

A GAP ANALYSIS OF FINANCE FLOWS FOR ADDRESSING LOSS & DAMAGE



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Funding for loss and damage (L&D) is available within and outside of the UN Framework Convention on Climate Change (UNFCCC). However, there is a significant gap between the finance available and the finance needed for responding to and addressing L&D. The gap is likely to widen considering future climate scenarios and larger macroeconomic drivers unless the global community comes together to enhance the actions taken to fill this gap, increase current funding streams, and secure new and innovative finance directed toward responding to L&D.

The COVID-19 pandemic has had devastating impacts on development trajectories and projections for increased climate change impacts. Development, particularly in the least developed countries (LDCs), has stalled and poverty has risen for the first time in a generation.² These changes place greater burdens on all countries, with acute repercussions for LDCs and those countries that are particularly vulnerable to the adverse effects of climate change.³ Finance needs are growing rapidly but increases in funding globally are too incremental to close the funding gap. An assessment of finance flows for addressing and responding to L&D must be taken in a broader context of finance for humanitarian assistance, disaster risk reduction, development assistance, achieving the Sustainable Development Goals (SDGs), halting biodiversity loss, mitigation, and adaptation action.

SUMMARY

This brief provides an overview of the finance flows to address L&D within and outside of the UNFCCC and is not meant to be a comprehensive assessment.⁴ Its preliminary findings reveal that there is no “one size that fits all” solution or approach to close the large funding gaps for addressing L&D. Further, many institutions are involved

in addressing and responding to L&D at the international, regional, national, and subnational levels, including through civil society and the private sector.

The greatest gap in available funding for L&D is addressing non-economic losses—it is almost completely absent from current funding flows. Addressing non-eco-

Key Takeaways

- Finance needed for L&D is likely to be considerable: estimates range between U.S. \$20–580 billion in 2030 per decade rising to U.S. \$1.1–1.7 trillion in 2050 per decade.
- More frequent and intense natural disasters as well as several prolonged conflicts have strained available humanitarian finance.
- Increasing climate change impacts place greater burdens on developing countries, in particular those countries that are least developed and most vulnerable to the adverse effects of climate change. Additional hardships include impacts from the ongoing war in Ukraine; the global economic vulnerability, including risk of recession; and growing debt.
- The greatest gap in funding is for addressing non-economic losses and slow onset events, particularly those leading to internal migration or cross-border displacement, given the need for transformational development in the aftermath of relocation.
- The quality of funding for reconstruction and development in the aftermath of extreme weather events is an issue. MDB funding is heavily loan-based with only 15 percent of finance provided as grants.
- There is little information on the extent of private sector investment in addressing and responding to L&D.
- How the call for international financial system reform, including debt-restructuring and new and innovative sources of finance, is addressed may have positive repercussions for financing for L&D.

conomic losses could include financing for active remembrance; documentation of and recording traditional and local knowledge; cultural preservation; societal protection; counselling; enabling access/safe visits to abandoned sites; and recognition and repair of loss (whether or not accompanied by financial payment). It can also include measures to reduce “similar” risk of non-economic losses in other areas through lessons learned, shared knowledge and understanding.

Another significant funding gap exists for slow-onset events, in particular those leading to migration or displacement, given the need for transformational development in the aftermath of relocation.

A key conclusion of this brief is that even though finance is available for recovery, rehabilitation, and reconstruction in the aftermath of disasters, the sustainability and quality of this funding is an issue. Institutions like the World Bank, other multilateral development banks (MDBs), or national funds, are financing reconstruction and resilient infrastructure after disasters, and do so through regional development banks’ catastrophe risk pools and the crisis response window under the International Development Association (IDA). However, given the debt crisis faced by many developing countries, in particular the most climate vulnerable, there is a growing concern that this financing is not sustainable in the long run.

A related observation is that funding through the MDBs is heavily loan-based, with only 15 percent of finance provided as grants. By comparison, funding through the UNFCCC is almost 100 percent grants based.⁵ Viewed in the context of increasingly unsustainable debt levels for developing countries, especially for the most climate vulnerable countries, a review of the quality of funding for reconstruction and transformational development should consider MDB reform. These issues can be explored in public fora like the Summit for a New Global Financing Pact, which took place in Paris in June 2023, and through follow-on commitments.⁶ While directly influencing these actors is not within the remit of the Convention, UNFCCC Parties—including key actors like the Transitional Committee—can still consider how these outcomes can have mutual benefit and could encourage these actors to find solutions which, either directly or indirectly, will enhance finance for L&D.

Finance gaps for climate change events will affect available finance for addressing L&D in a number of ways.

First, the Convention for Biodiversity (CBD) is striving to increase funding for addressing L&D in relation to biodiversity and ecosystem services, including through a new trust fund established as part of the Kunming-Montreal Global Biodiversity Framework. However, the

trust fund will partially be financed with global financial commitments, meaning that funding will come from developing countries' national budgets, as well as private sector finance.

Second, more frequent and intense natural disasters in addition to prolonged armed conflicts since 2010 have widened the humanitarian finance gap. Parties should consider whether solutions include directly enhancing the budget for humanitarian assistance and earmarking funding for responding to and addressing L&D.⁷

Third, these conflict and climate change impacts, as well as lingering effects of the COVID-19 pandemic, mean that, for the first time in a generation, development trends are negative. As a result, countries may underachieve the 2030 SDGs. The UN Secretary General's international agenda has made financing the SDGs a priority and he has called for a global stimulus package.⁸

Fourth, the UNFCCC faces significant financial challenges. Though developed country Parties look likely to have met the goal of providing U.S. \$100 billion in climate finance in 2022⁹, funding for both mitigation and adaptation remains insufficient. The UN Environment Programme 2023 Adaptation Gap Report noted the inadequacy of current adaptation action and the widening gap between adaptation finance needed against what is received.¹⁰ At the same time, the COVID-19 pandemic,

international conflicts, and continued financial hardship have strained developed countries' budgets.

Fifth, greater focus on action before a disaster (ex-ante action) rather than post-disaster action reflects a small but significant shift in understanding what is needed to reduce vulnerability and increase resilience. Humanitarian assistance and disaster risk reduction have historically focused on the immediate aftermath of disasters and conflict. But peacebuilding efforts and development actions are increasingly seeking to reduce vulnerabilities in conflict prone areas and these efforts may indicate a new emphasis on ex ante action, particularly in the disaster risk reduction community. A focus on addressing L&D can be complementary to a shift to stronger ex ante action. In the context of L&D, an ex-ante framing could raise the need to include long-term, predictable support for the aftermath of climate-induced disasters (from both slow-and sudden-onset events). Supported by climate scenario- and cost-benefit analyses for approaches to address L&D, these measures could include reconstruction, building back better, or other strategies, such as voluntary migration and relocation as well as transformational development practices.

The annex provides further background on understanding addressing L&D from the adverse effects of climate change.

THE LOSS AND DAMAGE FINANCE GAP

Accurately estimating the exact cost of L&D is extremely difficult, given uncertainties in methodologies, processes, time horizons, climate scenarios, and countries' socio-economic and political choices.¹¹ Such estimates would also be informed by levels of global warming, adaptation, and development pathways that are measured in different ways. Even with rough cost estimates for L&D and given that mitigation and adaptation require significantly greater finance than they currently receive, it is likely that actual L&D costs are even higher than they otherwise would have been with adequate and timely mitigation and adaptation action.¹² In addition, assigning economic values to non-economic impacts is difficult for a number of reasons, including intangible factors like cultural significance. These complex dynamics make it very challenging to express aggregate damage in a single sum representing all non-economic loss. Additionally, without estimated costs, financial, governance, and

institutional arrangements for L&D are generally under resourced or non-existent, particularly in climate vulnerable developing countries.¹³

While estimates exist, no international body has yet set out the current aggregate total finance for L&D from the adverse effects of climate change. One reason is because funding for L&D has long been categorized as funding for adaptation, resilience, disaster risk reduction, humanitarian aid, and other types of aid. Experts have estimated finance needed for L&D is likely to be considerable, with estimates ranging between U.S. \$20–580 billion in 2030 per decade, rising to U.S. \$1.1–1.7 trillion in 2050 per decade.¹⁴

It is probably safe to assume that current levels of funding for L&D under the UNFCCC are vastly insufficient and fall far below these estimates. One reason is that the funding gap for L&D is closely linked to deficits

in funding for adaptation—which are still significant despite increased (but slow-to-arrive) finance over the last decade. In monetary terms, annual adaptation costs are estimated between U.S. \$160–340 billion by 2030, rising between U.S. \$315–565 billion by 2050 for developing countries alone.¹⁵

For example, Africa’s estimated L&D needs in the period 2020–2030 is U.S. \$289.2–440.5 billion, across the low and high global warming scenarios, respectively.¹⁶ This estimate is approximately U.S. \$30 billion higher than their estimated adaptation finance needs within the same period. It is not clear how much of the total cost for L&D is related to measures to address L&D.

■ REVISING THE FINANCIAL SYSTEM

As noted above, available finance for L&D has been negatively affected by broader macroeconomic and geopolitical factors, such as the COVID-19 pandemic, the war in Ukraine, and increasing and unsustainable debt held by the poorest and most vulnerable countries. Recognizing this and to better address the relationship between climate change action and development, government leaders have called for an overhaul of the international financial system.

Over the past two years, these calls have gained momentum. In 2022, Prime Minister of Barbados Mia

Mottley proposed the “Bridgetown Initiative,” a vision outlining a transformation of the financial system to better address systemic issues and establishing a new global mechanism for raising reconstruction grants for countries imperiled by climate disaster.¹⁷ In February 2023, the UN Secretary General issued a call for global financial stimulus to deliver Agenda 2030.¹⁸ The French Prime Minister Macron hosted a June 2023 summit focused on a new global financing pact that seeks to address the mobilization of innovative financing for countries vulnerable to climate change.¹⁹

■ FINANCE FLOWS FOR ADDRESSING LOSS AND DAMAGE

The following section provides an overview of sources of funding for addressing L&D within and outside of the UNFCCC. However, more research is needed to better understand the finance needed to address L&D and the finance available.

NATIONAL AND DOMESTIC BUDGETS

National funding arrangements and domestic innovative sources often play a significant role in addressing L&D.²⁰ Many countries already use national funds to address the aftermath of natural disasters.²¹ However, data on domestic climate finance flows, including for L&D, is not readily available or comparable given that it is not collected regularly or using standard methodologies.²²

REGIONAL DEVELOPMENT BANKS

The African Development Bank (AfDB) has nine funds that may provide finance for L&D: the African Development Fund (ADF), African Water Facility (AWF), Transition Support Facility (TSF), Nigeria Trust Fund (NTF), Sustainable Energy Fund for Africa (SEFA), ClimDev

Special Fund (CDSF), NEPAD Infrastructure Project Preparation Facility (NEPAD-IPPF), Africa Climate Change Fund, and Climate Investment Fund. These funds provide grant-based, concessional funding for addressing and mitigating climate change. The AfDB provides U.S. \$7.06 billion to its member countries for development specifically. The Climate Investment Fund provides U.S. \$1.6 billion to disaster risk management in grants and concessional loans.

Regional catastrophe risk pools like the Africa Risk Capacity (ARC), the Caribbean Catastrophe Risk Insurance Facility (CCRIF), and the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) help countries strengthen their financial resilience. Other institutions also help mitigate risk, such as the Asia Pacific Disaster Response Fund under Asian Development Bank, which provides grants for developing country members for emergencies caused by and early recovery from natural disasters. The Southeast Asia Disaster Risk Insurance Facility (SEADRIF) provides ex-ante climate and disaster risk and insurance solutions.

The Inter-American Development Bank (IDB) financed and mobilized U.S. \$14.8 billion in 2022 although it is not clear how much finance was used to address L&D. The IDB provides finance for water and sanitation, transport, environmental and natural disasters, urban development, housing, health, agriculture, and rural development.²³

In 2022, the European Investment Bank (EIB) provided U.S. \$36.5 billion in loans for climate action and ecosystem-based solutions—about 58 percent of the bank’s lending. The EIB Group Climate Roadmap’s indicates that its priorities include providing access to concessional finance for building greater resilience in developing countries most at risk from climate change. It is not clear what EIB financing has been used to address L&D; U.S. \$1.8 billion has been directed to climate adaptation in developing countries to address water scarcity, support disaster risk management, and enhance resilience.

DEVELOPMENT FUNDING/OFFICIAL DEVELOPMENT ASSISTANCE²⁴

Official development assistance (ODA) amounted to U.S. \$204 billion in 2022, covering grants, loans, debt relief, and contributions to multilateral institutions.²⁵ Total ODA, which surpassed record levels for the fourth year in a row, was 13.6 percent higher than in 2021, primarily due to in-donor refugee costs from the war in Ukraine. Excluding these costs, it rose by 4.6 percent compared to 2021.

In 2021, climate-related ODA was 27.6 percent. U.S. \$14 billion was provided for climate action as the principal objective and U.S. \$23 billion for climate action as a significant objective.²⁶ Of these amounts, 42 percent covered adaptation efforts. There is no information to calculate a percentage of development assistance dedicated to address L&D.

In 2019 and 2020, grants accounted for 57 percent and 99 percent (U.S. \$8.5 billion and U.S. \$1.2 billion) of the face value of bilateral and multilateral adaptation finance assistance, respectively. However, only 15 percent of the funding through multilateral development banks were grants.²⁷ Humanitarian aid is less than 14 percent of the total ODA budget.

Despite its growth, the UN Secretary General has noted that ODA is failing to keep pace with increasing needs and demands.²⁸ One contributing factor is that humanitarian aid to address the impacts of the ongoing war in Ukraine is diverting ODA from traditional

development priorities. Another factor is that most donor countries are not meeting ODA commitments of 0.7 percent of Gross National Income (GNI).²⁹ If met, they would provide over U.S. \$150 billion per year.³⁰

Another contributing factor is that eligibility for ODA is calculated based on GNI per capita, where countries above a given threshold become ineligible for ODA.³¹ Exceptions have been made for the Syrian refugee crisis or to allow certain small island economies and International Development Association (IDA)-eligible small states continued access to IDA.³² A number of ineligible climate vulnerable countries are nevertheless still likely to face costs from L&D in the short- and long-term.³³ Rather than relying solely on GNI per capita, donors could, for instance, use the UN’s multidimensional vulnerability index to better support these climate vulnerable countries.

MULTILATERAL DEVELOPMENT BANKS

International Monetary Fund

The International Monetary Fund (IMF) provides policy advice, capacity development and financial support to its members. Since the start of the pandemic, it has provided U.S. \$267 billion in new financing and U.S. \$650 billion allocation of special drawing rights.³⁴ The IMF also has a Resilience and Sustainability Trust, which helps low- and vulnerable middle-income countries address structural challenges such as pandemics and climate change.

World Bank

The Global Shield Financing Facility was announced by the World Bank Group at COP27. It builds on the Global Risk Financing Facility which was established in 2018 to support country operations in Africa, Asia, and Small Island Developing States.³⁵ The Global Shield Financing Facility finances upstream capacity building and policies to respond to natural disasters and climate change. The program also benefits from U.S. \$3 billion in World Bank lending and helped to mobilize more than U.S. \$1 billion in private sector capital.

Established in 2006, the Global Facility for Disaster Reduction and Recovery (GFDRR) is a multi-donor partnership that supports low- and middle-income countries to understand, manage, and reduce their risks from natural hazards and climate change. GFDRR programs include the Disaster Risk Financing and Insurance Program, which helps countries with financial protection

in the event of a disaster, and the Sahel Adaptive Social Protection Program, a multi-donor trust fund managed by the World Bank that supports the strengthening of adaptive social protection systems in the Sahel.

International Development Association

IDA is a member of the World Bank Group and provides the world's poorest countries with knowledge and financing to address their development challenges. Climate change is a key focus of its 20th replenishment (IDA20) program.³⁶

Introduced in 2011, the Crisis Response Window (CRW) is a longer-term emergency response tool used to support IDA countries through crises, including natural disasters and slow-onset events.³⁷ For example, in response to the 2017 regional drought and food insecurity in Africa and the Middle East, CRW disbursed predictable and regular cash for food transfers to the poorest and most vulnerable to restore their livelihoods and to displaced families to resettle/settle in their old or new communities.³⁸ CRW supports country efforts to build back better and provides early response financing to address early stage slow-onset events (such as sea level rise). The CRW has increased from U.S. \$2.5 billion in IDA19 to U.S. \$3.3 billion in IDA20, reflecting the need to support countries amid increased vulnerability to shocks like rising food insecurity. The CRW can respond flexibly to demand and scale up resources.

The Immediate Response Mechanism (IRM) complements the CRW and offers IDA countries financial support for an emergency such as natural disasters or economic shocks within weeks rather than months.³⁹ Recovery efforts include the activation or scaling up of safety nets to mitigate the impact on vulnerable groups; repair or restoration of basic physical assets; protection of critical development spending such as on health and education; and creation of programs to jump-start economic activity.⁴⁰

The Window for Host Communities and Refugees helps eligible host countries create meaningful longer-term development opportunities for refugees and host populations.

The Fragility, Conflict and Violence Envelope provides financing to countries facing acute fragility, conflict and violence risks.

Finance needs for IDA countries, in particular the LDCs, are increasing. It is estimated that between 2023–2025, external financing needs in low-income countries

is U.S. \$429 billion. To return to a development and industrialization pathway, they will need an additional U.S. \$310–376 billion in the same period.⁴¹

For 2022, IDA commitments totaled U.S. \$37.7 billion, of which U.S. \$13.2 billion are grants. Annual commitments have increased steadily and averaged about U.S. \$34.7 billion the last three years. The Africa region received 73 percent of the total commitments. The funds will be delivered to the world's 74 poorest countries under the IDA20 program, which focuses on helping countries recover from the impacts of the COVID-19 crisis and to build a greener, more resilient future. As such, over 60 percent of climate financing focused on adaptation and resilience.⁴²

As mentioned above, MDBs funding is heavily loan-based. It is nevertheless becoming increasingly evident that the grants-based finance is low given the increasing risks of unsustainable debt levels and it reduces an MDBs ability to increase their capital through bonds or other finance solutions. The increasing poverty gap between the poorest countries and the rest of the world, and the widening inequality gap within most countries, further underlines this trend.

Public Development Banks

The more than 500 multilateral, regional, national, and sub-national Public Development Banks (PDBs) in the world have public mandates to catalyze investments in sustainable development, including for adaptation and resilience. PDBs have total assets of U.S. \$23 trillion and represents 10–12 percent of global financing.⁴³ One in two PDBs integrate climate in their activities, and PDB's climate financing in 2022 totaled U.S. \$224 billion—a 20 percent increase over the previous year.⁴⁴ It is not clear; however, how much was dedicated to adaptation and resilience. It is also worth noting that although PDBs are mandated to invest in infrastructure, agricultural development, and public social housing, it is unclear whether there are any special policies for investments in these areas in the aftermath of climate change events.

There is growing appetite for revising the policies for disbursement of assets in lieu of climate resilience. A coalition of PDBs, "Finance in Common," point out the need for a revised financial architecture where large PDBs provide smaller national banks with more long-term resources to meet priorities for climate change and biodiversity.⁴⁵ The coalition also notes the need to integrate the many micro-sized African PDBs into the larger financial system to increase their assets.

Given their support areas, PDBs have a much larger role to play in financing adaptation and L&D actions. For example, new L&D policies could be put in place for financing recovery, rehabilitation, and reconstruction as well as transformational development to address L&D in the long-term.⁴⁶ Given its public mandate, it could also be relevant to assess whether PDBs can be part of the solution to finance planned migration/relocation and non-economic losses.

PHILANTHROPY

A group of philanthropies made headlines at COP26 by committing UK £3 million to address L&D.⁴⁷ Other philanthropies have or may contribute funding for L&D. For example, Action of Churches Together Alliance (ACT) is a coalition of over 150 churches and faith-based organizations that work in 127 countries and mobilizes more than U.S. \$2 billion each year.⁴⁸ ACT's secretariat administers a global Rapid Response Fund which aims to fill gaps in current funding structures, including those for addressing L&D, but particularly those gaps in relation to forced migration/displacement.

PRIVATE SECTOR

There is little information on how much the private sector invests in adaptation or addressing L&D, inhibiting meaningful aggregation.⁴⁹ However, the Taskforce on Climate Related Financial Disclosures-framework could expand its voluntary requirements regarding climate risk information to measures taken to address L&D, which in turn could become required in company reports.

FINANCE FOR DISASTER RISK REDUCTION

The United Nations Office for Disaster Risk Reduction (UNDRR) is the UN focal point for disaster risk reduction. It oversees and supports the implementation, follow-up, and review of the Sendai Framework for Disaster Risk Reduction 2015–2030, previously known as the Hyogo Framework for Action 2005–2015.⁵⁰ In doing so, it coordinates and supports countries efforts in strengthening their national institutional frameworks for increased preparedness and resilience.

The Global Facility for Disaster Reduction and Recovery (GFDRR) is a grant-funding mechanism managed by the World Bank. It facilitates implementation of the Sendai Framework by promoting the integration of disaster risk management and adaptation into develop-

ment strategies and plans so that countries may recover from disasters quickly and effectively.⁵¹ Contributions from most members and other donors are pooled in the GFDRR Multi-Donor Trust Fund. The GFDRR aims to significantly scale up its support for climate change to achieve the goals in the Paris Agreement, including to respond in the wake of disasters and reduce the fiscal and financial impacts of disaster. Its efforts will focus on addressing critical knowledge gaps and building pipelines of effective resilience investments ahead of the first global stocktake in 2023.

FINANCE FOR HUMANITARIAN ASSISTANCE

In 2023, humanitarian aid reached a record high of U.S. \$51.1 billion, which provided immediate relief for 339 million people in need of assistance across 69 countries in response to the effects of COVID-19 pandemic, droughts, floods, and the war in Ukraine.⁵² The amount reflects a 25 percent increase compared to the beginning of 2022.

The funding gap between what is needed and available for humanitarian aid is wide and widening further. In 2020, UN humanitarian aid requests related to extreme weather were underfunded yet were eight times greater than they were 20 years ago.⁵³

The number of refugees worldwide has grown steadily since 2011 and shows no signs of slowing.⁵⁴ The total number of people displaced (internal and cross-border) reached 103 million in 2022.⁵⁵ In 2021, 23.7 million people were internally displaced due to disasters, including climate disasters. Globally, 5.9 million people were displaced due to disasters.⁵⁶ Conflict and violence are main contributing factors for displacement, with five conflict-ridden countries responsible for 72 percent of refugees.

Most public funding comes from the Organization for Economic Co-operation and Development's (OECD) Development Assistance Committee and governments and is funneled primarily through multilateral organizations and NGOs.⁵⁷ U.S. \$1.9 billion (around 7 percent) of the donations went to pooled funds, which include the UN Central Emergency Response Fund and Country-Based Pooled Funds. Funding to the International Red Cross and Red Crescent Movement alone accounted for U.S. \$1.2 billion. National governments and inter-governmental organizations received the least funding, just under U.S. \$ 1 billion.

The largest volume of funding per year for the past decade has been devoted to food security, with conflict-ridden countries the main recipients. Disaster-induced food insecurity can be an element of L&D given the impacts of climate-related slow-onset and extreme weather events. Adaptation and precautionary L&D measures could be undertaken to reduce food insecurity, with greater success rates in non-conflict areas. Early recovery efforts, however, which can include sustainable recovery from crises, efforts to strengthen resilience, and planning for longer-term development, received the least amount of funding in 2021.⁵⁸

It is important to build climate and economic resilience prior to the crisis—where resilience is low, people are more likely to experience crisis and need lifesaving humanitarian assistance, for a longer period of time.⁵⁹ However, conflict-ridden areas present additional challenges for adaptation action and addressing L&D: high risks, low success rates, and low local participation.

Climate finance is needed to alleviate pressure on humanitarian systems. Arguably, addressing risk and L&D in conflict-areas could be done through the humanitarian system through peacebuilding and development initiatives for conflict areas as well as through increased funding for humanitarian assistance. Greater funding for humanitarian support related to climate-induced disasters is necessary. However, the question is whether this funding should be allocated from climate finance funds (such as the new L&D fund, the Green Climate Fund [GCF], or the Global Environmental Facility [GEF]) in addition to existing funding (coming mainly from the OECD Development Assistance Committee countries for humanitarian assistance)—or whether the humanitarian funding can be increased directly.⁶⁰ There are risks in using UNFCCC mechanisms and funds to increase adaptation and L&D efforts and finance in areas where the main driver is conflict, not climate.⁶¹

Nevertheless, it remains important to address risks such as food insecurity, migration, biodiversity loss, non-economic loss, and reconstruction, as well as to increase funding for humanitarian assistance for relevant climate aspects. It could also be helpful to enhance humanitarian assistance funding for early recovery. In either scenario, countries should take care to earmark finance to address the effects of climate-induced disasters.⁶²

UNFCCC MECHANISMS AND FUNDS

Global Environment Facility

The GEF is composed of a family of funds confronting biodiversity loss, climate change, pollution, and stressors to land and ocean health. It provides support to developing countries and countries in transition, including some eligible countries that have graduated from ODA recipient status, through grants, blended financing, and policy support.⁶³ A country is eligible for grants if it receives World Bank (International Bank for Reconstruction and Development and/or IDA) financing or if it is an eligible recipient of UN Development Programme (UNDP) technical assistance through its target for resource assignments.⁶⁴ 90 percent of GEF financing was provided to ODA-eligible countries in its seventh replenishment period (which ended June 2022).⁶⁵ Over the past three decades, the GEF has provided more than U.S. \$22 billion and mobilized U.S. \$120 billion in co-financing for more than 5,000 national and regional projects.⁶⁶

The GEF has invested more than U.S. \$5.2 billion towards efforts to conserve biodiversity and to use it sustainably. This investment has leveraged over U.S. \$13.4 billion in additional funds, supporting 1,500 projects in more than 158 countries.⁶⁷ The GEF has supported the improved management of more than 2,500 million hectares of terrestrial and marine protected areas around the world, an area larger than the size of Latin America. It has also helped countries sustainably use and manage biodiversity across more than 543 million hectares of productive landscapes and seascapes. Its work supporting the restoration of ecosystems is relevant to addressing L&D. For example, rescuing and protecting seven “climate refuge reefs” can serve as source reefs from which other global coral systems can regenerate in the future when and if climate conditions stabilize.⁶⁸

The GEF’s climate change adaptation strategy for the 2022–2026 period, supported by the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF), supports developing countries’ climate resilient development pathways that reduce exposure to the immediate risks posed by climate change.⁶⁹ Over that period, the two funds support countries across four key adaptation themes: (i) agriculture, food security, and health; (ii) integrated water resource management to address water security, droughts, and flooding; (iii) nature-

based solutions; and (iv) early warning and climate information systems. Other supported themes include, but are not limited to, climate resilient infrastructure, sustainable alternative livelihoods, ecosystem restoration, forestry, and disaster risk management. These efforts significantly overlap with actions relevant to address L&D.

The LDCF, governed by the GEF, provides LDCs with grants to support efforts to adapt to the effects of climate change. Financing support for L&D includes projects for climate information services networks, L&D elements of National Adaptation Programmes of Action (NAPAs) and National Adaptation Plans (NAPs), early-warning systems, risk transfer, and comprehensive risk management. It supports the implementation of NAPAs and NAPs as well as the UNFCCC LDCs work program. Funded activities need to be mapped to specific country-driven priorities. The LDCF has financed 365 projects and enabling activities with approximately U.S. \$1.7 billion in grants which is expected to benefit over 52 million people and manage over 8 million hectares in climate resilient priorities. However, measures to address L&D, such as non-economic losses, human mobility, loss of territory and loss of societal and cultural identities appear to fall outside the scope of its mandate. This could change if the NAPAs and NAPs are extended to include plans and actions to address L&D including non-economic losses.

The SCCF, also governed by the GEF, addresses the specific needs of developing countries. In the 20 years since its inception, the SCCF has invested U.S. \$363 million in 88 projects. These projects have benefitted approximately nine million people and helped bring over five million hectares of land under more sustainable management.⁷⁰ Originally grant-focused, it has evolved to include innovative financial instruments, such as concessional loans and equity, and to provide weather risk insurance and reinsurance products. It supports a broader continuum of efforts, including risk reduction and transformational approaches.⁷¹ Roughly one-third of SCCF initiatives are aimed at expanding access to improved climate information services. The SCCF is increasingly focused on supporting innovation that can scale up climate change adaptation solutions. It is also worth noting that 50 percent of beneficiaries for both LDCF and SCCF projects are expected to be women/girls.⁷²

In GEF's 2022–2026 adaptation strategy, the SCCF will focus on supporting the adaptation needs of SIDS and strengthening technology transfer, innovation, and private sector engagement. Areas of support include the

implementation of early-warning systems and nature-based solutions, enhanced infrastructure and freshwater sources, diversification and resilience in the local economy, and reduced import dependence. Other priorities include initiatives to address vulnerabilities and impacts of climate change on migration and displacement, which can also be considered addressing L&D.⁷³

The Green Climate Fund

The GCF is part of the financial mechanism of the UNFCCC. It invests in low-emission and climate-resilient development projects, aiming for a 50/50 division between mitigation and adaptation funding. At least 50 percent of financing goes to LDCs, SIDS, and Africa. The GCF offers a range of instruments that includes grants, loans, guarantees, equity, and results-based payments. In terms of L&D-related financing, it has, for example, financed projects for risk assessment, risk prevention or reduction, and implementation of early-warning systems to reduce loss of life. Other examples include support for ecosystem-based adaptation and risk reduction through flood mapping and early-warning systems and for weather index-based insurance programs.

At COP25, Parties invited the GCF to continue to provide financial resources for L&D activities, consistent with its existing investments, results framework, and funding windows and structures, and taking into account the five-year workplan of the Warsaw International Mechanism (WIM) Executive Committee (ExCom).⁷⁴ Access channels include the Project Preparation Facility and the Readiness and Preparatory Support Programme.⁷⁵ Parties also directed the GCF and the WIM ExCom to take steps to clarify access to funding for L&D through the GCF.⁷⁶

The Adaptation Fund

The Adaptation Fund is a constituted body that provides grants-only finance for adaptation and activities that avert and minimize L&D. Total contributions of U.S. \$1.5 billion have been delivered to projects.⁷⁷ L&D activities supported by the Adaptation Fund include: preemptively strengthening resilience through risk assessments, risk prevention, climate monitoring, and early warning systems; planning and implementation of adaptation and L&D measures for human mobility/planned relocation due to climate change; reconstruction and building forward better; as well as transformative adaptation. However, non-economic losses, such as loss of biodiversity,

loss of territory, or loss of societal and cultural identities, may fall outside of the Adaptation Fund's mandate.⁷⁸ However, as long as an activity can be justified as adaptation, it can be funded.⁷⁹

The Santiago Network

At COP25, the Parties established the Santiago Network to catalyze technical assistance to implement relevant approaches to avert, minimize, and address L&D for developing countries that are particularly vulnerable to climate change. Technical assistance to developing countries for averting, minimizing, and addressing L&D associated with climate change covers a wide range of measures, such as risk assessment and analysis, early warning systems, risk insurance facilities and solutions, and ecosystem-based adaptation and disaster risk reduction.

The Santiago Network has the following functions:⁸⁰

- contribute to the effective implementation of the WIM
- identify and catalyze demand-driven technical assistance
- facilitate and catalyze collaboration, coordination, and coherence by organizations, bodies, networks, and experts on technical assistance to developing countries
- facilitate the development of and access to knowledge and information
- facilitate access to action and support for L&D (finance, technology, and capacity building), both within and outside of the UNFCCC.

The funding of L&D through the Santiago Network needs to be seen in relation to the work to operationalize funding arrangements and a new fund for responding to, including addressing, L&D.

CLIMATE INVESTMENT FUNDS

Launched in 2008, the Climate Investment Funds are some of the world's largest multilateral funds that help low- and middle-income countries adapt to and mitigate climate change. The funds were established because world leaders recognized that climate change and development are inextricably intertwined, and that climate-smart investment is needed at scale to deliver on the

opportunities for green growth identified in the UN's SDGs. The Climate Investment Funds are comprised of two funds: the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF). They channel concessional finance through six MDBs for both upstream advisory and downstream investment activities to support climate action. The World Bank Group, including the International Finance Corporation, the African Development Bank, the Asian Development Bank, the European Development Bank, and the Inter-American Development Bank, are the implementing partners of CIF's investments.

RELEVANT INITIATIVES/MECHANISMS

Climate Risk & Early Warning Systems (CREWS) is a mechanism implemented by four international governmental partners that funds LDCs and SIDS for risk-informed early warning services.⁸¹ CREWS's vision is to scale up support for LDCs and SIDS to provide early warnings to reduce lives and livelihoods lost to extreme events and to contribute to the Paris Agreement's action agenda.

InsuResilience Global Partnership for Climate and Disaster Risk Finance and Insurance Solutions is a partnership by the V20 and G20 with more than 120 members. It aims to strengthen the resilience of developing countries and protect the lives and livelihoods of poor and vulnerable people against the impacts of disasters through Climate and Disaster Risk Finance and Insurance solutions.⁸²

Global Shield Against Climate Risks (noted above) aims to reduce vulnerability for poor and vulnerable people in the Global South by improving climate risk finance and preparedness to access assistance more easily and quickly.⁸³

Early Warning for All is a U.S. \$3.1 billion initiative by the Secretary General. It is a plan to ensure everyone on the planet is protected by early warning systems by 2027.⁸⁴

NATIONAL ADAPTATION PLANS/NATIONALLY DETERMINED CONTRIBUTIONS

Nationally determined contributions (NDCs) and NAPs are important policy and information tools, particularly for developing countries and especially for LDCs and SIDS. NDCs and NAPs capture national actions to address climate change and include important information related to financial support needed and received.

However, in 2022, the International Institute for Environment and Development report finds that only ten of 25 NDCs submitted by LDCs mention L&D, with varying detail.⁸⁵ Reference to L&D impacts could be implied by use of terms like “unavoidable climate change impacts” or “residual risk.” Droughts and floods are the most frequently mentioned hazards, but a wide range of impacts

were identified. According to the UNDP Climate Promise, over 30 of 92 NDCs analyzed specifically emphasized needs for L&D in their new/updated NDCs. Only Haiti’s NDC mentioned funding support for L&D.

Nearly half of all NAPs make direct references to L&D. L&D is mentioned by five LDCs’ NAPs. All 14 NAPs note impacts that include floods, drought, crop losses, biodiversity loss, high wind, saltwater intrusion, land erosion, heat waves and infrastructure. All NAPs refer to slow onset events, however less than half mention human mobility and very few mention non-economic L&D.⁸⁶ Funding support for L&D is only mentioned in a few countries’ NAPs.

CONCLUSION

At COP27, the Transitional Committee was given the monumental task of identifying and expanding sources of existing funding gaps. These gaps are extensive and exist across UN agencies, intergovernmental organizations, and bilateral, multilateral, and international financial institutions. Large financial gaps also remain regarding addressing non-economic losses, slow onset events, migration/displacement, biodiversity/ecosystem services and climate-resilient reconstruction and recovery. The need to enhance existing funding structures should be addressed through tailor-made solutions for each of the institutions and organizations currently funding L&D while also providing new, additional, and predictable financing options.

Other C2ES Resources

The Institutional Ecosystem for Loss and Damage

<https://www.c2es.org/document/the-institutional-ecosystem-for-loss-and-damage/>

Options for a New Loss and Damage Fund

<https://www.c2es.org/document/options-for-the-loss-damage-fund-technical-paper/>

Understanding Finance for Loss and Damage Under the UNFCCC

<https://www.c2es.org/document/understanding-finance-for-loss-and-damage-under-the-unfccc/>

ANNEX 1: UNDERSTANDING LOSS AND DAMAGE

CONTEXT

Small states, many of which are small island developing states (SIDS), are responsible for a miniscule proportion of global greenhouse gas emissions; are among the most exposed and climate vulnerable countries; and bear a disproportionate share of the costs arising from climate change events. Damages from climate and natural disasters are equivalent to nearly five percent of gross domestic product annually, on average, a number that is increasing.⁸⁷ For some SIDS, global warming presents an existential challenge, as sea level rise could cause these islands to drown.

Deep, rapid, and sustained mitigation actions would reduce future adaptation costs and loss and damage (L&D). At the same time, it is urgent to close the adaptation gap with accelerated and transformational adaptation action that is also long-term, flexible, multi-sectoral and inclusive.⁸⁸ Projected adverse impacts and related L&D from climate change escalate with every increment of global warming, but they will also strongly depend on socio-economic development trajectories and adaptation actions to reduce vulnerability and exposure.⁸⁹

However, even if all adaptation actions are effectively implemented, there will still be unavoidable L&D.⁹⁰ Current global warming already poses limits to adaptation and adaptive capacity for some human and natural systems. When adaptation limits are met, the resulting L&D will increase, and impact the poorest vulnerable populations the most.⁹¹

Climate related hazards already taking place will increase in severity and frequency in the near term (at 1.5 degrees Celsius), causing disruptive and erratic climate hazards, often referred to as sudden- and slow-onset events. Sudden-onset events include forest fires, marine and terrestrial heat waves, heavy rainfall, flooding, landslides, cyclones, hurricanes, and resultant biodiversity loss. Slow-onset events include sea level rise, ocean acidification, glacial retreat, changes in floods and rivers, freshwater scarcity, temperature rise, desertification, biodiversity loss, permafrost and land degradation, and salinization. For both slow- and sudden-onset events, the losses and damages can be categorized as economic or non-economic.

ECONOMIC AND NON-ECONOMIC LOSS AND DAMAGE

Economic losses can be quantifiable losses of property, assets, infrastructure, agricultural production/revenue, labor productivity, goods, and services. Non-economic losses include impacts that are not easily quantifiable in economic terms, such as impacts/loss of life, physical and mental health, well-being, food and water security, biodiversity, ecosystem services, indigenous knowledge, cultural heritage, and societal/cultural identity.

ELEMENTS OF ADDRESSING LOSS AND DAMAGE

Parties differentiate between averting, minimizing, and addressing L&D. “Averting and minimizing” focuses to a great degree on preventive and precautionary measures prior to climate change effects. However, “addressing” is often understood as measures taken after the climate change event(s) has happened, i.e., ex post action. In other words, it can be understood as the response to the effects of climate change leading to “residual” L&D. Sometimes, actions to address L&D will need to be taken in the context of ongoing climate change, such as sea level rise. The distinction is therefore not clear cut. It is also worth noting that the term “responding” to L&D has been used by the Parties, which focuses on ongoing and ex post action.

Because L&D actions taken prior to the impact include measures to reduce and avoid the impact, there is a natural overlap with adaptation actions. Therefore, a key question is whether the pre-impact L&D, adaptation, and resilience efforts were exhausted? In other words, whether hard limits to adaptation and resilience have been met. The decision on whether a risk level has become intolerable or not will need to consider several factors, including: the community’s connection with the area in question, the risk of cultural loss, the benefits, cost, technical feasibilities, scientific assessments and the likelihood of climate scenarios. It also needs to include an assessment of what the finance could fund alternatively, from a global and equity perspective.

When all adaptation and resilience efforts are exhausted and the risk levels are still intolerable (hard limits are met) or likely to become intolerable in the foreseeable future, it would be advisable to undertake transformational L&D action.⁹² In these instances there is a need for “next-level response” to address L&D.⁹³

Measures for addressing L&D, where efforts to avert and minimize L&D have been exhausted, can be divided into the following categories:

- Planned relocation/assisted migration: e.g., relocation or resettlement as a consequence of climate change; support systems for forced migration and climate-induced displaced persons.
- Transformational development and alternative livelihoods: e.g., support for rebuilding and/or alternative livelihoods post-climate change-related events/post-migration/displacement; assistance with diversification of income in already affected areas; support for reducing food insecurity due to climate-related events.
- Non-economic measures: e.g., active remembrance; documenting and recording traditional and local knowledge; cultural preservation; societal protection; counselling; official apologies; enabling access/safe visits to abandoned sites; recognition and repair of loss (whether or not accompanied by financial payment); addressing root causes of vulnerability or other ways to reduce the impacts from climate change on the affected individual/society. It can also include measures to reduce “similar” risk of non-economic L&D in other areas through lessons learned, shared knowledge, and understanding.
- Construction and creation: e.g., altering the nature of the area in question, such as building artificial islands and creating a metaverse for the State in question.
- Safeguarding biodiversity: e.g., relocation of animals and biota, seed collection, introducing new species that are better fit for the area, ecosystem support (i.e., introducing feed or artificial watering systems).

Measures to reactively adapt, avert, minimize, and address L&D include recovery, rehabilitation, and reconstruction (e.g., restoring essential services and facilities; restoring the livelihoods, health and economic, social, cultural, environment/ecosystem and physical assets [such as infrastructure and housing]; re-establishing systems and activities of a community or society affected by disaster).

Measures to recover, rehabilitate, and reconstruct in the aftermath of slow or sudden climate events can be categorized as reactive adaptation and resilience planning and implementation, as part of a cyclical process. They can also be defined as measures to avert, minimize, and address L&D. For this reason, this type of L&D differs from the measures undertaken when hard adaptation limits are met to address L&D. If measures to recover, rehabilitate, or reconstruct are undertaken in areas with hard adaptation limits (or likely to meet hard limits in the foreseeable future), it could lead to maladaptation, stranded assets, and locked-in investments.⁹⁴ In these instances, evacuation and temporary shelter should be short-term measures in lieu of planned relocation/assisted migration or other measures to address L&D not recovery, rehabilitation, and reconstruction. Short-term efforts should focus on restoration and clean-up, including humanitarian assistance. Long-term efforts should focus on transformational development and building forward better.

Another type of addressing L&D—which is controversial for political, technical, legal, and societal reasons—is economic compensation, e.g., payment by polluting states to states affected by climate change. The International Court of Justice is currently undertaking an assessment of the legal obligations of high emitting States and rights of affected States. It is expected to publish an advisory opinion on the matter.

ENDNOTES

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92 Please note that this could be part of the national adaptation planning process, and as such avoid spending on adaptation efforts that are unlikely to be successful given hard and soft limits.

93 Please note that the next level response planning can take place based on an assessment that hard limits will be met in likely future scenarios, and as such reducing the losses to life and prioritizing efforts and reduce the costs for non-transformational measures or maladaptation. The timing of transformational L&D actions is therefore key.

94 IPCC finds increasing evidence of maladaptation in various sectors and regions. Maladaptation is observed in urban areas, agriculture, ecosystems, and human settlements. Examples include new urban infrastructure that cannot be adjusted easily or affordably; using high-cost irrigation in areas projected to have more intense drought conditions; fire suppression in naturally fire-adapted ecosystems; hard defenses against flooding; and stranded assets. Maladaptation affects marginalized and vulnerable groups adversely and entrenches existing inequalities.



The Center for Climate and Energy Solutions (C2ES) is an independent, nonpartisan, nonprofit organization working to secure a safe and stable climate by accelerating the global transition to net-zero greenhouse gas emissions and a thriving, just, and resilient economy.