

Workshop on Justice in Finance for Climate Change Adaptation and Loss and Damage, Berlin, 22-23 February 2024

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Loss and Damage Finance: An assessment of the most promising instruments

The global climate crisis presents a clear paradox: those least responsible for causing it, the world's poorest countries and communities, are disproportionately burdened by its devastating impacts. Without adequate international climate finance, countries are forced to find resources for adaptation, mitigation and addressing climate-related losses and damages (L&D), including taking on more sovereign debt. Indeed, many governments that had heavily borrowed during the long period of low interest rates are now grappling with the growing weight of their debt obligations, exacerbated by rising inflation and interest rates, with the most severe cases resulting in government defaults. The L&D finance gap is estimated at hundreds of USD billion per year, and the debt burden of developing countries undermines their responses to address escalating climate impacts. Despite this, discussions about finance for L&D have been overwhelmingly detached from discussions about debt burden and potential solutions such as Debt-for-Climate (DFC) swaps. Against this backdrop, Perspectives Climate Research (Perspectives) has been conducting research on innovative finance instruments to address L&D in the context of increasing debt burden in developing countries.

At the workshop, Perspectives will share the findings of a [recent report](#) which provides a justice-based analysis of the most promising financial instruments that can raise finance for L&D such as international (solidarity) airline passenger and shipping levies and other innovative instruments including DFC swaps. The analysis uses criteria enshrined in the principles of the UNFCCC and the Paris Agreement such as the adequacy and predictability of finance. Through our presentation, Perspectives will demonstrate how these criteria align with the polluter pays principle and historical responsibility to ensure equitable solutions. The opportunities and unique limitations of these instruments and, crucially, the steps policymakers need to take to widen the sources of funding to tackle L&D (towards these instruments) will be explored.