



APRIL 25th, 2023

Towards 'Demand-Driven' and 'Context-Determined' approaches to financing Loss and Damage

A SUBMISSION TO THE TRANSITIONAL COMMITTEE

In taking forward its work to create recommendations required by, and in support of, Decision 2/CP.27 the Transitional Committee (TC) seeks to understand the nature of specific needs, gaps in existing arrangements, and key examples of solutions associated with efforts to provide financing required to minimise and address loss and damage.

The associated decision and mandate of the TC is clear on the intention to:

- Ensure complementarity between the 'Fund', new finance made available through existing funding arrangements, and in all considerations of new arrangements created in support of the decision (5d).
- Ensure the establishment of the new 'Fund' is initially targeted towards supporting loss and damage issues which are least 'addressed' through existing arrangements (6c).
- Ensure efforts made in support of the decision increase coordination and collaboration in the interest of deploying finance at a scale appropriate to the needs that exist (6a).

This submission has interpreted the requests and prospective workplan of TC at the conclusion of TC1 as reflective of an overall need to better articulate responsibilities, scope of definitions and concepts that help create distinction between what is available and what is missing.

- **This submission is made in the effort to support the premise of the value proposition offered by the Fund as well as a means to further define the structure of the 'Fund' in keeping with the recommendations required in support of section 5a of the decision.**
- **This submission is inclusive of a specific proposal in relation to the design of the Fund (5a) but is also inclusive of rationale that may be considered relevant to the information requested in relation to section 6(d).**

Proposal Detail

Operative Questions:

- *How to finance efforts to address loss and damage in a way that is responsive to diverse contextual needs?*
- *How to avoid conflicting views on comparative legitimacy of need?*
- *How to reduce conceptual negotiations and a focus on definitional issues in favour of the prioritisation of an arrangement that, by design, assures responsiveness to specific needs within specific contexts is the main condition of entry?*

1) Proposals / Principles

- I. The Fund should support the scale up and promote the establishment of nationally (or regionally) determined, context appropriate instruments and arrangements for addressing loss and damage.
- II. The Fund should not be designed to fund projects and programmes developed specifically as proposals to the Fund.
- III. The Fund should place the onus on Parties to develop sustainable arrangements, products, and financial solutions while noting that the fund would then review and approve any proposed instruments / arrangements seeking connection to the central fund.
- IV. A focus on the case-by-case review of demand-driven national/regional arrangements would be a means to balance the interest of the range of stakeholders and contexts involved using a common set of conditions and indicators for approval. The approval / endorsement would be for an ongoing arrangement and be contingent on understanding the inherent value and output of that arrangement. This approach would not be contingent on a set of indicators and templates from which to vet one-off projects.
- V. Loss and Damage interventions are unlikely to be conceived as projects and instead are likely to be organized through national social protection arrangements, specific support systems, risk-transfer products, and other financial modalities.
- VI. Accessing financing loss and damage is a major challenge, however, finding ways to effectively use financing to address loss and damage is a further challenge. The fund should incentivize the efforts to find effective solutions.
- VII. This system would require design of standardized measures for evaluating established funding arrangements and funds but would not require Parties to define ridged overarching 'values' and 'priorities' needed to make the specific determinations required when evaluating project interventions.

2) Expected implications of Proposals and Principles

If the proposed principles and proposals were adopted the expected outcome would be that:

- I. The Fund would not be designed to fund projects directly or to consider and require project proposals.
- II. The Fund would not seek to replicate broad 'national accreditation' requirements and would focus solely on evaluating robust / existing arrangements and systems proposed to receive funds from the central fund.
- III. The Fund would be designed to endorse/ approve nationally or regionally (multi-party) designed instruments for minimizing/addressing loss and damage in a particular operative context. This pre-requisite to endorse the funding of proven instruments and in so doing, would incentivize Parties to develop a) context defined financing solutions, b) context appropriate measures to address loss and damage, c) increase the ability to access funds from a variety of sources on an ongoing and predictable basis. This arrangement would also be expected – a) reduce the need for an overarching decision on gaps and priority activities, b) reduce the need to make broad conclusions around who is eligible, c) place emphasis on the technical credibility of national/regional mechanisms to directly and continually address loss and damage directly.
- IV. Placing emphasis on national instruments established by parties that demonstrate credibility, national legal status, and the necessary processes to deliver against localized needs, would demonstrate a significant departure from the existing financing paradigm. This approach would encourage the development of solutions which can be sustained over time, flexibility, in response to local needs.
- V. This approach would incentivize co-investment required to develop tangible solutions at the national level.
- VI. This approach would require Parties seeking access to funding to develop relevant mechanisms to address particular loss and damage needs and reduce risk of 'broad stroke' proposals and funding needs being put forward.

3) Anticipated Operational Implications resulting from Proposals and Principles

- I. The Fund, following the review and endorsement of a particular national mechanism based on a set of credible and mutually agreed parameters, will deploy funds to that instrument. Endorsement of the national instrument will be based on context-sensitive review focused on indicators that measurable and linked to the overarching elements of addressing loss and damage which are unlikely to be contested or difficult to deconflict between settings, contexts, and circumstances. For example – review factors could focus on 1) beneficiaries and evidence of how funding is translated into alternatives and solutions, 2) the robustness and transparency of the oversight system in place for the modalities employed disperse financing, 3) the governance of the mechanism and its respective ability to create solutions that can be attributable and understood.

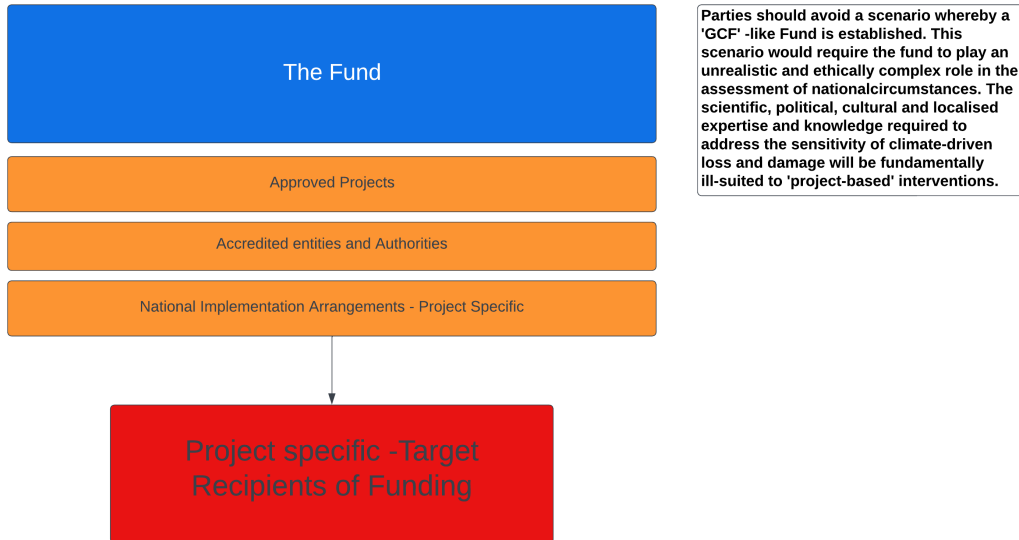
- II. An emphasis on funding credible arrangements rather than individual proposals or initiatives would offer a means to create sustainable and additional financing arrangements targeted at supporting the most vulnerable. It would also incentivize Parties to develop these arrangements collaboratively with the potential end users / beneficiaries of the funding provided.

4) Summary of Value Proposition

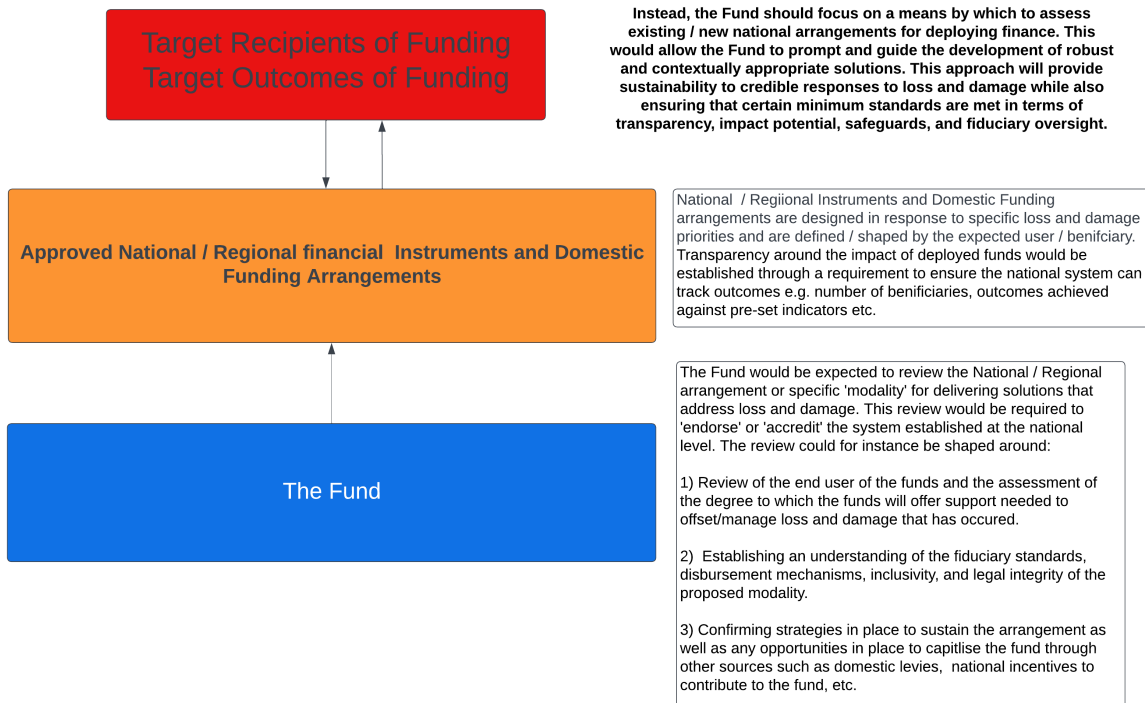
- I. The proposed principles, operational recommendations, and resulting dynamic removes the emphasis on projects, national accreditation, funding cycles, and access timelines. These dynamics place emphasis on the endorsement by the Fund of credible and effective national / regional 'instruments and funding arrangements' which can receive support from the fund as well as derive support from other existing arrangements or new arrangements. This approach is not dissimilar to the concept of 'risk layering' promoted by traditional disaster risk financing narratives, however, differs in its target outcomes (see annex 1).
- II. This arrangement and structure places the onus on the Party seeking financing to address loss and damage to demonstrate a means by which to use funds in a transparent and effective way.
- III. This dynamic will help ensure that those parties with credible plans and institutional arrangements for loss and damage are able to access financing. Parties, with credible arrangements, are likely to be under pressure to develop those arrangements due to the reality of the need and the scale of the need. Through this logic, the need to differentiate between contexts, vulnerabilities, scales, and local nuances would be somewhat mitigated.
- IV. This proposal seeks to remove the potential for politics, negotiations, influence, and third-party interests to interact with the framing and focus of the fund.
- V. This proposal seeks to mitigate the risk that the operationalization of the Fund will be contingent on the ability to reach conceptual consensus on context-relevant issues and arrive at definitions that exclude one priority in favor of another. This proposal would require the fund focus on issues, instruments, and national arrangements on a case-by-case basis. The effectiveness of the national arrangement put forward would be under review rather than a specific intervention, need, type of loss and damage, or broad bid for additional support.
- VI. Financing loss and damage is an ongoing imperative that exists against the backdrop of major ongoing shortfalls in global emissions reduction performance and a sustained deficit in financing for adaptation – therefore, under current projections, the demand and scale of loss and damage financing will increase over time. Efforts to address loss and damage must therefore be designed around concepts of 'flexibility' and 'responsiveness'. Experiences to date have shown the way in which a lack of pre-designed provision for flexibility and responsiveness have resulted in the inability of major climate funds and entities established under the UNFCCC to evolve effectively with the needs of both the contributors and beneficiaries of its funding.

VII. The graphical depictions below provide a basic visual overview of this proposal.

Basic Depiction of the approach used by existing International Climate Funds



Basic Depiction of a 'Demand-Driven' Approach to the Design of the Fund



5) Additional Detail on Assumptions and Views

- a) That climate change induced loss and damage, in most cases is not the result of either slow onset climate impacts or sudden onset events but is instead the result of a confluence of both.
- b) That the IPCC confirms that the impacts of climate change are, by default, determined and shaped by the specific and particular social, economic, and environmental profiles and innate characteristics of nations, regions, locations, and communities.
- c) That the dynamics of ‘climate inertia’ mean that there will continue to be limited short term responsiveness / sensitivity between mitigation efforts and the drivers of loss and damage that are already in progress.
- d) That the aforementioned factors severely undermine the premise, logic, and feasibility of assessing loss and damage gaps, needs, and typologies at a global scale.
- e) That the proposed fund, must, by design, consider the above ‘classification and quantification’ barriers and in so doing create a means of deployment that is context defined and context responsive.
- f) That any global fund or funding arrangements must have eligibility requirements and ‘barriers to entry’ to avoid exploitation of funds, but that the means to define these required conditions of entry are not limited to the experiences and methods applied by global climate funds to date (i.e., GCF, AF etc).
- g) That though Paragraph 6 of the Decision illustrates information that will inform the work of the TC, it is premised on the fact that a financing gap has been recognised by Parties, and while the quantification of the gap at any given time may be difficult to evaluate empirically, current science, experience, and practice confirms, unequivocally that there is unlikely to be a realistic scenario whereby the perceived ‘gaps’ are not increasing at a significant rate.

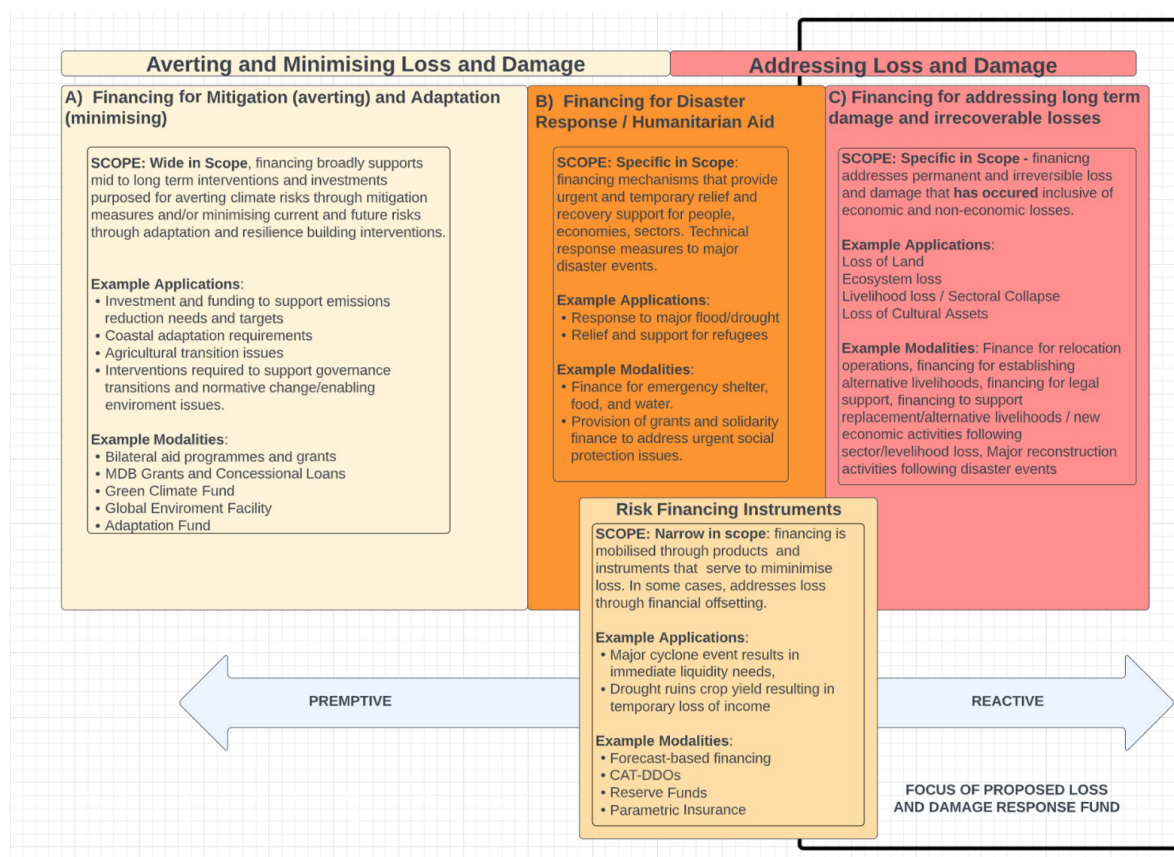
Recommendation

It is recommended that:

1. the TC considers this proposal and framing as a further basis of understanding to support the articulation of its work. It is also recommended that the above framing is used to inform the context of the TC’s deliberations under the relevant paragraphs of the decision text. .
2. this proposal is referenced moving forward through the concept: ‘demand-driven’.
3. this submission is considered alongside the associated case study submitted by Fiji which demonstrates an example which is relevant to this proposal.

Annex 1 – Defining Additionality

Without dedicated financing for loss and damage climate vulnerable countries will face rapidly rising debt burdens and efforts to ‘self-address’ loss and damage will have a detrimental effect on the limited existing financing available for long term resilience building. As a result, many Parties will continue to require financial support to ‘address’ loss and damage that is accessed and channelled through ‘additional’ sources and financing arrangements. Expanding sources of funding available to support climate resilience and address loss and damage is imperative as existing sources of financing will be insufficient. As a result, the concept of ‘additionality’ is of particular importance. The following graphical depiction is offered as a basic means to understand the relationships between the broad dimensions that separate financing devoted for activities to avert, minimise, and address loss and damage. This depiction illustrates a view on the relationships between traditional climate financing, humanitarian aid, risk financing, and the largely undeveloped realm of measures to fundamentally address loss and damage from an anticipatory or reactive posture.



Action to address shortfalls in adequate financing for adaptation, mitigation, and action to address loss and damage must be considered *in concert* and understood as inter-related and therefore, the financing challenges addressed by the TC must be understood in relation the various UNFCCC workstreams mandated to address fundamental financing issues, deficits, and improvements needed to increase both effectiveness and responsiveness. Financing associated with the response to loss and damage should be deployed with an understanding of existing unmet mitigation and adaptation needs and associated financing shortfalls. This understanding is important as in many cases it is these shortfalls that have interacted with / increased the need to address loss and damage.

These aforementioned assumptions should inform the concept of ‘additionality’ in relation to financing for loss and damage.

Submission Endorsed by
Mr. Kushaal Raj, Director of Climate Change, UNFCCC Focal Point for Fiji
kushaal.raj@finance.gov.fj

Submission Contact:
Mr. Daniel Lund, TC Adviser and Loss and Damage Contact Point, Fiji
danieljeromelund@icloud.com