CENTER FOR CLIMATE AND ENERGY SOLUTIONS

INTERNATIONAL

Options for the Loss and Damage Fund
Technical Paper

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Table of Contents

A. Summary

1. At COP27, Parties agreed to a new fund for assisting particularly vulnerable developing countries in responding to and addressing loss and damage (**L&D**). The context and options for operationalizing the funding arrangements and fund are necessarily influenced by the broad landscape of funding that supports humanitarian assistance, development, disaster risk reduction, adaptation, and peacekeeping activities.[1] Existing sources of funding for responding to and addressing L&D could be enhanced by adding new and innovative sources of funding and expanding sources to include, for example, taxation and use of markets.

2. Over the course of 2023, the L&D Transitional Committee, established at UN Framework Convention on Climate Change (**UNFCCC**) 27th Conference of the Parties (**COP27**) to make recommendations on a new fund for adoption at COP28, participated in workshops and consultations on the operationalization of the funding arrangements and fund.[2] This work has informed the Committee's recommendations for consideration and adoption at COP28 and necessitates deeper consideration of how to ensure new, additional, predictable, and adequate finance for responding to L&D.

3. This technical paper sets out options and considerations deliberated upon by Parties and the Transitional Committee and builds on prior work[3] by the Center for Climate and Energy Solutions (**C2ES**), including "A Gap Analysis of Finance Flows for Addressing Loss and Damage."[4]

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[1] The institutional frameworks for disaster risk reduction, humanitarian assistance, migration and displacement, and development assistance address elements of loss and damage (L&D) in a piecemeal fashion. They also focus largely on economic and physical aspects and loss of life, as well as lack understanding of climate risk and potential future impacts. The current system is geared towards fostering a stable climate—one that experiences fewer and less intense natural disasters than now or in the future. Economic pressures and impacts from, for example, COVID-19, and longer or more intense conflicts (including the Russian invasion of Ukraine), may significantly affect development pathways.

[2] Since drafting of this technical paper, the Transitional Committee on L&D has sent recommendations on the L&D fund for adoption at COP28. For more information see: UN Framework Convention on Climate Change (hereafter UNFCCC), *Fifth meeting of the Transitional Committee on the operationalization of the new funding arrangements for responding to loss and damage and the fund established in paragraph 3 of decisions 2/CP.27 and 2/CMA.4*, TC5/2023/4/Rev.2, (November 2023), https://unfccc.int/sites/default/files/resource/TC5_4_Cochairs%20draft%20text_Rev2_4Nov2100.pdf.

[3] See Catherine Wenger, "COP27: Considerations for a Loss and Damage Finance Facility," (Arlington, VA: Center for Climate and Energy Solutions [hereafter C2ES], October 2022), https://www.c2es.org/document/cop27-considerations-for-a-loss-damage-finance-facility/; Catherine Wenger, "The Institutional Ecosystem for Loss and Damage," (Arlington, VA: C2ES, August 2022), https://www.c2es.org/document/the-institutional-ecosystem-for-loss-and-damage/.

[4] Catherine Wenger and Chelsea Johnson, "A Gap Analysis of Finance Flows for Addressing Loss and Damage," (Arlington, VA: C2ES, June 2023), https://www.c2es.org/wp-content/uploads/2023/06/LD-Funding-Arrangements-Gap-Analysis.pdf.

Key questions and considerations:

Fundamental questions:

- Which types of L&D should the fund cover?
- Where will the fund be located?
- What are the terms of reference?
- Where can sources of funding for the L&D fund be drawn?
- What will be the governance structure of the fund?
- Who will have access to the L&D fund?
- How will the fund fit into the existing mosaic of funding arrangements for L&D?

Whether and how the following elements can be incorporated into a fund that is fit-for-purpose:

- type(s) of support and sources eligible for the fund (e.g., grants, microgrants, loans, insurance, taxes, carbon credits, finance instruments, philanthropy, private individuals)
- action type/type of climate risk covered (i.e., slow onset, extreme weather events)
- type of loss covered (i.e., economic, non-economic)
- prioritization (which areas are prioritized and why)
- anticipatory and/or aftermath (i.e., ex post, ex ante, or both)
- adequacy/size (i.e., level of funding needed and min-max distribution)
- access timeframe/speed in which resources are made available (quick/in weeks; medium/12 months; slow/years)
- action spectrum/longevity of funding (e.g., one-time payment, long-term)
- potential donors and funding sources
- disbursement/allocation (e.g., based on demand/need, vulnerability, equity, political, adaptation efforts undertaken within existing capacities, to leave no one behind, future risk scenarios)
- access and approval procedures (including language options)
- triggers for disbursement, if relevant
- focus on enhancing existing sources and/or new and additional
- targeted and specific (i.e., programmatic approaches, regional or national specific)

Overarching considerations, including:

- How to define L&D in the context of the fund?
- What are the biggest priorities in operationalizing the new fund for responding to (including addressing) L&D?
- Which option for operationalizing the fund has greatest potential for enhancing support for addressing L&D?
- Should existing funds expand their mandates to include responding to and addressing L&D? Should the L&D fund have sole ownership or coordinate the responsibilities of financing action to respond to and address L&D under the UNFCCC and the Paris Agreement?
- Should the L&D fund include actions to minimize and avert L&D that overlap with adaptation, resilience, and development?
- What role could the L&D fund have in relation to other initiatives that support L&D actions?

B. Location of the new fund

4. There are several options for placement of the L&D fund, each of the options has several benefits and drawbacks.

(i) A new, stand-alone L&D fund under the UNFCCC financial mechanism

5. **Benefits:** Parties can custom-build the rules of procedure, governance systems, terms of reference, and could learn from other funds in this process. Additionally, Parties will be able to take into account all the different aspects of responding to and addressing L&D, such as the considerations listed above, and have greater flexibility in where the fund is constituted.

6. **Drawbacks:** It could take many years to set up the fund and operationalize it.[5] Costs to set up the fund are likely higher than utilizing existing climate funds. Whether to establish it under the UNFCCC financial mechanism raises politically challenging questions.[6]

(ii) A new L&D fund under the Global Environmental Facility (GEF)

7. A new L&D trust fund could be established under the Global Environment Facility (**GEF**) in the same way the Special Climate Change Fund (**SCCF**) was set up. The GEF is a trust fund with a governing structure organized around an Assembly, Council, Secretariat, 18 agencies, Scientific and Technical Advisory Panel, and Evaluation Office.[7] The Assembly—composed of all 185 member countries—meets every three to four years to review general policies. Council members make decisions by consensus. The GEF Secretariat also supports the Least Developed Countries Fund (**LDCF**) and the SCCF. The Scientific and Technical Advisory Panel is an independent advisory body with its own chair, six panel members, two senior advisors and a secretariat of seven provided by UNEP. The Scientific and Technical Advisory Panel's role is to provide objective and technical advice on GEF's policies strategies, programs, and projects, as well as to screen GEF projects.[8] Additionally, the GEF's Resource Allocation Framework allocates resources to

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[5] It took five years for the UNFCCC to set up the Green Climate Fund (GCF), from decision to operationalization. However, that does not include the time it took to negotiate the decision or for the fund to be fully functional after operationalization. Established in 1991, the GEF was restructured and expanded before attaining its current structure in 1998.

[6] Questions include whether the Paris Agreement needs to be amended, as Article 9 finance obligations do not currently cover L&D. Article 9.1 of the Paris Agreement states "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." Paris Agreement to the UNFCCC, Dec. 12, 2015, T.I.A.S. No. 16-1104 Decision 1/CP.2.

[7] The GEF is an operating entity of the Financial Mechanism, which also serves the Paris Agreement. As such, it is guided by the Conference of the Parties (COP) and the Paris Agreement (CMA). It currently operates two funds that provide adaptation projects with L&D benefits: the Least Developed Country Fund (LDCF) and the Special Climate Change Fund (SCCF).

[8] "About," Scientific and Technical Advisory Panel, last accessed October 11, 2023, https://www.stapgef.org/about/.

countries in a transparent and consistent manner according to global environmental priorities and country policies.[9]

8. In 2001, Parties established the SCCF under the UNFCCC and asked the GEF to manage it with the World Bank as a trustee. The SCCF follows the GEF's operational policies and fiduciary standards. However, the SCCF differs from other GEF trust funds in that funding is not allocated according to Resource Allocation Framework and the Scientific and Technical Advisory Panel. [10] Decisions are made by consensus, with two-thirds of the Members of the Council constituting a quorum.

9. **Benefits**: A large climate and environment fund could generate positive spillover effects for existing projects addressing and responding to L&D (including adaptation and biodiversity loss). Less time is required to operationalize the fund, as compared to setting up a new stand-alone fund, which means quicker access to initial funds. Existing GEF operational policies and fiduciary standards could apply, reducing time and capacity needed to agree them. GEF is known to have high levels of trust, goodwill, and sense of common purpose among its Council members.

10. **Drawbacks:** The GEF could meet capacity constraints as it is currently also the trust fund for several other conventions (including the Convention on Biological Diversity—and its new fund to reduce biodiversity loss).[11] As its trustee, the GEF is governed by the World Bank and is subject to its governance rules.[12]

(iii) A special L&D funding window under the Green Climate Fund (GCF) with focus on funding measures that respond to and address L&D[13]

11. The Green Climate Fund **(GCF)** consists of a 24-member Board responsible for governance and oversight, a secretariat-which executes day-to-day operations, and three independent units that facilitate accountability.[14] The World Bank currently serves as trustee for the financial resources.

12. **Benefits:** The GCF replenishments are large and predictable across all windows of funding and are therefore less vulnerable to funding fluctuations. Noting that the GCF already provides financial resources for activities with some limited but relevant indicators for averting, minimizing, and addressing L&D in developing country Parties, it would take less time to establish a funding window than to set up a new

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[9] Global Environmental Facility (hereafter GEF), "The GEF Resource Allocation Framework", (Washington DC: GEF Council, November 8-10, 2005), https://www.thegef.org/sites/default/files/council-meeting-documents/C.27.Inf_.8.Rev_.1_RAF.pdf

[10] Additionally, SCCF projects do not need to follow the incremental cost principle. However, mitigation projects under the SCCF need to follow the incremental cost principle and demonstrate the global/mitigation benefit, as they would if seeking funding under the GEF Trust Fund. For more information see, Bonizella Biangini and Saliha Dobardzic, "Accessing Resources Under The Special Climate Change Fund," (Washington, DC: GEF, May 2011), 8, https://www.thegef.org/sites/default/files/publications/23470_SCCF_1.pdf.

[11] "On the heels of biodiversity deal, GEF presents record work program and prepares to host new fund," *GEF*, June 14, 2023, https://www.thegef.org/newsroom/news/heels-biodiversity-deal-gef-presents-record-work-program-and-prepares-host-new-fund.

[12] Albeit these have been amended to be more inclusive of developing countries.

[13] The GCF is an operating entity of the Financial Mechanism of the UNFCCC. The GCF is accountable to and functions under the guidance of the COP.

[14] These three units are called the Independent Evaluation Unit, the Independent Integrity Unit, and the Independent Redress Mechanism Unit.

fund. GCF could potentially support all workstreams under the Warsaw International Mechanism (**WIM**) Executive Committee (**ExCom**) – work that overlaps with and complements GCF's funding for adaptation and resilience. GCF has parity between developed and developing countries.

13. **Drawbacks:** GCF has faced political challenges and has suffered from slow decision-making. (However, the GCF has been working to improve its practices and has increased the efficiency of its decision-making in the second half of GCF-1).[15] GCF's mandate, procedures and guidance likely need to be updated to accommodate a L&D fund, which could take time –but less time than creating new procedures for a new fund. Additionally, the GCF has a large workload and capacity constraints.

(iv) Extending the Adaptation Fund to include L&D

14. The Adaptation Fund is a constituted body and therefore not a fund under the UNFCCC or an operating entity under the financial mechanism. The World Bank is the trustee, and it has a secretariat that provides research, advisory, and administrative functions. The Adaptation Fund serves the Paris Agreement and will continue to be funded through both bilateral replenishments and proceeds from market mechanisms (previously the Clean Development Mechanism under Kyoto Protocol, now under Article 6 of the Paris Agreement). The World Bank sells the certified emission reductions (**CERs**) on behalf of the Adaptation Fund. The Adaptation Fund board (its governing body) is composed of: 16 members and 16 alternates representing Parties to the Kyoto Protocol; two representatives from each of the five UN regional groups; one representative of the Small Island Developing States (**SIDS**); one representative of the Least Developed Country (**LDC**) Parties; two other representatives from the Parties included in Annex I to the Convention (Annex I Parties); two other representatives from the Parties not included in Annex I to the Convention (non-Annex I Parties).[16] Decisions are taken by consensus whenever possible. If consensus is not reached, decisions shall be taken by a two-thirds majority.

15. **Benefits:** The Adaptation Fund finance is sourced from market mechanisms in addition to replenishment from Parties to the UNFCCC. The Adaptation Fund board understands the limits to adaptation and synergy effects in addressing L&D and it was one of the first funds to introduce innovative financing solutions and direct access to finance.

16. **Drawbacks:** The Adaptation Fund is closely connected to the Kyoto Protocol, which has strong bifurcation between developed and developing countries. The board lacks balance, given that its composition is 69 percent developing countries. It is not a trust fund, and it would not be a new standalone fund. The Adaptation Fund is smaller in size than the GEF or the GCF. Its rules of procedures will have to be updated to include L&D, which could open political issues regarding representation on the board.

[15] Daisuke Horikoshi et al., *Second Performance Review of the Green Climate Fund*, Evaluation report No. 13, (Songdo, South Korea: Independent Evaluation Unit, GCF, February 2023), 15, https://ieu.greenclimate.fund/sites/default/files/document/230217-spr-final-report-top.pdf.
[16] "Rules of procedure of the Adaptation Fund Board," (Adaptation Fund, 2018), https://www.adaptation-fund.org/wp-content/uploads/2018/04/Rules-of-procedure-of-the-Adaptation-Fund-Board.pdf.

(v) A multilateral L&D fund set up outside of the UNFCCC

17. Another option is a multilateral L&D fund set up outside of the UNFCCC. For example, it could be established in cooperation with the World Bank, other multilateral development banks, regional development banks, and/or connected to other UN institutions in addition to the UNFCCC.

(vi) A possible new financial intermediary fund under the World Bank

18. The L&D fund could be established as a financial intermediary fund (**FIF**) under the World Bank**,** a trust fund that could be mandated to respond to and address L&D.[17] The World Bank as trustee would provide administrative, financial, legal, and operational services. A governing body (the board) comprised of the World Bank (as Chair), donors and in some cases other relevant stakeholders, would instruct the World Bank to finance agreed actions.[18] Decisions are made by consensus. Other implementing agencies normally oversee the use of funds, but the World Bank could be involved as an implementing agency. The sources of finance could be tailored to the specific fund and include, but are not limited to bond issuance, hedging intermediation, and monetization of carbon credits. Donors can be public or private entities.

19. **Benefits:** The World Bank has extensive experience providing services to trust funds, synergies with existing funds addressing L&D (e.g., reconstruction in the aftermath and long-term after a disaster) and expertise in innovative financing.

20. **Drawbacks:** The governing body does not automatically include developing country Parties as relevant stakeholders unless specifically agreed. Grants-based finance through the World Bank is generally low (15 percent). Decision-by-consensus could prove difficult unless it includes the use of two-thirds majority vote if no consensus can be reached.

C. Terms of reference of the new fund

(i) Objective(s), scope, and activities

21. To agree on the terms of reference for the L&D fund Parties need to clearly define the objective and scope of the fund.[19] Parties will need to consider clarifying the functions of the fund and what the fund should finance, and how it should be financed (i.e., through dedicated windows or other means).

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[17] "Guidance Note Governance in IBRD/IDA Trust Funds," (Washington, DC: World Bank, March 2020), https://thedocs.worldbank.org/en/doc/861481591986044862-0060022020/original/GuidanceNoteGovernanceinIBRDIDATrustFunds1.pdf

[18] Relevant stakeholders include client country representatives, the UN, representatives from civil society or NGOs, and private sector representatives.

[19] A vision could, for example, be to reduce the inequitable effects of climate change that countries cannot reasonably adapt to, and to assist developing countries that are particularly vulnerable to the adverse effects of climate change, considering the needs of indigenous peoples, local communities, women, children, people with disabilities, and the elderly.

22. In terms of what the fund should finance, the following list includes examples of actions to address L&D that could benefit from financial support:[20]

- **Planned relocation/assisted migration**: Relocation or resettlement as a consequence of climate change; support systems for forced migration and climate-induced displaced persons.
- **Transformational development and alternative livelihoods**: Support for rebuilding and/or alternative livelihoods post-climate change-related events/post- migration/displacement; assistance with diversification of income in already affected areas; support reducing food insecurity due to climate-related events.
- **Non-economic measures**: Active remembrance; documenting and recording traditional and local knowledge; cultural preservation; societal protection; mental health counselling; enabling access/safe visits to abandoned sites; recognition and repair of loss (whether or not accompanied by financial payment); addressing root causes of vulnerability; or other ways to reduce the impacts from climate change on the affected individual/society. It can also include measures to reduce "similar" risk of non-economic L&D in other areas through lessons learned as well as shared knowledge and understanding.
- **Construction and creation:** Altering the nature of the area in question, such as building artificial islands or creating a metaverse for the State in question.[21]
- **Slow-onset events:** Increasing temperatures; desertification; glacial retreat and related impacts; ocean acidification; sea level rise; and salinization.
- **Safeguarding biodiversity:** Relocation of animals and biota, seed collection, introducing new species that are better fit for the area, land and forest conversation, ecosystem support (i.e., introducing feed or artificial watering systems).
- **Preparedness—recovery, rehabilitation, and reconstruction**: Restoring essential services and facilities; restoring lost livelihoods, health, economic, social, cultural, environment/ecosystems, and physical assets (such as infrastructure and housing); re-establishing systems and activities of a community or society affected by disaster.
- In the short term, it should focus on restoration and clean-up, including humanitarian assistance.
- In the long term, it should focus on transformational development and building forward better, which is also connected with reactive adaptation action.

(ii) Structure

23. Another key element is the architecture of the fund. The following list includes components of a fund structure:

- a trustee, e.g., the World Bank
- a secretariat/coordinating body to manage, e.g., meeting arrangements, meeting records

[20] It covers L&D that stems from both sudden and slow-onset events, leading to both economic and non-economic L&D.

[21] Roselyne Min, "Tuvalu is recreating itself in the metaverse as climate change threatens to wipe it off the map," *Euronews*, November 23,2022, https://www.euronews.com/next/2022/11/23/tuvalu-is-recreating-itself-in-the-metaverse-as-climate-change-threatens-to-wipe-it-off-th

24. Options include:

- the GEF Secretariat, chosen on an interim or long-term basis
- the UNFCCC Secretariat
- the Santiago Network secretariat
- a secretariat from the World Bank (as is the case for the Adaptation Fund)
- a secretariat from any other suitable international organization
- a new secretariat
- a governing body/board/council (see below for composition)
- accountability units/an evaluation office
- utilizing all or some of the GCF's accountability units
- utilizing the GEF's Independent Evaluation Office
- establishing an independent evaluation and accountability unit/office
- the WIM ExCom, national focal points, the Santiago Network, and/or implementing agencies within and outside of the UNFCCC.

(iii) Composition of the board

25. Options for the composition of the board for the fund depending on where the fund is sited, as well as taking into account gender balance, include, for example:

- the Transitional Committee membership: 24 members—10 from developed country Parties and 14 from developing country Parties (three from Africa; three from Latin America and the Caribbean; three from Asia and the Pacific; two from SIDS; two from LDCs; and one from a developing country Party not included in the categories listed),
- the GEF Council member: 32 members—14 from developed countries, 16 from developing countries, and two from economies in transition,
- The SCCF/LDCF Council membership: 32 members representing GEF member countries—14 from donor constituencies and 18 from recipient constituencies.[22]

26. Additional consideration of board composition could include:
- if they have a role in replenishing the fund, board members from other UN bodies, international agencies, and philanthropic organizations
- representation by indigenous peoples and local communities.

(iv) Decision-making

27. Decisions regarding the fund could be taken by:

- consensus.[23]
- two-thirds majority vote.

[22] Using the phrase "donor" country could invite a wider group of countries to replenish the fund.
[23] This is the most common way to reach a decision under the UNFCCC. However, this could lead to stalemates in very contentious cases. When all efforts toward reaching consensus have been exhausted, decisions could be taken by a three-quarters majority vote as a last resort. This is the process used by the committee to facilitate implementation and promote compliance mandated by Article 15 of the Paris Agreement.

(v) Reporting requirements

28. Considerations for the reporting requirements include:

- governing body (i.e., CMA,[24] COP, or both)[25]
- frequency of reporting (e.g., annually, biannually).

(vi) Transparency and participation

29. Parties should also consider rules around transparency and the role of observers, such as guidelines for publicly recording meetings, or parts thereof, as well as rules and guidelines for participation. Parties should also consider the scope of the review process.

D. Sources for the new fund

30. Sources of finance for L&D could be private, public, or blended. They could be funneled through International Development Assistance (**IDA**), multilateral development banks (**MDBs**), bilateral finance through regional development banks, markets, government taxes and levies, philanthropy, and private individuals.

31. Financial instruments and sources that could contribute to financing L&D include:

(i) Insurance instruments and other innovative solutions for both rapid and slow-onset events

32. Parametric insurance. Parametric insurance is one example of a scalable type of insurance where payments are triggered based on the magnitude of the event rather than the magnitude of losses. This type of insurance allows those affected by a natural disaster to receive the insurance payment almost immediately which enables them to quickly address the aftermath. To do so, it depends on clear data sets. However, parametric insurance only covers economic costs of a specific hazard which could potentially not reflect or cover the actual L&D due to the event. [26]

(ii) Climate-related finance instruments

33. Green climate, impact, or catastrophe bonds (**cat bonds**). Cat bonds are a type of financial instrument where principal payments depend on a predefined extreme weather event. Cat bonds provide an opportunity to transfer risk to capital markets, enabling them to provide greater coverage and protection

[24] CMA refers to the Conference of Parties serving as the meeting of Parties to the Paris Agreement.
[25] The fund could report to the COP and/or the CMA, or to the Warsaw International Mechanism Executive Committee (hereafter WIM ExCom). However, governance of the WIM ExCom has not been resolved by Parties and in establishing the Santiago Network, Parties noted that nothing in the decision would prejudice the outcome on this matter. As such, Parties could decide whether to operationalize the fund without resolving the issue of governance.
[26] Morten Broberg, "Parametric loss and damage insurance schemes as a means to enhance climate change resilience in developing countries," in *Climate Policy* 20, no. 6, (2020): 693-703, https://doi.org/10.1080/14693062.2019.1641461.

against high impact events, which could result in L&D. There are concerns, however, that cat bonds disincentivize climate resilience planning which could result in further L&D. [27]

34. Debt-swap arrangements; debt relief and debt cancellation; refinancing; climate resilient debt clauses. Debt-for-climate (**DFC**) swaps support climate investment when a country commits to redirect money it otherwise would have spent repaying debt to an agreed public investment.[28] These swaps can be official bilateral or commercial, or tripartite (i.e., intermediated by a nongovernmental organization [**NGO**]). DFC swaps can reduce the level of indebtedness and free up fiscal space. In some cases, DFC swaps can upgrade credit ratings (i.e., Belize 2021 restructuring through a tripartite swap).[29] DFC swaps could be useful for addressing L&D if larger national governments budgets and climate investment can relocate funds to transformational development, relocation, and non-economic losses.

35. "Frontloading" finance in lieu of future income streams. "Frontloading," or debt securitization, is future public income streams are used to issue bonds immediately rather than at a later date – thereby frontloading future income streams for climate action. "Frontloaded" finance has been explored in financing adaptation projects, but not yet tried in financing projects for addressing and responding to L&D. [30]

36. Policy or results-based payments based on quantitative and qualitative climate-related targets. These types of payments are an innovative source of funding that can generate revenue when certain climate policy targets and outputs are met or achieved. Achievement of these targets can help avert and minimize L&D and free up fiscal space to then address and respond to L&D. These payments could also be used to accelerate implementation of actions to address pre-agreed performance targets for L&D.

37. Equity investments. Equity investments involves the buying of shares or ownership stakes in companies, projects, or initiatives. If directed at climate activities, the private sector can grow its involvement in climate action by increasingly using equity finance to invest in nascent companies working on climate solutions.

38. Special drawing rights (**SDRs**). The International Monetary Fund (**IMF**) allocates SDRs as international asset reserves to supplement official funds of member countries.[31] SDR allocations have the potential to serve

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[27] "Is CAT in or out?" *The Climate Bonds Initiative,* 2023, https://www.climatebonds.net/cat-or-out.

[28] These approaches can alleviate the debt burden faced by developing countries from climate related lending and ensure that debt levels are sustainable. It is important to bring all the debtors to the table and come to a shared agreement, as was the case with Zambia's restructuring. See William Ruto, Moussa Faki Mahamat, Akinwumi Adesina, and Patrick Verkooijen, "If you Want Our Countries to Address Climate Change First Pause Our Debt," *New York Times,* October 8, 2023, https://www.nytimes.com/2023/10/08/opinion/climate-change-africa-debt.html.

[29] Marcos d Chamon, Erik Klok, Vimal V. Thakoor, and Jeromin Zettelmeyer, "Debt-for-Climate Swaps: Analysis, Design, and Implementation," (Washington, DC: International Monetary Fund (IMF), August 12, 2022), https://www.imf.org/en/Publications/WP/Issues/2022/08/11/Debt-for-Climate-Swaps-Analysis-Design-and-Implementation-522184.

[30] UNFCCC, *Synthesis report on existing funding arrangements and innovative sources relevant to addressing loss and damage associated with the adverse effects of climate change*, TC2/2023/3, (May 15, 2023), https://unfccc.int/sites/default/files/resource/TC2_SynthesisReport.pdf.

[31] Special drawing rights (SDRs) are not a currency, but their market value is based on five currencies: the US dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling. See also, "Special Drawing Rights (SDRs)," *IMF,* 2023, https://www.imf.org/en/About/Factsheets/Sheets/2023/special-drawing-rights-sdr.

as additional financial resources for climate projects; countries can voluntarily reallocate, or "recycle," their funds for use by the various IMF programs or to the Multilateral Development Banks (**MDBs**).[32] The IMF must allocate SDRs equally among its members (but not all member countries have a use for these funds).

39. Private sector risk pooling. Pooling aggregates risk across a portfolio of projects in a way that reduces the burdens of risk on an individual investor and allows for diversification.[33] Private sector risk pooling coordinates stakeholders, such as corporations, insurers, reinsurers, etc. to de-risk certain investments. Risk-pooling ventures may be seen as a safer ingress for private companies interested in investing in resilience for L&D events.

40. Grants. Grants can provide direct and allocated funding towards addressing and responding to L&D. Currently, grants are the most common form of financing for L&D: UN agencies, humanitarian organizations, and multilateral climate funds almost exclusively provide grant funding.[34]

41. Concessional loans; market-rate loans; development policy loans (concessional or non-concessional). Major financial institutions (e.g., MDBs and multilateral funds) provide developing countries concessional finance, or below market rate finance, to accelerate development and climate-related objectives.[35] Concessional loans are important in post-disaster and reconstruction. However, most Small Island Developing States (**SIDs**), which suffer greater L&D than non-SIDS, cannot access concessional finance because their income status makes them ineligible.

(iii) Revenues raised through taxes and levies

42. Taxes may be mandatory or voluntary, such as an international tax with an intent to promote cooperation and global solidarity in addressing global climate change. Taxes or levies could raise revenue in the transport sector: car and truck transport; aviation (for example, through an air ticket surcharge/international solidarity levy supporting the International Civil Aviation Organization's long-term aspirational goal of net-zero carbon emissions by 2050); and/or shipping (for example, a bunker fuel emission tax supporting the International Maritime Organization's efforts to reach net-zero greenhouse gas emissions from international shipping around 2050). A live discussion is whether to establish a levy on emissions from international shipping of a certain size; currently, the proceeds are intended to be used for investment in carbon-clean bunker fuel technology.[36] Parts of the proceeds from this levy could go to the Green Climate Fund and/or the L&D fund for measures to avert, minimize, address and respond to L&D.

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[32] Lyla Latif, "Rechanneling Special Drawing Rights through the Multilateral Development Banks (MDB) and the Liquidity and Sustainability Facility (LSF)," (Nairobi, Kenya: January 14, 2023), http://dx.doi.org/10.2139/ssrn.4324372.

[33] Arame Tall et al., "Enabling Private Investment in Climate Adaptation and Resilience," (World Bank Group and Global Facility for Disaster Reduction and Relief, March 2021), https://openknowledge.worldbank.org/entities/publication/6219bf23-87e1-5f30-aaf9-30e0cd793ce3.

[34] UNFCCC, *Synthesis Report On Existing Funding Arrangements*.

[35] "What You Need to Know About Concessional Finance for Climate Action," *World Bank*, September 16, 2021, https://www.worldbank.org/en/news/feature/2021/09/16/what-you-need-to-know-about-concessional-finance-for-climate-action.

[36] "International Chamber of Shipping sets out plans for global carbon levy to expedite industry decarbonization," *International Chamber of Shipping*, 2021, https://www.ics-shipping.org/press-release/international-chamber-of-shipping-sets-out-plans-for-global-carbon-levy/.

(iv) Carbon trading or share of proceeds from voluntary and compliance markets

43. Voluntary markets already issue credits for sustainable development actions which could also support adaptation and L&D action. Parties have agreed that 5 percent of the share of proceeds from Article 6.4 of the Paris Agreement will go to the Adaptation Fund. Discussions could include whether and how to reserve an additional share of proceeds to the L&D fund.

(v) Philanthropy

44. Grants from NGOs, international NGOs, and non-profits qualify as philanthropic donations and contributions. Notably, at COP26, four leading philanthropies pledged U.S. $3 million to provide "kickstart" financing for L&D.[37]

(vi) National budgets and bilateral funding

45. National budgets and bilateral funding can provide direct financing options for L&D. Examples of national budgets for L&D include national contingency funds with dedicated L&D savings pools, social protection programs/social safety nets, and nationally funded direct cash transfers which could increase the underlying resilience of communities.[38] Some countries, like Denmark, Scotland, Belgium, and New Zealand, have individually pledged finance for L&D to a range of developing countries, mostly in the form of grants to address and respond to L&D.[39]

(vii) International and regional financial institutions

46. The IMF, World Bank, and MDBs primarily provide concessional financing through grants and loans. The IMF addresses external shocks related to disasters through funding windows, facilities, and programs, such as the Resilience and Sustainability Trust and the Resilience and Sustainability Facility.

47. The World Bank operates credit line facilities such as the Crisis Response Window (**CRW**), Window for Host Communities and Refugees, and Immediate Response Mechanism (**IRM**) through the International Development Association. It also houses the Global Shield Financing Facility, which builds on the Global Risk Financing Facility; the Disaster Risk Financing and Insurance Program; and the Sahel Adaptive Social Protection Program. The World Bank has also dispersed numerous cat bonds, grants, debt relief, loans, and insurance.

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[37] "Philanthropies offer kick-start funds for prospective Glasgow Loss and Damage Facility to Support Vulnerable Countries Suffering from Climate Change," *Children's Investment Fund Foundation*, November 12, 2021, https://ciff.org/news/philanthropies-offer-kick-start-funds-for-prospective-glasgow-loss-damage-facility-to-support-vulnerable-countries-suffering-from-climate-change/.

[38] Julie-Anne Richards and Liane Schalatek, "Not a silver bullet: Why the focus on insurance to address L&D is a distraction from real solutions," (Washington, DC: Heinrich Böll Foundation, 2018), https://us.boell.org/sites/default/files/not_a_silver_bullet_1.pdf.

[39] Madeleine Keck, "These countries have pledged L&D Finance at UN Climate Change Conference COP27," *Global Citizen*, November 11, 2022, https://www.globalcitizen.org/en/content/loss-and-damage-announcements-cop27/. For more information on funding arrangements to address L&D, see Wenger, "A Gap Analysis," 2023.

48. Most financing provided from MDBs is through policy financing, investment loans, and grants.[40] However, MDBs and regional development banks have a low percentage of grants (15 percent).[41] An overhaul of the Bretton Woods Institutions to address climate change, also known as the "Bridgetown Initiative," seeks to address systemic issues by requiring transformation of the financial system of MDBS and establish a new global mechanism to raise reconstruction grants for countries imperiled by climate disaster.[42] In June 2023, the French Prime Minister Emmanuel Macron's Summit for a New Global Financing Pact sought to further high level discussions on a new financial system and to begin define principles for future reforms.[43]

E. Elements for consideration:

49. These elements are important in considering how the L&D fund will be financed:

- type of support and which sources should be eligible for the fund (e.g., grants, microgrants, loans, insurance, taxes, carbon credits, finance instruments, philanthropy, private individuals)
- action type/type of climate risk covered (i.e., slow onset, extreme weather events)
- type of loss covered (i.e., economic, non-economic)
- type of L&D actions covered by the fund/terms of reference (where to draw the line between adaptation/resilience, development, humanitarian assistance, and L&D)
- prioritization (which areas/aspects are prioritized and why)
- anticipatory and/or aftermath (i.e., ex post, ex ante, or both)
- adequacy/size (i.e., level of funding needed and min-max distribution)
- access timeframe/speed in which resources are made available (quick/in weeks; medium/12 months; slow/years)
- action spectrum/longevity of funding (e.g., one-time payment, long-term)
- potential donors and funding sources
- disbursement/allocation (e.g., based on demand/need, vulnerability, equity, political, adaptation efforts undertaken within existing capacities, to leave no one behind, future risk scenarios)
- access and approval procedures (including language options)
- triggers for disbursement, if relevant
- focus on enhancing existing sources and/or new and additional
- targeted and specific (i.e., programmatic approaches, regionally or nationally specific)
- coordination with other funding arrangements

[40] IMF, "Global Financial Stability Report: Navigating The High-Inflation Environment," (Washington, DC: IMF, October 2022), https://www.imf.org/en/Publications/GFSR/Issues/2022/10/11/global-financial-stability-report-october-2022.

[41] World Bank, "International Development Association (IDA) 20: An Overview: Building Back Better from the Crisis: Towards a Green, Resilient, and Inclusive Future" (Washington, DC: World Bank, June 11, 2021), 1, https://documents1.worldbank.org/curated/en/354451625065992760/pdf/IDA20-An-Overview-Building-Back-Better-from-the-Crisis-Towards-a-Green-Resilient-and-Inclusive-Future.pdf.

[42] Barbados Ministry of Foreign Affairs and Foreign Trade, *The 2020 Bridgetown Initiative for Reform of the Global Financial Architecture,* 2022, https://pmo.gov.bb/wp-content/uploads/2022/10/The-2022-Bridgetown-Initiative.pdf.

[43] For more information on the Paris Summit, see "The Summit for a New Global Financial Pact," *Climate Chance*, June 2023, https://www.climate-chance.org/en/event-calendar/summit-financial-pact-international-aid-fund/.

(i) Approaches and identification of funding opportunities

50. Key considerations around how the fund will identify funding opportunities and at which levels (i.e., global, regional, local) the fund should operate include:

- global approach (focus is on globally agreed risk areas)
- regional approach (focus is on regionally agreed risk areas; funding is disbursed through regional banks/institutions)
- country specific approach (focus is on country-specific risk areas; funding is disbursed to countries national focal point)
- programmatic approach (funding is disbursed based on programs)
- project-based approach (funding is disbursed based on projects)
- event-based approach (funding is disbursed based on events)
- community/local needs approach (focus is on local communities' risks and funding is disbursed directly to these stakeholders)

(ii) Who will have access to the fund?

51. The COP27 decision stated the L&D fund and funding arrangements would be made available for those countries that are "particularly vulnerable to the adverse effects of climate change." To fulfill this mandate, Parties will need to consider:

- What does "particularly vulnerable" mean?
- How to ensure that no one is left behind and that future climate risks are accounted for in accessing the fund?

(iii) Private sector considerations

52. It will be important to ensure that the sources for replenishing the fund derive from a variety of sources—including the private sector. Parties could consider whether and how to incentivize or otherwise engage the private sector to help scale up resources and finance for L&D. Examples include insurance and innovative sources of finance, such as taxes, levies, subsidies, and market mechanisms. 53. Parties could further consider whether private organizations could be eligible to contribute to the fund directly.

(iv) Other Considerations

Parties should also:

- assess the broader financial landscape and ensure that the enabling environment for financing L&D is robust. Such activity 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
- consider how the Santiago Network on L&D effectively links with the funding arrangements and the fund for L&D. For instance, whether the Santiago Network could assist with assessing, establishing, and/or managing complex risk pool and risk-sharing mechanisms

- consider how to ensure transparency and trust in the funding arrangements and fund for L&D
- consider expanding the mandates of existing funds to include responding to and addressing L&D and whether this would lead to confusion and duplication of work.

F. Conclusion

53. The new fund for L&D will need to fit within and coordinate across an ecosystem of regimes and actors that extend beyond the UNFCCC. Designed well, the L&D fund could fill key gaps in addressing and responding to L&D.[44] These gaps include finance for slow-onset events, responding to forced displacement or planned relocation, alternative livelihoods, and transformational development. Non-economic losses are also not covered by current funding structures. A number of considerations inform the various options for the L&D fund, including where it is best situated, the type of financial tools best suited for the measures addressing L&D, avoiding redundancy, and the fast, effective, and transparent delivery of finance to respond to and address L&D.

54. Financial support should be significantly enhanced across all areas in addition to new support for addressing L&D through the fund, as new or enhanced finance in one area can have ripple effects elsewhere. For instance, a new global finance pact could reduce the indebtedness of developing countries and increase the availability of grants-based finance for development, including reconstruction and recovery after disasters.

55. If Parties envision a broad and coordinating role for the UNFCCC, it could help ensure the integration of adaptation and L&D climate change considerations into development, disaster risk reduction, and humanitarian aid. Integrated financial approaches across global agendas under the Sendai Framework, the Sustainable Development Goals, and the Paris Agreement would broaden the pool of resources available to fund cross-cutting measures and ultimately facilitate access finance for L&D.

[44] Wenger and Johnson, "A Gap Analysis of Finance Flows."

Annex: COP27 Decision on L&D

1. The current negotiations on L&D finance arose from earlier demands to establish a L&D finance facility. Instead of addressing these calls under a formal agenda item, COP26 launched 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 this 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.

2. 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 to take recommendations for consideration and adoption at COP28 (December 2023) on the funding arrangements and new fund for L&D
    - 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[45]
    - 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.

3. Through 2023, Parties participated in workshops and consultations on the operationalization of the new fund and funding arrangements.

[45] It is not clear at this time what the mandate for the third Glasgow Dialogue that will take place at the 60th Subsidiary Body Meeting in June 2024 would be, given that the fund is expected to be operationalized in November 2023.