

The UNFCCC Loss and Damage Fund and related processes

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I. Introduction

A. Understanding “loss and damage”

The findings from the recent Sixth Assessment Report from the Intergovernmental Panel on Climate Change (IPCC) are clear: human-induced climate change has caused loss and damage to both humans and ecosystems, as the adverse effects of climate change increase in terms of scope, intensity, and frequency all over the world. Cumulative emissions since the Industrial Revolution, inadequate efforts to reduce global greenhouse gas emissions despite existing commitments, and insufficient efforts to undertake and support adaptation actions have meant that adaptation limits are close to or in some cases are already being exceeded, resulting in increased losses and damages.

“Loss and damage” refer to the impacts of climate change that result from insufficient mitigation or adaptation. Loss and damage are what happens when it is no longer possible to adapt to climate change impacts. Loss and damage result from two main manifestations of adverse climate change effects:

1. **Extreme weather events** – These are climate-related hazards that hit immediately and cause loss and damage instantly to countries and their communities, such as tropical storms (cyclones, hurricanes, typhoons), torrential rains, cold snaps, droughts, and heatwaves.
2. **Slow onset events** – These are climate processes that cause loss and damage over time, such as increasing temperatures (atmosphere, land, and ocean), desertification, loss of biodiversity, land and forest degradation, glacial retreat, permafrost thaw, sea level rise, ocean acidification, and groundwater salinization.

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These adverse effects are often connected and synergistic. Loss and damage from climate impacts occur in all regions and countries. However, developing countries and communities with the least resources and the smallest contribution to the climate crisis historically and now generally face the worst loss and damage and are least able to cope with the impacts.

Loss and damage can be economic or non-economic in nature. When an extreme weather event or a slow onset event occurs and destroys or damages infrastructure such as homes, schools and transportation (roads, railways, bridges, ports), or causes the loss of livelihoods and other income sources, the loss and damage can often be estimated and quantified – these are called economic loss and damage. There are also non-economic losses and damages that are equally devastating yet may not be measured monetarily, for example, direct losses of human life or the loss of social or cultural identity, cohesion or heritage that may happen when communities are forcibly displaced or migrate due to an extreme weather or slow onset event.

To address both economic and non-economic losses and damages, developing countries, including least-developed countries (LDCs), should be supported (generally through the provision of finance, technical assistance, technology transfer, capacity building, and other relevant support such as humanitarian assistance and development support) to enable immediate and longer-term relief, rehabilitation, rebuilding, and recovery from the losses and damages incurred.

B. Loss and damage in the UNFCCC from 1992

The issue of addressing loss and damage is not explicitly referred to in the United Nations Framework Convention on Climate Change (UNFCCC) itself. The Alliance of Small Island States (AOSIS) in 1991 had proposed creating an international insurance pool to compensate for loss and damage; however, this proposal was not accepted by the developed countries and did not get included in the Convention when it was adopted in 1992. Since then, the developing countries have been constantly pushing to make the issue of loss and damage an integral part of the institutional and policy architecture of the multilateral climate change policy regime under the Convention and the Paris Agreement.

This push led to the establishment of a work programme on averting, minimizing, and addressing loss and damage at the 16th Conference of the Parties to the UNFCCC (COP 16) in Cancun in 2010 under the Cancun Adaptation Framework. At COP 19 in Warsaw in 2013, Parties agreed to establish the Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts (WIM) and an Executive Committee (ExCom) to guide the implementation of its functions.

Parties continued to negotiate and agree on further measures thereafter to enhance the work of the WIM, which bore fruit in 2015 at COP 21 in Paris when the issue of loss and damage was recognized with its own specific provision (Article 8) in the Paris Agreement. The article specifies some areas of cooperation and facilitation to enhance understanding of and action to address loss and damage, such as irreversible loss and damage, slow onset processes, early warning systems, and risk management. However, the decision accompanying the Paris Agreement (Decision 1/CP.21) explicitly states that Article 8 does not provide a basis for any liability or compensation.

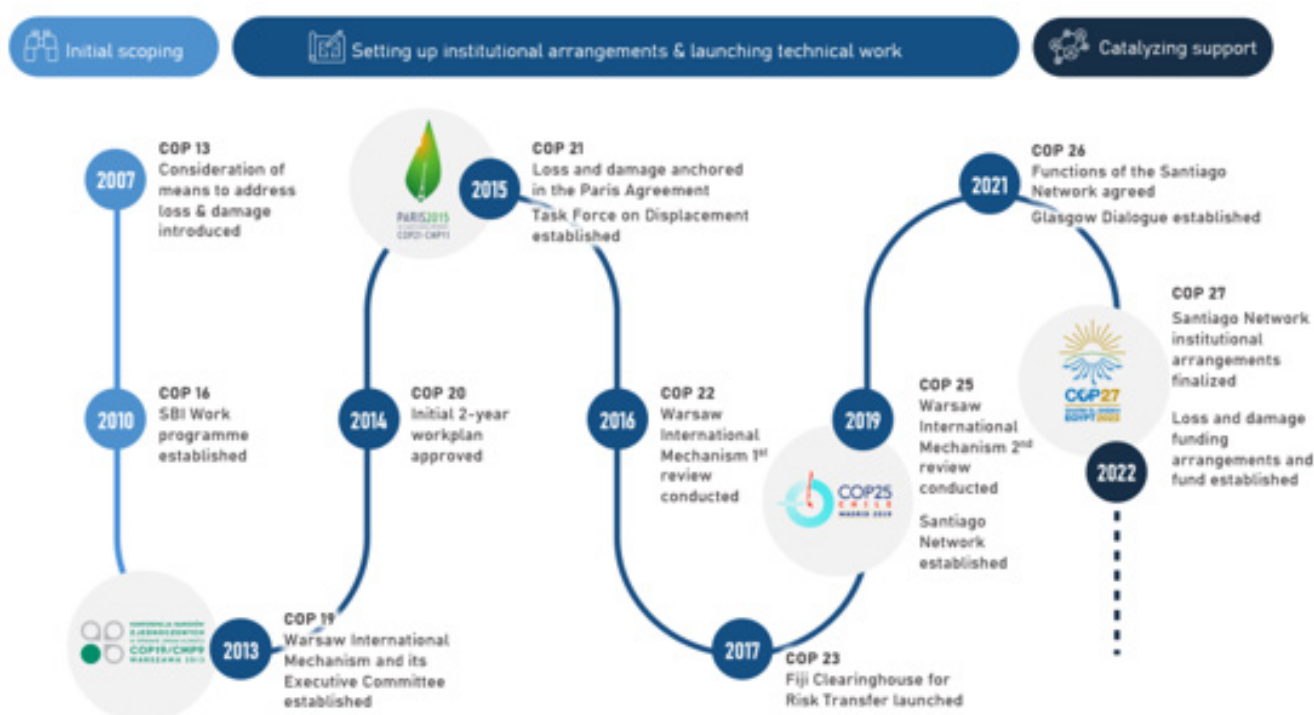
During the first and second reviews of the WIM in 2016 and 2019, the Parties discussed sources of loss and damage-related financial support, the modalities for accessing such support, and the urgency of enhancing mobilization of action and support including finance.

In 2019 at COP 25 in Madrid, the Parties established the Santiago Network on Loss and Damage (SNLD) and mandated the WIM ExCom to establish an expert group on action and support. Two years later at COP 26 in Glasgow, they agreed on the functions of the SNLD, and it was also here that the 134 developing countries represented by the Group of 77 and China presented a formal proposal for the establishment of a Glasgow Loss and Damage Finance Facility under the Convention and Paris Agreement's Financial Mechanism. The G77's proposal was rejected by developed countries but while the negotiations did not result in agreement on the establishment of the loss and damage finance facility, they did result in the establishment of the Glasgow Dialogue to serve as the forum in 2022 and 2023 to discuss loss and damage finance issues.

At COP 27 in Sharm El-Sheikh in 2022, on the back of a united push by the G77 led by Pakistan, the COP agreed to establish new loss and damage funding arrangements, including the Loss and Damage Fund, to provide funding to address loss and damage incurred by developing countries that are particularly vulnerable to the adverse effects of climate change.

The COP established a Transitional Committee composed of a select number of representatives from Parties to design the institutional arrangements and operational modalities of the Loss and Damage Fund and its relation to other loss and damage-related funding arrangements. The Transitional Committee is expected to provide its recommendations to the COP to consider and adopt at COP 28 in December 2023 in Dubai. The COP also agreed on the institutional arrangements for the SNLD, including creating its Advisory Board and mandating the establishment of the SNLD secretariat to be hosted by a host agency that would be selected in 2023 at COP 28. In addition, the WIM ExCom adopted its second five-year rolling workplan, which was welcomed by the COP.

Figure 1: Chronology of Loss and Damage Arrangements in the Multilateral Climate Change Regime



Source: UNFCCC, <https://unfccc.int/process-and-meetings/bodies/constituted-bodies/wim-excom/chronology>

II. Current institutional framework of loss and damage in the UNFCCC

Loss and damage is now an integral part of the multilateral climate regime under the Convention and the Paris Agreement as a result of the decisions adopted by the COP and the CMA (Conference of the Parties serving as the meeting of the Parties to the Paris Agreement) as well as the inclusion of the issue of loss and damage in Article 8 of the Paris Agreement. As mentioned above, this particular article provides for international cooperation and facilitation to enhance action and support in several areas including early warning systems, emergency preparedness, slow onset events, risk insurance, and risk assessment and management. Further, it incorporates the WIM within its regime subject to the authority and guidance of the CMA (even as the WIM continues to also be under the authority and guidance of the COP by virtue of the COP's previous decisions relating to loss and damage).

Loss and damage under the Convention and the Paris Agreement now has an institutional architecture composed of: (a) a policy-setting and policy discussion body, (b) a technical assistance and support network, and (c) a financing body.

The WIM¹ was established at Warsaw in 2013 to address loss and damage associated with impacts of climate change, including extreme weather events and slow onset events, in developing countries that are particularly vulnerable to the adverse effects of climate change. The WIM's mandate includes:

- Enhancing knowledge and understanding of comprehensive risk management approaches.
- Strengthening dialogue, coordination, coherence, and synergies among relevant stakeholders.
- Enhancing action and support, including finance, technology, and capacity building.

The work of the WIM is facilitated by its ExCom² composed of 20 members:

- 10 members from developed country Parties;
- 10 members from developing country Parties (including two members each from the African States, the Asia-Pacific States, and the Latin American and Caribbean States; and one member each from the small island developing States (SIDS) and the LDCs).

The ExCom currently has five thematic expert groups working respectively on slow onset events, non-economic losses, displacement related to the adverse impacts of climate change, comprehensive risk management approaches, and action and support. The ExCom guides the implementation of the WIM's functions and mandates through its workplan, and with the support of the thematic expert groups, and develops initiatives, such as the Fiji Clearing House for Risk Transfer, to foster climate-resilient sustainable development.

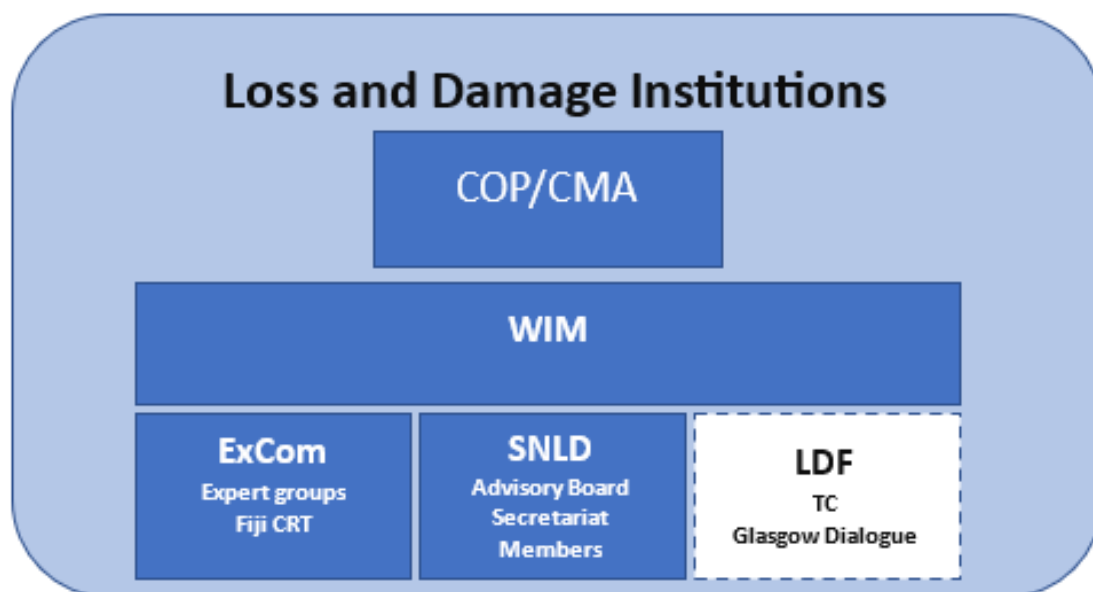
The SNLD³ established in Madrid in 2019 is responsible for mobilizing and coordinating the delivery of loss and damage-related technical assistance and other support such as capacity building, skills training, and pilot financing to developing countries from the SNLD's members. It will receive some funding (some of which has already been pledged by developed countries) to provide technical assistance and to do pilot projects (for example, to help developing countries put together projects for bigger loss and damage-related funding coming from other financing entities).

The vision of the SNLD is to catalyze the technical assistance of relevant organizations, bodies, networks and experts for the implementation of relevant approaches for averting, minimizing and addressing loss and damage at the local, national and regional levels, in developing countries that are particularly vulnerable to the adverse effects of climate change. After its establishment in 2019 in Madrid, its specific functions were agreed to by the Parties in Glasgow in 2021. Its institutional design and operational modalities were negotiated in 2022 at Sharm El-Sheikh, including its Advisory Board, its secretariat, their respective roles, and the process for selecting the host agency for the secretariat. The SNLD Advisory Board has organic links to the WIM ExCom as some WIM ExCom members are ex officio members, to ensure that there is institutional coherence between the WIM and the SNLD.

The Santiago Network is intended to connect vulnerable developing countries with providers of the technical assistance, knowledge and resources they need to address climate risks comprehensively in the context of averting, minimizing and addressing loss and damage.

Finally, the Loss and Damage Fund established in 2022 in Sharm El-Sheikh is intended to deliver increased loss and damage-related financing to developing countries. Its institutional design and operational modalities are still to be developed by the Transitional Committee in 2023 for adoption at COP 28.

Figure 2: Loss and Damage Institutions in the UNFCCC/Paris Agreement Regime

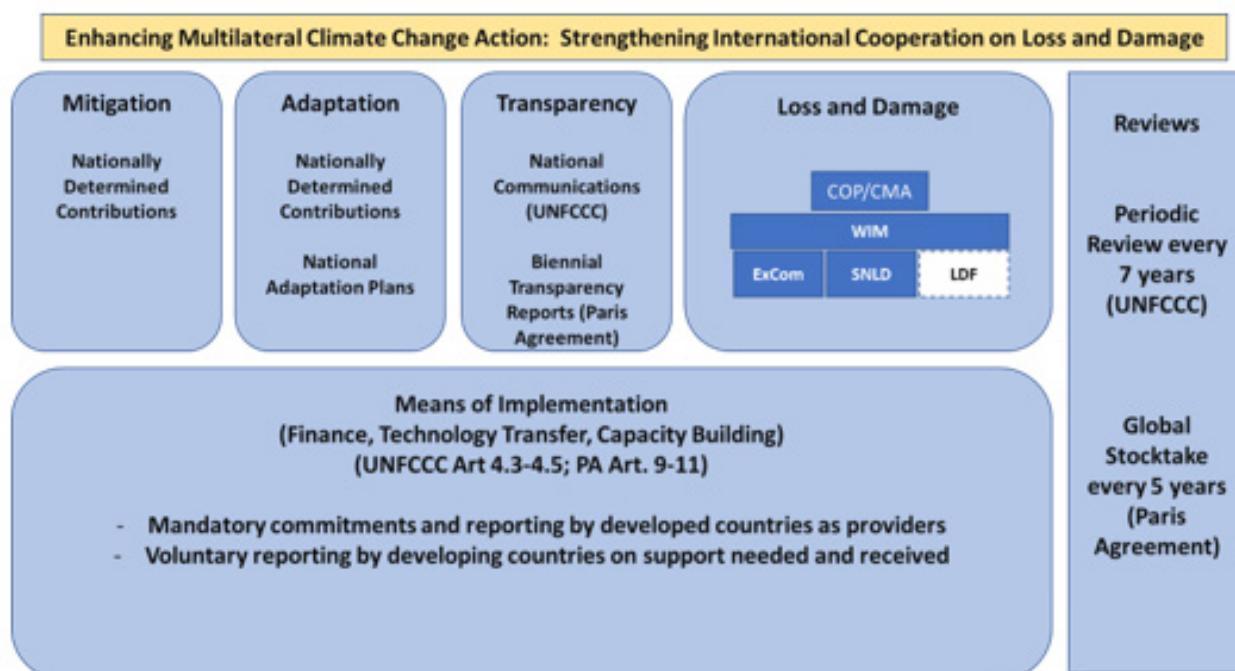


Source: Author

Note: The white dashed-line box for the LDF indicates that this element is not yet finished.

With these three institutional elements, loss and damage now stands alongside the other parts of the climate regime dealing with mitigation, adaptation, reporting, the means of implementation (finance, technology transfer, capacity building), and multilateral review (under the COP's periodic review and the CMA's Global Stocktake).

Figure 3: Loss and Damage Within the Broader UNFCCC/Paris Agreement Architecture



Source: Author

III. Establishing the Loss and Damage Fund (2016 to 2023)

A. *Setting the stage (2016-2022)*

The cascade of scientific literature (from the IPCC) as well as the reality faced by communities all over the world experiencing climate change-related natural disasters heightened the political profile of loss and damage issues in the UNFCCC process, in particular loss and damage finance. These included in 2022 the floods in China, Malaysia, Brazil, Pakistan, western Europe, Australia and west Africa, long-running drought in the Horn of Africa as well as in southern Europe and China, heatwaves in India, Pakistan, the Arctic and Antarctica, and the Middle East, wildfire in Chile, winter and summer storms in the US, the Caribbean, Europe, south-east Africa and the Philippines, a tropical cyclone in Bangladesh, and mountain glacial melt in the Andes, Alps and Himalayas. These underscored the need for loss and damage funding as a central element in international cooperation to address loss and damage under the UNFCCC and the Paris Agreement.

A multi-year push by developing countries started ramping up from 2016, after the Paris Agreement entered into force, to make the issue of loss and damage finance more prominent in the Convention and Paris Agreement processes. This is reflected in the following:

- The first review of the WIM, which took place at COP 22 in Marrakesh in 2016, resulted in a request from the COP to the UNFCCC secretariat to prepare a technical paper elaborating the sources of financial support as provided through the Financial Mechanism, and finance available outside of the Financial Mechanism, for addressing loss and damage, as well as modalities for accessing such support (Decision 3/CP.22 and Decision 4/CP.22).
- This was followed up in 2017 in COP 23 in Bonn with the endorsement of the WIM's five-year rolling workplan and the conduct of a side event by the WIM ExCom on risk financing for slow onset events to discuss features of financial instruments and tools, as well as innovative ways for collaboration and partnerships to enhance action and support for addressing the risks of slow onset events (Decision 5/CP.23).
- In 2018 at COP 24 in Katowice, the UNFCCC secretariat organized an expert dialogue to explore a wide range of information, inputs and views on ways of facilitating the mobilization of expertise and enhancement of support, including finance, technology and capacity-building, for averting, minimizing and addressing loss and damage related to climate change. The dialogue was organized under guidance by the SBI (Subsidiary Body for Implementation) Chair and the Executive Committee.
- At the second review of the WIM in Madrid at COP 25 in 2019, the subsidiary bodies provided guidance on how the WIM could be strengthened, particularly by increasing collaboration and coordination across constituted bodies and organizations, under and outside the Convention and the Paris Agreement, to scale up the mobilization of resources, action and support for developing countries, and the COP asked the WIM ExCom to further engage and strengthen its dialogue with the Standing Committee on Finance (SCF) and liaise with the Green Climate Fund (GCF) to clarify how developing countries may access funding, and to establish an expert group to advise the ExCom on these and other work relating to enhancing action and support. As part of strengthening the WIM, the Santiago Network was established to catalyze technical assistance for the most vulnerable countries and Parties were also encouraged to make use of available support, and promote coherence and awareness for approaches to avert, minimize and address loss and damage, including by establishing a loss and damage contact point (Decision 2/CMA.2).⁴
- In 2021 at COP 26 in Glasgow, the SNLD's functions were adopted by the COP together with a mandate to work on its institutional arrangements during 2022. The Glasgow Dialogue between Parties, relevant organizations and stakeholders was established to discuss the arrangements for the funding of activities to avert, minimize and address loss and damage associated with the adverse impacts of climate change. The Dialogue will take place in the first sessional period of each year of the SBI, concluding at its 60th session (June 2024) (Decision 19/CMA.3, Decision 17/CP.26, Glasgow Climate Pact).⁵
- In June 2022 during the 56th session of the subsidiary bodies in Bonn, developing countries called for the establishment of a loss and damage finance facility and the inclusion of loss and damage finance in the agenda of the subsidiary bodies to lay the ground for a subsequent COP 27/CMA 4 decision on the issue, but they were not successful.⁶

The subsequent achievement of establishing the Loss and Damage Fund and other loss and damage funding arrangements at the 2022 COP 27 in Sharm El-Sheikh was the result of this concerted and consistent push by developing countries in previous COPs.

At COP 27, Parties to the UNFCCC and Paris Agreement acknowledged that existing funding arrangements “fall short” and are “not sufficient” to address the existing funding gaps in relation to loss and damage. They 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 adverse effects of climate change in responding to economic and non-economic loss and damage associated with the adverse effects of climate change, including extreme weather events and slow onset events, especially in the context of ongoing and ex post (including rehabilitation, recovery and reconstruction) action.

To respond to this need, Parties established new loss and damage–related funding arrangements, including a fund to address loss and damage, for assisting developing countries in responding to loss and damage, including with a focus on addressing loss and damage. The COP established a Transitional Committee that was tasked with discussing and developing, over the course of 2023, a set of recommendations on the arrangements, modalities, and other matters that would be needed to make operational these funding arrangements, including the Loss and Damage Fund. These recommendations are to be submitted to the COP and CMA at COP 28 in Dubai in December 2023 for consideration and adoption. The terms of reference of the Transitional Committee were specified in the COP 27 decision on this matter. The COP and CMA also finalized the institutional arrangements (including its structure) of the Santiago Network, including its terms of reference, and provided guidance on the process for the selection of a host for the Santiago Network secretariat to be approved at COP 28 (Decision 1/CP.27, Decision 2/CP.27, Decision 11/CP.27, Decision 12/CP.27, Decision 1/CMA.4, Decision 2/CMA.4, Decision 12/CMA.4, Decision 13/CMA.4).⁷

B. The Transitional Committee (2023)

The Transitional Committee has 24 members from Parties to the Convention and Paris Agreement, with 10 members from developed country Parties and 14 members from developing country Parties. The 14 members from developing country Parties were nominated in line with the following geographical representation:

- three members from Africa, including a representative of the President of COP 27;
- three members from Asia and the Pacific, including a representative of the incoming President of COP 28;
- three members from Latin America and the Caribbean;
- two members from small island developing States;
- two members from the least-developed countries;
- one member from a developing country Party not included in the categories previously listed.

Some of the TC members (especially from Asia-Pacific, Latin America and the Caribbean, and Western Europe) rotate among various Parties from the region (see TC membership at <https://unfccc.int/tc-membership>).

The TC is mandated to consider and provide recommendations to the COP/CMA on, inter alia:

- a) Establishing institutional arrangements, modalities, structure, governance and terms of reference for the Loss and Damage Fund;
- b) Defining the elements of the new funding arrangements;
- c) Identifying and expanding sources of funding;
- d) Ensuring coordination and complementarity with existing funding arrangements.

COP 27 and CMA 4 also decided that the TC will be informed by, inter alia:

- a) The current landscape of institutions, including global, regional and national, that are funding activities related to addressing loss and damage, and ways in which coherence, coordination and synergies among them can be enhanced;

- b) The gaps within that current landscape, including the types of gap, such as relating to speed, eligibility, adequacy and access to finance, noting that these may vary depending on the challenge, such as climate-related emergencies, sea level rise, displacement, relocation, migration, insufficient climate information and data, or the need for climate-resilient reconstruction and recovery;
- c) The priority gaps for which solutions should be explored;
- d) The most effective ways in which to address the gaps, especially for the most vulnerable populations and the ecosystems on which they depend;
- e) Potential sources of funding, recognizing the need for support from a wide variety of sources, including innovative sources.

The TC and its recommendations should consider the landscape of institutions and solutions relevant to responding to loss and damage associated with climate change impacts, in line with the vision that the new funding arrangements should complement and include sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement.

The TC has started its work. It held its first meeting in Luxor, Egypt, at the end of March 2023 and had a workshop in Bonn at the end of April 2023.⁸ At its first meeting, the TC elected Mr. Richard Sherman of South Africa and Ms. Outi Honkatukia of Finland to serve as its Co-Chairs, and adopted its working arrangements⁹ and its workplan.¹⁰ Under Decisions 2/CP.27 and 2/CMA.4, the TC is mandated to undertake various activities throughout 2023. These include the following events:

- a) At least three meetings of the TC – The TC decided to have four meetings in 2023: the first one was held in Luxor, Egypt, on 27-29 March 2023;¹¹ the second on 24-27 May 2023 in Bonn;¹² the third from 29 August to 1 September 2023; and the fourth meeting is scheduled for 17-20 October 2023.
- b) Two workshops, to be conducted by the secretariat in 2023, with the participation of a diversity of institutions, relevant to addressing loss and damage associated with climate change impacts – The first workshop was held in Bonn on 29-30 April 2023;¹³ and the second one in Bangkok on 22-23 July 2023.
- c) Ministerial consultations to be convened by the President of COP 27 and the incoming President of COP 28, prior to COP 28 and CMA 5, to advance consideration and understanding of a possible outcome at those sessions. The dates of these ministerial consultations are still to be decided by the Presidencies.

Figure 4: Sequence of Work for the Transitional Committee



Source: Transitional Committee, Workplan of the Transitional Committee (29 March 2023), at https://unfccc.int/sites/default/files/resource/TC1%20Paper%203%20Workplan_Final.pdf

The TC did not meet formally during the 58th sessions of the Subsidiary Bodies (SB58) in June 2023 in Bonn, but Decisions 2/CP.27 and 2/CMA.4 stipulate that the activities and considerations of the TC would be undertaken taking into account the discussions at the 2nd Glasgow Dialogue held on 8-10 June 2023¹⁴ in Bonn.

Decisions 2/CP.27 and 2/CMA.4 also invite additional discussions to take place external to the UNFCCC process, in particular:

- a) An invitation to international financial institutions to consider, at the 2023 Spring Meetings of the World Bank Group and the International Monetary Fund (which took place in Washington DC on 10-16 April 2023),¹⁵ the potential for such institutions to contribute to funding arrangements, including new and innovative approaches, responding to loss and damage associated with the adverse effects of climate change
- b) An invitation to the United Nations Secretary-General to convene the principals of international financial institutions and other relevant entities with a view to identifying the most effective ways to provide funding to respond to needs related to addressing loss and damage associated with the adverse effects of climate change.

To support the TC's work, a technical support unit (TSU) has been established, consisting of staff seconded from UN agencies, international financial institutions, multilateral development banks, the Green Climate Fund, and the Global Environment Facility (GEF). In particular, the TSU will provide substantive technical backstopping to the UNFCCC secretariat in supporting the work of the TC.

The work to be undertaken this year by the TC was already outlined by the COP/CMA, as discussed above, into four main areas:

Table 1: Main Areas of Transitional Committee Work and Questions to be Answered

Four Main Areas of TC Work	Questions to be Answered by the TC
Establishing institutional arrangements, modalities, structure, governance and terms of reference for the Loss and Damage Fund	<p>What are the governing principles of the Loss and Damage Fund that should be applied coming from the Convention and the Paris Agreement?</p> <p>What are the gaps, challenges and constraints? What are the lessons learned? How might these inform the development of the new Loss and Damage Fund?</p> <p>How will the Loss and Damage Fund be institutionally and administratively structured?</p> <p>How will it be governed?</p> <p>How will it operate in terms of obtaining and disbursing funding?</p> <p>Who receives the funding and when?</p>
Defining the elements of the new funding arrangements	<p>What principles should be applied coming from the Convention and the Paris Agreement with respect to the elements of the new funding arrangements?</p> <p>What are the challenges, gaps, and constraints related to responding to and addressing loss and damage? What are the lessons learned? How might these inform the development of the new funding arrangements?</p> <p>What are these new funding arrangements for loss and damage?</p> <p>What is loss and damage funding and what is it for? What forms of support are required?</p> <p>Are there specific actions to respond to and address extreme weather and slow onset events for which funding has been particularly difficult to secure?</p> <p>What are the loss and damage-specific elements of these new funding arrangements? How will they be made complementary?</p>

Four Main Areas of TC Work	Questions to be Answered by the TC
Identifying and expanding sources of funding	<p>What principles should be applied coming from the Convention and the Paris Agreement with respect to the identification and expansion of sources of funding for addressing loss and damage?</p> <p>Where should the funds come from? What are the most appropriate sources of finance to support the different types of activities to address loss and damage?</p> <p>What potential sources could fill in the gaps identified in loss and damage financing?</p> <p>What are the types of activities and financing instruments for which support is available under current funding arrangements?</p> <p>How can existing arrangements, activities, and instruments be better coordinated with one another to deliver financing support for responding to loss and damage?</p> <p>What are the experiences and lessons learned from scaling up financing through innovative sources?</p> <p>What are the potential innovative sources of funding applicable for addressing loss and damage?</p>
Ensuring coordination and complementarity with existing funding arrangements	<p>What principles should be applied coming from the Convention and the Paris Agreement with respect to the coordination and complementarity with existing funding arrangements?</p> <p>What are the challenges, gaps, and constraints related to responding to and addressing loss and damage? What are the lessons learned?</p> <p>How might these inform the complementarity and coordination of the new funding arrangements and Loss and Damage Fund with existing funding arrangements?</p> <p>Where does the Loss and Damage Fund fit within the climate finance landscape?</p> <p>What are the key opportunities to strengthen coordination for responding to and addressing loss and damage within the UNFCCC system and beyond?</p>

The Parties as a whole (through the COP/CMA's decision-making processes) currently do not have any agreed responses yet to any of these questions, although the Group of 77 and China does have agreed positions corresponding to many of the questions in the four main areas of work.¹⁶ Current discussions within the TC show that developing and developed countries are approaching these main areas of work and the questions in different ways.

Developing countries, in general, would like the TC discussions on all four main areas to take place in a balanced manner. There are ideas and suggestions from developing countries as to the principles of the Loss and Damage Fund, its operational characteristics, institutional design features, sources of financing, eligibility for financing, the gaps that need to be addressed, and the Fund's relationship with existing arrangements. Developed countries, on the other hand, generally prefer an approach that first looks at what financing gaps need to be filled and then designs the Loss and Damage Fund to focus on addressing those gaps. Broadly, developing countries want a new, fully fleshed-out institutional funding structure specifically for loss and damage that operates under the UNFCCC and the Paris Agreement (similar to the GCF and the GEF), funded by developed countries and available to all developing countries. Developed countries prefer to work with existing institutions and channel loss and damage funding through these, with funding coming from a variety of sources (including developed countries, developing countries, the private sector, and other sources) and to be provided only to a limited subset of climate-vulnerable developing countries.

Table 2: Differing Approaches Between Developing and Developed Countries in the Transitional Committee Discussions

Four Main Areas of TC Work	What Developing Countries Proposed	What Developed Countries Have Suggested
Establishing institutional arrangements, modalities, structure, governance and terms of reference for the Loss and Damage Fund	<p>The Loss and Damage Fund would be a fit-for-purpose multilateral fund for loss and damage that would be an operating entity under the UNFCCC and Paris Agreement’s Financial Mechanism, with its own institutional arrangements and governance structure designed in a manner consistent with the provisions and principles of the Convention, including the differentiated responsibilities of Parties and Annex I Parties’ financial obligations.</p> <p>It would have accountability to the COP/CMA; make sure that loss and damage funding is new, additional, predictable, and adequate; be grant-based and not increase the debt burdens of developing countries; be simple and easy to access directly; provide direct budgetary support to developing country governments and targeted financing for the directly affected communities and subnational governments; be needs-based and appropriate to different national contexts and not one-size-fits-all; be integrated and consistent with the national sustainable development priorities of developing countries; and have planning and implementation timescales that range from short- to long-term decadal timescales to address the different timescales of climate events and development processes affecting developing countries on the ground.</p> <p>Eligibility for loss and damage financing support would apply to all developing countries, in the understanding that all developing countries are particularly vulnerable to the adverse effects of climate change as recognized under the provisions of the UNFCCC and the Paris Agreement.</p>	<p>Developed countries in general want to first focus on matters that would inform the funding arrangements and the fund, saying that more information is needed on the current landscape and institutions that are funding activities related to loss and damage and the gaps within the current landscape prior to establishing the institutional arrangements, modalities, structure and governance of the fund.</p> <p>Some developed countries have suggested that the fund could be a driving force in sending messages, being able to coordinate with the other institutions involved and to also exert some kind of convening power, and others suggested that having a new funding mechanism does not necessarily mean having to have a new institution.</p> <p>The fund’s beneficiaries should only be “particularly vulnerable” countries rather than all developing countries.</p>
Defining the elements of the new funding arrangements	<p>The topic of new funding arrangements could cover discussions on how the Loss and Damage Fund and other loss and damage–related funding arrangements could be designed to provide funding for the range of actions taken across the different timescales, or some subset thereof, in which climate change–related loss and damage occur – i.e., <i>immediately</i> after an event, for example in the case of humanitarian response; in the <i>intermediate term</i>, such as disaster risk reduction actions; and over the <i>long term</i>, by undertaking transformative actions.</p> <p>This could also cover discussions relating to the COP/CMA providing suggestions or recommendations to external international financial institutions, initiatives, programmes, etc. with respect to the funding that they provided or could provide to developing countries to address loss and damage.</p>	<p>Developed countries generally place their focus on improving and strengthening existing systems that provide loss and damage–related financing, and say there is no need to reinvent the wheel.</p> <p>Some of them have highlighted the need to be clear about the “what and scope” of funding arrangements, including the fund, and suggested the need to discuss humanitarian assistance and emergency response, reconstruction and</p>

Four Main Areas of TC Work	What Developing Countries Proposed	What Developed Countries Have Suggested
		recovery, issues related to displacement, and measures to address slow onset events and non-economic losses.
Identifying and expanding sources of funding	Dedicated funding for countries to address loss and damage is needed, to be provided through the dedicated Loss and Damage Fund. It is critical that the Fund provide financial support that is additional to adaptation and mitigation finance. The quality of finance for loss and damage also needs to be assured. The finance to be provided should be in the form of grants that are readily available when needed. Developing countries have called for, among others, urgent, scaled-up, new and additional finance from developed countries to address loss and damage, with avenues for securing new and additional finance for loss and damage to be identified.	Developed countries usually highlight that the new fund must be financed by a variety of sources, including “innovative” sources of funding (such as insurance mechanisms, debt-creating instruments, market-based approaches), public grant-based finance, and “broadening the contributor base” – i.e., not just have developed countries contribute financially to the fund but also include “major economies” and the private sector.
Ensuring coordination and complementarity with existing funding arrangements	<p>Parties recognize that there are existing funding arrangements including institutions, entities (e.g., multilateral funds, etc.) and their corresponding access modalities working on loss and damage issues.</p> <p>While the Loss and Damage Fund should play a central role in the channelling of loss and damage-related funding to developing countries under the Convention and the Paris Agreement, other channels and sources should complement the Fund and be supportive of funding approaches that integrate loss and damage financing on the ground with developing countries’ broader national development and climate change actions.</p>	Developed countries support improving and strengthening existing mechanisms, building on what is already in place and making them better in providing loss and damage financing, with a view to making the new fund and funding arrangements fill the gaps in the current financial landscape. Where there are gaps, the fund could tackle some gaps and the funding arrangements tackle others.

Source: Author. For more information, see Annex.

The four main areas of work and the questions above within each area will need to be addressed by the TC during its deliberations through the implementation of its workplan.¹⁷ The TC has had three meetings (in March,^{18 19} May²⁰ and August 2023) and two workshops (in April²¹ and July 2023), while loss and damage finance issues were also discussed at the second Glasgow Dialogue²² in June 2023. The TC is scheduled to have its fourth and final meeting in October 2023. The discussions during the TC meetings saw significant differences of view across developing and developed country members on what should be discussed first, i.e., the new funding arrangements or the Loss and Damage Fund.

TC members, from both developed and developing countries, generally stressed that for the TC to be able to fulfil its mandate from COP 27, its work should be focused on being able to deliver clear recommendations that Parties can consider and adopt at COP 28. Some of the developed country participants, including some TC members and UNFCCC negotiators, stressed that there were already many initiatives and actions relating to loss and damage-related financing taking place in many countries and in many organizations, and that the focus of the TC should hence be to identify the gaps and then discuss how new funding arrangements, including the Loss and Damage

Fund, could address these gaps. Developing country representatives during the TC meetings and workshops and in the Glasgow Dialogue often stressed the importance of focusing on the Loss and Damage Fund, and provided suggestions and recommendations for three key areas:

- a) One is with respect to the principles that should be applicable to loss and damage funding arrangements and the Loss and Damage Fund. As these will support the achievement of the objectives of the UNFCCC and the goals of the Paris Agreement, the principles of equity and common but differentiated responsibilities and respective capabilities would be foundational principles that need to be reflected in the design and modalities of the funding arrangements and the Fund, including with respect to sources of and eligibility for funding and the governance of the Fund.
- b) The second is that there are certain operational characteristics that should be reflected to address the challenges that developing countries have faced with respect to existing loss and damage financing. For example, the Fund should have accountability to the COP/CMA; make sure that loss and damage funding is new, additional, predictable, and adequate; be grant-based and not increase the debt burdens of developing countries; be simple and easy to access directly; provide direct budgetary support to developing country governments and targeted financing for the directly affected communities and subnational governments; be needs-based and appropriate to different national contexts and not one-size-fits-all; be integrated and consistent with the national sustainable development priorities of developing countries; and have planning and implementation timescales that range from short- to long-term decadal timescales to address the different timescales of climate events and development processes affecting developing countries on the ground.
- c) The third is the need for loss and damage financing governance and operational modalities to be looked at in a systemic manner, such that while the Loss and Damage Fund would play a central role in the channelling of loss and damage-related funding to developing countries under the Convention and the Paris Agreement, other channels and sources should complement the Fund and be supportive of funding approaches that integrate loss and damage financing on the ground with developing countries' broader national development and climate change actions.

IV. Conclusion

Pre-2020 and current gaps in relation to the implementation of longstanding mitigation, climate finance, adaptation finance, and technology transfer commitments under the Convention and the Paris Agreement that have resulted in inadequate mitigation and adaptation efforts, when coupled with historical emissions since the Industrial Revolution in developed countries, have created a situation in which the need to effectively and adequately address loss and damage is now a key imperative for the multilateral climate change regime.

Both the science and the realities on the ground are clear – all countries, particularly developing countries, now have to live with the reality that losses and damages arising from the adverse effects of climate change are present; are increasing in scale, frequency, and intensity; and are more and more adversely affecting the ability of developing countries in Africa, Asia-Pacific, the Middle East, Latin America and the Caribbean, the least-developed countries, and small island developing states to achieve the right to development, eradicate poverty, to survive, and provide better lives for their peoples.

The IPCC has pointed out that hard and soft limits on adaptation are being reached and, in many cases, have already been exceeded. Loss and damage due to climate change is clearly no longer a risk that can be averted or even, in many cases, minimized – it is now a certainty that needs to be addressed if the multilateral community is to help developing countries and their peoples and communities to continue to survive and thrive.

Loss and damage financing is now seen as a key element of international climate cooperation and action under the Convention and the Paris Agreement. The progress towards this over the years has been clear, including through the creation and operationalization of constituted bodies such as the WIM and its Executive Committee and the Santiago Network, and the increased recognition that loss and damage should also be considered in the work of other constituted bodies.

However, much work remains to be done. For developing countries, a decision that will make operational the establishment of the Loss and Damage Fund that all Parties achieved together at COP 27 will be a key benchmark of success at COP 28. Achieving this will rely in large part on focused deliberations of the Transitional Committee to produce recommendations that can be adopted by the COP/CMA at COP 28. To be credible and obtain political support from developing countries, it will be important for any design of the Loss and Damage Fund to be clearly linked to the features for the Fund that developing countries have put forward in their submissions and proposals in recent years.

Obtaining a successful outcome on the Loss and Damage Fund at COP 28 in Dubai through which the Fund can become operational by 2024 will be of great benefit to developing countries by providing them with potentially a new source of financial support to address loss and damage, at the same time as the SNLD becomes operational in being able to catalyze technical assistance and other support to developing countries and LDCs to address loss and damage.

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Annex: Summary of Key Features of Countries' Proposals on the Loss and Damage Fund

Four Main Areas of TC Work	Key Features of Developing Country Proposals	Key Features of Developed Country Proposals
1. Establishing institutional arrangements, modalities, structure, governance and terms of reference for the Loss and Damage Fund	<p>Key principles for the Loss and Damage Fund:</p> <ul style="list-style-type: none"> • The principles of equity and common but differentiated responsibilities and respective capabilities • Eligibility for loss and damage financing support applies to all developing countries as they are all particularly vulnerable to the adverse effects of climate change. <p>Key operational characteristics for the financing support to come from the Loss and Damage Fund:</p> <ul style="list-style-type: none"> • Loss and damage finance should be new, additional, predictable, and adequate • The financing support is provided on a cooperative and facilitative basis • Timely disbursements, including but not limited to urgent disbursements to address urgent needs related to extreme weather events and slow onset events • Be grant-based so as not to increase the debt burdens of developing countries and not to place additional burden on recipient countries' national budgets • Include direct budgetary support to developing country governments and targeted financing for the directly affected communities and subnational governments • Be needs-based and appropriate to different national contexts and not one-size-fits-all • Be able to provide support even in highly uncertain and complex environments • Have simple, direct and easy-to-access modalities that should be balanced and equitable for developing countries for regional, national and community-level activities • Be able to support inclusive and strategic responses to address actual non-economic and economic loss and damage associated with the adverse effects of climate change in a just, country-driven, gender-responsive manner that endeavours to ensure no one is left behind, especially the particularly vulnerable • Be integrated and consistent with the national sustainable development priorities of developing countries; and have planning and implementation timescales that range from short- to long-term decadal timescales to address the different timescales of climate events and development processes affecting developing countries on the ground • Broad and inclusive participation of non-Party stakeholders is encouraged in the assessment of and response to loss and damage. 	<p>Key features of developed countries' conceptual approach to the Loss and Damage Fund discussions:</p> <ul style="list-style-type: none"> • First obtain information on the current landscape and institutions that are funding activities related to loss and damage and the gaps within the current landscape prior to establishing the institutional arrangements, modalities, structure and governance of the fund • First clarify the "what" of the new fund – i.e., what it needs to do in areas that are not being tackled by existing funding arrangements – before discussions on the governance of the fund can be held: "form follows function" • First define "vulnerability" to loss and damage to narrow the focus of the fund's beneficiaries to "particularly vulnerable" countries rather than all developing countries. <p>Key operational characteristics for the Loss and Damage Fund:</p> <ul style="list-style-type: none"> • Be focused, targeted, specific and dedicated to complement but not duplicate existing funding arrangements, e.g., the fund could become a specialized place to galvanize the expertise and technical capacity to "understand, plan for and implement measures for slow onset events", since there seems to be a clear gap there and it could be a "dedicated fund for slow onset events" • Be a driving force in sending messages, being able to coordinate with the other institutions involved and to also exert some kind of convening power • Having a new funding mechanism does not necessarily mean having to have a new institution.

Four Main Areas of TC Work	Key Features of Developing Country Proposals	Key Features of Developed Country Proposals
	<p>Key institutional design features of the Loss and Damage Fund:</p> <ul style="list-style-type: none"> • Be a fit-for-purpose multilateral fund for assisting developing countries in meeting their costs of addressing non-economic and economic loss and damage associated with the adverse effects of climate change, including slow onset events and extreme weather events, especially in the ongoing and ex post contexts • Be designed in a manner consistent with the provisions and principles of the Convention, including the differentiated responsibilities of Parties and Annex I Parties' financial obligations • Be designated as an operating entity of the financial mechanism of the Convention under Article 11, with arrangements to be concluded between the Conference of the Parties and the Fund to ensure that it is accountable to and functions under the guidance of the Conference of the Parties • Be governed by a Board of 14 members (with each member of the Board having an alternate member) representing Parties to the Convention and the Paris Agreement, as follows: (a) two representatives from each of the five United Nations regional groups; (b) two representatives of the small island developing States; (c) two representatives of the least-developed country Parties. <p>Other considerations for the Loss and Damage Fund:</p> <ul style="list-style-type: none"> • The design of the Fund and the funding arrangements should enable it to understand the variety of actions and evolving needs across different loss and damage-related timescales, how these needs are currently being addressed and where gaps exist, including consideration of financial instruments in use • The Fund's possible institutional arrangements and governance, its functions, its areas of work, its funding access modalities, resource allocation guidelines, and other terms of reference • The Fund's institutional linkages to other constituted bodies under the UNFCCC/Paris Agreement. 	
2. Defining the elements of the new funding arrangements	<p>Discussions in this area are suggested to cover:</p> <ul style="list-style-type: none"> • Actions and funding needs for addressing economic and non-economic loss and damage from slow onset events, including those that do not have a clear start or end point. • Modalities for the COP/CMA providing suggestions or recommendations to external 	<p>Developed countries, while acknowledging current gaps in the scale and speed of availability of financial resources, including existing financial architecture and mechanisms, generally place their focus on:</p>

Four Main Areas of TC Work	Key Features of Developing Country Proposals	Key Features of Developed Country Proposals
	<p>international financial institutions, initiatives, programmes, etc. with respect to:</p> <ul style="list-style-type: none"> o the funding that they provided or could provide to developing countries to address loss and damage o potential fit-for-purpose solutions or reforms that could be suggested to these external organizations with respect to how they can enhance the mobilization and delivery of financial resources to developing countries to address loss and damage o potential innovative financial approaches and solutions such as the allocation of new Special Drawing Rights (SDRs) to developing countries o potential ways in which financial resource outflows from developing countries could be treated to enable developing countries suffering loss and damage due to the adverse effects of climate change to retain domestic financial resources to be used to address such loss and damage o potential ways in which developing countries could be supported, through finance and technology transfer from developed countries, to generate more domestic revenues to support ex post (e.g., post-disaster) recovery and rehabilitation, economic diversification, and resilience building to reduce their particular vulnerabilities to further loss and damage from climate change and to mitigate the adverse impacts of response measures in line with national circumstances. 	<ul style="list-style-type: none"> • Improving and strengthening existing systems that provide loss and damage-related financing, without needing to reinvent the wheel • The need to be clear about the “what and scope” of funding arrangements, including the fund • The need to discuss humanitarian assistance and emergency response, reconstruction and recovery, issues related to displacement, and measures to address slow onset events and non-economic losses.
<p>3. Identifying and expanding sources of funding</p>	<p>Key proposals from developing countries include:</p> <ul style="list-style-type: none"> • The sources of and eligibility for funding should reflect the principles of equity and common but differentiated responsibilities and respective capabilities. • Dedicated funding for developing countries to address loss and damage is needed, to be provided by developed countries through the dedicated Loss and Damage Fund. It is critical that the Fund provide financial support that is additional to adaptation and mitigation finance. <p>Other issues raised by developing countries in seeking enhanced funding for loss and damage under the UNFCCC and the Paris Agreement in line with their principles include:</p> <ul style="list-style-type: none"> • Rapid response financing • Public grant-based and concessional financing 	<p>Developed countries usually highlight that:</p> <ul style="list-style-type: none"> • The new fund must be financed by a variety of sources, including “innovative” sources of funding (such as insurance mechanisms, debt-creating instruments, market-based approaches) and the private sector as potential sources of financing. • Some developed countries have stressed that while there is a role for public, grant-based finance in this fund, there is a need to go beyond this and “broaden the contributor base” – i.e., not

Four Main Areas of TC Work	Key Features of Developing Country Proposals	Key Features of Developed Country Proposals
	<ul style="list-style-type: none"> • Fund capitalization, scale and sources of finance • Linking funding needs to funding flows with respect to slow onset and extreme weather events as well as economic and non-economic losses • Concepts and modalities relating to new, additional, predictable and adequate financial resources to meet the costs in developing countries of addressing loss and damage in the ex post response and ongoing/continuing contexts arising from the adverse effects of climate change (e.g., financial resources for recovery, reconstruction, and rehabilitation). <p>The gaps to be explored within the current landscape of loss and damage financing include:</p> <ul style="list-style-type: none"> • The types of gaps, such as relating to speed, eligibility, adequacy and access to finance • The priority gaps for which solutions should be explored • The most effective ways in which to address the gaps, especially for the most vulnerable populations and the ecosystems on which they depend. 	<p>just have developed countries contribute financially to the fund but also include “major economies” and the private sector.</p>
4. Ensuring coordination and complementarity with existing funding arrangements	<p>Key ideas of developing countries in this area include:</p> <ul style="list-style-type: none"> • While the Loss and Damage Fund should play a central role in the channelling of loss and damage-related funding to developing countries under the Convention and the Paris Agreement, other channels and sources should complement the Fund and be supportive of funding approaches that integrate loss and damage financing on the ground with developing countries’ broader national development and climate change actions. • There should be discussions on the current landscape of institutions, including global, regional and national, that are funding activities related to addressing loss and damage, and ways in which coherence, coordination and synergies among them can be enhanced. 	<p>Key ideas of developed countries in this area include:</p> <ul style="list-style-type: none"> • Improving and strengthening existing mechanisms and building on what is already in place, with a view to making the new fund and funding arrangements fill the gaps in the current financial landscape. • The fund could coordinate with the other institutions involved and also exert some kind of convening power.

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