CENTER FOR CLIMATE AND ENERGY SOLUTIONS

Considerations for the New Loss & Damage Fund
Technical Paper
June 2023

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Introduction

At COP27, Parties agreed to establish new funding arrangements and a fund for responding to, including addressing, loss and damage (***L&D***), for assisting particularly vulnerable developing countries. The context and options for operationalizing the funding arrangements and fund are necessarily influenced by the broad landscape of funding that exists for humanitarian assistance, development, disaster risk reduction, adaptation, and peacekeeping activities.[i] Existing sources of funding for responding to and addressing L&D are in early stages and could be enhanced by not only adding new and innovative sources of funding but also by expanding existing sources of funding to include L&D, such as through taxation and use of markets. Ongoing discussions developing country debt are also relevant.

In 2023, Parties will take part in workshops and consultations on the operationalization of the funding arrangements and fund, which will influence and support the work of the Transitional Committee and its recommendations for consideration and adoption at COP28. This work necessitates deeper consideration of how to ensure new, additional, predictable, and adequate finance for responding to L&D. In that context, this paper sets out possible options and considerations relevant for these discussions and builds on previous Center for Climate and Energy Solutions (C2ES) papers on L&D finance.[ii]

Summary of key questions and considerations

The COP27 decision established a Transitional Committee to make recommendations for adoption at COP28 on identifying funding arrangements and operationalizing the L&D fund.

In doing so, Parties need to answer four fundamental questions:

- Where will the fund be located?
- What are the terms of reference?
- From where can sources of funding for the L&D fund be drawn?
- What will be the governance structure of the fund?

To answer these questions, Parties should consider whether and how the following elements can be incorporated into a fund that is fit-for-purpose:

- type of support and which sources should be eligible for the fund (e.g., grants, loans, insurance, taxes, carbon credits, finance instruments, philanthropy, private individuals)
- action type/type of climate risk covered (i.e., slow onset, sudden onset)
- 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)
- 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, other)
- access and approval procedures (including language options)
- triggers for disbursement, if relevant
- focus on enhancing existing sources or new and additional
- targeted and specific (i.e. programmatic approaches, regional or national specific)

As Parties begin to construct these elements into proposals for a fund, Parties need to further take into account overarching considerations, including:

- 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 of financing action to respond to and address L&D?

Options for the new fund

Location of the fund

There are several options for in siting the new L&D fund, each of the options has several benefits and drawbacks:

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

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

Drawbacks: Time to set up the fund and get operational could take many years[iii]; costs are likely higher than utilizing existing climate funds; politically challenging to agree on whether to establish it under the UNFCCC financial mechanism (with the corresponding issue of whether the Paris Agreement needs to be amended as Article 9 finance obligations do not currently cover L&D).

A new L&D fund under the GEF[iv]

The GEF is a trust fund with a governing structure organized around an Assembly, the Council, the Secretariat, 18 agencies, a Scientific and Technical Advisory Panel (***STAP***), and the Evaluation Office. 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 **Special Climate Change Fund (*SCCF*)**. STAP is an independent advisory body with its own chair, six panel members, two senior advisors and a secretariat of seven provided by UNEP. STAP's role is to provide objective and technical advice on GEF's policies strategies, programs, and projects, including screening GEF projects.[v]

A new L&D trust fund could, for example, be established under the GEF in the same way the SCCF was set up. In 2001, Parties established the SCCF under the UNFCCC and asked that GEF manage it with the World Bank as a trustee. The governing body of the SCCF is the LDCF/SCCF Council, which meets twice a year. The SCCF follows the GEF's operational policies and fiduciary standards. The SCCF differs from other GEF trust funds in that funding is not allocated according to Resource Allocation Framework, STAP, or the 'incremental cost' principle.[vi] Decisions are made by consensus, with two-thirds of the Members of the Council constituting a quorum.

Benefits: The synergy effects (including synergies with adaptation and biodiversity loss) of a large climate and environment fund for understanding how to respond to L&D; less time required compared to setting up a new stand-alone fund; existing GEF operational policies and fiduciary standards could apply, reducing time and capacity needed; GEF is known to have high levels of trust, goodwill, and sense of common purpose among its Council members.

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); the GEF is governed by the World Bank as its trustee and as such is subject to the World Bank's governance rules (albeit these have been amended to be more inclusive of developing countries).

A special L&D funding window under the GCF with focus on funding measures that respond to and address L&D[vii]

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.[viii] The World Bank currently serves as trustee for the financial resources.

Benefits: It will take less time to establish a funding window than a new fund; the GCF has predictable and large replenishments across all windows of funding and is therefore less vulnerable to funding fluctuations; GCF already provides financial resources for activities with some limited but relevant indicators for averting, minimizing, and addressing L&D in developing country Parties; GCF could potentially support all workstreams under the Warsaw International Mechanism (***WIM***) Executive Committee (***ExCom***); overlaps and complementarity between GCF's funding for adaptation and resilience with L&D measures; GCF has parity between developed and developing countries.

Drawbacks: GCF is highly politically challenged and has historically slow decision-making (although this has sped up in the second half of GCF-1);[ix] GCF's mandate, procedures and guidance likely need to be updated to accommodate for the L&D fund, which could take time (but less time than creating new procedures for a new fund); GCF has a large workload and capacity constraints.

By extending the Adaptation Fund to include L&D

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 will serve 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;[x] 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). Decisions are taken by consensus whenever possible. If consensus is not reached, decisions shall be taken by a two-thirds majority.

Benefits: The Adaptation Fund finance is sourced from market mechanisms in addition to replenishment from Parties to the UNFCC; its board has good understanding of the limits to adaptation and synergy effects in addressing L&D; it was early to introduce innovative financing solutions and direct access to finance.

Drawbacks: The Adaptation Fund is closely connected to the Kyoto Protocol, which has strong bifurcation developed and developing countries; the board lacks balance, given that 69 percent is developing countries; it is not a trust fund, and it will not be a "new" fund; it is smaller in size; the rules of procedures will have to be updated to include L&D, which could open up political issues regarding representation in the board.

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

For example, 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.

A possible new financial intermediary fund under the World Bank

The L&D fund could be a trust fund under the World Bank called a "financial intermediary fund" (***FIF***, which could be set up to respond to and address L&D.[xi] The World Bank will then be the trustee and support through administrative, financial, legal, and operational services. A governing body (the board) will be set up to instruct the World Bank to finance agreed actions. The board is comprised of the World Bank (as Chair), donors and in some cases other relevant stakeholders.[xii] Decisions are made by consensus or no objection processes. Other implementing agencies normally oversee the use of the funds, but the World Bank could also be involved as an implementing agency. The sources of finance are 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 but not natural persons.

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

Drawbacks: The governing body is not automatically comprised of developing country Parties unless specifically agreed and included as relevant stakeholders; the funding through the World Bank is generally low in grants-based finance (15 percent); the consensus-based decision model could provide difficult unless it includes the use of two-thirds majority vote if no consensus can be reached.

Terms of Reference

Objective(s), scope, and activities

Given that Parties will need to agree on the terms of reference for the L&D fund, Parties should clearly define the objective and scope of the fund, including its vision.[xiii] Parties should also consider clarifying the functions of the fund and what the fund should finance.

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:[xiv]

- **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; counselling; official apologies; 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.[xv]

- **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), etc..

An additional action the fund could finance is an example of measures to *reactively adapt, avert, minimize, and address* L&D.[xvi]

- **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.

Structure

It will also be important to agree on the architecture of the fund. Elements of a fund structure include:

- a trustee, e.g., the World Bank
- a secretariat/coordinating body, the duties of which include meeting arrangements; meeting records; make documents publicly available. 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 organisation
    - establishing a new secretariat.
- a governing body/board/council (see below for composition)
- accountability units/evaluation office
    - rely on all or some of the GCF's accountability units
    - rely on the GEF's Independent Evaluation Office
    - establish own independent evaluation and accountability unit/office

- potential roles for the WIM ExCom, national focal points, the Santiago Network, implementing agencies within and outside of the UNFCCC.

Composition of the board

Configurations for the composition of a board include:

- the same as the Transitional Committee: 24 members—10 from developed country Parties and 14 from developing country Parties. The geographical representation of developing countries is as follows: three from Africa; three from Latin America and the Caribbean; three from Asia and the Pacific; two from SIDS; two from LDCs; one from a developing country Party not included in the categories listed.
- the same as the GEF Council: 32 members—14 from developed countries, 16 from developing countries, and two from economies in transition.
- the same as the SCCF/LDCF Council: 32 members representing GEF member countries—14 from donor constituencies and 18 from recipient constituencies.[xvii]
- adding board members from other UN bodies, international agencies, and philanthropic organizations, if they have a role in replenishing the fund.

Decision-making

Options for a decision-making process include decisions adopted by:

- consensus. This is the most common way to reach a decision under UNFCCC. However, this could lead to stalemates in very contentious cases. When all efforts at reaching consensus have been exhausted, decisions could be taken by three-quarters majority vote as a last resort.[xviii]
- two-thirds majority vote.

Reporting requirements

Considerations for the reporting requirements include:

- to which body it should report (i.e., CMA,[xix] COP, or both)[xx]
- frequency of reporting (e.g., annually, biannually).

Transparency and participation

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

<u>Sources of funding</u>

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***), regional development banks' bilateral finance, markets, government taxes and levies, philanthropy, and private individuals.

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

- **Insurance instruments and other innovative solutions for both rapid and slow-onset events**. Risk insurance parameters are based on a triggering event for the disbursement of funds. Insurance is not currently set up to deal with L&D from slow-onset events because premiums are based on the calculation of probabilities otherwise present for sudden-onset events. If more nuanced and in-depth data on slow-onset events could produce innovative ways to calculate this type of risk, it could potentially expand the use of insurance for these types of events.

- **Climate-related finance instruments.** These include:
  - *green climate, impact, or catastrophe bonds (cat bonds).* Cat bonds whose principal payments depend on a predefined catastrophic event, providing an opportunity to transfer risks to capital markets, thereby enabling them to provide greater coverage and protection against high impact events.[xxi]
  - *debt-swap arrangements; debt relief and debt cancellation; refinancing; climate resilient debt clauses*. Debt-for-climate (***DFC***) swaps support climate investments by committing a country to redirect spending from debt service to an agreed public investment and can take the form of official bilateral or commercial swaps, or tripartite swaps (i.e., usually intermediated by an NGO). DFC swaps can reduce the level of indebtedness, free up fiscal space, while providing the additional benefit of replacing debt repayments in hard currency with local expenditures. In some cases, DFC swaps may upgrade credit ratings (i.e., Belize 2021 restructuring through a tripartite swap).[xxii] DFC swaps could be useful for addressing L&D, such as transformational development, relocation, and non-economic losses.
  - *concessional grants.* This is the most common form of financing currently for L&D. UN agencies and multilateral climate funds almost exclusively provide grant funding.[xxiii]
  - *concessional loans; market-rate loans; development policy loans (concessional or non-concessional).* Concessional finance is below market rate finance provided by major financial institutions, such as MDBs and multilateral funds, to developing countries to accelerate development and climate-related objectives.
  - *guarantees.* Guarantees aim to promote climate financing in higher-risk sectors. A first-loss guarantee could increase private sector investments as a third party (often public sector) compensates private investors if lenders default.[xxiv]
  - *equity investments*. Equity investments increase the involvement of the private sector in climate action.
  - *'frontloading' finance in lieu of future income streams.* "Frontloading," or debt securitization, is the use of future public income streams to issue bonds now rather than later, thereby "frontloading" future income streams for climate action.[xxv]

   - *Policy- or results-based payments based on quantitative and qualitative climate-related targets.* This could be used to stimulate implementation of actions to address pre-agreed performance targets for L&D.
   - *special drawing rights (**SDRs**).* SDRs are an international asset reserve created by the IMF and can provide liquidity.[xxvi]

- **Revenues raised through taxes and levies.** These revenues could be raised through the transport sector, particularly car and truck transport, aviation, and/or shipping. For example, a bunker fuel emission tax, or voluntary international taxation to promote cooperation and global solidarity in addressing global challenges, such as an air ticket surcharge/international solidarity levy. There are ongoing discussions on whether to establish a levy on emissions from international shipping of a certain size to contribute to a climate fund; the proceeds will be utilized for investing in carbon-clean bunker fuel technology.[xxvii] The proceeds from this levy could be expanded to include measures to address L&D.

- **Carbon trading, or share of proceeds from voluntary and compliance markets.** The voluntary markets are already issuing credits for sustainable development actions, which could be extended to include adaptation and L&D action. There are also ongoing discussions on ensuring share of proceeds from Article 6 of the Paris Agreement go to adaptation projects, an approach that could apply to L&D.

- **Philanthropy.** Philanthropic donations and contributions can be in the form of grants from NGOs, INGOs, and non-profits. At COP26, four leading philanthropies pledged U.S. $3 million to provide "kickstart" finance for the L&D.[xxviii]

- **National budgets.** For example, national contingency funds with dedicated L&D savings pools, social protection programs/social safety nets, or nationally funded direct cash transfers which could increase the underlying resilience of communities.[xxix]

- **International and regional financial institutions.** The IMF, World Bank, and MDBs primarily provide concessionally financing in the terms of 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.
   - 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.

  - Most financing provided from MDBs is through policy financing, investment loans, and grants.[xxx] However, MDBs and regional development banks have a low percentage of grants (15 percent).[xxxi] An overhaul of the Bretton Woods Institutions to address climate change, also known as the Bridgetown Initiative, seeks to address systemic issues requiring transformation of the financial system in MDBS and the establishment of a new global mechanism for raising reconstruction grants for countries imperiled by climate disaster.[xxxii] The French Prime Minister Macron's summit in June 2023 will focus on a new global financing pact can address the mobilization of innovative financing for countries vulnerable to climate change.[xxxiii]

- **Bilateral funding**. Denmark, Scotland, Belgium, and New Zealand are among a list of countries that have individually pledged finance for L&D, most in the form of grants. [xxxiv] Denmark became the first central government of a developed country to propose funding devoted to L&D. Scotland pledged about 7 million pounds and Belgium about 1 million pounds.[xxxv]

Cross-cutting considerations

Should existing funds expand their mandates to include responding to and addressing L&D? Would this lead to confusion and duplication of work? Parties should consider that each of the existing funds have unique strengths and weaknesses.

It will be important to ensure that the sources for replenishing the fund can come from a variety of different areas—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. Parties could further consider whether private persons could be eligible to contribute to the fund directly.

Parties must 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[xxxvi]

- consider how to ensure transparency and trust in the funding arrangements and fund for L&D. [xxxvii]

Conclusion

The Transitional Committee has an enormous task ahead of COP28, when it is expected to provide recommendations on the operationalization of the L&D fund and funding arrangements. To aid their work, Parties can deepen their understanding of the L&D ecosystem through the second Glasgow Dialogue (June 2023), which provides a useful forum for exploring workable and effective funding solutions for both the short- and long-term, from global, regional, and national perspectives.

The new fund for L&D will need to fit within—as well as 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.[xxxviii] 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.[xxxix] 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, and how it can best deliver effective, transparent, and fast finance to respond to and address L&D.

Nevertheless, financial support should be significantly enhanced across all areas in addition to new and additional support for addressing L&D through the new fund. 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. In turn, such fast, long-term, predictable, and grants-based finance, if made available after disasters hit in order to build forward better, may, as a result, make such finance less relevant or necessary for a L&D fund.

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.

Annex 1: COP27 Decision 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&D[xl]
- 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[xli]
- 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.

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[i] The institutional frameworks for disaster risk reduction, humanitarian assistance, migration and displacement, and development assistance address elements of L&D in a piecemeal fashion. They also focus largely on economic and physical aspects and loss of life and lack understanding of climate risk and potential future impacts. The current system has been geared towards a stable climate—one that experiences fewer and less intense natural disasters than now or in the future. Economic pressures and impacts from, e.g., COVID-19, longer and more intense conflicts (including the Russian invasion of Ukraine) may significantly affect development pathways.
[ii] See Cathrine Wenger, COP27: Considerations for a Loss and Damage Finance Facility https://www.c2es.org/document/cop27-considerations-for-a-loss-damage-finance-facility/; Cathrine Wenger,

Institutional Ecosystem for Loss and Damage (Arlington, VA: C2ES, October 2022) https://www.c2es.org/document/the-institutional-ecosystem-for-loss-and-damage/; Cathrine Wenger, *Loss and Damage Issues and Options for COP27, (*Arlington, VA, C2ES, June 2022) https://www.c2es.org/document/loss-and-damage-issues-and-options-for-cop27/.

[iii] It took five years for the GCF to be set up, 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 structured in 1998.

[iv] The GEF is an operating entity of the Financial Mechanism, including the Paris Agreement. As such, it is guided by the COP and the CMA. It currently operates two funds that provides adaptation projects with L&D benefits: the LDCF and the SCCF.

[v] Scientific and Technical Advisory Panel (2023), available at: https://www.stapgef.org/about/.

[vi] GEF, 'Accessing Resources under the Special Climate Change Fund', p.8. Available at: https://www.thegef.org/sites/default/files/publications/23470_SCCF_1.pdf.

[vii] 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.

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

[ix] Second Performance Review of the GCF, key findings, p. 15. Available at: https://ieu.greenclimate.fund/sites/default/files/document/230217-spr-final-report-top.pdf

[x] Adaptation Fund Rules of Procedure, https://www.adaptation-fund.org/wp-content/uploads/2018/04/Rules-of-procedure-of-the-Adaptation-Fund-Board.pdf.

[xi] Governance rules of WB trust funds, Annex-1-Governance-in-World-Bank-Trust-Funds.pdf (worldbank.org).

[xii] Relevant stakeholders include client country representatives, the UN, representatives of civil society or NOGs, and private sector representatives.

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

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

[xv] See Euronews, "Tuvalu is recreating itself in the metaverse as climate change threatens to wipe it off the map" November23,2022. Available at: https://www.euronews.com/next/2022/11/23/tuvalu-is-recreating-itself-in-the-metaverse-as-climate-change-threatens-to-wipe-it-off-th

[xvi] Another category for measures to recover, rehabilitate and reconstruct in the aftermath of slow or sudden climate events could be defined as *reactive adaptation* and *resilience* planning and implementation, as this is a cyclical process, as well as defined as measures to *avert, minimize, and address* L&D. Thus, this type of L&D differs from the above measures which are undertaken when hard adaptation limits are met to *address* L&D. If measures to recover, rehabilitate or reconstruct are undertaken in areas with hard adaptation limits (or likely to meet hard limits in the foreseeable future), it could lead to maladaptation, stranded assets, and locked-in investments. In these instances, evacuation and temporary shelter should be short term measures in lieu of planned relocation/assisted migration or other measures to address L&D not recovery, rehabilitation, and reconstruction.

[xvii] Please note that using the phrase "donor" country could be helpful in opening for a wider group of countries replenishing the fund.

[xviii] This is the case for the Committee to facilitate implementation and promote compliance referred to in Article 15 of the Paris Agreement.

[xix] Parties to the Paris Agreement.

[xx] The fund could report to the COP and/or the CMA, or to the WIM ExCom. The issue of governance of the WIM ExCom has not been resolved by the Parties, and the Santiago Network was established noting 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.

[xxi] Climatebonds.net, Climate Bond Initiative, "Cat bonds in or out?" (2023). Available at: https://www.climatebonds.net/cat-or-out

[xxii] Chamon, Marcos ; Klok, Erik ; et al. (2022) "Debt-for-Climate Swaps: Analysis, Design, and Implementation" IMF. https://www.imf.org/en/Publications/WP/Issues/2022/08/11/Debt-for-Climate-Swaps-Analysis-Design-and-Implementation-522184

[xxiii] UNFCCC Secretariat, "Synthesis Report on existing funding arrangements and innovative sources relevant to addressing loss and damage associated with the adverse effects of climate change" (2023). Available at: https://unfccc.int/sites/default/files/resource/TC2_SynthesisReport.pdf.

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[xxxvi] Could the Santiago Network have a role to play in collecting data on L&D finance?
[xxxvii] Is there a role to play for the enhanced transparency framework? Which other reporting systems are relevant for ensuring transparency for L&D funding?
[xxxviii] See Cathrine Wenger and Chelsea Johnson, A Gap Analysis of Finance Flows for Addressing Loss and Damage Technical Paper, https://www.c2es.org/wp-content/uploads/2023/06/LD-Funding-Arrangements-Gap-Analysis.pdf
[xxxix] Financing for non-economic losses include active remembrance, documenting and recording traditional and local knowledge, cultural preservation, societal protection, counselling, enabling access/safe visits to abandoned sites, recognition and repair of loss (whether or not accompanied by financial payment) 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 and shared knowledge and understanding.
[xl] It will make recommendations for consideration and adoption at COP28/CMA5.
[xli] 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.