

A climate loss and damage fund that works

POLICY BRIEF

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LOWY INSTITUTE

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Executive summary

Loss and Damage resulting from climate change presents a unique global challenge that affects vulnerable countries the most, and requires a rethinking of the traditional approach to accessing climate finance. In response, a Fund for responding to Loss and Damage has been established under the United Nations. To succeed, the Fund should learn from the key shortcomings of other climate funds.

- The new Fund for responding to Loss and Damage should adopt a clear allocation mechanism based on recipient countries' vulnerability, emission contributions, and climate change policies.
- Loss and Damage solutions are unlikely to result in clear financial returns, and the Fund should therefore focus on providing fast and efficient grant-based finance to the most vulnerable countries. Simplified procedures for countries and organisations to access financing and a flexible suite of implementation approaches are key.
- To raise more financial support, the Fund should explore the potential for engagement with philanthropies and encourage donor countries to adopt voluntary market mechanisms such as levies to raise additional funds.

What is the problem?

Vulnerable developing countries suffer disproportionate Loss and Damage from climate change even though they play a minor part in causing the problem. In 2022, a new Fund for responding to Loss and Damage (FRLD) was created to address a critical gap in global climate financing. The FRLD needs to avoid the key shortcomings of other multilateral climate funds, such as questionable allocation criteria and cumbersome procedures.

What should be done?

The Fund needs to allocate financing on the basis of recipient countries' climate vulnerability, greenhouse gas emissions, GDP, and policy actions to address climate change. Recipients should receive financing directly rather than through intermediary organisations. To ensure the Fund is well resourced, its Board should adopt innovative financial mechanisms, including seeking contributions from philanthropies and encouraging the adoption of market mechanisms such as levies.

Introduction

Global efforts to address climate change are alarmingly off-track. The goal of the 2015 Paris Agreement to limit global average temperature rise to 1.5 degrees Celsius by 2100 is slipping out of reach.¹ Instead, the world is on course for a 2.3-degree Celsius increase, a catastrophic scenario, particularly for the most vulnerable countries.² As a result of locked-in carbon emissions and insufficient adaptation, many countries are already facing unavoidable or irreversible climate impacts, which under the Paris Agreement is known as “Loss and Damage”.³

The year 2023 was the hottest on record.⁴ Major tropical cyclones in the Pacific, once rare, have been occurring almost yearly since 2014. Hurricane Beryl in June 2024 was the earliest Category 4 hurricane ever recorded in the Atlantic basin, where storms are typically observed only towards August and September.⁵ Coastal communities in the Pacific face the existential threat of rising sea levels, while Bangladesh is at risk of losing 17 per cent of its territory as well as access to potable water due to saltwater intrusion.⁶

These impacts will escalate in coming decades, hitting the most vulnerable developing countries hardest, particularly Small Island Developing States (SIDS) and Least Developed Countries (LDC), despite their minimal role in causing climate change.⁷ The associated costs are vast. The Vulnerable Twenty, a cooperation initiative of countries vulnerable to climate change, estimates that its 55 members lost approximately US\$525 billion between 2000 and 2019, representing around 20 per cent of their GDP over the period.⁸

Developing countries need more financial support to meet these costs. The Independent High-Level Expert Group on Climate Finance estimates that by 2030, developing countries could require US\$200–400 billion annually for Loss and Damage.⁹ These figures are uncertain due to the unpredictable nature of future climate impacts. Yet existing financial flows for climate-related activities predominantly target mitigation and, to a lesser extent, adaptation, as mandated in the Paris Agreement, leaving Loss and Damage significantly underfunded.¹⁰

Loss and Damage was recognised for the first time in 2015 at the UN Climate Change Conference COP21.¹¹ But the Paris Agreement failed to connect Loss and Damage with a financial mechanism, and explicitly excluded compensation or liability for Loss and Damage.¹² After many years of fierce negotiations, a Fund for responding to Loss and Damage (Fund or FRLD) was established in 2022 at COP27 in Sharm El-Sheikh, with a Governing Instrument agreed the

following year in Dubai (COP28).¹³ Early pledges to the Fund were announced at COP28 totalling US\$700 million, with the largest contributions from European countries such as Germany, France, and Italy, as well as the United Arab Emirates.¹⁴ These initial pledges amount to less than 0.2 per cent of the estimated annual requirement. While a Board has been appointed and an overarching design agreed, many key operational issues — most notably details on allocation, access channels, and fund mobilisation — remain unresolved.¹⁵

This Policy Brief makes recommendations to the Board of the FRLD to ensure that the Fund becomes an impactful financial resource for addressing Loss and Damage from climate change.

The state of finance for Loss and Damage

There is currently no formally agreed definition of Loss and Damage. It is generally recognised that the term encompasses climate change impacts that go beyond what can be adapted to, although the demarcation between Loss and Damage and adaptation remains fluid. Loss and Damage impacts include losses due to extreme weather events (e.g. cyclones, floods, heatwaves) as well as slow-onset events (e.g. sea level rise, glacial retreat, desertification, biodiversity loss). Losses can be economic (e.g. loss of income, destruction of infrastructure) and non-economic, such as loss of life, cultural heritage, and territory.¹⁶

The new Fund's purpose is to support particularly vulnerable developing countries in ways not possible under the current funding landscape. Solutions that the Fund could support include post-disaster reconstruction and mitigating the impacts from slow-onset events through initiatives such as assisted migration programs, reskilling, and climate-related social protection systems.

As illustrated in a simplified version in Figure 1, the FRLD has a complex relationship with other funding sources, and a clear demarcation is difficult to establish.¹⁷ Finance from other sources is predominantly focused on averting and minimising the impacts of climate change. Post-disaster support is in some cases provided through parametric insurance — where a swift payout is provided for short-term recovery based on the severity of the event rather than the magnitude of the losses — which addresses Loss and Damage in part. However, humanitarian aid for Loss and Damage falls outside the definition of climate finance within the United Nations Framework Convention on Climate Change (UNFCCC) and Paris Agreement, so it is disputable whether it counts as an existing funding arrangement for Loss and Damage.

The FRLD is notable for being the only existing multilateral fund with a mandate to address non-economic losses resulting from climate change.

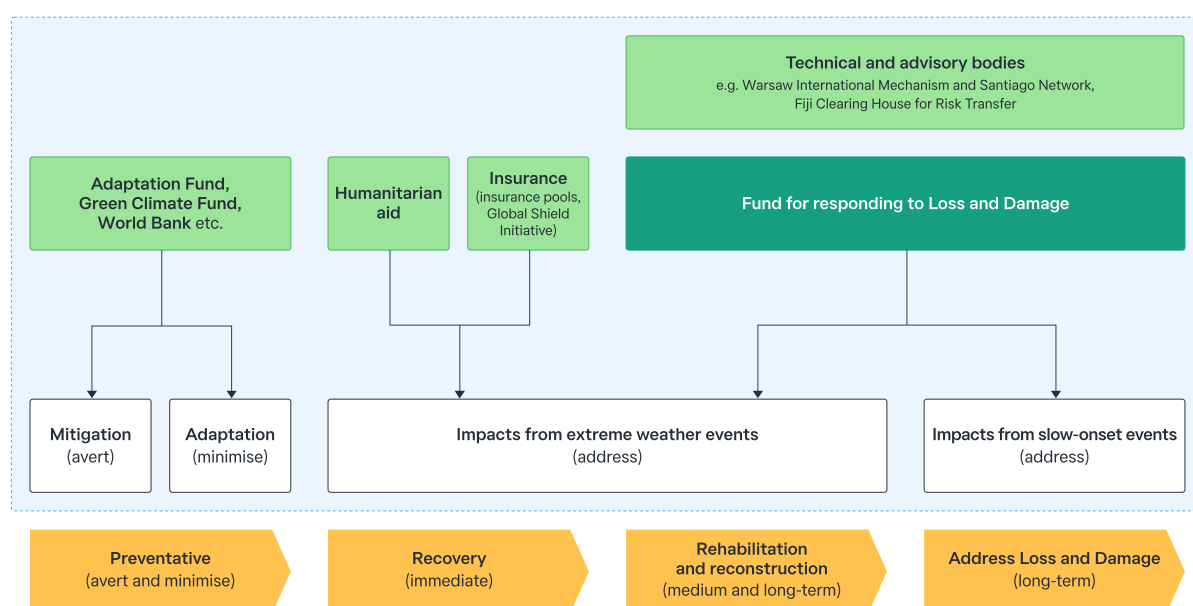
Other potential funding sources for Loss and Damage include technical bodies (e.g. the Santiago Network for Loss and Damage and the Warsaw International Mechanism for Loss and Damage), insurance (e.g. the Global Shield initiative or insurance pools), multilateral funds (e.g. the Green Climate Fund, Adaptation Fund, and World Bank), and other initiatives (e.g. the Pacific Resilience Facility).

¹⁸ These provisions mainly focus on averting and minimising climate change and

do not reference Loss and Damage, though the Pacific Resilience Facility explicitly allows for funds to be spent on Loss and Damage.

The FRLD is notable for being the only existing multilateral fund with a mandate to address non-economic losses resulting from climate change. This is challenging as these losses are complex and hard to identify and predict, as well as being intangible and not easily quantified in monetary terms. Remedial measures could include incorporating cultural remembrance in school curricula,¹⁹ issuing official apologies, offering long-term counselling services, or holding mourning ceremonies.²⁰ An annual high-level dialogue convened by the UN Secretary-General on coordination and complementarity for Loss and Damage funding arrangements presents an opportunity to establish common understanding of these funding arrangements and reporting standards, similar to the OECD Rio Marker system for climate mitigation and adaptation.

Figure 1
New and existing funding arrangements



Loss and Damage allocations: Who should get what and how much?

It is essential that the FRLD's allocation mechanism be precisely defined. Past experiences with climate mechanisms, such as the Green Climate Fund, demonstrate that an imprecise framework can hinder effective allocation of resources.²¹ Although all developing countries are eligible to receive FRLD funding, this classification, established in 1992, is increasingly challenged by sustained economic growth and increases in GHG emissions. For example, China, Indonesia, and Brazil are all eligible to receive funds, yet they are among the world's top ten emitters. China has experienced extraordinary growth in recent decades, becoming the world's second-largest economy and surpassing all advanced economies combined in annual carbon dioxide (CO₂) emissions in 2020.²² Moreover, China is now positioned as the second-largest cumulative emitter of CO₂ over 1850–2021, just behind the United States.²³ The allocation mechanism for the FRLD should adequately reflect these changing circumstances for the benefit of the most vulnerable and least responsible.

Prioritisation

Putting in place a clear allocation mechanism will be crucial to making the Fund effective for the most vulnerable, least resourced, and least responsible. The Fund was established under the architecture of the Paris Agreement, which upholds the UN principle of “common but differentiated responsibilities and respective capabilities”.²⁴ This principle acknowledges that responsibility is unevenly distributed due to varying contributions to climate change and differing economic capacities. The Fund should reflect this principle by allocating financial support in alignment with capability, capacity, responsibility, and fairness.

Currently, the FRLD recognises the greater needs of the most vulnerable and least resourced countries by requiring a minimum funding allocation for SIDS and LDCs. However, where this minimum allocation will be set is yet to be determined. Neither is a floor a guarantee for fair or efficient allocation across countries. The Green Climate Fund, for instance, also has a minimum standard: it requires that half of all adaptation funding goes to the most vulnerable countries, although the term “vulnerable” is not well defined.

Countries with low emissions, small GDP, and high ambition in climate change action relative to their capacity should be given higher priority for funding.

Beyond this high-level framework, funding allocation is determined by the GCF Board on a competitive project-by-project basis. Evidence suggests that, in the case of the Green Climate Fund, for example, this has resulted in funding being poorly targeted.²⁵ The FRLD's floor

should be more ambitious, with at least 60–70 per cent of all funds going to SIDS and LDCs, to guarantee that the Fund's limited resources reach those that need them most.

In addition, the Fund should implement a weighted multi-factor allocation mechanism with criteria that reflect vulnerability but also responsibility, capacity, and fairness to ensure transparent decision-making. For instance, funding entitlements should decrease as a country's GHG emissions and GDP rise. Insufficient in-country climate change mitigation efforts should also reduce eligibility for funds, emphasising the collective responsibility to take action. In turn, countries with low emissions, small GDP, and high ambition in climate change action relative to their capacity should be given higher priority for funding. This provides an incentive for countries to reduce their national emissions and invest into adaptation, hence reducing Loss and Damage.

Caps

The Fund relies on voluntary contributions and therefore, the amount of funds allocated to address Loss and Damage needs to be given careful thought. The European Union Solidarity Fund (EUSF) has some features that could be adapted for the FRLD. The EUSF provides funding in the aftermath of a disaster based on a percentage of a country's gross national income (GNI) loss from an event, but also sets a cap on the total payout a country can receive. An affected country would not receive more than the cap, regardless of whether the GNI loss was greater. The FRLD could follow a similar approach when providing finance to address Loss and Damage from extreme weather events to prevent over-allocation to specific events and rapid depletion of resources. This would also help to manage uncertainty over the specific degree of attribution of an event to climate change as not all extreme weather and resulting catastrophes can be entirely attributable to climate change (e.g. the risk of hurricanes and floods has always existed).²⁶

Without an agreed target for contributions to the Fund, alongside existing commitments falling significantly short of needs, there is a risk that demand for Loss and Damage funding will outstrip supply. To mitigate this risk, the EUSF sets an annual disbursement cap of €500 million. Similarly, to ensure fair allocation and predictability of finance, the FRLD could set a cap with available funds split equally over the four-year replenishment cycle. If the required funds exceed the annual cap, payouts to countries can be divided equitably based on

the criteria in Table 1. The EUSF also has an emergency reserve. However, this can be costly to sustain.²⁷ The FRLD Board could instead make a separate call for contributions in emergencies so that programs that address long-term impacts are not left underfunded. Table 1 provides an overview of recommendations on allocation criteria, weighting, explanation, and the corresponding principle.

Table 1: Multi-factor criteria to determine equitable disbursement of funds

Allocation criterion	Explanation	Weighting	Principle
Vulnerability	Differentiates country vulnerability beyond the definition in the Governing Instrument (i.e. minimum allocation floor for SIDS and LDCs) through ND-GAIN, MVI, population size, or other indexes as appropriate for country context	Low to medium weighting (where higher vulnerability is positive and lower vulnerability is negative)	Fairness, capacity, capability
Greenhouse gas emissions	Average annual GHG emissions over the last five years prior to application	High weighting (negative)	Fairness, responsibility
Gross Domestic Product	Average annual GDP over the last five years in the year prior to application (50/50 split of GDP per capita and GDP total)	High weighting (negative)	Capacity, capability, fairness
In-country actions and efforts to build resilience (including maintenance and upgrading of infrastructure)	Efforts directed towards climate change adaptation and resilience-building relative to capacity determined through qualitative and case-by-case analysis of country's nationally determined contributions or adaptation strategies	Medium weighting (where higher ambition is positive and lower ambition is negative); relative capacity can be demonstrated through qualitative means	Responsibility
Percentage of GDP loss (for trigger-based projects)	Funding based on percentage of GDP loss up until cap on total funding is reached	No weighting	Fairness
Total loss and damage (for trigger-based projects)	Cap on total funding	No weighting	Fairness

How funds can be accessed

Current funding arrangements under the UNFCCC predominantly channel financing through international intermediaries such as the World Bank or UN agencies, rather than through the systems of recipient countries. This practice supports developing countries that lack the capacity and experience to efficiently manage large amounts of funding, and addresses donor concerns about weak institutions and the risk of misappropriation.²⁸ But the dominant role of international intermediaries can also undermine country ownership of projects and result in less relevant outcomes for the recipient.²⁹ The creation of additional administrative layers also reduces the funding that ultimately flows to countries.³⁰

National governments and organisations should instead be able to apply directly to the FRLD for funds, to better ensure that initiatives genuinely meet country needs, use existing in-country resources, strengthen national systems, and avoid unnecessary layers of administration.³¹ Current UN funds such as the Green Climate Fund allow direct access to finance following an accreditation process designed to verify that organisations can deliver projects and use funds appropriately. However, the accreditation procedure is overly burdensome and takes years to complete.

The FRLD aims to prevent these challenges by introducing “functional equivalency”. A range of regional, national, and community groups that fulfil broad criteria would undergo a fast-tracked verification process through the FRLD Board. The requirements for this approval process should be robust enough to address donor concerns about appropriate fund use while maintaining enough flexibility to uphold recipient country autonomy. One promising approach involves a scorecard system, where applicants demonstrate capability and capacity by accumulating a total of 100 points through documentation they select from a combination of categories suggested below (see Table 2). Different documents achieve different score points. Similar systems have proven effective in identity verification, where a combination of documents satisfies evidence requirements.

These requirements should be adjustable (e.g. by reducing the required 100 points) to accommodate small, local organisations and groups, and small-scale projects. Qualitative assessment factors could be considered by the Board on a case-by-case basis.

In addition, the Board should encourage countries to identify organisations (e.g. trust funds, non-governmental organisations, community groups, and entities

already accredited with other multilateral funds) that could be eligible for funding. Similar efforts have been undertaken to identify potential accredited entities for the Green Climate Fund based on thematic, financial, or project management expertise.³²

Table 2: Functional equivalency scorecard for FRLD financing

Category	Possible documentation
Overall capacity	• Accreditation with other UN funds (e.g. GCF, AF) • Governments receiving budget support from multilateral development banks • Track record of delivered projects • Personnel with technical knowledge relevant to the project • Personnel with experience relevant to the project
Fiduciary standards	• Financial management systems • Accounting practices
Transparency	• Publicly available documents • Reporting practices
Environmental and social safeguards	• Gender assessments • Environmental impact assessments
Governance and institutional integrity	• Laws • Bills • Regulation • Enforcement mechanisms
Other	• Other evidence not listed above, including qualitative evidence (e.g. traditional and indigenous knowledge, testimonies from beneficiaries from previous projects, collected case studies from research such as reports or academic papers)

Setting a cap on funds disbursed to entities appropriate to their size, type of institution, and fiduciary standards as well as a small-grants window, akin to the Green Climate Fund's approach, should also be included to avoid overburdening small entities with large amounts of funding.³³

The case for concessional loans

Loss and Damage solutions are unlikely to result in clear financial returns, and the Fund should therefore focus on providing fast and efficient grant-based finance to the most vulnerable and least resourced countries. However, highly concessional loans to countries that express a need for additional resources, and are financially capable of repaying them, should still form part of the portfolio.

Concessional loans are an important tool to extend existing resources. The Australia–Indonesia Partnership for Reconstruction and Development (AIPRD), established following the 2004 Indian Ocean tsunami, provides a relevant example from the humanitarian sector where a concessional loan was able to significantly increase financial assistance.³⁴ The AU\$1 billion aid package from the Australian government consisted of a AU\$500 million concessional loan matched with an equal amount in grants. This funding was used to support both small-scale reconstruction efforts as well as human resource development and rehabilitation, including a scholarship program for training in fields such as engineering, healthcare, and public administration. In this instance, the loan component was suitable as Indonesia had the capacity to manage the debt, and without it, the impact of AIPRD would have been considerably reduced.

Flexible funding approaches

Climate change initiatives funded through multilateral funds are typically delivered on a project-by-project basis. However, the application process can be onerous, with unrealistic data requirements.³⁵ Projects operate within a fixed timeline, often too short to sufficiently meet their objectives. They must demonstrate progress by achieving predetermined milestones, making them inflexible. This constraint is particularly problematic in the context of Loss and Damage, where losses can unfold gradually and unexpectedly. Flexibility is particularly important for addressing non-economic losses from climate change as they are, in many cases, difficult to predict and determine as well as being highly context-dependent.³⁶

A troubling example highlights the complexity of Loss and Damage impacts and the challenge to address them. In Bangladesh, communities are reporting an uptick in skin diseases and pigmentation due to salinisation and rising temperatures. These diseases not only cause hair loss but also contribute to girls being kept indoors and married at a younger age, in a culture where lighter skin is often regarded as more attractive.³⁷ As an impact from climate change, the described issue is hard to address as it defies current application processes, i.e. formulation of a project with clear budget requirements, milestones, fixed time frame, and quantitative data. This particular case would potentially also fall under gender equality parameters and might be deemed ineligible for financial assistance by other climate funds.

A second example that highlights the complexity of Loss and Damage and the need for flexibility is the deterioration of the coconut quality in the Marshall Islands due to saline soil that is caused by sea level rise. Coconut exports are a key source of income for the Marshall Islands, as well as a significant source of food, and deeply embedded in the country's culture. Such complex issues defy predictable and fixed project-based solutions.

To account for context dependency and the needs of different societies and countries, the Fund should develop the following three funding channels:

1. **Financing a country's dedicated Loss and Damage strategy:** Medium to long-term funding channelled directly to government budgets, which would allocate and administer money according to priorities in nationally and regionally developed Loss and Damage strategies.
2. **Programs:** Funds allocated to a set of activities identified and designed by countries, organisations, or regional bodies, on a multi-year basis and with

long-term aims. Funds can be allocated and spent flexibly to achieve set outcomes.

3. **Projects:** Funds allocated to well-defined projects, including those addressing the consequences of extreme weather or slow-onset events.

Funds disbursed to countries should come via direct budget support, which the recipient earmarks for Loss and Damage activities. Eligible organisations should be able to apply directly for funds that can be spent to implement projects and programs addressing Loss and Damage.

Programs and projects will be particularly useful for recipient countries that have not yet developed a Loss and Damage national strategy or do not wish to do so. While the Fund should embrace programmatic approaches, it should still allow for the traditional method of applying for a single project when suitable. Funds received for projects can be spent flexibly should circumstances change or new information becomes available during project delivery. For example, the residual effects of Hurricane Dorian, a Category 5 tropical cyclone that struck the Bahamas in 2019, are expected to persist for many years, requiring long-term reconstruction efforts and potential community relocation, activities that are challenging to predict at the time of funding application.³⁸

Application requirements should be flexible, taking into account the country or organisation's size and reasonable data gaps, while avoiding a strict template-based approach. The Board needs to consider that projects triggered by extreme weather events can be time-sensitive, therefore, funding approval outside the annual meeting cycle should be possible.

Results-based financing, where further disbursements are provided against verified results, should also be used. Results-based financing shifts the focus from ex-ante control of inputs to ex-post accountability over performance. It therefore aligns incentives for performance while allowing for greater flexibility and innovation by implementing organisations. Recognising that many developing countries, particularly those most vulnerable, do not have financial resources available, an initial startup cash flow can be provided. Similar to EUSF, this payout can be capped at 20 per cent of the overall approved amount, with a maximum limit appropriate to the project size.

Addressing non-economic losses

The FRLD is the only fund with an explicit mandate to provide financial support for non-economic losses. While a crucial part in the Loss and Damage debate, the identification of solutions to address non-economic losses has been neglected. The issue is particularly challenging because the losses are often intangible, highly context-dependent, and do not lend themselves to the allocation of a monetary value. Three possible solutions for financial support to non-economic losses could help address this problem.

Firstly, the FRLD should approve projects that *prepare* to address non-economic losses that are known. Examples of such projects include providing funds to protect sacred sites from sea level rise, relocation of artefacts, re-enforcing historical buildings, and protecting museums.

Secondly, the FRLD should provide financial support to make good losses through means other than direct monetary compensation. Examples identified by affected people include improved healthcare services or assistance with mortgage repayments due to livelihood disruption after extreme weather events, as well as re-skilling if an industry (e.g. fishing or farming) becomes unviable.

Thirdly, the FRLD should provide funds to support ceremonies or memorialisation following irrecoverable cultural and natural loss. For example, people in Iceland mourned the “death” of the glacier Okjökull with a grieving ceremony.³⁹ Other options could include the recreation of traditional practices, integration of indigenous knowledge into national curricula, or remembering loss through celebratory ceremonies. Only the affected people themselves know how to most appropriately address non-economic losses, but such symbolic initiatives send a powerful message, raise awareness, and could offer a coping mechanism.

Fund mobilisation: Innovative sources of funding

Without adequate funding, the FRLD will fall short of the high expectations for its global scale and impact. As with other funds under the UNFCCC, contributions to the FRLD are voluntary, with a four-year call for replenishments. However, voluntary contributions by governments are often unpredictable and likely to be insufficient.

A promising strategy to scale up the Fund is to receive inputs outside of the replenishment cycle from innovative market mechanisms, philanthropy, and concessional loans.⁴⁰ These should be new and additional funds, not a replacement for the responsibility of governments to support the Fund meaningfully. Moreover, while addressing Loss and Damage will require substantial resources, there is debate about whether it would be more effective to direct funds from such sources to mitigation and adaptation in order to avert and minimise Loss and Damage before it eventuates. Balancing these approaches will be essential.

Private finance

Engaging with the private sector to mobilise additional resources through financial tools such as blended finance will be important for meeting global climate goals but is not viable for the FRLD given that Loss and Damage solutions lack sufficient returns on investment. While various multilateral funds partner with private actors to achieve scale, progress has also been slow and success questionable. The Green Climate Fund, for instance, has encountered challenges mobilising meaningful funding, experienced higher rates of project failure compared to publicly funded projects, and struggled to overcome strong investor bias towards profitable large-scale mitigation projects, neglecting small-scale adaptation projects with limited bankability.⁴¹ The Global Environment Facility is trialling a “non-grant window” for environmental projects.⁴² It includes concessional loans but also aims to leverage private sector lending. Many of the projects remain in the energy efficiency and forestry space as small financial returns in these areas can be realised. However, Loss and Damage solutions, particularly for non-economic losses, offer limited-to-no returns on investment. Therefore, private sector interest in Loss and Damage will likely be minimal and the Board should not allocate resources towards building this capacity within the Fund’s portfolio.

Philanthropic finance

Philanthropy is increasingly recognised as an untapped financial source for climate change action under the UNFCCC. Yet it remains unclear how philanthropic funding can be effectively mobilised and spent on Loss and Damage.⁴³

Estimates suggest that climate initiatives comprised roughly only two per cent of global philanthropic funding in 2022, but that the amount is growing.⁴⁴ Philanthropy Australia, for instance, calculated that global foundation investments in climate mitigation activities have more than tripled from US\$900 million in 2015 to more than US\$3 billion in 2021, although growth stalled in 2022.⁴⁵ The US annual report on philanthropy for 2023 paints a similar picture. Donations in the United States for causes related to the environment and animals increased by 8.2 per cent — US\$21.2 billion more than the previous year.⁴⁶ While philanthropic interest in climate initiatives has grown in recent years, its primary focus has been on climate change mitigation projects, such as renewable energy, which often promise returns on investment.⁴⁷

Moreover, philanthropy faces similar challenges to multilateral financing, including complex and lengthy application procedures designed to address donor concerns about misallocation of funds.⁴⁸ Initiatives supported by philanthropic organisations or individuals often reflect donor preferences at the expense of effectively addressing recipient needs.⁴⁹ Sources of giving also vary (e.g. individuals, foundations, bequests, and corporations), creating a highly fragmented system that risks duplication of effort.

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The FRLD presents an opportunity to engage philanthropies in pooling no-strings-attached grant contributions to a trusted financial mechanism that effectively consolidates and channels funds to impacted communities where they are most needed.⁵⁰ Ongoing contributions from philanthropic organisations or individuals, independent of the four-year replenishment cycle, would bolster funding predictability for recipient countries. The Board should consider developing a clear engagement strategy with alliances such as the International Philanthropy Commitment on Climate Change.

Further, research will also be needed into how philanthropy can effectively tackle Loss and Damage, examining types of support and their impact at local, national, and regional levels. Engagement with the philanthropic sector would provide an opportunity to explore how the attractiveness of the FRLD to this sector can be increased. While this task exceeds the Board's current mandate, it could be initiated under the UNFCCC, potentially as early as the agreement on the New Collective Quantified Goal (NCQG) on Climate Finance at the upcoming COP29 in Baku.⁵¹

Market mechanisms

Taxes and levies also remain an underused mechanism in global climate action. A taskforce recently launched by Kenya and France is considering how a global taxation regime could address climate change, including Loss and Damage. Options under consideration include a carbon tax on fossil fuel trade, levies on specific industries such as maritime transport and aviation, and a global financial transaction tax.⁵²

Climate change action is highly politicised, so even domestic economic levers must be carefully crafted to minimise political backlash.

Economic levers could offer a new and predictable revenue stream, helping to limit the diversion and reduction of government funds from other urgent priorities. However, global taxation regimes are unlikely to gain broad political support and would take years to develop, with organisations such as the UNFCCC

lacking the authority to enforce them. Moreover, historical experiences, as with the Kyoto Protocol, suggest that mandated top-down actions within the Climate Change Convention have not been effective on a global scale.⁵³

For these reasons, the most realistic approach is to focus on possible tax or levy contributions implemented by specific countries or potentially among alliances of like-minded countries. Climate change action is highly politicised, so even domestic economic levers must be carefully crafted to minimise political backlash. However, policy innovations in this space are possible: France, for example, implemented a solidarity levy on airplane tickets to raise funds for Unitaid, a global initiative supporting health treatments in developing countries. Many countries, including developing countries, followed suit.⁵⁴ A Carbon Border Adjustment Mechanism, such as the one operating in the European Union that imposes a tariff on imported carbon-intensive goods, offers another possibility.⁵⁵ This would have the double benefit of encouraging domestic action in the exporting country and raising finance that could flow into the FRLD.⁵⁶ Another example is Fiji, which uses part of its environment levy imposed on tourism activities to fill its trust fund for planned community relocations due to sea level rise.

Recommendations

This Policy Brief offers six key recommendations for the newly appointed FRLD Board, recipient countries, and other global actors to ensure that the Fund achieves its potential and reaches the most vulnerable developing countries, particularly SIDS and LDCs:

1. **A funding floor for SIDS and LDCs should be set at no less than 60–70 per cent of total funds in the FRLD budget.** This would meaningfully account for the special circumstances of the most vulnerable developing countries.
2. **A weighted multi-factor allocation mechanism, in addition to the minimum floor, should be introduced.** The mechanism would account for responsibility and capacity based on factors such as recipient countries' GDP, greenhouse gas emissions, vulnerability, and national efforts towards climate change initiatives.
3. **A clear framework for eligible entities that qualify to directly receive funds from the FRLD should be developed.** A scoring system could be employed as verification for capability and capacity. The Board could also encourage recipient countries to identify organisations that could undergo verification.
4. **National Loss and Damage strategies and programmatic approaches, as well as traditional project-based funding where relevant, should be directly supported.** Direct access for national governments and organisations should be prioritised, avoiding intermediaries such as the World Bank, to reduce administrative layers, enhance country ownership, and ensure relevant outcomes for recipients. Flexible spending must be ensured to cater for diverse and changing circumstances.
5. **Non-economic losses should be adequately addressed through a three-tier approach that supports initiatives before, during, and after climate events.** This approach should focus on preparing for impacts, assistance after impacts, and supporting appropriate memorial activities.
6. **Engaging the philanthropic sector and encouraging governments to voluntarily introduce market mechanisms such as levies on carbon-intensive activities to pool funds into the FRLD will be essential.** Ultimately, substantial additional financing will be needed to make the new Fund a success. While additional voluntary contributions from donor governments will be vital, other sources of innovative financing will be required.

Glossary of acronyms

AIPRD: Australia-Indonesia Partnership for Reconstruction and Development

AU: Australian

COP: Conference of the Parties

EU: European Union

EUSF: European Union Solidarity Fund

FRLD: Fund for responding to Loss and Damage

GCF: Green Climate Fund

GDP: Gross Domestic Product

GHG: Greenhouse gas

GNI: Gross National Income

LDC: Least Developed Country

MVI: Multidimensional Vulnerability Index

NCQG: New Collective Quantified Goal

ND-GAIN: Notre Dame Global Adaptation Initiative

OECD: Organisation for Economic Cooperation and Development

SIDS: Small Island Developing States

UNFCCC: United Nations Framework Convention on Climate Change

US: United States

Note: All currency quoted in US dollars unless otherwise stated

Acknowledgements

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Notes

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