

PUBLIC SECTOR FINANCE FOR LOSS AND DAMAGE: ISSUES AND OPTIONS



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COP28 in Dubai achieved a historic breakthrough in addressing the finance gap for loss and damage (L&D). On the opening day, the Parties agreed to operationalize the L&D Fund for responding to L&D, which has received U.S. \$661.39 million in pledges to date.¹ More than U.S. \$100 million was pledged for funding arrangements for L&D.² In addition, Parties pledged U.S. \$40.7 million to the Santiago Network, which provides technical assistance on L&D and is linked to the L&D Fund.³

However, gaps in public sector finance for L&D remain. This paper examines the issues and options for financing L&D from public sector sources.

BOX 1: Key Issues and Options for Public Sector Finance in L&D:

Issues

- The finance gap for L&D is considerable; therefore, new, additional, adequate, and predictable finance is needed.
- Public sources of grants-based finance are necessary and crucial, but not enough to meet the current needs of developing countries.
- At the same time, private sector financing of L&D is also inadequate, and it could take years before its potential is fully realized.
- Who is the donor base for L&D finance and how can it be expanded?

Options

- Parties could agree to discuss widening the donor base for the L&D Fund and funding arrangements, taking into consideration equity and fairness. Discussions could be held at:
 - an informal workshop under the Conference of the Parties (COP) or the Conference of the Parties to the Paris Agreement (CMA)
 - the first annual high-level dialogue on funding arrangements for L&D, which could be used to address key issues, such as the donor base, and give clear political direction on them.
- Parties could mandate the Board of the L&D Fund (the Board) to develop self-assessment guidelines and a framework for L&D finance donors and recipients.
 - Parties could decide whether L&D finance should be addressed by or compose part of the new collective quantified goal (NCQG). Alternatively, Parties could call for ministerial-level discussions on L&D finance within the NCQG.

BOX 2: Questions to facilitate discussion

- Should the Board and Parties discuss how to widen the donor base for L&D finance? And if so, what is needed to prepare for an informed, practical, and constructive discussion?
- How could the first high-level dialogue on L&D funding arrangements usefully discuss the need for enhanced public finance for L&D, including related equity issues?
- What role, if any, could the NCQG play in enhancing finance for L&D?

CONTEXT**THE FINANCE GAP FOR L&D**

While uncertainties make it difficult to accurately estimate the gap between what is needed and available for L&D finance, the current level of finance still falls short of what is required.⁴ The level of finance for the L&D Fund, particularly from public sources, to address the needs of developing country Parties that are particularly vulnerable to climate change urgently needs to be enhanced. Private sector financing for L&D is strongly encouraged but currently woefully inadequate. It could take years before its potential for responding to L&D is realized.

PUBLIC SECTOR FINANCE FOR L&D

Public sector financing for L&D under the UNFCCC and the Paris Agreement is at the core of L&D finance and takes the form of monetary pledges from Parties. The establishment of the new L&D Fund at COP27 and the subsequent operationalization of the new funding arrangements and the L&D Fund at COP28 closes a significant gap in the institutional set-up for L&D under the UNFCCC and the Paris Agreement.⁵

BROADENING THE DONOR BASE

COP27 mandated the Transitional Committee in 2023 to identify and recommend expanded sources of funding,⁶ acknowledging the necessity to broaden the country donor base for L&D finance.⁷ At COP28, the Transitional Committee recommendations were adopted without further discussion, which meant that the issue of identifying and expanding sources of funding was not further clarified by the Parties.

The COP28 decision, however, urges developed country Parties to continue to provide support and encourages other Parties to provide, or continue to provide, support on a voluntary basis.⁸ It also invites financial contributions, with developed country Parties continuing to take the lead.⁹ The United Arab Emirates, the COP28 host country, and South Korea, both developing countries, have made pledges to the L&D Fund.^{10,11}

The COP28 decision also established the Board, which needs to make several decisions this year that includes naming the fund; an allocation system for funds; eligibility criteria; and risk management policies. The Board could also consider deliberating on other issues, such as widening the donor base of the L&D Fund.

THE NEW COLLECTIVE QUANTIFIED GOAL

In accordance with Article 9.3 of the Paris Agreement and related decisions, Parties will need to adopt a NCQG on climate finance at COP29, taking into consideration the needs and priorities of developing countries. The NCQG will be key in achieving the temperature goal of Article 2 of the Paris Agreement.¹² Therefore the focus of the NCQG is largely on mitigation. Significant mitigation will reduce the need for L&D finance in the long run.

However, the NCQG could encourage or acknowledge L&D as part of the comprehensive response to climate change. More ambitiously, the NCQG could set a qualitative goal or a quantitative sub-target on L&D finance. Considerations of equity and fairness could be used to guide Parties in their discussion on whether and how to include L&D as part of the NCQG.

PUBLIC SECTOR FINANCE FOR L&D OUTSIDE OF THE UNFCCC/PARIS AGREEMENT

Finance flows for averting, minimizing, and addressing L&D outside of the UNFCCC/Paris Agreement are channeled through an array of finance streams. These include humanitarian aid, official development assistance, disaster risk reduction, biodiversity, recovery, and rehabilitation through multilateral development banks, and philanthropic funding.¹³

These finance streams also face gaps in levels of finance and funding areas, which include finance for non-economic losses, migration, or displacement due to slow onset events, and transformational development in the aftermath of relocation or climate induced disasters.¹⁴ There are also issues in the adequacy, eligibility, access, and speed of disbursement of finance for L&D.¹⁵

THE WAY FORWARD

A key COP28 outcome was the establishment of an annual high-level dialogue on coordination and complementarity for the L&D funding arrangements. This high-level dialogue will identify and provide recommendations on how to close the gaps in funding levels and areas for L&D.¹⁶ Parties noted at the third and final Glasgow Dialogue (June 2024) that the annual high-level dialogue could have discussions focused on “undertaking global effort to mobilize public finance at scale through the Fund for responding to loss and damage in the spirit of solidarity, recognizing the limited role of the private sector.”¹⁷

The need for predictable, stable, and mainly grant-based finance for addressing L&D underscores the importance of public sector finance, which can also be used to mobilize larger scale finance, e.g., through

guarantee instruments, and catalyzing finance from other sources, e.g., institutional investors.¹⁸ Public sector finance for L&D could also aim to ensure equity and that developing countries have a chance to achieve the Sustainable Development Goals.

Parties, experts, and non-party stakeholders could agree to discussions on widening the donor base for the L&D Fund and funding arrangements, taking into consideration equity and fairness. Parties could consider:

- holding an informal workshop or dialogue under the COP/CMA to consider how to increase public L&D finance, in particular grant-based finance, and address related issues of equity and fairness
- discussing expanding the donor base at the annual high-level dialogue, which could highlight the issues and obstacles, as well as possible ways forward, for enhancing public sector L&D finance
- giving a clear mandate to the Board to develop guidelines and a framework for self-assessment of L&D finance for donors and recipients.

Parties will also need to decide whether it could be helpful to include incentives, set a qualitative goal, or a quantitative target for L&D finance as part of the negotiations on the NCQG in 2024. As such, it will also be imperative to ensure a robust and ambitious NCQG from the L&D perspective. In addition, it could be discussed whether L&D finance could be part of the NCQG. The high-level ministerial dialogues on the NCQG will address sensitive political questions, most likely alongside other important high-level events such as the UN General Assembly high-level meetings, the pre-COP, or the World Bank Annual Meetings.¹⁹ Parties will need to assess whether the issue of L&D finance as part of the NCQG will be a significant priority to raise in the high-level dialogue.

C2ES Resources

Loss and Damage at COP28 and the Way Forward for 2024 (April 2024)

<https://www.c2es.org/document/loss-and-damage-at-cop28-and-the-way-forward-for-2024>

Potential Coordination Role of the UNFCCC on Loss and Damage – Technical Paper for Consultation (November 2023)

<https://www.c2es.org/wp-content/uploads/2023/11/20231121-C2ES-UNFCCC-LD-Coordination-Role-Technical-Paper-for-Consultation.pdf>

Understanding finance for L&D

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

Gap Analysis of Finance Flows for L&D

<https://www.c2es.org/document/a-gap-analysis-of-finance-flows-for-addressing-loss-damage>

Understanding Finance for Loss and Damage Under the UNFCCC – Technical Paper (June 2023)

https://www.c2es.org/wp-content/uploads/2023/06/Understanding-finance-for-LD_FINAL.pdf

A Gap Analysis of Finance Flows for Addressing Loss and Damage – Technical Paper (June 2023)

<https://www.c2es.org/wp-content/uploads/2023/06/LD-Funding-Arrangements-Gap-Analysis.pdf>

Considerations for Operationalizing the Loss and Damage Fund and Funding Arrangements – Technical Paper (June 2023)

<https://www.c2es.org/document/considerations-for-operationalizing-the-loss-and-damage-fund-and-funding-arrangements-technical-paper>

The Institutional Ecosystem for Loss and Damage (August 2022)

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

ENDNOTES

- 1 “Pledges to the Loss and Damage Fund,” United Nations Framework Convention on Climate Change [hereinafter UNFCCC], accessed August 12, 2024, <https://unfccc.int/process-and-meetings/bodies/funds-and-financial-entities/loss-and-damage-fund-joint-interim-secretariat/pledges-to-the-loss-and-damage-fund>.
- 2 “COP28: Australia announces support for the Pacific,” Australian Government Department of Climate Change, Energy, the Environment and Water, December 8, 2023, <https://www.dcceew.gov.au/about/news/cop28-australia-announces-support-for-pacific#:~:text=Today%20the%20Australian%20government%20announced,managed%20community%20resilience%20financing%20facility>.
- 3 “COP28 ends with progress on loss and damage, Santiago Network and transition away from fossil fuels,” UN Office of Disaster Risk Reduction, December 13, 2023, <https://www.undrr.org/news/cop28-ends-progress-loss-and-damage-santiago-network-and-transition-away-fossil-fuels>.
- 4 Cathrine Wenger, A Gap Analysis of Finance Flows for Addressing Loss and Damage (Arlington, VA: Center for Climate and Energy Solutions [hereinafter C2ES], November 2023), <https://www.c2es.org/document/a-gap-analysis-of-finance-flows-for-addressing-loss-damage/>.
- 5 UNFCCC, Funding arrangements for responding to loss and damage associated with the adverse effects of climate change, including a focus on addressing loss and damage, Decision 2/CMA.4 (November 15, 2022), <https://unfccc.int/sites/default/files/resource/decision%202%20CMA%204.pdf>.
UNFCCC, Report of the Conference of the Parties on its twenty-eighth session, held in the United Arab Emirates from 30 November to 13 December 2023, Decisions 1/CP.28 and 1/CMA.5 (March 15, 2024), https://unfccc.int/sites/default/files/resource/cp2023_11a01_adv.pdf.
- 6 UNFCCC, Funding arrangements for responding to loss and damage associated with the adverse effects of climate change, including a focus on addressing loss and damage, Decision 2/CMA.4, ¶ 5(c).
- 7 UNFCCC, Operationalization of the new funding arrangements for responding to loss and damage and the fund established in paragraph 3 of decisions 2/CP.27 and 2/CMA.4: Report by the Transitional Committee, ¶29(d) (November 28, 2023), https://unfccc.int/sites/default/files/resource/cp2023_09_cma2023_09.pdf.
- UNFCCC, Fifth meeting of the Transitional Committee on the operationalization of the new funding arrangements for responding to loss and damage and the fund established in paragraph 3 of decisions 2/CP.27 and 2/CMA.4: Co-chairs Summary (November 23, 2023), https://unfccc.int/sites/default/files/resource/TC5_CoChairsSummary.pdf.
- 8 UNFCCC, Operationalization of the new funding arrangements, including a fund, for responding to loss and damage referred to in paragraphs 2–3 of decisions 2/CP.27 and 2/CMA.4, Decision 1/CP28 1/CMA.5, ¶12.
- 9 UNFCCC, Operationalization of the new funding arrangements, including a fund, for responding to loss and damage referred to in paragraphs 2–3 of decisions 2/CP.27 and 2/CMA.4, Decision 1/CP28 1/CMA.5, ¶13.
- 10 “Pledges to the Loss and Damage Fund,” UNFCCC.
- 11 “Korea pledges \$7 mil. to global fund for climate change responses,” The Korea Times, July 9, 2024, https://www.koreatimes.co.kr/www/nation/2024/08/113_378286.html#:~:text=Korea%20has%20decided%20to%20contribute,the%20finance%20ministry%20said%20Tuesday.
- 12 UNFCCC, New collective quantified goal on climate finance, Decision 9/CMA.3, ¶15 (March 8, 2022), https://unfccc.int/sites/default/files/resource/CMA2021_10_Add3_E.pdf#page=8.
- 13 Wenger, A Gap Analysis of Finance Flows for Addressing Loss and Damage.
- 14 Wenger and Johnson, A Gap Analysis of Finance Flows for Addressing Loss and Damage.

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15 UNFCCC, Operationalization of the new funding arrangements, including a fund, for responding to loss and damage referred to in paragraphs 2–3 of decisions 2/CP.27 and 2/CMA.4, Decision 1/CP28 1/CMA.5, Annex II ¶17.

16 UNFCCC, Operationalization of the new funding arrangements, including a fund, for responding to loss and damage referred to in paragraphs 2–3 of decisions 2/CP.27 and 2/CMA.4, Decision 1/CP28 1/CMA.5, Annex II ¶11(d).

17 UNFCCC, Summary report on the third Glasgow Dialogue, Report by the SBI Chair, ¶41(g) (July 1, 2024), https://unfccc.int/sites/default/files/resource/Summary_GD3_03072024.pdf.

18 For an overview of types of financing instruments and modalities, including innovative sources, relevant to address L&D, see: Cathrine Wenger, Sönke Kreft, Rawleston Moore, Christina Voigt, and Manuel Bueno, Study on Loss and Damage Financing Solutions and Sources (Copenhagen, Denmark: Nordic Council of Ministers, November 2023), <https://pub.norden.org/temanord2023-546/temanord2023-546.pdf>. For additional information, see: UNFCCC, Initial Synthesis Report on the Existing Funding Arrangements and Innovative Sources Relevant to Addressing L&D Associated with the Adverse Effects of Climate Change (Bonn, Germany: UNFCCC, March 25, 2023), https://unfccc.int/sites/default/files/resource/Initial_SR_25%20March%2025%201500hrs.pdf.

19 For more information on the new collective quantified goal, see: “New Collective Quantified Goal on Climate Finance,” UNFCCC, accessed August 12, 2024, <https://unfccc.int/NCQG#Ad-hoc-work-programme>.



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