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LOSS AND DAMAGE FINANCIAL OPTIONS

A PERSPECTIVE FOR AFRICAN COUNTRIES

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POTENTIAL LOSS AND DAMAGE FINANCIAL OPTIONS

INTRODUCTION

While negotiations on loss and damage give the impression of progress at almost every COP, the overall picture since Paris has been one of stagnation. Considerable momentum was gained in Glasgow in 2021, however, when Parties agreed to a dialogue on a proposed Loss and Damage Finance Facility (LDFF). COP27 will prove a determinative moment on whether the LDFF proposal will gain any traction and, if one is agreed to, what form it will take.

The purpose of this note and accompanying table, is to set out the key potential instruments or mechanisms that could be used to finance loss and damage. It does so by providing a high-level overview of the instrument, together with a summary of its advantages and disadvantages in Table 1. It also contains an outline of potential innovative sources of funding which could be considered as an option to augment developed country climate finance in Table 2. This note is intended to be read with the report entitled "Loss and Damage: the Road to COP27" also by Climate Legal dated September 2022 (Road to COP27 Report) which provides broader context to the discussions around the LDFF, the positions various countries have adopted and considerations around loss and damage finance that are germane to African countries.

FINANCIAL INSTRUMENTS/MECHANISMS FOR LOSS AND DAMAGE FINANCE

Table 1 of this note represents a synthesis of the available information gleaned from literature, interviews and comments made by participants at the Glasgow Dialogue in Bonn 2022. It addresses:

- Insurance
- InsuResilience
- the G7 Global Shield
- an LDFF housed under either the:
    - UNFCCC Financial Mechanism
    - the WIM
    - the GCF
    - the Adaptation Fund, or
    - the LDCF
- the V20 Pilot Fund
- a proposed newly created and independent Solidarity Fund.

Our intention is to illustrate that while there is no one size fits all option, some of the options do have more compelling features from a developing country perspective. Some instruments, particularly a dedicated, LDFF are more suited to addressing the full suite of needs and guiding principles advanced by developing (including African) countries, as discussed in the Road to COP27 Report. There are also inherent disadvantages within others, that make them less desirable, absent radical reform of these features. In some instances these challenges are

insuperable, for example the inability of insurance to cover slow onset events.[1]

If indeed existing mechanisms are used, much will turn on the political will of parties to reimagine, agree to and implement the necessary reforms required to render them capable of meeting at least some of the principles discussed in this note. This may be challenging, where the lived experiences of instruments, particularly the GCF and insurance, have only contributed to the existing trust deficit between parties. These include challenges with the cost of accessing insurance (even where subsidised), inadequate insurance coverage and payouts in practice, or widespread challenges accessing climate finance, especially adaptation finance, from the GCF.

Further, the purpose of this note is not to champion one option exclusive to any other, but rather to illustrate that some are better suited and therefore worthy of focused political attention, support and the primary channelling of finance, compared to others. Given that some of the existing instruments have a long operational legacy and can be effective in limited instances, most notably some of the regional insurance pools, it may well be that a blend of instruments is ultimately used. However, insurance schemes and some of the permutations proposed for them, do not solve the full spectrum of loss and damage finance needs. Thus, in our view, whilst instruments like insurance may still play a role in future, a more comprehensive approach is warranted.

In our view, before deciding on a mechanism, as a first step it would be important to first agree on the principles that any mechanism should serve, and thereafter assess the extent to which it can cater for these principles. These principles are outlined in the Road to COP27 Report and illustrated in the graphic below. We acknowledge that there is a degree of overlap in the principles between the basis on which finance is provided and the nature of the mechanism used, however in our view the two are intertwined as the one often tends to inform the other. In the graphic below we have distinguished between these principles, as ones that primarily relate to the nature and terms upon which finance is provided (including in the form of insurance premium support/subsidization, grant or other form of private or public finance) and associated mechanisms. These principles include the following:

Terms of finance	Mechanism for distribution	
Equity Finance should be provided on the basis of principles of solidarity, Common Differentiated Responsibility and Respective Capabilities (CBDR-RC), and the polluter pays principle	**Adequate and needs based** The volume of finance should sufficient to respond to actual needs on the ground, with a mechanism that is able to account for what such needs are	**Balanced and comprehensive** mechanism should cover claims for non-economic losses and damages, migration, and slow onset events
New and Additional Finance should go beyond existing ODA and mitigation and adaptation finance	**Public finance/no debt burden** Primarily grant finance and the mechanism should not entail any cost/ increase debt	**National ownership** over the distribution of finance, that is people and gender responsive, enables subsidiarity, and support for its national level distribution
Predictable Finance should come from reliable sources that supports long term planning	**Accessible** Procedures to access should be simple and should allow for immediate access in some cases	**Accountable and transparent** modalities should ensure finance is correctly classified, monitored and transparently accounted for.

[1] See Stacy-ann Robinson, Mizan Khan, J Timmons Roberts, Romain Weikmans, David Ciplet, "Financing loss and damage from slow onset events in developing countries" (2021) 50 *Current Opinion in Environmental Sustainability* 138.

Based on our analysis, it appears as if a dedicated LDFF would be the mechanism that best serves the principles relating to distribution, however its effectiveness depends on the adequacy of its mandate, and any existing rules and operational philosophy that governs the entity it might be established under. This requires careful consideration of the relevant merits of establishing it under the Financial Mechanism of the UNFCCC, the GCF, the Adaptation Fund, the LDCF or completely outside of the UNFCCC process.

We acknowledge that, given that this is a rapidly evolving space, there may be instruments currently being designed or piloted, alternatively that there are permutations and adjustments to the existing instruments currently underway that are not addressed in this outline. This annex has been drafted based on the best available public information, and we recommend it be interpreted and applied in that context.

Lastly, we also acknowledge that much of the commentary is in relation to mechanisms which are theoretical at this stage and, in some cases have no track record of implementation. This may create a perception of bias as the poor track record of some existing instruments unfairly weights them against those that do not yet exist. We accept this however for the purposes of comparison we believe it nonetheless useful to account for historic challenges within existing instruments as this remains fundamentally relevant to levels of political trust and future feasibility. Undoubtedly any new instrument which at this stage is also theoretical will also have its challenges during the course of implementation, some of which we are unable to predict at this point in time. The ensuing comparison should be read with that caveat in mind. Equally, we have pointed out a number of benefits with an LDFF the realisation for which are entirely dependant on some of the detailed aspects of its modalities and its given mandate. The purpose of this note is not to explore what these modalities should be, as this warrants more detailed consideration, but rather to observe the opportunity for such modalities to be introduced in the first place.

INNOVATIVE SOURCES OF FINANCE

In Table 2, in addition to the existing sources of public finance, we discuss various more “innovative” sources of finance that have been proposed primarily by the academic community, civil society and some climate vulnerable countries. These sources of finance can be used to either supplement public climate finance, alternatively they can be used indirectly to create the necessary fiscal space for governments to apply existing budgets to loss and damage. Whilst these are unusual, many of them have been proposed for several years, such as a climate damages tax and air passenger levies. Others are more recent, such as fossil fuel subsidy reform, but have not gained sufficient momentum in the negotiations. The lack of traction they have received primarily is a result of a lack of political support for these approaches, largely owing to the fact that many of them are politically sensitive and require domestic legislative action to implement (ie they are not self-executing at an international level). The issue of debt relief is however a more recent discussion, but, like the other innovative sources suggested, it is a discussion had within the wider climate finance community and also across other platforms including within the IMF.

Table 1: Financial Options for Responding to Loss and Damage			
Option	Description	Advantages	Disadvantages
Insurance	Insurance is often promoted as a primary instrument to finance loss and damage. Indemnity insurance evaluates the loss and damage after an extreme event, once a claim has been handed in, and makes pay-outs based on this assessment. Index-based insurance is more popular for loss and damage, and works on the basis of pre-determined parametric triggers for natural disasters, such as rainfall amount or wind speed. Once triggered, a pay-out is made. There are many different types of insurance, domestic, national and regional. For brevity, we address them cumulatively in	Insurance can be highly impactful in some scenarios, including sudden onset disasters which require immediate access to finance. In this context, the GCF identified climate insurance and reinsurance as an area where its targeted investment would have the most impact.[2] Existing schemes already fund a wide range of loss and damage risks and additional finance can build on the traction gained and lessons learnt in these fields. Insurance does not require the assignment of responsibility for incurred loss and damage.	Insurance is widely criticised as unsuitable for addressing slow-onset climate change impacts or non-economic losses and damages. It is also ill suited to small scale "wear and tear" events but which are ultimately as a result of climate change. Whilst most schemes currently don't cover non-economic loss and damage however it has been suggested that they can be tailored to using index based schemes. It has also been suggested that insurance is unlikely to work in areas facing escalating and frequent extreme climate change impacts, as scale may outpace resources.[3] There are material equity considerations with insurance schemes. Even if subsidised, any scheme which requires a membership fee is contrary to the principle of common but differentiated responsibilities. Premiums are unaffordable to vulnerable communities, and poorer populations generally have little access to formal insurance schemes.[4] The lived

[2] Laura Schäfer, et al " Potential for loss and damage finance in the existing UN-FCCC financial architecture" Germanwatch (2021)
[3] SEI paper.
[4] Adelman, S. (2016). Climate justice, loss and damage and compensation for small island developing states. *Journal of Human Rights and the Environment*, 7(1). 32–53. https://doi.org/10.4337/jhre.2016.01.02

	this section however the criticisms and advantages are not necessarily always uniform across the different types of insurance. Regional typically uses index-based weather/ 'parametric' insurance. An example is the African Risk Capacity (ARC), where prospective member countries must provide a spending and allocation plan in the case of a pay-out before entering the pool. Under the ARC, members are scheduled to receive a pay-out within three to four weeks of the end of the rainfall season. The Caribbean Catastrophe Risk Insurance Facility (CCRIF) and the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) are also examples of regional funds. All of them receive finance from developed countries, MDBs and are also financed by membership fees.		experience of some regional risk pool schemes has been poor. For instance with ARC, there were significant challenges in both getting claims paid and also the amount that was paid and losses that were covered. Developing countries are accordingly sceptical on the ability to improve on them. Potentially some regional risk pool schemes could be redesigned to overcome current challenges, for example solidarity pay-outs even if pre-set thresholds are not met, however criteria vary across schemes and it would be difficult to ensure that all regional schemes have equal levels of accessibility and coverage. Insurance schemes are typically quite complex financial mechanisms and considerable preparatory work is required to ensure both parties understand what risks are and are not covered, how the modelling works and what data is being included in the models. This entails both capacity and time investments to avoid information asymmetries, and make effective wide scale roll-out and implementation challenging. Underdeveloped local insurance markets are also a barrier. Insurance companies are often deterred by restrictive legislation making in-country insurance roll-out challenging. In respect of domestic insurance, it has been

			argued that the concept of insurance is either unknown or poorly understood in many developing countries. Implementation can therefore be complex as it must be tailor-made to the cultural environment in which it operates.
InsuResilience	Although not significantly different from the insurance discussed above, it is useful to also address InsuResilience which has specifically been designed to address some of the challenges encountered with traditional insurance and it is useful to compare when weighing alternatives. The InsuResilience Global Partnership (IGP) was launched in 2017 as a V20-G20 initiative, and provides disaster risk finance and insurance. It has 118 members. It aims to respond to the G7 goal of increased access to direct or indirect insurance for climate change impacts for up to 400 million people in vulnerable developing countries. At presence IGP aims to cover up to 500 million people. It provides support to the ARC, CCRIF, and PCRAFI, and also seeks to develop new	Specifically aims to remedy the insurance gap covering in highly developing countries. Apparently 150 million poor and vulnerable people benefited from CDRFI supported by IGP in 2021 alone. Premium and capital support offered through this programme reduces the cost of insurance for developing countries. Goes beyond traditional insurance by actively seeking to "realise wider public goods and sustainable development benefits" including through disaster risk reduction. The need for donor financed insurance is increasingly accepted by the development finance community. This subsidized insurance is linked to risk reduction.	Notwithstanding donor premium and capital support for premiums, members still bear some degree of financial liability, this is likely to flag equity and affordability concerns within developing countries. Many of the above comments in relation to insurance still apply. Insurance is not well suited to covering relatively small onset events or slow onset events, and has limitations in relation to covering migration and non-economic loss and damage. The focus on ex ante support for disaster risk reduction (which is a material component of the IGP support package), whilst useful in reducing costs in post disaster management is likely to be perceived as "adaptation finance" by developing countries, and it may well be given current definitions of loss and damage. This aspect of support thus does not satisfy the demand for finance for L&D. There is a concern that developing countries don't have adequate representation at the program alliance level.

	disaster risk finance and insurance solutions. It also provides support to country disaster risk management. This includes capacity building; research, data, modelling and innovation; technical assistance; and solutions design and implementation. The IGP has established the InsuResilience Solutions Fund which was established by the KfW Development Bank. It supports the development of innovative climate risk insurance products and insurance markets.		There is still a need for contingency finance, other financial instruments, and social protection schemes, and support for migration and non-economic loss and damage even with InsuResilience to meet the full suite of needs.
G7 Global Shield	Little is known about the final design of the G7's proposed Global Shield.[5] It was proposed by Germany and aims to strengthen the climate and disaster risk financing and insurance (CDRFI) architecture, by building on the InsuResilience Global Partnership. The intention is for the CDRFI architecture to become more "systematic,	The Shield appears to be an attempt to reduce fragmentation within global insurance schemes, and to overcome some of the premium support challenges encountered in the IGP. Effectively it appears to be a bigger and better version of the IGP. Leverages from an existing mechanism, including administrative infrastructure, and reduces fragmentation. Like insurance more broadly, it has the benefit of rapidly available finance that can be	For the same reasons as the IGP, developing countries are likely to have concerns over the equity of them having to pay any form of premium for loss and damage, even if it was partially financed. Like IGP, the Shield still aims to promote more funding for ex ante disaster planning and avoidance instead of ex-post. Whilst this reduces the overall cost of disaster risk response, developing countries are likely to perceive this component as adaptation finance/insurance, not finance for loss and

[5] See the Briefing Note of the Global Shield by BMZ (2022)

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	coherent and sustained", by strengthening existing frameworks and mechanisms, with the IGP playing a strong coordinating mechanism. It entails redesigning and extending the InsuResilience Program Alliance to play a central coordination role with an inclusive governance structure, and working with in-country coordinators to develop gap analyses and responses. It is intended to "go beyond insurance" by connecting different instruments from early-warning, risk-informed, shock-responsive and adaptive social protection up to anticipatory humanitarian action. Each country will be designed a financial protection strategy, that closes gaps in existing financial protection solutions. Missing elements will be prepared and financed via Global Shield. It will be funded by a diverse set of contributors, including regional risk pools and humanitarian stakeholders The Ministers have called on the InsuResilience Solutions	deployed. Tailor made country strategies have a better likelihood of being needs based. Like IGP and insurance more broadly, it does not fall within the existing UNFCCC architecture and does not invoke issues of liability or responsibility from developed country parties, and may be more politically palatable to developed countries.	damage that already is occurring and being sustained. It is unclear what costs will be associated with the financial protection strategy for each country. The Global Shield Briefing Note, uses micro loans tied to insurance as an example of a protection measure in Pakistan. It also makes mention of social protection systems, disaster reserves in public budgets, loans from MDBs for emergencies and government bonds, together with climate risk insurance as a means of providing financial protection. It is not known to what extent these instruments will be relied on in any protection strategy, but presuing their use, the risk of increasing public debt will be unpalatable to developing countries. Unclear to what extent finance developing countries will have enough say in how solutions are tailored and how finance is spent and thus the extent that it will be needs based is unclear. The IGP and Global Shield still require significant administrative and governance bureaucracy to administer, like other options presented in this note.

	Fund and the WB Global Risk Financing Facility to contribute to it and the current proposal envisages a scaled up and reformed version of these facilities. The intention is for these funds to pool resources to support a "pipeline of projects across a broader range of potential implementing partners and facilitate integrated risk financing packages for specific countries." It also entails scaling up premium and capital support to member countries, based on the SMART principles.[6]		
A Loss and Damage Finance Facility under the Financial Mechanism	This new facility would entail the creation of a new operating entity under the UNFCCC's Financial Mechanism. The most detailed proposal for such a fund has been put forward by the Climate Action Network (CAN).[7] The fund would operate alongside and be	A dedicated facility can be designed to avoid the payment of premiums or related cost implications. A separate facility can be designed in a way to overcome the challenges encountered with GCF and other climate funds under the UNFCCC. For example it could include the	Requires new administrative architecture with associated cost for ongoing administration of the fund, and associated increase in reporting and bureaucracy within the Finance Mechanism of the UNFCCC Further fragments the already relatively fragmented climate finance architecture.

[6] See https://climate-insurance.org/wp-content/uploads/2020/04/SMART-principles-for-premium-support-_26July-Pre-Publication_final.pdf
[7] See Climate Action Network The Loss and Damage Finance Facility: Why and How, Discussion Paper (2022).

	complementary to the GCF, the GEF and the Adaptation Fund. CAN suggests that the Loss and Damage Finance Facility would be accountable to the COP and the CMA, as well as the WIM, but be specifically created under the Financial Mechanism. It would however also operate as a financial arm of the WIM. It would be the primary vehicle to coordinate, mobilise and channel new L&D finance from a variety of sources. It is anticipated that developed countries would be the primary finance providers. It would also serve to enhance the effective implementation of the WIM. It would also be responsible for tracking, accounting for and providing oversight over funding for addressing L&D, addressing funding gaps based on country needs assessments, catalysing and coordinating the financial support for L&D finance within the WIM Excom and other existing funds under the Financial Mechanism; establishing and managing a fund to fill the funding gaps for	development of more streamlined access modalities. A dedicated fund can in theory ensure a wider scope in coverage (including non-economic losses, and slow onset events) as compared to the coverage of insurance and can potentially be more flexible. A dedicated governance architecture (as opposed to using existing funds under the UNFCCC) can better ensure that the relatively extensive mandate proposed for it can be met, without such a mandate being subsumed by other existing mandates, and also appropriately funded. Having a dedicated facility together with a target for L&D finance may better promote the channelling of such finance for exclusive L&D purposes. Subject to the development of appropriate methods for tracking finance, it avoids the comingling of adaptation finance with finance for loss and damage It can be structured in such a way to operationalise the disbursement of finance in a manner that overcomes the procedural barriers encountered within the GCF, including rapid access, and simplified and direct access modalities. Similarly it can be	Concern by developed country parties that it would overlap with existing funds, including GCF (see comments on the merits of using the GCF). It is at risk of overlapping the financial arrangements for the Santiago Network (although the LDFF is far broader), and the two would need to be designed together to ensure synergy. It would still have to address complex and difficult to answer questions of how to finance non-economic loss and damage, the level to which country level governments have a role in disbursement, how "needs based" finance is to be addressed, and payout triggers. These are not insurmountable but also highlight the need for extensive and capacity intensive work to be done on both establishing an independent fund and ensuring its effective operationalization.

	activities addressing L&D, focusing on scale and on areas not covered by other existing institutions inside and outside of the UNFCCC framework; mobilising financial resources, facilitating the use of new financial instruments and financing approaches, as well as monitoring and evaluation for effectiveness (this mandate is proposed by CAN is merely provided as illustrative of its potential role) The eligibility requirements, proposed governance, secretariat, form of finance, access modalities and allocation are discussed in more detail in the CAN Report.	more responsive to local needs and overcome some of the existing criticisms to the GCF. Close ties with UNFCCC architecture and other relevant processes (e.g. global stocktake)	
A Loss and Damage Finance Facility under the WIM	The standalone financial mechanism (as described above) can also sit under the WIM only, as suggested by the Stockholm Environmental Institute (SEI).[8]	Better alignment with the WIM's existing knowledge-gathering and coordination activities Close ties with UNFCCC architecture and other relevant processes (e.g. global stocktake)	It has been challenging to date to even get basic finance for the administrative operationalisation of the WIM The WIM already has very low capacity and very few resources, together with its slow-

[8] Zoe Shawoo et al "Designing a fair and feasible loss and damage finance mechanism" Stockholm Environmental Institute (2021)

		Aligned with and within WIM's existing mandate, with potential to build on ExCom and Santiago Network [9]	moving nature may make it ill-suited to addressing urgent issues . Contribution to already highly fragmented climate finance architecture and increased administrative burden on recipient countries
A Loss and Damage Finance Window under the GCF	The option of having a LDFF within the GCF has been discussed during negotiations. The GCF offers grants, loans, guarantees, equity and results-based payments. This range of instruments provides the opportunity for the GCF to potentially provide finance under a new window for actions that may address loss or damage. This option was explored in a technical review by the WIM in 2019. [10]	Reduced fragmentation of the already relatively fragmented global climate finance architecture As the largest, multilateral climate fund, it already has a mandate from COP25 in Madrid to finance L&D, and it is able to do so to the extent that this is remains in compliance with its broader mandate. The GCF can co-ordinate finance with existing mitigation and adaptation finance it provides, to help avoid duplication. It would be able to leverage from the administrative architecture already present in the GCF, however this would need to be supplemented to some degree to support the new window.	As the SEI points out there is a lack of political will for opening any new windows in the GCF, with significant delays even if consensus were reached. Negotiations during the COP may sway this though. The current financing mechanisms and modalities of the UNFCCC funds (including GCF) are not suitable for funding all L&D activities, especially measures to address L&D immediately after an extreme weather event, as well as slow onset processes (at an early stage) which need rapid and large scale finance. GCF funding is primarily distributed via multiyear project finance, with a long application and pre-project approval process. This makes them ill-suited to finance the rebuilding of infrastructure and livelihoods, support for displaced persons, and all measures to address non-economic loss and damage.

[9] All of these advantages are identified by Shawoo et al (above note 11)
[10] UNFCCC "Elaboration of the sources of and modalities for accessing financial support for addressing loss and damage" (2019) UNFCCC Document: FCCC/TP/2019/1

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		Nothing within the GCF architecture expressly prohibits it from funding non-economic loss and damage. It could also rely on its investment criteria that include "sustainable development potential" and needs of the recipient, as a basis for financing Non Economic Loss and Damage. The funding scope potentially could include funding for resettlement, and support for displaced persons is theoretically possible. The GCF already funds 15 projects with loss and damage components or output, with a focus on climate risk insurance, restoration of ecosystems, and building up alternative livelihoods. When compared to the existing AF and LDCF, the GCF is more accustomed to dealing with and potentially has infrastructure in place to manage larger volumes of finance (assuming it is provided on a needs based scale). The GCF has a range of financial instruments	The "climate rationale" can complicate access to finance for L&D as many developing countries lack the necessary data to prove that an event resulted from climate change instead of climate variability.[11] Prominent definitions of L&D within GCF see it as part of adaptation, which is an obstacle to ensuring additionality [12] The GCF itself made a statement at the 2022 Glasgow Dialogue that it does not believe it has the mandate to finance loss and damage. There are different views on whether the GCF (and AF and LDCF) mandates are broad enough to include L&D within them. Some argue they are sufficiently broad,[13] whilst others caution that a L&D mandate should expressly be incorporated into the Objectives and Principles of the GCF, which is currently lacking.[14] Academics have also pointed out that there was a lack of clarity whether GCF had a broad enough mandate given that Article 8 of the Paris Agreement does not explicitly link the GCF to the provision of

[11] Schafer et al (above note 19)
[12] Shawoo et al (above note 11).
[13] Schafer et al (above note 19)
[14] CAN Report (above note 10).

		at its disposal and so can in turn provide different forms of finance to address the multi-faceted nature of actions addressing loss or damage . It can go beyond grants and support the development of risk transfer mechanisms not available under the other UNFCCC funds	enhanced action and support for L&D.[15] The challenge being is that the GCF appears to require a more express mandate to deal with L&D. Whilst a mandate is not insuperable to provide, it is a concern that its operational philosophy appears to be one where it has adopted a view of a narrow instead of a broad mandate to date. Significant reform of the GCF financial architecture would be required to accommodate finance for L&D (currently project proposal criteria require outputs to measurable and monitorable and verifiable), and the fund's general objective of increasing adaptive capacity.[16] The GCF has also been criticised for not responding to local needs. This would entail new staff and/or training, methodologies and procedures, which in turn undermines some of the efficiency gains in housing it within the GCF. There are no actual GCF projects in place that demonstrate an ability to support displaced

[15] Margaretha Wewerinke-Singh & Diana Hinge Salili (2020) Between negotiations and litigation: Vanuatu's perspective on loss and damage from climate change, Climate Policy, 20:6, 681-692, DOI: 10.1080/14693062.2019.1623166 and Linda Siegele, 'Progress on Loss and Damage in Katowice' (Climate Analytics, 17 December 2018) <https://climateanalytics.org/blog/2018/progress-on-loss-and-damage-in-katowice/>.
[16] See Schafer et al "Potential for Loss and Damage in the Existing UNFCCC Financial Architecture" Germanwatch (2021)

			persons, i.e. there is no experience upon which to draw from (this is true for all LDFF options). Comments from the LDC group are that in their experience GCF funding for loss and damage is about "minimising" and not addressing loss and damage. There is a concern that this operational philosophy may taint the provision of L&D finance, with L&D finance being biased towards ex ante instead of ex post measures.
Adaptation Fund	Finance for L&D could also be provided through the Adaptation Fund (AF). The AF has an explicit mandate to finance adaptation interventions, and has covered significant ground in addressing the residual impacts of climate change. This suggestion was already explored by the WIM during a technical review in 2019.[17]	Research suggests that, amongst UNFCCC financial mechanisms, and measured against the theoretic funding scope and the current project portfolio, the greatest potential for funding the analysed loss and damage measures is with the AF. The AF in particular holds potential to finance projects that address non-economic loss and damage, for example, its Innovation Facility includes social identify and cultural heritage protection. The funding scope potentially could include funding for resettlement, and support for displaced persons.	The ASF has the same challenges as the GCF regarding challenges with its modalities and financing process, and slow onset events which require finance at an early stage or rapid onset events which require immediate finance. At the Glasgow Dialogue they stated that they do not believe they have the mandate to respond to loss and damage. Does not operate at the larger scale as the GCF. There are no actual projects in place that demonstrate an ability to support displaced persons. The LDC Group at the Glasgow Dialogue pointed out that the Adaptation Fund, is inappropriate- the name itself suggests it is

[17] UNFCCC "Elaboration of the sources of and modalities for accessing financial support for addressing loss and damage" (2019) UNFCCC Document: FCCC/TP/2019/1

			geared towards adaptation and won't prioritise loss and damage. This suggests that some developing countries will not support this approach.
LDCF	This fund supports LDCs in their efforts to adapt to the effects of climate change. It is designed to meet their needs and priority areas are taken from the country's NAPAs and NAPs. It is a grants based only fund.	Although it is grants only, it has the potential to finance climate risk insurance (with potential to provide smart premium support), restoration of ecosystems, and support for relocation and displaced persons.[18]	Same challenge as the GCF regarding slow and rapid onset event finance and challenging modalities and procedures for finance. Similarly does not finance non economic loss and damage. The Fund is known for being difficult to access. There are no actual projects in place that demonstrate an ability to support displaced persons. It is a grants based only fund and so may be unsuitable in providing a suite of financial instrument options as may be required. The LDCF currently has capitalisation challenges
Solidarity Fund external to the UNFCCC.	A suggestion that entails the creation of a solidarity fund for L&D entirely outside of the UNFCCC (e.g. outside of the Financial Mechanism, GCF, and WIM).[19]	Little is known about its design but in theory, the benefits of housing it outside of the UNFCCC include: Possible sidestepping of bureaucracy of negotiations and avoid delays Potential for greater autonomy to individual countries to develop their own approaches	Countries are not held accountable to commitments under UNFCCC, nor can it benefit from the principles and transparency mechanisms in the UNFCCC and Paris Agreement The structure is dependent on goodwill of developed countries to take action, as opposed to it being further to a commitment

[18] Shawoo et al (above note 11).
[19] Ibid.

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		Avoids the need for consensus or related UNFCCC driven procedures	to provide finance made under Article 9 of the Paris Agreement
V20 Pilot Facility	We have included this description as a placeholder until such time as more information is available. For now it is not possible to compare the V20 facility against other mechanisms however it it useful to know of its existence. Although the V20 is part of the InsuResilience Partnership, it is still calling for a dedicated LDFF. Following the launch of the Climate Vulnerable Forum (CVF) and V20 Joint Multi-Donor Fund, in April 2022, Finance Ministers for the V20 agreed to establish a pilot finance facility for L&D. It will be financed from resources the joint fund, with contributions from Children's Investment Fund Foundation and the Open Society Foundation. The detailed design of facility is still under development and will be presented at COP27. This facility is in addition to the V20's Sustainable Insurance Facility, which aims to support	The facility is still in the design phase and further information will be known towards the latter half of 2022.	The facility is still in the design phase and further information will be known towards the latter half of 2022.

	the development and availability of climate-smart insurance solutions for micro-, small- and medium-sized enterprises (MSMEs) in 55 vulnerable economies.[20]		

Table 2: Alternative sources of finance			
Source	Description	Advantages	Disadvantages
The issue of debt relief is however a more recent discussion, and is worth exploring with the IMF and other global partners. The IMF has recently created a new Resilience and Sustainability Trust, however this is intended to finance climate change mitigation and adaptation only, there is no discussion of it also addressing loss and damage. Further consideration could be given as to how this Trust could be expanded to include L&D. Given the infancy of this trust, challenges in securing its $50 billion initial allocation, its current focus on mitigation, and concerns around its governance[21] it may not be the ideal vehicle for disbursement of funds on an urgent basis but it could certainly help as part of that effort.			
Debt Restructuring / Debt for Climate Swaps: A number of developing countries, including the V20, have called for debt restructuring to alleviate their debt distress. The V20 for example has argued for "Debt restructuring including debt-for-climate swaps must be accompanied with credit enhancement as a climate resilience tool safeguarding creditors' assets and vulnerable economies while unlocking new climate resources and ambition."[22] The call for this came in the context of the IMF's proposed debt for climate swap not materialising. At COP26, 243 CSOs also called for debt cancellation in recognition of the larger "climate debt" owed by the Global North. An interesting permutation of this option would be to reallocate Special Drawing Rights within the IMF for this purpose (which would require			

[20] https://v20sif.org
[21] See https://www.brettonwoodsproject.org/2022/04/new-imf-resilience-and-sustainability-trust-rst-how-to-make-it-work-for-the-global-south/
[22] Proposal by the V20 on the Dhaka-Glasgow Declaration for Climate Resilient Debt Restructuring

Fossil Fuel Subsidy Reduction Subsidies: One option is to have a 4 per cent annual reduction in fossil fuel subsidies by G20 countries could raise US$245 billion to support efforts to address L&D between now and 2030.[23] Considerable research has gone into fossil fuel subside reform over the last few years however it requires considerable political will to implement.

Financial Transaction Tax: a tax on financial trades through levying a small charge on transactions of equities, bonds and derivatives offers the prospect of a sizable new income stream for L&D. [24] Adopting legislation that would make it mandatory for private actors from the fossil fuel industry to provide such compensation is likely to be highly politically unfeasible in many developed countries. When this was proposed at the Suva Expert Dialogue by developing countries in 2018 it was rejected by developed countries.

Climate Damages Tax: In the run-up to the expert dialogue, branded the 'Suva Expert Dialogue on Loss and Damage' by the Fijian COP23 Presidency, Vanuatu's Minister Regenvanu started advocating in public for a 'climate damages tax' (CDT) on fossil fuel companies. The proposed CDT would also see the royalties paid to states by fossil fuel companies channelled to a LDFF or used by national governments. This tax on polluters would see a charge for each tonne of coal, barrel of oil or cubic litre of gas extracted. It has the potential to raise US$210 billion increasing to US$300 billion a year as the tax rate increases to incentivise phaseout of fossil fuels. Whilst carbon pricing has many merits, not all governments allow revenues to be ringfenced and regulatory feasibility would need to be ensured in each country. It will also likely face the same challenges as a Financial Transaction Tax. That said, there are global examples of how such a tax has been operationalised at the international level in the form of a global pollution insurance scheme funded via local taxes. Under the International Convention on Civil Liability for Oil Pollution Damage of 1992 (the Civil Liability Convention) as well as the Fund Convention of 1992 (the Fund Convention), ship owners are made liable for pollution damages and a system compulsory liability insurance is created. The conventions also establish the International Oil Pollution Compensation Fund (IOPCF) which provides compensation for victims who do not obtain full compensation under the Civil Liability Convention. The IOPCF Rules require the payment of an "IOPCF levy" by all persons who receive by sea crude and heavy fuel oil. These requirements are domesticated into national law by signatory states, through taxation legislation mandating the payment of the levy. Potentially lessons could be learnt around the design of these funds and associated payment to either leverage off them or build something similar, however again it would require considerable political will.

[23] CAN Report.
[24] CAN Report.

Air Passenger Levy: A tax on international airfares proposed by LDCs in 2008 (with revenues going directly to L&D) was estimated to have the potential to raise US$8-10 billion a year. This option is relatively unfeasible given the introduction of the Carbon Reduction and Offsetting Scheme for the civil aviation industry (CORSIA) and general resistance to any form of carbon pricing on the industry. Any further taxation for L&D would likely be strongly opposed.

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