for climate-change-induced loss and damage.

Key messages and recommendations

If the Loss and Damage Fund has a strong set of guiding principles, it will help the governance body make critical decisions that ensure the needs of those who are most climate vulnerable are met.

Oxfam recommendations:

- Embed Oxfam's guiding principles in the Loss and Damage Fund's design. These principles can help ensure the Fund addresses the intertwining crises of inequality and climate change impacts.
- Ensure the Loss and Damage Fund involves alternative, public sources of funding delivered annually by countries based on the core principles of addressing inequality, polluter pays and the UNFCCC principle of Common but Differentiated Responsibilities and Respective Capabilities.

5. ALTERNATIVE SOURCES OF FUNDS

Fundamental decisions that need to be made in relation to the Loss and Damage Fund are who pays, including why, how and how much. The scale of funding required to deal with the climate crisis is significant. So far, developed countries have not been reducing emissions at the pace required, nor paying sufficient climate finance to developing countries for mitigation and adaptation. As a result, we are now on the verge of missing the science-based and globally agreed goal of 1.5 degrees Celsius warming. This signals great global climate risk and the prospect of passing global tipping points that could see us spiral into a climate catastrophe. Climate change is not an inevitability, it is a political choice.

With a global cost-of-living crisis and escalating energy prices thanks to the war in Ukraine, the pandemic and climate change impacts, now is the time to think innovatively about sources of funding. To mobilise the funding required to meet the challenge of climate change within the global and national contexts, we must establish new international tax regimes and introduce new national levies earmarked for climate action.⁷⁶ We need alternative sources of revenues that go beyond budget allocations. Placing the full cost of responding to climate change on a fiscally constrained budget could lead to negative impacts on public services and low-income households. Instead, it is beholden on developed-country governments to create new sources of revenue that make those with the financial resources and those responsible for the climate crisis pay. That means taxes that effectively target corporations and wealthy individuals.

Scale of funding required

To ensure no one is left behind, the Loss and Damage Fund must be large enough to deal with the scale of the impacts and the needs of developing countries. In recent years there have been a number of estimates of the scale of the impacts. The Loss and Damage Collaboration has built on widely used modelling of loss and damage finance, and updated this to 2023 dollars, suggesting a minimum floor of USD \$400 billion per year is required in 2024. This scales up over time.⁷⁷ These figures are also likely to be an underestimate given non-economic losses are much harder to quantify and require deep consultation with impacted communities. These figures are substantial, but the costs are dwarfed by the billions in subsidies the fossil fuel industry receives and the profits it makes. For example, the “big five” western oil and gas companies – ExxonMobil, Chevron, Shell, BP and TotalEnergies – made a combined USD \$200 billion in profits in 2022, their most profitable year on record.⁷⁸ At the same time, the OECD and the International Energy Agency have calculated that global fossil fuel subsidies for 2021 totalled USD \$697.2 billion.⁷⁹

Global sources of funds

In section 4, we outline Oxfam’s Guiding Principles for the Loss and Damage Fund. In Table 3 we apply those principles to alternative public sources of funds within the global context to analyse which is most coherent with the principles.

Table 3: Analysis of alternative public sources of global funds according to Oxfam’s Guiding Principles for the Loss and Damage Fund in relation to resource mobilisation.

Alternative public source of funds	Responsibility – polluter pays and capability	Adequate – scale of funds raised	Predictable – providing consistent funds over the long term	Additional – new and separate to existing sources of finance	Equitable – paid for by those who can afford it, with no or easily mitigated negative impacts on low-income communities
Wealth tax – tax on the top 5% of incomes	Yes	USD \$1.7 trillion per year ⁸⁰	Yes	Yes	Yes
Wealth tax with pollution top up	Yes	An additional USD \$100 billion annually on top of a wealth tax ⁸¹	Yes	Yes	Yes
Windfall profits tax of 90% applied to 722 mega-corporations	Yes	USD \$941 billion in 2022 ⁸²	No	Yes	Yes
Windfall profits tax – 10% tax on fossil fuel corporation profits	Yes	US \$100 billion per year ⁸³	No	Yes	Yes
Climate damages tax – tax on fossil fuel extraction	Yes	USD \$70 billion for loss and damage globally in its first year and between USD \$300 and USD \$400 billion in succeeding years until 2050 ⁸⁴	Yes	Yes	Unclear – there is a need to ensure cost increases are not inadvertently passed on to low-income countries reliant on fossil fuel exports. This would be addressed by allowing low-income countries to use CDT tax revenues for domestic transition
Frequent flyer levy	Yes	USD \$121 billion per annum ⁸⁵	Yes	Yes	Yes
International shipping levy	Yes	Between USD \$40 billion and USD \$60 billion annually until 2050 ⁸⁶	Yes	Yes	Unclear – if SIDS and LDCs are not adequately compensated, or shipping levy exemptions are not made, shipping levies can have disproportionate negative impacts on economies and the availability of goods and services
Financial transaction tax	No	Between USD \$237.9 and USD \$418.8 billion annually ⁸⁷	Yes	Yes	Yes
Redirecting fossil fuel subsidies – end subsidies for fossil fuels and fossil fuel projects	Yes	The OECD and the International Energy Agency (IEA) estimate global fossil fuel subsidies are USD \$697.2 billion	Unclear – given this is a budget saving, it is difficult to earmark the revenue for a specific purpose	Unclear – depends on the government policy and budget decisions	Yes

Wealth tax

Wealth taxes, if designed with an equality and just framing in mind, can be a particularly progressive and equitable way to raise revenue for loss and damage. By deciding to tax people on the basis of extreme wealth, governments will focus on those with the greatest ability to pay.⁸⁸ There is also a clear correlation between wealth (and income) and carbon emissions, as discussed in the previous section. It bears repeating that the richest 1% generate more emissions than the whole of the bottom half of humanity and that on average, the investments of one the world's richest 125 billionaires emit 3.1 million tonnes of greenhouse gases, more than one million times the average of someone in the bottom 90% of the world.⁸⁹

Oxfam has found that applying a wealth tax of up to 2% on those with a net wealth of USD \$5 million and above, 3% on those with wealth above USD \$50m and 5% on the world's billionaires could raise USD \$1.7 trillion per year, which would massively help meet not only the loss and damage, but also the adaptation and mitigation needs of frontline communities grappling with climate breakdown.⁹⁰ It is a simple solution that can be easily implemented. The funding is predictable and additional to existing budget allocations, and revenues raised can be earmarked directly for climate finance.

Wealth tax with pollution top up

Beyond taxing wealth, there is a strong case for using top-up taxation to deter investments in polluting activities and assets that contribute to climate change. The World Inequality Lab has calculated that globally an additional top-up tax rate of 10% on carbon-intensive assets and investments owned by multimillionaires and billionaires could raise a further USD \$100 billion every year, providing additional resources to meet the continuing costs of loss and damage paid by climate-vulnerable, lower-income countries.⁹¹ Such a top-up would have the additional benefit of encouraging divestment or discouraging future investment in polluting assets and industries. It is therefore practically, as well as ethically, compelling to use progressive wealth taxation for governments to raise revenues to fulfil their fair share of the Loss and Damage Fund.

Windfall profits tax (sector-specific and sector-wide)

Windfall profits taxes are an equitable revenue-raising instrument that levy taxes on companies that have earned excessive profits as a result of special socio-economic conditions. Oxfam defines windfall profits as those exceeding average profits in the previous four years by more than 10%. Aside from

the mega profits of fossil fuel companies, food and energy companies have also made huge profits, earning USD \$306 billion in windfall profits in 2022 and increasing their profits by more than two-and-a-half times in 2022 compared with the 2018–2021 average.⁹² Oxfam has estimated that if a windfall tax of 90% was applied to the 722 mega-corporations who made windfall profits in 2021 and 2022, \$941 billion dollars in revenue would be generated, meeting the loss and damage needs of vulnerable communities, reducing inequality and alleviating poverty around the world.⁹³ Based on the USD \$1 trillion profits all fossil fuel companies made in 2022, a fossil fuel-specific tax of 10% would generate USD \$100 billion annually.⁹⁴

Similarly, windfall taxes focusing on high-earning and/or high-polluting sectors such as mining and energy have been proposed and implemented in a number of jurisdictions such as Italy, Romania, Greece (all in the energy sector), the UK (oil and gas sector, though paired with an 80% tax break for new fossil fuel investments), Spain and Hungary (energy and banking sectors), Portugal (energy and food retailers) and Czech Republic (energy, food and banking).⁹⁵ Sector-specific windfall taxes like those above cover a limited number of subjects that have benefited from windfalls, and may not provide consistent tax revenues over the long term once special conditions have stopped.⁹⁶ As such, we advocate for windfall taxes that apply across all sectors, as has been implemented in Croatia, to ensure there are more consistent sources of loss and damage financing year-to-year.⁹⁷

The key benefit of windfall profit taxes over taxes on extraction or use is that they are levied on windfalls already made, and are applied retroactively, which limits the flow-on effects such taxes would have on the cost of goods and services. This reduces potential impacts of higher prices for low-income consumers.⁹⁸

Climate damages tax

A climate damages tax, levied on the likely pollution emitted from the extraction of fossil fuels has been proposed by some as a means to quickly and consistently mobilise loss and damage funding at scale.⁹⁹ Such taxes have a significant correlation with the polluter pays principle and thus represent a strong option for loss and damage finance. Starting at a carbon price of USD \$5 per tonne of embedded CO₂e, a climate damages tax could raise USD \$70 billion for loss and damage globally in its first year of operation, and between USD \$300 billion and USD \$400 billion in succeeding years, until fossil fuel phase out in 2050. This would come close to estimated loss and damage costs for developing countries across that same timeframe.¹⁰⁰ However, care must be taken when designing a climate damages tax so as to not unfairly

penalise developing countries reliant on fossil fuel exports for national income and development. This can be addressed by ensuring developing countries keep 100% of revenue raised domestically for domestic just transition purposes, which in turn would reduce reliance on fossil fuel exports for national income.¹⁰¹ Of the climate damages tax revenues from wealthy countries, 50% would be reserved for domestic climate transition, with the remaining 50% allocated for the Loss and Damage Fund, with a sliding scale in between.¹⁰²

Frequent flyer levy

A frequent flyer levy has been topical for many years, both as a source of funds for climate finance and for decarbonising the industry. The International Council on Clean Transportation has developed a frequent flyer levy model, which can generate revenues while ensuring equitable distribution of the cost burden. It shows the richest 20% worldwide take 80% of the flights, and the top 2% of frequent flyers take about 40% of the flights.¹⁰³ Therefore, varying the levy based on flying frequency allows the levy to focus the tax burden on wealthier travellers and helps ensure that people with lower incomes are not priced out of air travel because of climate policy.

A frequent flyer levy starting at USD \$9 for a person's second flight to USD \$177 for their twentieth flight within the same year would raise USD \$121 billion per annum. It would generate 81% of revenue from frequent flyers (people who take more than six flights per year), 67% from high-income countries, and virtually all (98%) of its revenue from the richest 20%.¹⁰⁴

International shipping levy

Emissions from shipping are a significant contributor to global emissions, contributing around 2% of global energy-related CO₂ emissions according to the International Energy Agency.¹⁰⁵ Pressure has been mounting from small island states such as the Marshall Islands, Solomon Islands and Tonga, as well as international finance institutions such as the World Bank, for a carbon price to be levied on shipping emissions.¹⁰⁶ This would generate consistent revenues for loss and damage finance and incentivise the international shipping industry to more rapidly decarbonise. Based on modelling from the World Bank, assuming the shipping industry completely decarbonises by 2050 and the carbon price decreases as a result, the amount of revenue collected would range between USD \$40 billion and USD \$60 billion per annum, totalling between USD \$1 trillion and USD \$3.7 trillion by 2050.¹⁰⁷

Challenges exist around the potential disproportionate negative impacts of international shipping levies on SIDS and LDCs. As countries with a greater reliance on maritime transport, such levies may result in increased import prices and affect trade patterns, reducing GDP and the availability of key goods and services to people on the ground.¹⁰⁸ SIDS and LDCs whose export economies are tilted towards agriculture and mining will also experience disproportionate negative impacts, paying more for fuel relative to the value of goods. This may be addressed, in broad terms, either by using levy revenues to reduce impacts before they can occur (avoidance), or to ensure revenues are primarily distributed to countries subject to the disproportionate negative impacts experienced (remediation). However, agreed approaches are yet to be determined at the international level.¹⁰⁹

Financial transactions tax (Tobin tax)

A financial transactions tax, or a Tobin tax, is levied on monetary transactions, particularly the exchange of foreign currencies and other financial instruments/contracts such as bonds, stocks, options and derivatives.¹¹⁰

Tobin taxes can raise substantial revenues in a progressive manner, using relatively low tax rates simply due to the sheer volume of daily transactions that take place on financial and currency markets, particularly in developed countries. At a tax rate of 0.1% on the trading of stocks and bonds instruments, and 0.01% on transactions of derivatives, a global financial transactions tax could conservatively raise USD \$237.9 billion, corresponding to 0.31% of global GDP, and reach up to USD \$418.9 billion, or 0.55% of GDP.¹¹¹ Aside from revenue-raising potential, financial transaction taxes also have the added benefit of dampening excessive financial market speculation and volatility, burdening and thereby discouraging short-term transactions that drive speculative trading.¹¹² International cooperation is a central prerequisite for a global financial transaction tax to work efficiently, making a United Nations convention on tax and other international tax instruments vital in the near term.

Redirecting fossil fuel subsidies

Fossil fuel subsidies generally take the form of tax breaks and direct payments for fossil fuel producers to offset the cost of research and extraction or subsidies to reduce the price of fossil fuels for consumers.¹¹³ Despite countries agreeing to reduce fossil fuel subsidies as part of SDG 12.c, research from the OECD and the International Energy Agency found that government support for fossil fuels worldwide almost doubled to USD \$697.2 billion in 2021, from USD \$362.4 billion in 2020.¹¹⁴ Total global fossil fuel subsidies

for 2022 are expected to rise even further with the war in Ukraine causing successive supply shocks and dramatically increasing fuel prices and energy use.¹¹⁵ Fossil fuel subsidies are expensive, contradict international climate agreements and directly exacerbate loss and damage experienced by developing countries that have little responsibility for the climate crisis. Funds allocated for direct and indirect subsidies could be diverted to support loss and damage at no new and additional cost to governments. This should coincide with programs that transition communities away from fossil fuel use to avert negative flow-on effects for lower-income countries and communities.

Discussion

In respect to all these tax and levy measures, decisions would need to be made regarding what proportion goes to a Loss and Damage Fund, climate finance for mitigation and adaptation and other development spending.

Logic dictates that establishing a multitude of tax measures globally will take a significant amount of time and focused effort, given the slow pace of progress so far. However, we do not have the luxury of time, given the loss and damage already being felt. Thus, it would be pertinent to focus efforts on one or just a few key tax reforms that are the most effective in raising adequate funds, best meet the guiding principles, and are most politically palatable for domestic audiences in countries where those taxes will be implemented.

Part of the political acceptability is likely to lie in the simplicity of the tax, and in how easily it can

be explained and justified to voters, the majority of whom are struggling with the rising cost of living globally, particularly in relation to energy price rises.¹¹⁶ Taxes or levies that are widely felt by voters and require complex compensation or concession schemes to reduce inequitable impacts are likely to face more significant challenges. Taxes that apply to a limited cohort of people, where there is a clear justification for that tax, or apply to multinational corporations and are not passed on to consumers, will be the most socially acceptable.

When it comes to a tax that meets all the guiding principles advocated by Oxfam, there is a clear stand out: a wealth tax is the single most straight forward and appropriate, predictable, equitable, new source of revenue that meets the scale of the funding needed and is coherent with the principles of polluter pays, capacity to pay and historical responsibility. While other taxes fit the bill in many regards, the scale of funds raised by a wealth tax, some USD \$1.7 trillion, makes it worth an almost singular focus. If the pollution top up is added to the wealth tax this has the added benefit of raising more funds and disincentivising investments in fossil fuels. Coupled with the benefits of only impacting 5% of the population (those who can most afford it), it is likely to have a high level of social acceptability among the majority of voters, if governments show leadership in building the case publicly. One risk that comes with the implementation of a wealth tax is capital flight and tax avoidance. However, this can be mitigated against by enhanced cooperation among national and international tax authorities and increased transparency provided by, for example, a global assets registry.

ALTERNATIVE PUBLIC SOURCES OF FUNDS FOR LOSS AND DAMAGE (\$ USD, BILLIONS)

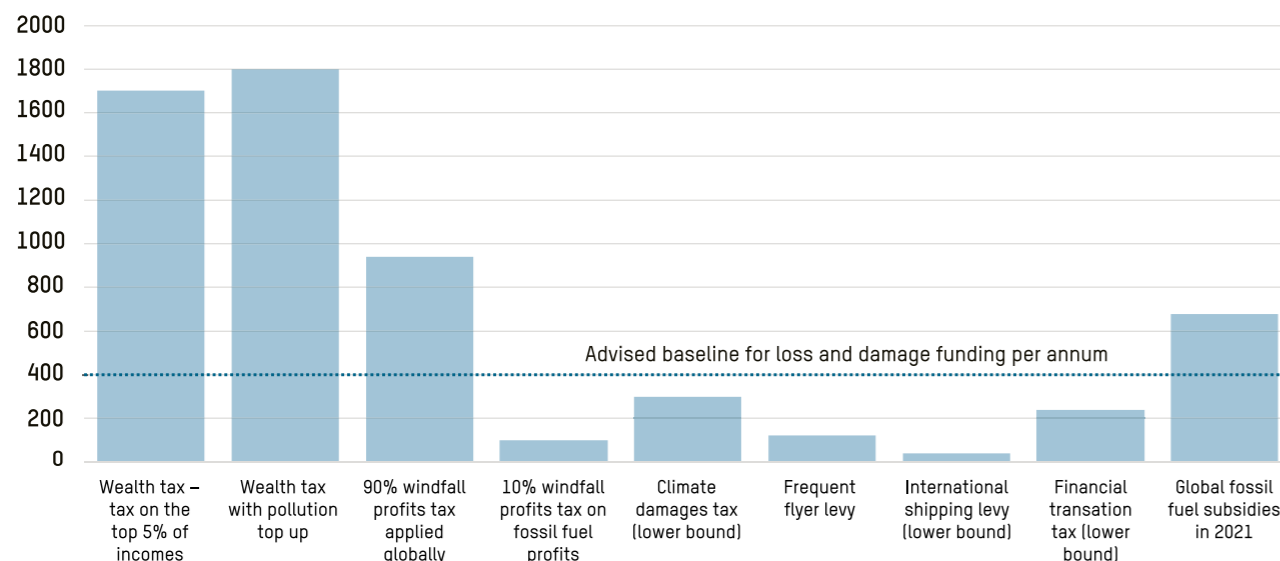


Table 4: Analysis of alternative public sources of Australian funds according to Oxfam’s Guiding Principles for the Loss and Damage Fund in relation to resource mobilisation.

Alternative public source of funds	Responsibility – polluter pays and capability	Adequate – scale of funds raised *	Predictable – providing consistent funds over the long term	Additional – new and separate to existing sources of finance	Equitable – paid for by those who can afford it, with no or easily mitigated negative impacts on low-income communities
Wealth tax – tax on the top 5% of incomes	Yes	AUD \$29.1 billion per annum ¹¹⁷	Yes	Yes	Yes
Windfall profits tax on fossil fuel industry – tax on excess profits of energy companies	Yes	AUD \$40 billion in 2021–2022 ¹¹⁸	No	Yes	Yes
Reformed Petroleum Resource Rent Tax – a tax on export oil and gas projects	Yes	AUD \$33.8 billion over forward estimates ¹¹⁹	Yes	Yes	Unclear**
Corporate super profits tax – 40% tax on profits above AUD \$100m	Mostly, yes***	AUD \$53 billion over forward estimates ¹²⁰	No	Yes	Yes
Climate damages tax – tax on fossil fuel extraction	Yes	AUD \$6.33 billion in first year of implementation with carbon price of AUD \$7.25 per CO2e embedded in fossil fuels extracted. The carbon price will increase over time to disincentivise fossil fuel exploration, as well as meet loss and damage and just climate transition needs (see Appendix 1)	Yes	Yes	Unclear. It depends on the supporting policy reforms. They would need to ensure cost increases are not passed on to low-income consumers, and that a portion of the tax is spent on programs to assist low-income consumers shift away from fossil fuels.
Frequent flyer levy	Yes	AUD \$4.35 billion per annum****	Yes	Yes	Yes
Financial transaction tax	Yes	Between AUD \$1 billion and AUD \$1.4 billion based on rates of 0.012% to 0.35% ¹²¹	Yes	Yes	Yes
Redirecting fossil fuel subsidies – end subsidies for fossil fuels and fossil fuel projects	Yes	AUD \$49.6 billion over the forward estimates ¹²²	Unclear (given this is a budget saving, unlike a tax or levy it is difficult to earmark the revenue for a specific purpose)	Unclear (depends on the government policy and budget decisions)	Yes

* All figures are expressed in AUD. Where currency conversions were required, a rate of AUD \$1 to USD 69 cents (2022 average exchange rate) was used.

** Corporations are likely to increase prices to compensate for loss of profits through tax payments. The main recipients of Australia’s exported gas are China (40%), Japan, South Korea and Taiwan.¹²³ Whether or not this impacts energy prices of low-income consumers depends on the policy settings of recipient countries.

*** Oxfam Australia conducted a review of the net profits after tax and the profit margins of select Australian companies on the ASX top 50 using annual report data. It was found that super-profits were most apparent among materials (mining) and energy companies, particularly during the COVID-19 period. Taxing corporate super profits would thus meet the polluter pays principle.

**** Australia-specific data was obtained by personal communication with the authors of the report, “Aviation Climate Finance using a Global Frequent Flying Levy” 2022.¹²⁴

Alternative public sources of finance in the Australian context

In the absence of global tax agreements, Australia should lead the way in building the case domestically and implementing a new levy or tax, with funds earmarked to be spent on meeting the challenges of climate change, including contributing its fair share to the Loss and Damage Fund.

In this section, we again use Oxfam’s Guiding Principles for the Loss and Damage Fund to analyse the alternative public sources of funds within the Australian context to establish which align best with the principles. In Table 4 we analysis different taxes and alternative sources that have been proposed by a range of groups. We also make new calculations as to what a climate damages tax might raise in the Australian context.

Discussion

Similar to the global context, a wealth tax in Australia is a stand-out reform in terms of the scale of funds it raises, its targeting of the biggest polluters (wealthy individuals), and addressing the growing inequality in Australia. It is a simple tax to explain and would only impact a small group of voters, albeit a powerful group.

Australia has had a challenging history in respect to implementing new progressive tax reforms over the past 15 years. This includes the introduction of a price on carbon pollution and mining super profit taxes, which have been retracted by subsequent conservative governments. This has contributed to Australia being one of the lowest taxing countries in the OECD.¹²⁵ There is a clear and evident need to widen the revenue base to meet the economic challenges of today, including Australia’s just energy transition and paying its fair share of climate finance.

If Australia is to be successful in achieving lasting reform, the Australian Government needs to show leadership in building the case publicly for the reforms needed. While tax is a complex topic for many Australians to understand, the advantage of a wealth tax is its simplicity, the limited number of people impacted and the strong case for reform in the face of growing extreme wealth and inequality in a country that prides itself on being egalitarian and fair.

Key messages and recommendations

Embedding equity in the design of who pays and who benefits from the Loss and Damage Fund will be fundamental to the Fund’s success, and for ensuring it reduces the deepening inequality caused by climate change.

Oxfam recommendations:

- Ensure the goal for loss and damage finance is at least USD \$400 billion per year, and that it increases according to need, with a significant portion of this finance being directed via the Loss and Damage Fund.
- Introduce a global wealth tax as a key source of revenue for the Loss and Damage Fund. Australia strongly advocates for a global wealth tax to tackle inequality and the climate crisis.
- Australia introduces a wealth tax with pollution top-up, to finance climate action at home and abroad, including contributing its fair share to the Loss and Damage Fund.
- Australia proactively supports global negotiations for other equitable polluter pays taxes, including a climate damages tax, a frequent flier levy and a shipping levy, and advocates for any inequitable impacts to be ameliorated in the designs.

6. SUMMARY OF RECOMMENDATIONS

Area	Recommendations
Centring equality in the Loss and Damage Fund	<ul style="list-style-type: none"> • Centre addressing inequality as a guiding principle of the Fund’s operation, in its governance body and its frameworks around allocation of funds (procedural justice and equality), in its sources of funds and in who receives the funds (distributive justice and equality), and the forms of support funded, including the restoration of dignity, agency and capabilities (restorative justice and equality). • Mainstream gender equality in all aspects of the Fund. Ensure the Fund allocations take into account gender-differentiated needs and capacities. Ensure that women, LGBTQI+ people, youth, people with disability, indigenous people and other often marginalised groups benefit equally, and that funds contribute to transformative change. • Make the Fund available for climate loss and damage that occurs in combination with other crises, such as conflict, inequality or disruptions in global supply chains, which limit progress on poverty eradication and achieving the Sustainable Development Goals. • Provide funding as grants as a matter of fairness and equity, as well as to avoid contributing to debt crises, and thus inequality and poverty in many climate-vulnerable, low-income countries. • Australia centres addressing inequality, gender mainstreaming and enhancing human rights at the core of its development policy and continues its strong record of contributing grants for climate finance.
The urgent need for new and additional loss and damage funds	<ul style="list-style-type: none"> • Mobilise new and additional funding for the Loss and Damage Fund to meet the scale of need. Do not displace other critical activities, such as humanitarian relief, climate finance for mitigation and adaptation, or development, which are also significantly underfunded, by double counting funding. • Set a sub-target for loss and damage finance within the new collective quantified goal for post 2025, in addition to sub-goals for mitigation and adaptation finance. Clarify how the goals will be met.
Embedding equity and polluter pays in the sources of funds	<ul style="list-style-type: none"> • Embed Oxfam’s Guiding Principles in the Loss and Damage Fund’s design. These principles can help ensure the Fund addresses the intertwining crises of inequality and climate change impacts. • Ensure the Loss and Damage Fund involves alternative, public sources of funding delivered annually by countries based on the core principles of addressing inequality, polluter pays and the UNFCCC principle of Common but Differentiated Responsibilities and Respective Capabilities.
Alternative sources of funds	<ul style="list-style-type: none"> • Ensure the goal for loss and damage finance is at least USD \$400 billion per year, and that it increases according to need, with a significant portion of this finance being directed via the Loss and Damage Fund. • Introduce a global wealth tax as a key source of revenue for the Loss and Damage Fund. Australia strongly advocates for a global wealth tax to tackle inequality and the climate crisis. • Australia introduces a wealth tax, with pollution top-up, to finance climate action at home and abroad, including contributing its fair share to the Loss and Damage Fund. • Australia pro-actively supports global negotiations for other equitable polluter pays taxes, including a climate damages tax, a frequent flier levy and a shipping levy, and advocates for any inequitable impacts to be ameliorated in the designs.

APPENDIX 1

Calculation for Australian Climate Damages Tax

The revenue estimate for the Australian Climate Damages Tax (CDT) was calculated based on the methodology used to calculate a global CDT in the report 'The Climate Damages Tax: A Guide to What It Is and How It Works'.¹²⁶ All figures should be considered illustrative only.

Oil, gas and coal production volumes in 2022 for Australia were sourced from BP's Statistical Review of World Energy 2022.¹²⁷ All amounts were converted into million tonnes using approximate conversion factors listed by BP.

Estimates of CO₂e embedded in oil, gas and coal volumes provided by the UK government, in kgCO₂e/tonne were used to calculate gross CO₂e embedded in oil, gas and coal produced by Australia in 2022 (in tonnes CO₂e).¹²⁸

Using the CDT price of USD \$5 or AUD \$7.25 per tonne CO₂e (as suggested by 'The Climate Damages Tax: A Guide to What It Is and How It Works'), total CDT revenues in its first year of operation in Australia were calculated (in AUD \$ billion). The carbon price would ratchet up over time to meet increasing domestic just transition and loss and damage needs domestically and internationally, respectively.

As Australia is a high-income country, the report suggests earmarking 50% of total CDT revenues towards the Loss and Damage Fund, with the other 50% earmarked for domestic just transitions away from fossil fuel use. Total Australian CDT revenues were thus halved to represent the amount from the CDT that would be dedicated specifically for the Loss and Damage Fund.

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East Are'are, Solomon Islands: Remains of a sea wall in Muki community in Solomon Islands. Photo: Ivan Utahenua/Oxfam.



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