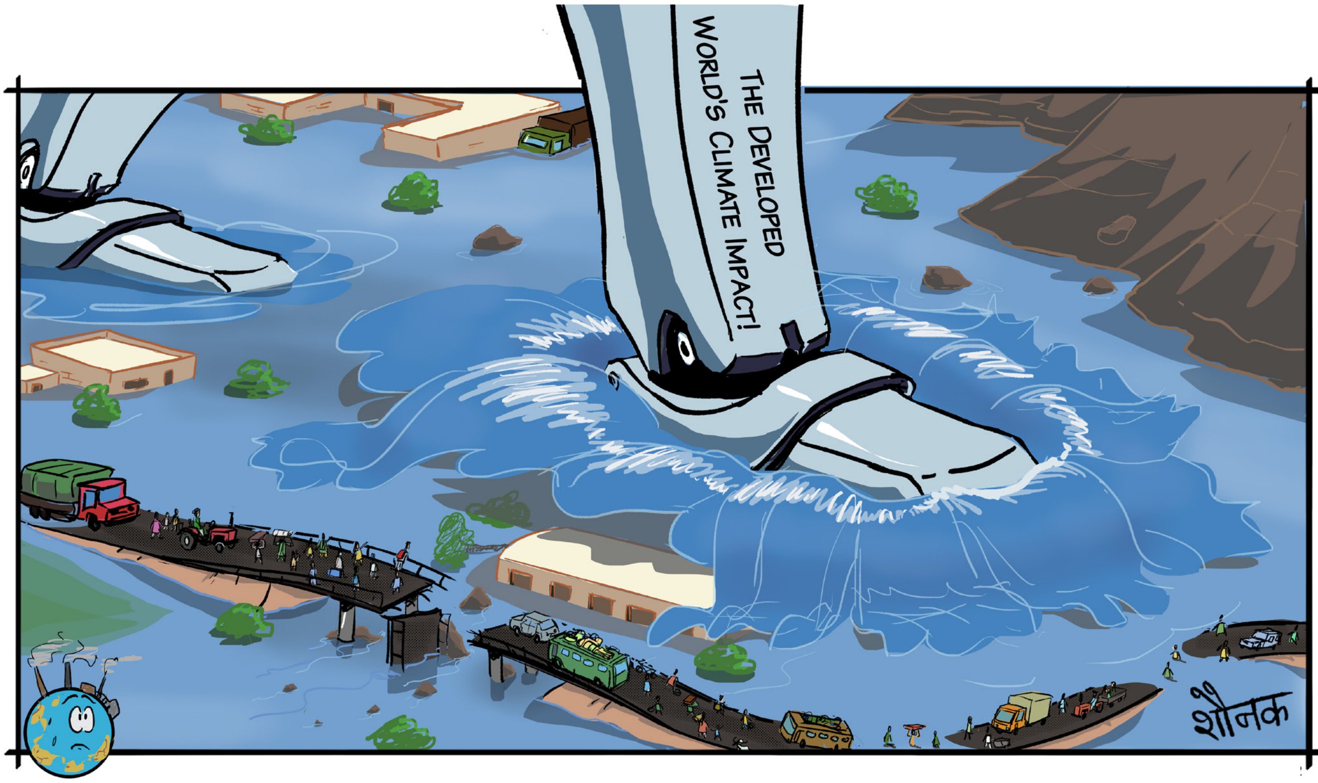
Operationalising the Loss and Damage Fund to Address Climate Impacts

Jhalak Aggarwal and Sumit Prasad

Report | September 2023



Executive summary

A series of ongoing extreme weather events and disasters fuelled by climate change have devastated the lives and livelihoods of millions, and cost billions in losses and damages, especially in the Global South. The massive floods in Pakistan in 2022 inundated almost one-third of the land area, causing damages worth 10 per cent of the country's gross domestic product (GDP) (World Bank 2022). Himachal Pradesh is currently devastated by cloudbursts and floods, reporting losses worth USD 487 million (Economic Times, 2023). This, compounded by carbon inequality, unjust distribution of impacts, inflation, and a debt crisis serves as a clarion call for loss and damage (L&D) finance to address, avert, and minimise climate impacts. L&D finance has been kept at arm's length by developed countries ever since it was proposed 30 years ago in 1991 by the Alliance of Small Island States (AOSIS) (Government of Vanuatu 1991). But it was only in 2022, at the 27th Conference of the Parties (COP27), that they reached a long-overdue agreement. This marked a difficult and much-needed win for vulnerable nations, with the Parties agreeing to establish a Loss and Damage Fund (LDF) and funding arrangements to pay for climate-related L&D (UNFCCC 2022b). **Though the political commitment to establish a fund has been fulfilled, the real test now lies in reaching a consensus on operationalising it.**

To expedite the process of operationalising the fund, a transitional committee (TC) has been established and tasked with formulating recommendations; deliberations are ongoing.

As COP28 approaches, Parties, sub-national representatives of communities, climate activists, and experts across the world have their eyes set on the operationalisation of the LDF. **This report examines the important elements that TC members must consider, particularly the immediate accessibility component of the LDF, which focuses on processes that allow for the quick disbursal of finance that is fit for purpose**. It considers the following questions – the scope of the fund, who pays, who receives, how much, and how the fund fits into the current finance architecture to provide the solutions needed.

A. Challenges

There are several challenges that complicate the operationalisation of the fund:

- **Reluctance of developed nations to accommodate a new fund, and political unwillingness to commit to higher, additional non-debt finance** to official development assistance (ODA) as well as to deliver on previous commitments.
- **Absence of a mutually agreed upon definition** to categorise L&D activities that overlap with humanitarian support.
- **Low technical capacity** – especially in developing countries – to scientifically model L&D makes it difficult to make robust estimates.
- **Immediate accessibility** to funds has remained elusive in the domain of climate finance.
- **Poor financial mobilisation at the local level**, where allocation does not favour the most vulnerable people within a country, communities, and households.
- **Poor data availability** and processes for systematically collecting, recording, and reporting information on L&D.

> Finance must be new, additional, fair, grant-based, and accessible to all developing countries.

B. Recommendations for implementating the Loss and Damage Fund

As a step forward, we propose a framework to operationalise the fund, with a specific focus on ensuring immediate accessibility. Our report aims to help TC members, negotiators, and policymakers with operationalising the LDF, particularly with defining the **broad principles for the design and operation of the fund and the most appropriate financial instruments**. This research can be used to determine the modalities that will ensure easy and immediate access, assess the effectiveness of the instruments to make them fit for purpose, and offer options to operationalise different elements under the fund. We provide the following recommendations from a developing country's perspective to the TC to ensure timely operationalisation of the LDF:

- Deliver solutions ensuring finance is **new, additional, predictable, adequate, fair, and debt-free**.
- Decide on the **scope** of the fund, which comprises immediate disaster response, post-disaster resilience-building efforts, and comprehensive coverage to include slow-onset events and non-economic losses.
- Agree on the **institutional arrangements** where the fund is positioned as the third operating mechanism – along with the Green Climate Fund (GCF) and Global Environment Facility (GEF) – and is responsible only for L&D finance within the United Nations Framework Convention on Climate Change (UNFCCC) ambit. In terms of **governance**, the fund can have a Governing Council (GC) that functions as an oversight, decision-making body, and a secretariat to deal with day-to-day issues.
- Build consensus on **who pays**, acknowledging that developed nations should be the primary contributors on account of their historical responsibility, unfulfilled pledges, and capacity to pay.
- Set targets to mobilise finances based on needs, with flexibility for the **quantum** to be revised over time. Based on the available research, the target can be set at approximately USD 200 billion by 2025, USD 430 billion by 2040, and USD 1.5 trillion by 2050. These figures can be revised based on needs in the future, as discussed in Table 1.

- Provide all developing nations the **access** to the fund. The money can be disbursed in three phases. First, immediate recovery, based on a trigger (for example, when a nation declares that it has been impacted by a loss and damage event) in the form of unconditional grants or direct cash transfers. Second, recovery fund, where the total remaining amount is released after an assessment of the costs of the post-disaster recovery. And, third, a slow-onset window that allows for accessing the fund based on a defined plan of action to address and minimise the climate impacts.
- Establish grants and unconditional cash transfers as the most suitable **financing instruments**. To fill the fund, apart from developed nations contributing, money can be mobilised through taxes (climate damage, windfall, and aviation), multilateral development banks (MDBs), multilateral climate funds, philanthropies, and domestic carbon markets to foster finance.

C. Way forward

We provide suggestions to increase understanding and capacity to address challenges related to L&D that can further expedite action on the subject:

- Develop a **Global South–led consortium to enhance technical capacity** and encourage attribution science to assess the extent of the role of climate change in disasters.
- Explore a **collaboration between the World Meteorological Organisation (WMO) as the technical body, Santiago Network as the support arm, and the LDF Secretariat as the coordinating body**. The aim would be to institute a dedicated department under the WMO to leverage the organisation's expertise in scientific disaster attribution.
- **Improve data collection** on L&D impacts and finance needs to support evidence-based decision-making. To this end, a national climate disaster database can be established and encourage the reporting and tracking of L&D financing in the common tabular formats.

As we approach COP28, the TC should offer the Parties clear recommendations for the operationalisation of the LDF. Bridging the gap in the ability of developing nations to secure adequate, predictable, and sustainable financial support is pivotal to provide assistance to those most affected.

Image: Alamy

Damage caused by the recent floods in June 2023 in Dimapur, Nagaland.

1. Introduction: The current state of loss and damage finance

The world is grappling with climate-induced extreme weather events, which are on the rise and pose unprecedented challenges to economies, lives, livelihoods, and infrastructure, especially in developing and vulnerable nations. Compounded by carbon inequality, unjust distribution of impacts, inflation, and a debt crisis, these occurrences have piqued the need to address, avert, and minimise the impacts on affected communities. This can be done by immediately mobilising finances, to not only respond to the impacts of disasters and build back better, but to also foresee problems and prevent communities from losing their development gains.

Over the past several years, it has become clear that the nations that have contributed least to the climate crisis are paying for and bearing the brunt of climate change. These nations and their people have the lowest financial and technical capacity to cover the costs of past, present, and foreseeable losses (Fournier 2020). For instance, rural families in Bangladesh spend much of their incomes protecting themselves from the impacts of flooding and storms (IIED 2022). Additionally, up to 30 per cent of the total spending of women-headed households goes towards this (IIED 2022). L&D finance, therefore, must enable countries and households to bounce back from the impacts of the L&D incurred, and build back better and resilience to future events.

Globally, losses and damages have cost the Vulnerable Twenty (V20) members[1] 20 per cent of their gross domestic product (GDP) over the last two decades since 2000s (V20 2022). Given the domestic economic realities, these nations take out loans with high-interest rates for immediate relief following disasters, thus increasing their debt burden and hampering economic growth. To put this in perspective, the massive floods in Pakistan in 2022 inundated almost one-third of the nation's land area, impacting almost 33 million lives and causing damages worth 10 per cent of the country's GDP (World Bank 2022). Meanwhile, the nation only contributed 0.9 per cent to the world's emissions in the same year.

Similarly, the northern Indian state of Himachal Pradesh is currently devastated by cloudbursts and floods, and reporting losses worth USD 487 million. Rural families in Bangladesh spend much of their incomes protecting themselves from climate impacts like flooding and storms. These realities showcase the rising intensity of the climate crisis and the need to address loss and damage (L&D) – the impacts of climate disasters including extreme and slow-onset events that cannot be or have not been addressed through mitigation (reducing greenhouse gas [GHG] emissions) or adaptation (adjusting to and building resilience against current and future climate change impacts) (Liao et al. 2022).

The current appalling state of climate impacts did not suddenly appear out of nowhere. Despite the presence of multiple legal instruments, such as the United Nations Framework Convention on Climate Change (UNFCCC), the Kyoto Protocol and the Paris Agreement, the efforts of the international community have been vastly insufficient to tackle the problem at the scale needed. This is a result of inadequate global action, an innate characteristic of the international climate regime. If we look particularly at the pre-2020 period, the lack of serious action and, most importantly, missing accountability were evident among developed countries (Prasad, Pandey, and Bhasin 2021). Further, the joint goal of developed countries from 2009 to mobilise USD 100 billion per year by 2020 in climate finance has not been accomplished to date. Organisation for Economic Co-operation and Development (OECD) numbers suggest that only USD 83.3 billion had been mobilised in 2020 (OECD 2022). Similarly, L&D finance has been equally crippled by inaction and poor intent. A CEEW study states that 34 per cent of the countries that mention L&D in their nationally determined contributions (NDCs) have called for international support to address L&D, resulting from intensifying climate impacts (Aggarwal, Wadhawan, and Bajpai 2022).

> **Himachal Pradesh has suffered losses worth USD 487 million due to heavy rains and flooding in July 2023.**

1. V20 comprises 58 nations from Africa, the Middle East, Asia-Pacific, Latin America, and the Caribbean.

Currently, the climate finance landscape includes some (potential) sources of funds from within the UNFCCC and outside for averting (largely mitigation), minimising (focused on adaptation and resilience), and addressing L&D, although none of the funds are solely dedicated to L&D. The **Green Climate Fund (GCF)** has been tasked to provide L&D support within the scope of its core mandate and operational policies, which do not explicitly mention L&D. Further, the amount disbursed has been limited, focusing majorly on early warning systems and preparedness. Apart from this, the **funds from the UNFCCC**, the Least Developed Countries Fund (LDCF), the Special Climate Change Fund (SCCF), and the Adaptation Fund (AF) do not have mandates to support L&D activities. As such, the **V20** has established a first-of-its-kind multi-donor facility to address L&D. **Outside of the UNFCCC, multilateral banks, climate taxes, and official development assistance (ODA) are potential sources of financing for L&D**. Additionally, many nations have established **national funds** to address L&D (OECD 2015). The **private sector** could also mobilise the finances required at scale and offer debt-reducing instruments through taxes. **Philanthropic pledges[2] and voluntary contributions[3]** might also further the cause.

Since there is no dedicated operational L&D financing source, the Loss and Damage Fund (LDF) should deliver new, additional, immediate, and adequate L&D finances in response to disasters and build capacity and resilience to mitigate future impacts. Further, it must enable countries access to high-quality financing to bounce back from the long-term impacts of climate change and the L&D incurred.

> Currently, there is no targeted, operational dedicated mechanism for loss and damage finance.

2. Methods

To address the key research question of how we can operationalise the LDF, we adopted a qualitative research methodology with three aspects – **secondary research** to understand how existing mechanisms operate with regard to immediate and direct access modality, **semi-structured expert interviews, and observations from two transitional committee (TC) meetings and two workshops**. The TC comprises 24 members from Parties to both the Convention and Paris Agreement, with 10 members from developed nations and the remaining 14 from developing countries.

The questions we aim to answer are as follows:

- What should be the scope of the fund?
- What are the appropriate governance and institutional arrangements for the fund?
- How much money is required, and what may be the sources?
- Who can access the fund and how can we develop a window for immediate access for countries and communities?

Secondary research: We conducted desk research to analyse the history of L&D negotiations and the existing modalities of different funding institutions. We focused from the lenses of immediate and direct access. The purpose was to evaluate the extent to which the current international financial architecture allows for immediate access to funding. Further, we wanted to gather lessons from governance systems, structures, instruments, and approaches that have effectively adhered to these principles to identify what could be applied to the LDF to align with the principles of common but differentiated responsibilities and respective capabilities (CBDR-RC). We also conducted a feasibility analysis of different financing instruments for the fund to identify the most appropriate ones (see Table 4).

2. Philanthropies such as the Global Green Grants Fund, Children's Investment Fund Foundation, European Climate Foundation, Hewlett Foundation and Open Society Foundation pledged USD 3 million to address L&D (CIFF 2021).

3. At COP26, the governments of Scotland and Wallonia committed approximately USD 2.5 million and USD million, respectively.

Semi-structured expert interviews: We conducted interviews with representatives from academia, governments, civil society, the media, and funding institutions to identify the operational challenges. For this, we drew on insights from our desk research and gauged targeted and actionable recommendations from the interviews for what key elements of the new LDF could look like, taking into account technical and political feasibility.

Observations from TC meetings and workshops: To gain a comprehensive understanding of the political feasibility of the proposed way forward and the negotiating stances of different nations, we observed TC meetings and workshops, and formulated recommendations based on the resulting notes and comments. We focused on the issues of governance, scope, sources, quantum, and accessibility of the fund in light of equity and historical responsibility.

3. Opposing narratives: How do developed and developing countries frame loss and damage?

In the early 1990s, a group of small island nations – the Alliance of Small Island States (AOSIS) – realising their vulnerability to the rising seas, called to include a fund through which the wealthy nations most responsible for climate change would compensate the hardest-hit nations for damages due to sea-level rise. But ever since, developed countries have kept finance talks at arm's length (Government of Vanuatu 1991)[4]. The first real action was the establishment of the Warsaw International Mechanism on Loss and Damage (WIM) in 2013 to enhance knowledge, strengthen dialogue, and increase support to address L&D; but it failed to deliver on the third function (UNFCCC 2014). Then, the Santiago Network was set up in 2019 to catalyse technical support for relevant organisations, bodies, and experts to implement relevant approaches (UNFCCC 2019, page 6).

> **Developed nations agreed to the Loss and Damage Fund on the condition that it will be funded by a broad donor base with big emitters as potential donors.**

Further, at COP26 in Glasgow in 2021, the G77+China's demand for a dedicated L&D finance facility was opposed by the Global North and the Glasgow Dialogue was established as a compromise (UNFCCC 2021, page 9). However, at the 27th Conference of the Parties (COP27), L&D was an active point of discussion. Here, the Parties reached a long-overdue agreement to establish a fund to pay for climate-related L&D (UNFCCC 2022b).

The TC's ongoing deliberations in the form of regular meetings and workshops focus on how to address the need for immediate, adequate finance for L&D (UNFCCC 2023). However, as seen in the past, developed and developing nations have different needs and demands. We are now at a crossroads regarding multiple aspects relating to L&D finance.

Figure 1 depicts the varying positions of developed and developing countries across key elements of the LDF. The information in the figure is based on the authors' interpretations of the available literature and observations from workshops and TC meetings.

The divergent views shown in Figure 1 below act as barriers and slow the negotiations, which are already beset by past inaction,national priorities, distribution-related conflicts, and struggles for power. Singling out countries in the L&D debate by using phrases such as 'major emitters', particularly in attributing responsibility to nations such as India and China, hinders progress as we saw at COP27. This phrase has no official place in the UNFCCC or the Paris Agreement, and only acknowledges Annex I nations (comprising members of the OECD in 1992) and economies in transition, Annex II (OECD countries in Annex I excluding those in transition), and Non-Annex I Parties that are mostly developing countries. Hence, ultimately, the success of this fund depends on the willingness of nations to cooperate on operationalising the fund immediately.

4. The AOSIS was the first negotiating bloc to call attention to the need to avert, minimise, and address L&D in vulnerable nations. It proposed the establishment of a global international insurance pool to compensate climate victims.

Figure 1 **Varying positions of developed and developing nations across loss and damage negotiations**

	DEVELOPED NATIONS	DEVELOPING NATIONS
Who pays?	Big emitters and emerging economies should also contribute	Developed nations should be the primary contributors on account of their historical emissions
Who receives?	Only particularly vulnerable nations such as SIDs, LDCs etc. should be beneficiaries	All developing nations should be recipients; a special window for the LDCs and SIDs for immediate accessibility can be discussed in light of their vulnerability
How?	Insurance-based system and grants along with other options	Direct, additional finance and immediate access in the form of grants and debt-free options commensurate to needs
Principles	Reach affected communities on the ground, reduce duplication, and focus on the urgency of operationalising the fund	Immediate access with easy-access requirements; human-rights approach; community-led approach; and country ownership
Scope	Focus on pre-arranged financing and capacity building support to help them make plans to address loss and damage	Respond to economic and non-economic loss and damage from slow-onset and extreme weather events and highlighted the difficulty in preparing suitable plans for such events in advance.
Position	Hosted by the World Bank as a Financial Intermediary Fund (US) to achieve speed and efficiency	Standalone, independent fund consistent with the principles of the UNFCCC and Paris Agreement including equity and common but differentiated responsibilities (CBDR) principles.
Contributions	Since there is no dedicated donor base, adopt a mosaic of solutions with finance from MDBs, insurance systems, and humanitarian aid, and focus on non-concessional instruments	Looking at multiple options but focusing on non-debt-creating, highly concessional finance; developed countries should be the primary contributors but can expand the donor base; no negative impacts of innovative sources on developing countries

Source: Authors' compilation based on observations of TC meetings

4. The six challenges

We identify six key challenges in accounting for and mobilising L&D finance:

- First, **reluctance of developed nations to think of a new fund, and their political unwillingness to commit to higher, additional non-debt finance** to ODA as well as to deliver on previous commitments. This poses a barrier to mobilising finance dedicated to L&D that is adequate, immediate, and need-based. One of main reasons for the unwillingness is that these countries want to avoid accepting liability for historical emissions that could open up claims for trillions of dollars (Singh 2022).

- Second, the **absence of a multilaterally agreed-upon definition** to categorise L&D and activities necessary to address them makes it extremely difficult to estimate the cost of impacts and identify existing L&D finance. The challenges lie in defining what qualifies as L&D, distinguishing between climate change–induced L&D and those arising as a result of other factors, and clarifying the boundary between L&D and adaptation efforts. Further, the lack of definition of and metrics to identify L&D leads to an **overlap between humanitarian assistance and L&D finance**; the former gets relabelled as dedicated L&D finance even though this finance is already under resourced (Kattumuri et al. 2022).

- Third, **low technical capacity** – especially in developing countries – to scientifically model L&D due to climate change. This low capacity to model current losses and future projections hinders the ability to accurately estimate L&D costs (Chhetri, Schäfer, and Watson 2021).

- Fourth, lack of **immediate accessibility** to funds in the domain of climate finance. For instance, project proposals under the Global Environment Facility (GEF)and Green Climate Fund (GCF) can take more than a year to be finalised and approved, not suitable for immediate and timely addressing of L&D impacts (Kattumuri et al. 2022).

> The biggest impediment is the weak political will of developed nations to mobilise dedicated L&D finance.

- Fifth, **poor data availability** for L&D. Processes for systematically collecting, recording, and reporting information on L&D and related financial needs are absent in many countries (Aggarwal, Wadhawan, and Bajpai 2022).

- Sixth, **poor financial provision of existing funds at the local level**. Fund allocation does not favour the most vulnerable people within a country, communities, and households, including women, indigenous peoples and other marginalised groups. Research also suggests that funds are often directed towards infrastructure, goods, and benefits that target non-poor households.

The TC needs to address these challenges to ensure that the LDF delivers on its objective and makes a tangible impact.

5. Key elements to operationalise the Loss and Damage Fund

In this section, we analyse the key elements that are critical to ensuring that the fund aligns with the principles of equity and climate justice, and is operationalised as soon as possible. The LDF should be need-based and forward-looking, with the aim to provide financial support, build resilience, and promote international cooperation in addressing L&D. In light of this, we discuss how the different modalities and arrangements can be established for L&D financing at the global level, with support at the national and sub-national levels.

5.1 Scope of the fund

L&D are of two types: economic and non-economic. It is imperative to define L&D, and the scope of activities that the LDF can cover. We recommend that the **TC define fundable actions for immediate disaster relief and the following**:

- **Post-disaster resilience-building measures**: These can be categorised as the 5Rs[5] – recovery, reconstruction, rehabilitation, resettlement, and resilience. The aim should be to mitigate risk, to protect against both **rapid- and slow-onset events**, and to help nations and communities build back better.

5. Mentioned during the first TC meeting by Kunal Satyarthi.

- **Comprehensive coverage**: The fund should cover a wide range of climate change–related L&D, including economic ones such as loss of life, livelihoods and infrastructure, and non-economic losses such as that of ecosystems, traditional knowledge and cultural identity.

5.2 Who governs?

For the fund to deliver on its purpose, it is important to establish clear governance structures and processes. This would allow for efficient disbursement and deployment of the funds. Here are some critical elements for the TC to consider:

- **Institutional setting**: The LDF should be a part of the overall UNFCCC framework. It can operate as the third operating mechanism, along with the GCF and GEF under the UNFCCC, responsible only for L&D finance. The GEF (1994) and GCF (2011) have long been operating to support measures relating to climate change in general. Therefore, the LDF can be guided by these experiences. Rather than creating a parallel initiative that may take long to set up, the LDF can be embedded in an existing process within the UNFCCC and provide dedicated finance to developing nations. Further, the LDF was established by a COP and CMA decision (UNFCCC n.d.b). Hence, the governing body of the LDF should be accountable to and receive guidance from these bodies. This means that the LDF would serve both the Convention on the principle of equity and CBDR-RC and the Paris Agreement, which identifies L&D as a separate pillar.

  Governance: Following the current practices of the GEF and GCF, we suggest establishing two bodies. First, a **governing council** that would make the core funding decisions in terms of accessibility and eligibility. This council would represent both developing and developed nations as well as Small Island Developing States (SIDs) and Least Developed Countries (LDCs). And, second, a **secretariat** led by a chief operating officer (COO), as done under the GEF. The secretariat would deal with day-to-day operations and issues related to L&D (Richards et al. 2023). The governing council can work to define eligibility and determine the amount for immediate payout without elaborate processes; these decisions can be approved by the COO. The secretariat can be mandated to execute the decisions; coordinate with different agencies, funds, and the UNFCCC Secretariat; and implement the funding cycles.

> **Developed nations should be primary contributors to the LDF.**

5.3 Who pays?

Contribution to the fund should be guided by the core principles of equity, historical responsibility, and capacity to pay in light of unchecked historical emissions. As such, **developed nations should be the primary contributors to the fund**. The reasons for this are threefold:

- Developed nations have a **historical responsibility** for current high levels of pollution. The United States (US) and European Union (EU) are collectively responsible for almost 54 per cent of the cost of climate damages in the Global South (CSO Equity Review 2019).

- These countries have **consistently failed to deliver** on promises and commitments made regarding emissions reduction and finance (USD 100 billion per year by 2020). The latest UNFCCC compilation and synthesis report states that Annex I countries (excluding economies in transition) reduced emissions by only 5.4 per cent between 1990 and 2019 (UNFCCC 2022a, page 15).

- The **capacity to pay** is much higher for developed countries. While the total GDP of emerging economies is rising, per capita income remains much below that in the developed world.

Multilateral development banks (MDBs), multilateral climate funds, national funds, philanthropies, and domestic carbon markets can be significant sources for the fund. These would be in addition to the contributions of developed nations. Additionally, the fund can be expanded by contributions from the private sector. This could involve implementing a range of taxes on polluting industries and activities; for example, fossil fuel companies, which have made almost USD 2.8 billion a day in profit every day for the past 50 years (ET 2022). The Carbon Major Database suggests that just **100 fossil fuel producers have been responsible for around 70 per cent of global GHG emissions since 1988** (Riley, 2017). In 2020, Saudi Aramco, the world's largest oil company, reported a net income of USD 49 billion, making it the most profitable company globally.

5.4 How much?

The quantum of funds necessary to address L&D and be channelled through the LDF needs to be discussed and agreed upon. Are the funds expected to be for accumulated damages over a specific baseline or projected scenarios? One thing is clear – finance should be need-based. We need trillions to flow to billions of people and a significant share of this to come from the LDF. While specific L&D figures are challenging to determine, studies and reports provide estimates of the economic costs associated with climate impacts. A recent study shows that fossil fuel producers are responsible for paying USD 209 billion a year towards predicted weather events between 2025 and 2050 (Grasso and Heede 2023).

Globally, economic costs of L&D are projected to vastly increase. Table 1 shows the estimates of global economic costs up to 2050. Evidently, current L&D form only the tip of the iceberg.

Table 1 offers a starting point for discussing the quantum of funds necessary. We can take the average of the decades and set **the target to mobilise finances at approximately USD 200 billion by 2025, USD 430 billion by 2040**. and USD 1.5 trillion by 2040. These figures can be **revised based on need in the future**.

Table 1 Projected economic costs from loss and damage

Year	Costs from loss and damage in developing countries (USD billion)
2020	116–435
2030	290–580
2050	1,132–1,741

Source: Markandya and González-Eguino (2019)

5.5 Who can withdraw money, and how?

The money should be earmarked for all developing nations that are facing the wrath of climate change. The amount should be commensurate with need but not exacerbate the debt crisis for nations. Further, there is a need to identify the most vulnerable communities, which may not be the poorest. For example, numerous SIDs are countries with a middle-to-high income status. However, they are facing severe devastation due to their extreme vulnerability, high levels of debt, and limited resources. Thus, **the TC should recommend that all developing nations be recipients of the fund**.

We recommend that funding be disbursed on the following three access modalities:

- **Immediate**: Under this modality, unconditional transfers from the LDF in the form of grants or direct cash transfers should be made when a nation declares that it has been impacted by a 'loss and damage event', as further explained in Section 6. Multiple financing entities have immediate access components; for example, the World Bank (Immediate Response Mechanism [IRM]) and the International Monetary Fund (IMF/Rapid Financing Instrument). The LDF should have a similar feature to make it suitable for addressing and minimising L&D impacts. Lengthy and tedious application processes should be eliminated so that funds can be distributed in a timely manner to local communities and the most vulnerable. Table 2 compiles the percentage and/or amount of immediate relief available across different nations and international agencies. **Taking inspiration from this, the governing council of the LDF can set a minimum percentage of the fund that can be accessed immediately**.

Image: Alamy

A highway in Manali, Himachal Pradesh suffered major collapse due to the relentless rain and catastrophic floods.

Table 2 Compilation of immediate relief under existing initiatives

Names	Entity/country	Trigger	Immediate relief
State Disaster Response Fund (SDRF)	India	Natural disasters considered 'disasters' within the local context in the state and not included in the notified list of disasters of the Ministry of Home Affairs	10 per cent of available funds
Natural Disaster Relief and Recovery Arrangements (NDRRA)	Australia	Once eligible state expenditure for an event exceeds the small disaster criterion of USD 240,000	50 per cent (if total eligible state expenditure in a financial year is below the first threshold) or 50 per cent between the first and second thresholds plus 75 per cent above the second threshold
EU Solidarity Fund	EU	Damage above either 0.6 per cent of the affected state's gross national income (GNI) or EUR 3 billion at 2011 prices	A sum of 2.5 per cent of direct damage below the threshold and 6 per cent of direct damage above the threshold
Caribbean Catastrophe Risk Insurance Facility (CCRIF)	Multi-country risk pool	Parametric insurance coverage; Payout amounts are pre-determined based on the severity and location of the event	Proportional to the estimated impact of an event on each country's budget which is derived from a probabilistic catastrophe risk model developed specifically for the facility
Asia Pacific Disaster Response Fund	Asian Development Bank (ADB) and Japan	A natural disaster has occurred; an emergency that is of a scale beyond the capacity of the country has been officially declared; the UN humanitarian/resident coordinator (H/RC) confirms the scale and implications, and a general amount of funding that would be required	Up to USD 3 million per event
Catastrophe Containment and Relief Trust (CCRT)	IMF	If a natural disaster has directly affected at least one-third of the population, is estimated to have destroyed more than a quarter of the country's productive capacity, or has caused damage deemed to exceed 100 per cent of the GDP	20 per cent of the available quota
Immediate Response Mechanism (IRM)	International Development Association (IDA), World Bank	Natural disasters and economic shocks	Access up to 5 per cent of their undisbursed IDA investment project balances following a crisis; small states and countries with small undisbursed balances will be able to access up to USD 5 million

Source: Authors' compilation

- **Recovery**: Of the total amount requested by the country, the remaining amount can be released after an assessment of post-disaster recovery, with defined goals, objectives, and timelines. Factors that may influence the size of the grant can be based on the geographical damage, the initial estimate of people affected, and the date and magnitude of the last disaster that struck the country. This would involve addressing multifaceted challenges related to livelihoods, climate change-induced migration, ecosystem preservation, and supporting long-term recovery initiatives to rebuild and recover over time. Further, activities funded by humanitarian aid and development assistance are likely to overlap with climate finance and specifically L&D finance. Humanitarian aid and development assistance are voluntary contributions for immediate recovery, but L&D finance should focus on both immediate and long-term recovery and rehabilitation. Thus, there should be clear distinctions between existing sources, although there might be complementarity among them. **The governing council of the LDF should define clear indicators** to differentiate between L&D finance and humanitarian aid, recommend in-depth post-disaster assessments for long-term recovery plans, and emphasise the immediate and last-mile delivery of support to communities in need.
- **Slow-onset**: A third access modality for recovery from slow-onset events such as sea-level rise, desertification, ocean acidification and others is also critical. This includes finances for long-term planning, policy processes, and transformative actions such as facilitating a just transition to alternative livelihoods and migration due to climate change-related impacts. The **governing council should define the access modalities** for nations to take advantage of the LDF for such purposes, based on concrete plans and actions.

5.6 Financial instruments and sources of funding

The main financers of L&D so far have been the poorer communities and nations, which have contributed the least to the problem. Acknowledging this, the LDF must make amendments and harness resources based on principles of equity and historical responsibility. Table 4 explains the multiple ways in which the LDF can be accessed to ensure **equitable, targeted support and allow for immediate, direct access to vulnerable communities and populations**.

Table 3 Difference between humanitarian assistance and loss and damage finance

Aspect	Humanitarian assistance	Loss and damage finance
Purpose	Immediate relief and assistance in case of sudden-onset disasters and emergencies	Targets both sudden-onset and long-term impacts of climate change
Timeline	Deployed rapidly in response to acute emergencies and disasters	Aims to support affected communities immediately and over an extended period
Types of disasters covered	Natural disasters such as earthquakes, floods, hurricanes, armed conflicts and pandemics	Targeted climate change impacts such as extreme weather events, and slow-onset and gradual changes such as sea-level rise

Source: Authors' compilation

Table 4 **Feasibility of instruments for the Loss and Damage Fund (LDF)**

Indicators	Immediate	Fair	Applicable	Sustainable
Description	Allows instant and direct access	Acknowledges historical responsibility and ability to pay	Suitable for disasters and slow-onset events	Long-term mechanism to raise contributions and regularly replenish the fund
Insurance	Depends; traditional indemnity insurances do not while parametric ones do	No, since the premium is expected to be paid by the vulnerable country	No, since commercial insurance products do not cover slow-onset events	Depends, as the premiums cover the costs but the coverage is lower
Grants	Depends, as some grants have long application procedures	Yes, since they do not have to be repaid and should be paid by developed countries	Yes, as it is hard to make profits on these	Yes, as they come from different sources such as MDBs, donors, financial institutions etc.
Concessional loans	No; borrowing terms are tedious, complex, rigid, and unfamiliar	No, it is a debt-increasing instrument	Maybe, depending on the loan conditionalities	Yes, greater capacity and credibility to continually lend at a higher scale and longer tenure
Unconditional cash transfer	Yes; requires little to no bureaucracy	Yes, if mobilised from the polluters to the most vulnerable to minimise climate shock by financially empowering communities	Yes, it can protect communities and livelihoods from the forecasted disasters	Depends on the availability and contribution of the fund as the money can be sourced from different places
Contributions by countries	Yes, since these can be sent to the nation directly or to the fund	Yes, since made by the polluters based on the willingness	Yes, since the agency to use the finance depends on the receiver	No, since they are voluntary and subject to intent, political, and economic shifts

Source: Authors' analysis

6. Envisioning the funding disbursement framework under the LDF

We recommend a framework to set the release of funds in motion by fleshing out the details to operationalise a fund that is fit for purpose and operates within the core principles.

Step 1 – Triggers for accessing funding: The first step is for the governing council to categorise the windows for funding disbursements and identify the scale of disasters eligible for the immediate access component.

There could be three windows – immediate access, recovery fund, and slow-onset events. The scale could be discussed in two ways:

i. Calculate damages as a proportion of state or territory revenue.[6]

ii. Define a set of indicators to categorise the scale of the event for immediate disbursement.

The objective is to set the criteria beforehand to ensure that the primary fund allows for an immediate response and triggers a payout for notified disasters to provide immediate relief.

6. Similar approach followed under the EU Solidarity Fund.

Step 2 – Accessibility: Currently, the process for accessing finances is burdensome, and it takes months or years for the money to be deployed. The objective is to simplify the procedure for accessing post-impact finances, including the use of automated triggers to release funding. First, once a disaster strikes, the national designated authority and/or implementing agency should conduct local needs assessments and report on the L&D impacts using a predefined template and mark the window for accessing funding. **The governing council can decide on the elements of this template** to help offer an aggregate economic evaluation of the disaster. For instance, under the GCF, climate rationale is established through an evidence-based analysis that shows that a proposed activity is likely to be an effective adaptive response to the risk or impact of a specific climate change hazard. It follows four principles which include the following:

- Identification – How does the proposed activity address the current and/or future projected climate change–related risks and impacts?
- Response – How is the activity expected to reduce exposure and/or vulnerability?
- Alignment – How does the activity align with the country's national plans and climate strategies?
- Monitoring and evaluation – What is the climate impact of the proposed activity, and can adaptation beneficiaries be quantified?

The secretariat can develop a similar template, taking into account the principles relevant to L&D activities, based on technical expertise and advice they receive from either the governing council or outside bodies. To be truly effective, the fund should be easily accessible, and avoid overly burdensome requirements for proposals or accreditation.

Figure 2 Immediate access and funding framework under the LDF

Source: Authors' compilation

> **The minimum amount of the total requested based on the decided percentage must be disbursed within two days of disaster for immediate recovery.**

Additionally, the governing council can recommend that the secretariat, in alignment with the Santiago Network, create a repository of the vulnerability profiles of nations through a Global Localised Vulnerability Index. CEEW developed a Climate Vulnerability Index which found that 80 per cent of Indians are vulnerable to extreme climatic disasters (Mohanty and Wadhawan 2021). Such data in the public domain helps map critical vulnerabilities at the local level. Thus, the compilation of country profiles can serve as a basis for assessing risk and vulnerability. The governing council can make the assessments to save countries from having to report some parts of the same information over and over again while applying for funds. This would reduce the burden of applications on these nations.

Step 3 – Immediate evaluation and disbursement of the funds: Based on the evaluation by the governing council, nations can access the fund for their needs. Under immediate relief, **a minimum amount (depending on the decided percentage of the total requested amount) must be disbursed within two days of disaster**. This might be in the form of a small grant/direct cash support, based on the initial need assessment via both direct budget support to governments as well as small grant support directly to affected communities.[7] For the recovery phase, the remaining amount should be transferred within four to five weeks, after further evaluation by the governing council. In this context, the governing council can offer recommendations on the minimum percentage of these funds available for immediate access by involving experts and representatives of the intended beneficiaries during the design stage. This would help improve targeting and ensure that the criteria for accessing funds are reasonable. For the slow-onset access window, nations should use the predefined template to clarify how the proposed activity would address and minimise the climate risks and impacts, the intended beneficiaries, barriers, and impact, among others. This can be approved by the governing council and shared with the beneficiaries.

Step 4 – Monitoring and evaluation: After the money is received, the national focal point/designated authority of the country should respond by describing how the fund has been utilised, according to key performance indicators that can be decided by the governing council. Rather than imposing burdensome monitoring, such reporting and evaluation requirements would ensure transparency in how the fund is used.

7. Conclusion

At the one remaining TC meeting, details of the draft, targeted, and actionable recommendations to be adopted by Parties at COP28 should be the focus. Moreover, to ensure tangible outcomes for the fund, the TC needs to answer key questions related to the scope of the fund, who pays, how much, and access modalities.

In this report, we have provided insights on how the LDF could function and envisioned a framework that can support the direct access modality, based on core guiding principles. Thus far we have made recommendations for the modalities and offered clear pathways for designing and operationalising the fund. To conclude, here are some overarching recommendations to enhance the capacity of nations to address, avert, and minimise L&D:

- **Develop a Global South–led consortium to enhance technical capacity and encourage attribution science to assess the extent of the impact of climate change on disasters.** There is a need to enrich climate science, draw attention to the more vulnerable regions, build the research capacity in developing nations, and strengthen the L&D framework. Additionally, we can explore a collaboration between the World Meteorological Organisation (WMO) as the technical body for scientific attribution, Santiago Network as the support arm catalysing demand-driven assistance, and the LDF Secretariat as the coordinating body. The aim would be to institute a dedicated department under the WMO to leverage its expertise in scientific disaster attribution, with balanced geographical representation of scientists. This department could include a capacity-building arm comprising experts from developing nations.

7. The International Federation of Red Cross and Red Crescent Societies (IFRC) conducts an initial assessment within 48 hours, a rapid assessment within 7 days, and an in-depth assessment within 40 days.

- **Improve data collection on L&D impacts and finance needs to support evidence-based decision-making**. First, a national climate disaster database should be established to systematically collect, record, and report information on L&D and related financial needs. Second, nations should develop domestic processes to assess current and potential L&D to support rigorous stocktaking and understanding of the impacts. Here, independent actors can support the top–down modelling of L&D costs and financial needs and help institutionalise the processes.
- **Encourage the reporting and tracking of L&D financing in common tabular formats**. With the first set of BTRs expected to be submitted in 2024, this could be an opportunity to improve the data on financial flows for L&D. There is currently a lack of consistent data on the flows of finance. Without data on L&D gaps, it will be hard to determine the effectiveness of such flows or to develop measures to address the gaps.

Going forward, TC members will need to develop a shared understanding of the relationship and differences between the discourse on broader funding arrangements and the specificities of a new fund. This would include sources of finances, financial instruments and finance delivery channels that align with CBDR-RC and historical responsibility. As we approach COP28, the TC should offer the Parties clear recommendations for the operationalisation of the LDF. Bridging the gap in the ability of developing nations to secure adequate, predictable, and sustainable financial support is pivotal to providing assistance to those most affected.

References

Aggarwal, Jhalak S, Shreya Wadhawan, and Aryan Bajpai. 2022. “Mainstreaming Loss and Damage in Climate Negotiations: Policy Recommendations to Nudge Climate Action.” CEEW. https://www.ceew.in/publications/policy-recommendations-for-climate-action-and-mainstreaming-loss-and-damage.

Chhetri, Raju Pandit, Laura Schäfer, and Charlene Watson. 2021. “Exploring Loss and Damage Finance and Its Place in the Global Stocktake.” Climate Works. https://www.climateworks.org/wp-content/uploads/2022/04/Loss-and-Damage-Finance-iGST.pdf.

CSO Equity Review. 2019. “Can Climate Change Fuelled Loss and Damage Ever Be Fair?” CSO Equity Review Coalition. https://civilsocietyreview.org/report2019/.

CIFF. 2021. “Philanthropies offer kick-start funds for prospective Glasgow Loss and Damage Facility to support vulnerable countries suffering from climate change”. https://ciff.org/news/philanthropies-offer-kick-start-funds-for-prospective-glasgow-loss-damage-facility-to-support-vulnerable-countries-suffering-from-climate-change/.

ET. 2022. “Oil and Gas Industry Delivered $2.8bn a Day in Pure Profit for Last 50 Years.” *Energy: Economic Times*, July 22, 2022. https://energy.economictimes.indiatimes.com/news/oil-and-gas/oil-and-gas-industry-delivered-2-8bn-a-day-in-pure-profit-for-last-50-years/93040430#:~:text=2%20min%20read-,Oil%20and%20gas%20industry%20delivered%20%242.8bn%20a%20day%20in,been%20deducted%2C%2.

Fournier, Clément. 2020. “The People Least Responsible for Global Warming Will Suffer the Most from Its Consequences.” *You Matter*, January 27, 2020. https://youmatter.world/en/climate-change-consequences-social-inequality/.

Government of Vanuatu. 1991. “Intergovernmental Negotiating Committee for a Framework on Climate Change Working Group II.” UNFCCC. https://unfccc.int/resource/docs/a/wg2crp08.pdf.

Grasso, Marco, and Richard Heede. 2023, May. “Time to Pay the Piper: Fossil Fuel Companies’ Reparations for Climate Damages.” *One Earth* 6 (5): 459–63. https://doi.org/10.1016/j.oneear.2023.04.012.

IIED. 2022. “Climate Change Costing Rural Women in Bangladesh up to 30% of Their Outgoings.” Last modified May 18, 2022. https://www.iied.org/climate-change-costing-rural-women-bangladesh-30-their-outgoings#:~:text=Women%20heading%20poor%2C%20rural%20households,for%20Climate%20Change%20-and%20Development%20.

Kattumuri, Ruth, Unnikrishnan Nair, Labanya Jena, and Alexander Lee-Emery. 2022. "Loss and Damage Fund – Size, Design and Agility Are Essential." *The Common Wealth*, December 5, 2022. https://thecommonwealth.org/news/blog-loss-and-damage-fund-size-design-and-agility-are-essential.

Liao, Cynthia, Nina Jeffs, Anna Åberg, and John Wallace. 2022. "What Is Loss and Damage?" *Chatham House*, December 6, 2022. https://www.chathamhouse.org/2022/08/what-loss-and-damage.

Markandya, Anil, and Mikel González-Eguino. 2019. "Integrated Assessment for Identifying Climate Finance Needs for Loss and Damage: A Critical Review." In *Loss and Damage from Climate Change*, edited by Reinhard Mechler, Laurens M Bouwer, Thomas Schinko, Swenja Surminski, and JoAnne Linnerooth-Bayer, 343–62. Cham: Springer. https://doi.org/10.1007/978-3-319-72026-5_14.

Mohanty, Abinash, and Shreya Wadhawan. 2021. "Mapping India's Climate Vulnerability: A District-level Assessment." CEEW. https://www.ceew.in/publications/mapping-climate-change-vulnerability-index-of-india-a-district-level-assessment.

OECD. 2015. "Disaster Risk Financing: "A Global Survey of Practices and Challenges." https://www.oecd.org/daf/fin/insurance/OECD-Disaster-Risk-Financing-a-global-survey-of-practices-and-challenges.pdf.

OECD. 2022. "Aggregate Trends of Climate Finance Provided and Mobilised by Developed Countries in 2013–2020." https://www.oecd.org/finance/aggregate-trends-of-climate-finance-provided-and-mobilised-by-developed-countries-in-2013-2020-d28f963c-en.htm.

Prasad, Sumit, Spandan Pandey, and Shikha Bhasin. 2021. "Unpacking Pre-2020 Climate Commitments." CEEW. https://www.ceew.in/publications/pre-2020-climate-commitment-gaps-of-developed-nations.

Richards, Julie-Anne, Liane Schalatek, Leia Achampong, and Heidi White. 2023. "The Loss and Damage Finance Landscape." Heinrich Böll Stiftung. https://us.boell.org/sites/default/files/2023-05/the_loss_and_damage_finance_landscape_hbf_ldc_15052023.pdf.

Singh, Harjeet. 2022. "Loss and Damage Fund: A Step Towards Climate Justice, Finally." *The India Forum*, December 21, 2022. https://www.theindiaforum.in/climate-change/loss-and-damage-fund-step-towards-climate-justice-finally.

Riley, Tess. 2017. "Just 100 companies responsible for 71% of global emissions, study says." The Guardian. https://www.theguardian.com/sustainable-business/2017/jul/10/100-fossil-fuel-companies-investors-responsible-71-global-emissions-cdp-study-climate-change.

UNFCCC. 2014. "Report of the Conference of the Parties on Its Nineteenth Session, Held in Warsaw from 11 to 23 November 2013. Addendum. Part Two: Action Taken by the Conference of the Parties at Its Nineteenth Session." https://unfccc.int/sites/default/files/resource/docs/2013/cop19/eng/10a01.pdf.

UNFCCC. 2019. "Draft Decision/CMA.2: Warsaw International Mechanism for Loss and Damage Associated with Climate Change Impacts and its 2019 Review." https://unfccc.int/sites/default/files/resource/cma2_auv_6_WIM.pdf.

UNFCCC. 2021. "Decision/CMA.3: Glasgow Climate Pact." https://unfccc.int/sites/default/files/resource/cma3_auv_2_cover%20decision.pdf.

UNFCCC. 2022a. "Compilation and Synthesis of Fourth Biennial Reports of Parties Included in Annex I to the Convention." United Nations. https://unfccc.int/documents/476560 paragraph 21.

UNFCCC. 2022b, November. "Decision/CMA.4: Funding Arrangements for Responding to Loss and Damage Associated with the Adverse Effects of Climate Change, Including a Focus on Addressing Loss and Damage." https://unfccc.int/sites/default/files/resource/cma4_auv_8f.pdf.

UNFCCC. 2023. "Workplan 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." https://unfccc.int/sites/default/files/resource/TC1%20Paper%203%20Workplan%20Final_2903%201800.pdf.

UNFCCC. n.d.b. "Decision CP 27: Sharm el-Sheikh Implementation Plan." https://unfccc.int/sites/default/files/resource/cop27_auv_2_cover%20decision.pdf.

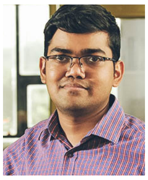
V20. 2022. "Climate Vulnerable Economies Loss Report." https://www.v-20.org/resources/publications/climate-vulnerable-economies-loss-report.

World Bank. 2022, October. "Pakistan: Flood Damages and Economic Losses over USD 30 Billion and Reconstruction Needs Over USD 16 Billion – New Assessment." https://www.worldbank.org/en/news/press-release/2022/10/28/pakistan-flood-damages-and-economic-losses-over-usd-30-billion-and-reconstruction-needs-over-usd-16-billion-new-assessme.

The authors

Jhalak Aggarwal | X @Jhalak_1707
jhalak.aggarwal@ceew.in

Jhalak is a Research Analyst at CEEW in the International Cooperation team. Her current work involves examining loss and damage issues, transparency and capacity-building efforts, enhancing accountability, the Global Stocktake and other pertinent issues to international climate negotiations. Additionally, she is tracking and analysing the negotiations on key issues and developments around the post-2020 ambitions. She holds a post-graduate degree from the Jindal School of Government and Public Policy.



Sumit Prasad
sumit.prasad@ceew.in | X @sumitprd

Sumit Prasad is a Programme Lead in the International Cooperation team at CEEW. He has led evidence-based research and shed light on pre-2020 climate actions, and implications of transparency arrangement as well as examined other topical issues of international climate governance. He has also authored the MRV chapter in India's Biennial Update Reports and is also nominated as a UNFCCC roaster group of experts by GoI.

Suggested citation: Aggarwal, Jhalak and Sumit Prasad. 2023. *Operationalising the Loss and Damage Fund (LDF) to Address Climate Impacts.* New Delhi: Council on Energy, Environment, and Water.

Peer reviewers: Liane Schalatek, Associate Director, Heinrich Böll Stiftung North America; Zoha Shawoo, Scientist, Stockholm Environment Institute SEI US; and Vishwas Chitale, Senior Programme Lead, CEEW.

Publication team: Kartikeya Jain (CEEW); Alina Sen (CEEW); The Clean Copy; Twig Designs; and FRIENDS Digital Colour Solutions.

Organisation: The **Council on Energy, Environment and Water** (CEEW) is one of Asia's leading not-for-profit policy research institutions and among the world's top climate think tanks. The Council uses data, integrated analysis, and strategic outreach to explain — and change — the use, reuse, and misuse of resources. The Council addresses pressing global challenges through an integrated and internationally focused approach. It prides itself on the independence of its high-quality research, develops partnerships with public and private institutions, and engages with the wider public. CEEW has a footprint in over 20 Indian states and has repeatedly featured among the world's best managed and independent think tanks.
Follow us on X (formerly Twitter) @CEEWIndia for the latest updates.

COUNCIL ON ENERGY, ENVIRONMENT AND WATER (CEEW)

ISID Campus, 4 Vasant Kunj Institutional Area
New Delhi - 110070, India
T: +91 (0) 11 4073 3300

info@ceew.in | ceew.in | X @CEEWIndia | ceewindia