



Safeguarding Decades of Development

THE INTERNATIONAL MONETARY FUND'S ROLE IN ADDRESSING LOSS AND DAMAGE



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About the Task Force on Climate, Development and the International Monetary Fund

The Task Force on Climate, Development and the International Monetary Fund is a consortium of experts from around the world utilizing rigorous, empirical research to advance a development-centered approach to climate change at the IMF. The Task Force believes it is imperative that the global community support climate resilience and transitions to a low-carbon economy in a just manner. As the only multilateral, rules-based institution charged with promoting the stability of the international financial and monetary system, the IMF has a vital role to play in supporting a globally coordinated response.

MEMBER ORGANIZATIONS

- Intergovernmental Group of Twenty-Four (G24)
- Vulnerable Group of Twenty (V20) Ministers of Finance
- African Centre for Economic Transformation
- African Economic Research Consortium
- Boston University Global Development Policy Center
- Centre for Policy Dialogue
- Centre for Social and Economic Progress
- Financial Futures Center
- Macro & Green Finance Lab, National School of Development, Peking University
- United Nations Economic Commission for Latin America and the Caribbean

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Muzaffargarh, Pakistan.
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EXECUTIVE SUMMARY

Climate-induced loss and damage can affect the macroeconomic health and general well-being of climate vulnerable economies, rolling back decades of development gains. For members of the Vulnerable 20 Group of Finance Ministers (V20) alone, climate-induced losses amounted to 20 percent of their gross domestic product (GDP) over the last two decades.

The United Nations Framework Convention on Climate Change (UNFCCC) has adopted a two-pronged approach to financing loss and damage. First, governments agreed to establish a dedicated Loss and Damage Fund, with negotiations by the Transitional Committee set to conclude by the 28th UN Climate Conference (COP28) in Dubai. Second, governments agreed to invite international financial institutions to incorporate loss and damage into their work. As the global institution charged with maintaining fiscal and financial stability, the International Monetary Fund (IMF) has an important role to play in addressing climate-induced loss and damage.

Given this mandate, this policy brief from the Task Force on Climate, Development and the IMF identifies the role that the IMF can play in the collective response to loss and damage, proposing a 'loss and damage package' at the IMF that spans its surveillance, lending toolkit and global policy coordination. The Task Force on Climate, Development and the IMF is a consortium of experts primarily from the Global South utilizing empirical, rigorous research to advance a development-centered approach to climate at the IMF.

POLICY RECOMMENDATIONS

Surveillance

- IMF surveillance, as a part of its Article IV consultations, should help governments estimate financing needs required for climate-positive investments and identify their sources and instruments.
- As a part of its multilateral surveillance efforts, the IMF could help to quantify the economic impacts of loss and damage. Surveillance should also be expanded to include slow onset events in addition to extreme weather events.
- The IMF should support governments in building the data infrastructure on loss and damage so that governments can align public expenditure and investments towards development and climate change goals.
- The IMF should ensure that fiscal impacts of climate risks and stepwise resource mobilization are integrated in Debt Sustainability Assessments.

Lending

- IMF-held trusts – including the Poverty Reduction and Growth Trust, the Resilience and Sustainability Trust and the Catastrophe Containment and Relief Trust – should be expanded in scope and scale to include loss and damage, and eligibility to these trusts should be widened to ensure that all climate vulnerable economies, independently of their per capita gross domestic product (GDP), are able to access concessional resources to build climate resilience. Further, access limits should be increased so that IMF resources can play a meaningful role in response and recovery.
- The IMF should also incorporate climate resilient debt clauses into its lending programs to enable climate vulnerable countries suffering from climate-induced events to focus on rehabilitation, recovery and rebuilding. Pre-arranged and trigger-based funds will be crucial to ensure the predictability of support.
- Loss and damage should inform the assessment of the adequacy of the Fund's resources.

Global Policy Coordination

- The IMF should emphasize the importance of concessional finance in closing the financing gap in climate-vulnerable economies and the crucial role that international assistance plays in helping countries make ex-ante investments to build resilience and preserve fiscal health.
- The IMF should foster consensus around international taxes on fossil fuels as a new source of revenue to finance loss and damage. Support to diversify economies will be crucial for economies heavily reliant on fossil fuels.
- Given the positive experience with the IMF's Special Drawing Rights (SDR) allocation amounting to \$650 billion as liquidity support during the COVID-19 pandemic, IMF members should agree on a new SDR allocation devoted to loss and damage and help re-channel SDRs through multilateral development banks to support resilience building.
- Given the importance of loss and damage in climate vulnerable economies, the IMF should maintain close coordination with climate vulnerable economies, such as the Vulnerable Twenty (V20) Group of Finance Ministers.

With the call by the UNFCCC process to embed loss and damage into the wider international financial architecture, the IMF has an important opportunity and responsibility to rise to the occasion of helping address loss and damage.

INTRODUCTION

With the global temperature already at 1.1C above pre-industrial levels, the adverse impacts of climate change are increasingly apparent, particularly in countries that are most vulnerable and least able to recover from extreme climate events. The recently released Technical Synthesis Report for the world's first Global Stocktake – a milestone for assessing global progress on climate eight years after the Paris Agreement – highlighted the urgent and increasing need for bolder course-corrective actions to cut emissions, build resilience, and rapidly scale up climate finance (UNFCCC Secretariat 2023). A key takeaway from the report was the need to boost funding for adaptation and loss and damage, including through innovative and novel sources of finance (ibid).

For members of the Vulnerable 20 Group of Finance Ministers (V20), climate-induced losses amounted to 20 percent of their gross domestic product (GDP) over the last two decades (Baarsch, Awal, and Schaeffer 2022). These impacts have rolled back development gains and threaten to continue doing so. Moreover, in its Sixth Assessment Report, the Intergovernmental Panel on Climate Change (IPCC) identified the limits to adaptation of the most vulnerable countries to the worsening climate crisis. These limits underscore that adaptation actions alone will not be sufficient, and countries will have to focus on loss and damage as well. These developments have strengthened the case for additional global action on loss and damage beyond the UN Framework Convention on Climate Change (UNFCCC) where most, if not all, of the discussions on loss and damage currently reside, most notably reflected in the 27th United Nations Climate Conference (COP27) decision to establish funding arrangements for loss and damage, including a Loss and Damage Fund.

In the climate change negotiations under the UNFCCC, loss and damage refers to “address[ing] loss and damage associated with impacts of climate change, including extreme events and slow onset events, in developing countries that are particularly vulnerable to the adverse effects of climate change” (IPCC 2022). In other words, loss and damage is the “negative impacts of climate change that occur despite or in the absence” of climate action (UN 2023). Climate impacts falling under loss and damage range from those resulting from short-term, rapid onset events, such as tropical cyclones, heatwaves or storm surges to longer-term slow onset events, such as sea level rise, ocean acidification or biodiversity loss. Unlike rapid extreme weather events, the loss and damages arising from slow onset events are permanent and irreversible. Loss and damage could be either economic or non-economic. Economic loss and damage includes the cost of rebuilding lost or damaged infrastructure, business interruptions or the reduction in tourism inflows. On the other hand, non-economic loss and damage refers to human lives lost, impaired health, forced displacement or loss of cultural heritage.

Recognizing the gravity of the scale of loss and damage suffered by the Philippines in the aftermath of Typhoon Haiyan – the deadliest typhoon in history – parties at COP19 in 2013 agreed to establish the Warsaw International Mechanism (WIM) for Loss and Damage to serve as the primary venue for technical discussions on loss and damage. It identifies the scope of loss and damage and the range of activities and interventions that fall under its ambit. While financing is an arm of the mechanism, WIM did not include a specific financing instrument, and developing countries continued to make a case for international support. Two year later, in 2015, the Paris Agreement on climate change institutionalized loss and damage into the global climate change architecture. At COP27, parties agreed in 2022 to set up financing arrangements for loss and damage including a Loss and Damage Fund, and a Transitional Committee

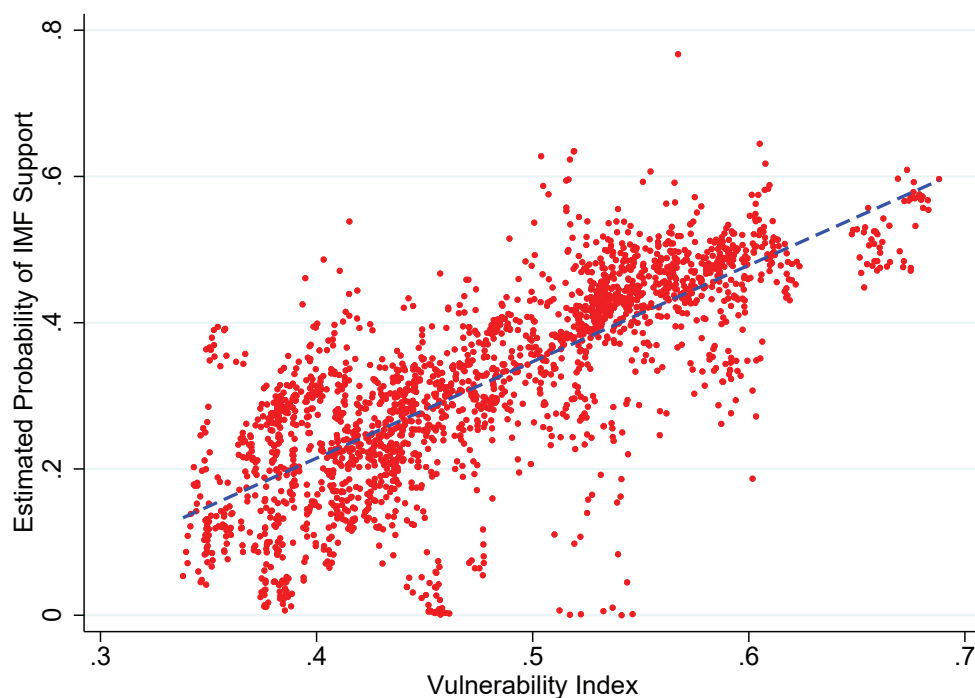
was set up to devise a governing instrument for the Fund. Paragraph 11 of the decision calls on the UN Secretary-General to host a meeting bringing together international financial institutions for “identifying the most effective ways to provide funding to respond to needs related to addressing loss and damage,” and paragraph 12 makes a specific call to the World Bank and the IMF to consider the role they can play in addressing loss and damage (UNFCCC 2023). The goal of the funding arrangements is to “provide and assist in mobilizing” resources to enable climate-vulnerable countries to respond to loss and damage (ibid).

The International Monetary Fund (IMF) is a key global institution charged with maintaining the stability of the international monetary system to enable long-term growth and prosperity. The IMF could play a catalytic role in mobilizing resources to help countries respond to loss and damage. When loss and damage is expected to cause prospective macroeconomic imbalances, like balance of payments concerns, and countries do not have sufficient financial buffers to cope with these imbalances, the IMF’s surveillance functions could help countries mobilize resources to prevent and respond to loss and damage, especially where losses and damages compound with other shocks threatening these countries’ macro-financial stability.

The IMF formalized its institutional response to climate change by formulating its Climate Change Strategy in 2021 (IMF 2021b). The Climate Change Strategy identifies how climate change will be integrated into the Fund’s surveillance, funding, capacity development and global policy coordination functions. The Strategy builds on the Fund’s earlier work on addressing natural disasters, including its disaster resilience strategy of 2019, as well as its work on small states, which are both particularly relevant for loss and damage (IMF 2016). The IMF Climate Change Strategy and the Comprehensive Surveillance Review (2021) highlight the macroeconomic significance of economic losses but stop short of presenting an implementation plan related to loss and damage. While adaptation could help with the UNFCCC’s triad approach to ‘avert, minimize and address’ losses and damages, the scope of loss and damage includes climate impacts beyond adaptation limits. Likewise, the IMF’s disaster resilience strategy is rooted in disaster risk reduction (DRR). DRR-related actions can help reduce losses and damages, however, loss and damage requires a broader range of response actions than disaster risk reduction measures alone, including liquidity ahead of disasters (pre-arranged and trigger-based).

Loss and damage have macro-critical dimensions and are particularly salient for climate vulnerable economies. As Figure 1 below illustrates, climate vulnerability is strongly positively correlated with the likelihood that a country will seek IMF assistance. Losses and damages can also generate risks to neighboring countries or cascade across regions and the wider world. These transboundary climate risks have the potential to disrupt trade, health, food security and even infrastructure investments. For example, countries that are exposed to acute climate shocks, such as Barbados, could also be subject to significant transition spillover risks. Barbados is heavily reliant on air travel tourism, and taxing aviation to reduce the sector’s carbon footprint will have significant economic impacts for this small island state (Gourdel and Monasterolo 2022). In another example, extreme weather in one part of the world can generate health outbreaks in other. Chabuka et al. (2023) presented strong evidence linking the strain of bacteria that causes cholera was new to Malawi – currently experiencing its largest cholera outbreak on record – and is the same strain that circulated during Pakistan’s 2022 floods some 3,800 miles away (Chabuka et al. 2023). Therefore, greater international economic cooperation and management will be key to ensuring that such economies can better withstand these transboundary climate risks.

FIGURE 1: CLIMATE VULNERABILITY AND ESTIMATED PROBABILITY OF IMF SUPPORT



Source: Task Force (2023) version of Maldonado and Gallagher (2023).

This policy brief discusses the role that the IMF can play in addressing the adverse impacts of climate change, particularly in addressing loss and damage. As discussions unfold on the Loss and Damage Fund, there are proposals to include the IMF as a member of the “loss and damage council” that would help to coordinate an international financial architecture wide response (Developing Country Members 2023; United States Government 2023). The policy recommendations in this brief are anchored in the preliminary assessment of the IMF’s efforts to address climate change carried out by the Task Force as well as its technical papers. Table 1 captures the recommendations discussed in the form of a potential package of policy changes that the IMF could adopt.

¹ The three core functions of the WIM are enhancing understanding of comprehensive risk management approaches, strengthening dialogue across stakeholders, and enhancing action and support. <https://unfccc.int/sites/default/files/resource/docs/2012/cop18/eng/O8a01.pdf>

TABLE 1: A POSSIBLE LOSS AND DAMAGE PACKAGE

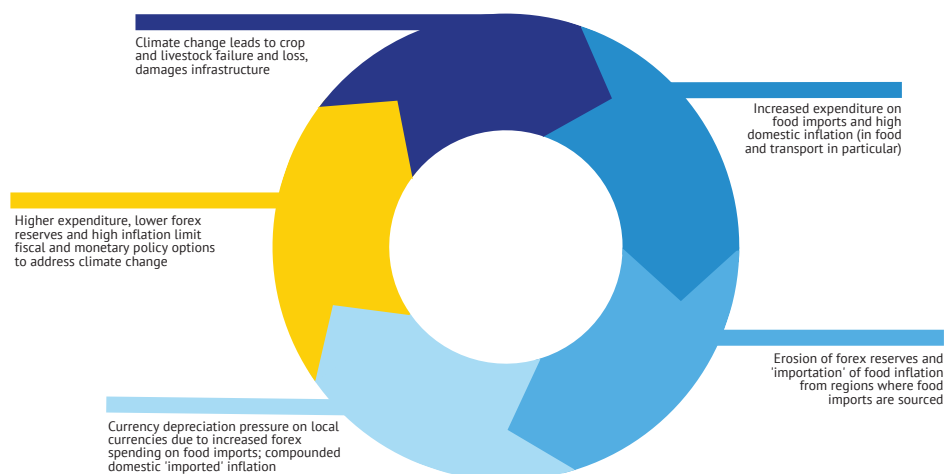
IMF Functions	Loss and damage elements
Surveillance	<ul style="list-style-type: none"> ▪ Integrate loss and damage into Debt Sustainability Analyses. ▪ Incorporating slow onset events and their impacts in addition to extreme weather impacts. ▪ Incorporate them in Financial Sector Assessment Programs. ▪ Quantifying loss and damage in flagship reports, including interactions with transition and transition spillover risks. ▪ Surveillance and advice on mobilizing resources to address loss and damage, including the need for external resources and the accessibility of those resources.
Lending	<ul style="list-style-type: none"> ▪ Adopt a climate-informed approach to IMF resource adequacy and scale the Rapid Credit Facility/Rapid Financing Instrument and the Resilience and Sustainability Trust commensurate to the climate informed component of assessments of adequacy of fund resources. ▪ Scale up the Catastrophe Containment and Relief Trust to expand grant support to low-income countries, and expand eligibility to climate-vulnerable countries. ▪ Incorporate debt pause clauses in lending instruments.
Capacity development	<ul style="list-style-type: none"> ▪ Integrate loss and damage into public investment management. ▪ Estimate the costs and benefits of resilience building investments.

Source: Compiled by authors.

SURVEILLANCE

Estimates of loss and damage financing needs vary substantially and are subject to major uncertainties such as the level of global warming anticipated. Songwe et al. (2022) suggest that financing needs could range from \$200 billion to \$400 billion a year. Adaptation finance, however, has significantly trailed behind mitigation finance. Underinvestment in climate resilience will leave economies further exposed to climate impacts resulting in higher losses and damages in the future. This further undermines fiscal and financial stability. Figure 2 illustrates how climate change impacts affect macroeconomic variables such as domestic inflation, foreign exchange balances and fiscal spending, which in turn lead to underinvestment in resilience building, making the country more vulnerable to climate impacts.

FIGURE 2: THE VICIOUS CYCLE OF CLIMATE CHANGE AND DEBT UNSUSTAINABILITY



Source: Were (2023) in Gallagher et al. (2023).

As a part of its multilateral surveillance efforts, the IMF could help to quantify the economic impacts of loss and damage. A more robust understanding of the macroeconomic dimensions of loss and damage would help to build the base of evidence and identify policy options to address loss and damage. As a negative spillover, the need to address loss and damage is directly tied to the undersupply of mitigation action by the larger emitters of greenhouse gases. What is more, there has also been an undersupply of adaptation finance by industrialized countries to the countries that have endured and continue to suffer from devastating climate impacts. Furthermore, IMF flagship reports, such as the World Economic Outlook and the Global Financial Stability Report, could delve into the cross-border ramifications of loss and damage and would be an important contribution. More broadly, given the intensification of climate impacts and growing losses and damages, the IMF could use its flagship reports to underscore the need for countries to increase their efforts to reduce greenhouse gas emissions to limit global warming to 1.5C.

The IMF has largely focused on extreme weather events when it comes to physical climate risks. For example, the list of climate vulnerable countries identified is based on disaster related data (IMF 2019). However, slow onset events such as sea level rise, salt-water intrusion and environmental degradation also have macro-critical impacts. Moreover, in the IMF's Climate Change Strategy and the Comprehensive Surveillance Review, climate adaptation is largely understood in terms of local or domestic impacts (IMF 2021a; 2021b). However, physical climate risks can also have cross-border implications (Anisimov and Magnan 2023). For example, when climate impacts damage a country's exports, the importing countries need to grapple with higher prices.

Existing financing constraints reduce the ability of governments to support climate resilience. Estimates suggest that almost 70 countries require immediate debt relief (Ramos et al. 2023). These countries are not only vulnerable to climate impacts, but their high debt servicing needs also suggests that they are not able to invest in key social areas such as education and

health and to meet their climate obligations under the Paris climate and Kunming-Montreal biodiversity agreements (ibid). Through their analytical work, IMF staff have recognized the importance of investing in climate resilience to reduce sovereign risk. Such investments could help lower the high-risk premiums already faced by climate-vulnerable states and thereby lower the cost of capital. For example, Chamon et al. (2022) recognize that climate-debt swaps when they reduce sovereign risk would help to engender overall macro-fiscal stability. Investing ex-ante in climate resilience has a strong economic case. Estimates show that the benefit-to-cost ratio is 5.1 for floods and 3.4 for tropical cyclones (IMF 2019). Therefore, it is important for the IMF to support the development of macro-fiscal frameworks that support scaled-up investment in climate resilience.

Debt sustainability analyses (DSAs) are an important tool in the IMF's toolkit. DSAs play an important role in providing an understanding of a country's debt profile, debt vulnerabilities and potential pathways toward fiscal sustainability (IMF 2022). While the IMF has made initial strides in incorporating climate shocks into recent DSAs, the IMF needs to make a concerted effort to include the full range of climate shocks as well as climate investment needs to obtain an accurate assessment of a country's debt sustainability (Maldonado and Gallagher 2022). With the Songwe et al. (2022) report identifying the need for \$1 trillion in external financing, alongside \$1.4 trillion from domestic resource mobilization, to meet development and climate change goals, the significant resources entailed by these numbers will need to be reflected in the DSAs. DSAs will also need to better reflect the trade-offs that many low-income countries face between making productive investments that will enable a transformation to a low-carbon economy and managing climate risks. The ongoing review of the Low-Income Country Debt Sustainability Framework (LIC DSF) offers an opportunity for the IMF to incorporate climate shocks and investment needs into its methodology.

The IMF's tool to assess financial stability is the Financial Sector Assessment Program (FSAP). The IMF Climate Change Strategy proposes to include a climate change component in FSAPs, when climate risks are considered material, that would include stress testing for physical and transition risks (IMF 2021a). FSAPs could be an effective instrument to integrate loss and damage. However, they should better reflect concurrent and sequential or successive shocks (Task Force 2023). Spatial, asset-level data is vital to better understand physical climate risks. Without asset level data, disaster losses can be substantially underestimated (Bressan et al. 2022 in Task Force 2023). FSAPs could also help identify opportunities for positive investment where investing in resilience building and averting or minimizing losses and damages would have economic benefits.

For governments to understand how climate-induced losses and damages are affecting their public finances, sound data are crucial. The IMF's close engagement with finance ministries makes the Fund well suited to support data collection on losses and damages, especially in collaboration with sectoral ministries such as agriculture and environment. Under the Resilience and Sustainability Facility (RSF), governments have agreed to implement reform measures to align public expenditure with their national climate change priorities. IMF advice on how best to achieve such alignment would be useful. In terms of public investment, incorporating loss and damage into capacity development modules such as the Climate-Public Investment Management Assessment (C-PIMA) will be critical.

Data limitations also restrict the ability of models to fully capture the adverse climate impacts on the economy. For example, while the IMF's technical work identifies an extensive range of

potential transmission channels that carry climate shocks, model results are limited by data availability (Task Force 2023). Likewise, modeling approaches could also be improved. The short time horizons used in DSAs do not capture the characteristics of climate risks that can only really be reflected in longer horizon studies (ibid). The IMF's existing models also underestimate physical climate impacts and need to better integrate chronic risks (ibid). These limitations mean that the available estimates for loss and damage are likely to be underestimates (Songwe, Stern, and Bhattacharya 2022)

LENDING TOOLKIT

The IMF has lending instruments that can be scaled up and adapted to help address loss and damage. Lending instruments need to be calibrated towards the full range of climate risks, climate vulnerable countries need to have access to relevant instruments, and the pricing terms and maturity should reflect the need for short-, medium- and long-term instruments. The Rapid Credit Facility (RCF) is available to help low-income countries facing urgent balance of payment shocks meet their liquidity financing needs. These shocks could be related to natural disasters. Access to the RCF is limited to Poverty Reduction and Growth Trust (PRGT) eligible member countries. The RCF has four windows: regular, exogenous, large natural disasters and food shock. Access limits vary by window. Countries that are not eligible to access the PRGT can use the Rapid Financing Instrument (RFI) for urgent balance of payment needs. Since the RCF/RFI are geared towards correcting immediate macroeconomic imbalances, as opposed to lifting countries out of longer-term economic distress, the IMF does not attach ex post conditionalities requiring economic reforms as a part of the program.

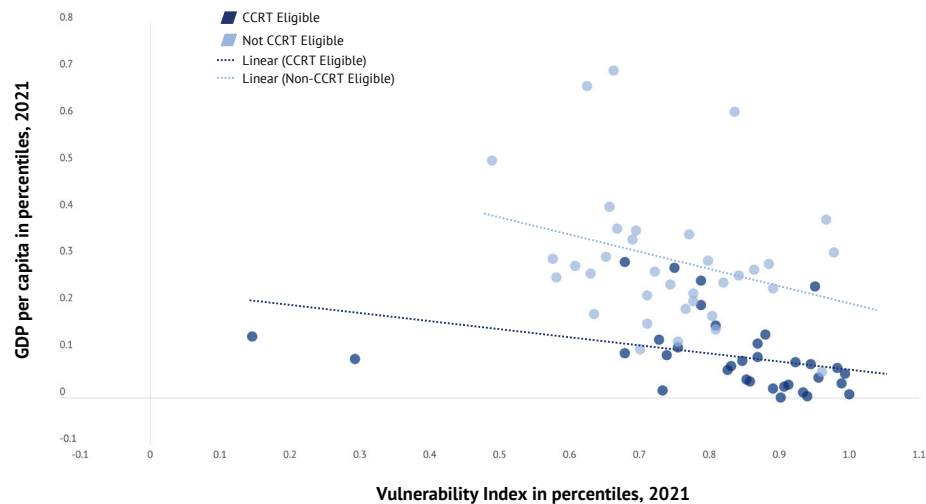
The IMF's vehicle for longer-term financing is the Resilience and Sustainability Facility which is backed by the Resilience and Sustainability Trust (RST), which was established in 2021. The RST is resourced through re-channeled Special Drawing Rights (SDRs) and allows members to borrow long-terms loans (20 year maturity with a grace period of 10.5 years). RSF loans are coupled with reform measures that are designed to help countries address prospective balance of payments vulnerabilities arising from climate change. The IMF, however, requires countries to have a concurrent program (financing or non-financing besides emergency financing facilities) to access the RSF. Such a restriction dampens the demand for the RSF's resources and deters countries from seeking RSF resources to support longer-term resilience building activities that would help avoid losses and damages.

The Catastrophe Containment and Relief Trust (CCRT) provides grants to LICs to help service their debt payments to the IMF. While the CCRT plays a valuable role, it needs to be scaled up and its eligibility criterion needs to be expanded to include climate vulnerable economies beyond LICs. Figure 3 shows how an income-based access restriction does not allow middle-income countries that are highly vulnerable to climate impacts to access the trust. The dots represent countries that are not eligible to access the CCRT.

The 2023 Review of Resource Adequacy of IMF-held trusts found that the CCRT "remain[ed] critically underfunded" (IMF 2023b). The IMF launched a fundraising campaign to raise SDR 1 billion to help LICs cover two years' worth debt service needs to the IMF but was only able to raise SDR 609 billion. Yet, there is a major demand for the CCRT's resources. A standing concern of many countries has been the access limit to the CCRT. The IMF allows LICs to access up to 20 percent of their quota in the form of grant support from the Trust.

Finally, IMF resource adequacy assessments should take loss and damage into account. As Figure 1 illustrates, climate vulnerable countries are more likely to seek IMF assistance. Therefore, anticipated losses and damages should directly inform discussions about the adequacy of the IMF's quota-based resources and IMF-held trusts. Likewise, as Figure 3 illustrates, GDP per capita does not capture climate vulnerability. Therefore, eligibility should be based on metrics that better reflect climate vulnerability, beyond income-based indicators.

FIGURE 3: VULNERABILITY INDEX VS GDP PER CAPITA IN PERCENTILES, 2021



Source: Authors' elaboration with IMF data.

Debt pauses, based on pre-defined triggers should be incorporated into IMF instruments as a matter of institutional policy. A debt pause would enable the payment relief to go towards recovery rather than debt servicing needs. Upon breaching triggers, climate vulnerable countries and countries where climate vulnerability is a major source of macro instability should be automatically allowed to defer payments. Grenada and Barbados both underwent debt restructurings and have incorporated natural disaster clauses in new debt contracts. For example, upon the incidence of a qualifying hurricane, Grenada can postpone debt service payments on restructured debt for twelve months (Cohen et al. 2020). Experience and evidence show that after-the-fact assessments in practice are inefficient and require the most vulnerable to have convincing evidence of their losses and damages while in distress. At least 55 percent of crises, from floods to droughts and disease outbreaks, are predictable, and funding can be arranged in advance and released at the moment it is needed. The IMF has advanced technical work on state contingent debt instruments (SCDIs.) The IMF also mentioned SCDIs in its Climate Change Strategy, but it has yet to formally incorporate state contingency in its lending arrangements. The World Bank has notably proposed a debt pause for low-income countries during the recent Summit for a New Global Financial Pact. As a key actor in the sovereign debt restructuring negotiations, the IMF should also work with creditors to incorporate debt pause clauses in contracts.

² <https://www.imf.org/en/About/Factsheets/Sheets/2023/Rapid-Credit-Facility-RCF>

GLOBAL POLICY COORDINATION

The IMF's work has underscored the value of concessional finance and the role it can play in ensuring that climate vulnerable countries maintain fiscal sustainability. Earlier work has showed how the supply of concessional finance can help to keep the debt trajectories of climate vulnerable countries to sustainable levels. For example, Dominica, which was hit by two successive hurricanes in 2015 and 2017, requires grant financing totaling 2.8 percent of its GDP annually up to 2030 to keep its debt-to-GDP level at 60 percent which is the regional target (IMF 2019). Similarly, in its Climate Macroeconomic Assessment Program for Samoa, the IMF illustrated the important role that ex ante adaptation finance can play in keeping the debt-to-GDP ratio manageable, especially if financed mostly by grants (Kinoshita et al. 2022). Furthermore, an IMF working paper estimates that only seven of the 29 LICs that have national adaptation plans with cost estimates have the fiscal space to implement those plans (Chamon et al. 2022).

The high cost of capital faced by emerging market and developing economies is hindering investment in climate action. Climate-vulnerable economies already face a high risk premium which contributes to a higher cost of capital (Bühr et al. 2018). African countries face a high risk premium this hard to explain through macroeconomic fundamentals (Morsy and Mustafa 2020). In concert with MDBs, the IMF should support the development of instruments that would help to bring down the cost of capital and make investments into climate resilience more attractive.

The IMF could also advance the case for international taxation of fossil fuels to help generate the financing needed to address loss and damage. For example, an international shipping levy has been extensively discussed as a potential source of revenue. Through its analytical work, the IMF could help identify sources of revenues that could be channeled into efforts to address loss and damage that also serve a just transition. An IMF paper estimated that a carbon tax (on shipping fuels) reaching \$75 per ton of CO₂ in 2030 and \$150 by 2040 would generate \$75 billion and \$150 billion in revenue respectively (Parry et al. 2018). At the Summit for a New Global Financial Pact, leaders discussed a maritime shipping levy as a potential source of climate finance.

The IMF allocated \$650 billion Special Drawing Rights (SDRs) in 2021 as a part of the global response to boost global liquidity to help countries tide through the COVID-19 pandemic. An IMF study found that the allocations were useful to countries that needed to shore up their reserves (IMF 2023a). Countries also used their SDRs allocations to meet fiscal needs. Equipping the IMF with the ability to make SDR allocations targeted towards climate vulnerable countries could be a key contribution. Since SDRs are allocated based on countries' quota shares in the IMF system, re-channeling options will be key. The Resilience and Sustainability Facility could receive re-channeled contributions as could potential mechanisms through MDBs. The African Development Bank has also advanced a proposal on how it could use re-channeled SDRs to support low-cost, long-term lending.

CONCLUSION

Addressing loss and damage is a core part of the international response to the challenge of climate change. Aligning with the Paris Agreement involves not only supporting the mitigation aspects of the Paris Agreement but adaptation and loss and damage as well. International financial institutions should mainstream surveillance and monitoring of climate risks as called for by the V20 in the Accra to Marrakech Agenda. There is growing interest and demand on the IMF to help countries address loss and damage. With the call by the UNFCCC process to embed loss and damage into the wider international financial architecture, the IMF has an important opportunity and responsibility to rise to the occasion.

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