International transfers (developed to developing countries; public and private contributions) of existing funding streams are steadily rising. In 2020, all flows were estimated at: climate finance (US$ 83.3 bn, of which US$ 29 bn for adaptation), overseas development assistance (US$ 172.32 bn, of which US$ 8 bn for disaster risk reduction) and humanitarian assistance (US$ 32.7 bn) culminating in about US$ 277.2 billion. L&D costs are estimated to reach US$ 290-580 billion per year by 2030; while Least Developed Countries call for a minimum floor of US$ 100 billion for the L&D fund in addition to existing funding streams.

Existing funding streams contribute to minimising avoidable L&D as set out in activities under Article 8 of the Paris Climate Agreement. Accessibility to these funds is on the global financial reform agenda, along with how International Financial Institutions can contribute to funding arrangements for addressing L&D. So far, no concrete proposals are on the table. Coherency and complementarity of existing streams with the establishment of the new L&D fund can support improving accessibility and demonstrate replenishment needs.

Two key yet much underdiscussed issues relate to identifying i) additional sources to finance L&D (e.g. innovative sources such as taxes, levies), and ii) what the fund will target, that is separate and additional to existing funding streams, especially since L&D taxonomies are still developing. For example, addressing permanent and irreversible climate change impacts and Non-Economic Loss and Damage as well as irreversible biodiversity loss are areas lacking dedicated funding.
1. L&D FINANCING NEEDS AND FIRST EFFORTS

Studies projecting loss and damage (L&D) costs range from US$ 290-580 billion a year by 2030 (Markandya & González-Equino, 2019) to a minimum of US$ 400 billion per year by 2050 (Richards et al., 2023) with a higher end estimate at US$ 1-1.8 trillion (Heinrich Boll Stiftung, 2023). A minimum floor of US$ 100 billion by 2030 for the L&D fund has been proposed by the Least Developed Countries (LDC) group in addition to funding required to support mitigation and adaptation (Submission to the Transitional Committee, September 2023). A recent study calculates an average cost of climate-related extreme weather events at US$ 140 billion a year since 2000, and US$ 280 billion in 2022 (Newman & Noy, 2023).

So far, a total of up to US$ 430 million has been pledged to L&D from Germany, Austria, the US, France and Denmark among others following COP26 in Glasgow (Richards et al., 2023). Most of these pledges are directed to the Global Shield and Santiago Network, and some tagged for L&D on the ground to the most vulnerable and affected (Carbon Brief and Loss and Damage Collaboration, 2022).

2. EXISTING FUNDING AND THE CURRENT FOCUS: ADDRESSING L&D

The focus of the Transitional Committee on the establishment of the L&D fund is to design and better define dedicated financing towards responding to and addressing L&D (Decision CP.27). So far, international financial institutions (IFIs) support developing countries to reduce and minimize avoidable L&D through various funding streams: climate finance with a focus on adaptation, disaster risk reduction (DRR), overseas development assistance (ODA), and humanitarian aid (Heinrich Boll Stiftung, ND).

Existing funding provided by IFIs aim to support vulnerability reduction and enhance climate-resilient development with activities related to L&D as set out in the Paris Climate Agreement’s Article 8—for example, early warning systems, comprehensive risk assessment and management, emergency preparedness, risk insurance pools, resilience of communities, livelihoods and ecosystems (UNFCCC, 2015: Paragraph 4). There are some overlaps between what they finance as related to L&D (see Figure 1.)

<table>
<thead>
<tr>
<th>Type</th>
<th>How it relates to L&amp;D</th>
<th>Limitations</th>
<th>Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate finance (adaptation)</td>
<td>Minimise and reduce avoidable L&amp;D</td>
<td>Does not respond to or address L&amp;D occurring (unavoidable) and permanent and irreversible L&amp;D</td>
<td>Better address the root drivers of vulnerability; expand to finance slow onset events and non-economic losses</td>
</tr>
<tr>
<td>DRR</td>
<td>Minimise and reduce avoidable L&amp;D</td>
<td>Focused on L&amp;D after extreme events; trigger based; does not address permanent irreversible L&amp;D</td>
<td>Expand for long-term reconstruction and re-habitability support; integrate L&amp;D considerations in disaster evaluations the L&amp;D fund could address</td>
</tr>
<tr>
<td>ODA</td>
<td>Minimise and reduce avoidable L&amp;D</td>
<td>Does not respond to or address L&amp;D occurring nor permanent and irreversible L&amp;D</td>
<td>Complementary to adaptation by addressing some root drivers of vulnerability through sustainable and climate-resilient development</td>
</tr>
<tr>
<td>Humanitarian aid</td>
<td>Minimise and reduce avoidable L&amp;D</td>
<td>Focused on provision of goods and services immediately after crises, increasingly around climate-related disasters, does not finance long-term permanent and irreversible L&amp;D</td>
<td>Carve out percentage of appeals for climate-related triggers, integrate vulnerability and explore displacement at the nexus of L&amp;D</td>
</tr>
<tr>
<td>All</td>
<td>Contribute to averting and minimising avoidable L&amp;D</td>
<td>None address already occurred or occurring L&amp;D, nor residual risks. None address NELD. Few direct financing directly to climate-vulnerable local communities</td>
<td>IFIs reform agenda (in particular grant based, concessional, and debt relief and restructuring); integrate L&amp;D in the New Collective Quantified Goal on climate finance</td>
</tr>
</tbody>
</table>

FIGURE 1. Activities financed under existing streams related to L&D

TABLE 1. Financing instruments: limitations and opportunities in the context of L&D
Existing channels demonstrate opportunities to minimise avoidable L&D by better addressing the root drivers of vulnerability to climate-related risks (socio-economic and development factors, and structural vulnerability) and coping with the aftermath of effects (humanitarian aid) (see Table 1). The IFI reform agenda provides entry points to enhance “better financing” (equitable, accessible, at scale, new instruments such as debt-for-climate swaps, etc.). In this way, soft limits to adaptation such as access to financing might be overcome in cases and depend on interactions with other limits (governance, institutions and capacities, as well as biophysical thresholds such as depleting ecosystems and their services). However, some L&D are unavoidable no matter current or future options, both because of soft and hard adaptation limits (IPCC, 2022).

In terms of limitations, there is lack of financing under existing sources that address events that involve permanent and irreversible climate change impacts. This is closely associated with defining relevant adaptation limits. Another limitation is that they do not address occurred and occurring L&D, unavoidable L&D nor Non-Economic Loss and Damage (NELD), and few integrate slow onset events (SOE) in their financing.

3. EXISTING FUNDING STREAMS: VOLUMES AND DISBURSEMENT

International transfers [from developed to developing countries] from public and private actors for existing funding streams are on a steady upward trend (Figure 2). To take a snapshot of volumes, in 2020 flows are estimated at: US$ 83.3 bn of climate finance (of which US$ 29 bn went to adaptation); US$ 161.2 bn in overseas development assistance (of which US$ 8 bn went to DRR); and US$ 32.7 bn in international humanitarian assistance.

3.1. Climate finance

Climate finance allocated for adaptation can help reduce avoidable L&D. It is an important component of the Convention and has had a target volume centered around the COP15 commitment in 2009 to mobilise US$ 100 billion per year to 2022. This commitment was never fulfilled—in 2020, US$ 83.3 billion of climate finance flows were provided to developing countries falling short of at least US$ 17 billion to the target (UNEP, 2022). However, the trend is improving: climate finance flows from governments reached US$ 100 bn in 2021-2022, of which US$ 63 bn went towards adaptation (Buchner et al., 2023).

The Paris Agreement’s Article 9 calls for a balanced provision of climate finance, but more than 70-80% goes to mitigation. For example, in 2020, US$ 28.6-29 billion went to adaptation, and US$ 49 billion to mitigation (UNEP, 2022). Article 9 also draws attention to financing towards countries that face capacity constraints such as Least Developed Countries (LDCs) and Small Island Developing States (SIDS); yet 70% of flows in 2020 went to Middle Income Countries and only 8% went to LDCs (OECD, 2022).

At the same time, adaptation finance needs for all developing countries could be around US$ 202 billion per year (ranging from US$ 79-612 billion/year) based on a set of adaptation communications and NDCs (UNEP, 2022). This adds pressure to the existing adaptation gap, especially in vulnerable developing countries, driving up costs and spillover effects (reaching adaptation limits and residual risks) on L&D funding needs.

Negotiations on the New Collective Quantified Goal (NCQG) are underway to be set by COP29 and there is interest from developing countries and civil society to add an L&D goal (Achampong, 2023), to ensure dedicated financing and enable tracking and transparency. Pushback against this idea is substantiated on the fact that L&D was not included in the Convention nor the Paris Agreement’s article on climate finance.

Figure 2. Funding streams amounts (in US$ bn)

Sources: Development Initiatives, 2023; OECD, 2021a; Urquhart et al., 2022.
3.2. Disaster risk reduction

The UN Sendai Framework 2015-2030 puts forward investing in DRR for resilience as a priority; and IFIs are asked to integrate DRR in financial assistance programs (Sendai Framework, Paragraph 48). There are no targets for developed countries to support developing countries under the framework as is the case for climate finance.

Donors provide contributions to the UNDRR and via bilateral official development assistance as well as other modalities (e.g. insurance risk pools). The OECD Development Assistance Committee (DAC) tracks data around official development finance that has a component of or is principally labeled under DRR—for example in 2020, this amount reached up to US$ 8 billion (Choi et al., 2022). This includes contributions to the GFDRR situated under the World Bank that channels grants and loans via different windows to governments. Climate-related shocks as well as adaptation are included in several activities of the GFDRR; and in 2020 over 95% of new grants that were approved included climate considerations. In 2020, total funding reached US$ 271.2 million (of which US$ 48.2 million were new grants) (GFDRR, 2021).

Disaster risk reduction financing can contribute to minimising avoidable L&D through community-resilience building, recovery programs after extreme weather events and constructing resilient infrastructure. Integrating L&D in DRR programs and assessments will be important for coherency and synergies with other funding streams. As of yet this stream does not address permanent and long-term loss of livelihoods, displacement, and NELDs (identity, cultural heritage) caused by climate change.

3.3. Overseas development assistance

ODA is pinned by the commitment of developed countries to contribute 0.7% of GNI (which has never been met) agreed in 1969. The OECD DAC lists ODA recipients and tracks “ODA flows” (grants, loans and other flows) which “is administered with the promotion of the economic development and welfare of developing countries as its main objective” (OECD, 2021). As an umbrella stream, financing towards DRR and/or climate finance can be included (or risks double counting) under ODA.

This type of finance is supposed to be concessional and have a minimum grant element depending on the target country (e.g. 45% to LDCs) and maximum rate of discount (e.g. 9% for LDCs). Around 57%-60% ODA is provided by bilateral development projects, programmes and technical cooperation, while multilateral contributions are incrementally taking more space (OECD, 2022).

In 2022, ODA reached an all-time high at US$ 204 billion—representing an increase from US$ 186 billion in 2021, and US$ 172.3 billion in 2020. In 2022, there was a slight surge in international involvement for financing the processing and hosting of refugees because of the war in Ukraine (as well as in-donor costs) (OECD, 2023). Still, the ratio of ODA GNI reached just half of the 0.7% international aid target (average of 0.36% across all DAC donors) (Craviotto, 2023).

While ODA for sustainable development is increasing, there remains a gap relative to developing countries’ needs [estimated as 56% in 2019] (OECD, 2022). Given the small ratio to adaptation, this gap fuels underlying drivers of vulnerability (poverty, inequality, access to basic services) and the disproportionate effects of climate change. There is also an issue of fragmentation with a multitude of actors issuing a range of financial instruments across different sectors. The share of loans and private sector investment in sustainable development skews the conditions (debt burdens) and volume. Further, ODA is not flowing necessarily to the most vulnerable—for example, in 2021 up to 97% of all sustainable investments were held in High Income Countries.

3.4. Humanitarian Aid

Humanitarian aid in the context of the UN is one of the 1945 Charter’s principles. Therefore it has its own mandate, actors and decision-making processes under the UN appeal system. 90% of humanitarian aid is around “the provision of goods and services in the aftermath of crises and disasters” managed by UN agencies and other accredited organisations such as NGOs (Clarke and Hillier, 2023). Most assistance is directed to conflict areas, protracted crises and hosting refugees, with some key areas of focus such as displacement and food insecurity. In the last few years, assistance was also directed to address pandemics (e.g. US$ 3.8 billion allocated to COVID-19 response in 2020) and the Ukraine war in 2022 (Urquhart et al., 2022).

Funding for humanitarian aid from public and private actors is on a steady rise (see Figure 2), reaching an all-time high in 2022 at US$ 46.9 billion due to an increased response to support for Ukraine. Every year, between 60-64% of funding requirements are met, resulting in a shortfall of US$ 10-20 billion (Urquhart et al., 2022).

Appeals linked to climate-related events (mainly drought, flooding, tropical storms) are estimated 8 times higher than preceding decades (36% of appeals in 2000 to 78% in 2021) (Carty & Walsh, 2022). Funding requirements for UN humanitarian appeals linked to extreme weather in 2020 were at around US$ 18 billion, and over US$ 20 billion in 2021. However, on
average only 54% of appeals involving extreme weather are funded, resulting in a gap of US$ 28-33 billion (Clarke and Hillier, 2023).

While humanitarian aid addresses intersections of climate-related events with other sources of conflict and disasters, notably food insecurity and displacement, it faces financing shortfalls. It addresses immediate needs in the aftermath of climate-related disasters, yet is less suitable for addressing permanent L&D, NELD (cultural, biodiversity) and facilitating predictable financing to support long-term rehabilitation to climate change impacts. It is also worth noting that a tiny (and decreasing) percentage is allocated to local actors (12% in 2022); while civil society is advocating for L&D funding to be different by making it more accessible to vulnerable communities (Urquhart et al., 2022).

4. REFLECTIONS

Existing funding streams are showing a steady upward trend, and have some overlapping activities that can support minimising L&D in vulnerable developing countries by supporting activities listed under Article 8 in the Paris Agreement on Loss and Damage. Negotiations around funding L&D are running a parallel and highly interrelated path to the reform agenda of the global financial architecture. During the recent climate summit held in September, the United Nations General Assembly convened IFIs and other relevant entities with a view to identifying the most effective ways to provide funding to respond to needs related to addressing L&D and further how these IFIs can consider contributing to funding arrangements (including new and innovative approaches) (as per Decision 2 CP.27-/2/CMA.4). Mapping out current financing channels and identifying actions to fill gaps, such as the possibility of new taxes or levies as sources, is critical towards addressing issues of accessibility, along with overall coherency and complementarity (Wemaere et al., 2022).

Permanent and irreversible climate change impacts to communities and ecosystems as well as Non-Economic Loss and Damage are still not covered by existing streams, and the new L&D fund could direct additional funding to address these effects.

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7 Including that only 75% of extreme weather-related disasters in low and middle income countries have been covered under UN appeals (Carty & Walsh, 2022).


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