

The Loss and Damage Finance Facility

Why and How

Executive Summary

We are in the era of Loss and Damage (L&D). The hard limits to adaptation are being realised and the scale of the challenge ahead is significant as impacts of climate change are greater than previously expected. The recent impacts report from the Intergovernmental Panel on Climate Change (IPCC, 2022a) shows extreme climatic events have been observed in all regions. Populations with considerable development constraints who have the highest vulnerability and who have contributed the least to climate change are disproportionately suffering these impacts.

At the climate change conference, COP26, the negotiating bloc G77 & China proposed a solution to the gap in finance available to address their needs in the form of a L&D Finance Facility (LDFF) which will be able “to provide new financial support under Article 9 of the Paris Agreement (PA), in addition to adaptation and mitigation finance, to developing countries to address loss and damage”. However, agreement could not be secured for the LDFF’s establishment or a process to do so. Instead, the Glasgow Dialogue (GD) was established which presently remains to be defined with clear milestones and outcomes.

The objective of this paper is to contribute to achieving the establishment and operationalisation of an LDFF that delivers on the needs of developing countries at speed and scale by explaining the why and how. The paper explains why the LDFF is necessary before turning to an analysis of its governing arrangements and core operational functions. The paper concludes with recommendations and a way forward to COP27 and beyond with the GD delivering concrete actions.

Why a L&D Finance Facility?

The Warsaw International Mechanism (WIM) was established in 2013 to address L&D associated with the impacts of climate change, including extreme events and slow onset events, in developing countries who are particularly vulnerable to the adverse effects of climate change.

Currently, the mechanisms available under the United Nations Framework Convention on Climate Change (UNFCCC) are geared towards averting and minimising L&D through mitigation and adaptation;

and **do not provide means for addressing L&D**, i.e. for helping people recover from the impacts of climate change that go beyond their ability to adapt. As such, the LDFF is critical for the missing third pillar of climate finance. Given the rising scale of climate-related damages documented by the IPCC there is no time to lose.

How the LDFF’s Governing Arrangements can be designed

Six overarching principles are proposed to guide the mobilisation of L&D finance, in line with a climate justice-oriented approach. Overarchingly, L&D finance should adhere to the principles of:

1. International cooperation and solidarity, historical responsibility and the polluter pays principle;
2. New and additional;
3. Needs-based, sufficient, predictable and precautionary;
4. Locally driven with subsidiarity – enveloping gender responsiveness and equitable representation;
5. Public and grant-based;
6. Balanced and comprehensive.

Functions

The LDFF should make a significant and ambitious contribution to combat climate change by focusing exclusively on addressing L&D. It must be established as an operating entity acting as the third pillar of the Financial Mechanism of the UNFCCC which also serves the PA. As both a coordination and financing mechanism, it should be the primary vehicle to coordinate, mobilise and channel new, additional, adequate and predictable financial resources to address L&D for developing countries and affected communities and people. It should be driven by country- and in particular local-level ownership, and be capable of receiving and administering financial inputs on an ongoing basis from a variety of public, private, as well as innovative/alternative sources, which could include share of proceeds and revenue from targeted taxes and levies applying the polluter pays principle, as well as philanthropic contributions.

Situated

While the LDFF should be an operating entity, it should be situated under the WIM to perform its functions. This will allow alignment with the WIM's existing mandate, including by building on the work and activities of the WIM Executive Committee (**ExCom**) and the Santiago Network for L&D. Whilst the Santiago Network for L&D will catalyse technical assistance to implement the functions of the WIM, the LDFF will contribute by providing the necessary finance. As an operating entity of the Financial Mechanism it should be accountable to the Conference of the Parties (**COP**) and Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (**CMA**) as well as the WIM and function under their guidance to support projects, programmes, policies, planning, coordination and other activities to address L&D in developing countries. Some of the existing bodies under the UNFCCC financial mechanisms can complement the LDFF by building off their existing roles and functions.

Eligibility

All developing country Parties to the Convention and the PA should be eligible to receive funding support from the LDFF, irrespective of a potential contribution to the LDFF and its scale, to cover economic and non-economic losses and damages.

Decision-making body composition and functions

The LDFF should be governed by a decision-making body with equitable representation composed with a majority of members from developing country Parties. The LDFF decision-making body should make decisions by consensus.

Secretariat

The day-to-day operations of the LDFF would be run by a Secretariat with professional staff providing administrative, financial and technical expertise and serving and accountable to the decision-making body.

Financial instruments

Addressing L&D is a human rights issue. Developing countries should not have to bear the cost alone. The LDFF should primarily provide full-cost grant funding. Instruments such as insurance models and market-based solutions have not been able to scale to success with limitations including unaffordable premiums, and the inability to reach the uninsured, or informal sectors, protect human rights and development gains, or prepare for future displacement and livelihood losses.

Funding windows and LDFF structure

The LDFF could start out initially with two distinct funding windows with differentiated 'fit-for-purpose' programming modalities and application procedures to be developed in response to differing needs and time-frames for funding:

1. **Rapid-onset events** – urgent provision in response to climate disasters, such as storms and floods;
2. **Slow-onset events** – including for L&D planning; transformative programming (such as permanent relocation); and just transitions to alternative livelihoods.

Access modalities

The LDFF should provide simplified access to funding, allowing for both international access (through international entities) and direct access (through regional, national and sub-national entities) as needed and requested by recipient countries. To the extent possible, the LDFF should prioritise direct access.

Allocation

In allocating LDFF resources, funding should be divided between the two initial funding windows for response measures for rapid-onset events and slow-onset events as needed. A request for funding support under the 'rapid-onset' window, for example, could be triggered by countries declaring a 'L&D event', which would be based on an agreed criteria and verified by independent technical experts. This parametric criteria could include a specified percentage loss of GDP, an unprecedented weather-related event or a percentage of the population impacted.

How can the LDFF be delivered?

The Glasgow Dialogue is the process through which the LDFF must be launched and operationalised. Civil Society's demands are that the three year dialogue deliver:

- **In its first year** – the establishment of the LDFF with clear functions and core institutional arrangements; and a process to identify L&D funding needs.
- **In its second year** – reporting and confirming progress on defining governing arrangements and delivery structure of LDFF; and conducting a process for needs-based resource mobilisation for the LDFF.
- **In its third year** – the full operationalization of the LDFF, with finance starting to flow to developing countries.

If the delivery of the LDFF is not achieved, the international climate regime will be at risk. This is an opportunity to further strengthen international cooperation and solidarity whilst delivering on justice and protecting human rights.

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The online version of the full paper is available [here](#)¹