UNPACKING FINANCE FOR LOSS AND DAMAGE

Spotlighting the finance gap

What differentiates finance for addressing loss and damage from other types of finance?

What is loss and damage?

Loss and damage\(^1\) has been defined as the impacts of climate change which are not avoided by mitigation, adaptation and other measures such as disaster risk management (Verheyen, 2012; Roberts and Pelling, 2018). It has both economic and non-economic costs and results from both extreme weather events like hurricanes and floods and slow onset climatic processes such as sea level rise and salinisation. Loss and damage includes permanent and irreversible losses such as to lives, livelihoods, homes and territory, for which an economic value can be calculated and also to non-economic impacts, such as the loss of culture, identity and biodiversity, which cannot be quantified in monetary terms.

Loss and Damage was first officially recognised in the Bali Action Plan at COP13 in 2007. It achieved centre stage in terms of public and political attention at COP19 in 2013 after the catastrophic effects of Typhoon Haiyan (also known as Super Typhoon Yolanda) on the people of the Philippines made it apparent that vulnerable developing countries required significant levels of support in the face of such widespread devastation. In 2015, at COP21, Loss and Damage was included as a distinct article in the Paris Agreement, separate from adaptation. This was an important milestone as developing countries have long stressed that loss and damage refers to climate change impacts that are “beyond adaptation”.

Introduction

The Paris Agreement recognises the importance of averting, minimising and addressing loss and damage (UNFCCC, 2016). Loss and Damage, the policy agenda established after COP19 is to address loss and damage, which is inextricably linked with progress on mitigation and adaptation. The greater those efforts, the less loss and damage there would be now and will be in the future. Unfortunately, loss and damage from climate change impacts is manifesting on the ground because of a lack of mitigation and a chronic underfunding of adaptation. To avert future loss and damage, mitigation efforts must be intensified and to minimise loss and damage support for adaptation – including finance, technology development and transfer and capacity building – must be significantly scaled up. However, it is also critical that Loss and Damage under the United Nations Framework Convention on Climate Change (UNFCCC) focuses urgently on addressing economic and non-economic loss and damage, including in particular providing finance as a core means of implementation. This brief articulates why finance for addressing loss and damage is both distinct from and related to other types of finance including adaptation, humanitarian assistance, Official Development Assistance (ODA) and support for disaster risk management (DRM).

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\(^1\) Loss and Damage (capitalised) has been used to refer to the spectrum of policies which can be implemented to address loss and damage while loss and damage (not capitalised) refers to the manifestation of the impacts of climate change (IPCC, 2018).
How are vulnerable developing countries and the people and communities on the frontlines experiencing loss and damage?

How is loss and damage experienced at the local level in vulnerable developing countries?

In 2012 and 2013, the United Nations University (UNU) and partners undertook case studies in nine vulnerable developing countries (Bangladesh, Bhutan, Burkina Faso, Ethiopia, Kenya, Mozambique, Micronesia, Nepal and The Gambia). This research helps us understand how households are experiencing loss and damage and its findings remain relevant today. The research in Kenya found that when floods hit, households lost both crops and livestock which rendered them even more vulnerable to future climate change impacts. Homes were also damaged, often beyond repair, which prompted households to seek shelter in camps. As floods continued, camps for the displaced often experienced outbreaks of water-borne diseases (Opondo, 2013). The research found that most of those affected received humanitarian assistance, often in camps, but many reported that they did not receive enough food to meet their basic needs.

Research in The Gambia found that drought caused widespread crop failure which led to rising food prices (Yaffa, 2013). Jobs outside of the agricultural sector became scarce and many households were forced to sell assets in order to meet their basic needs, which had long-term consequences. In Bhutan, changing rainfall patterns reduced the amount of water available to irrigate rice (Kusters and Wandji, 2013). While many farmers started growing crops that required less water, these adaptation measures had costs and were often not enough to minimise loss and damage. In each case study, the research found that households bore much of the cost for minimising and addressing loss and damage; costs which often pushed households further into poverty (Warner et al., 2012; Warner and van der Geest, 2013; Warner et al., 2013). The research also found that both households and communities are encountering hard limits to adaptation whereby there are no measures available to avoid or reduce loss and damage.

The gendered experience of loss and damage

Although this research did not include an in-depth evaluation of how experiences of loss and damage were gendered in affected households, it is now widely acknowledged that women and girls often incur a greater degree of adverse outcomes from climate-related hazards due to social norms which perpetuate gender inequality. The gendered experience of climate change manifests in food insecurity, impacts to both physical and mental health and in some cases, gender-based violence (Ayeb-Karlsson, 2020). Further research by UNU in Bangladesh found that mobility in response to climate change-related loss and damage is gendered (Ayeb-Karlsson, 2020). Women are often left behind when men in the households migrate to find economic opportunities. When extreme weather events hit, women tend to delay evacuating to cyclone shelters for fear of physical or sexual violence. In addition, many women in Bangladesh cannot swim and the clothing they wear, coupled with the fact that they often have children with them, hamper their ability to evacuate (Ayeb-Karlsson, 2020). The factors that give rise to gender vulnerability, such as patriarchal norms, must be better understood such that efforts to avert, minimise and address loss and damage are also gender responsive.

The research led by UNU found that households incur loss and damage:

- when the adaptation and risk reduction measures they implement are not effective enough to avoid loss and damage,
- when these measures have costs that are not regained and/or...
- the measures implemented in the short term to avert and minimise loss and damage have long-term consequences.

In some cases, no measures to minimise loss and damage were implemented because they were not available or were too expensive (Warner et al., 2012). In the Pacific island state of Micronesia, for example, three-quarters of the households which did not implement any measures to minimise loss and damage from coastal erosion reported that they could not afford to do so (Monnereau and Abraham, 2013). In Kenya, when faced with loss and damage, households were often forced to sell livestock and other assets and/or remove children from school so that they could contribute to the household income (Opondo, 2013). These “erosive coping” techniques have long-term consequences, especially for girls in the household (Warner et al., 2013).

What are the costs of loss and damage?

While applied definitions and costs included vary in available research, it is clear that the economic costs of loss and damage in developing countries are significant, with some sources projecting costs to be between 290 billion and 580 billion USD annually by 2030 (Markandya and González-Eguino, 2018). This does not take into account non-economic loss and damage (NELD) including mental and physical well-being, culture and the loss of biodiversity – among many others (Schäfer and Künzel, 2019). Funding to address loss and damage is limited, in particular to address irreversible and permanent losses (Ibid). The limited funding which is available is mainly dedicated to averting and minimising loss and damage before it occurs through adaptation and risk reduction measures. As the magnitude and frequency of extreme weather events like cyclones increase, “disaster fatigue” is setting in whereby there is less willingness to respond to disasters (Ibid). This phenomenon is becoming increasingly pronounced as more resources are dedicated to responding to the COVID-19 pandemic in developed countries. The cost of loss and damage is for
the most part being borne by households – including with gender-differentiated impacts within households, hitting women and girls often disproportionately hard – as well as communities and countries. For example, the economic cost of loss and damage from hurricanes in the Atlantic (which includes the Americas and the Caribbean) in 2020 is estimated at 47 billion USD with over 400 lives lost (CDP, 2021). Many of those displaced by the hurricanes in 2020 still lack sustainable, safe and affordable housing in early 2021 with the effects compounded by the COVID-19 pandemic which has delayed recovery efforts (Ibid).

How is addressing loss and damage distinct from (as well as linked to) other types of finance?

There is no universally agreed definition of “addressing loss and damage” which makes distinguishing it from other policy areas challenging. In 2019 developing countries articulated the measures for addressing loss and damage that they require finance for – which are broad. In the lead up to the review of the Warsaw International Mechanism for Loss and Damage (WIM)2 at COP25 in late 2019, the UNFCCC Secretariat prepared a report on sources of and modalities for accessing support to finance measures to address loss and damage. The report suggests that approaches to address loss and damage cross several policy domains, which include adaptation, climate resilient development, disaster and comprehensive risk management, humanitarian responses and contingency measures (UNFCCC, 2019). In this brief we argue that while these measures play an important role in averting, minimising and in some cases also addressing loss and damage, finance to address loss and damage in vulnerable developing countries and communities needs to be commensurate with the scale of the impacts endured and anticipated.

Adaptation

Adaptation is defined as the measures taken to adjust to changes in the climate (IPCC, 2018) and is essential to both averting and minimising loss and damage2. (Warner and van der Geest, 2013; Roberts and Pelling, 2018). However, as developing countries have long articulated, addressing loss and damage is beyond the limits of adaptation, which occur when a risk becomes intolerable or unbearable (Dow et al., 2013). If the primary objective of a farmer is to support a household, adaptation, through crop diversification or adopting different farming techniques in response to shifting weather and growing conditions, could allow crop yields to continue to produce an income that would support the household. A risk would become intolerable if crop yields can no longer sustain the household and livelihoods are endangered beyond what diversification or adapting different farming techniques can secure. That is when measures to address loss and damage would need to be employed as the impacts of climate change overwhelm the capacity to adapt.

Despite a commitment to achieve a balance between finance for adaptation and mitigation, adaptation remains woefully underfunded (see: CARE, 2021; Carty et al., 2020). The adaptation gap continues to widen as adaptation finance needs increase, particularly in the midst of the COVID-19 pandemic (UNEP et al., 2021). The annual cost of adaptation in developing countries alone is estimated to be 70 billion USD currently and expected to rise to between 140 billion and 300 billion USD by 2030 (UNEP et al., 2021). In 2009, developed countries committed to providing 100 billion USD a year by 2020 to support adaptation and mitigation efforts in developing countries (UNFCCC, 2010). A recent OECD report claimed that climate finance for developing countries reached 78.9 billion USD in 2018, which represented an increase from the 71.2 billion USD in climate finance it reported was provided to developing countries in 2017 (OECD, 2020). However, in its shadow report utilising the same dataset, Oxfam argued that developed countries vastly overestimated the amount of public climate finance provided and that only 25 percent of reported climate finance was for adaptation (Carty et al., 2020). Of even greater concern is the proportion of climate finance being provided as concessional loans and other non-grant instruments which increased from 18.5 billion USD in 2015/16 to 22 billion in 2017/18 while the amount of climate finance provided as grants increased only slightly – from 11 billion USD in 2015/16 to 12.5 billion 2017/18 (Carty et al., 2020).

A larger share of climate finance is being provided for adaptation – rising from 9 billion USD per year (20 percent) in 2015/16 to 15 billion USD (25 percent) in 2017/18 (Carty et al., 2020). However, only 20.5 percent of bilateral finance for adaptation was provided to Least Developed Countries (LDCs) in 2017/18 and only 3 percent to Small Island Developing States (Carty et al., 2020). In its analysis CARE found that only 58 percent of reported climate adaptation finance actually supported adaptation (CARE, 2021). Research from the International Institute for Environment and Development revealed an even greater discrepancy, finding that of 17 billion USD in climate finance labelled as adaptation, only 6 billion USD actually supported projects that articulated adaptation as a primary objective (Shakya and Smith, 2021). This has significant implications for the cost of addressing loss and damage as the less adaptation is done today, the more loss and damage...

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2 The Warsaw International Mechanism for Loss and Damage (the WIM) was established at the UNFCCC climate negotiations in November 2013 (the 19th Conference of the Parties) to promote “implementation of approaches to address loss and damage associated with the adverse effects of climate change... in a comprehensive, integrated and coherent manner” pursuant to decision 3/CP.18 and further elaborated in decision 2/CP.19.

3 The Paris Agreement recognises the importance of averting, minimising and addressing loss and damage. This brief uses the term “avert” to refer to measures to avoid loss and damage (which includes mitigation), “minimise” to refer to reducing loss and damage before it occurs (which includes adaptation) and “address” to describe measures to respond to loss and damage that is not avoided or reduced through mitigation, adaptation and other measures such as risk reduction.
Disaster risk management (DRM) is defined by the UN Office for Disaster Risk Reduction as “the application of disaster risk reduction policies and strategies to early warning systems, emergency preparedness, slow support with respect to loss and damage include cooperation to enhance understanding, action and climate resilient development and DRM. The recognition of the importance of averting and minimising loss and damage does not change the role of the Convention or the mandate of the oversight body, the WIM. The mandate of the WIM – very clearly laid out in the decision that established it – is to address loss and damage particularly in vulnerable developing countries (UNFCCC, 2013). The decision which established the WIM also recognises that some impacts of climate change will be beyond what can be addressed by adaptation (UNFCCC, 2013). While adequately funded adaptation measures play a critical role in averting and minimising loss and damage, finance to address loss and damage needs to be introduced urgently, triggered by circumstances when the limits of adaptation have been reached.

Disaster Risk Management (DRM)4 and Risk Reduction (DRR)

DRM is essential to minimising climate-related loss and damage through risk reduction efforts, such as early warning systems, emergency preparedness, including retrofitting houses and public infrastructure; and also plays a critical role in addressing loss and damage through response and recovery efforts. However, its governance and frameworks are much broader in scope than climate-related loss and damage, as not all disasters and related DRM approaches are climate-related. The Sendai Framework for Disaster Risk Reduction (SFDRR) provides broad and overarching guidance for reducing all disaster risk and losses in lives, livelihoods and health as well as in the cultural, economic, environmental, physical and social assets of people, businesses, communities and countries. In the context of reducing climate-related loss and damage, the SFDRR recognises the primacy of the UNFCCC. The SFDRR also acknowledges that states are the primary actors responsible for reducing disaster risk but that other stakeholders should also share some of that responsibility. States are responsible for implementing their own policies and plans to fulfil the SFDRR and typically a significant proportion of the resources for DRM efforts come from domestic budgets or fall directly on households.

The Paris Agreement provides that areas for DRM efforts come from domestic budgets or fall into the category of addressing loss and damage, encompass contingency planning, insurance, recovery, rehabilitation and reconstruction.

At present the cost of most DRM measures are borne by national governments with little external support. Research in Bangladesh found that in 2015 alone rural households in Bangladesh spent nearly 2 billion USD to implement climate risk management and DRM measures (Eskander and Steele, 2019). Female and male headed households spent a similar amount in absolute terms to minimise and address loss and damage – but for female headed households this tended to be a much greater proportion of the household income (Ibid). Loss and damage affected households often did not have the assets which allowed them to borrow from formal sources of finance such as banks and were therefore forced to borrow from informal money lenders at high interest rates (Ibid). The conclusion of the research was that more finance is needed both for adaptation and for DRM and that finance must be targeted to those who need it most – households that are both vulnerable to and exposed to climate change impacts. There is overlap between DRM and addressing climate-related loss and damage. The critical issue is the lack of adequate and predictable finance for DRM (and efforts to address loss and damage captured in those measures). This renders households even more vulnerable to future climate change impacts – both from extreme weather events and slow onset climatic processes.

Humanitarian assistance

The UN Office for the Coordination of Humanitarian Affairs (UNOCHA) coordinates humanitarian assistance and relief to respond quickly and urgently to disasters and emergencies which overwhelm the capacity of national governments. This includes the provision of support to refugees through the UN High Commissioner for Refugees, emergency food assistance by the World Food Programme, health care by the World Health Organization and the protection of children by the UN Children’s Fund.

The UN Central Emergency Response Fund (UNCERF) provides rapid release emergency assistance to support the response to emergencies and disasters. In the aftermath of Cyclone Yasa in December 2020, 6,385 homes were damaged and 1,859 destroyed in one region of Fiji alone, prompting 24,413 people to seek safety in evacuation shelters (UNCERF, 2021). The estimated economic loss to the agricultural sector alone is estimated to be over 54 million USD. In the aftermath of the cyclone, half a million USD was allocated from the rapid response window of the UNCERF for the

4 Disaster risk management (DRM) is defined by the UN Office for Disaster Risk Reduction as “the application of disaster risk reduction policies and strategies to prevent new disaster risk, reduce existing disaster risk and manage residual risk, contributing to the strengthening of resilience and reduction of disaster losses” (UNDRR, n.d.).
Food and Agricultural Organization (FAO) to provide livelihood support to farming and fishing households (UNCERF, 2021) – a fraction of the cost of the loss and damage left in the cyclone’s wake.

Research on the response to severe flooding in Nepal in 2017 found one-third of the humanitarian aid to support the immediate response came from family, friends, community-based organisations and government agencies (Willitts-King and Ghimire, 2019). The remaining support for the recovery effort was provided by bilateral donors, UN agencies and both international NGOs and national NGOs. A small amount of support was also provided by the Nepalese diaspora, which, though limited, was disbursed quickly. The research found that the most vulnerable households did not always receive support and that the distribution of aid was often inconsistent. Research by Practical Action in Bangladesh found a similar phenomenon in the aftermath of cyclones and floods whereby the process for the distribution of aid was unclear and it was often distributed on the basis of relationships with local officials rather than need (Practical Action, 2021).

Humanitarian assistance is essential to supporting vulnerable people, communities and countries in the aftermath of extreme weather events. However, the level of aid provided is typically only a fraction of what is needed as exemplified by the case of Fiji (described above) where the amount of half a million USD was disbursed against a likely need in the hundreds of millions. Another issue is “disaster fatigue” and the COVID-19 pandemic. Humanitarian assistance dropped for the first time in 2019 to 29.6 billion USD from 31.2 billion USD in 2018 due to a fall in contributions from developed countries (Development Initiatives, 2020). Yet, supporting vulnerable developing countries in the aftermath of extreme weather events has never been more important than it is now. During the COVID-19 pandemic despite less news of climate impacts, cyclones, hurricanes and typhoons have continued to ravage the Caribbean, Pacific and South Asia, while flooding affected East Africa, among other regions.

Humanitarian assistance clearly falls under a much broader set of measures required to address loss and damage and is situated at the emergency response end of the spectrum. Enhanced emergency response mechanisms may be part of a scaled-up future approach to addressing loss and damage comprehensively. But currently, the levels of support provided are inadequate to meet the scope and scale of needs, particularly in respect of resourcing long-term funding requirements. Moreover, humanitarian assistance needs to be triggered immediately to ensure households, communities and countries have the support they require to recover quickly from climate-related loss and damage.

**Official Development Assistance**

Sustainable development has a role to play in averting and minimising loss and damage before it occurs (Roberts and Felling, 2018). Most of the 17 Sustainable Development Goals (SDGs) are relevant for averting, and especially for minimising, loss and damage. Many also have relevance for addressing loss and damage, in particular those that focus on social protection, which is also a core element of an equitable and sustained response to loss and damage. SDG 13 is focused on climate action and is therefore an entry point (though not the only one) for addressing climate-related loss and damage. However, the climate-compatibility of sustainable development measures are distinct from measures to avert, minimise and address loss and damage.

Climate change is an additional burden to developing countries largely borne by affected communities and therefore support to address loss and damage needs to be additional in quantitative terms to ensure that ODA delivery is climate-compatible and that levels of ODA in support of sustainable development and related goals, such as for health or education, are not reduced. Given the obligation to provide climate finance under the UNFCCC and its Paris Agreement, this should be in the form of significant additional financial resources. In the first brief in this series, we argued that as the scale of funds mobilised to pay for COVID-pandemic emergency and recovery measures demonstrates, it is entirely possible to generate finance at scale to pay for crises, in this regard the climate emergency, provided there is the political will to do so.

The question of which countries are eligible for ODA is critical to address. Of specific concern is the fact that many Small Island Developing States (SIDS) – a group of countries highly vulnerable to climate change impacts resulting in significant loss and damage – although eligible for climate finance, are considered by the OECD developed country contributors ineligible for receiving ODA, based on their income categorization. The SIDS are also facing increasing levels of indebtedness, with some of their escalating debt distress caused by having to respond to multiple extreme weather events. These countries are thus reliant on concessional financial support, while not qualifying for debt relief efforts, such as those initiated in response to the COVID-19 pandemic, due to their per-capita income levels (see: Rowling, 2021). This in the context of SIDS having historically contributed only minimally to global emissions, while being amongst the hardest hit by extreme weather events, such as tropical storms increasing in intensity.

The Addis Ababa Action Agenda on Financing for Development reaffirmed the commitment of many developed countries to provide 0.7 percent of their gross national income (GNI) as ODA and to ensure that 0.15 to 0.2 percent of GNI is dedicated to support sustainable development in LDCs (UNDESA, 2016). In 2020 the UK government reduced its spending from 0.7 percent to 0.5 percent of GNI which is projected to reduce its ODA budget by over 4 billion GBP in 2021 (UK Parliament, 2020). Such a step is in complete contradiction to the welcome UK promise to double climate finance by 2025 and particularly undermines its credibility as a climate champion as it aspires, as host country, to successfully deliver COP26. In a post-COVID world, a refocusing of ODA to ensure that all of it is climate-compatible and thus avoiding and reducing loss and damage, as well as targeted to the most vulnerable people and communities, is critical.
However, climate-compatible sustainable development is distinct from measures to address loss and damage and indeed, also from adaptation. Measures to address (as well as avert and minimise) loss and damage need to be additional, though related, to the need for ensuring that all sustainable development efforts are accounting for climate change impacts and must be characterised as such.

**Loss and Damage**

The UNFCCC has a broad (but not legally enshrined) definition for addressing loss and damage within comprehensive risk management (UNFCCC, 2019).\(^5\) This framing builds on a literature review of the range of approaches to address the risks of loss and damage which differentiated measures into four categories: risk reduction, risk transfer, risk retention and approaches to address loss and damage (UNFCCC, 2012). These measures identified as part of a framework for addressing loss and damage are broad and allow Loss and Damage to be captured by different policy domains without creating one that is distinct to addressing loss and damage.

We propose a more structured definition of addressing loss and damage to include those measures which are implemented when it is clear that loss and damage cannot be or is not being avoided. This encompasses a just transition for people facing irreversible climate impacts and includes livelihood diversification and assisted and safe migration when a household can no longer derive an income from its current source. A just transition accounts for planned relocation when communities must move due to loss and damage from an expected extreme weather event or a slow onset climatic process. Measures to address loss and damage would also include contingency funds and planning, which would be invoked when loss and damage is incurred to prevent households and communities from spiralling further into poverty. It would also include recovery and rehabilitation efforts protecting their rights. Importantly, addressing loss and damage must also capture measures to proactively address irreversible and permanent loss and damage, which may eventually include a just transition that relocates entire populations due to a loss of territory or due to territory becoming uninhabitable. A narrower definition of addressing loss and damage would ensure focus on measures which are needed once the limits of adaptation have been reached. Simultaneously, the Loss and Damage agenda would stress the importance of scaling up efforts to avert and minimise loss and damage including through significantly increasing finance for adaptation, DRM, humanitarian assistance and sustainable development.

The figure below illustrates the gap in finance for addressing loss and damage, including its complete absence in respect of longer term impacts.

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**Figure 1: Illustrating the funding gap for support to address loss and damage**

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<th>Averting loss and damage</th>
<th>Minimising loss and damage</th>
<th>Addressing loss and damage</th>
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<td>Irreversible</td>
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<td>• Sea level rise</td>
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<td>• Heatwaves</td>
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<td>• Forest fires</td>
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<td>• Droughts</td>
<td>• Loss of biodiversity</td>
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<td>(including extinction of species)</td>
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<td>Economic losses</td>
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<td>Humanitarian assistance</td>
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<td>• relief</td>
<td>Loss of culture</td>
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<td>Loss of heritage</td>
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<td>• rehabilitation</td>
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<td>• resilient rebuilding</td>
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<td>Displacement</td>
<td>Temporary displacement</td>
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<td></td>
<td>Loss of territory</td>
<td>No funding</td>
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</tbody>
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\(^5\) This definition includes assessing the risk of, reducing the risk of, transferring the financial risk from, retaining the risk of, social protection measures to address, recovery and rehabilitation measures from and transformational approaches to address loss and damage at the local, national, regional and international levels.
Declarating a Loss and Damage event and establishing a Loss and Damage Facility

There are two fundamental issues with finance for addressing loss and damage. First, there is no dedicated funding stream in support of loss and damage. Second, the finance which is available and channelled through other streams to avert, minimise and address loss and damage is woefully inadequate with respect to both its quantity and quality, its additionality in particular to ODA, as well as the timeframe and frequency (one-off versus sustained support) in which it is disbursed. These issues must be addressed. In the first brief in this series, we urged that finance of 150 billion USD a year is provided to developing countries to address loss and damage through scaling up public finance boosted by a further 150 billion USD a year mobilised through additional sources, such as the use of Special Drawing Rights (SDR) and taxes on globalised activities, for instance, on the fossil fuel and finance sectors. We further proposed an international solidarity facility for loss and damage modelled on the successful precedent of the Global Fund to Fight HIV/AIDS, Tuberculosis and Malaria.

The ability to mobilise resources at scale when the political will exists as demonstrated by the response to the COVID-19 pandemic strengthens the case for an international facility on Loss and Damage. Since that first brief was released, political support has built for a new SDR allocation amounting to 650 billion USD to address post-pandemic recovery needs. The Secretariat of the International Monetary Fund (IMF) is currently preparing a proposal for the allocation, which will be presented to the Executive Board at its meeting in June 2021.

Given the complexities of the funding landscape, as described above, with various funding streams attributed from different sources (humanitarian, DRM etc.), and given, at the same time, the resistance of developed countries to pay their fair share in the provision of financial support to developing countries for climate impacts, the lack of a formal definition of loss and damage has been an all too convenient, if not deliberate, pretext to maintain a political impasse. At the same time, year by year, the costs of loss and damage to affected communities and countries keep on escalating revealing a gaping hole in the financial architecture.

One way to cut through this stalemate is, we propose, to describe a “loss and damage event” along the lines recently set out by Professor Avinash Persaud, in order to provide “immediate, unconditional liquidity to those countries suffering loss and damage... on

the independent verification that a climate or natural disaster event has occurred.” Persaud, formerly in charge of the economic reconstruction of Dominica following Hurricane Maria in 2017, also suggests that developed countries could use their unused SDRs to recapitalise development banks, which could be earmarked for projects that avert and minimise loss and damage (Persaud, 2021).

As stated above, in the first brief in this series we proposed a loss and damage facility, adding our voice to others who have previously done so (see: Hirsch et al., 2019; Schäfer and Künzel, 2019, CAN International, 2019). To address the urgent needs of vulnerable developing countries in the immediate aftermath of a “loss and damage event”, we propose a rapid finance facility, disbursing funding in short order, in the form of grants and in sufficient amounts to address the scale of the needs. Parametric criteria could be utilised to provide an objective determination of the occurrence of a “loss and damage event” serving as an independent trigger for the release of financial resources. These could include, though are not limited to, criteria such as a specified percentage loss of gross domestic product (GDP), an unprecedented weather-related event or a percentage of the population impacted or, in the case of a large country, at least one million people affected.

While such a loss and damage facility would ideally receive funding from various sources, including from a potential Climate Damages Tax on the fossil fuel industry, as elaborated in the first brief of this series, we would propose that of the 650 billion USD in SDRs likely to be allocated in 2021, a minimum of ten percent is used to provide seed funding for a Loss and Damage Facility. Immediate inclusion into the climate response landscape through describing loss and damage in this distinct way due to the scale of impact inflicted, rather than denying it for the self-same reason, offers a way to break the logjam in respect of its resourcing.

It should also be explored whether the implementation of such a facility can be complementary with or even make use of similar existing arrangements on the national or regional levels, such as sovereign risk insurance schemes, learning from and building or improving on prior experience for the sake of efficiency and equity. Such a complementarity check, however, must acknowledge that risk insurance, whether sovereign or private, is only one of many necessary tools and approaches to address loss and damage, and cannot serve as substitute for dedicated public funding commitments.

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6 In the article quoted, Avinash Persaud proposes that a country would qualify if it suffered a 5 percent loss of GDP from a Loss and Damage event.
What are the opportunity costs of not addressing Loss and Damage?

Loss and damage is already overwhelming the capacity of households and communities within vulnerable developing countries, who are forced to bear the costs of climate impacts. There is some overlap between addressing loss and damage and other policy agendas, particularly DRR and DRM. Adaptation plays a critical role in avoiding and reducing loss and damage, but as developing countries have long asserted, Loss and Damage goes “beyond adaptation”. However, Loss and Damage is distinct from other financing purposes both in terms of scale and severity of impact as well as with respect to existing funding availability for related policy agendas, all of which are insufficient to address growing needs. Drawing on financing for Loss and Damage from these existing financing channels thus risks cannibalising these as long as no additional resources are mobilised. Financing for Loss and Damage is therefore distinct from and must be additional to funding provided for adaptation, DRM, humanitarian aid and certainly from ODA, which, however, does not rule out using certain existing implementation channels for those measures needed to address loss and damage where these have proven useful. The report by the UNFCCC Secretariat on sources of and modalities for accessing support for addressing loss and damage concluded that finance is needed for all approaches relevant for addressing (and averting and minimising) loss and damage.

The current level of climate finance is not sufficient – either for adaptation or for addressing loss and damage in vulnerable developing countries and the frontline communities within them. The COP25 mandate by the UNFCCC to the Green Climate Fund (GCF)\(^7\) to continue to provide resources for loss and damage to the extent that it is consistent with its current operational set-up (UNFCCC, 2020) showcases this dilemma. The GCF may technically fund some of the measures to minimise (more anticipatory than current) and, perhaps, partially address loss and damage that vulnerable developing countries and the people within them require. However, this funding will be labelled as adaptation for internal attribution, including for fulfilling the GCF’s mandate to provide a balanced allocation of funding. Doing so does not solve the problem if the level of resources stays the same; this will in effect aggravate the imbalance that favours funding for mitigation even further.\(^8\) A greater issue is the level of finance provided. Dividing up already inadequate levels of support amongst adaptation and Loss and Damage is not the answer.

An additional consideration is the criteria and funding frameworks under which such financing is currently disbursed and its adequacy to respond to loss and damage. Most particularly, taking into account the substantial needs of developing countries and the moral obligation of developed countries to support them.\(^9\) We must develop dedicated mechanisms to address loss and damage in vulnerable developing countries targeted to people and communities on the frontline of climate change and committed to providing equitable and sustained social protection, such as a proposed Loss and Damage facility (see: Hirsch et al., 2019). Such an approach can include channelling the additional resources needed through existing implementation channels where they have proven effective and accessible in the eyes of the recipients, as a range of needs and approaches constitute “addressing loss and damage”, and where this can reduce transaction costs and time required which might emerge from setting up entirely new institutions.

By delaying action to address loss and damage, we are violating the human rights of those already being affected by the impacts of climate change and leaving them on their own to recover from the humanitarian crisis they face. Loss and damage is already impeding development progress and will continue to do so unless adequate support is provided to those on the frontlines of climate change in vulnerable developing countries. Loss and damage also compounds other crises as we have seen throughout the world as extreme weather events hampered efforts to respond to the COVID-19 pandemic and rendered social distancing impossible.

In the paper *Climate Finance for Addressing Loss and Damage* by NGOs including the World Council of Churches and Act Alliance, the consequences of failure to pay for loss and damage are starkly set out:

“If the international community does not provide support, climate vulnerable developing countries are very likely to face constantly increasing economic loss, making it almost impossible for them to meet the Sustainable Development Goals (SDGs) and, at worst, increasing the risk of these nations ending up as failed states (see: Reliefweb, 2019).”

Beyond being a moral obligation, addressing loss and damage helps ensure a safer and more resilient world. With the degree of interconnection of our present day economies, loss and damage disrupts supply chains in both the global North and South. At its most severe, loss and damage leads to forced migration, displacement and relocation. Conflicts over resources can consequently arise, as can litigation. The number of legal cases in courts around the world related to climate damages has increased in recent years and will continue to rise unless there is an urgent global effort to address loss and damage.

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\(^7\) Decision12/CP.25, para. 21.

\(^8\) Under the GCF allocation framework, the GCF has a mandate for a balanced funding allocation in grant equivalent terms. With most of the funding for mitigation in the GCF being provided as loans, this cements a significant imbalance of GCF funding in nominal terms. Including loss and damage measures in the GCF under the adaptation label will further aggravate this imbalance.

\(^9\) This includes co-financing or leverage expectations or the financial instruments used for the provision of loss and damage financial support, which many would argue should be overwhelmingly provided as grants.
Conclusion

Vulnerable developing countries, and the people and communities on the frontline of climate change within them, are exposed to a range of climate change impacts – from the increasing frequency of extreme weather events like cyclones, floods and storm surges to the existential and long-term threat that slow onset climatic processes like glacial retreat, sea level rise and increasing temperatures pose. Those worst affected by the impacts of climate change are the people least responsible for contributing to the greenhouse gas (GHG) footprint causing it and are the ones bearing the cost of loss and damage. Given that recent research estimates that the cost of loss and damage in developing countries alone will be between 290 billion and 580 billion USD annually by 2030, this is not only a matter of grave injustice but will rob these populations of the ability to enjoy their most basic human rights, including the right to development and decent livelihoods for themselves and their descendants. We conclude the following:

■ Climate compatible sustainable development is critical to avoiding and reducing loss and damage, especially building and maintaining inclusive and accessible basic social support systems, and ODA must be scaled up, not down in this critical time for the world. However, climate finance obligations are distinct from and additional to those under ODA and therefore the distinction between development and measures to address loss and damage is critical to maintain.

■ Adaptation is distinct from Loss and Damage though integral to minimising loss and damage. To reduce future loss and damage to the extent possible, adaptation needs must be met in full through the provision of adequate and predictable financial, technology and capacity building support.

■ Aspects of DRM play a critical role in addressing climate-related loss and damage, in particular rehabilitation and recovery. As in the case of adaptation, upscaled support must be provided for DRM to avoid and reduce loss and damage to the extent possible – and address a specific subset of the broader measures needed for Loss and Damage.

■ Humanitarian assistance also has relevance for measures to address loss and damage in emergencies. In the context of climate-related loss and damage, it is most relevant in the aftermath of disasters induced by extreme weather events like cyclones (among other hazards). Humanitarian assistance must also be scaled up to meet all humanitarian needs, although it cannot be a replacement for the iterative and sustained support needed in the aftermath of climate-related loss and damage for recovery, rehabilitation and planned relocation.

■ We need to finance a just transition for people irreversibly impacted by climate change. A just transition that guarantees a safe and resilient future for these people requires an immediate and significant scale up of financial support for addressing current and future Loss and Damage.

■ Under the UNFCCC the definition of addressing loss and damage has become far too broad. This framing of loss and damage in the context of efforts to avert and minimise it, makes it difficult to differentiate addressing loss and damage from other policy domains, such as mitigation and adaptation efforts. Defining addressing loss and damage more narrowly only as measures that are implemented or which come into effect once loss and damage has been incurred will help us become more clear about what is meant by addressing loss and damage. This will also help us better distinguish between measures to avert (mitigation) and minimise (adaptation, climate resilient development and ex-ante DRM measures) and those to address loss and damage. The latter include rapid response ex-post DRM measures and short-term humanitarian assistance as well as sustained support for long-term planning or planned relocation measures.

■ An international facility to address loss and damage must be established to ensure vulnerable developing countries have both immediate, grant-based liquidity to recover from extreme weather events and longer-term support to address loss and damage from slow onset climatic processes. It must also allow for provisions and sustained longer-term support to countries grappling with slow onset climatic processes which have incremental yet devastating impacts. This can include channelling additional resources through existing implementation channels where these can be equipped to respond to vulnerable countries’ loss and damage needs.

■ With an SDR allocation of 650 billion USD likely in 2021, a minimum of 10 percent should be provided as seed funding for the international solidarity facility for Loss and Damage.

Since the Paris Agreement was established, developed countries have continued to sideline efforts in the UNFCCC to address loss and damage and acknowledge commensurate financing needs. Past requests for the Standing Committee on Finance (SCF) to engage on finance for loss and damage have yet to be operationalised. The guidance by the COP25 in Madrid to the GCF appears to take a first step to address past shortcomings. In it, the COP invited the GCF: to continue providing financial resources for activities relevant to averting, minimizing and addressing loss and damage in developing country Parties, to the extent consistent with the existing investment, results framework and funding windows and structures of the Green Climate Fund, and to facilitate efficient access in this regard, and in this context to take into account the strategic workstreams of the five-year rolling workplan of the Executive Committee of the Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts (UNFCCC, 2020).
However, even if this request is fulfilled, it can be argued that it fails to adequately respond to the mandate of Loss and Damage. While the GCF already provides funding for some measures to mostly avert, minimise and, arguably in some part, address loss and damage, the level of financing is inadequate and further reduces the availability and accessibility of adaptation finance in the GCF even further. In addition, both the timeframe for disbursing funds is too slow and the existing frameworks and decision-making procedures are unsuitable to meet the needs, urgency and moral obligation to provide loss and damage related financial support. It is imperative that addressing loss and damage detracts neither focus nor resources from adaptation, but rather emphasises the importance of adaptation as a means to minimise loss and damage. Adequate levels of support must be provided for adaptation with funding commensurate to the needs provided additionally for addressing loss and damage.

Finally, there is currently no mechanism to finance measures to address loss and damage from climate change impacts explicitly. To ensure a safe and resilient world, support for Loss and Damage must be scaled up significantly in addition to the fulfilment of promises to ensure balance between mitigation and adaptation and provide increased support for adaptation inscribed in the UNFCCC and its Paris Agreement. This support must be provided in the form of grants such that addressing loss and damage does not violate the human rights of affected populations and increase the debt burdens and poverty levels of people, communities and countries already coping with multiple crises simultaneously.

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