THE LOSS AND DAMAGE FINANCE LANDSCAPE

A discussion paper for the Loss and Damage community on the questions to be resolved in 2023 for ambitious progress on the Loss and Damage Fund.

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ABBREVIATIONS

AF: Adaptation Fund

CBDR-RC: Common But Differentiated Responsibilities and Respective Capabilities

ExCom: Executive Committee of the Warsaw International Mechanism

GEF: Global Environment Facility

GCF: Green Climate Fund

GST: Global Stocktake

IFI: International Financial Institution

IMF: International Monetary Fund

IPCC: Intergovernmental Panel on Climate Change

LDF: Loss and Damage Fund

MDB: Multilateral Development Bank

NCQG: new collective quantified goal on climate finance

NAPs: National Adaptation Plans

NDCs: Nationally Determined Contributions

SDGs: Sustainable Development Goals

SNLD: Santiago Network for Loss and Damage

TC: Transitional Committee

UNFCCC/Convention: United Nations Framework Convention on Climate Change

WBG: World Bank Group

WEF: World Economic Forum

WIM: Warsaw International Mechanism

WMO: World Meteorological Organisation

CONTENTS

I

SUMMARY[1]

The world is now in a permanent state of polycrisis, with overlapping crises amplifying unequal and unjust impacts across the world. In the context of the climate crisis, the scientific consensus is that mitigation and adaptation efforts have fallen short of preventing loss and damage caused by human-induced climate change.[2] Despite this, negotiations under the UNFCCC have suffered from decades of delay. Progress has not been achieved, and developed countries have not met their commitments to climate action and finance commensurate with their historical emissions and responsibility.

> **“Mitigation and adaptation efforts have fallen short of preventing loss and damage.”**

The breakthrough at COP 27 in Sharm el-Sheikh (2022) to establish a Loss and Damage Fund (LDF) is a step in the right direction. Parties tasked a Transitional Committee (TC) to come to COP 28 with recommendations on how to operationalise the LDF to address the urgent and immediate need for new, additional, predictable and adequate financial resources to assist developing countries to address loss and damage.

> **“The breakthrough at COP 27 in Sharm el-Sheikh to establish a Loss and Damage Fund is a step in the right direction. Parties tasked a Transitional Committee to come to COP 28 with recommendations on how to operationalise the LDF.”**

In this context, this discussion paper examines the critical elements the TC must consider in undertaking its work. The key questions the TC will need to resolve to develop recommendations for COP 28 on operationalising the LDF and new funding arrangements are examined in this paper, including:

- What is loss and damage money and what is it for?
- Where should the money come from?
- Who receives it and when?
- Where does the fund fit within the climate finance landscape?
- How will the fund be structured and governed?

A

WHAT IS LOSS AND DAMAGE MONEY AND WHAT IS IT FOR?

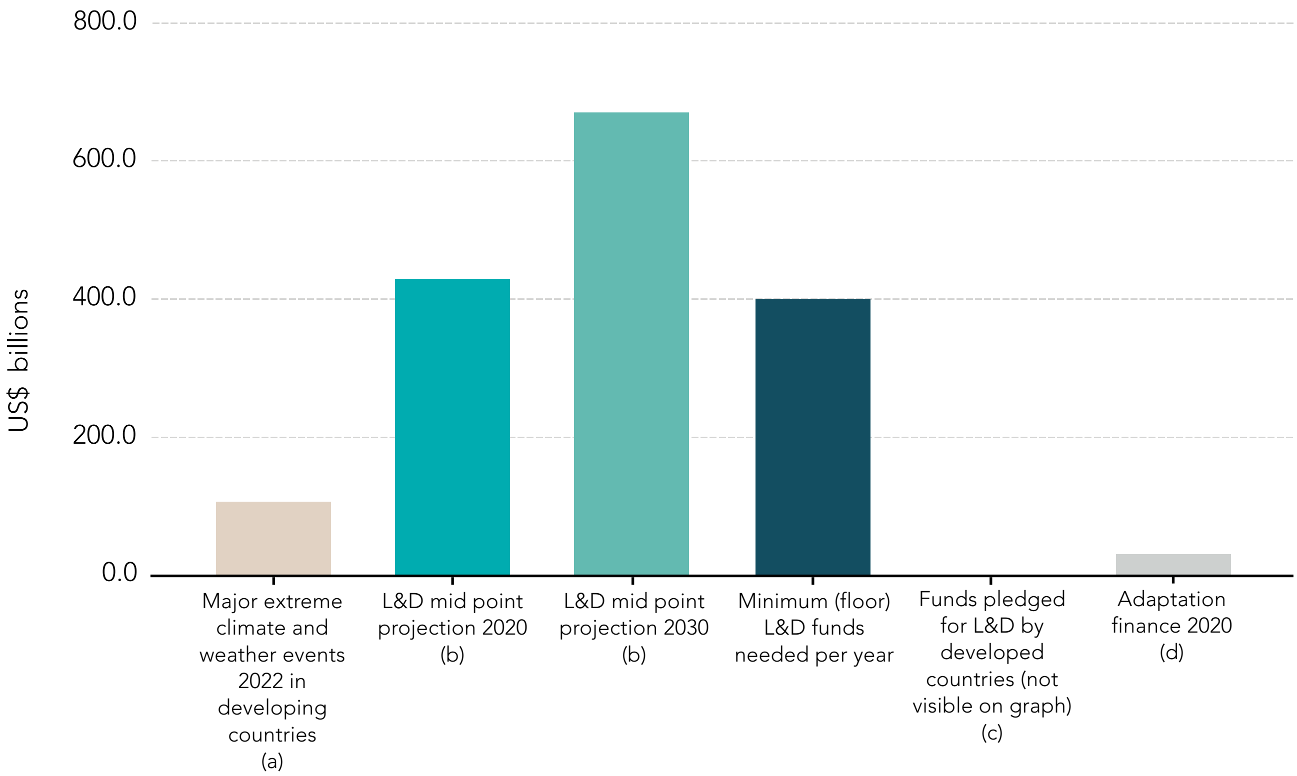
Loss and damage refers to the incurred impacts of anthropogenic climate change, and these impacts are already being felt acutely by the poorest and most vulnerable communities and countries. Major climate and weather events in developing countries in 2022, caused more than US$109 billion in losses.[3] This does not take into account smaller events which may have been devastating for a local community, slow onset impacts, nor non-economic loss and damage. Therefore, it can be said that the real loss and damage faced by developing countries in 2022 was considerably greater than US$109 billion. Updating widely used modelling of loss and damage in developing countries to

> **“Major climate and weather events in developing countries in 2022, caused more than US$109 billion in losses.”**

2023 US dollars, gives midpoint estimates of economic loss and damage of US$425 billion in 2020 and US$671 billion in 2030.[4] It is therefore clear that discussion of loss and damage finance should use US$400 billion per year as a floor and acknowledge that financing needs will have to be revised upward over time. The graph below reflects this need versus the scale of funds currently being provided to loss and damage and adaptation. Please see the body of this report for further discussion.

> **"It is clear that discussion of loss and damage finance should use US$400 billion per year as a floor and acknowledge that financing needs will have to be revised upward over time."**

Figure 4: Loss and damage needs compared with funds pledged



See endnote for references[5].

Loss and damage can be both economic and non-economic. When a cyclone hits and destroys infrastructure such as homes, schools, or roads, this is economic loss and damage. Non-economic losses and damages are equally as devastating yet not measured monetarily. For example, when lives are lost or when households or communities lose history, identity, cultural and social connections to the land and one-another. Funding is still required to help households or communities recover from these losses and the damages to cultural identities and sense of selves, and the social infrastructure around which lives, communities and economies are based.

> **"Non-economic losses and damages are equally as devastating yet not measured monetarily. For example, when lives are lost or when households or communities lose history, identity, cultural and social connections to the land and one-another."**

Loss and damage results from a spectrum of climate change impacts. Some climate related hazards hit immediately and cause loss and damage instantly, including extreme weather events such as cyclones, heatwaves, floods and droughts, while slow onset climate processes cause loss and damage over time, such as increasing temperature, desertification, loss of biodiversity, land and forest degradation, glacial retreat, sea level rise, ocean acidification, and salinization.

In order to help clarify what loss and damage is, and therefore what should be funded under the LDF, the TC should consider the feasibility and utility of establishing a simple classification framework to designate an eligible loss and damage impact, enacted as a few guiding questions/criteria teamed with an illustrative, but not exhaustive, positive list, to which contributors and recipients should be able to add new types of fundable actions. We provide examples of both in this report.

> **“Some climate related hazards hit immediately and cause loss and damage instantly, while slow onset climate processes cause loss and damage over time.”**

WHERE SHOULD THE MONEY COME FROM?

B

It is crucial that loss and damage finance is provided in line with the principles of the Convention and the Paris Agreement including equity, historical responsibility and polluter pays; respective capability; funding should be new, additional, predictable, precautionary and adequate and provided in response to needs and best available science.

As can be seen in the graph above, current contributions from developed countries are woefully inadequate. Whereas developed countries have consistently failed to undertake mitigation actions whilst benefiting from the fossil fuel pollution their economies have emitted, they therefore have a moral and legal responsibility to ensure sufficient loss and damage finance is provided. All developed countries should contribute their fair share of finance to loss and damage - in the form of grant funding additional to existing ODA and climate finance commitments. Two examples of the scale of fair share of finance are that the US's fair share of loss and damage finance has been calculated as US$20 billion in 2022, rising to about US$117 billion annually by 2030[6]; and France's contribution to loss and damage finance as €2 billion per year, rising to €5.32 billion per year in the period 2025-30.[7]

> **“Developed countries have consistently failed to undertake mitigation actions whilst benefiting from the fossil fuel pollution their economies have emitted, they therefore have a moral and legal responsibility to ensure sufficient loss and damage finance is provided.”**

Secondly, in order to raise the scale of finance necessary, alternative sources of finance - that meet the principles of fairness and predictability, and are based on a polluter pays principle and applied to those that can afford it by governments - should also be implemented. Many of these sources of finance can simultaneously help tackle the climate crisis by tackling the source of climate pollution. The fossil fuel industry has made US$2.8 billion a day in profit every day for the last 50 years; one trillion dollars a year on average since 1970, all whilst fuelling the climate crisis.[8] There are other industries and activities exacerbating the climate crisis, which go largely untaxed, such as international aviation

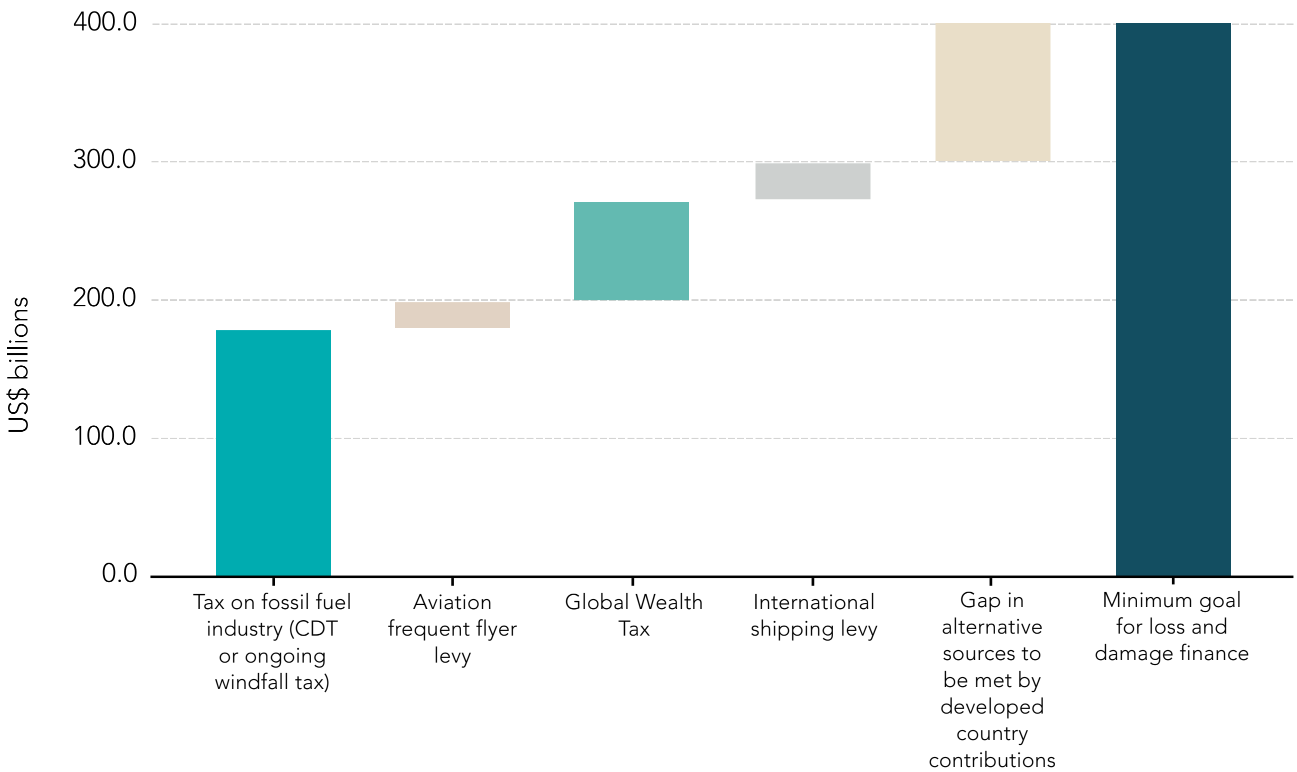
> **“In order to raise the scale of finance necessary, alternative sources of finance - that meet the principles of fairness and predictability, and are based on a polluter pays principle and applied to those that can afford it by governments - should also be implemented.”**

and maritime. By implementing a range of taxes and levies on these industries and activities a significant portion of loss and damage finance could be predictably generated for the LDF. Crucially funding mobilised through financial instruments which seek to profit from the climate crisis, and create greater debt burdens for vulnerable countries such as private finance flows, or shift responsibility for finance onto vulnerable countries, such as insurance, should not be considered as contributing toward the floor of US$400 billion per year.

The graphic below shows an example of where sources of funding might come from to fill the LDF. Developed countries will need to "bottom line" the amount, to ensure the full amount necessary is raised each year.

> **"Funding mobilised through financial instruments which seek to profit from the climate crisis, create greater debt burdens or shift responsibility for finance onto vulnerable countries, should not be considered as contributing toward the floor of US$400 billion per year."**

Figure 5: Potential sources of finance for the Loss and Damage Fund



Source: The authors.

WHO RECEIVES IT AND WHEN?

C

Finance to address loss and damage must reach those in need in a manner that is i) equitable, ii) economical, climate, and gender-just, and iii) human rights-aligned. Principles for who receives loss and damage should include:

- Equitable, adequate and directly accessible for the most affected
- Human rights-based approach,
- Gender equality and gender-responsive financial flows
- Country and/or local ownership and subsidiarity.

> **"Finance to address loss and damage must reach those in need in a manner that is i) equitable, ii) economical, climate, and gender-just, and iii) human rights-aligned."**

The delivery of loss and damage finance should ensure that it does not impose additional burden or injustice on the recipient, whether that be country, community or individual. Loans are not appropriate for loss and damage, particularly as loss and damage is already causing indebtedness for countries, communities, households and individuals. Therefore loss and damage finance should be provided as grant funding.

“Delivery of loss and damage finance should ensure that it does not impose additional burden or injustice on the recipient, whether that be country, community or individual.”

The LDF should be operationalised in a way to ensure equitable and targeted support by involving intended beneficiaries, drawing on lived experience of climate impacts to develop implementing criteria and policies that reflect the needs of women, Indigenous Peoples, racial and ethnic minorities, youth and children and persons with disabilities. Importantly this will require simplified and enhanced direct access by affected countries, communities and population groups, including rapid finance dissemination for extreme events.

WHERE DOES THE FUND FIT WITHIN THE CLIMATE FINANCE LANDSCAPE?

D

The LDF was established to address the current lack of finance and institutional capacity to deliver finance specifically to address loss and damage. The LDF should be established as a third operating entity under the Financial Mechanism of the UNFCCC, which also serves the Paris Agreement. It should incorporate windows that cater for the specific economic and non-economic needs of both slow onset loss and damage and extreme events as well as a window to provide simplified direct financing access to local communities and affected people.

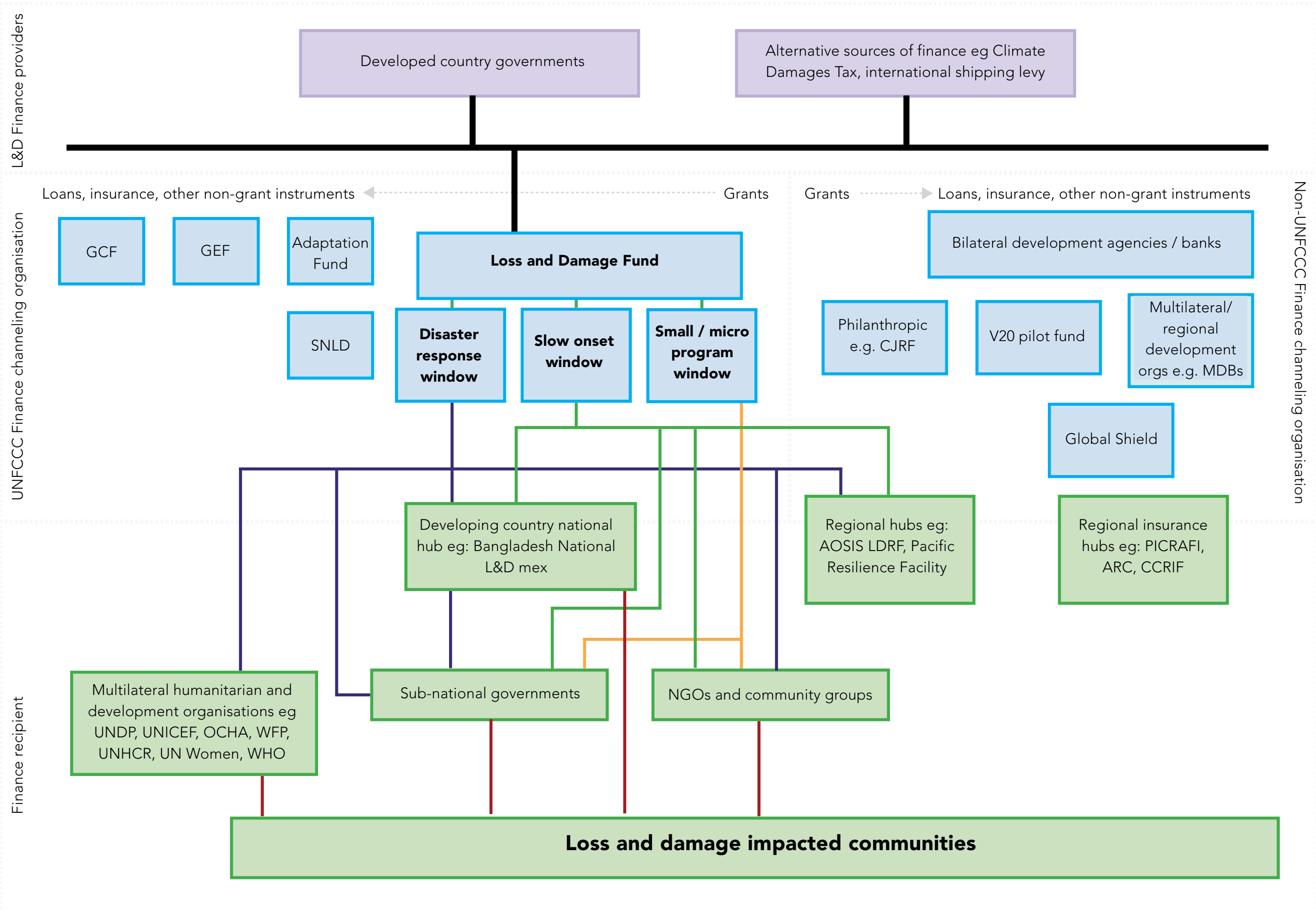
“The LDF should be established as a third operating entity under the Financial Mechanism of the UNFCCC.”

The ‘mosaic of solutions’, and its numerous actors and initiatives inside and outside of the UNFCCC, should not be a distraction. They have a role to play, but it is essential that the LDF, reflecting the highest level of accountability and compliance with core principles of equity and historical responsibility, remain at the heart of finance to address loss and damage. This means that the LDF should be responsible for providing the majority of finance that meets the principles outlined above and below, alongside provision of coordination and oversight, as well as definitional and methodological leadership for loss and damage finance.

“The LDF should incorporate windows that cater for the specific economic and non-economic needs of both slow onset loss and damage and extreme events as well as a window to provide simplified direct financing access to local communities and affected people.”

This approach can be seen in the graphic on the next page.

Figure 8: Loss and Damage Fund Financial Flows



Source: The authors.

HOW WILL THE FUND BE STRUCTURED & GOVERNED?

E

The LDF was established as a fund by a decision of both the COP and the CMA. It therefore follows that the governing body of the LDF should be accountable to and receive guidance from the COP and CMA, meaning that the LDF will serve both the Convention - with its core principle of equity and historical responsibility - and the Paris Agreement - which identifies loss and damage as a separate pillar. Given the expectation that the LDF should make a significant and ambitious contribution to combating climate change with an exclusive focus on financing to address loss and damage and that it should be guided by a climate-justice approach and core principles such as common but differentiated responsibilities and respective capabilities (CBDR-RC), it should join the GEF and the GCF and be designated as the third operating entity of the Financial Mechanism under Article 11 of the UNFCCC, and serve in the same function for the Paris Agreement.

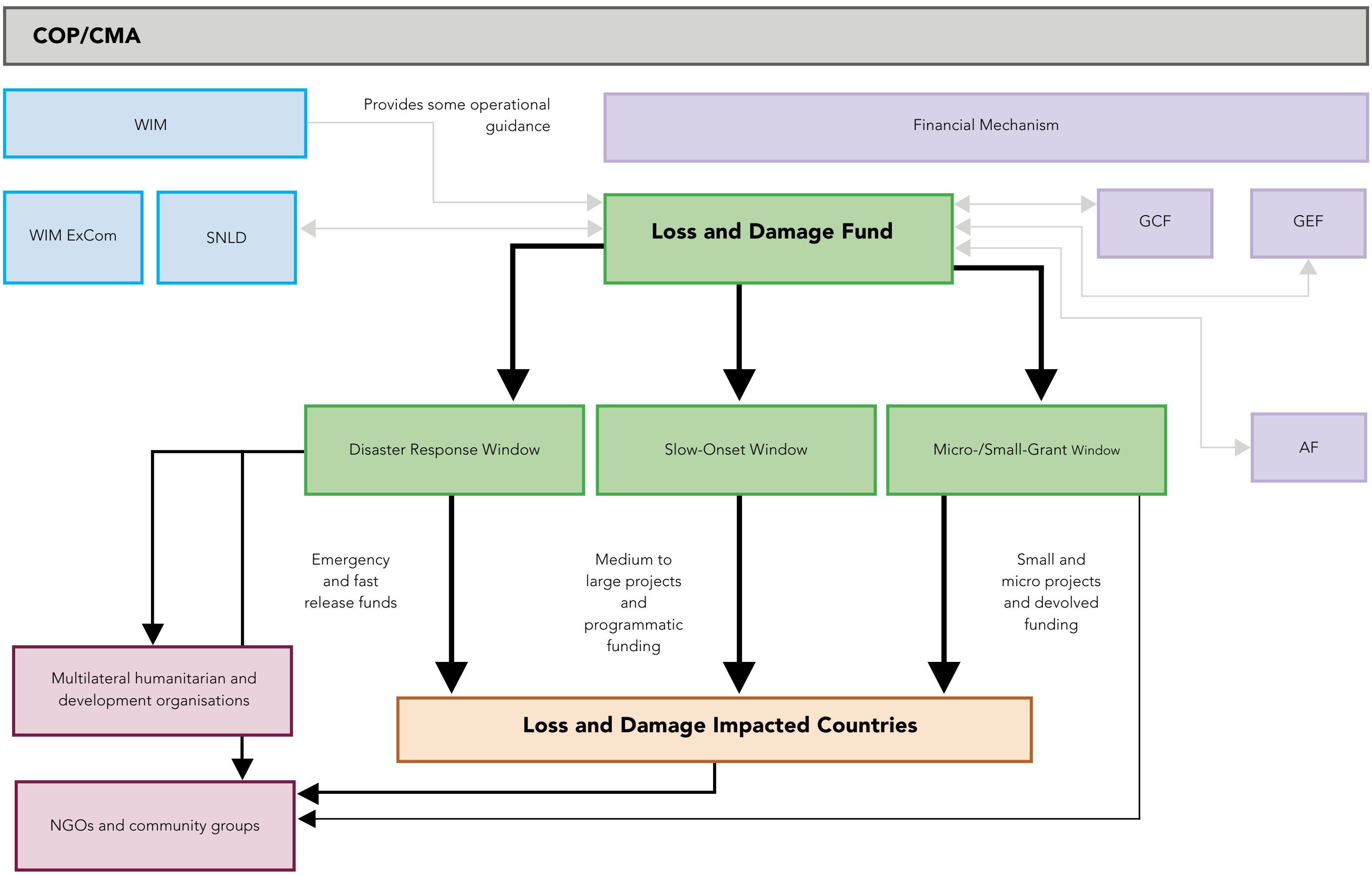
“The Board or Governing Council should be composed with equitable representation, with a majority of seats for developing countries, with gender balance, and should additionally give voice and vote to representatives from affected communities and civil society organisations as full board members.”

The Board or Governing Council should be composed with equitable representation, with a majority of seats for developing countries, with gender balance, and should additionally give voice and vote to representatives from affected communities and civil society organisations as full board members.

Eligibility should be open to developing country Parties to cover documented economic and non-economic losses and damages, including capacity building and readiness support. As described in the graphic below, the LDF should have three distinct funding windows each with differentiated 'fit-for-purpose' programming modalities and application procedures. These procedures should be developed to ensure responsiveness to the needs of recipient countries and affected communities, the time-frame of needed responses, and to specifically address shortcomings and apply lessons learned from existing funding mechanisms. These proposed funding windows are 1) a rapid or disaster response window to provide quick release funding in the aftermath of climate disasters; 2) a slow-onset window to provide funding for longer-term loss and damage planning and policy framework and support transformative programming (such as permanent relocation or a just transition to alternative livelihoods); 3) a micro/small-grant window to allow for direct access for subnational and local actors, in particular affected communities and civil society organisations working directly with them for both fast-response and slow-onset activities. These respective windows should have differentiated access modalities, programming and approval processes as outlined below in this report.

> **“Proposed funding windows are 1) a rapid or disaster response window to provide quick release funding in the aftermath of climate disasters; 2) a slow-onset window to provide funding for longer-term loss and damage planning and policy framework and support transformative programming; 3) a micro/small-grant window to allow for direct access for subnational and local actors, in particular affected communities and civil society organisations.”**

Figure 9: Loss and Damage Fund Governance Structure



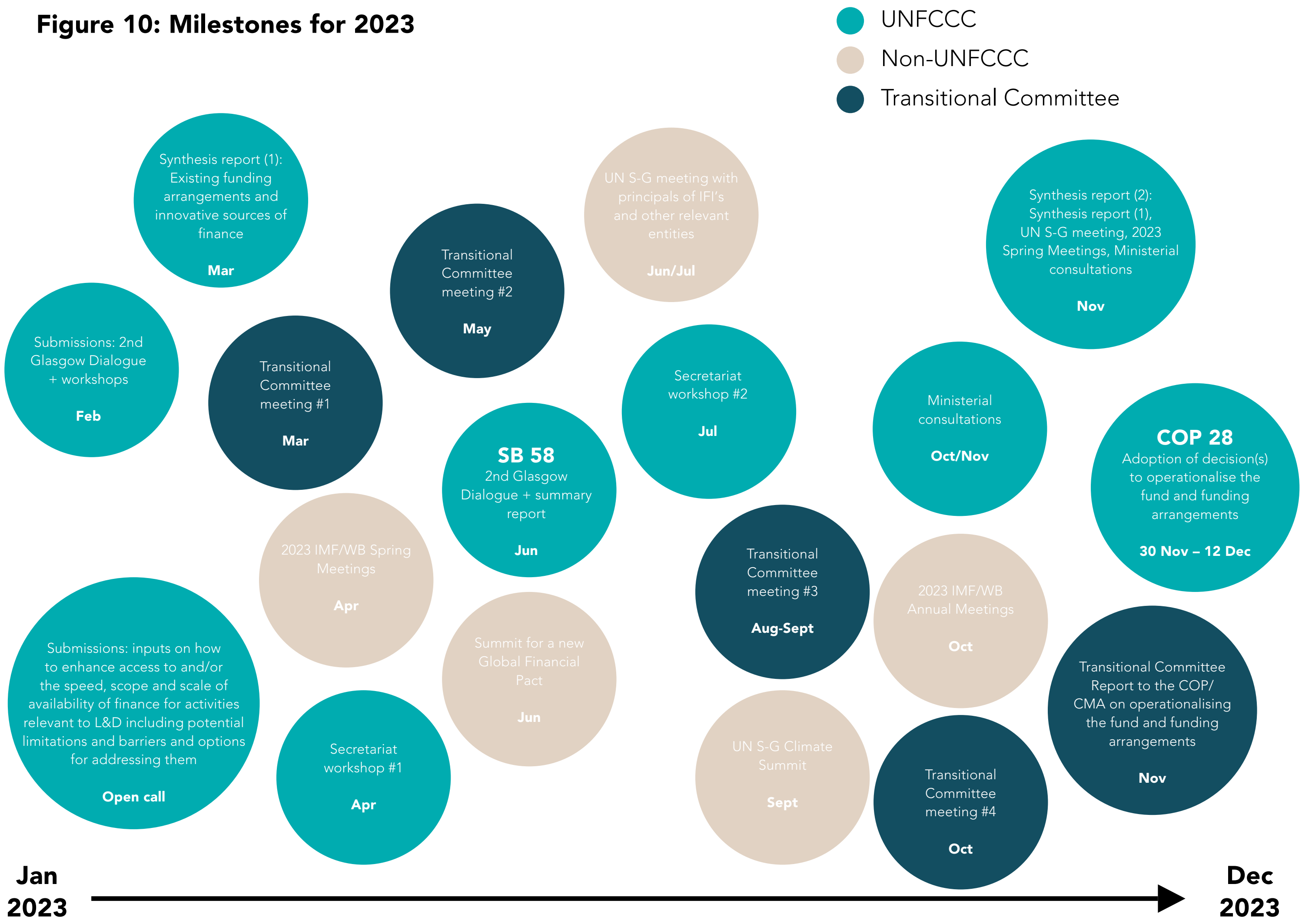
Source: The authors.

MILESTONES

F

The milestones to establish a LDF and make ambitious progress on loss and damage finance more broadly, include various policy fora, processes and discussions are contained in the graphic below.

Figure 10: Milestones for 2023



Source: The authors.

II

RECOMMENDATIONS

Finance for loss and damage must:

1. Be at a scale commensurate to need, therefore US$400 billion per year should be considered as a floor with an acknowledgement that financing needs will likely have to be revised upward over time.
2. Be provided in line with the principles of the Convention and the Paris Agreement including equity, historical responsibility and polluter pays.
3. Be new, additional, predictable, precautionary and adequate as well as pro-poor, human-rights based and gender-responsive.
4. Be provided from a mixture of sources - foremost by fair share contributions from developed countries as well as through alternative sources of finance that are new, fair and redistributive, predictable and publicly-controlled and follow the polluter-pays principle.
5. Be disbursed as a matter of urgency and reach vulnerable communities and countries.

The Transitional Committee must:

1. Deliver an outcome that prioritises the operationalisation of the LDF, making it the centrepiece of the new funding arrangements to deliver loss and damage finance to developing countries.
2. Learn lessons from the past, in particular the work of the transitional committee to set up the Green Climate Fund (GCF) in 2011 and from the operational experiences of existing funds to leapfrog to a fit-for-purpose operationalisation of the LDF.
3. Facilitate active and meaningful engagement by civil society, Indigenous Peoples, women, youth, racialised communities, persons with disabilities and other impacted groups.
4. Actively consult with relevant stakeholders in developing recommendations, with a particular focus on including the expertise, knowledge and lived experience of affected communities and people.
5. Develop recommendations, inter alia, to:
    a. Establish institutional arrangements, modalities, structure, governance and terms of reference for the LDF including designating it as an operating entity of the Financial Mechanism of the Convention;
    b. Define elements of the new funding arrangements that will see developed countries providing core public funding and assisting in mobilising new and additional resources for assisting developing countries in responding to loss and damage;
    c. Identify and expand sources of funding for loss and damage that are new, additional, predictable, fair and redistributive, pro-poor, and adequate; and
    d. Ensure complementarity and coherence through coordination of the LDF as the centrepiece of the evolving loss and damage finance landscape with other existing funding arrangements including bilateral, regional, plurinational and global funding mechanisms and institutions.

6. Ensure that its recommendations are underpinned by the principles of the Convention and the Paris Agreement, and include inter alia:
    a. Common but differentiated responsibilities, including historical responsibility, and respective capabilities
    b. Equity
    c. Human rights
    d. Feminism and gender-equality
    e. Do no harm
7. Ensure that the LDF will provide support for comprehensive activities to address loss and damage, including non-economic loss and damage.

An operationalised LDF that is fit for purpose means agreement at COP 28 on:

1. Who should receive support and modalities for its provision
2. Equitable board representation between developed and developing countries with a majority from developing countries and representation of affected communities and particularly vulnerable population groups as well as gender- and regional balance
3. Core operational modalities, including initial funding windows with differentiated access and approval procedures for fast response when disasters strike, slow-onset events and enhanced direct access community support and an allocation approach that ensures equitable access for all eligible countries
4. The Fund must not apply fiscal policy conditions, such as imposing austerity measures, to any of the finance it provides, doing so could reduce public services provision in affected countries and be counter productive
5. Funding support must be provided as grants, including on a full-cost basis. At no point should the Fund allow for the use of debt-generating financial instruments
6. The Fund's modalities must use inclusive language that does not reinforce negative stereotypes or allow for racialised assumptions to be made
7. The LDF is to be based on the foundation principles of the UNFCCC and the Paris Agreement: Common but differentiated responsibilities, including historic responsibility, and respective capabilities; Equity; Human rights; Feminism and gender-equality; Do no harm
8. Fossil fuel and other polluting industries make significant contributions to the LDF

To ensure gender-responsive finance to address loss and damage:

1. Intersectional gender analyses should be conducted and the results integrated into programming on finance to address Loss and Damage with a particular focus on facilitating equitable access to finance
2. Women and non-gendered communities must be consulted, engaged and integrated into policy and funding programming development, policy and funding decisions and their implementation
3. Measures must be implemented to ensure that power dynamics within communities do not lead to the exclusion of traditionally marginalised women groups (e.g. Indigenous Women, racialised women, transgender women and women with disabilities)

Where do we need to get to by COP 29?

- Loss and damage finance:
  - o Commitment by developed countries and political leadership by key developed countries to deliver new, additional, pro-poor, and adequate finance - from developed country contributions and to put in place alternative sources of finance that are new, fair and redistributive, based on the polluter pays principle, predictable and publicly controlled
  - o Clear allocation of finance to address loss and damage that is separate, distinct and additional to existing finance for adaptation, mitigation, humanitarian and development finance
- Glasgow Dialogue:
  - o Completed in a way that informs concrete decisions at COP29, including on mobilising funding, supporting complementarity and coherence within the evolving loss and damage finance architecture, including distinct actors and initiatives of a 'mosaic of solutions' under the leadership of the LDF; providing support and accountability for the rapid full operationalisation of the LDF
- Loss and Damage Fund:
  - o Full set-up of strong governance (board and functioning secretariat) and delivery of core operational policies and modalities to deliver effective funding for loss and damage and to allow for timely disbursement of Funds
  - o First initial rapid disbursements, as a pilot approach, to ensure early lessons are fed into the process, while structures (at LDF and country/recipient-levels) are advanced and finalise
  - o Progress in development of the modalities of the fund to implement projects/programs that answer to needs of the most vulnerable, and safeguards and grievance mechanisms in place to protect rights and environmental integrity
- New Collective Quantitative Goal on climate finance (NCQG):
  - o Finance for loss and damage included in scope and in discussions on scale
  - o Anchor finance to address loss and damage as the third financing pillar in the NCQG, as a separate sub-goal
  - o Finance to address loss and damage is included in any review mechanisms established for the NCQG
  - o The NCQG states that all climate finance flows are new and additional, non debt-generating, and gender-responsive, covering mitigation, adaptation and loss and damage financial flows
  - o Finance to address loss and damage is included in the NCQG's transparency modalities under the UNFCCC's Enhanced Transparency Framework (ETF)
- Santiago Network on Loss and Damage (SNLD):
  - o With SNLD Advisory Board up and running, articulation of a proposed division-of-labour and complementarity on providing capacity and readiness technical support for accessing finance to address loss and damage with readiness and planning support provided by the LDF
  - o Better understanding of institutional linkage and articulated relationship with LDF (such as potential memorandum of understanding for collaboration)
  - o Potential role of SNLD in providing expert input to LDF technical advisory body, or observer role in LDF board proceedings.

BACKGROUND AND INTRODUCTION

III

A PERMANENT STATE OF POLYCRISIS

A

We live in an era where the world seemingly hurtles from one major crisis to the next, without resolving any of the systemic root causes that underlie these crises - a permanent state of polycrisis[9]. 2022 battered us with a series of severe and mutually reinforcing shocks — the COVID-19 pandemic, the Russian war on Ukraine and resulting food and energy crises, massive and accelerating loss of biodiversity, and multiple impacts from the ongoing climate emergency including massive flooding from Pakistan to Australia. 2023 has already seen extensive loss and damage as two category four cyclones hit Vanuatu within three days, and Cyclone Freddy caused extensive loss of life in southern Africa. In societies and systems that are already unequal, discriminating and marginalising, these disasters exacerbate inequality and vulnerability, including as a result of developing countries' reduced capacity to provide high-quality public services. All of these crises have an unequal and unjust impact and escalating economic and non-economic costs.

"We live in an era where the world seemingly hurtles from one major crisis to the next, without resolving any of the systemic root causes that underlie these crises - a permanent state of polycrisis."

In Pakistan alone, estimates put the scale of the historic 2022 floods in damages and reconstruction costs at close to US$50 billion.[10] The number of people facing acute food insecurity has more than doubled from 2019, reaching almost 350 million in 2022 and reversing hard-fought development progress. The rising interest rates designed to address the high inflation accelerated by the food and energy crises have led to higher borrowing costs and mounting debt vulnerabilities in the developing world, constraining countries' ability to invest in social protection systems, social cohesion, progress towards the Sustainable Development Goals (SDGs), and gains toward lowering inequality.[11]

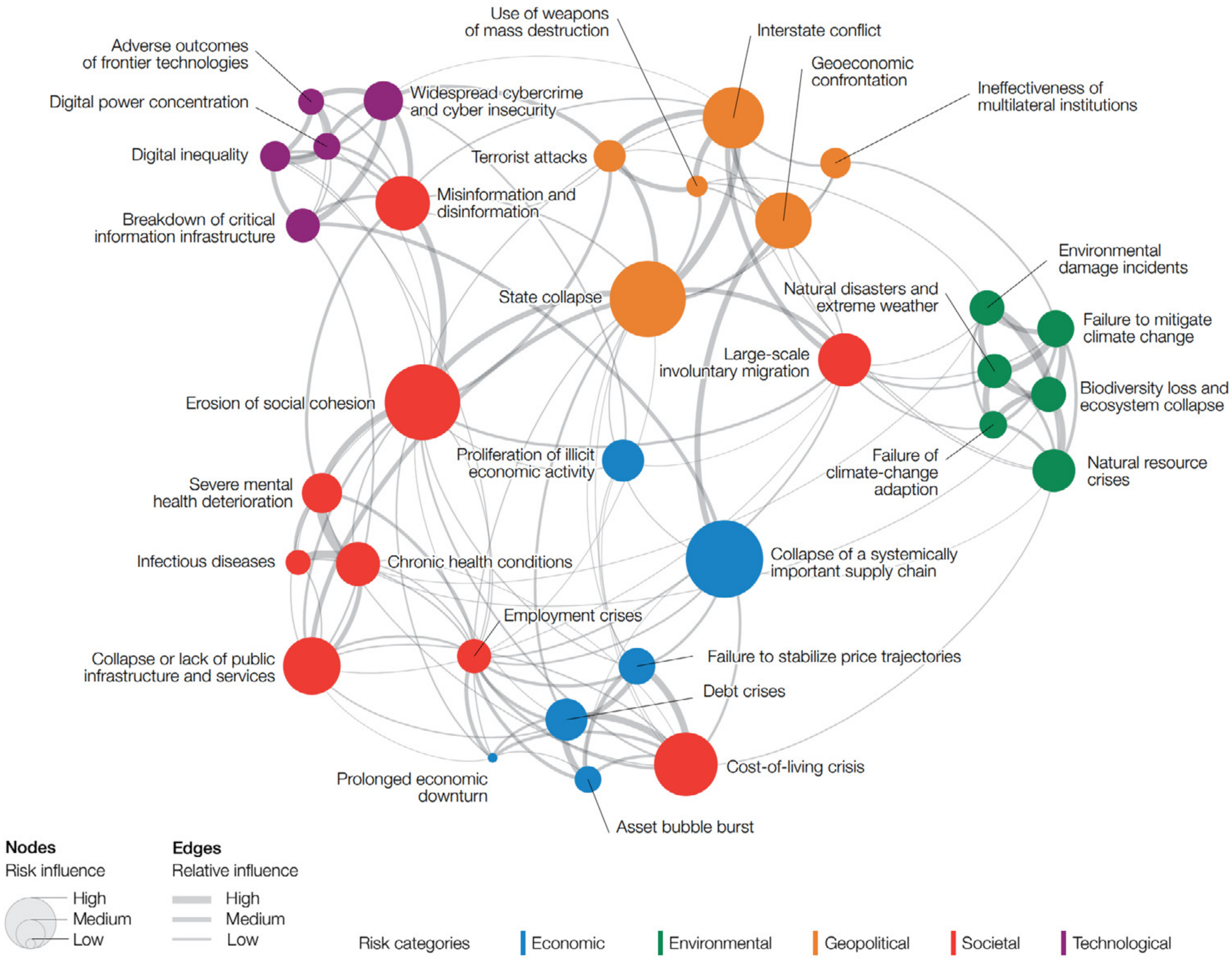
"In Pakistan alone, estimates put the scale of the historic 2022 floods in damages and reconstruction costs at close to US$50 billion."

The World Economic Forum's (WEF) Global Risks Report 2023[12] listed the top five risks facing the world in the next ten years as:

I. Failure to mitigate climate change;
II. Failure of climate change adaptation;
III. Natural disasters and extreme weather events;
IV. Biodiversity loss and ecosystem collapse; and
V. Large-scale involuntary migration.

All of which are tenets of the current climate crisis, with multiple climate hazards occurring simultaneously resulting in compounding overall risk and risks cascading across sectors and regions which, if left unchecked, will push an additional 35-132 million people into extreme poverty by 2030 according to estimates by the Intergovernmental Panel on Climate Change (IPCC).[13] In the next few years the WEF sees these multiple crises as interacting with other crises as illustrated in Figure 1 below.

Figure 1: Global risks landscape: an interconnections map



Source: World Economic Forum (2023). Global Risks Report. Available: https://www.weforum.org/reports/global-risks-report-2023/digest/

This tangled knot of interconnected crises, entwining and worsening one another must be addressed comprehensively and holistically, avoiding segmented seemingly easy fixes. Instead we need to apply the best understanding of how one impacts the others in full knowledge that it is the vulnerable and marginalised suffering the most, with the greatest need for support. The response to any crisis we face must be led by solidarity, acknowledging the humanity and rights of those most affected and underpinned by just and equitable efforts to address inequality and the climate crisis. This means solutions that are underpinned by principles of equity, Common But Differentiated Responsibilities and Respective Capabilities (CBDR-RC), historical responsibility,[14] and the polluter pays principle.

> **"The response to any crisis we face must be led by solidarity, acknowledging the humanity and rights of those most affected and underpinned by just and equitable efforts to address inequality and the climate crisis."**

PROGRESS ON LOSS AND DAMAGE HAS HISTORICALLY BEEN SLOW AND INADEQUATE

B

Historically, developed countries have blocked any significant progress in the Loss and Damage[15] negotiations, especially with respect to financing to address loss and damage.[16] Despite a mechanism for finance for loss and damage being proposed during the negotiations to establish the Convention in 1991, the Convention was established without loss and damage being explicitly included.[17] Since that time, incremental progress has been hard fought, starting with key milestones including the establishment of a work programme at COP 16 in Cancun - almost two decades later.[18] At COP 19 in Warsaw, with the tragedy of Super Typhoon Haiyan in the Philippines[19] at the forefront of delegates' minds, Parties agreed to establish the Warsaw International Mechanism (WIM)[20] and an Executive Committee (ExCom) to guide the implementation of its functions.[21] The WIM is not a dedicated financial mechanism for Loss and Damage but importantly its functions included enhancing action and support, including finance.[22] However, meaningful progress in the WIM on finance would be blocked by developed countries.[23]

> **"Despite a mechanism for finance for loss and damage being proposed during the negotiations to establish the Convention in 1991, the Convention was established without loss and damage being explicitly included."**

Parties continued to negotiate and agree further measures at each COP to enhance the work of the WIM.[24] In parallel, in 2015, Loss and Damage was recognised in the Paris Agreement.[25] The implications of this decision will be further unpacked later in this paper. Over the course of the first and second review of the WIM, Parties discussed sources of financial support and modalities for accessing such support and the urgency of enhancing mobilisation of action and support including finance.[26] However, beyond acknowledging the urgency of enhancing financial support, establishing the Santiago Network (SNLD)[27] and establishing an expert group on action and support under the ExCom, Parties did not establish or identify any sources of finance or financial instruments with a mandate to address loss and damage to address the need that had been identified.[28] Moreover, current UNFCCC climate finance

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reporting tables do not include a column for loss and damage to be tracked; although countries can choose to include this under 'additional information'.[29] This undermines the ability for data to be collected on financing gaps, the effectiveness of finance to address loss and damage flows, and whether this finance is reaching those in need. While the OECD is discussing both funding arrangements on loss and damage, as well as options for tracking and reporting of such flows,[30] it remains to be seen what measures will be put in place under the UNFCCC to facilitate monitoring of loss and damage flows. Without data on loss and damage gaps, it will be harder to determine the effectiveness of such flows and thus develop measures to address gaps.

MOMENTUM AND PROGRESS HAS BEEN BUILDING

C

In recent years, any progress made on Loss and Damage has been in the context of significant climate disasters[31] and the growing awareness and realisation by citizens around the world that we have entered the age of loss and damage and that no country is immune. This has been underpinned by clarity in the science, with the Intergovernmental Panel on Climate Change (IPCC) releasing its report on Impacts, Adaptation and Vulnerability[32] in 2022 as part of its Sixth Assessment Report (AR6)[33]. This report records scientific consensus that loss and damage caused by human-induced climate change has not been prevented by global efforts to mitigate and adapt to climate change. These adverse impacts are disproportionately affecting vulnerable people and systems with some impacts irreversible.[34]

Simultaneously the costs of both economic and non-economic losses and damages are escalating; economic loss and damage alone is already substantial and has been estimated as between US$447-894 billion per year by 2030 for developing countries.[35] The 2022 flooding across one third of Pakistan impacted thirty three million people and displaced eight million people from their homes,[36] the devastating drought and famine in Kenya, the heatwaves and drought across Europe and southern China, and the hurricanes in Cuba and the US, in addition to the slow onset sea level rise and coastal erosion forcing Pacific Islanders to relocate, drove the world's governments to finally agree to establish a fund for loss and damage at COP 27 (LDF).

"Simultaneously the costs of both economic and non-economic losses and damages are escalating; economic loss and damage alone is already substantial and has been estimated as between US$447-894 billion per year by 2030 for developing countries."

Moreover, escalating climate losses and damages are exacerbating already high debt levels in developing countries. Small climate-vulnerable developing states' debt levels increase quickly following climate-related disasters, due to the impact on their economies and their need to take on new debt to finance reconstruction, which in turn constrains their ability to finance other sustainable development measures.[37]

"Small climate-vulnerable developing states' debt levels increase quickly following climate-related disasters, due to the impact on their economies and their need to take on new debt to finance reconstruction, which in turn constrains their ability to finance other sustainable development measures."

Years of civil society campaigning to highlight the need for loss and damage funding combined with increasingly extreme climate events, has increased the pressure on developed countries. Following only modest progress at COP 26 in Glasgow, the unity of the G77 and China and the resolve of civil society in supporting them strengthened. In addition to support from unexpected quarters, with Scotland making a bilateral contribution of finance to address loss and damage and the Scottish First Minister Nicola Sturgeon calling for Parties that have "caused climate change and have the greatest access to resources" to meet their obligation to "step up"[38], the G77 and China and civil society combined forces to ensure that a LDF was established

> **"Scottish First Minister Nicola Sturgeon called for Parties that have 'caused climate change and have the greatest access to resources' to meet their obligation to 'step up'."**

GOVERNMENTS MUST STOP TAKING ONE STEP FORWARD AND TWO STEPS BACKWARD

D

In the past, developed countries have turned hard fought agreements on loss and damage to dust, walking back from agreements. For instance, the establishment of the WIM was a breakthrough nine years ago[39], but since then almost a decade has been wasted, as rich countries have gone out of their way to obstruct credible progress on loss and damage funding in that forum.[40] Moreover, insurance proposals - touted as credible options at COP 27 - have been limited in scope, scale and effectiveness, and have been criticised for not adequately incorporating and following pro-poor principles.[41] It is essential that the decisions made at COP 27 result in concrete outcomes without delay, for the benefit of developing countries who need action and support urgently to address loss and damage.[42]

> **"It is essential that the decisions made at COP 27 result in concrete outcomes without delay, for the benefit of developing countries who need action and support urgently to address loss and damage."**

To achieve this, the Transitional Committee on the operationalisation of the new funding arrangements for responding to loss and damage and the associated fund (TC) established at COP27 to develop recommendations on the operationalisation of the new funding arrangements and the LDF, must focus on designing institutional arrangements to operationalise the LDF and identifying and expanding sources of funding for the evolving financing landscape for loss and damage, through the lens of an LDF at its core (see Figure 7). It must also take into account lessons learned from similar processes in the past, in particular the work of a transitional committee to set up the Green Climate Fund (GCF) in 2011.[43] At a bare minimum, it must not only match but exceed opportunities for active observer and stakeholder engagement in the GCF design process provided then. It must be conducted in a transparent and

> **"The TC must focus on designing institutional arrangements to operationalise the LDF and identifying and expanding sources of funding for the evolving financing landscape for loss and damage."**

inclusive way by prioritising the input and participation of communities on the forefront of loss and damage expressing their needs, priorities and suggestions for LDF modalities and arrangements in addition to inputs provided by technical experts. To achieve this, it's crucial for the TC consultation process to ensure that women and non-gendered communities can also engage, and that engagement opportunities are disseminated domestically, in multiple languages and via assisted devices, and that efforts are taken to collect feedback directly from communities, particularly Indigenous and rural last mile communities that may not have ready access to engage in online consultations.

"Parties should also consider progress on related issues which cannot be divorced from the discussions about finance under the TC. This includes the SNLD and qualitative characteristics of the NCQG."

As well as 2023 being an intense period of work to make progress on the LDF, Parties should also consider progress on related issues which cannot be divorced from the discussions about finance under the TC. This includes the SNLD, which is not yet fully operational; negotiations to determine the scope, scale and qualitative characteristics of a new collective quantified goal on climate finance (NCQG) to replace the still unfulfilled[44] US$100 billion per year climate finance commitments after 2025; and the Global Stocktake (GST), all of which must formally consider funding to address loss and damage as a third financing pillar. Both the NCQG and GST are opportunities to ensure that regular reviews of finance to address loss and damage take place, in order to identify gaps, levels of accessibility to finance, the social and economic impact of financing flows to address loss and damage, and other relevant trends. Moreover, given that the LDF will need to be capitalised, the current GCF replenishment process is an opportunity to identify lessons and opportunities on Fund capitalisation and replenishment.

"Both the NCQG and GST are opportunities to ensure that regular reviews of finance to address loss and damage take place."

PROGRESS OUTSIDE THE UNFCCC MUST SUPPORT THE LDF

E

Progress within the UNFCCC is long overdue and central to ensure the equity, transparency and accountability of core funding for loss and damage. Whilst new funding arrangements for loss and damage will also feature in other processes unfolding in 2023, it must be clear that those have to support and be complementary to a new LDF under the UNFCCC at the core of the COP 27 mandate, and cannot substitute for the LDF. Energy and momentum is building in particular around the Global Financing Pact Summit in June 2023, which takes forward elements of the Bridgetown Initiative; and also the process to consider reforms of the Multilateral Development Banks (MDBs), including the World Bank Group (WBG) - which COP 27 endorsed. Plurilateral funding arrangements, notably the G7 initiated Global Shield working with the Climate Vulnerable Forum (CVF) and their V20 finance ministers, are also gaining traction.

"Whilst new funding arrangements for loss and damage will also feature in other processes unfolding in 2023, it must be clear that those have to support and be complementary to a new LDF under the UNFCCC at the core of the COP 27 mandate, and cannot substitute for the LDF."

The change in leadership at the WBG[45] and the overdue (and simultaneously underwhelming[46]) reforms, based on its 'evolution roadmap',[47] are part of a reorientation toward increasing support for global public goods, including addressing the climate crisis. Indeed, financing arrangements on loss and damage were discussed in the margins of the World Bank-IMF Spring meetings this April (2023), but did not feature in official discussions and communiqués, despite the COP 27 invitation to institutions attending the Spring meetings to consider this.[48] Instead, speakers in several civil society events highlighted the incompatibility of most climate finance provided through International Finance Institutions (IFIs) to be aligned with a climate justice and equity approach, as well as the shortcomings of proposals such as the Bridgetown Initiative, which is highly reliant on upscaling IFI-finance provision for climate action. Members of civil society have long highlighted that IFI's current eligibility requirements largely exclude some developing countries, apply fiscal policy conditions to their finance flows, and do not adequately integrate climate vulnerability within project valuations.[49] At the same time, some developing countries, especially the least developed ones, are concerned that an increased focus on climate action, which in the IFIs is largely focused on leveraging private sector engagement in middle-income countries, may harm the WBG's ability to provide highly concessional finance to developing countries for core development needs such as on education or health care systems[50]. So while some stakeholders, especially from developed countries, welcome increased engagement from MDBs and other IFIs, others are taking a more cautious approach. It remains to be seen if the IMF/WB Annual Meetings in October - almost parallel to the 4th TC Meeting – might advance the discussions further.

Impatience with the lack of progress within the UNFCCC has led to countries seeking change elsewhere. A resolution proposed by Vanuatu and supported by 132 countries requesting an Advisory Opinion on human rights and climate change from the International Court of Justice passed the UN General Assembly in New York by consensus. This is a clear signal that all countries are committed to taking a human rights-based approach to climate action, which should guide the discussions and decisions on the LDF. Additionally, important human rights bodies such as the UN Committee on the Rights of the Child are working on authoritative statements clarifying the obligations of States in the context of climate change[51]. The UN Human Rights Council's special procedures, such as reports from the Special Rapporteurs on climate change[52], contemporary forms of racism[53], and adequate housing have already provided important guidance specifically relating to loss and damage. Going forward, the TC must make explicit linkages with the UN human rights system, for example by inviting human rights experts to present at its meetings, to ensure that its work is aligned.

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THE FOUR PILLARS OF THE PARIS AGREEMENT ARE INEXTRICABLY LINKED

F

Whilst progress - albeit too little and too late - was made on Loss and Damage at COP 27, the best that can be said on mitigation and adaptation is that backward steps were avoided. The four pillars of the Paris Agreement - mitigation, adaptation, loss and damage, finance - are inextricably linked. Governments cannot keep using 1.5C as a target and not taking concrete steps within the negotiations and at home to make it a reality. Already our human capacity to deal with the loss and damage from climate change is constrained. Global warming beyond 1.5C will create havoc with our natural systems that will exceed countries' and societies' capacity to cope. Similarly the chronic underfunding of adaptation must be addressed. Loss and damage is already being felt, and is escalating far beyond current coping mechanisms and structures, so requires significant support. Without sharply reduced emissions and an increase in adaptation policies and finance, loss and damage could easily overwhelm the world. A decade of shortfalls in climate finance[54] have limited the ability of developing countries to implement urgent measures on mitigation, adaptation and loss and damage. As the IPCC Sixth Assessment Report (AR6) has highlighted, in order to limit global warming to 1.5C, far greater levels of action on climate finance, including up to six times the levels of current mitigation investments, are now needed.[55] The World Meteorological Organisation (WMO) estimates there is an almost 50% likelihood[56] that between 2022 and 2026 the world could temporarily exceed a global temperature of 1.5C; under which, communities would experience climate impacts at far higher magnitudes and frequency.[57]

“Governments cannot keep using 1.5C as a target and not taking concrete steps within the negotiations and at home to make it a reality. Already our human capacity to deal with the loss and damage from climate change is constrained.”

“A decade of shortfalls in climate finance have limited the ability of developing countries to implement urgent measures on mitigation, adaptation and loss and damage.”

THE BIG LOSS AND DAMAGE FINANCE QUESTIONS

IV

The work to be undertaken this year by the TC is outlined in the COP27/CMA4 Decision excerpted in Box 1 below. We summarise this work into five big questions that must be answered for the TC to advance the critical work on loss and damage finance in 2023[58] :

1. What is loss and damage money and what is it for?
2. Where should the money come from?
3. Who receives it and when?
4. Where does the fund fit within the climate finance landscape?
5. How will the fund be structured and governed?

Box 1: COP 27 / CMA 4 'Funding arrangements for responding to loss and damage associated with the adverse effects of climate change, including a focus on addressing loss and damage' (excerpt)

1. Acknowledge the urgent and immediate need for new, additional, predictable and adequate financial resources to assist developing countries that are particularly vulnerable to the adverse effects of climate change in responding to economic and non-economic loss and damage associated with the adverse effects of climate change, including extreme weather events and slow onset events, especially in the context of ongoing and ex post (including rehabilitation, recovery and reconstruction) action;

2. Decide to establish new funding arrangements for assisting developing countries that are particularly vulnerable to the adverse effects of climate change, in responding to loss and damage, including with a focus on addressing loss and damage by providing and assisting in mobilizing new and additional resources, and that these new arrangements complement and include sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement;

3. Also decide, in the context of establishing the new funding arrangements referred to in paragraph 2 above, to establish a fund for responding to loss and damage whose mandate includes a focus on addressing loss and damage;

4. Establish a transitional committee on the operationalization of the new funding arrangements for responding to loss and damage and the fund established in paragraph 3 above (hereinafter referred to as the Transitional Committee), in accordance with the terms of reference contained in the annex, to make recommendations based on, inter alia, elements for operationalization included in paragraph 5 below, for consideration and adoption by the Conference of the Parties at its twenty-eighth session (November–December 2023) and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its fifth session (November–December 2023) with a view to operationalizing the funding arrangements referred to in paragraph 2 above, including the fund referred to in paragraph 3 above;

5. Agree that the recommendations to operationalize the funding arrangements and the fund referred to in paragraphs 2–3 above shall consider, inter alia:
    a. Establishing institutional arrangements, modalities, structure, governance and terms of reference for the fund referred to in paragraph 3 above;
    b. Defining the elements of the new funding arrangements referred to in paragraph 2 above;
    c. Identifying and expanding sources of funding;
    d. Ensuring coordination and complementarity with existing funding arrangements;
6. Decide that the Transitional Committee referred to in paragraph 4 above will be informed by the following, inter alia:
    a. The current landscape of institutions, including global, regional and national, that are funding activities related to addressing loss and damage, and ways in which coherence, coordination and synergies among them can be enhanced;
    b. The gaps within that current landscape, including the types of gap, such as relating to speed, eligibility, adequacy and access to finance, noting that these may vary depending on the challenge, such as climate-related emergencies, sea level rise, displacement, relocation, migration, insufficient climate information and data, or the need for climate-resilient reconstruction and recovery;
    c. The priority gaps for which solutions should be explored;
    d. The most effective ways in which to address the gaps, especially for the most vulnerable populations and the ecosystems on which they depend;
    e. Potential sources of funding, recognizing the need for support from a wide variety of sources, including innovative sources;

Source: UNFCCC (2022). Decision -/CP.27 -/CMA.4. Funding arrangements for responding to loss and damage associated with the adverse effects of climate change, including a focus on addressing loss and damage. Available: https://unfccc.int/documents/624440

It is important to recognise that these questions cannot be answered in a sequential manner, as they are interrelated, and need to be addressed simultaneously in relationship with each other by the TC and across other processes. We now turn to address each of these questions and lay out milestones for addressing them.

1. WHAT IS LOSS AND DAMAGE FINANCE?

WHAT IS LOSS AND DAMAGE?

A

The findings from IPCC AR6 are clear: human-caused climate change is already affecting weather and climate extremes in every region across the globe. This has led to widespread adverse impacts on food and water security, human health and on economies and society, and related losses and damages to nature and people. Vulnerable communities who have historically contributed the least to current climate change are disproportionately affected.[59] In the Sharm el-Sheikh implementation plan, Parties noted “with grave concern” according to the recent IPCC reports, “the growing gravity, scope and frequency in all regions of loss and damage associated with the adverse effects of climate change, resulting in devastating economic and non-economic losses”.[60]

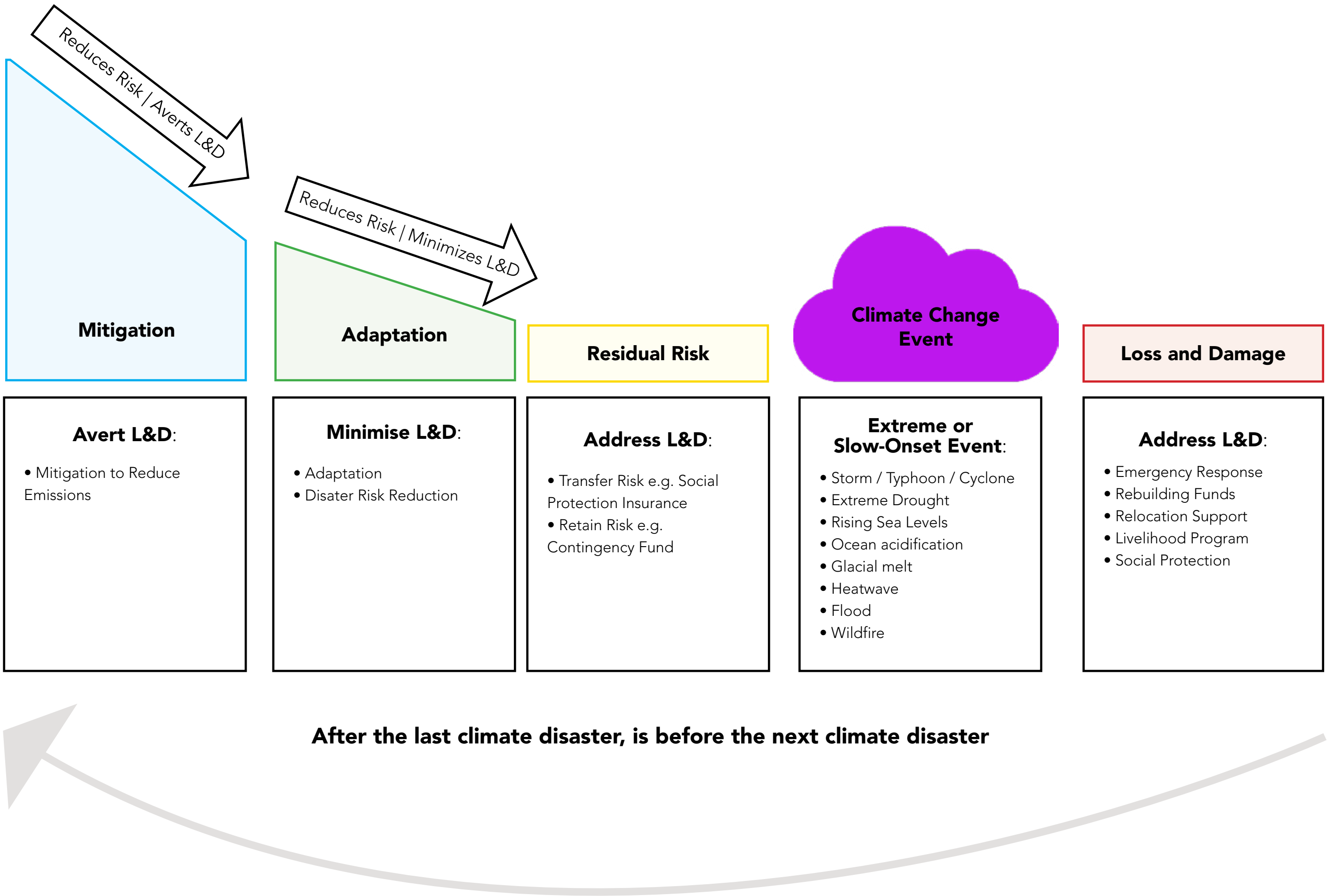
“In the Sharm el-Sheikh implementation plan, Parties noted ‘with grave concern’ according to the recent IPCC reports, ‘the growing gravity, scope and frequency in all regions of loss and damage associated with the adverse effects of climate change, resulting in devastating economic and non-economic losses’.”

Loss and damage is the harm that arises from the impacts of climate change that has not been or cannot be addressed through mitigation or adaptation measures. Loss and damage might be beyond what is possible to adapt to, given lack of mitigation action has led to temperature rise, or it might result from insufficient funding for adaptation activities.

In the UNFCCC negotiations one of the delaying tactics used by developed countries has been to deliberately cause confusion as to what loss and damage is by using the language “to avert, minimise and address” loss and damage,[61] or by actively conflating loss and damage with ‘adaptation and resilience’ objectives.[62] As reflected in Figure 2 “averting” loss and damage is to undertake mitigation and therefore avoid or avert climate impacts. Actions to “minimise” loss and damage are adaptive, they reduce risk and minimise loss and damage. This leaves residual risk that remains after mitigation and adaptation. The actions taken to address this risk or to cope with the loss and damage are what is included in “addressing” loss and damage.

“One of the delaying tactics used by developed countries has been to deliberately cause confusion as to what loss and damage is by using the language ‘to avert, minimise and address’ loss and damage, or by actively conflating loss and damage with ‘adaptation and resilience’ objectives.”

Figure 2: Relationship between loss and damage, adaptation, mitigation



Source: Richards, J.A (2022). "How does loss and damage intersect with climate change adaptation, DRR, and humanitarian assistance?". The Loss & Damage Collaboration. Available at: https://www.lossanddamagecollaboration.org/stories-op/how-does-loss-and-damage-intersect-with-climate-change-adaptation-drr-and-humanitarian-assistance

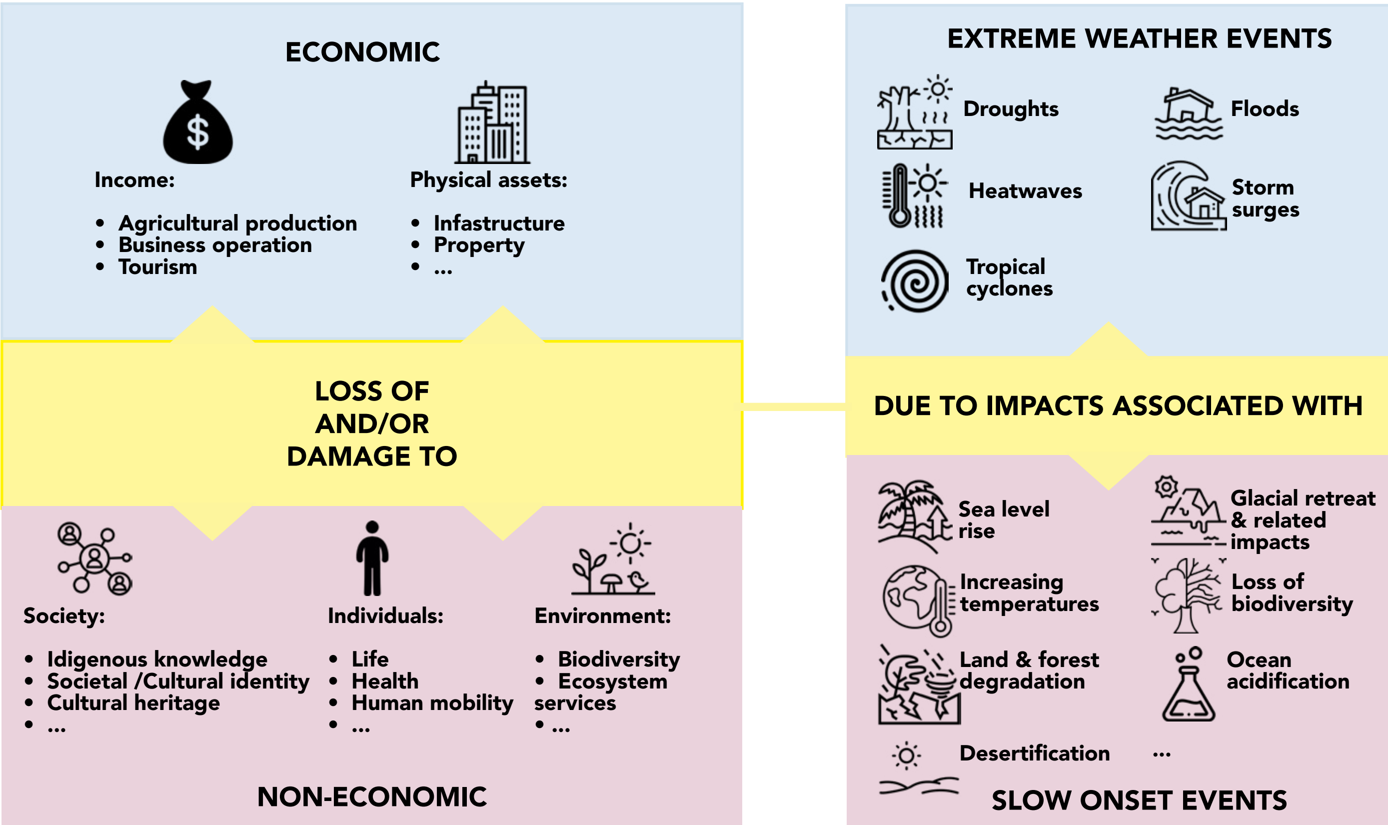
Loss and damage can be both economic and non-economic in nature. When a cyclone hits and destroys infrastructure such as homes, schools, or roads, this is defined as economic loss and damage. There are non-economic losses and damages that are equally as devastating yet are not measured monetarily. For example, when lives are lost or when households or communities lose history, identity, cultural and social connections to the land and one-another. The traumatic experiences of impacted individuals can have long-lasting effects on their physical and mental health. Funding is still required to help households or communities recover from these losses and the damages to cultural identities and sense of selves.

Loss and damage results from a spectrum of climate change impacts. Some climate related hazards hit immediately and cause loss and damage instantly, such as extreme weather events like cyclones, floods, droughts, and heatwaves; while slow onset climate processes cause loss and damage over time, such as increasing temperature, desertification, loss of biodiversity, land and forest degradation, glacial retreat, sea level rise, ocean acidification, and salinization.[63] (See figure 3)

> **"Loss and damage results from a spectrum of climate change impacts. Some climate related hazards hit immediately and cause loss and damage instantly, while slow onset climate processes cause loss and damage over time."**

Loss and damage from climate impacts is occurring in all regions and countries. However, those with the least resources, the least contribution to the climate crisis historically and in terms of current consumption and economic activities, face the worst loss and damage and are least able to cope with the impacts[64,65,66]. Consequently, these communities and countries are the focus of the loss and damage discussions at the UNFCCC.

Figure 3: Economic and non-economic loss and damage from extreme or slow onset events



Source: FCCC/TP/2019/1. Available: https://unfccc.int/sites/default/files/resource/01_0.pdf

We are currently living in an era of climate induced disasters becoming more and more frequent and severe. Some recent examples include:

1. As the six consecutive rain season looks set to fail in the Horn of Africa 1.3 million people — 80 % of them women and children — have been internally displaced in Somalia by the ongoing biting drought as at February 2023. Five straight failed rainy seasons have killed millions of livestock, destroyed crops, and forced people from their homes in search of food and water.[67]

2. The KwaZulu-Natal floods in South Africa in April 2022 caused the loss of lives of around 461 people, leaving 30,000 displaced and affecting more than 120,000 people. In addition, it caused more than US$1.57 billion in infrastructure damage.[68]

> **“In the Horn of Africa 1.3 million people — 80 % of them women and children — have been internally displaced in Somalia by the ongoing biting drought as at February 2023.”**

> **“The KwaZulu-Natal floods in South Africa in April 2022 caused the loss of lives of around 461 people, leaving 30,000 displaced and affecting more than 120,000 people.”**

1. In April 2021, Mexico dealt with the worst drought case experienced in 30 years, leading to a water shortage in the country and around 60 large reservoirs, mostly in northern and central Mexico, were below 25% capacity[69]. A report prepared by the United Nations Convention to Combat Desertification found that droughts have claimed the lives of 650,000 people since 1970, mostly in countries that have least contributed to the factors intensifying the effects of drought.[70]

At a temperature rise of 1.2C[71], climate change is already increasing extreme weather events and catastrophic floods, but with current commitments to reduce greenhouse gas emissions we are on a path to 2.7C[72] temperature rise this century, increasing the frequency and severity of loss and damage dramatically, and likely beyond what most communities and countries can cope with, as illustrated in Table 1.

"Mexico dealt with the worst drought case experienced in 30 years, leading to a water shortage in the country and around 60 large reservoirs, mostly in northern and central Mexico, were below 25% capacity."

Table 1: Increased frequency of once-in-a-decade weather events

	Temperature above pre-industrial levels and increase in frequency of once-in-a-decade events			
	+1.1˚C (today's temperature)	**+1.5˚C** (in 6–11 years)	**+2˚C** (in about 30 years)	**+4˚C** (unlikely this century)
Heatwaves	2.8x	4.1x	5.6x	9.4x
Droughts	1.7x	2x	2.4x	4.1x
Extreme precipitation	1.3x	1.5x	1.7x	2.7x

Source: Footing the Bill: Fair finance for loss and damage in an era of escalating climate impacts

WHAT IS LOSS AND DAMAGE FUNDING FOR?

B

Based on this understanding of what loss and damage is, we consider what loss and damage funding is for. As outlined in Box 1, the TC has a mandate to be informed by the current landscape of institutions, the gaps within that current landscape, the priority gaps for which solutions should be explored and the most effective ways in which to address those gaps. Parties have already acknowledged that existing funding arrangements "fall short" and are "not sufficient" to address the existing funding gaps.[73] They have also given some indication as to what loss and damage should be for, acknowledging:

"Parties agreed new funding arrangements including the LDF would be for responding to loss and damage, with a mandate that includes a focus on addressing loss and damage through new and additional finance."

the urgent and immediate need for new, additional, predictable and adequate financial resources to assist developing countries that are particularly vulnerable to the adverse effects of climate change in responding to economic and non-economic loss and damage associated with the adverse effects of climate change, including extreme weather events and slow onset events, especially in the context of ongoing and ex post (including rehabilitation, recovery and reconstruction) action.[74]

Parties agreed new funding arrangements including the LDF would be for responding to loss and damage, with a mandate that includes a focus on addressing loss and damage through new and additional finance.[75] It will thus be important for the TC to target addressing loss and damage above all else, as the key funding gap for loss and damage, and ensure that the LDF focuses on providing finance to address loss and damage.

Moreover, the Sharm el-Sheikh implementation plan under both the COP and the CMA highlights that losses include "forced displacement and impacts on cultural heritage, human mobility and the lives and livelihoods of local communities".[76] It also highlights that the financial costs of loss and damage are significantly increasing developing countries' debt burdens, and harming the potential for the SDGs to be achieved.[77] Loss and damage finance is also about reducing developing countries' debt vulnerabilities, in order to strengthen their long term fiscal stability[78], in order to ensure that they have the domestic means to pursue long-term sustainable development. As such, it will be crucial to prioritise the use of non-debt generating financial flows. The prolific use of loans in climate finance cannot be replicated in finance to address loss and damage, as it will create a new line of debt for already highly indebted developing countries.[79]

The TC is tasked with identifying quantitative (scale) and qualitative (speed, eligibility, equitable access) gaps in the current landscape of loss and damage finance, and to consider financing related to differentiated needs "such as climate-related emergencies, sea level rise, displacement, relocation, migration, insufficient climate information and data, or the need for climate-resilient reconstruction and recovery."[80] It is clear, given the existing gaps, that a comprehensive financing approach is needed that covers a variety of actions, impacts and events, sudden-fast-onset and slow-onset, economic and non-economic, as well as the readiness and preparatory support, capacity-building and institutional strengthening and long-term planning processes for such funding support.

Finance for loss and damage should be balanced and comprehensive. In addition to providing support for rapid-onset events in the aftermath of climate disasters, finance should also be available for continued recovery, rehabilitation and alternative livelihoods provision for communities facing slow-onset events. Funding should also be available for

"The financial costs of loss and damage are significantly increasing developing countries' debt burdens, and harming the potential for the SDGs to be achieved."

"The prolific use of loans in climate finance cannot be replicated in finance to address loss and damage, as it will create a new line of debt for already highly indebted developing countries."

"It is clear, given the existing gaps, that a comprehensive financing approach is needed that covers a variety of actions, impacts and events, sudden-fast-onset and slow-onset, economic and non-economic, as well as the readiness and preparatory support, capacity-building and institutional strengthening and long-term planning processes for such funding support."

addressing non-economic losses and damages, such as by financially supporting active remembrance or memorialisation programmes. Importantly, in contrast to humanitarian assistance, loss and damage finance should be iterative and enable and support longer-term recovery from climate impacts. As such, the conventional project-based model currently employed within much of climate finance is likely to be unsuitable for a significant portion of loss and damage finance provision, particularly rapid-onset events. Alternative models of finance disbursement should be developed that ensure finance reaches affected communities with urgency and purpose, with its utilisation being locally-driven, people-centred and gender-responsive.[81]

“Alternative models of finance disbursement should be developed that ensure finance reaches affected communities with urgency and purpose, with its utilisation being locally-driven, people-centred and gender-responsive.”

The TC should consider the feasibility and utility of establishing a simple classification framework to designate an eligible loss and damage impact, enacted as a few guiding questions/criteria[82], such as the following indicative suggestions:

- Was the impact likely caused by, or made worse by, climate change? It would be important not to set the burden of proof too high[83], as vulnerable countries have less historical weather data and insufficient capacity to undertake full and quick attribution studies. However, one measure could be if impacts fall outside of normal, historical parameters.

- Does the impact require a significant change to traditional, or existing, livelihood or way of life, going beyond adjustments, or adaptation, and instead require an altogether different order of magnitude reaction outside of the realm of the traditional approach.

- Does it involve loss of something the community values and depends on, such as loss of fishing resource, loss of ancestral land, loss of culture associated with traditional activities, loss of the ability to undertake an activity (e.g.: inability to herd cattle).

“The TC should consider the feasibility and utility of establishing a simple classification framework to designate an eligible loss and damage impact.”

These or similar/additional guiding questions or criteria could be teamed with an illustrative, but not exhaustive, positive list, to which contributors and recipients should be able to add new types of fundable actions, such as in Table 2 on the next page. This structure would also allow for monitoring and reporting frameworks to be designed that reflect these activities, which would help support other relevant review processes, such as the GST process under the UNFCCC.

Table 2: Illustrative list of fundable actions to address loss and damage[84]

	Sudden onset events	Slow onset events
Preparation and planning		
	Risk assessment and planning tools such as risk profiling and modelling, identifying risk to physical and livelihood assets, people and nature.[85] **Forecasting and early warning systems** allowing planning for pre and post event actions. **Contingency planning.** **Community-based activities** to create scenarios and options to be made use of during and after climate impacts.	**Risk assessment and planning tools** such as risk profiling and modelling, identifying risk to physical and livelihood assets, people and nature.[86] **Forecasting systems and development of scenarios.** **Long-term institutional strengthening and planning processes.** **Education and awareness programmes.** **Community-based activities** to create scenarios and options to be made use of during and after climate impacts.
Economic loss and damage		
Ahead of impact of climate change event	**Financial protection** – social protection and other safety nets to help manage the risks of extreme weather events. Insurance to provide compensation. **Support for alternative livelihoods** – to build new skills, opportunities and resources to establish alternative livelihoods.	**Livelihood diversification** with reskilling and support for alternative livelihoods. **Planned relocation/migration.** **Physical infrastructure adjustments.**
During/following climate change event or impact	**Emergency response** – humanitarian and other relief immediately following an emergency to provide temporary and transitional assistance. **Recovery and rehabilitation** – rebuilding economic, physical, social, cultural and environmental assets, systems and activities, aligning with the principles of sustainable development and 'build back better' to avoid or reduce future climate risk. **Support for alternative livelihoods** – to build new skills, opportunities and resources to establish alternative livelihoods.	**Livelihood diversification** with reskilling and support for alternative livelihoods. **Social protection measures** such as compensation.
Non-economic loss and damage		
Ahead of climate change event impact	**Forecasts and weather information** services in disaster prone areas to allow people to evacuate. Development of facilities to reduce future disaster risk, e.g. high points and refuges in coastal areas or areas prone to flooding, rescue services.	**Investment to safeguard cultural heritage** (eg restoring or rehousing artefacts); **support for intangible cultural heritage** e.g. documentation.
During/following climate change event or impact	**Measures to address migration** – finance to support safe and dignified movement of people forced to move due to climate change, including both planned relocation and displacement. **Reparations** to help ensure future wellbeing following loss. **Recognition and repair** of loss (whether or not accompanied by financial payments). **Active remembrance** (e.g. through museum exhibitions, school curricula). **Counselling.** **Official apologies.** **Conservation and restoration of ecosystems and biodiversity.**	**Measures to address migration** – finance to support safe and dignified movement of people forced to move due to climate change, including both planned relocation and displacement. **Recognition and repair** of loss (whether or not accompanied by financial payments). **Active remembrance** (e.g. through memorial sites, monuments and museum exhibitions, ongoing awareness and education programmes school curricula). **Counselling.** **Official apologies.** **Conservation and restoration of ecosystems and biodiversity.**

HOW MUCH LOSS AND DAMAGE FINANCE IS NEEDED?

C

Already the economic and non-economic cost of loss and damage is significant, and is felt most acutely by the poorest and most vulnerable communities. Below we look at two estimates of the need for loss and damage finance.

Firstly, the loss suffered in major climate and weather events experienced in developing countries in 2022, as extracted from AON's report, 2022 Weather, Climate and Catastrophe Insight.[87] These events do not take into account smaller events which may have been devastating for a local community, slow onset impacts, nor non-economic loss and damage. Noting that in many developing countries, non-economic losses may be greater than economic losses.[88] All of which means that the real loss and damage faced by developing countries in 2022 was considerably greater than the US$109+ billion represented in Table 3.

> **"Loss and damage faced by developing countries in 2022 was considerably greater than the US$109+ billion."**

Table 3: Major climate and weather events in developing countries 2022

Date(s)	Event	Location	Deaths	Economic Loss (USD)
06/14-09/10	Flooding	Pakistan	1,739	50.0+ billion
06/01-09/30	Flooding	China	195	15.0+ billion
01/01-12/31	Drought	China		7.6+ billion
05/17-10/31	Flooding	India	2,135	4.2+ billion
01/01-12/31	Drought	Brazil		4.0+ billion
04/08-04/15	Flooding	South Africa	455	3.6+ billion
07/01-10/31	Flooding	Nigeria	660	2.3+ billion
09/18-09/25	Hurricane Fiona	Caribbean, Canada	31	2.0+ billion*
01/01-12/31	Drought	Somalia, Ethiopia, Kenya, Malawi		2.0+ billion
01/01-12/31	Drought	Mexico		1.5+ billion
02/16-02/22	Winter Weather	China	1	795+ million
01/15-02/28	Wildfire	Argentina	0	770+ million
10/05-10/10	Hurricane Julia	Central America, Mexico	37	762+ million
09/01-09/06	Super Typhoon Hinnamnor	Japan, South Korea, Philippines	14	650+ million*
04/28-05/09	Heatwave	India, Pakistan	90	Not quantified
			2,615	2.5+ billion
				109.2+ billion

* Where more than one country is included in the estimate, and one of the countries is a developed country, 50% of the total estimate is included.

Does not include loss for hard to quantify events, such as the April/May 2022 heatwave in India and Pakistan. It has been estimated that the potential income loss from labour capacity reduction due to extreme heat in India was US$159bn in 2021.

Source all lines except Pakistan flooding: AON. 2023, January 25. 2022 Weather, Climate and Catastrophe Insight. Available: https://www.aon.com/getmedia/f34ec133-3175-406c-9e0b-25cea768c5cf/20230125-weather-climate-catastrophe-insight.pdf

Pakistan flooding line source: The Government of Pakistan, Asian Development Bank, European Union, United Nations Development Programme, World Bank (2022, October). Pakistan Floods 2022 Post-Disaster Needs Assessment. Available: https://thedocs.worldbank.org/en/doc/4a0114eb-7d1cecbbbf2f65c5ce0789db-0310012022/original/Pakistan-Floods-2022-PDNA-Main-Report.pdf

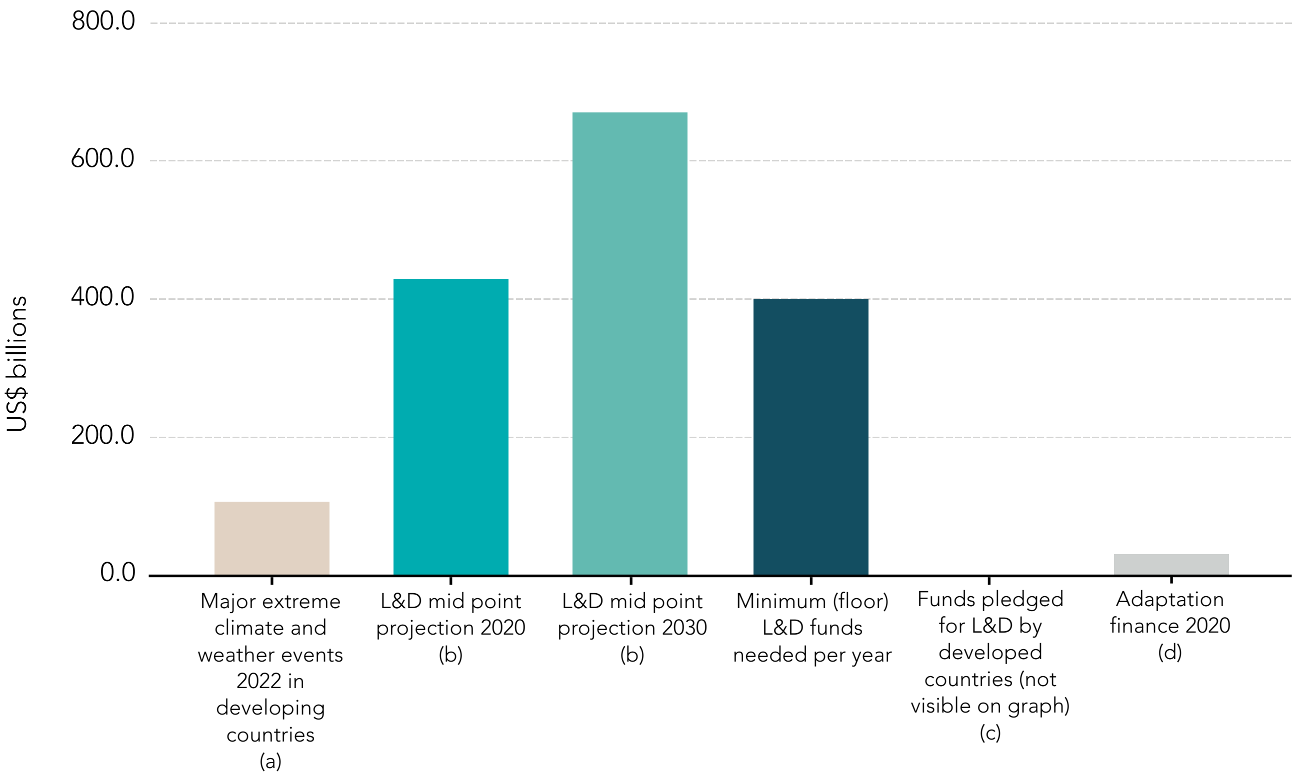
The second basis for considering how much loss and damage finance is needed, are the modelling estimates for loss and damage in developing countries from Markandya and González-Eguino[89]. They are the most widely quoted figures, and integrate assessment modelling across a range of models, to calculate loss and damage in developing countries across low and high damages ranges and using low and high discount rates. These estimates only include economic losses, and do not take into account non economic loss. We have recalculated the estimation originally made in 2005 USD value to current 2023 USD value as follows[90]:

Table 4: Economic loss and damage

Loss and damage estimates billion USD per year		
	Low estimate	**High estimate**
2020	179	671
2030	447	894
2040	850	1,567
2050	1,745	2,684

These two approaches are graphed below and contrasted with the funds pledged to date for loss and damage from developed countries, and the adaptation finance provided in 2020 for scale.

Figure 4: Loss and damage needs compared with funds pledged



Sources: (a) See table 3. Calculation primarily based on cost of major extreme climate and weather events in developing countries in AON. 2023, January 25. Weather, Climate and Catastrophe Insight. Available: https://www.aon.com/getmedia/f34ec133-3175-406c-9e0b-25cea768c-5cf/20230125-weather-climate-catastrophe-insight.pdf Updated to include loss and damage for Pakistan floods source: The Government of Pakistan, Asian Development Bank, European Union, United Nations Development Programme, World Bank (2022, October). Pakistan Floods 2022 Post-Disaster Needs Assessment. Available: https://thedocs.worldbank.org/en/doc/4a0114eb7d1cecbbbf2f65c5ce0789db-0310012022/original/Pakistan-Floods-2022-PDNA-Main-Report.pdf

(b) See table 4. Updated to 2023 USD from Markandya A and González-Eguino M. (2019). Chapter 14. Integrated Assessment for Identifying Climate Finance Needs for Loss and Damage: A Critical Review in R. Mechler et al. (eds.), Loss and Damage from Climate Change, Climate Risk Management, Policy and Governance. Available: https://doi.org/10.1007/978-3-319-72026-5_14

(c) See table 5. Loss and Damage Collaboration (Accessed 2023 March 9). Tracking doc for L&D pledges. Available: https://docs.google.com/document/d/1ZRGmwOkS6DaHhMrFcFnPX-ljkv1UsJB-9s3K1Jjal1Y/edit

(d) United Nations Environment Programme (2022). Adaptation Gap Report 2022: Too Little, Too Slow – Climate adaptation failure puts world at risk. Available: https://www.unep.org/adaptation-gap-report-2022

We therefore recommend that discussions of loss and damage finance should use US$400 billion per year as a floor, and acknowledge that actual financing needs will likely have to be revised upward over time[91].

Negotiations are underway to determine the new collective quantified goal (NCQG) on climate finance to be agreed by 2024, and to supersede the current US$100 billion per year climate finance commitment set in 2009. The US$100 billion goal was unrelated to needs and based solely on political feasibility. Not only has it not been met, but it was wholly inadequate to begin with. It is clear that the determination of the financing scale for loss and damage finance – as for the wider NCQG – must be based on country ownership, driven by citizen and residents needs and views, and countries' comprehensive needs assessments, which must be developed through participatory and democratic engagement processes that take into account the needs and priorities of all citizens, are pro-poor, inclusive, and based on the best available science. Therefore it cannot be static but will have to dynamically evolve. In this context, it will be important to anchor financing to address loss and damage as the third financing pillar in the NCQG, as a separate sub-goal.

> **“It is clear that the determination of the financing scale for loss and damage finance – as for the wider NCQG – must be based on country ownership, driven by citizen and residents needs and views, and countries' comprehensive needs assessments.”**

2.WHERE SHOULD LOSS AND DAMAGE MONEY COME

PRINCIPLES

A

The process and outcome of operationalising the new funding arrangements including the LDF should be consistent with, based upon and aligned with the provisions of the Convention and the Paris Agreement.[92] Relevant provisions are excerpted in the boxes over the page.

Box 2: UNFCCC, Article 3, PRINCIPLES

In their actions to achieve the objective of the Convention and to implement its provisions, the Parties shall be guided, inter alia, by the following:

1. The Parties should protect the climate system for the benefit of present and future generations of humankind, on the basis of equity and in accordance with their common but differentiated responsibilities and respective capabilities. Accordingly, the developed country Parties should take the lead in combating climate change and the adverse effects thereof.

2. The specific needs and special circumstances of developing country Parties, especially those that are particularly vulnerable to the adverse effects of climate change[93], and of those Parties, especially developing country Parties, that would have to bear a disproportionate or abnormal burden under the Convention, should be given full consideration.

3. The Parties should take precautionary measures to anticipate, prevent or minimize the causes of climate change and mitigate its adverse effects. Where there are threats of serious or irreversible damage, lack of full scientific certainty should not be used as a reason for postponing such measures, taking into account that policies and measures to deal with climate change should be cost-effective so as to ensure global benefits at the lowest possible cost. To achieve this, such policies and measures should take into account different socio-economic contexts, be comprehensive, cover all relevant sources, sinks and reservoirs of greenhouse gases and adaptation, and comprise all economic sectors. Efforts to address climate change may be carried out cooperatively by interested Parties.

4. The Parties have a right to, and should, promote sustainable development. Policies and measures to protect the climate system against human-induced change should be appropriate for the specific conditions of each Party and should be integrated with national development programmes, taking into account that economic development is essential for adopting measures to address climate change.

5. The Parties should cooperate to promote a supportive and open international economic system that would lead to sustainable economic growth and development in all Parties, particularly developing country Parties, thus enabling them better to address the problems of climate change. Measures taken to combat climate change, including unilateral ones, should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade.

Box 3: Paris Agreement

Preambular paragraph 11

Acknowledging that climate change is a common concern of humankind, Parties should, when taking action to address climate change, respect, promote and consider their respective obligations on human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity.

Article 2.2

This Agreement will be implemented to reflect equity and the principle of common but differentiated responsibilities and respective capabilities, in the light of different national circumstances.

Article 9

1. Developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the Convention.

2. Other Parties are encouraged to provide or continue to provide such support voluntarily.

3. As part of a global effort, developed country Parties should continue to take the lead in mobilizing climate finance from a wide variety of sources, instruments and channels, noting the significant role of public funds, through a variety of actions, including supporting country-driven strategies, and taking into account the needs and priorities of developing country Parties. Such mobilization of climate finance should represent a progression beyond previous efforts.

4. The provision of scaled-up financial resources should aim to achieve a balance between adaptation and mitigation, taking into account country-driven strategies, and the priorities and needs of developing country Parties, especially those that are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints, such as the least developed countries and small island developing States, considering the need for public and grant-based resources for adaptation.

…

9. The institutions serving this Agreement, including the operating entities of the Financial Mechanism of the Convention, shall aim to ensure efficient access to financial resources through simplified approval procedures and enhanced readiness support for developing country Parties, in particular for the least developed countries and small island developing States, in the context of their national climate strategies and plans.

Key principles[94] that should guide the provision of loss and damage finance include:

Historical responsibility and polluter pays: The UNFCCC principle of common but differentiated responsibilities and respective capabilities (CBDR-RC) recognises that nations have contributed and continue to contribute unevenly to climate change through historic and current emissions. On the basis of international cooperation and solidarity and guided by the principle of CBDR-RC reflecting historic responsibility, developed countries as historic polluters are obligated under the Convention and the Paris Agreement to provide climate finance, which must include the provision of finance to address loss and damage. As historic polluters, developed countries must make substantive public finance contributions to the LDF based on fair share assessments. Likewise, the polluter pays principle holds polluting industries, such as the fossil fuel industry, to account for the climate damages they have caused; they should be compelled to contribute to the LDF via an international tax or levy.

“As historic polluters, developed countries must make substantive public finance contributions to the LDF based on fair share assessments.”

Respective capability: Contributions should relate to a measure of national wealth broadly defined, as well as the status and trend of national economic and social development (the right to sustainable development referred to in Art. 3.4 of the Convention). A country’s obligation to pay for climate action – and whether to transfer funds internationally or implement them domestically – should be correlated with a sustainable and universally accepted living standard for each of its citizens. Noting that financial and carbon inequality within countries is now higher than inequality between countries[95], care should be taken to ensure it is the

“Likewise, the polluter pays principle holds polluting industries, such as the fossil fuel industry, to account for the climate damages they have caused; they should be compelled to contribute to the LDF via an international tax or levy.”

richest and highest emitting households who pay into a loss and damage fund, for example through redistributive taxes and levies, instead of being transferred to low-income households.

New, additional, predictable, precautionary and adequate: Adequate finance means "needs-based financing that addresses financing gaps and responds to the needs of developing countries" and is commensurate with the challenge it seeks to address.[96] This means access to finance at scale for vulnerable developing countries and communities and in a form that does not aggravate existing (debt) burdens. It is essential that this funding does not take away from or diminish finance provided by developed countries for adaptation and mitigation, and that it is provided on top of commitments for Official Development Assistance (ODA), ensuring traceability and trackability. Action across the spectrum is urgently needed. This is also important because some climate vulnerable countries are not eligible for ODA or other forms of concessional multilateral finance[97]. A precautionary approach anticipates various levels of loss and damage at or above the 1.5C and 2C thresholds and acknowledges the respective financing needed. It is crucial that recipient countries have planning security to implement sustainable approaches and measures via long-term financing, hence funds must come from reliable sources, funding amount must be known and stable and provided regularly and predictably over multi-year cycles.

The need for financing to address loss and damage is great, as reflected in the section above. Given continued need for mitigation with a rapidly closing time-window to prevent catastrophic climate change, and the urgent importance of scaling up adaptation support, simply repurposing ODA or other climate finance as loss and damage support will not address existing needs, and would also increase the need for future loss and damage and contravene the spirit of the Paris Agreement, where loss and damage is distinct from adaptation and mitigation, and hence funds must be new and additional.

> **"Care should be taken to ensure it is the richest and highest emitting households who pay into a loss and damage fund, for example through redistributive taxes and levies, instead of being transferred to low-income households."**

> **"It is essential that this funding does not take away from or diminish finance provided by developed countries for adaptation and mitigation, and that it is provided on top of commitments for ODA."**

> **"Simply repurposing ODA or other climate finance as loss and damage support will not address existing needs, and contravene the spirit of the Paris Agreement, where loss and damage is distinct from adaptation and mitigation, hence funds must be new and additional."**

Box 4: Reparations, compensation and liability

One of the major points of contention in debates over loss and damage is whether finance provided by developed countries would be on the basis of an obligation to provide compensation and liability for causing harm to developing countries and vulnerable communities within them, or on the basis of a voluntary contribution[98]. There is strong divergence between developed and developing countries on this topic, which is broadly reflected in paragraph 51 of the decision adopting the Paris Agreement, 'that Article 8 of the Agreement does not involve or provide a basis for any liability or compensation'.[99]

There are varied interpretations as to the implications of paragraph 51. These debates have continued in the context of resolving the question of whether the WIM is, since the adoption of the Paris Agreement, solely governed by the CMA (the governing body of the Paris Agreement) or whether there is a shared governance arrangement between the CMA and the COP (the governing body of the Convention). To date, Parties have been unable to resolve this issue with developed countries led by the United States arguing that there is a sole governance arrangement under the CMA, and the G77 and China maintaining the position that there is a shared governance arrangement.

During the negotiations before the commencement of COP 27 on adding loss and damage finance as an agenda item when Parties reached agreement on its inclusion, the COP 27 President read out the following statement, "it is understood that the outcomes of this agenda item are based on co-operation and facilitation and do not involve liability or compensation". This language did not carry into the final COP 27 decision, however the footnote to the title of the decision leaves this issue open to future consideration, and reads 'This item and the outcomes thereof are without prejudice to the consideration of similar issues in the future.'[100]

What we do know is that developed countries have strongly resisted anything that suggests liability.[101] While it may be a political decision of developing countries to not press the discussion of liability and compensation in the context of the UNFCCC loss and damage negotiations, this does not diminish the ongoing applicability of core UNFCCC and Paris Agreement principles of historical responsibility and CBDR-RC that must guide the provision of loss and damage finance.

It is also important to recall that when the Paris Agreement was adopted, interpretative declarations were made by several countries emphasising that state responsibility for the adverse effects of climate change was not renounced in any way by the adoption of the Paris Agreement. Countries highlighted that "no provision can derogate from principles of general international law or any claims or rights concerning compensation due to impacts of climate change"[102].

If the UNFCCC continues to fail to provide adequate finance for loss and damage there remain forums outside the UNFCCC where prosecution of claims for liability and compensation can and are being made. Principles contained within the wide body of international legal instruments and common law require redress for harm caused. These principles are being tested in multiple cases, including that such as Lliuya v RWE,[103] Pabai Pabai & Guy Paul Kabai v. Commonwealth of Australia,[104] and many others. We can also witness the growth of litigation and advisory proceedings by courts and tribunals on climate obligations to prevent harm, the Inter-American Court of Human Rights, European Court of Human Rights, International Tribunal on the Law of the Sea etc. One that we highlight here is the advisory opinion being sought from the International Court of Justice (ICJ) by Vanuatu and co-sponsoring countries, adopted by consensus in the UN General Assembly. This advisory opinion is to clarify, under international law, 1) the obligations of States to ensure the protection of the climate system and other parts of the environment for present and future generations; 2) the legal consequences under these obligations for States which, by their acts and omissions, have caused significant harm to the climate system and other parts of the environment, with respect to: a) small island developing States and other States which are injured or specially affected by or are particularly vulnerable to the adverse effects of climate change; and b) peoples and individuals of the present and future generations affected by the adverse effects of climate change.[105] This advisory opinion may help clarify the obligations of states to provide loss and damage finance.

SOURCES

B

At the moment the main financiers of loss and damage from climate change are the world's poor, disproportionately women, who can least afford it. Altogether rural families in Bangladesh are estimated to spend almost US$2 billion a year to repair climate damage or try to prevent it, 12 times the climate finance Bangladesh receives from international donors.[106] Developing countries on the frontline of climate impacts are also bearing the brunt of loss and damage. Vanuatu's 2023 budget allocates 20% of the discretionary budget to addressing climate impacts.[107] Of the US$10 billion pledged to Pakistan in the wake of devastating floods, US$8.7 billion is loans that will need to be repaid.[108]

> **"At the moment the main financiers of loss and damage from climate change are the world's poor, disproportionately women, who can least afford it."**

The LDF must turn this highly unfair situation around, and harness sources of funding that are based on the polluter pays principle, from those that can afford it, and at scale. Existing international commitments for loss and damage fall far short of needs and have primarily been drawn from existing ODA commitments and reallocated climate finance, see Table 5 below.

In the following, we outline the sources that should be considered to fill the LDF: country contributions and alternative - but equitable - sources of finance.

> **"The LDF must turn this highly unfair situation around, and harness sources of funding that are based on the polluter pays principle, from those that can afford it, and at scale."**

DEVELOPED COUNTRY CONTRIBUTIONS

All developed countries should contribute a fair share of finance to loss and damage - in the form of grant funding additional to existing ODA and climate finance commitments. Developed countries who have consistently failed to undertake mitigation actions whilst benefiting from fossil fuel-driven production and economic growth and ignoring the destructive global impacts of those emissions[109], have a moral and legal responsibility to ensure sufficient loss and damage finance is provided. Moreover, the UNFCCC convention text states that climate finance providers should provide "new and additional financial resources" to tackle climate change[110].

> **"All developed countries should contribute a fair share of finance to loss and damage - in the form of grant funding additional to existing ODA and climate finance commitments."**

Whilst a comprehensive analysis of individual countries fair share contributions is beyond the scope of this paper, two examples include:

- The United States' fair share of loss and damage finance was calculated by US NGOs as US$20 billion in 2022, rising to about US$117 billion annually by 2030[111];

- France's contribution to loss and damage finance was calculated as €2 billion per year in the period 2021-25, rising to €5.32 billion per year in the period 2025-30.[112]

The developed countries that have already made some commitment to loss and damage finance are captured below. The vast majority of these commitments are redirected from ODA and/or existing climate finance budgets, they therefore fail the additionality test and are essentially robbing from development, mitigation, adaptation or humanitarian funding in order to fund loss and damage - a less than zero sum gain. And, as can be seen, at roughly half a billion dollars over various timeframes (from one to five years) they are several orders of magnitude too small. Moreover, some of the finance outlined below is not for addressing loss and damage, nor for ex-ante loss and damage activities; and while transparency of these funds is low, very little appears to have been disbursed at the time of this paper's publication.

> **"The vast majority of these commitments are redirected from ODA and/or existing climate finance budgets, they therefore fail the additionality test and are essentially robbing from development, mitigation, adaptation or humanitarian funding."**

Table 5: Loss and damage pledges 2021-22

Who	How much	What	Additional ?
Denmark	€13m	65%-bilateral support through NGOs 35% -Global shield	Yes, all on top of 0,7% ODA target
Belgium	€2.5m	Focus on capacity building for officials on loss and damage, DRR and data collections	No
Germany	€170m	Global Shield and other insurance programs	No
Austria	€50m from 2023 till 2026	Money will go into the SNLD and Climate Risk and Early Warning Systems (among possible other instruments)	No
New Zealand	US$12m		No
Canada	$24m	$7m Global Shield, $1.25m for the SNLD, $5m Climate Finance Access Network, $5m Initiative for Climate Action Transparency, $6m CTCN	No
Ireland	€10m	Global Shield	No
Spain	€2m	SNLD	No information
France	€20m	Global Shield	Yes
US	$24m	Global Shield & other insurance initiatives	
UK	£20.7	Disaster Risk Financing - insurance schemes	
European Commission, EU 'Team Europe': Netherlands, France, Germany, Denmark	€60m over X years	Climate & disaster risk insurance, Global Shield, TBC some social protection schemes, longer term reconstruction, rehabilitation in Africa	No Additional contributions from Member States (inc repetition from above).
Luxembourg	€10m over 5 years	SNLD (€5 million); initiative on climate risk early warning systems CREWS (€1.5 million); Global Shield will also be considered	Partially, Lux meets 1% GNI as ODA so its climate finance can be considered partially new and additional
Non UNFCCC State level governments:			
Scotland	£7m	Community-led projects to address loss and damage, research, NELD, gender and slow-onset projects	No, will likely be adjusted from UK ODA budget
Wallonia	€3m	Contribution to the CVF/V20 Joint-Multi Donor Fund	Yes

Sources: Loss and Damage Collaboration (Accessed 2023 March 9). Tracking doc for L&D pledges. Available at: https://docs.google.com/document/d/1ZRGmwOkS6DaHhMrFcFnPX-ljkv1UsJB-9s3K1Jjal1Y/edit

The United Nations Development Programme (UNDP) estimates global fossil fuel subsidies are US$423 billion per year.[113] Developed countries could contribute to the LDF simply by redirecting subsidies to fossil fuel producers. Finance spent on fossil fuel producer subsidies could be shifted to loss and damage. A plan should be put in place ahead of removing fossil fuel subsidies directed at low income consumers, to redress the regressive impacts on particularly poor communities who depend on such subsidies, for example for cooking.[114]

“Developed countries could contribute to the LDF simply by redirecting subsidies to fossil fuel producers.”

It is therefore essential that in addition to agreeing a loss and damage sub-goal in the NCQG, a sub-goal for the minimum amount of developed country contributions to achieve the NCQG must be established. Alternatively, developed countries could be responsible for “bottom lining” the loss and damage goal by providing any shortfall between alternative sources and the overall goal. Innovative finance that meets the criteria of being fair and equitable may well reduce the amount of country contributions required, but should not lead to countries foregoing meeting their overall climate finance commitments.

“Innovative finance that meets the criteria of being fair and equitable may well reduce the amount of country contributions required, but should not lead to countries foregoing meeting their overall climate finance commitments.”

ALTERNATIVE, NEW, FAIR AND REDISTRIBUTIVE, POLLUTER-PAYS, PUBLIC-BASED

Alternative sources of finance have sometimes been referred to as “innovative” and have often been used as a red herring. To be clear, new sources of finance must meet the principles identified above. That is they should be raised fairly and promote redistribution of wealth by addressing inequities, not promote a private finance first agenda, and those most responsible for causing the climate crisis must be first in line to apply the taxes and levies outlined below, be it as countries within their borders, as stakeholders within international institutions/regimes or as shareholders in corporations. Alternative sources of finance must be predictable, which largely means they must not be voluntary. We are therefore not considering philanthropic contributions or voluntary contributions from high net worth individuals as innovative sources, but rather levies/taxation/debt relief, Special Drawing Rights (SDRs) or other automated sources of financing that are progressive, i.e. redistribute from those that can afford it to the poorest, and public funding, i.e. put in place by governments. In particular, funding mobilised through financial instruments which seek to profit from the climate crisis, and either create greater debt burdens for vulnerable countries such as private finance flows, or shift responsibility for finance onto vulnerable countries, such as insurance, should not be considered as contributing to the overall loss and damage finance goal.

“New sources of finance must be raised fairly and promote redistribution of wealth by addressing inequities, not promote a private finance first agenda, and must be predictable.”

Many of these sources of finance can have advantages above and beyond a reliable source of finance to address loss and damage. They can help tackle the climate crisis, by tackling the source of climate pollution. The fossil fuel industry has made US$2.8bn a day in profit every day for the last 50 years, or one trillion dollars a year on average since 1970, all whilst fuelling the climate crisis.[115] All whilst receiving government subsidies rather than paying their fair share of tax. There are other industries and activities exacerbating the climate crisis, which go largely untaxed, such as international aviation and maritime shipping.

"Many of these sources of finance can have advantages above and beyond a reliable source of finance to address loss and damage. They can help tackle the climate crisis, by tackling the source of climate pollution."

Box 5: Government of Malawi Levy for Loss and Damage: Freddy Levy

Cyclone Freddy hit southern Malawi in early March 2023 and caused devastation across urban and rural areas. Over 500 people lost their lives, 1300 were injured, many others are still missing and over half a million people have been displaced. Vital public infrastructure has been damaged including roads, bridges, schools and health facilities, and thousands of homes have been destroyed.

Humanitarian aid has been forthcoming but not near enough to meet the full scale of the losses and damages experienced, and it is expected that the vast majority of the costs of long-term recovery will have to be met by the Government of Malawi.

To support recovery efforts, **the Government of Malawi introduced the Cyclone Freddy Levy in March 2023.** This levy is hoped to raise about 30bn Malawi Kwacha via an established percentage of resources earned from fuel[116]. However, the Government is yet to announce as to what percentage of the fuel price will contribute to the levy, what mechanism will be used to collect this amount, and how the money will be channelled to the intended use. The levy is similar to the Carbon Levy that the Government introduced in 2019 which was collected from the fuel pump prices. The rationale for the Carbon Levy was to raise funds to support activities related to environmental conservation and management.

These actions have been widely welcomed by civil society organisations in Malawi as a demonstration of leadership and act of solidarity that helps spread the costs of relief across the population.

However, it is also deeply unjust that they have had to do this. **The average Malawian emits 50 times less carbon than the average person in the UK**[117]. Malawians have amongst the lowest carbon footprints in the world, and that is even starker when you look at the country's historical contribution, which is minuscule by global standards. Ultimately, **Malawians are paying for this crisis that they did not cause.**

Global levies on polluting activities and within developed countries are required urgently to address this injustice and fund action on loss and damage.

Source: Ben Wilson, SCIAF and Julius Ng'oma, CISONECC

Therefore we recommend consideration of the following alternative sources of finance that are new, fair and redistributive, polluter-pays, and public-based for loss and damage:

Climate Damages Tax: A charge on the extraction of coal, oil and gas based on the climate pollution that will likely be emitted when used. To be equitable, it is proposed that 50% of revenue in high-income countries is paid into the LDF, with 50% of revenue being used domestically for just transition purposes. Low-income countries would keep 100% of the revenues to spend on just transition, with a sliding scale between. At US$5 per tonne of CO2 equivalent, the climate damages tax (CDT) could raise around US$210bn in its first year, approximately US$75bn of which would be allocated to loss and damage. It is proposed that the rate increase each year, in part to incentivise the phase-out of fossil fuels. It is calculated the CDT could raise US$300bn per year for loss and damage across the decades 2030 and 2040 until fossil fuels are phased out.[118]

“At US$5 per tonne of CO2 equivalent, the climate damages tax (CDT) could raise around US$210bn in its first year, approximately US$75bn of which would be allocated to loss and damage.”

Windfall Tax: Windfall taxes are often considered short-term, which would rule it out as a predictable source of finance, but as the examples below show they need not be. A tax on the high profits of the fossil fuel industry has been proposed by the UN Secretary General Antonio Guterres.[119] Barbados Prime Minister Mia Mottley has proposed a 10% tax[120]. A 10% tax on average annual oil, gas and coal profits of US$1 trillion dollars would be US$100 billion. A portion of this would be kept and used domestically for the climate transition, and some transferred to the LDF.

“A 10% tax on average annual oil, gas and coal profits of US$1 trillion dollars would be US$100 billion. A portion of this would be kept and used domestically for the climate transition, and some transferred to the LDF.”

A short term windfall tax has either already been implemented, or is in the process of being implemented, in a number of countries across Europe including the UK, Germany, Austria, Bulgaria, the Czech Republic, Finland, Greece, Italy, Romania, Belgium and the EU.[121]

- The UK introduced a 25% Energy Profits Levy in May 2022, increasing it to 35% from January 2023, with an end date of March 2028. The Energy Profits Levy applies to profits made from extracting UK oil and gas, but not from other activities - such as refining oil and selling petrol and diesel. It has been criticised for allowing companies to claim tax savings for investing in new fossil fuel extraction. The Levy is expected to raise £40bn (US$50bn) over six years, or £6.7bn (US$8.2bn) per year.[122]

- Germany has implemented a levy to skim 90% of electricity companies windfall profits until the end of April 2024 in order to finance a cap on energy prices, and plans to introduce a special “EU energy crisis contribution” to skim off 33% of windfall profits made by oil, coal and gas companies.[123]

- The EU has agreed to impose windfall taxes in the form of a levy on fossil fuel firms’ surplus profits and a levy on excess revenues made from surging electricity costs. It is estimated the levies will raise €140bn.[124] Exxon Mobil is suing the EU to try and stop the tax.[125]

“The EU has agreed to impose windfall taxes in the form of a levy on fossil fuel firms’ surplus profits and a levy on excess revenues made from surging electricity costs. It is estimated the levies will raise €140bn.”

Aviation / Frequent Flyer Levy: A tax on international airfares proposed by Least Developed Countries (LDCs) in 2008 was estimated to have the potential to raise US$8-10 billion a year.[126] If implemented domestically within countries, and dedicated to loss and damage, it could be structured as a frequent flyer levy, which would progressively tax flights, meaning price increases with each flight taken in a year. In the UK, one estimate puts progressive frequent flyer levy revenues at US$5bn per year.[127]

“A tax on international airfares proposed by Least Developed Countries (LDCs) in 2008 was estimated to have the potential to raise US$8-10 billion a year.”

International Shipping Levy: Shipping emissions are a massive contributor to global emissions, yet are barely regulated. A 'bunkers' tax could be agreed at the July 2023 IMO meeting. The IMF has calculated that a carbon tax of US$75 per tonne of CO2 in 2030 (US$240 per tonne of bunker fuel), rising to US$150 per tonne in 2040, reduces maritime CO2 emissions below business-as-usual (BAU) levels by nearly 15% in 2030 and 25% in 2040, raises revenues of about US$75 billion in 2030 and US$150 billion in 2040, while increasing shipping costs by 0.075% of global GDP in 2030[128].

The Marshall Islands, Solomon Islands and Tonga have proposed a carbon price of US$100 a tonne on bunker fuels that is due to be discussed at the mid-year IMO meeting.[129] One of the biggest shipping firms, Maersk, has proposed a tax of at least US$450 per tonne of fuel, which works out to US$150 per tonne of carbon.[130] Using simple arithmetic to adjust the IMF calculations based on these proposals, we calculate a global bunker tax could raise approximately US$30-140 billion per year.

“One of the biggest shipping firms, Maersk, has proposed a tax of at least US$450 per tonne of fuel, which works out to US$150 per tonne of carbon. We calculate a global bunker tax could raise approximately US$30-140 billion per year.”

Global Wealth Tax: a wealth tax of 2% on the world's millionaires, 3% on those with wealth above US$50m, and 5% on the world's billionaires would raise US$1.7 trillion dollars annually. A portion of this could be allocated to loss and damage.[131]

“A wealth tax of 2% on the world's millionaires, 3% on those with wealth above US$50m, and 5% on the world's billionaires would raise US$1.7 trillion dollars annually.”

Financial Transaction Tax (FTT): A financial transaction tax (FTT) is a levy on financial instruments or contracts like bonds, stocks, options, and derivatives. Or it can apply as a currency transaction tax (CTT) on foreign currency exchange. A FTT is progressive in that it raises funds from the wealthiest who are undertaking short term, high volume transactions. The US has a 0.00051% financial transaction tax that funds the Federal Securities and Exchange Commission and India has a FTT to generate funds for domestic use. 11 EU Member States are negotiating to establish a regional FTT at 0.01% under EU enhanced cooperation, and in 2024 the EU Commission is expected to make a proposal for a FTT to help resource the EU budget.[132] In 2012 the UN High-Level Advisory Group on Climate Finance estimated that FTTs could raise US$7-16 billion per year.[133] The EU Commission estimated that a EU-wide FTT could have raised US$80 billion per year.[134]

“In 2012 the UN High-Level Advisory Group on Climate Finance estimated that FTTs could raise US$7-16 billion per year.”

These innovative sources are laid out in table 6 on the next page.

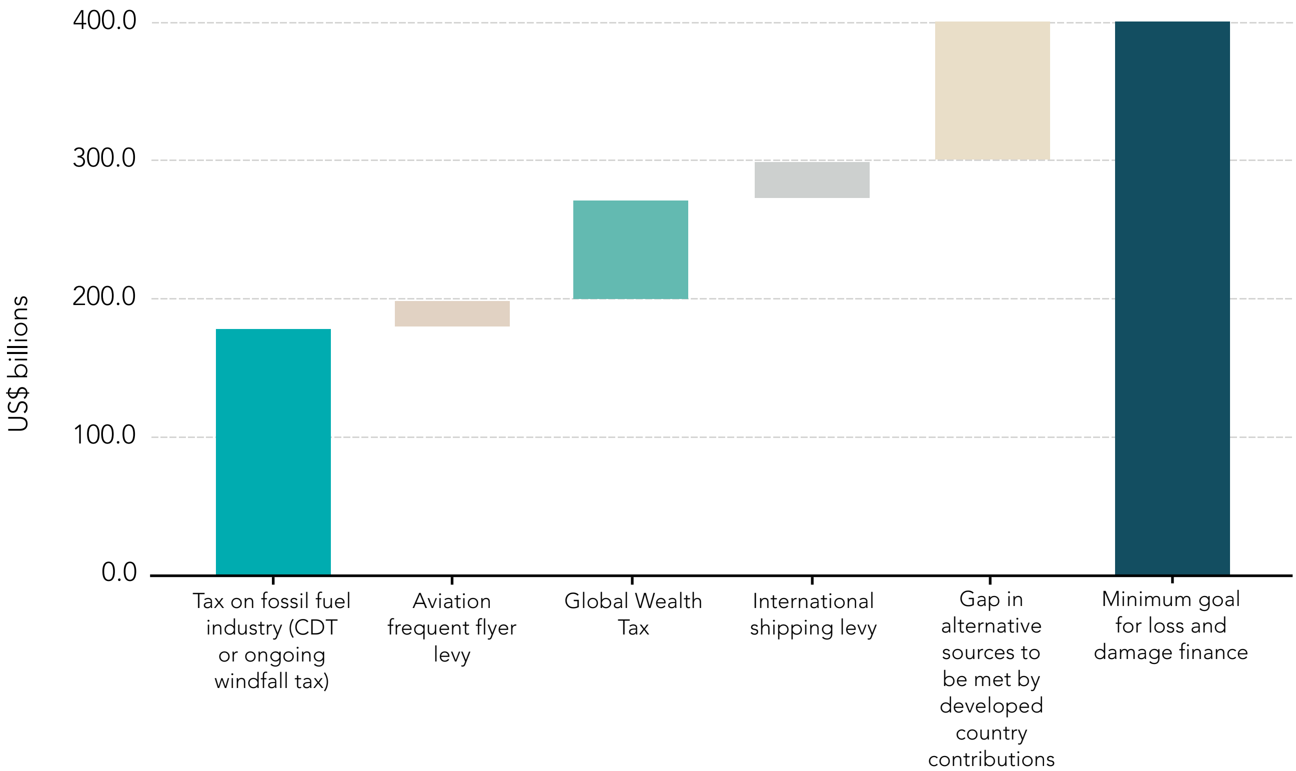
Table 6: Alternative sources of finance that are new, fair and redistributive, polluter-pays, public-based

Innovative source	Could be directed by LDF, or via developed country contributions	Scale of funds mobilised for loss and damage (US$)	Additional	Predictable	Polluter pays	From those that can afford it	Appropriate/ no additional burden or injustice
Climate Damages Tax	LDF	US$75 to 300 billion a year.	Yes	Yes	Yes	Yes, an equitable sliding scale means all countries keep at least 50% for just transition which should be used to help low income with transition.	Yes, an equitable sliding scale based on the level of development of the country is proposed. Low income & lower middle income countries keep 100% of tax, upper middle income countries keep 70% and high income countries keep 50%, and transmit 50% to the LDF.
Windfall tax on fossil fuel industry	LDF	US$100 billion a year if a 10% tax applied to all oil, gas and coal profits, a portion of which could be allocated to loss and damage.	Yes	Not if implemented as a one-off or short term tax, but if designed to be longer term, yes.	Yes	Yes, the fossil fuel industry can afford it; as it is a tax on profits.	Safeguards can be put in place to ban pass-through and monitor whether it is being passed through to consumers.
International shipping levy	LDF	US$30 to140 billion a year.	Yes	Yes	Yes		It should be fairly implemented to ensure low income countries are not unfairly impacted.
Aviation Frequent Flyer Levy	LDF	Approximately US$10 billion a year.	Yes	Yes	Yes	Yes, as the global elite make up frequent flyers. Could be designed to ensure frequent flyers pay a higher amount.	Yes, as the global elite make up frequent flyers. Could be designed to ensure frequent flyers pay a higher amount.
Global Wealth Tax	LDF	Could raise US$1.7 trillion dollars annually in total, a portion of which could be allocated to loss and damage.	Yes	Yes	Yes, the global elite are responsible for lion's share of emissions.	Yes	Yes
Financial Transaction Tax (FTT)	LDF	US$7 to 80 billion a year.	Yes	Yes	No	Yes	Yes
Redirecting fossil fuel subsidies	Developed country contributions.	A portion of US$423 billion per year.	Yes, as long as developed countries increase climate finance or ODA in line with redirected subsidies.	Will depend upon developed country government decisions.	Indirectly, yes.	If well planned and implemented.	If well planned and implemented.

The figure below gives one indication of how these alternative sources of finance that are new, fair, polluter-pays, and public-based might contribute to meeting a minimum loss and damage goal with developed country contributions required to make up the shortfall from alternative sources of finance - in this instance US$100 billion developed country contributions per year to meet a US$400 billion per year total. If fewer funds are raised from alternative sources, developed countries would have greater contributions to make to ensure the overall goal is met.

“If fewer funds are raised from alternative sources, developed countries would have greater contributions to make to ensure the overall goal is met.”

Figure 5: Potential sources of finance for the Loss and Damage Fund



Source: The authors.

3. WHO RECEIVES LOSS AND DAMAGE MONEY AND WHEN?

The current lack of finance to address loss and damage means that the need for finance is escalating as loss and damage impacts strain local economies, provision of high-quality public services, and livelihoods. The numbers of people in need of finance are vast and growing, and the loss and damage impacts they need to address are varied. The big questions are on who should be eligible and how to operationalise a decision system on eligibility. While these are questions that have been contemplated for a long time, there is no universally accepted way of defining and measuring eligibility or vulnerability. Moreover, any criteria developed to answer such questions could see prospective recipients competing to be the most deserving, vulnerable and/or eligible.[135] These questions are too vast for this paper to take on. Instead, this section outlines some principles for ensuring that finance to address loss and damage reaches those in need in a manner that is i) equitable, ii) and economical, climate, and gender-just, iii) and is human rights-aligned.

“The current lack of finance to address loss and damage means that the need for finance is escalating as loss and damage impacts strain local economies, provision of high-quality public services, and livelihoods.”

PRINCIPLES FOR RECIPIENTS

A

Equitable, Adequate, and Directly Accessible for the Most Affected: Loss and damage financing should be directly accessible for all impacted countries and communities in developing countries, with special provisions for those considered to be most vulnerable/affected, poorest and most marginalised population groups such as women or Indigenous Peoples. Impacted people should receive direct access to such resources in a gender- responsive way as well, for example through national/sub-national small grants approaches, the set up of community-managed funds, or direct subsidies.[136]

“Loss and damage financing should be directly accessible for all impacted countries and communities in developing countries.”

Human Rights-based Approach: There is no question that it is the poorest and most marginalised people who are experiencing loss and damage on the ground, irrespective of whether an extreme event or long-term impact can be attributed fully to climate change. Thus a rights-based approach to loss and damage finance provision is a moral imperative, to ensure that the basic needs and rights of recipients, including the rights of women and marginalised gender groups, Indigenous Peoples, youth, the elderly

“A rights-based approach to loss and damage finance provision is a moral imperative.”

and persons with disabilities, are protected and promoted and that they are empowered to address loss and damage in a manner suited to their specific circumstances. It enables them to hold financial contributors and implementing agencies accountable through transparency mechanisms, access to information and meaningful participation in decision making and funding implementation processes. Additionally, it is crucial that recipients have access to effective grievance mechanisms and remedies if the LDF's activities violate their human rights, livelihoods or the environmental integrity of their communities. The impacts of loss and damage are intergenerational, as such, the finance to address loss and damage must also account for the needs of future generations that are impacted by loss and damage created before they were born[137]. Particularly as "it takes 100 years to see 60%- 90% of the warming response from GHG emissions"[138], future generations are also greatly impacted by past and current loss and damage[139]. In order to actively promote the enjoyment of basic human rights (including the rights to food, adequate housing, right to development[140] and a decent standard of living), a 'do no harm' approach, as well as a proactive component to design and implement loss and damage interventions in a manner that upholds rights and precludes discrimination in a 'do good' approach is necessary.[141]

> **"It is crucial that recipients have access to effective grievance mechanisms and remedies if the LDF's activities violate their human rights, livelihoods or the environmental integrity of their communities."**

Gender Equality: The IPCC is clear that women, children, Indigenous Peoples and racialised communities are disproportionately impacted by climate change[142]. However, there are numerous barriers and challenges that women and women's groups often face in accessing climate financing, in part due to strict eligibility requirements, such as asset ownership, business skills, access to information and membership in cooperatives.[143] As an example, while women make up 43% of the agricultural labour force in developing countries[144], only 2% of global climate finance reaches small farmers, Indigenous Peoples and local communities in developing countries[145]. Meaning that one of the largest sectors that women are employed in and that needs adaptation finance, is also a sector that receives some of the lowest levels of climate finance. Thus, ensuring that women and non-gendered communities have access to finance, and particularly to finance to address loss and damage is crucial, as is ensuring that such financial flows can be adequately tracked to understand their effectiveness. Intersectional gender analyses should be conducted to understand the level of access that women, Indigenous Women and racialised women have to climate finance flows and the power dynamics within a community, in order to design a system for the LDF that enshrines equitable access[146].

> **"Ensuring that women and non-gendered communities have access to finance, and particularly to finance to address loss and damage is crucial, as is ensuring that such financial flows can be adequately tracked to understand their effectiveness."**

Country/Local Ownership and Subsidiarity: Loss and damage finance provision should be driven by recipient country and community needs, not contributing country preferences. True country ownership guarantees the respect for sub-national and local priorities within recipient countries and puts the communities and population groups most vulnerable to and affected by loss and damage, such as women and non-gender groups, Indigenous Peoples, youth, the elderly or persons with disabilities, in the driver seat. Financing decisions should be made at the most local level possible, including by giving communities and affected people the possibility to participate in decision-making on interventions that meet their needs and priorities to ensure their successful implementation and sustainability.[147] An example of how this could be done are the County Climate Change Funds (CCCFs) in Kenya, where decision-making over how climate finance is allocated is devolved to sub-national and local governments and involves communities in decision-making; including via local-level committees that take decisions on local investment needs. However, "early insights suggest that marginalised groups such as women often played a more peripheral role in such committees";[148] highlighting the need to strengthen the gender-responsiveness and inclusiveness of such devolved financing coordination mechanisms, such as by setting minimum participation/ quota requirements.

"Financing decisions should be made at the most local level possible, including by giving communities and affected people the possibility to participate in decision-making on interventions that meet their needs and priorities to ensure their successful implementation and sustainability."

FORM

B

Appropriateness: The financing instruments used to deliver loss and damage financing should not impose additional burden or injustice on the recipient (country, community or individuals). For example, the role of loans, which increases debt burdens and is incompatible with a climate justice approach, in loss and damage financing must be questioned. Providing loans to countries and communities that have historically contributed the least to climate change, so they can address the loss and damage they are experiencing is morally incorrect. Particularly as loss and damage is already causing indebtedness for countries and the COP27 decision text highlights the cost-effective role that grants can play[149,150]. Loan-based finance, which currently makes up the majority of climate finance[151], and is increasingly delivered on non-concessional terms, has historically increased the debt burdens of recipient countries, threatening to reverse their development gains by reducing their fiscal space, thereby trapping them in a cycle of perpetuating vulnerability to climate impacts.[152] Owing to the restitution context of financing for loss and damage, grants should be the primary instrument for public finance provision.[153] Grant-based finance, and in particular full cost grant finance, would ensure alignment with climate justice.[154] Grants also enable more fiscal space for countries to invest in climate measures, social systems and social safety nets, and strengthens the financial sovereignty of communities; both of which increase people's resilience to climatic shocks. This is due to the governments not needing to service debt on loans, as opposed to redesigning their economies to ensure there is enough revenue to repay the loan. Additionally, ongoing climate shocks and impacts can derail project implementation and sustainability, or affect the future economic status/ rating of a country due to climate impacts. As such, country circumstances must be accounted for and loans should not be prioritised for recipients[155].

"The financing instruments used to deliver loss and damage financing should not impose additional burden or injustice on the recipient (country, community or individuals)."

"Owing to the restitution context of financing for loss and damage, grants should be the primary instrument for public finance provision."

The majority of loss and damage finance provided should be public finance and grant-based, rather than provided as loans or in the form of other financial instruments (such as equities or guarantees).[156] In this context, it is crucially important to anchor the requirement for the provision of full-cost grant financing as the default, such as the Adaptation Fund (AF) currently provides, as an incremental cost approach often requires complex and burdensome calculations and documentation requirements. For example, a clear-cut differentiation between adaptation and loss and damage for activities on the ground could be challenging to document, and such requirements should not be used to delay finance approvals or pay-outs based on cost incrementality.

> **“The majority of loss and damage finance provided should be public finance and grant-based, rather than provided as loans or in the form of other financial instruments.”**

OPERATIONALISATION

C

Local-level ownership and a people-centred and gender-responsive implementation of disbursed funding can partly be safeguarded through a gender-balanced and equitable representation, ensuring that the groups most affected by climate impacts have agency over how the LDF is administered; as well as a decision-making role in its board. Studies have shown that support is typically directed towards goods, services and infrastructure that target and benefit non-poor households more, rather than the poorest and most vulnerable households. As such, a greater reflection on where finance is disbursed is needed. Indeed, in relation to the ongoing process on the NCQG, civil society has requested the UNFCCC to "[a]ggregate data on disbursement to create disbursement rates of climate finance over time, and conduct analyses to identify challenges for disbursement"[157]. The TC should incorporate such recommendations to design an LDF that not only provides finance but actively learns from previous disbursement rounds. These principles are of course complemented with more traditional climate finance principles of transparency and accountability.[158]

> **“The TC should incorporate such recommendations to design an LDF that not only provides finance but actively learns from previous disbursement rounds.”**

Equitable and targeted support can be enabled by:

- Ensuring effective and meaningful participation of affected communities, including those from traditionally marginalised groups, in the design stage of funded interventions, in order to improve targeting and ensure that policies and criteria for accessing funds are inclusive and locally relevant.
- Utilising data, where available, from nationally representative household surveys, geocoded hazard data and social registries to help determine those areas most affected by climate change and the households that are most at need.
- Ensuring that criteria and policies for finance distribution reflect the specific and intersectional vulnerabilities and needs of women, non-gendered communities, Indigenous Peoples, racial and ethnic minorities and persons with disabilities.

- Communicating policies, guidelines and criteria in local languages through channels easily accessible to the stakeholders being targeted.[159]
- Equal access for all countries and communities is crucial to ensuring that no one gets left behind.

In instances where comprehensive recovery and reconstruction efforts are needed in the years after a climate disaster, programmatic approaches should be utilised, so sustained and flexible finance can be provided over several years, rather than through a project-to-project approach that reduces predictability of finance flows needed for longer recovery.[160] An example, praised for its flexible yet large-scale approach, is the World Bank's Community-Driven Development (CDD) initiatives utilising devolved financing[161]. While the World Bank's climate finance record has been criticised by civil society, including for having poor disclosure practices on climate finance[162], the structure of the CDD is a good practice example for an enhanced direct access approach as it gives local communities and decision-makers direct control of their financial resources, which are mostly provided as block grants to villages and municipalities. CDD interventions are not predetermined, and offer flexible approaches to individual sub-project identification and development.[163] Similar enhanced direct access pilots are currently underway within the AF and GCF, with dedicated small grants approaches devolving financing to local groups via the GEF-UNDP Small Grants Programme or the Dedicated Financing Mechanism (DDM) for Indigenous and local communities under the Forest Investment Program (FIP) of the Climate Investment Funds. All of these approaches offer valuable lessons to be reflected on within the context of the LDF.[164]

Climate justice requires finance for loss and damage to be easily accessible for affected countries and communities, including through rapid finance dissemination. Measures to consider include:

- Simplifying procedures for small scale funding below a certain threshold to make it easier and less costly for small actors to apply for funding[165];
- Creating dialogue space to involve beneficiaries and to help them through the accreditation and application processes and to reduce the need to use costly international consultants to develop applications;
- Aggregating civil society organisations (CSOs) or community groups into one entity to get accredited[166];
- Simplifying procedures for accessing finance post-impact, including the use of automated triggers to speed up allocations and disbursements in urgent situations, and to remove the option for such decisions to be politicised via lengthy board deliberations on allocations and disbursements;

"The structure of the World Bank's Community-Driven Development (CDD) initiative is a good practice example for an enhanced direct access approach as it gives local communities and decision-makers direct control of their financial resources, which are mostly provided as block grants to villages and municipalities."

"Climate justice requires finance for loss and damage to be easily accessible for affected countries and communities, including through rapid finance dissemination."

- International financial intermediaries such as MDBs acting only as temporary intermediaries, with a requirement to build the capacity of national and sub-national entities in the interim[167] in order to reduce the influence of international stakeholders over the LDF and it's financial mechanisms; or

- Moving away from accreditation requirements when the costs (financial, distance and time, translation etc) outweigh the benefits.[168]

To ensure that local actors act as agents of change rather than passive recipients and receive benefits commensurate with their needs and priorities, the following considerations must be taken into account[169]:

- In project-based models, local actors should be involved from the project design stage, for instance, community liaison officers can lead project development and delivery.

- Local actors should be guaranteed places in decision-making structures such as steering committees or governing boards. For example, the FIP Dedicated Grants Mechanism, the Global Fund and UN Capital Development Fund programmes, or the GEF/UNDP Small Grants Programme are governed by multi-stakeholder committees at the national level that include local community representatives.

"Local actors should be guaranteed places in decision-making structures such as steering committees or governing boards."

- Local actors should have the capacity, tools and information needed to meaningfully engage. In particular, national focal points leading the oversight of devolved financing mechanisms must have the capacity and support to oversee the principles of subsidiarity, ensuring that local actors have real influence in how climate finance is spent.

- Local actors should be aware of the potential long-term benefits of participating, with benefits provided in the short term, in addition to child care support and food and water subsidies to enable women to participate, whenever possible to incentivise their participation.

- Establish and monitor a baseline and target for getting finance directly to local actors[170]. Specific indicators[171] should be developed and integrated into financial reporting that capture the amount of finance that is delivered through local actors, that involve participatory decision-making with communities, and that reach local level beneficiaries.

"Specific indicators should be developed and integrated into financial reporting that capture the amount of finance that is delivered through local actors, that involve participatory decision-making with communities, and that reach local level beneficiaries."

- Involve recipient communities in designing locally appropriate indicators, including results at the household and community levels. Currently the metrics of success used by providers of finance are skewed in favour of large-scale results that deprioritize outcomes at the local level. When interventions are responding to the needs of the poorest and most vulnerable, these communities should have a say in what success looks like. This could also involve deprioritizing indicator-based monitoring, evaluation and learning (MEL) and instead prioritising participatory approaches that work for households and communities, so that household-level data can also be collected. Recipients could also provide direct feedback to the funder and implementing entities[172] and technical support should be provided to strengthen their ability to provide this feedback e.g. translation costs, webinars to answer questions on the reporting template etc.

- Strengthen grievance mechanisms to give recipient communities real power in voicing concerns and vetoing certain decisions that do not align with their priorities.[173] These mechanisms need to be accessible and independent, and should give communities the power to halt projects based on their concerns. Affected communities also need to be actively informed about these mechanisms and how to access them, including through the use of assisted devices.[174] Financial contributors should address grievances, including by providing compensation, removing accreditation status from aggressors, re-opening project plans to address grievances.

“Financial contributors should address grievances, including by providing compensation, removing accreditation status from aggressors, re-opening project plans to address grievances.”

Other factors to consider when determining how much finance to address loss and damage is needed include reflecting on previous recommendations on climate finance. For instance, this paper has adapted some Eurodad recommendations on climate finance that are relevant to this discussion[175]:

- An additive scale should be used to add and reflect upon the duration of an extreme climatic event, in order to help determine the requisite response. Variability of shocks means that countries can face the same or another extreme climatic event within a very short timeframe.

“An additive scale should be used to add and reflect upon the duration of an extreme climatic event, in order to help determine the requisite response.”

- Cost for expected and probable losses by determining developing countries’ contingent liability (the potential cost incurred of addressing an event) for extreme climatic events. The cost of climate action is variable, not stable, and is dependent on specific country circumstances.

Factors to identify and include in testing for intended funded actions to ensure they are not further stressed/ exacerbated by financial flows include:

- Identify hotspots within communities for climate risks and vulnerabilities.
- Identify the most vulnerable in a society and disaggregate data by gender, ethnicity, generation, wealth, food and water security, accessibility to finance.
- Identify the stressors of climate impacts and risks in a country.
- Identify potential multipliers of the effect (positive or negative effects) of a project.
- Identify what within a country is vulnerable to climate system variability.

General factors to consider:

- Historical and projected climate risks and vulnerabilities of a country.
- Existing finance and climate management infrastructure that exist in a country, region, and/or local community. Existing power structures within a country, region and/or local community.

Suggested assumptions to use:

- Assume the highest amount of impact: Climate change and hazards are not static and are unprecedented, and thus can cause great shocks to an economy and to systems. In order to ensure that the worst-case scenario is modelled and prepared for, the LDF should assume the highest amount of impact.

“Climate change and hazards are not static and are unprecedented, and thus can cause great shocks to an economy and to systems. In order to ensure that the worst-case scenario is modelled and prepared for, the LDF should assume the highest amount of impact.”

Box 6: Multidimensional Vulnerability Index (MVI)

Small Island Developing States (SIDS) face a myriad of compounding vulnerabilities, ranging from climate vulnerability to debt vulnerability to their vulnerabilities to exogenous economic shocks and more. Such structural vulnerabilities impact a country’s ability to provide high-quality public services, to combat poverty, and to implement climate measures. As such, highly vulnerable countries need access to grants and highly concessional finance to achieve their Sustainable Development and Paris Agreement goals. However, many SIDS are also middle-income countries[176] and thus are not eligible for ODA[177]. As a consequence, their ability to access concessional finance, particularly, highly concessional finance, to address their needs and vulnerabilities, is low. If income metrics continue to be used to determine eligibility for development finance or climate finance, then SIDS will continue to lose out on having access to concessional forms of finance that could be vital in supporting their attainment of the SDGs and the goals of the Paris Agreement.

This is a problem for climate finance provision that is not channelled through dedicated climate finance established under and accountable to the UNFCCC, as all SIDS as developing countries under the Convention are eligible for concessional finance provided through funds serving the Convention and the Paris Agreement. Thus, for financing provided outside of the UNFCCC financial mechanism, while the type of vulnerabilities faced may vary from country to country, many countries are calling for a more comprehensive approach that reflects on the totality of compounding vulnerabilities that SIDS face. For instance, the Barbados Programme of Action[178], the Mauritius Strategy[179] and the SAMOA Pathway[180] have all highlighted the need for vulnerability criteria to be explored, including in relation to debt sustainability, more equitable forms of finance, and financial access. Moreover, the issue of vulnerability and eligibility has been raised during multiple UN General Assemblies for the last 30 years to no avail[181]. In 2020, the Alliance of Small Island States (AOSIS) and the UN “reiterated the need to advance and develop a composite vulnerability index for SIDS”[182] .

Consequently, work began to develop and implement a Multidimensional Vulnerability Index (MVI), and is being developed by the UN and SIDS countries[183]. The UN states that an MVI is a “vital tool to help small island nations gain access to the concessional financing that they need to survive the climate catastrophe, to improve their long-term national planning, service their debts, and sign up to insurance and compensation schemes that may be their last hope when the waters rise”[184]. Civil society has highlighted that an MVI could have significant implications on securing debt sustainability for SIDS, while allowing these countries to pursue climate action.[185]

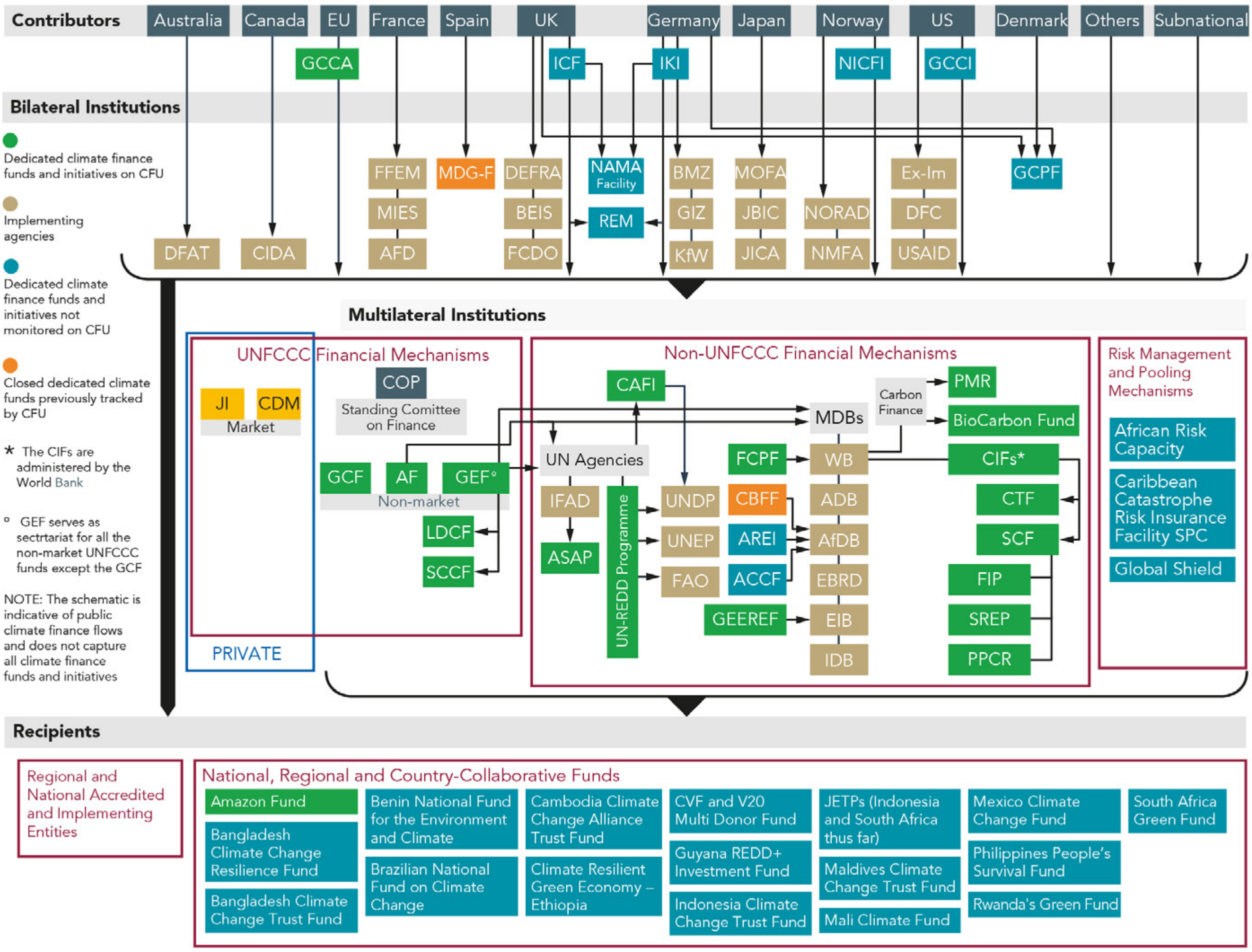
4. WHERE DOES THE LOSS AND DAMAGE FUND FIT WITHIN THE CLIMATE FINANCE LANDSCAPE?

The global climate finance landscape is made up of national, bilateral, plurilateral, regional and multilateral public sector institutions and bodies, with multilateral funds within and outside the UNFCCC, as well as of private sector actors and market mechanisms. It is dynamically evolving and progressing as new actors are added. A multitude of funding channels increases the options and therefore possibilities for recipient countries to access climate finance, and theoretically also the possibilities to provide funding complementarity, but it can also make the process more complicated and defy cohesion. In particular, monitoring the flows of climate finance is difficult, as there is still no agreed multilateral definition of what constitutes climate finance or consistent accounting rules, while widespread challenges to increasing inclusiveness, as well as to simplifying access, persist. Figure 6 on the next page provides a schematic, if simplified overview, with a focus on main public actors.[186] For loss and damage, the finance landscape is nascent, but rapidly growing, with some funding streams being added and integrated in existing financing mechanisms and new dedicated instruments and funds being established.

Where a new loss and damage fund would fit within the climate finance architecture is a matter of discussion and contention. At COP 27, a proposal by the developing country group of G77 and China[187] and civil society groups called for the LDF to be established as the third operating entity under the Financial Mechanism of the UNFCCC, which also serves the Paris Agreement, joining the GEF and GCF. As an operating entity of the Financial Mechanism, the LDF would be guided by the principles and mandates of the Convention and the Paris Agreement, be accountable to the COP and CMA and receive regular guidance from its Parties.

“At COP 27, a proposal by the developing country group of G77 and China and civil society groups called for the LDF to be established as the third operating entity under the Financial Mechanism of the UNFCCC.”

Figure 6: The global climate finance architecture with a focus on core public actors



Source: Watson C., Schalatek L., Evéquoz A. (2023). "The Global Climate Finance Architecture. Climate Finance Fundamentals 2". Heinrich Böll Stiftung Washington. Available at: https://climatefundsupdate.org/wp-content/uploads/2023/03/CFF2-2023-ENG-Global-Architecture.pdf

A number of Parties, particularly from developed countries, have argued in pointing to the experience of the GCF that it will take too long to set up a new fund to address loss and damage, although this argument is pure conjecture. There is no reason why a new LDF, profiting from lessons learned of previous experiences by replicating or grandfathering in those modalities and approaches that work in other funds, while newly drafting approaches to address shortcomings and failures of the past, could not be operationalised much faster. These detractors of establishing a new fund have instead brought up the option of placing funding arrangements for loss and damage in existing funds, such as the GCF or the GEF. This could be theoretically done for example as a dedicated window under the GCF or as a specialised trust fund under either the GCF or the GEF, similarly to the way the Least Developed Countries Fund (LDCF) and Special Climate Change Fund (SCCF) were established under management of the GEF.[188] A funding window under the GCF specifically would be in line with the guidance provided to the GCF by COP 25 in Madrid and reiterated by COP 26 in Glasgow that the GCF should continue to provide "financial

> **"There is no reason why a new LDF, profiting from lessons learned of previous experiences by replicating or grandfathering in those modalities and approaches that work in other funds, while newly drafting approaches to address shortcomings and failures of the past, could not be operationalised much faster than the GCF."**

resources for activities relevant to averting, minimising and addressing loss and damage in developing country Parties, to the extent consistent with the existing investment, results framework and funding windows and structures of the Green Climate Fund."[189] While most existing UNFCCC funds focus on grant-financing, the GCF provides a variety of additional financial instruments (such as loans, equity investments or guarantees), which some see as a potential advantage to address the multi-faceted nature of actions addressing loss or damage, including those requiring engagement with the private sector such as risk transfer mechanisms not available under other UNFCCC funds.[190] Likewise, while operationally feasible and an option to provide accountability for the additionality of loss and damage funding, setting up a new trust fund under either the GCF or the GEF, which would require a consensus decision by the UNFCCC, would likely mean only minor adjustments to existing operational modalities and procedures of either fund to focus on financial support for loss and damage.

However, the adequacy of existing funding arrangements under either the GCF or the GEF is questionable, in particular for funding to comprehensively address loss and damage. While especially the GCF (and the AF to a lesser extent) has already provided funding support for a number of projects focusing on climate information and early warning systems or the dangers of glacier lake overflow, such funding has been provided as adaptation. For both funds, current resource mobilisation levels are insufficient to provide additional financing to address loss and damage at scale. In the GCF, which has a balanced allocation mandate, supporting loss and damage would drain its adaptation finance allocation. This while the GCF's existing programming, funding or approval modalities (such as co-financing expectations, climate rationale calculations, or the push for blended finance provision and private sector involvement) are largely "unfit-for-purpose"[191]. Studies have concluded that existing UNFCCC funds such as the GCF are not suitable for funding the variety of loss and damage activities needed, even if some targeted support could be taken up[192]. Due to their institutional limitation imposed by mandates, and core operational modalities (such as project-based finance with long application and pre-project phases based primarily on institutional accreditation of implementers) existing funds are not well-suited to address the demands of finance provision to address loss and damage,[193] which is why a new fund is needed.

Slow-onset loss and damage and non-economic loss and damage are particularly poorly addressed and remain outside of the scope of most climate funds, although in the GCF over the past several years there have been some advances with projects trying to integrate either or both. In 2016, the WIM Executive Committee's compilation of best practices, challenges and lessons learned from existing financing instruments for addressing loss and damage noted, "information was also rather limited regarding those financial instruments and tools that could be effective for the context of

"The adequacy of existing funding arrangements under either the GCF or the GEF is questionable, in particular for funding to comprehensively address loss and damage."

"Studies have concluded that existing UNFCCC funds such as the GCF are not suitable for funding the variety of loss and damage activities needed, even if some targeted support could be taken up."

"Slow-onset loss and damage and non-economic loss and damage are particularly poorly addressed and remain outside of the scope of most climate funds."

slow onset events, and that of non-economic losses" (ExCom 2016, p. 3). Similarly, the Forum of the Standing Committee on Finance (SCF) concluded that "a major gap exists in addressing slow-onset events, because current approaches are more suited to extreme weather events and other rapid-onset events".[194] It focused its discussion then on four broad categories of financial approaches, instruments and tools dealing with risk transfer schemes (such as insurance); catastrophe and resilience bonds; social protection schemes; and contingency finance. With the exception of risk transfer mechanisms, which gain traction in the GCF, those other tools, in particular financing for social protection schemes, are largely not supported by existing climate funds under the UNFCCC.

"The Forum of the Standing Committee on Finance (SCF) concluded that 'a major gap exists in addressing slow-onset events, because current approaches are more suited to extreme weather events and other rapid-onset events'."

Particularly on risk transfer mechanisms, there have been a number of regional and plurilateral efforts outside of the UNFCCC to add to the loss and damage finance landscape, such as the consolidation and strengthening of risk management and pooling mechanisms like the African Risk Capacity (ARC), the Caribbean Catastrophe Risk Insurance Facility (CCRIF), as well as more recently adding the G7-led Global Shield, which builds on the InsuResilience Initiative by adding an insurance premium subsidy and a social protection component. Broader efforts beyond insurance, especially with a focus on providing funding more directly to affected communities, have been initiated more recently through the CVF and V20 Multi Donor Trust Fund, the bilateral efforts of several countries, including Scotland and Denmark, as well as engagement by philanthropic funders.

Such newer approaches outside the UNFCCC add to an existing array of humanitarian and development finance actors engaged in some funding activities of relevance to loss and damage. However, observers have pointed out the limited ability of their respective institutional arrangements to provide finance for addressing loss and damage. They are part of what developed countries see as a 'mosaic of solutions' in providing financing for addressing loss and damage.

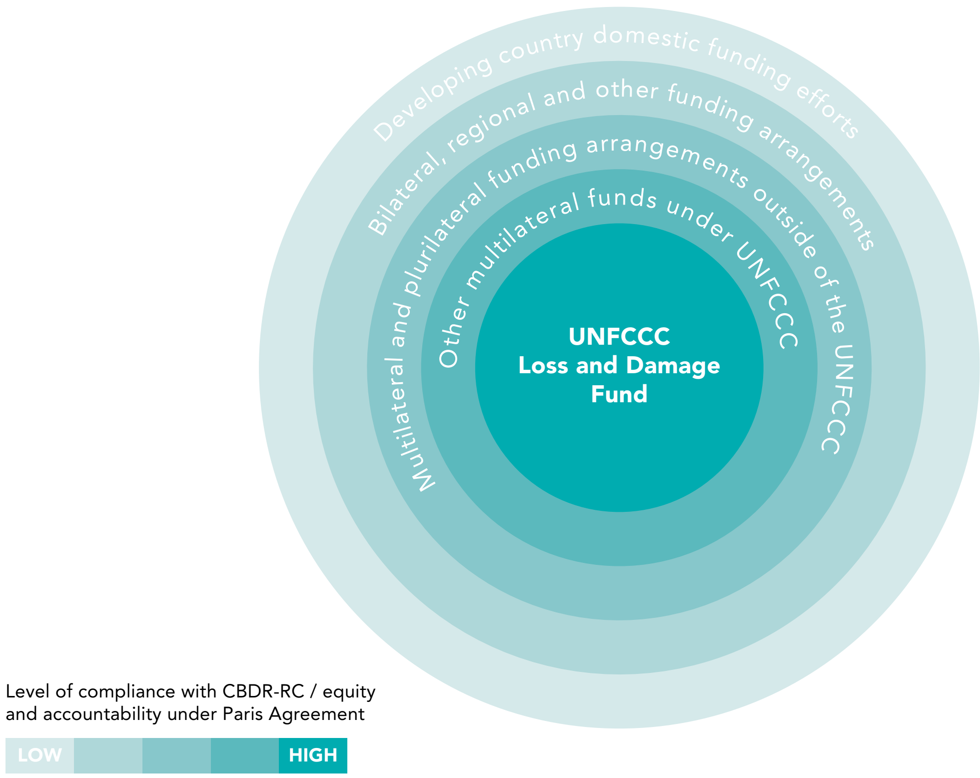
"The 'mosaic of solutions' as utilised by developed countries, is primarily a distraction to avoid discussions about their core responsibility to provide financing to address loss and damage."

The 'mosaic of solutions' as utilised by developed countries, is primarily a distraction to avoid discussions about their core responsibility to provide financing to address loss and damage. While it is clear that one single fund will not be sufficient, it is highly unlikely that scattered and uncoordinated loss and damage finance elements - the little stones of the mosaic to stay with the picture - would merge together to adequately and comprehensively deal with the growing need and complexity of addressing loss and damage, especially without a multilateral coordinating entity. A better image is thus one of concentric circles. At its core would be a multilateral fund for financing to address loss and damage as an operating entity under the UNFCCC Financial Mechanism and also serving in the same function for the Paris Agreement in order to respond to the COP 27 mandate and ensure accountability as well as equity in the way it is implemented and fulfilled in the long-term. The concentric circles (or 'layers') of additional financing arrangements both inside and outside the UNFCCC indicate the decreasing levels of compliance with the responsibilities and principles under the UNFCCC, such as CBDR-RC and accountability under the Paris Agreement moving away from that core (see Figure 7 below).

As the leading multilateral fund in the consolidating loss and damage finance architecture, the LDF would fulfil a key coordination task and signalling function to ensure broader complementarity and coherence of its distinct pieces. It would develop working and coordination arrangements with other relevant bodies under the Convention (including the WIM and the other operating entities of the financial mechanism). It would do so with other relevant international institutions outside of the UNFCCC, as part of its role in catalysing and coordinating financial support to developing countries to address loss and damage throughout the evolving loss and damage finance landscape. This would involve providing definitional and methodological leadership for loss and damage finance, setting up registries and sharing good practices as well as providing guidance for enhanced research such as on non-economic loss and damage where understanding and capacities have yet to be built to inform comprehensive loss and damage impact assessments of recipient countries. The LDF would also provide tracking, accountability and oversight over additional funding for addressing loss and damage from within existing funds under the UNFCCC and Paris Agreement as well as for funding mobilised and disbursed outside of the UNFCCC framework. This must be included with respect to determining its additionality to financing provided for mitigation and adaptation or as a humanitarian response.[195]

“As the leading multilateral fund in the consolidating loss and damage finance architecture, the LDF would fulfil a key coordination task and signalling function to ensure broader complementarity and coherence of its distinct pieces.”

Figure 7: Accountability and CBDR-RC in the emerging loss and damage finance architecture



Source: Schalatek (2023)

A discourse about the 'mosaic of solutions' also disguises that not all funding approaches and channels should be considered equal to the task of delivering finance to address loss and damage and able to comply with core guiding principles for its provision and implementation.

For example, humanitarian aid can respond quickly and less bureaucratically to climate shocks. However humanitarian interventions target only the immediate needs of communities affected by extreme weather events, but are inadequate, both in quantity[196] and focus, to address longer-term support for rebuilding homes and infrastructure following an immediate emergency situation or for relocation or the development of alternative livelihoods.[197] Humanitarian assistance, especially when provided by international organisations, also tends to exacerbate vulnerability by reinforcing inequitable power dynamics, with aid recipients fully dependent on the providers and little country-ownership over how it is provided.[198] Research by Practical Action in Bangladesh found for example that the distribution of aid in the aftermath of cyclones and floods was unclear and it was often distributed on the basis of relationships with local officials rather than need.[199] Some of these concerns can be addressed by applying the principle of subsidiarity and transferring funding decisions to local actors, as well as by establishing locally-led monitoring and accountability structures.

"Humanitarian interventions target only the immediate needs of communities affected by extreme weather events, but are inadequate, both in quantity and focus, to address longer-term support for rebuilding homes and infrastructure following an immediate emergency situation or for relocation or the development of alternative livelihoods."

ODA in supporting sustainable development has some relevance for addressing loss and damage, in particular when it is focused on social protection as an equitable and sustained response to loss and damage as long as it does not take the place of climate finance. Losses and damages from climate change are additional burdens to developing countries, largely borne by affected communities and individual households - including with gender-differentiated impacts within households, hitting women and girls often disproportionately hard. Therefore support to address loss and damage needs to be additional in quantitative terms to ensure that ODA delivery is climate-compatible and that levels of ODA in support of sustainable development and social protection, such as for health and social services, are not reduced.

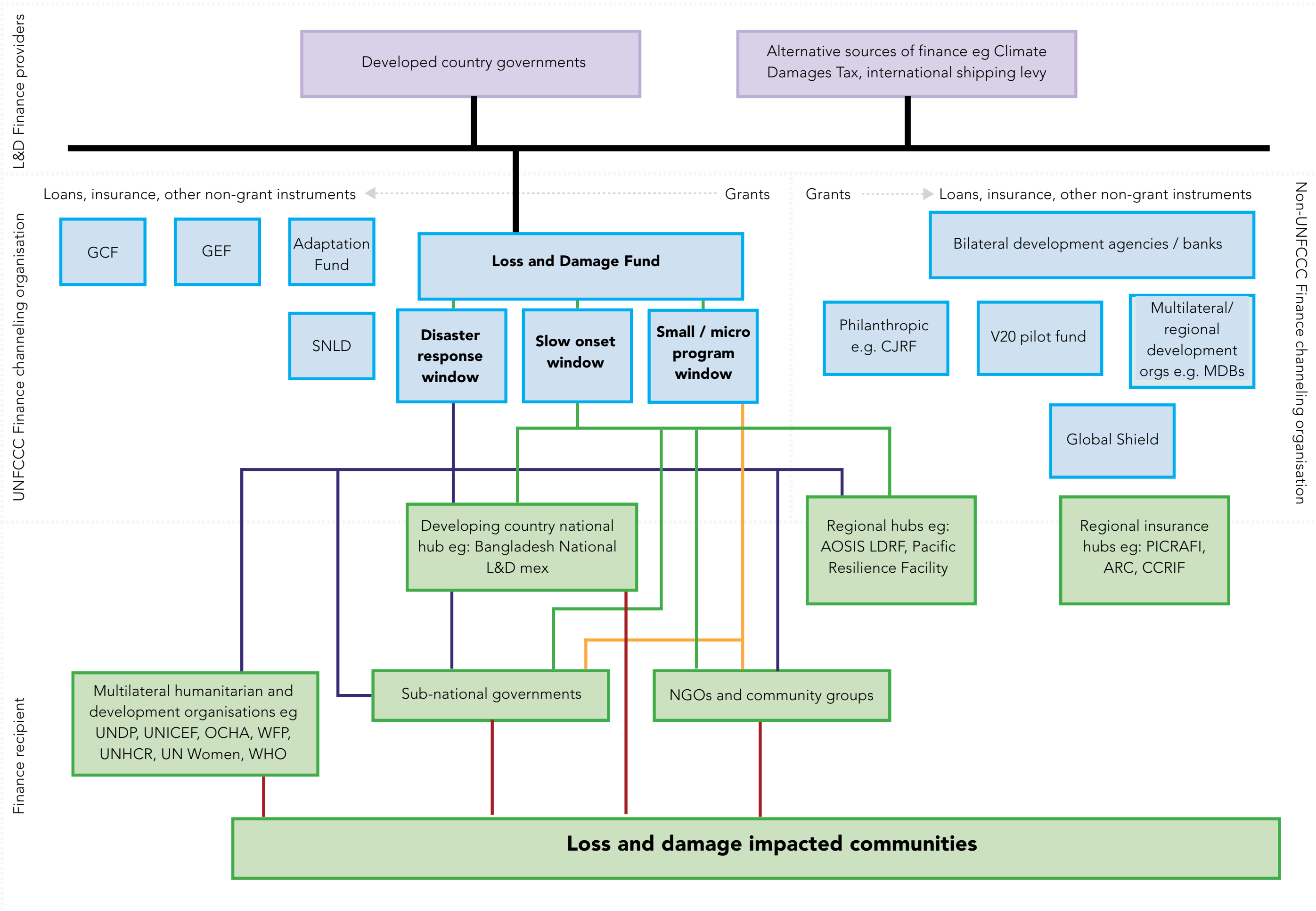
"Support to address loss and damage needs to be additional in quantitative terms to ensure that ODA delivery is climate-compatible and that levels of ODA in support of sustainable development and social protection, such as for health and social services, are not reduced."

Furthermore, most ODA is largely provided as concessional loans and thus inappropriate for addressing loss and damage, especially as many developing countries ravaged by repeated extreme weather events are facing increasingly high levels of unsustainable debts. The annual external debt service of LDCs reached US$31 billion in 2020, expected to increase to US$50 billion in 2021.[200] The 2022 debt service of poor countries eligible to borrow at highly concessional terms from the World Bank's International Development Association (IDA) was projected to top US$ 62 billion in 2022.[201] This does not even include the debt service payments of many SIDS, for which climate change is an existential threat, whose income levels are considered too high to qualify for IDA support or other highly concessional forms of ODA.[202] Moreover, development assistance often lacks

"Most ODA is largely provided as concessional loans and thus inappropriate for addressing loss and damage, especially as many developing countries ravaged by repeated extreme weather events are facing increasingly high levels of unsustainable debts."

adequate structures for ensuring country ownership in how finance is utilised (Dornan 2017) and is quite frequently more donor-driven than country-driven, reflecting the interests of the countries or institutions providing the funds, rather than local priorities (Buffardi 2013).[203]

Figure 8: Loss and Damage Fund Financial Flows



Source: The authors.

5. HOW WILL THE LOSS AND DAMAGE FUND BE STRUCTURED AND GOVERNED?

The LDF was established as a fund by a decision of both the COP and the CMA[204]. It therefore follows that ultimately the governing body of the LDF should be accountable to and receive guidance from the COP and CMA, meaning that the LDF will serve both the Convention - with its core principle of equity and CBDR-RC - and the Paris Agreement - which identifies loss and damage as a separate pillar. Given the expectation that the LDF should make a significant and ambitious contribution to combating climate change with an exclusive focus on financing to address loss and damage and that it should be guided by a climate-justice approach and core principles such as CBDR-RC, it should join the GEF and the GCF and be designated as the third operating entity of the Financial Mechanism under Article 11 of the UNFCCC, and serve in the same function for the Paris Agreement.

"The LDF was established as a fund by a decision of both the COP and the CMA. It therefore follows that ultimately the governing body of the LDF should be accountable to and receive guidance from the COP and CMA."

The LDF could serve as the financial arm of the WIM, and also receive some operational guidance from the WIM. That said, as an operating entity of the financial mechanism, the LDF will not be placed directly under the WIM but operate with its own governing and oversight body. The past decade of the WIM's operation with very little to show for it, has demonstrated that the WIM is not capable of oversight of the LDF. Some observers blame the WIM's governance structure with balanced representation between developed and developing countries for preventing further progress during that time. Nevertheless, the LDF will need to closely coordinate with and align with the mandate of the WIM. This includes building on and drawing from the technical knowhow and knowledge management of the WIM in fulfilling its financing function and thereby complementing and strengthening the WIM, including activities under the SNLD, on financing approaches to address loss and damage.[205]

"The LDF could serve as the financial arm of the WIM, and also receive some operational guidance from the WIM."

The TC with its equitable representation with developing countries in the majority, to the extent that it also allows for the meaningful input and participation of stakeholders, especially from affected communities and civil society throughout the design phase, is well placed to ensure the legitimacy of the process outcome. Its work should be guided by broader expert and community input and lessons learned from the operational experience of other climate funds. This can include lessons learned from a similar design process to set up the GCF more than a decade earlier.[206] The TC should consider what has worked, as well as challenges, barriers and shortcomings that countries and communities face especially with respect to accessibility, simplification of approval procedures, timeliness of decisions and responsiveness to locally-led needs and priorities. Applying these lessons learned will allow to leap-frog and expedite the fit-for-purpose operationalization of the LDF.

“The TC’s work must culminate in a consensus charter or governing instrument for the LDF for Parties’ consideration and approval at COP 28 in Dubai.”

The TC’s work must culminate in a consensus charter or governing instrument for the LDF for Parties’ consideration and approval at COP 28 in Dubai. Such a charter or governing instrument should provide core details on the Fund’s objectives, guiding principles, governance and institutional arrangements, eligibility, funding windows and structure, access modalities, allocation and programming and approval processes as well as highlighting monitoring, evaluation and accountability features and mechanisms and detailing stakeholder/observer participation and engagement opportunities. It would constitute the skeleton indicative of scale, scope and importance of what is supposed to become the main multilateral fund for addressing loss and damage over time and the core of the still evolving loss and damage finance landscape once its operational policies and frameworks are fully fleshed out and funding operations have begun.

The following sections detail the proposed objectives and guiding principles, as well as some core functions and criteria for the governance and institutional arrangements and recommended operational modalities of the LDF in line with its suggested exclusive focus on providing comprehensive financing approaches to address loss and damage and with core principles of climate justice and equity and CBDR-RC.[207]

A OBJECTIVES AND GUIDING PRINCIPLES

The LDF should be consistent with, based upon and guided by the provisions of the Convention, such as Articles 3 and 4.3, and the Paris Agreement, in particular relevant provisions such as Articles 2.2 and 9. It should operate in a transparent and accountable manner guided by equity and effectiveness and responsive to the needs of affected countries and communities, including their right to sustainable development, by taking a human rights-based and gender-responsive approach. It should provide new, additional, predictable and adequate financing that is driven by the needs of the recipients and is directly accessible for the most affected with local ownership and subsidiarity (see earlier chapters for more details on principles that should apply to the mobilisation and disbursement of LDF funding). The LDF should be scalable and flexible and operate

“The LDF should be consistent with, based upon and guided by the provisions of the Convention, such as Articles 3 and 4.3, and the Paris Agreement, in particular relevant provisions such as Articles 2.2 and 9.”

as a learning institution with a focus on knowledge creation, management and transfer based on science and lived experiences and guided by monitoring and evaluation.

GOVERNANCE AND INSTITUTIONAL ARRANGEMENTS

B

As an operating entity of the financial mechanism of the UNFCCC, and serving in the same function to the Paris Agreement, the LDF will be accountable to and function under the guidance of the COP, from which it will receive instructions including on matters related to policies, programming priorities and eligibility criteria. The LDF, governed by a board or governing council, will respond to guidance received by taking appropriate actions and will report annually on to the COP on its work and impact.

“As an operating entity of the financial mechanism of the UNFCCC, and serving in the same function to the Paris Agreement, the LDF will be accountable to and function under the guidance of the COP.”

BOARD/GOVERNING COUNCIL

The LDF should be governed by a decision-making body (such as a board or governing council), which should be composed with equitable representation of developed and developing countries with a majority of seats for developing countries (such as is currently the practice in the AF or GEF, but not in the GCF). Board members should be self-selected by relevant United Nations regional groupings and constituencies (developed and developing countries) based on their experience with loss and damage and climate finance, with the overall board composition striving for gender balance in addition to regional balance. Board composition should reflect the special circumstances and elevated vulnerability of SIDS and LDCs by designating ideally more than one seat to each of them respectively. Applying core lessons learned and building on the best practice examples of a number of funding mechanisms, such as the Global Fund, UN-REDD or humanitarian response organisations, the LDF decision-making body should give voice and vote to representatives from affected communities and civil society organisations as full board members. It must thus go a step further than current practices at the GCF and at the new Advisory Board for the SNLD, where civil society representatives can actively observe and participate, but not vote. Each LDF board member should have an alternate, with LDF decisions made by consensus as the default decision-making procedure. The Board, following the example of the Global Fund, the Global Agriculture and Food Security Program, and other funding institutions, could also include non-voting members allowed to actively observe and contribute to the deliberations of the LDF; those could include representatives of the WIM, the GEF

“The LDF should be governed by a decision-making body, which should be composed with equitable representation of developed and developing countries with a majority of seats for developing countries.”

“Each LDF board member should have an alternate, with LDF decisions made by consensus as the default decision-making procedure.”

or GCF as operating entities of the financial mechanism, or representatives for UN agencies on international organisations focused on disaster relief and humanitarian actions as well as UN human rights organisations or authorities.

The LDF board will govern and provide supervision over the LDF and be responsible for all its funding decisions in line with the fund's criteria, principles, policies and programmes. It should approve all operational policies, guidelines and procedures, access modalities and funding cycle and structures, including for programming, the fund's administration and its financial management. The LDF Board should be able to establish, add or modify funding windows or substructures, including committees and panels, as needed. It will appoint the head of the LDF Secretariat.

> **"The LDF board will govern and provide supervision over the LDF and be responsible for all its funding decisions in line with the fund's criteria, principles, policies and programmes."**

It will also develop working and coordination arrangements with other relevant bodies under the Convention (including the WIM and the other operating entities of the financial mechanism) and other relevant international institutions outside of the UNFCCC as part of the LDF's role in catalysing and coordinating financial support to developing countries to address loss and damage throughout the evolving loss and damage finance landscape.

Given the need for the LDF to be able to quickly disburse funding, while the LDF board will have ultimate responsibility, individual funding decisions should not require a lengthy process and a formal LDF board meeting (as is the case with, for example, the GCF). Rather, the LDF board must create mechanisms by which such individual decisions can be devolved, done through a trigger mechanism, or otherwise taken on demand, including between formal meetings.

> **"Given the need for the LDF to be able to quickly disburse funding, while the LDF board will have ultimate responsibility, individual funding decisions should not require a lengthy process and a formal LDF board meeting."**

With the LDF as the leading multilateral fund for addressing loss and damage, the Board will take the lead in enhancing complementarity and coherence between the activities of the LDF and the activities of other relevant national-level, bilateral, plurilateral, regional and global funding mechanisms supporting loss and damage. Lastly, with the LDF expected to be flexible and scalable to grow with anticipated needs, the decision-making body will steer the fund's operations as it matures and evolves over time as needed to fulfil the objectives and guiding principles of the LDF.

SECRETARIAT

An independent secretariat, headed by a manager/director appointed by and accountable to the Board, should be set up to run the day-to-day operations of the LDF with sufficient professional staff with relevant technical, administrative and financial expertise and aiming for gender-balance. Drawing on lessons learned, the diversity of staff backgrounds and experiences is crucial, particularly an understanding of the lived experience of affected communities in developing countries. The LDF secretariat will liaise with the members of the board, implementing partners and

> **"An independent secretariat, headed by a manager/director appointed by and accountable to the Board, should be set up to run the day-to-day operations of the LDF with sufficient professional staff with relevant technical, administrative and financial expertise and aiming for gender-balance."**

recipient countries, as well as with cooperating national, bilateral and multilateral institutions and agencies; it will operationalize programming and funding cycle processes and carry out monitoring and evaluation. Of particular importance to ensure that the LDF is a learning institution that grows and improves would be the establishment of knowledge management practices in support of the core coordination and leadership function as the flagship multilateral fund for addressing loss and damage and to inform other actors in the evolving loss and damage finance architecture.

“The LDF secretariat will liaise with the members of the board, implementing partners and recipient countries, as well as with cooperating national, bilateral and multilateral institutions and agencies; it will operationalize programming and funding cycle processes and carry out monitoring and evaluation.”

CORE OPERATIONAL MODALITIES

C

ELIGIBILITY

All developing country Parties to the Convention and the Paris Agreement should be eligible to receive resources from the LDF to cover documented economic and non-economic losses and damages, irrespective of whether any developing country voluntarily contributes to resource mobilisation efforts of the LDF and at what scale. Eligibility should not be determined or differentiated by income classifications used outside of the UNFCCC. The LDF should provide financing, primarily on a full-cost basis, for a comprehensive set of activities related to economic and non-economic losses and damages, including capacity-building and readiness support. Following the principle of country ownership that is to guide the LDF, it should support recipients in accordance with their articulated needs and priorities, including as elaborated under nationally determined contributions (NDCs), national adaptation plans (NAPs) or potential future country-specific loss and damage needs assessments or long-term implementation and investment plans specifically for funding for slow-onset events, with an overall priority on the needs of the communities and population groups most vulnerable to and affected by loss and damage.

“All developing country Parties to the Convention and the Paris Agreement should be eligible to receive resources from the LDF to cover documented economic and non-economic losses and damages.”

FUNDING WINDOWS AND LDF STRUCTURE

The LDF should start out initially with at least two, ideally three distinct funding windows, each with differentiated ‘fit-for-purpose’ programming modalities and application procedures to be developed in order to be responsive to the needs of recipient countries and affected communities, the time-frame of needed responses, and to specifically address shortcomings and apply lessons learned from existing funding mechanisms. These are 1) a rapid or disaster response window to provide quick release funding in the aftermath of climate disasters; 2) a slow-onset window to provide funding for longer-term loss and damage planning and policy framework and support transformative programming (such as

“The LDF should start out initially with at least two, ideally three distinct funding windows: 1) a rapid or disaster response window; 2) a slow-onset window; 3) a micro/small-grant window.”

permanent relocation or a just transition to alternative livelihoods); 3) a micro/small-grant window to allow for direct access for subnational and local actors, in particular affected communities and civil society organisations working directly with them for both fast-response and slow-onset activities. The LDF decision-making body could add, modify or remove additional windows or substructures as needed.

> **"The LDF could set up a comprehensive readiness and capacity support program at LDF level, building on the experience with readiness and preparatory support provided by the AF and GCF to national and sub-national entities in recipient countries."**

Additionally, the LDF could set up a comprehensive readiness and capacity support program at LDF level, building on the experience with readiness and preparatory support provided by the AF and GCF to national and sub-national entities in recipient countries. Such support should be coordinated and complementary with technical assistance provided under the SNLD and prioritise South-South and peer learning and knowledge transfer.

ACCESS MODALITIES, PROGRAMMING AND APPROVAL PROCESSES

Recipient countries' engagement with the LDF should be through a designated national agency or body. This could be either existing designated authorities or focal points already registered with other climate funds, WIM loss and damage contact points or ideally broader country coordinating mechanisms (such as the best practice model by the Global Fund) that would bring together different stakeholders both governmental and non-governmental, and including representation from civil society and local communities. These designated national bodies would be responsible for approaching the fund with funding requests under the disaster response and slow onset windows.

> **"Recipient countries' engagement with the LDF should be through a designated national agency or body, responsible for approaching the fund with funding requests under the disaster response and slow onset windows."**

The LDF should provide simplified access to funding, allowing for both international access (through international entities such as UN agencies or internationally operating development, disaster relief or humanitarian assistance organisations) and direct access (through subnational and local, national and regional entities) as needed and requested by recipient countries and communities. To the extent possible, direct access, including through the consideration of the LDF Board of additional modalities that further accelerate and enhance direct access, should be prioritised. Access features could be differentiated for different windows.

> **"The LDF should provide simplified access to funding, allowing for both international access and direct access as needed and requested by recipient countries and communities."**

For the disaster/fast response window, access would not require countries to work through accredited entities. Instead, a country's request for funding could be triggered by the requesting country's declaration that a "loss and damage event" has occurred in line with agreed criteria determined by the LDF and verified in each specific case by a set of independent technical experts in a panel appointed by the LDF Board. Such agreed criteria (which would have to be regularly reviewed and updated, as knowledge and a shared understanding of loss and damage events grows) could include parametric triggers, such as a specified percentage loss of GDP, an unprecedented weather-related event (such as the flood in Pakistan in 2022), a percentage of the population impacted, or in the case of a population-rich country a minimum population number threshold.[208] The funding request would not require a detailed implementation plan or elaborated proposal other than some indicative areas of support (for knowledge management and information sharing) and description of adequate safeguards in place. In line with the principle of country/local ownership, the recipient country government would receive the funding released as direct budget support to aid in immediate relief, recovery and rehabilitation efforts. In developing countries that have already set up relevant structures, such as national climate change trust funds or disaster relief funds, the transfer could be channelled to those existing national structures at the recipient country's request.

> **"For the disaster/fast response window, access would not require countries to work through accredited entities. Instead, a country's request for funding could be triggered by the requesting country's declaration that a 'loss and damage event' has occurred."**

A minimum percentage of approved funding for the recipient country under fast response to a designated loss and damage event (with the minimum to be determined by the LDF Board) should be channelled as small grant or direct cash support directly to affected communities via the LDF small program window.

For access to the LDF's slow-onset window, funding requests should be for programmatic funding approaches to the extent possible to prevent isolated projects based on a country programme or investment plan. Countries would actively select their implementation partner from existing international and direct access entities already accredited and in good accreditation standing with the GCF, GEF and AF (and in accordance with the risk, scale and fiduciary implementing capacities of those entities as verified through prior accreditation with either or several of these funds). Only funding requests advanced through recipient countries might also nominate for accreditation with the LDF other entities (both international and direct access ones), which would then go through an LDF accreditation process based on specific criteria, including fiduciary standards and environmental and social safeguards, with prioritisation for national entities. Direct budget support under the slow-onset window could be explored, for example channelled through national climate change trust funds with which the LDF would have special cooperation agreements or memoranda of understanding. To simplify and speed up funding approval procedures, funding support could be standardised or pre-approved for specific activities and measures, such as comprehensive loss and damage needs assessments. The LDF Board could also devolve funding decisions up to a specific amount and for specific activities to the Secretariat or Board committees to accelerate funding release.

> **"For access to the LDF's slow-onset window, funding requests should be for programmatic funding approaches to the extent possible to prevent isolated projects based on a country programme or investment plan."**

For access to the micro/small grant community window, the LDF should build on existing and further innovate enhanced direct access (EDA) modalities, with the successive increase of funding directly provided to affected communities

> **"For access to the micro/small grant community window, the LDF should build on existing and further innovate enhanced direct access (EDA) modalities, with the successive increase of funding directly provided to affected communities."**

and people as one key performance indicator for the LDF. For slow-onset related activities, including specifically for non-economic loss and damage, the LDF should set aside an increasing allocation of available funding annually for EDA for communities and directly affected people, ensuring inclusivity and equity for particularly marginalised population groups, to be channelled through the micro/small grant window of the LDF. Funding for slow-onset activities for communities, ideally following a template approach to speed up processing times, would be released through the Secretariat. Such support should build on best practice experience of existing small grant funding programmes such as the Dedicated Grant Mechanism for Indigenous Peoples and local communities under the FIP or the GEF-UNDP Small Grants Programme, where at country-level some community-led coordination mechanisms are set up which can make funding decisions on small grants. The LDF could also explore the extent to which they would channel funding through some of these existing structures through cooperation agreements with other funds. In fast response to disasters, a minimum percentage of approved funding for the recipient country under fast response to a designated loss and damage event (with the minimum to be determined by the LDF Board) should be channelled as small grant or direct cash support directly to affected communities either through established community-led country coordinating mechanisms or though accredited small-grant funders or humanitarian organisations. Enhanced direct access for affected vulnerable communities and population groups is even more important in the context of fragile countries or where adequate government structures are lacking, to ensure that LDF support reaches those local communities and people most in need.

“Funding for slow-onset activities for communities, ideally following a template approach to speed up processing times, would be released through the Secretariat.”

“The LDF could also explore the extent to which they would channel funding through some of these existing structures through cooperation agreements with other funds.”

FINANCIAL INSTRUMENTS

The LDF should provide funding exclusively in the form of grants, including by prioritising full cost grants. Requiring incremental cost approaches, as the GCF and GEF currently do, and related complex methodologies (a ‘climate rationale’ approach to either differentiate a funded activity from development finance or adaptation approaches) would be burdensome on recipients in light of continued data and capacity gaps and lingering definitional uncertainty around activities to address loss and damage. This would be applying lessons learned from the GCF’s experience with adaptation support.

“The LDF should provide funding exclusively in the form of grants, including by prioritising full cost grants.”

ALLOCATION

The LDF Board or Governing Council should ensure that the allocation of LDF resources takes into account the comprehensive funding approach by ensuring that resources are balanced between response measures for rapid-onset and slow-onset events with flexibility as needed. An allocation framework should set-aside a certain percentage of funding (for both fast-response and slow-onset activities) to be channelled through a micro/small grant community access

“The LDF Board or Governing Council should ensure that the allocation of LDF resources takes into account the comprehensive funding approach by ensuring that resources are balanced between response measures for rapid-onset and slow-onset events with flexibility as needed.”

window directly to non-state actors. The LDF should take the urgent and immediate needs of particularly vulnerable countries and populations already severely affected by loss and damage, including in SIDS, LDCs and African states, into account. Following the example of the allocation framework of the GCF, it could ring-fence certain financing amounts, or set minimum floors in both main windows for funding directed towards these countries. To ensure equity in finance provision, allocation parameters should be differentiated between the fast-response and slow-onset windows. While the core determinant under the fast-response window would be urgent needs based on scale of the extreme weather event and the country's capacity to address it, the LDF could consider instituting some maximum payouts under fast-response or country caps or minimum allocations under the slow-response windows, to prevent a 'first-come-first-serve' that leaves less capacitated countries behind. This could build on experiences in existing funds (such as the GCF's readiness programme, the AF's funding caps or the GEF's System for Transparent Allocation of Resources) and should apply especially for funding in support of long-term planning and needs determination. As both funding caps and minimum allocation guarantees would be a response to an insufficiently funded LDF, such a resource allocation management approach becomes less important for an adequately resourced fund.

> **"To ensure equity in finance provision, allocation parameters should be differentiated between the fast-response and slow-onset windows."**

STAKEHOLDER ENGAGEMENT AND PARTICIPATION

An LDF Charter or Governing Instrument should stipulate that effective and meaningful participation of all relevant stakeholders – specifically from affected local communities and including civil society organisations, groups that have been made vulnerable through historic marginalisation, women, Indigenous Peoples, persons with disabilities and youth – in the design, development and implementation of the strategies, policies and activities to be financed by the LDF should be promoted and secured, including through the development of appropriate mechanisms at the Fund and recipient country levels. This also entails timely and comprehensive information disclosure and publicly accessible policy and funding documents in multiple languages. At the Board level, the voting representation of these groups through self-selection should be assured (depending on the size of the overall Board at minimum to allow for rotating seats to ensure equal participation for local communities, Indigenous Peoples, women, persons with disabilities and youth, as well as civil society organisations from developing and developed countries).

> **"An LDF Charter or Governing Instrument should stipulate that effective and meaningful participation of all relevant stakeholders in the design, development and implementation of the strategies, policies and activities to be financed by the LDF should be promoted and secured."**

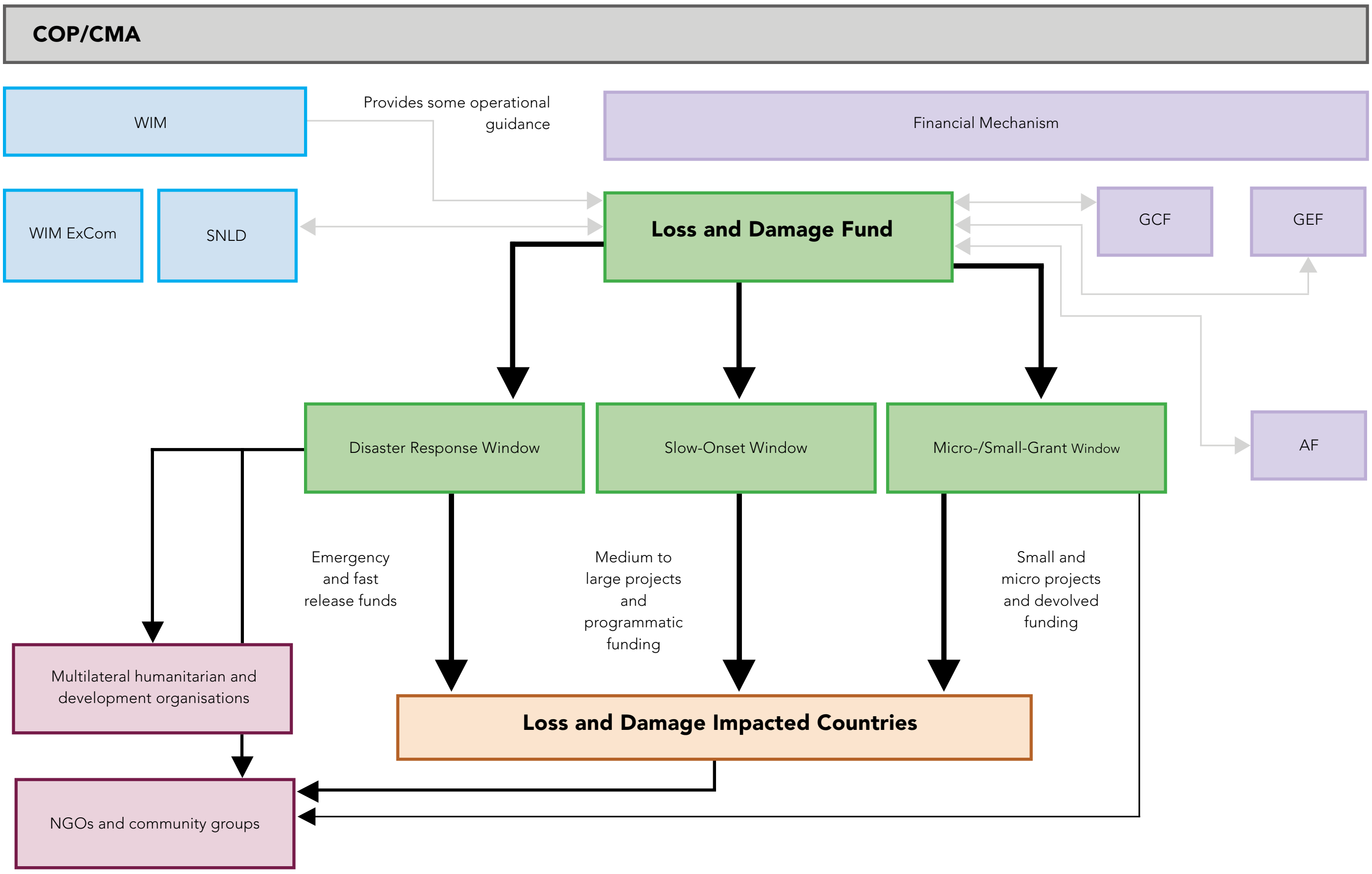
The Secretariat, if so decided by the Board, could set-up and host special advisory groups to guide the development of relevant policies and framework for consideration by the Board, such as on gender or Indigenous Peoples. It could also develop rosters of local experts from

> **"The Secretariat, if so decided by the Board, could set-up and host special advisory groups to guide the development of relevant policies and framework for consideration by the Board, such as on gender or Indigenous Peoples."**

communities and civil society to help with readiness and capacity-building support. In recipient countries, broad stakeholder participation should be ensured in country co-ordination efforts on loss and damage finance, especially with respect to long-term planning and the articulation of funding needs and priorities, by building on existing coordination entities or distribution mechanisms (such as the existing liaisons of designated authorities or focal points with the GEF, GCF or AF or existing national implementing entities already accredited with those funds) and in coordination with the SNLD. The aim for the LDF should be to be able to engage with true country coordination mechanisms, such as those modelled for example by the Global Fund.[209]

"The aim for the LDF should be to be able to engage with true country coordination mechanisms, such as those modelled for example by the Global Fund."

Figure 9: Loss and Damage Fund Governance Structure



Source: The authors.

PAVING THE WAY TO OPERATIONALISE THE LOSS AND DAMAGE FUND

V

There is a complex web of interconnected policy fora and processes that are unfolding simultaneously in 2023 and beyond, each moving rapidly and also overlapping as what already exists is being reformed and new solutions are being established and made operational. What is clear is that the scope of the landscape is interrelated with the solutions that different Parties and non-Party stakeholders see as being feasible to address the "urgent and immediate need for new, additional, predictable and adequate financial resources to assist developing countries" that Parties acknowledged in the COP 27 decision on loss and damage finance. This means that there are different perspectives on the timeline, key milestones and other relevant processes.

"There are different perspectives on the timeline, key milestones and other relevant processes."

The first TC meeting has already been held in Luxor, Egypt from 27-29 March.[210] During this meeting, the TC members[211] were able to agree to working arrangements and a work plan which clarified the way forward.[212] What emerged is that there is a divergence between members about the scope of the mandate of the TC, therefore influencing what issues should be discussed further and thus be captured in the recommendations and what issues should be dealt with by other policy fora and processes.

"Developing country TC members prefer to focus on the LDF as the centrepiece of discussions. In contrast, developed country members see many aspects of the LDF as being able to be delivered by a combination of existing or new mechanisms with the fund as one part of that funding landscape."

Developing country TC members prefer to focus on the LDF as the centrepiece of discussions. In contrast, developed country members see many aspects of the LDF as being able to be delivered by a combination of existing or new mechanisms with the fund as one part of that funding landscape. To move forward, members will need to develop a shared understanding of the relationship and differences between broader funding arrangements and the specificities of a new fund, including sources of finance, financial instruments and finance delivery channels that are aligned with CBDR-RC.

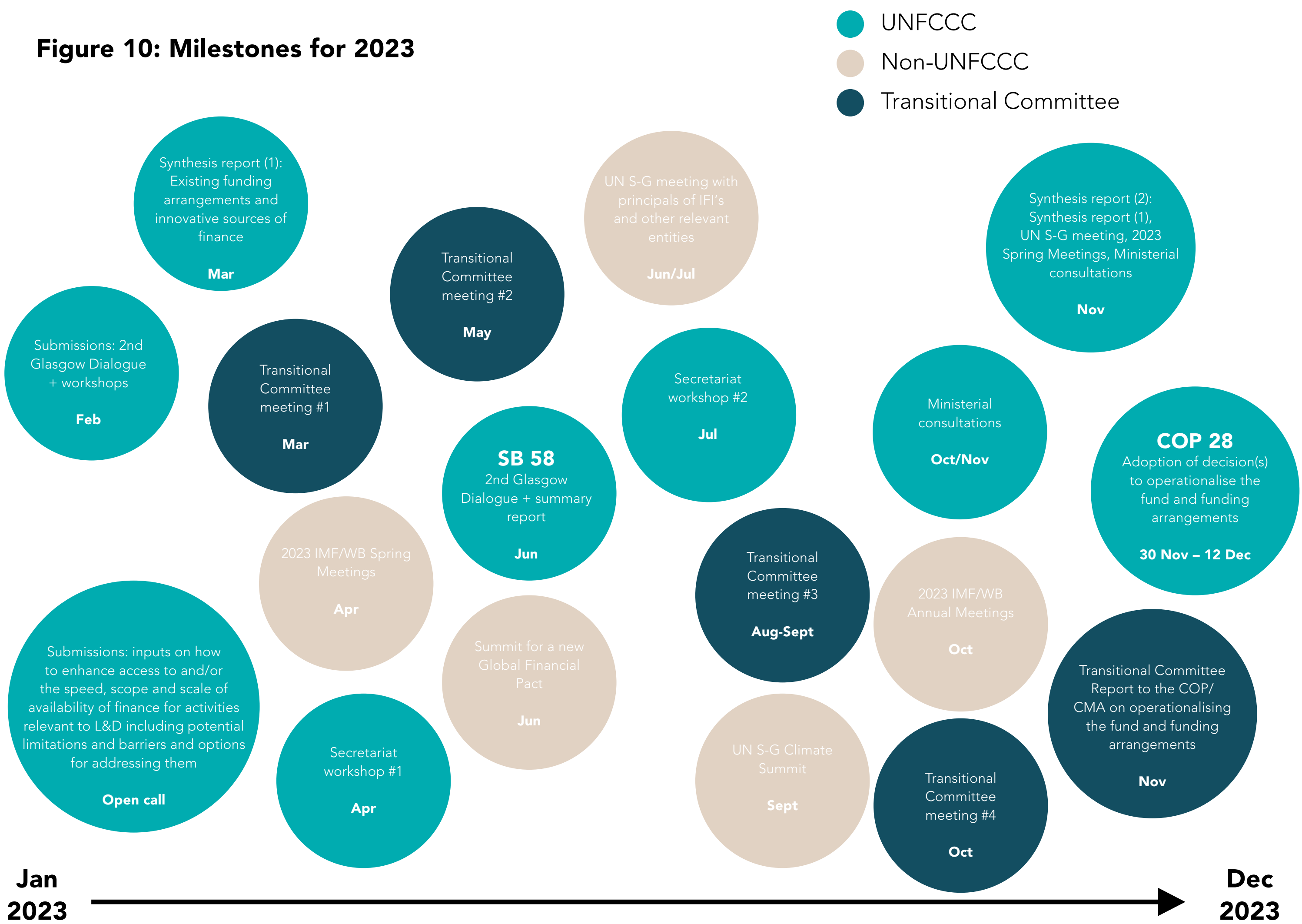
To ensure a concrete outcome emerges from the work in 2023 and beyond, some key process questions therefore need to be answered, including: What is the scope of the landscape, including key milestones?; and How can we ensure that the work on different elements while prioritising an operational design for the fund, is complementary and not only supports progress in other areas but is also not duplicative and harmful? Although beyond the scope of analysis for this paper, it will also be important for groups to consider how expertise from those already working in different spaces can be leveraged and coordination can occur to ensure complementary and ambitious progress in all areas.

VI

LANDSCAPE AND TIMELINE, INCLUDING KEY MILESTONES

Figure 10 lists the key milestones for 2023 on a timeline to COP 28, with mandated UNFCCC processes relevant to the TC in purple. In pink, there are non-UNFCCC processes that have already been clearly linked to the discussions of the TC either by COP 27 decision mandates or by being identified by key actors. For example, the Summit for a new Global Financial Pact and the UN Secretary General's Climate and the broader context of ongoing calls for reform of the IFIs.

Figure 10: Milestones for 2023

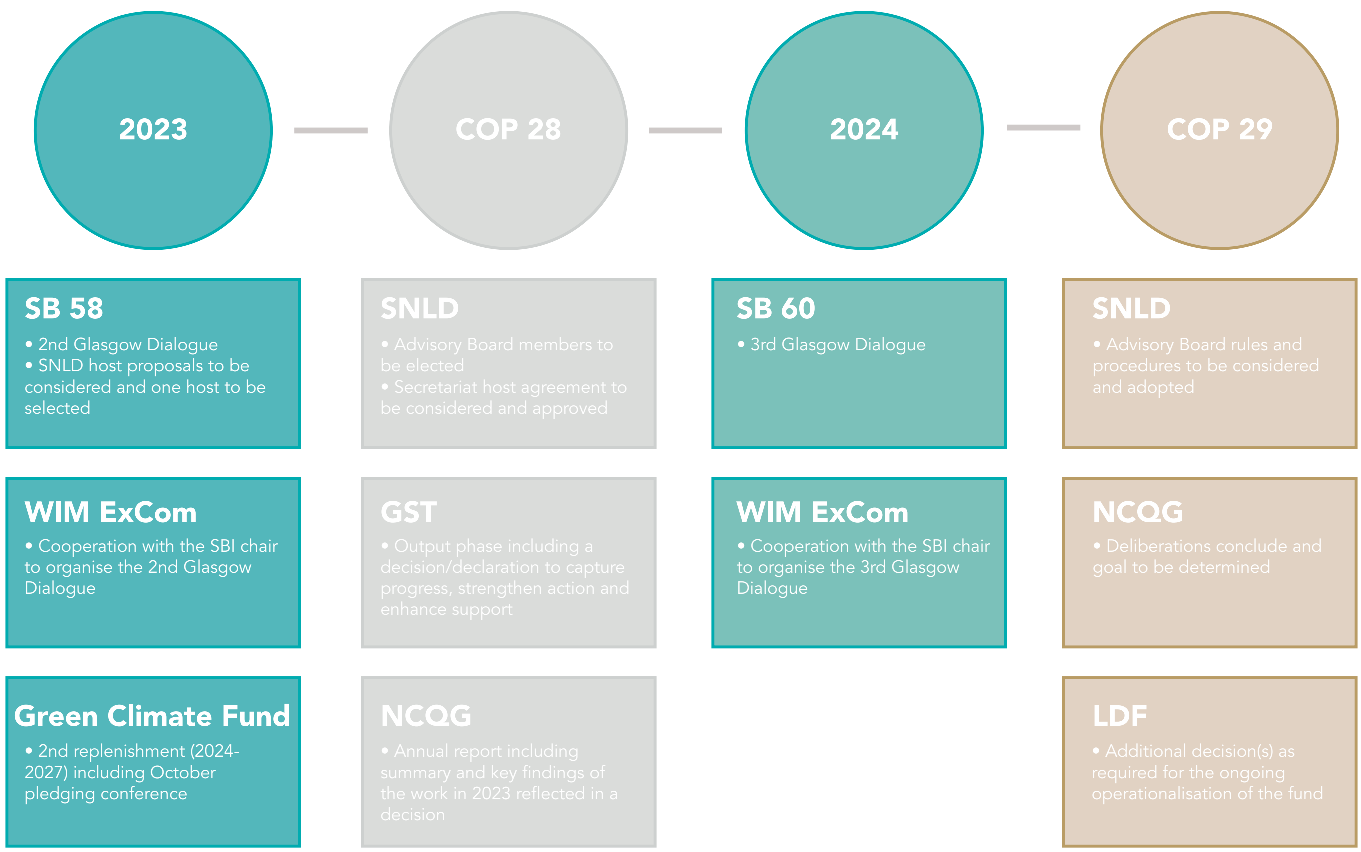


Source: The authors.

As we turn to consider the additional relevant processes in Figure 11, what is key is that members remain focussed on delivering a comprehensive decision to operationalise a fund under the UNFCCC that can be implemented by Parties at speed and at the scale needed. At the same time, it is important to be cognisant of complementary processes and opportunities inside and outside the UNFCCC where overlapping negotiations and discussions are occurring. The milestones for this aspect of the landscape have been plotted on a timeline to COP 29, and include taking into account the importance of the deliberations on the NCQG which conclude at COP 29; the ongoing work to fully operationalise the SNLD and the meetings and mandate of the Executive Committee of the WIM, both of which are key elements of the loss and damage architecture under the Convention and the Paris Agreement. The GST is also included as a key opportunity for high-level political messages at COP 28 that will capture progress, strengthen action and enhance support and accountability for loss and damage. With the GCF as the largest multilateral climate fund having kicked off its second replenishment, the results of its pledging conference in early October are an important indicator of ambition in climate finance provision, noting the GCF's role as the main multilateral channel for adaptation finance and a source of disproportionate importance for multilateral support for LDCs, SIDS and African States.[213]

> **"It is important to be cognisant of complementary processes and opportunities inside and outside the UNFCCC where overlapping negotiations and discussions are occurring."**

Figure 11: Key processes



Source: The authors.

Other relevant processes outside the UNFCCC that may be discussed include the G7-led Global Shield initiative launched in the context of calls for loss and damage finance;[214] the Summit for a new Global Financing Pact to be held on June 22-23 in Paris, in close partnership with the COP 28, G20 and G7 Presidencies.[215] Also relevant will be ongoing reform of the World Bank and ongoing initiatives of the UN Secretary General, as well ongoing progress on the International Court of Justice Advisory Opinion on the legal consequences of causing significant harm to the climate, environment, and vulnerable people of present and future generations.

ANNEX VII

This annex plots in more detail the timeline and key mandates for loss and damage negotiations in 2023:

Guide to the Loss and Damage negotiations 2023.

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