
Considerations for Operationalizing the Loss and Damage Fund and Funding Arrangements

Technical Paper

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Vulnerable nations have long called for the provision of financial assistance and technical support to help them address the loss and damage (L&D) caused by climate change. In recent years, finance for L&D has been a key focus of the UN Framework Convention on Climate Change (UNFCCC) agenda. This paper explores options and considerations for operationalizing new funding arrangements and a dedicated fund agreed to at the UNFCCC 27th Conference of the Parties (COP27) to address and respond to L&D due to the adverse effects of climate change.

Summary

As Parties begin to consider how to operationalize the funding arrangements and a new fund for responding to L&D that was agreed at COP27, it may be useful to assess currently available resources within and outside the UNFCCC system. Both new and additional resources can further complement existing funding sources. These sources, funds, processes, and initiatives may also be mobilized within and/or outside the UNFCCC. There is not necessarily a single approach to setting up funding arrangements or a new fund for responding to L&D; sources, funds, processes, and initiatives can be combined to create a mosaic of funding arrangements. This paper provides an overview of potential resource options.

Within the UNFCCC system, the “funding arrangements” could be addressed through:

- enhancing the Green Climate Fund (**GCF**)
- utilizing the Adaptation Fund and its existing facilities and programs
- establishing a direct funding window under an existing fund (e.g., the Least *Developed* Countries Fund (**LDCF**), the Special Climate Change Fund (**SCCF**), or the Adaptation Fund)
- enhancing funding opportunities for L&D through the Global Environment Facility (**GEF**).

Outside of the UNFCCC system, options include enhancing and utilizing the G7, the V20 (‘the Vulnerable Twenty’), and the Global Shield against Climate Risks, as well as the UN Secretary General initiative Early Warning for All.

Options for locating a new L&D fund within the UNFCCC system include:

- a new L&D fund as part of the UNFCCC Financial Mechanism
- a L&D fund under the GEF
- a L&D fund under the GCF
- a L&D fund under the Adaptation Fund, LDCF, or SCCF.

Outside of the UNFCCC, a multilateral L&D fund could be set up, for example, through the World Bank, International Monetary Fund (**IMF**), or other multilateral development banks) and/or through other UN institutions (e.g., the Sendai Framework for Disaster Risk Reduction).

The context of each of these funding options will influence the institutional arrangements, modalities, structure, governance, and terms of reference for operationalizing the fund. Parties should also bear in mind other important legal, political, equity, and technical considerations.

Introduction

L&D from climate change impacts individuals, society, the environment, income, and physical assets. Losses from L&D can be both economic and non-economic. Examples of non-economic loss include loss of life, property and income, damage to infrastructure and property, loss of biodiversity and ecosystem services, and human displacement.

Under the Paris Agreement, Parties may undertake activities to avert, minimize, and address L&D. In that context, “minimizing and averting” generally refers to activities related to adaptation and mitigation. “Addressing” L&D refers to actions taken after the impact (i.e., a slow- or sudden-onset event) has occurred. Parties also use the term “responding” to L&D, which refers to ongoing, ex-post action.

At COP27, Parties agreed to establish new funding arrangements and a dedicated fund to assist particularly vulnerable developing countries to respond to, and address, L&D due to the adverse effects of climate change. The historic agreement raises an important question of how to ensure new, additional, predictable, and adequate finance for responding to and addressing L&D.

The COP27 outcome on L&D

The current negotiations on L&D finance stem from efforts to stand up a L&D finance facility. Instead of a formal agenda item, COP26 established the Glasgow Dialogue as an open and inclusive forum to discuss the arrangements for the funding of activities to avert, minimize, and address L&D. Developing country Parties were disappointed, given that the informal process would lack political oversight and did not have a mandated deliverable. These Parties reiterated their call for formal discussions on a L&D finance facility, and, at COP27, Parties agreed to establish new funding arrangements and a dedicated fund to assist particularly vulnerable developing countries to respond to, and address, L&D due to the adverse effects of climate change.

The decision also:

- acknowledged the urgent and immediate need for new, additional, predictable, and adequate financial resources to assist developing countries that are particularly vulnerable to the effects of climate change in responding to L&D
- established a Transitional Committee that will meet to take recommendations for consideration and adoption at COP28 (December 2023) on the funding arrangements and new fund for L&Dⁱ
- decided that the second Glasgow Dialogue shall focus on the operationalization of the new funding arrangements and the new fund, as well as on maximizing support from existing funding arrangements relevant for L&D, in order to inform the work of the Transitional Committee.ⁱⁱ
- invited international financial institutions to consider the potential for such institutions to contribute to funding arrangements, including new and innovative approaches, responding to L&D
- invited the UN Secretary General to convene the principals of international financial institutions and other relevant entities with a view to identify the most effective ways to provide funding to respond to needs related to addressing L&D.

Through 2023, Parties will participate in workshops and consultations on the operationalization of the new fund and funding arrangements. See Annex 1 for a list of upcoming relevant upcoming milestones for 2023 on L&D.

Options for new funding arrangements

The following is a brief list of key financial institutions relevant for L&D finance within the UNFCCC system and how they could help mobilize new and additional resources that complement and include sources, funds, processes, and initiatives.

The Green Climate Fund, part of the financial mechanism for the UNFCCC and Paris Agreement, is a global platform that invests in low-emission and climate-resilient development projects. It offers a range of instruments, including grants, loans, guarantees, equity, and results-based payments. Considerations for choosing the GCF as the funding arrangement include:

- In terms of L&D-related financing, it can provide grants, concessional loans, guarantees, and equity investments.ⁱⁱⁱ
- It could enhance funding for L&D project proposals through the GCF itself, as well as through its Readiness Programme, Project Preparation Facility, or the Simplified Approval Process with a focus on responding to L&D. However, the GCF mandate would likely to need to be updated.

The Global Environmental Facility (GEF) is a multilateral fund that serves as the “financial mechanism” to five conventions, including the UNFCCC and Paris Agreement. It is dedicated to addressing climate change, pollution, integrated cross-cutting programs, adaptation, biodiversity loss, and strains on land and ocean health for developing countries. It does this work through grants, policy support, and blended finance. It also manages two special funds established by UNFCCC Parties, the **Special Climate Change Fund (SCCF)** and the **Least Developed Countries Fund (LDCF)**. Considerations for choosing the GEF and/or its subsidiary funds as the funding arrangement include:

- In terms of L&D, it could establish a new L&D funding window under the SCCF or LDCF
- It could enhance funding for L&D through the GEF itself, such as through the small grants program.

Established under the Kyoto Protocol, but also serving the Paris Agreement, the **Adaptation Fund** provides grants for both adaptation and L&D activities. Non-economic losses, such as loss of biodiversity, loss of territory, or loss of societal and cultural identities, may fall outside of the Adaptation Fund’s mandate. Considerations for choosing the Adaptation Fund as the funding arrangement include:

- L&D activities include preemptively strengthening resilience through risk assessments, risk prevention, climate monitoring, and early warning systems.
- The Fund’s Innovation Facility could be used to address non-economic L&D, such as societal identity and cultural heritage protection.^{iv}
- Parties can establish new L&D project/program funding window, as well as a new L&D readiness program.

Parties may also seek to incorporate and coordinate with new and additional resources for L&D—including sources, funds, processes, and initiatives—that **are managed outside of the UNFCCC**. These include the Global Shield Against Climate Risks, the initiative by the G7 and V20, which aims to reduce climate vulnerability for poor and vulnerable people in the Global South by improving climate risk finance and preparedness to access assistance more easily and quickly.^v It also could include the UN Secretary General’s initiative Early Warning for All, with a US \$3.1 billion plan to ensure everyone on the planet is protected by early warning systems by 2027.^{vi}

These and other sources and initiatives can help:

- close gaps and enhance humanitarian assistance in responding to L&D
- increase post disaster risk reduction finance, such as a fund under the Sendai Framework
- fund development with focus on planning for slow and sudden onset events, and ‘build back better’ in rehabilitation, recovery, and reconstruction
- complement innovative sources of finance, such as insurance, grants, equity-based funding, new or expanded market mechanisms, and private sector initiatives.

Options for the new fund

While there are a number of configurations Parties can consider in creating the funding arrangements for addressing and responding to L&D, the biggest consideration for a new fund for addressing and responding to L&D is where it could be sited. The table below outlines options within and outside the UNFCCC.

Table 1: Site options for a fund for addressing and responding to L&D

Location	Description
UNFCCC Financial Mechanism ^{vii}	A new, stand-alone L&D fund under the UNFCCC financial mechanism
Global Environment Facility	A new fund under the GEF ^{viii}
	A fund under the GEF located either within the LDCF or SCCF
Adaptation Fund	A fund that sits within the Adaptation Fund focused solely on responding and addressing to L&D
Green Climate Fund	A special L&D fund under the GCF with focus on funding measures that respond to and address L&D ^{ix}
A multilateral L&D fund set up outside of the UNFCCC	A multilateral L&D fund set up outside of the UNFCCC, e.g., in cooperation with the World Bank or other multilateral development banks, and/or connected to other UN institutions in addition to the UNFCCC

In determining the best arrangements and siting for the funding arrangements for addressing and responding to L&D, including a fund, Parties and experts may want to consider the following key questions:

- Which areas and arrangements in the current L&D ecosystem hold the greatest potential for enhancing L&D funding arrangements?
- Which new funding arrangements for L&D are needed to complement and coordinate existing ones?

- What are the most important considerations when operationalizing the new fund for responding to (including addressing) L&D?
- Which option for operationalizing the fund holds greatest potential for enhancing support for addressing L&D?
- How should “countries that are particularly vulnerable” be defined?

Cross-cutting considerations

In addition to identifying funding arrangements and a location of the L&D fund within and outside of the UNFCCC system, Parties should note related considerations and dynamics that may influence the discussions. These include:

Limitations and gaps in disaster risk reduction, humanitarian assistance, migration and displacement, and development assistance regimes

The institutional frameworks for disaster risk reduction, humanitarian assistance, migration and displacement, and development assistance address elements of L&D in piecemeal fashion. Currently, these frameworks focus largely on economic/physical aspects and loss of life. As such, they lack an understanding of climate risk and potential future impacts. Sources of funding for responding to slow-onset events—including planned relocation, recovery, and rehabilitation—are needed. Humanitarian assistance and development efforts could work to streamline and integrate the climate change perspective, particularly when it comes to responding to L&D. However, fast, long-term, and predictable finance relevant for L&D after disasters hit, to build back better, is needed. UN institutions outside of the UNFCCC rarely promote existing solutions, such as climate risk management, forecast-based financing instruments, early-warning systems, and insurance and other risk-transfer solutions, in a comprehensive way.

Other work on L&D

This other work includes whether and how the Santiago Network on L&D (SNLD) should be linked with the funding arrangements and the fund for L&D. Could the SNLD assist with assessing, establishing and/or managing complex risk pool and risk-sharing mechanisms? Could the SNLD have a role to play in collecting data on L&D finance?

Ongoing work on adaptation

Many issues relevant to adaptation (such as implementation, accessible data, and capacity) are also relevant for L&D. In particular, the relationship between adaptation and L&D means that the greater the global emissions of carbon dioxide are, the greater the need for adaptation measures, with L&D occurring if and where adaptation measures are inadequate, insufficient, or otherwise impossible. Many methodological, empirical, and conceptual challenges either directly or indirectly influence L&D. Sufficiently distinguishing between adaptation and L&D in order to ensure adequate funding for both is difficult.

Transparency

Transparency will be important to develop and maintain trust in the funding arrangements and fund for L&D. Parties should consider whether and how L&D funding could be reported under the Paris Agreement's enhanced transparency framework, or whether to establish a separate monitoring, reporting, and evaluation system. Are there other reporting systems relevant for ensuring transparency for L&D funding?

The COP28 agenda

There are high expectations that Parties will operationalize L&D funding arrangements, including a fund, at COP28. But other mandated outcomes include the agreement of a framework for the global goal on adaptation^x and the conclusion of the Global Stocktake (GST),^{xi} which will also require significant political attention.

The wider financial system, including the private sector

Parties should also be assessing the broader climate finance picture and ensuring that the enabling environment for financing L&D is robust. This could include enhancing capacity for climate and financial data, establishing regulatory environments, undertaking risk assessments, and integrating plans and policies for L&D at technical and financial levels. Additionally, Parties may want to ensure that the private sector is incentivized to help scale up resources and finance for L&D, such as through insurance and innovative sources of finance, which could include taxes, levies, subsidies, and market mechanisms.

Conclusion

The new institutional arrangements for L&D will need to engage with and coordinate across an ecosystem of regimes and actors that extend beyond the UNFCCC. Parties could consider the potential for the UNFCCC to have a broad perspective and coordinating role for L&D, ensuring the integration of adaptation and L&D considerations into development, disaster risk reduction, and humanitarian aid. Integrated financial approaches across global agendas under the Sendai Framework, the SDGs, and the Paris Agreement will broaden the pool of resources available, fund cross-cutting measures, and make it easier to access finance for L&D.

Parties should also consider the different options for operationalizing the L&D fund, including where it could be best situated. In doing this, it is relevant to consider what type of financial tools are suited for the different measures for addressing and responding to L&D, and how to best deliver effective, transparent, and fast finance.

Annex 1: 2023 milestones

Date/Location	Description
March 27 – 29, Luxor, Egypt	The first meeting of the Transitional Committee for L&D
April 10 – 16 Washington, DC, USA	World Bank and IMF spring meetings. At COP27, international financial institutions were invited to consider, at these meetings, the potential for such institutions to contribute to funding arrangements responding to L&D, including new and innovative approaches.
April 29-30, Bonn, Germany	Workshop 1: Organized by the UNFCCC Secretariat to inform the recommendations by the Transitional Committee, with the participation of a diversity of institutions relevant to addressing L&D.
May 25-27 Europe	The second meeting of the Transitional Committee for L&D
June 5 – 15 Bonn, Germany	SB58, at which the following will occur: <ul style="list-style-type: none"> • Second Glasgow Dialogue, focusing on the operationalization of the new funding arrangements and the fund responding and addressing to L&D established at COP27, informing the work of the Transitional Committee (June 8-10) • Third Technical Dialogue (TD1.3) for the GST
June 22-23, Paris, France	The Summit for a New Global Financing Pact
July 22-23, Bangkok, Thailand	Workshop 2: Organized by the UNFCCC Secretariat to inform the recommendations by the Transitional Committee, with the participation of a diversity of institutions relevant to addressing L&D.
August 29- September 1, To be announced	The third meeting of the Transitional Committee for L&D
October 17-20, To be announced	The fourth meeting of the Transitional Committee for L&D
Nov 30 – Dec 12 Dubai, United Arab Emirates	UNFCCC Climate Change Conference (COP28): <ul style="list-style-type: none"> • the recommendations made by the Transitional Committee on the new funding arrangements for responding to L&D and the fund, including operationalization, are likely to be adopted at COP28/CMA5 • continued discussions on the Santiago Network, including election of members for the Advisory Board, will take place; and decisions related to the host of the SN Secretariat • the first GST will conclude, with outcomes and decisions relevant for L&D

To be announced	<ul style="list-style-type: none"> • The COP27 decision invited the UN Secretary General to convene with the principals of international financial institutions and other relevant entities with a view to identify the most effective ways to provide funding to respond to needs related to addressing L&D. • Ministerial consultations: The COP27 and COP28 Presidencies plan to convene ministerial consultations to advance consideration and understanding of a possible outcome of enhanced and additional L&D support for activities addressing L&D
Ongoing Deadline	Submission on L&D finance: UN agencies, IGOs, bilateral, multilateral, and international financial institutions to submit inputs on how to enhance access, scope, scale and availability of L&D finance for consideration by the L&D transitional committee

Endnotes

ⁱ It will make recommendations for consideration and adoption at COP28/CMA5.

ⁱⁱ It is not clear at this time what the mandate for the third Glasgow Dialogue (taking place at the 60th Subsidiary Body Meeting [SB60] in June 2024) would be, noting that the fund is expected to be operationalized in November 2023.

ⁱⁱⁱ For example, financed projects for risk assessment, risk prevention or reduction, and implementation of early-warning systems to reduce loss of life. Other examples include ecosystem-based adaptation and risk reduction through flood mapping and early-warning systems, and weather index-based insurance programs. At COP25, Parties invited the GCF to continue to provide financial resources for L&D activities, consistent with its existing investments, results framework, and funding windows and structures, taking into account the five-year workplan of the ExCom. Access channels include the Project Preparation Facility and the Readiness and Preparatory Support Programme. Parties also directed the GCF and the ExCom to take steps to clarify access to funding for L&D through the GCF.

^{iv} For more information on the Adaptation Fund and its Innovation Facility, see Adaptation Fund, *Innovation Facility*, last modified <https://www.adaptation-fund.org/wp-content/uploads/2020/10/Adaptation-Fund-Innovation-Facility-1.pdf>.

^v For more information on the Global Shield Against Climate Risk initiative: BMZ, “Global Shield Against Climate Risks” last modified November 14, 2022, <https://www.bmz.de/en/issues/climate-change-and-development/global-shield-against-climate-risks>

^{vi} For more information on the Early Warning for All initiative: UN News,

^{vii} <https://unfccc.int/funds-and-financial-entities#:~:text=The%20mechanism%20includes%20a%20number,Protocol%20and%20the%20Paris%20Agreement.>

^{viii} At the L&D Warsaw International Mechanism (WIM) Executive Committee (ExCom) 18th meeting, the GEF Secretariat briefed on enhancing L&D funding arrangements and the possibility of having the L&D fund under the GEF. See UNFCCC, “GEF Presentation to the 18th ExCom Meeting of the WIM by Ralston Moore”, last modified on March 2, 2023. https://unfccc.int/sites/default/files/resource/GEF_Presentation%20to%20the%20Excom.pdf

^{ix} The GCF already provides financial resources for activities with some indicators relevant to avert, minimize and address L&D in developing country Parties in limited ways. There are also overlaps between GCF’s funding for adaptation and resilience with L&D measures. However, Parties highlighted several weaknesses of GCF funding for

L&D in the Glasgow Dialogue, including its focus on adaptation activities and activities that avert and minimizes (as opposed to address) L&D. It is likely that GCF's mandate and guidance would need to be updated to accommodate for a L&D fund. Because the GCF is replenished across all windows of funding, it is less vulnerable to variations in funding levels. Furthermore, the GCF could potentially support all workstreams currently under the WIM ExCom.

^x Cathrine Wenger, *COP27: issues and options for a global goal on adaptation* (Arlington, VA, C2ES, October 2022), <https://www.c2es.org/wp-content/uploads/2022/10/COP27-issues-and-options-for-a-global-goal-on-adaptation.pdf>.

^{xi} Lavanya Rajamani, Sebastian Oberthür, and Kaveh Guilanpour, *Designing a meaningful global stocktake* (Arlington, VA, C2ES, January 2022) https://www.c2es.org/wp-content/uploads/2022/01/designing-a-meaningful-global-stocktake-under-the-paris-agreement_e.pdf.