POLICY BRIEF

Including Loss and Damage in the New Collective Quantified Goal of Climate Finance: A Call for Equity, Accountability, and Innovation at COP 29 in Baku

The policy brief demonstrates how incorporating Loss and Damage (L&D) into the New Collective Quantified Goal (NCQG) being discussed currently at COP 29 will address not only the equity gap for developing countries, but also provide a well-rounded and well-defined climate finance landscape. By anchoring L&D as a distinct component within the NCQG, developing countries can secure finances to respond to unavoidable climate impacts and non-economic loss and damage, ensuring a more comprehensive and just response to the climate crisis.

The Need for a Paradigm Shift in Climate Finance?

The Scope for New Collective Quantified Goal (NCQG)

The NCQG for climate finance is the central issue being discussed at the 29th Conference of the Parties (COP 29) in Baku, widely referred to as the 'Finance COP.' In 2009, developed countries agreed to raise USD 100 billion a year for climate finance by 2020 and which was to continue through to 2025. This amount was to be enhanced as the NCQG, which was adopted at COP 26 in Glasgow. The NCQG is expected to finalized at COP 29, with the expectation of a climate finance goal that is much larger than the USD 100 billion pledged earlier, and grounded in a robust and just framework, hence designed to serve the needs of developing countries fairly and comprehensively.

The NCQG was adopted in order to contribute to the key goals of the Paris Agreement, enshrined in Article 2(1) – "holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C." The mandate was for setting a new climate finance goal "from a floor of USD 100 billion per year, taking into account the needs and priorities of developing countries."[1] The NCQG has the potential to redefine the climate finance landscape by drawing lessons from the previous goal, by expanding climate-related financial flows that align with principles of climate justice and go beyond business-as-usual. This presents an opportunity for setting qualitative and quantitative targets for financing, not only for adaptation and mitigation, but also for L&D.

Quantum of Adaptation and Mitigation

The USD 100 billion climate finance goal focuses on funding mitigation (the reduction of carbon dioxide and other greenhouse gas emissions) and adaptation efforts, the first two pillars of climate finance, with an equal priority given to both in the relevant text. The major share of the contributions, however, have been in favor of mitigation efforts. This imbalance towards mitigation has been widely criticized by developing countries. It highlights the need for a more equitable distribution of finance under the NCQG, with developing countries pushing for at least a doubling of finance for adaptation by 2025.

What to Expect from the Finance COP in Baku?

The Bonn Climate Change Conference (SB60) yielded mixed results in setting the stage for COP 29 in Baku. While some technical progress was made on carbon markets under Article 6, the conference brought forth the deep divisions between developed and developing countries regarding climate finance, particularly the NCQG. This signifies the need for all Parties to come to an agreement in regards to the quantum, scope, contributor base and transparency arrangements of the NCQG, by COP 29. Developing countries are pushing for an ambitious goal exceeding USD 1.3 trillion annually by 2030, with an emphasis on grants or concessional loans to reduce their debt burden. **A major point of contention is the inclusion of L&D as a quantifiable sub-goal within the NCQG,** with developing countries advocating for its separate and equitable treatment alongside mitigation and adaptation. There are also expectations that COP 29 would adopt the draft on Gender and Climate Change, to bolster gender-sensitive responses to climate change. It is also expected that the Baku COP will finalize the decision on financial support for technology transfers, supporting the development and implementation of renewable and related climate technologies.

[1] UNFCCC (United Nations Framework Convention on Climate Change). 2023. *New collective quantified goal on climate finance*. Briefing note. Available at https://unfccc.int/sites/default/files/resource/UNFCCC_NCQG2023_flyer_web.pdf (accessed on November 9, 2024).

Loss and Damage – The Third Climate Finance Pillar

L&D must be integrated into the NCQG as the third pillar of climate finance, following the landmark decision at COP 28 in 2023 to formally operationalize funding arrangements to respond to L&D. Despite L&D not featuring in the previous climate finance goal and outlays, the emerging evidence of intensifying L&D has prompted developing countries to advocate for L&D as a sub-goal under the NCQG.

The Sixth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) indicates that some L&D is unavoidable.[2] It has been estimated that the costs of L&D worldwide will reach as much as USD 671 billion a year by 2030.[3] These forecasts make the elevation of L&D as an independent pillar under new collective climate finance goal a necessity.

The developing countries and developing country groups or associations calling for the inclusion of L&D in the NCQG so far include the Asia-Pacific Broadcasting Union (ABU), the African Group of Negotiators on Climate Change (AGN), the Independent Association of Latin America and the Caribbean (AILAC), the Alliance of Small Island States (AOSIS), and the Least Developed Countries (LDC) Group.[4] They rightly refer to Articles 3 and 8 of the Paris Agreement, which recognize the "need to support developing country Parties for the effective implementation of this Agreement" and the "importance of averting, minimizing, and addressing loss and damage associated with the adverse effects of climate change," respectively.[5]

There is no legal obstacle to adding L&D to the NCQG. Article 9 of the Paris Agreement clearly declares that developed countries should "continue to take the lead in mobilizing climate finance" through "taking into account the needs and priorities of developing country Parties," among other things. Developing countries have openly advocated for L&D finance, citing it is a need and priority for them.

Unpacking the Current Climate Finance Landscape

- **No official definition of 'climate finance':** There is yet to be a formally or commonly accepted definition of 'climate finance' articulated by the UNFCCC, nor was it specified in the Paris Agreement of 2015. This provides a leeway to developed countries to blend their climate finance contributions with existing Official Development Assistance (ODA).
- **Tracking flows in climate finance:** The OECD, in its 7th assessment of UNFCCC's progress, found that USD 115.9 billion had been mobilized by developed countries in 2022, exceeding the annual USD 100 billion goal for the first time.6 The OECD further found that adaptation funds accounted for USD 32.4 billion, and mitigation for the rest. An increase of 52 percent was also recorded for private finance being mobilized by public climate finance (bilateral and multilateral sources from developing countries) which continued to account for majority of the finance – 80 percent of the total amount in 2022.
- **Imbalance between funds for adaptation and mitigation:** Climate finance in 2019/2020 totaled USD 653 billion, with adaptation receiving only USD 49 billion, and mitigation finance a whopping USD 586 billion.6 This is inadequate for adaptation as adaptation measures will need more than USD 215–387 billion in the coming decades, with Oxfam reporting the gap to be far larger. 7
- **Concerns about accountability and transparency in financial flows:** Developed countries have been reported to overstate their contributions to climate finance. The interlinkages between climate change and development makes it easier for existing official development assistance to be entered as climate finance. For example, Oxfam found that The World Bank's claims of the volumes of its climate finance contributions could not be independently verified and could be overstated by as much as USD 7 billion.[8]
- **Quality of financial instruments:** Developed countries are now widely engaged in the practice of providing loans over grants as part of the USD 100 billion commitment. More than two-thirds of climate finances received by middle-income countries from 2015 to 2020 was in form of loans, as per a Reuters analysis.9 This special report also found that wealthy nations have loaned a minimum of USD 18 billion at higher, market interest rates defying the norm of low or concessional rates for climate projects. Additionally, in grants that totaled USD 10.6 billion from 24 countries and the EU, and USD 11 billion from Japan, the recipients were required to hire companies, non-profits, and public agencies from the lending countries. Such practices ensure that the developing countries are forced to pay for services, and thereby return funds meant to address climate change, implying that these transactions are viewed as business opportunities, which goes against principles of climate justice.

---

[2] IPCC (Intergovernmental Panel on Climate Change) 2022. *Climate change 2022: Impacts, adaptation, and vulnerability. Contribution of working group II to the sixth assessment report of the Intergovernmental Panel on Climate Change*. Cambridge, UK and New York, NY, USA: Cambridge University Press. Available at https://www.ipcc.ch/report/ar6/wg2/ (accessed on November 9, 2024).

[3] Richards, J.-A.; Schalatek, L.; Achampong, L.; White, H. 2023. *The loss and damage finance landscape*. Discussion Paper. 90p. Washington, D.C., USA: Heinrich Böll Stiftung. Available at https://us.boell.org/sites/default/files/2023-05/the_loss_and_damage_finance_landscape_hbf_ldc_15052023.pdf (accessed on November 9, 2024).

[4,5] Alazya, N. 2023. *Untangling the finance goal: An introduction to the New Collective Quantified Goal*. WRI Working Paper. 42p. https://doi.org/10.46830/wriwp.21.00109

[6] Climate Policy Initiative (2022). *Global landscape of climate finance. A decade of data: 2011-2020*. Climate Policy Initiative. Available at Alaya https://www.climatepolicyinitiative.org/wp-content/uploads/2022/10/Global-Landscape-of-Climate-Finance-A-Decade-of-Data.pdf (accessed on November 9, 2024).

[7] Carty, T.; Kowalzig, J. (2022). *Climate finance short-changed: The real value of the $100 billion commitment in 2019-2020*. Briefing note. Oxfam. Available at https://policy-practice.oxfam.org/resources/climate-finance-short-changed-the-real-value-of-the-100-billion-commitment-in-2-621426/ (accessed on November 9, 2024).

[8] Farr, J.; Morrissey, J.; Donaldson, C. 2022. *Unaccountable accounting: The World Bank's unreliable climate finance reporting*. Briefing paper. Oxfam. 37p. Available at https://policy-practice.oxfam.org/resources/unaccountable-accounting-the-world-banks-unreliable-climate-finance-reporting-621424/ (accessed on November 9, 2024).

[9] Sanchez, I.C.; Botts, J. 2024. A program meant to help developing nations fight climate change is funneling billions of dollars back to rich countries. Reuters, May 27, 2024. Available at https://www.reuters.com/investigates/special-report/climate-change-loans/ (accessed on November 9, 2024).

Dimensions of Loss and Damage

L&D addresses the unavoidable impacts of climate change that persist despite adaptation and mitigation efforts. Mitigation to avert impacts, and adaptation finance to help minimize them, have proved inadequate over the years, and hence the need for L&D. Extreme weather events, including slow-onset and rapid-onset events induced by climate change, cause irreparable harm not only to ecosystems, biodiversity, and human lives, but also disrupt people's quality of life, leading to forced displacement and loss of livelihoods, with not only economic but also adverse social and cultural effects. The social and cultural repercussions in the form of non-economic loss and damage (NELD) (such as the loss of cultural heritage, identity, and psychological effects of climate impacts) are often neglected by the proponents of climate finance. The impacts of slow-onset events such as sea level rise, desertification, and ocean acidification receive less attention but can accumulate into huge catastrophes over time.

Innovative Finance Mechanisms for L&D

While public finance is expected to meet a large part of loss and damage finance and climate finance needs, there are other innovative, additional, and new sources of funding. These sources also help the recipients of climate finance escape the clutches the debt burden from loans.

Wealth tax: As the current Chair of G20, Brazil has proposed a global tax on the ultra-wealthy and using those revenues towards climate finance. This proposal is gaining support from other countries such as Germany, South Africa, France, and Spain. The economist Gabriel Zucman has suggested that a tax of at least 2 percent on the wealth of the 3,000 richest billionaires could raise an estimated USD 250 billion annually. This concept aligns with the notion of a 'moral debt burden' tax, as proposed by the economist Esther Duflo, which advocates for tapping new, unallocated funding sources to address the challenges of climate change.[10]

Solidarity levies: 'Solidarity' levies on carbon-emitting industries at the country level can help accumulate finances for dealing with loss and damage. For example, flight and maritime levies can be imposed on aviation and maritime companies, with the levies being implemented as a show of solidarity by national governments on a voluntary basis.

Blended finance: Blended finance could leverage development finance to attract commercial investment in emerging economies for sustainable development.

Bonds and SDRs: Green, blue, resilience, and catastrophe bonds, designated specifically for L&D projects, constitute another innovative approach in that they channel private sector funds towards climate resilience and disaster preparedness. For example, the European Bank for Reconstruction and Development (EBRD) utilizes the proceeds from a USD 700 million climate resilience bond for financing infrastructure, business support, and agricultural initiatives such as water-efficient irrigation.

Special drawing rights (SDRs): New financial instruments, including special drawing rights (SDRs) from the IMF, could support adaptation finance if channeled through multilateral development banks (MDBs). Debt-for-adaptation swaps present another option, potentially reducing debt burdens in exchange for commitments to enhance climate resilience

Why should Loss & Damage be Incorporated into NCQG?

Debt Burden is Compounding Climate Risks for the Global South

The misalignment in climate finance priorities and a shortage in the amounts given as grants have profound consequences for the countries of the Global South, resulting in their increased debt. This is a direct result of their increasing reliance on loans for climate finance, given the lack of better options, especially to address L&D. This reliance on loans deepens their debt burden, and constrains their ability to invest in climate-resilient and sustainable development. Adaptation efforts being underfunded leaves these nations poorly prepared for the rising frequency and intensity of climate impacts, including extreme weather events, sea level rise, floods, heat stress, and droughts, all of which deepen vulnerability, economic losses, and displacement. These leads to them being exposed to increased and even avoidable L&D which they could not minimize due to lack of funds. Moreover, debt burden incapacitates them from properly addressing L&D.

[10] Carbon Brief. 2024. Debriefed 3 May 2024: G7 sets end date for coal; Deadly floods around globe; Brazil's pitch to tax ultra-rich. Carbon Brief. Available at https://www.carbonbrief.org/debriefed-3-may-2024-g7-sets-end-date-for-coal-deadly-floods-around-globe-brazils-pitch-to-tax-ultra-rich/ (accessed on November 9, 2024).

The unequal distribution of climate risks and deepening inequalities between developed and developing nations underscore the need for grant-based, equitably allocated climate funding to support the Global South in managing the disproportionate effects of climate change.

The FRLD Process – A Good Sign?

The operationalization of the Fund for Responding to Loss and Damage (FRLD) in 2023 constitutes a positive step in support for L&D. However, despite key milestones being met by the Board for FRLD, questions still remain about the scale of funding, the business and operational model, and access to the Fund.[11] The voluntary nature of contributions to the Fund, and with only approximately USD 702 million[12] being pledged so far by developed countries, makes it difficult for the money pledged to meet the escalating loss and damage needs, with just economic loss and damage running to hundreds of billions of dollars each year, and growing.

The approval of the Fund as a Financial Intermediary Fund (FIF) hosted the World Bank makes it tricky to determine how it will progress as a country-owned and bottom-up process that directly supports vulnerable communities to address loss and damage. There are also questions about the Fund's scope and business models, as following the World Bank's business-as-usual model will be counter-productive to the Fund's original purpose.

Despite these uncertainties and questions surrounding the FRLD, the Fund has significant potential for positively redefining the climate finance landscape. So, the NCQG, which will shape the post-2025 climate finance scenario, needs to incorporate L&D as a sub-goal, in addition to the FRLD.

At COP 29, advocates will push to include L&D in NCQG, as recent negotiations barely address it adequately. The annual High-Level Dialogue on L&D financing, co-led by the FRLD and the UN Secretary General, will be launched at COP 29, offering a chance to secure significant financial commitments and to position L&D as a core component of climate finance. The FRLD's first report will outline key milestones, including establishing the World Bank as the host of the Financial Intermediary Fund, with a focus on ensuring transparent, inclusive, and accessible funding arrangements.

Adding A Climate Justice Lens to NCQG

To draw attention to a key social group adversely impacted by L&D, one should bear in mind that women and girls are disproportionately impacted. This indirectly impedes progress on achieving Sustainable Development Goal (SDG) 5 towards gender equality.[13] Incorporating gender and social inclusion (GESI) in the NCQG framework is essential for ensuring that L&D finance reaches local levels equitably. This can be done by adopting a gender transformative approach such as ensuring a gender balance in the NCQG committee, mandating a gender policy under the governing instrument like that for the Green Climate Fund (GCF) and Adaptation Fund for the NCQG as well, and developing safeguards that meet international gender considerations. Such an approach not only acknowledges the disproportionate impacts faced by marginalized groups but also empowers these communities to participate actively in decision-making processes.

A climate justice lens further underscores the ethical obligations of L&D financing, by recognizing the historical and systemic inequalities that have left vulnerable populations at greater risk. By prioritizing GESI and climate justice, NCQG commitments can lead to more equitable, responsive, and sustainable L&D solutions. and mitigation determines the extent of financial support for addressing L&D. This is why, to achieve a politically and thematically strategic goal for the NCQG, it is also imperative to have L&D included.

The Strategic Imperative of a L&D Sub-goal for the NCQG

Defining Climate Finance and its Scope

The NCQG negotiations present a vital opportunity for developing countries to highlight the need for a uniformly accepted definition of climate finance. In fact, one lesson that can be drawn from the '100 billion goal' is the necessity for defining climate finance, and how to account for it beyond accounting only for the face value of the finance provided, and not considering the delivery model or modality. Adding L&D to the NCQG will help formally establish a well-rounded definition of climate finance, including its varied components and how to distinguish between them. One the other hand, the exclusion of L&D will make it difficult for the NCQG to address all

[11] Kamal, A.B.; Raya, T.Z.; Naushin, N.; Rahman, H.; Saddaf, N. 2023. Strengthening Loss and Damage narrative: Building cohesive voices with policymakers and civil society in Bangladesh. ICCCAD Policy Brief. 6p. Available at https://icccad.net/wp-content/uploads/2023/12/Revised-LD-Policy-Narrative-in-Bangladesh_FINAL_compressed.pdf (accessed on November 9, 2024).

[12] Schalatek L (2024). One year in, new Loss and Damage Fund has met deadlines, but decisions on its vision, scope, and scale are still to come. Heinrich Boll Stiftung. Available at https://us.boell.org/en/2024/10/09/one-year-new-loss-and-damage-fund-has-met-institutional-deadlines-decisions-elaborating (accessed on November 9, 2024).

[13] Loss and Damage Collaboration (2024). *Submission to inform the 2024 report by special rapporteur on the right to development: Theme 1 climate justice and loss and damage*. Available at https://cdn.prod.website-files.com/605869242b205050a0579e87/660d86e2d159e484e4428f56_L%26DC%20_%20HR%20SUBMISSION.pdf (accessed on November 9, 2024).

dimensions of climate finance when there is clear evidence of there being an unavoidable and growing need for L&D finance.

Balance between Adaptation, Mitigation, and L&D

L&D is closely interlinked with adaptation and mitigation efforts. Since mitigation efforts help avert L&D while adaptation efforts help minimize it, hence the extend of L&D that developing countries face also depend on the level of success or failure of these initiatives. This is why, to achieve a well-rounded NCQG, it is important for it to also include L&D, so as to include all components of climate finance.

The integration of L&D in the NCQG will signal a clear commitment from all Parties to collaboration towards a global effort to raise finance for addressing climate change. Adding L&D as a sub-goal to the NCQG will also ensure a clear demarcation between the three pillars of climate finance, and where one ends and the other begins.

The sub-goals should include clear financial targets, specific timelines, and mechanisms for providing financial support to developing countries. Additionally, innovative financing mechanisms, such as a global tax on the ultra-wealthy, can help generate new resources specifically for L&D. Sub-goals dedicated to mitigation, adaptation, and L&D also enhance coherence in both policy and implementation by allocating specific funding targets to each area. This clarity ensures a balanced approach to climate finance, preventing the over-prioritization of one area over others.

The GCF provides a model for incorporating grant-equivalents to measure contributions. By focusing on the actual value of the grant in the finance provided, regardless of the instrument used, a more accurate representation of the support provided can be achieved.

A balanced framework reduces the competition for funds by explicitly recognizing the distinct needs of each area. This targeted approach promotes synergy and collaboration, ensuring that mitigation, adaptation, and L&D are viewed as complementary elements in a comprehensive climate action strategy.

Country cases that underscore the need for increased finance for L&D

Community Insights from Bangladesh

In Bangladesh, while adaptation efforts have increased, L&D funding remains limited, preventing the effective recovery of, and rebuilding for vulnerable communities after climate impacts hit. Key discussions during local and national workshops under the STRENGTH Project in Bangladesh make clear the limitations of existing adaptation and disaster risk reduction strategies, and underscore the urgent need for L&D financing to support beyond-adaptation strategies. Community insights into inadequate infrastructure, insufficient access to cyclone shelters, and unpredictable weather impacts were presented as evidence for increased financial support, and the need for policy reforms that reflect grassroots realities. The workshop's outcomes reinforce the need for Bangladesh to secure dedicated L&D financing that prioritizes the equitable recovery of, and resilience-building for vulnerable communities.

A Case Study from Vanuatu

A case study on Emau Island, Vanuatu, under the STRENGTH Project, underscores the urgent need for increased L&D finance to support communities severely impacted by climate change. Emau's six villages experience varied and intensifying climate threats—coastal erosion due to the encroaching sea caused by sea level rise is affecting vital village infrastructure; Category 5 cyclones devastate homes, communal spaces, and crops; and unpredictable rainfall increases crop pest infestations and soil degradation. Prolonged droughts deplete Emau's water resources, forcing school closures, while ocean acidification damages coral reefs and marine ecosystems essential to local livelihoods. Additional socio-economic challenges—such as limited government services, sources of income, and support for the elderly and disabled—further strain community resilience. This is particularly the case as temporary male migration leaves women to bear much of the burden of coping.

Through targeted events under the STRENGTH project's L&D Policy Lab, local leaders and community members highlighted the urgent need for resettlement, more robust infrastructure, and diversified sources of income, especially for women who rely on climate-vulnerable pandanus weaving. This case demonstrates the critical need for dedicated L&D financing to address both immediate recovery and long-term resilience in Emau, which would enable communities to withstand better the irreversible impacts of climate change.

Policy Recommendations: Building a Just and Accountable NCQG

1. NCQG Roadmap

The New Collective Quantified Goal can offer a roadmap for financing the L&D Fund. Developed countries ought to commit to providing a specific percentage of their gross national income (GNI) as a grant-equivalent core goal. For example, a 0.7 percent target for climate finance starting in 2025, progressively rising to 1 percent by 2030, could be considered, resulting in a combined 1.7 percent of GNI dedicated to climate and development assistance. This approach ensures accountable and substantial resources dedicated to L&D.

2. Ensure Clear, Quantifiable Targets for L&D

Set a quantifiable target for L&D finance, moving beyond the existing USD 100 billion goal. A floor of USD 150 billion for 2025, increasing to USD 300 billion by 2030, could be a starting point, considering projected needs.

3, Promote Transparent, Accountable, and Equitable Financing Arrangements

Establish common guidelines and standards for climate finance accounting across all developed countries. This would include clear definitions for 'new and additional' finance, and a standardized methodology for tracking private climate finance. Promote the use of grants or highly concessional loans to alleviate the debt burden of developing countries.

4. Build on Existing Structures While Exploring New Funding Streams

Utilize existing structures such as the L&D Fund and collaborate with institutions such as the GCF. Explore innovative funding mechanisms such as Brazil's proposal of a global tax on the ultra-wealthy, and leverage concessional finance through multilateral arrangements.

5. Embedding Accountability Mechanisms

Implement a centralized tracking system, potentially managed by the SCF, to monitor progress towards the NCQG. Utilize the Enhanced Transparency Framework (ETF) for reporting, ensuring that all NCQG elements, including sub-goals, are reflected.

6. Proposals for Transparency and Reporting

Establish a common methodology for reporting L&D finance, addressing both economic and non-economic losses. The development and implementation of a common regional approach for L&D reporting, particularly in vulnerable regions, would be beneficial. Explore innovative data collection methods to capture the multifaceted and cascading nature of non-economic losses. This could involve qualitative assessments, community-based monitoring, and participatory approaches.

This policy Brief has been produced under the STRENGTH, IMPACT and CGIAR Asian Mega Deltas Initiative.

We gratefully acknowledge the cooperation and contributions from the following:

This work was implemented as part of the Consortium of International Agricultural Research (CGIAR) Initiative on 'Securing the Food Systems of Asian Mega-Deltas for Climate and Livelihood Resilience (INIT-18)', which is carried out with support from funders through their contributions to the CGIAR Trust Fund. For details, please visit: https://www.cgiar.org/funders/

This brief draws on ground-level findings and reflections from the 'Strengthening L&D Response Capacity in the Global South (STRENGTH)' initiative, supported by International Development Research Centre (IDRC) and conducted by International Centre for Climate Change and Development (ICCCAD), Institute for Study and Development Worldwide (IFSD), and the Government of Vanuatu.

The brief is further supported by HEKS-EPER as part of the 'Integrating Marginalized Perspectives for Action on Climate Transformation (IMPACT)' initiative, conducted by ICCCAD as a core activity of its Loss & Damage Programme

Authors:

Towrin Zaman Raya, Nusrat Naushin, Rafia Anjum Rimi, S M Saify Iqbal.