Loss and Damage Funding Arrangements

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Climate Finance for Equitable Transitions (CLiFT)

LOSS AND DAMAGE

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- Loss and damage refers to the 'negative consequences that arise from the unavoidable risks of climate change, like rising sea levels, prolonged heatwaves, desertification, the acidification of the sea and extreme events, such as bushfires, species extinction and crop failures' (UNEP, undated).

- Loss and damage can occur from **rapid onset** and **slow onset** events and can include **economic** and **non-economic** losses.

- Loss and damage is the third pillar of climate action under the multilateral climate regime: **mitigation**, **adaptation** and **loss and damage**.

  Article 8 Paris Agreement: 'Parties recognize the importance of averting, minimizing and addressing loss and damage associated with the adverse effects of climate change, including extreme weather events and slow onset events, and the role of sustainable development in reducing the risk of loss and damage.'

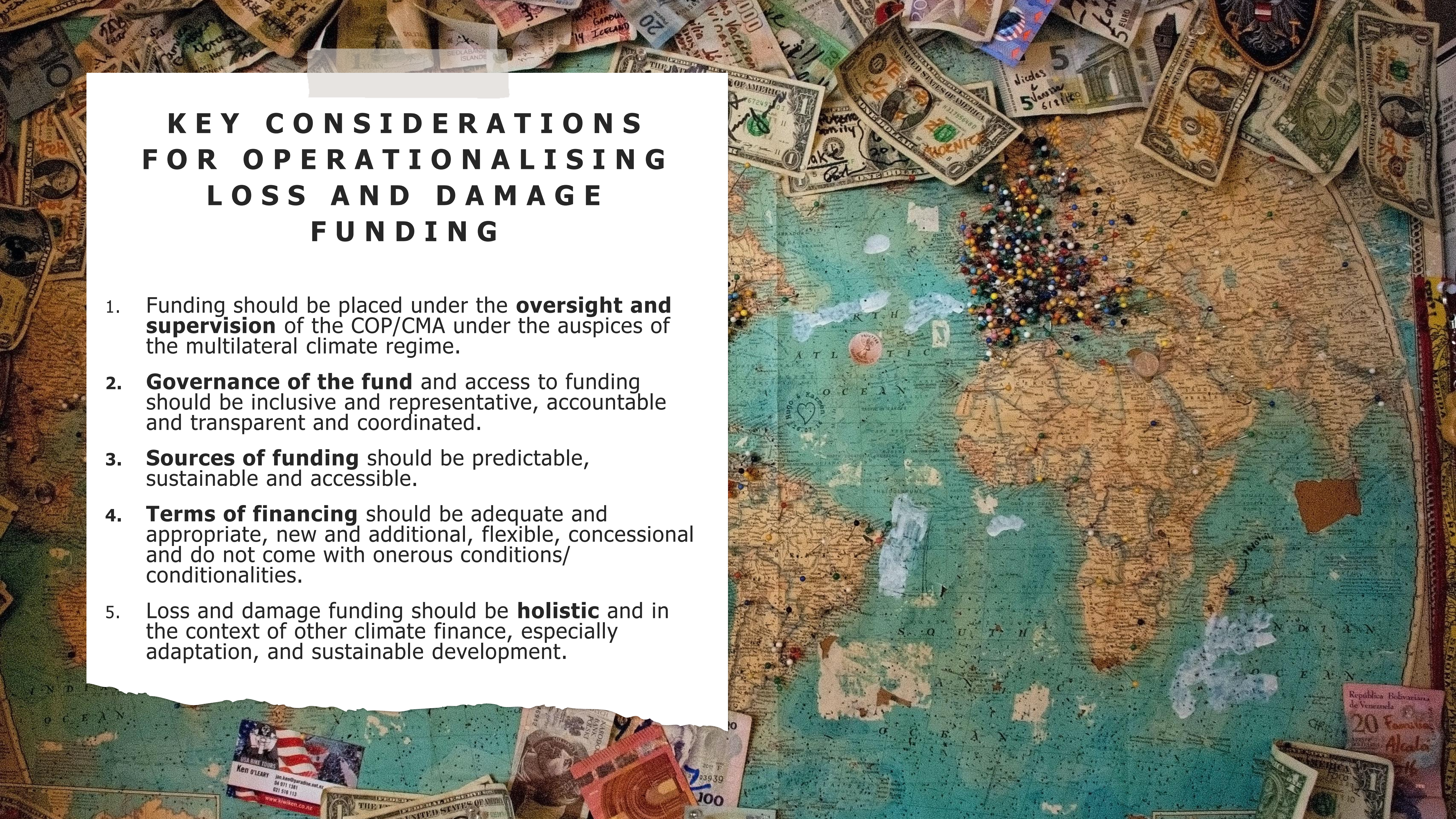
COP 27/ CMA 4 Decision: Funding Arrangements for Loss and Damage, associated with the adverse effects of climate change, including a focus on addressing loss and damage

1. Decide to establish new funding arrangements for assisting developing countries that are particularly vulnerable to the adverse effects of climate change, in responding to loss and damage, including with a focus on addressing loss and damage by providing and assisting in mobilizing new and additional resources, and that these new arrangements complement and include sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement.

2. Also decide, in the context of establishing the new funding arrangements referred to in paragraph 2 above, to establish a fund for responding to loss and damage whose mandate includes a focus on addressing loss and damage.

PRINCIPLES OF LOSS AND DAMAGE FUNDING

- Loss and damage funding must be embedded within the obligations countries agreed to under the multilateral climate regime, the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement.
- Obligations of parties to undertake mitigation measures and to adapt to climate change as well as to compensate for climate pollution.
- All countries have obligations but developed countries have greater obligations to mitigate & provide finance & technology transfer to developing countries.
- Based on principles of **equity**, and **common but differentiated responsibilities and respective capabilities (CBDR-RC)**.
- Developed countries should meet 'agreed full incremental costs of mitigation and adaptation' (Article 4.3 & 4.4 UNFCCC) & financial resources have to be 'new and additional' (Article 4.3 UNFCCC).
- The Paris Agreement also emphasises 'the significant role of public funds', 'support for country-owned strategies' & the transparency and predictability of financial support.



KEY CONSIDERATIONS FOR OPERATIONALISING LOSS AND DAMAGE FUNDING

1. Funding should be placed under the **oversight and supervision** of the COP/CMA under the auspices of the multilateral climate regime.
2. **Governance of the fund** and access to funding should be inclusive and representative, accountable and transparent and coordinated.
3. **Sources of funding** should be predictable, sustainable and accessible.
4. **Terms of financing** should be adequate and appropriate, new and additional, flexible, concessional and do not come with onerous conditions/ conditionalities.
5. Loss and damage funding should be **holistic** and in the context of other climate finance, especially adaptation, and sustainable development.

1. OVERSIGHT AND SUPERVISION

There should be a fund under the COP/CMA supervision to provide a coordinating mechanism for loss and damage finance for several reasons:

a) **Coherence and Coordination**: A mosaic landscape of funds without steering and coordination leads to a fragmented regime which has two key problems for dealing with loss and damage events: **difficulty in deploying for emergency** (rapid onset events) and **lack of funding for preparedness** for slow onset events. The experience with the COVID-19 pandemic and fragmented funding demonstrates these concerns acutely. Similar issues arise in relation to financial crises, especially in developing countries.

b) **Accountability**: There needs to be a mechanism for ensuring that the funding is accountable and meets the principles of loss and damage funding established under the multilateral regime, including additionality, predictable and sustainability. Prevents double-counting of ODA for e.g.

c) **Compliance and Expertise**: Placing the fund/ funds under supervision of COP enables monitoring of compliance with principles and legal commitments under the UNFCCC/Paris Agreement. Ensures coherence with other processes, including Nationally Determined Contributions (NDCs) and New Collective Quantified Goal (NCQG). There is expertise within the regime on loss and damage impacts.

d) **Representative**: The governance structures in the multilateral climate regime is much more inclusive and representative of developing countries than international financial institutions and global financial architecture.

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2. GOVERNANCE

- Governance of loss and damage fund and oversight of the funding arrangements should reflect the multilateral character of the climate change regime.

- Developing countries have less voice and representation in the global financial system compared to the multilateral climate regime, due to systemic asymmetries. Developing countries remain, for the most part, rule-takers rather than rule-makers in the international financial architecture.

- Climate finance flowing through multilateral development banks (MDBs), international financial institutions (IFIs) and other organisations outside the climate regime are subjected to other organisational and political interests and conditionalities.

- Without a coordinating mechanism and mobilising, disbursing and delivering loss and damage funding through a mosaic landscape of funds will lead to loss of representation from developing countries and communities most affected by climate change from the process.

- A fragmented landscape of funding is less participatory and equitable.

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- Sources of funding should be predictable, sustainable and accessible.
- Public sources of funding critical and this should be new and additional to existing ODA for sustainable development, humanitarian and disaster relief. Ensure that there is no 'double counting' for climate finance.
- Financing agenda oriented towards mobilising private finance/ market mechanisms risks prioritising interests of private commercial investors and creditors over public interest.
- Caution over private and 'innovative' sources of finance, such as insurance, catastrophe bonds, and humanitarian impact bonds as these can be costly, come with onerous terms and removes policy autonomy from countries and communities.

3. SOURCES OF FUNDING

Photo by Pakistan Disaster Relief

- Loss and damage funding should be should be adequate and appropriate, new and additional, flexible, concessional and do not come with onerous conditions/ conditionalities.
- This is why the governance arrangements for funding is important as mobilising funding through other institutions, such as MDBs, IFIs and bilateral donors may undermine national priorities.
- Current arrangements for budgetary support for climate-related events – such as under the International Monetary Fund (IMF)'s Resilience and Sustainability Trust (RST) and Catastrophe and Containment Fund (CCRT) – come with problematic fiscal and monetary conditionalities.
- Climate finance delivered through other multilateral and bilateral channels may also result in 'green conditionality', resulting in mitigation commitments 'through the back door'.
- Loss and damage funds that are not concessional, loans not grants and raised from private debt sources will increase debt risks for countries.

4. TERMS OF FINANCING

5. HOLISTIC APPROACH NEEDED

- Loss and damage funding should be contextualised within the broader climate finance regime – **mitigation** and **adaptation** finance crucial to avert loss and damage from climate inaction.

- Policy and regulatory fragmentation is likely to impede coordinated action on climate action and financing outside the UNFCCC may undermine commitments and negotiations in the multilateral climate regime.

- It is important for climate finance to be part of a **broader package of reforms** to the current system of global economic governance and international economic law.

- Legal and regulatory reforms linked to financing instruments may result in loss of policy & regulatory autonomy.

- Diversification of creditor base – increase in foreign creditors – must be considered in the context of gaps in the existing sovereign debt architecture.

- Undermines capacity of countries to deal with climate impacts.

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CLIMATE FINANCE & THE INTERNATIONAL FINANCIAL ARCHITECTURE

The global financial system will be central to the mobilisation and delivery of climate finance but realigning it to meet international climate targets will be challenging due to inherent structural deficits of the international financial architecture.

1. No multilateral framework for regulating global financial flows. Policy and regulatory fragmentation is likely to impede coordinated action on climate action & financing outside the UNFCCC may undermine commitments & negotiations in the multilateral climate regime.

2. Developing countries have less voice and representation in the international financial architecture than the climate regime. Climate finance agenda and associated regulatory frameworks will be set by developed countries and private actors in major financial centres.

3. Lack of adequate public regulation and oversight of cross-border financial flows means that private finance remains a volatile and less sustainable source of finance for global climate action.

4. Global financial system poorly aligned with sustainable development & climate action principles.

- It is important for climate finance to be part of a broader package of reforms to the current system of global economic governance and international economic law.

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https://go.warwick.ac.uk/nefdef/climatefinance

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