

**Heinrich Böll Stiftung Washington, DC¹ and supporting organizations²:
Submission on views regarding paragraph 5 of 2/CP.27 and 2/CMA.4 to inform
the discussions at the 2nd meeting of the Transitional Committee (TC2) in
response to the invitation in TC1/2023/3/Rev.3**

I. Introduction

The Heinrich Böll Stiftung Washington, DC and supporting organizations as civil society observers to the proceedings of the Transitional Committee (TC) and the ongoing work under its mandate as detailed in paragraphs 4-6 and the Annex of 2/CP.27³ and 2/CMA.4⁴ appreciate the invitation by the TC as detailed in its workplan in document TC1/2023/3/Rev.3⁵ to submit their views to inform the discussions of the second meeting of the TC (TC2) from May 24-27, 2023.

The TC's specific and historic mandate has to be seen in the context of paragraph 3 of decisions 2/CP.27 and 2/CMA.4 outlining the core task and aim enunciated by the decision, namely *"in the context of establishing the new funding arrangements referred to in paragraph 2 above, to establish a fund for responding to loss and damage whose mandate includes a focus on addressing loss and damage"*. [Emphasis added.]

Given the time-bound mandate of the TC's work, and its limited opportunities to convene, the main focus of the work of the TC must be on delivering the recommendations that will operationalize the new fund (hereinafter: 'Loss and Damage Fund' or LDF). The discourse about defining elements of new funding arrangements and identifying and expanding sources of funding, as well as ensuring coordination and complementarity with existing funding arrangements, with which the TC is also tasked (decision paragraph 5(b),(c),(d)) should be viewed through the lens of what is needed to establish the LDF at the center of and as the main multilateral fund at the core of the evolving funding architecture for addressing loss and damage.

This submission will therefore focus on providing views and recommendations in response to paragraph 5 of 2/CP.27 and 2/CMA.4 in particular with respect to suggestions regarding the institutional arrangements, modalities, structure, governance and terms of reference of the LDF as requested in paragraph 5(a) of the TC's mandate.

This submission is made on behalf of the **Heinrich Böll Stiftung Washington, DC** and supported (in alphabetical order) by **ActionAid International; Akina Mama wa Africa, Uganda; cambioMO/Changing Mobility; Community Transformation Network (CATFONE) Uganda; Equidad de Género: Ciudadanía, Trabajo y Familia, Mexico; FEMNET; Grupo para o Desenvolvimento da Mulher e Rapariga (Group for the Development of Women and Girls, GDMR), Mozambique; The Loss & Damage Collaboration; Natural Justice; Women Engage for a Common Future (WECF); Women for a Change, Cameroon; Women's Environment & Development Organization (WEDO).**

¹ For questions regarding this submission, please contact Liane Schalatek, Associate Director, Heinrich Böll Stiftung Washington, DC at liane.schalatek@us.boell.org.

² The following organizations (in alphabetical order) are supporting this submission: ActionAid International; Akina Mama wa Africa, Uganda; cambioMO/Changing Mobility; Community Transformation Network (CATFONE) Uganda; Equidad de Género: Ciudadanía, Trabajo y Familia, Mexico; FEMNET; Grupo para o Desenvolvimento da Mulher e Rapariga (Group for the Development of Women and Girls, GDMR), Mozambique; The Loss & Damage Collaboration; Natural Justice; Women Engage for a Common Future (WECF); Women for a Change, Cameroon; Women's Environment & Development Organization (WEDO).

³ <https://unfccc.int/documents/626569>

⁴ <https://unfccc.int/documents/626561>

⁵ https://unfccc.int/sites/default/files/resource/TC1%20Paper%203%20Workplan_Final.pdf

II. Suggested core institutional arrangements and modalities for the LDF in response to paragraph 5 (a) 2/CP.27 and 2/CMA.4

In focusing its work on the LDF, the TC can draw on and learn from prior experiences, specifically the design process for the Green Climate Fund (GCF) and its then transitional committee⁶. As in the design process for the GCF,⁷ the most important outcome for the TC must be to adopt at its 4th meeting a **consensus draft governing instrument /draft charter for the LDF** to be considered and adopted by Parties at COP28/CMA5 in Dubai in November/December 2023. Such a charter or governing instrument should provide core details on the Fund’s objectives, guiding principles, governance and institutional arrangements, eligibility, funding windows and structure, access modalities, allocation and programming and approval processes as well as highlighting monitoring, evaluation and accountability features and mechanisms and detailing stakeholder/observer participation and engagement opportunities. It would constitute the skeleton indicative of scale, scope and importance of what is supposed to become the main multilateral fund for addressing loss and damage over time and the core of the still evolving loss and damage finance landscape once its operational policies and frameworks are fully fleshed out and funding operations have begun.

While of course the new LDF’s mission and objectives must be different from the GCF and other existing funds under the UNFCCC, as well as multilateral funds and funding arrangements outside of the UNFCCC in order to focus on existing financing gaps for addressing loss and damage (see Figure 1 below), the operational experiences of these funds – what has worked, as well as challenges, barriers and shortcomings that countries and communities face especially with respect to accessibility, simplification of approval procedures, timeliness of decisions and responsiveness to locally-led needs and priorities – must be taken into account to leap-frog and expedite the fit-for-purpose operationalization of the LDF. Climate change is already causing widespread adverse impacts and related losses and damages, with grave effects on gender and social equity, as the most recent Intergovernmental Panel on Climate Change (IPCC) synthesis report confirmed in urging policy makers to action.⁸ The need for financing to address loss and damage reflects the short-comings of mitigation actions with a rapidly closing time-window and the continued chronic underfunding of adaptation that have led to already occurring catastrophic loss and damage in the first place. With Loss and Damage distinct from adaptation and mitigation, the LDF must provide *“new, additional, predictable and adequate financial resources to assist developing countries that are particularly vulnerable to the adverse effects in climate change in responding to economic and non-economic loss and damage”* as stipulated in FCCC/CP/2022/L.18-FCCC/PA/CMA/2022/L/20.

The following sections detail the proposed objectives and guiding principles as well as some core functions and criteria for governance and institutional arrangements and recommended operational modalities of the LDF in line with its suggested focus on providing comprehensive financing approaches to address loss and damage and with core principles of climate justice and equity, chiefly common but differentiated responsibilities and respective capabilities (CBDR-RC).⁹

⁶ <https://unfccc.int/process-and-meetings/bodies/funds-and-financial-entities/green-climate-fund/meetings-of-the-transitional-committee-for-the-design-of-the-green-climate-fund>

⁷ See, e.g. Draft governing instrument for the Green Climate Fund, Annex I https://unfccc.int/files/cancun_agreements/green_climate_fund/application/pdf/advance_version_fccc_cp_2011_6_report_of_the_tc_to_the_cop.pdf

⁸ https://report.ipcc.ch/ar6syr/pdf/IPCC_AR6_SYR_SPM.pdf

⁹ The following sections draw on the following publications unless otherwise noted: Sharma-Khushal S, Schalatek L, Singh H, White H (2022). The Loss and Damage Finance Facility Why and How. CAN International, Christian Aid, Heinrich Böll Stiftung (Washington, DC), Practical Action, Stamp Out Poverty. Available: <https://us.boell.org/en/2022/05/31/loss-and-damage-finance-facility-why-and-how>. Loss and Damage Collaboration and Heinrich Böll Stiftung Washington, DC (forthcoming). The Loss and Damage Finance Landscape. Draft paper for comment, March 2022. Available: https://drive.google.com/file/d/1TfZ_vi3ii3ry0jwNiuBQ3q6HXJD13oWG/view. Asian Peoples’ Movement for Debt and Development (APMDD) (2023). Open Letter to Members of the Transitional Committee . Signed by 115 Asian Community and

Figure 1: Illustrating the funding gap for addressing loss and damage¹⁰

	Averting loss and damage	Minimising loss and damage	Addressing loss and damage		
Impacts			Reversible → Irreversible		
			<ul style="list-style-type: none"> • Super storms • Heatwaves • Forest fires • Floods • Droughts 	<ul style="list-style-type: none"> • Sea level rise • Desertification • Glacial melt • Erosion 	<ul style="list-style-type: none"> • Loss of biodiversity (including extinction of species)
Mitigate Adapt Address	Climate change mitigation	Climate change adaptation	Recoverable → Permanent and irrecoverable losses		
	Reducing greenhouse gas emissions	Risk reduction: <ul style="list-style-type: none"> • early warning • emergency preparedness • building dykes • retrofitting infrastructure 	Economic losses → Non-economic losses		
			Humanitarian assistance: <ul style="list-style-type: none"> • relief • recovery • reconstruction • rehabilitation <ul style="list-style-type: none"> • social protection • resilient rebuilding 	Loss of culture	Loss of heritage
Displacement			Temporary displacement	Permanent relocation	Loss of territory
Funding	Dedicated but insufficient		Limited → No funding		

OBJECTIVES AND GUIDING PRINCIPLES

The LDF is expected to make a significant and ambitious contribution to combating climate change with an **exclusive focus on financing to address loss and damage to assist developing countries that are particularly vulnerable to the adverse effects of climate change**¹¹. The LDF should be consistent with, based upon and guided by the provisions of the Convention, such as Articles 3 and 4.3, and the Paris Agreement, in particular relevant provisions such as Articles 2.2 and 9.¹² It should operate in a

Civil Society Organizations. March 25, 2023. Available: https://docs.google.com/document/d/1KlIJB1RQI_9Z-RUbt5cl2OWVu-gPH2h7bK_Gb-B_gRg/edit. Bakhtaoui I et al (2022). Operationalizing Finance for Loss and Damage: From Principles to Modalities. Stockholm Environment Institute. Available: <https://doi.org/10.51414/sei2022.045>. They are also informed by the GCF's Governing Instrument. Available: <https://www.greenclimate.fund/sites/default/files/document/governing-instrument.pdf>

¹⁰ Stamp out Poverty et al. (2021). Unpacking Finance for Loss and Damage. Spotlighting the Finance Gap. Stamp Out Poverty, Heinrich Böll Stiftung Washington, DC, ActionAid, Brot für die Welt, Practical Action. Available: <https://us.boell.org/sites/default/files/2021-05/Spotlighting%20the%20Finance%20Gap%20-%20Loss%20and%20Damage%20brief%203.pdf>.

¹¹ This reference can be found in UNFCCC, Article 3.2. The UNFCCC includes in its preambular paragraphs, the following: "Recognizing further that low-lying and other small island countries, countries with low-lying coastal, arid and semi-arid areas or areas liable to floods, drought and desertification, and developing countries with fragile mountainous ecosystems are particularly vulnerable to the adverse effects of climate change". The UNFCCC also refers to "countries whose economies are highly dependent on income generated from the production, processing and export, and/or on consumption of fossil fuels and associated energy-intensive products" and "landlocked and transit countries".

¹² This was reiterated in recent submissions to inform the 2nd Glasgow Dialogue and secretariat workshops to inform the work of the Transitional Committee, see e.g. Bolivia and Ecuador on behalf of Like Minded Developing Countries (2023) Submission on the topics for and the structure of the 2nd Glasgow Dialogue and the workshops referred to in paragraph 7(a) of FCCC/CP/2022/L.18–FCCC/PA/CMA/2022/L.20 Available: https://www4.unfccc.int/sites/SubmissionsStaging/Documents/202302281532---LMDC_2nd_GLASDialogue.pdf; Brazil on behalf of Argentina Brazil Uruguay (2023) Views on topics for and the structure of the 2nd Glasgow Dialogue and the workshops

transparent and accountable manner guided by equity and effectiveness and responsive to the needs of affected countries and communities, including their right to sustainable development, by taking a human rights based and gender-responsive approach. The LDF should be scalable and flexible and operate as a learning institution with a focus on knowledge creation, management and transfer based on science and lived experiences and guided by monitoring and evaluation.

Key guiding principles¹³, *inter alia*, that should guide mobilization and provision of financing through the LDF include:

- **Historical responsibility and polluter pays:** The UNFCCC principle of common but differentiated responsibilities and respective capabilities (CBDR-RC) recognizes that nations have contributed and continue to contribute unevenly to climate change through historic and current emissions. On the basis of international cooperation and solidarity and guided by the principle of CBDR-RC reflecting historical responsibility, developed countries as historic polluters are mandated under the Convention and the Paris Agreement to provide climate finance, which must include the provision of finance to address loss and damage. As historic polluters, developed countries must make substantive public finance contributions to the LDF. Likewise, the polluter pays principle holds polluting industries, such as the fossil fuel industry, to account for the climate damages they have caused; they should be compelled to contribute to the LDF via an international tax or levy.
- **New, additional, predictable, precautionary and adequate:** Adequate finance means financing that addresses financing gaps, responds to the needs of developing countries and vulnerable communities (such as expressed in needs assessments) and is commensurate with the challenge it seeks to address. This means access to finance at scale for developing countries and vulnerable communities and in a form that does not aggravate existing (debt) burdens. It is essential that this funding does not take away from or diminish finance provided by developed countries for adaptation and mitigation, and that it is provided on top of commitments for Official Development Assistance (ODA), ensuring traceability and trackability. This is also important because some climate vulnerable countries are not eligible for ODA or other forms of concessional multilateral finance¹⁴. A precautionary approach anticipates various levels of Loss and Damage at or above the 1.5- and 2-degrees thresholds and provides support for action across the spectrum. It is important that recipient countries have planning security to implement sustainable approaches and measures via long-term financing, hence funds must come from reliable sources, funding amount must be known and stable and provided regularly over multi-year cycles.
- **Country/local ownership and subsidiarity:** Comprehensive country ownership guarantees the respect for sub-national and local priorities within recipient countries and puts the communities and population groups most vulnerable to and affected by loss and damage, such as women and other marginalized gender groups, Indigenous Peoples, persons with disabilities, youth or elderly in the driver seat in ensuring that the LDF provides funding support responding to the needs and priorities of local beneficiaries. Decision-making and implementation on LDF financing provided should be on the most local level possible. As such, local-level ownership, a

referred to in paragraph 7(a) of the Sharm el-Sheikh Decision. Available:

https://www4.unfccc.int/sites/SubmissionsStaging/Documents/202302221805---ABU%20-%20LnD%20-%202nd%20Glasgow%20Dialogue_220223.pdf

¹³ Drawn additionally from Richards J, Schalatek L (2017). Financing Loss and Damage: A Look at Governance and Implementation Options. Heinrich Böll Stiftung Washington. Available: <https://www.boell.de/en/2017/05/10/financing-loss-and-damage-look-governance-and-implementation-options>; Schalatek L, Bird N (2023). The Principles and Criteria of Public Climate Finance - A Normative Framework. Climate Finance Fundamentals 1. Heinrich Böll Stiftung (Washington, DC), ODI. Available: <https://climatefundsupdate.org/wp-content/uploads/2023/03/CF1-2023-ENG-Normative-Framework.pdf>

¹⁴ Achampong, L. (2023), "In focus: Reforming climate finance", in Development Co-operation Report 2023: Debating the Aid System, OECD Publishing, Paris. Available: <https://doi.org/10.1787/98de3607-en>

people-centered and human-rights based funding approach and gender-responsiveness must be guiding principles in the governance and disbursement of LDF financing.

- **Equitable, adequate, and directly accessible for the most affected:** Loss and damage financing should be directly accessible for all impacted developing countries and communities, potentially with special provisions for those considered to be most vulnerable/affected, while safeguarding that within those countries finance will be prioritized to provide benefits directly to the most impacted, poorest and most marginalized population groups such as women or Indigenous Peoples. Impacted people should receive direct access to such resources in a gender-responsive way as well, for example through national/sub-national small grants approaches, the set up of community-managed funds, or direct subsidies.¹⁵
- **Human rights-based approach and gender equality:** A human rights-based approach to loss and damage finance provision is a moral imperative to ensure that the basic needs and rights of recipients, including the rights of women and marginalized gender groups, Indigenous Peoples, children, the elderly and persons with disabilities, are protected and promoted and that they are empowered to address loss and damage in a manner suited to their specific circumstances, that enables them to hold financial contributors and implementing agencies accountable through transparency mechanisms, access to information and meaningful participation in decision making and project implementation processes. In addition to human right impact analysis, the LDF must conduct intersectional gender analyses to understand the level of access that women, Indigenous women and racialized women have to climate finance flows and the power dynamics within a community, in order to design a system that enshrines gender equal access¹⁶. Additionally, it is crucial that recipients have access to effective grievance mechanisms and remedies if the project violates their human rights, livelihoods or the environmental integrity of their communities. The impacts of loss and damage are intergenerational, as such, the finance to address loss and damage must also account for the needs of future generations that are impacted by loss and damage created before they were born¹⁷. For LDF interventions, a ‘do no harm’ approach, as well as a proactive component to design and implement loss and damage interventions in a way that not only avoids the violation of rights or discrimination, including Indigenous Peoples’ right to Free, Prior and Informed Consent (FPIC), but also prioritizes and actively supports the enjoyment of basic human rights (including right to food, adequate housing, right to development and a decent standard of living and wellbeing etc.) in a ‘do good’ approach are necessary.¹⁸

GOVERNANCE AND INSTITUTIONAL ARRANGEMENTS

The LDF was established as a fund by a decision of both the COP and the CMA¹⁹. It therefore follows that the LDF should serve both the Convention, with its core principle of equity and CBDR-RC, and the Paris Agreement, which identifies loss and damage as a separate pillar. It should join the GEF and the GCF and be designated as the third operating entity of the Financial Mechanism under Article 11 of the

¹⁵ Richards J, Schalatek L (2017). Financing Loss and Damage: A Look at Governance and Implementation Options. Heinrich Böll Stiftung Washington. Available: <https://www.boell.de/en/2017/05/10/financing-loss-and-damage-look-governance-and-implementation-options>

¹⁶ Achampong, L. (2023), "In focus: Reforming climate finance", in Development Co-operation Report 2023: Debating the Aid System, OECD Publishing, Paris. Available: <https://doi.org/10.1787/98de3607-en>

¹⁷ ActionAid (2019). Market solutions to help climate victims fail human rights test. Available:

<https://actionaid.org/sites/default/files/publications/Loss%20and%20Damage%20Finance%20and%20Hum....pdf>

¹⁸ Richards J, Schalatek L (2017). Financing Loss and Damage: A Look at Governance and Implementation Options. Heinrich Böll Stiftung Washington. Available: <https://www.boell.de/en/2017/05/10/financing-loss-and-damage-look-governance-and-implementation-options>

¹⁹ UNFCCC (2022). COP27/CMA4. Funding arrangements for responding to loss and damage associated with the adverse effects of climate change, including a focus on addressing loss and damage. Available: <https://unfccc.int/documents/624440>

UNFCCC, and serve in the same function for the Paris Agreement. As such, the LDF will be accountable to and function under the guidance of the COP and the CMA, from which it will receive instructions including on matters related to policies, programming priorities and eligibility criteria. The LDF, governed by a board or governing council, will respond to guidance received by taking appropriate actions and will report annually to the COP and the CMA on its work and impact.

The LDF could serve as a financial arm of the WIM, and also receive some operational guidance from the WIM, even though as an operating entity of the financial mechanism it will not be placed directly under the WIM but operate with its own governing and oversight body. The LDF will need to closely coordinate with and align with the mandate of the WIM, including by building on and drawing from the technical knowhow and knowledge management of the WIM in fulfilling its financing function and thereby complementing and strengthening the WIM, including activities under the Santiago Network on Loss and Damage (SNLD), on financing approaches to address loss and damage.²⁰

Board/Governing Council

The LDF should be governed by a decision-making body (such as a Board or Governing Council), which should be composed with equitable representation of developed and developing countries with a majority of seats for developing countries (such as is currently the practice in the Adaptation Fund or GEF, but not in the GCF). Board members should be self-selected by relevant United Nations regional groupings and constituencies (developed and developing countries) based on their experience with loss and damage and climate finance, with the overall Board composition striving for gender balance in addition to regional balance. Board composition should reflect the special circumstances and elevated vulnerability of Small Island Development States (SIDS) and Least Developed Countries (LDCs) by designating ideally more than one seat to them respectively. Applying core lessons learned and building on the best practice examples of a number of funding mechanisms, such as the Global Fund, UN-REDD or humanitarian response organizations, the LDF decision-making body should give voice and vote to representatives from affected communities and civil society organizations as full board members, and thus go a step further than the current practice at the GCF, where civil society is only represented as active observers, but without the right to vote. Each LDF board member should have an alternate, with LDF decisions made by consensus as the default decision-making procedure. The Board, following the example of the Global Fund, the Global Agriculture and Food Security Program, and other funding institutions, could also include **non-voting members** allowed to actively observe and contribute to the deliberations of the LDF; those could include representatives of the WIM, the GEF or GCF as operating entities of the financial mechanism, or representatives for UN agencies or international organizations focused on disaster relief and humanitarian actions as well as UN human rights organizations or authorities.

The LDF board will **govern and provide supervision** over the LDF and be responsible for all its funding decisions in line with the fund's criteria, principles, policies and programs. It should approve all operational policies, guidelines and procedures, access modalities and funding cycle and structures, including for programming, the fund's administration and its financial management. The LDF Board should be able to establish, add or modify funding windows or substructures, including committees and panels, as needed. It will appoint the head of the LDF Secretariat. It will also develop working and coordination arrangements with other relevant bodies under the Convention (including the WIM and the other operating entities of the financial mechanism) and other relevant international institutions outside of the UNFCCC as part of the LDF's role in catalyzing and coordinating financial support to developing countries to address loss and damage throughout the evolving loss and damage finance landscape.

²⁰ Bakhtaoui I et al (2022). Operationalizing Finance for Loss and Damage: From Principles to Modalities. Stockholm Environment Institute. Available: <https://doi.org/10.51414/sei2022.045>

Given the need for the LDF to be able to quickly disburse funding, while the LDF board will have ultimate responsibility, individual funding decisions should not require a lengthy process and a formal LDF board meeting (as is the case with, for example, the GCF). Rather, the LDF board must create mechanisms by which such individual decisions can be devolved, done through a trigger mechanism, or otherwise taken on demand, including between formal meetings.

With the LDF as the leading multilateral fund for addressing loss and damage, the board will take the lead in enhancing **complementarity and coherence** between the activities of the LDF and the activities of other relevant national-level, bilateral, plurilateral, regional and global funding mechanisms supporting loss and damage. Lastly, with the LDF expected to be flexible and scalable to grow with anticipated needs, the decision-making body will steer the fund's operations as it matures and evolves over time as needed to fulfill the objectives and guiding principles of the LDF.

Secretariat

An independent secretariat, headed by a manager/director appointed by and accountable to the Board, should be set up to run the day-to-day operations of the LDF with sufficient professional staff with relevant technical, administrative and financial expertise and aiming for gender-balance. Drawing on lessons learned, the diversity of staff backgrounds and experiences is crucial, particularly for understanding the lived experience of affected communities in developing countries. The LDF secretariat will liaise with the members of the Board, implementing partners and recipient countries, as well as with cooperating national, bilateral and multilateral institutions and agencies; it will operationalize programming and funding cycle processes and carry out monitoring and evaluation. **Of particular importance to ensure that the LDF is a learning institution that grows and improves would be the establishment of knowledge management practices** in support of the core coordination and leadership function as the flagship multilateral fund for addressing loss and damage and to inform **other actors in the evolving loss and damage finance architecture**.

CORE OPERATIONAL MODALITIES

Eligibility

All developing country Parties to the Convention and the Paris Agreement should be eligible to receive resources from the LDF to cover documented economic and non-economic losses and damages, irrespective of whether any developing country voluntarily contributes to resource mobilization efforts of the LDF and at what scale. Eligibility should not be determined or differentiated by income classifications used outside of the UNFCCC. The LDF should provide financing, primarily on a full-cost basis, for a comprehensive set of activities related to economic and non-economic losses and damages, including capacity building and readiness support. Following the principle of comprehensive country ownership, locally-led actions and subsidiarity that is to guide the LDF, it should support recipients in accordance with their articulated needs and priorities, including as elaborated under NDCs, NAPs or potential future country-specific loss and damage needs assessments or long-term implementation and investment plans specifically for funding for slow-onset events, with an overall priority on the needs of the communities and population groups most vulnerable to and affected by loss and damage.

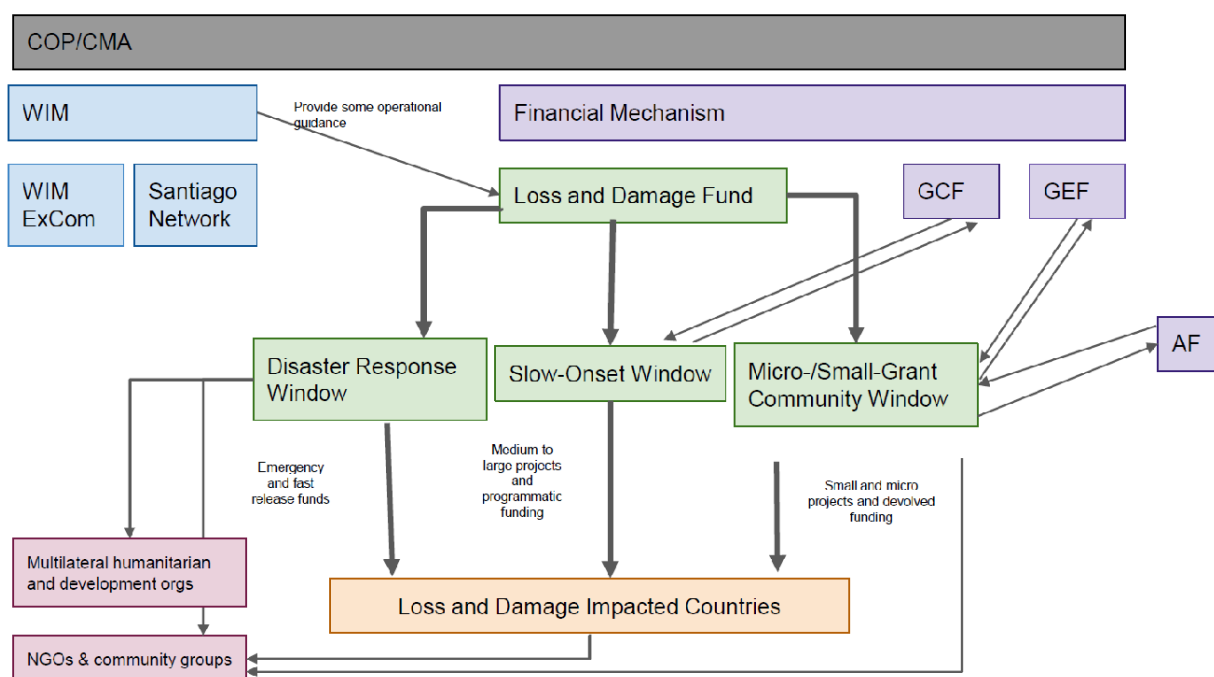
Funding Windows and LDF Structure

The LDF should start out initially with at least two, ideally three distinct funding windows, each with differentiated **'fit-for-purpose' programming modalities** and application procedures to be developed in order to be responsive to the needs of recipient countries and affected communities, the time-frame of

needed responses, and to specifically address shortcomings and apply lessons learned from existing funding mechanisms. These are 1) a **rapid or disaster response window** to provide quick release funding in the aftermath of climate disasters; 2) a **slow-onset window** to provide funding for longer-term loss and damage planning and policy framework and support transformative programming (such as permanent relocation or a just transition to alternative livelihoods); 3) a **micro/small-grant community window** to allow for direct access for subnational and local actors, in particular affected communities and civil society organizations working directly with them for both fast-response and slow-onset activities. The LDF decision-making body could add, modify or remove additional windows or substructures as needed.

Additionally, the LDF could set up a comprehensive **readiness and capacity support program** at LDF level, building on the experience with readiness and preparatory support provided by the AF and GCF to national and sub-national entities in recipient countries. Such support should be coordinated with and complementarity with technical assistance provided under the SNLD and prioritize South-South and peer learning and knowledge transfer.

Figure 2: Structure of LDF and placement under UNFCCC²¹



Access Modalities, Programming and Approval Processes

Recipient countries' engagement with the LDF should be through a designated **national agency or body**. This could be either existing designated authorities or focal points already registered with other climate funds, WIM loss and damage contact points or ideally broader country coordinating mechanisms (such as the best practice model by the Global Fund) that would bring together different stakeholders both governmental and non-governmental, and including representation from civil society and local communities. These designated national bodies would be responsible for approaching the fund with all funding requests under the disaster response and slow onset windows.

²¹ Loss and Damage Collaboration and Heinrich Böll Stiftung Washington, DC (forthcoming). The Loss and Damage Finance Landscape. Draft paper for comment, March 2022. Available: https://drive.google.com/file/d/1TfZ_vii3ry0jwNiuBQ3q6HXJD13oWG/view.

The LDF should provide **simplified access to funding**, allowing for both international access (through international entities such as UN agencies or internationally operating development, disaster relief or humanitarian assistance organizations) and direct access (through subnational and local, national and regional entities) as needed and requested by recipient countries and communities. To the extent possible, direct access, including through the consideration of the LDF Board of additional modalities that further accelerate and enhance direct access, should be prioritized. Access features could be differentiated for different windows.

For the disaster/fast response window, access would not require countries to work through accredited entities. Instead, a country's request for funding could be triggered by the requesting country's declaration that a "loss and damage event" has occurred in line with agreed criteria determined by the LDF and verified in each specific case by a set of independent technical experts in a panel appointed by the LDF Board. Such agreed criteria (which would have to be regularly reviewed and updated, as knowledge and a shared understanding of loss and damage events grows) could include parametric triggers, such as a specified percentage loss of GDP, an unprecedented weather-related event (such as the flood in Pakistan in 2022), a percentage of the population impacted, or in the case of a population-rich country a minimum population number threshold.²² The funding request would not require a detailed implementation plan or elaborated proposal other than some indicative areas of support (for knowledge management and information sharing) and description of adequate safeguards in place. In line with the principle of country ownership, the recipient country government would receive the funding released as direct budget support to aid in immediate relief, recovery and rehabilitation efforts. In developing countries that have already set up relevant structures, such as national climate change trust funds or disaster relief funds, the transfer could be channeled to those existing national structures at the recipient country's request. A minimum percentage of approved funding for the recipient country under fast response to a designated loss and damage event (with the minimum to be determined by the LDF Board) should be channeled as small grant or direct cash support directly to affected communities via the LDF small program window.

For access to the LDF's slow-onset window, funding requests should be for **programmatic** funding approaches to the extent possible to prevent isolated projects based on a country programme or investment plan. Countries would actively select their implementation partner from existing international and direct access entities already accredited and in good accreditation standing with the GCF, GEF and AE (and in accordance with the risk, scale and fiduciary implementing capacities of those entities as verified through prior accreditation with either or several of these funds). Only funding requests advanced through Recipient countries might also nominate for accreditation with the LDF other entities (both international and direct access ones), which would then go through an LDF accreditation process based on specific criteria, including fiduciary standards and environmental and social safeguards, with prioritization for national entities. Direct budget support under the slow-onset window could be explored, for example channeled through national climate change trust funds with which the LDF would have special cooperation agreements or memoranda of understanding. To simplify and speed up funding approval procedures, funding support could be standardized or pre-approved for specific activities and measures, such comprehensive loss and damage needs assessments. The LDF Board could also devolve funding decisions up to a specific amount and for specific activities to the Secretariat or Board committees to accelerate funding release.

For access to the micro/small grant community window, the LDF should set aside a specific allocation of available funding annually for enhanced direct access for communities and directly affected people, ensuring inclusivity and equity for particularly marginalized population groups, for slow-onset

²² Stamp out Poverty et al. (2021). Unpacking Finance for Loss and Damage. Spotlighting the Finance Gap. Stamp Out Poverty, Heinrich Böll Stiftung Washington, DC, ActionAid, Brot für die Welt, Practical Action. Available: <https://us.boell.org/sites/default/files/2021-05/Spotlighting%20the%20Finance%20Gap%20-%20Loss%20and%20Damage%20brief%203.pdf>

related activities, including specifically for non-economic loss and damage, to be channeled through the small program window of the LDF. Funding for slow-onset activities for communities, ideally following a template approach to speed up processing times, would be released through the Secretariat. Such support should build on best practice experience of existing small grant funding programs such as the Dedicated Grant Mechanism for Indigenous Peoples and local communities under the Forest Investment Program or the GEF-UNDP Small Grants Programme, where at country-level some community-led coordinating mechanisms are set up which can make funding decisions on small grants. The LDF could also explore the extent to which they would channel funding through some of these existing structures through cooperation agreements with other funds. In fast response to disasters, a minimum percentage of approved LDF funding for the recipient country following a designated loss and damage event (with the minimum to be determined by the LDF Board) should be channeled as small grant or direct cash support directly to affected communities via the LDF small program window either through established community-led country-coordinating mechanisms or through accredited small-grant funders or humanitarian organizations.

Financial Instruments

The LDF should provide funding exclusively in the form of **grants**, including by prioritizing full cost grants. Requiring incremental cost approaches, as the GCF and GEF currently do, and related complex methodologies (a 'climate rationale' approach to either differentiate a funded activity from development finance or adaptation approaches) would be burden-some on recipients in light of continued data and capacity gaps and lingering definitional uncertainty around activities to address loss and damage. This would be applying lessons learned from the GCF's experience with adaptation support.

Allocation

The LDF Board or Governing should ensure that the allocation of LDF resources takes into account the comprehensive funding approach by ensuring that resources are balanced between response measures for rapid-onset and slow-onset events with flexibility as needed. An allocation framework should set-aside a certain percentage of funding (for both fast-response and slow-onset activities) to be channeled through a possible community access window directly to non-state actors. The LDF should take the urgent and immediate needs of particularly vulnerable countries and populations already severely affected by loss and damage, including in SIDS, LDCs and African states, into account. Following the example of the allocation framework of the GCF, it could ring-fence certain financing amounts, or set minimum floors in both main windows for funding directed towards these countries. To ensure equity in finance provision, allocation parameters should be differentiated between the fast-response and slow-onset windows. While the core determinant under the fast-response window would be urgent needs based on scale of the extreme weather event and the country's capacity to address it, the LDF could consider instituting some country caps or minimum allocations under the slow-response window, to prevent a 'first-come-first-serve' that leaves less capacitated countries behind. As both funding caps and minimum allocation guarantees would be a response to an insufficiently funded LDF, such a resource allocation management approach becomes less important for an adequately resourced fund.

Stakeholder Engagement and Participation

An LDF Charter or Governing Instrument should stipulate that effective and inclusive participation of all relevant stakeholders – specifically from affected local communities and including civil society organizations, groups that have been made vulnerable through historic marginalization such as women, Indigenous Peoples, and persons with disabilities, and youth – in the design, development and implementation of the strategies, policies and activities to be financed by the LDF should be promoted and secured, including through the development of appropriate mechanisms at the Fund and recipient

country levels and adequate access to information. At the Board level, the voting representation of these groups through self-selection should be assured. The Secretariat, if so decided by the Board, could set-up and host special advisory groups to guide the development of relevant policies and framework for consideration by the Board, such as on gender or Indigenous Peoples. It could also develop rosters of local experts from communities and civil society to help with readiness and capacity building support. In recipient countries, broad stakeholder participation should be ensured in country coordination efforts on loss and damage finance, especially with respect to long-term planning and the articulation of funding needs and priorities, by building on existing coordination entities or distribution mechanisms (such as the existing liaisons of designated authorities or focal points with the GEF, GCF or AF or existing national implementing entities already accredited with those funds) and in coordination with the SNLD. The aim for the LDF should be to be able to engage with true country coordination mechanisms, such as those modeled for example by the Global Fund.²³

III. Putting the LDF at the core of new and evolving funding arrangements to address loss and damage in reference to paragraph 5 (b) (d) of 2/CP.27 and 2/CMA4

Where a new LDF as the core of new funding arrangements would fit within the climate finance architecture is a matter of discussion and contention. At COP27, a proposal by the developing country group of G77 & China²⁴ and civil society groups called for the LDF to be established as the third operating entity under the Financial Mechanism of the UNFCCC, which also serves the Paris Agreement, joining the GEF and GCF. As such the LDF would be placed at the core of the new and evolving funding arrangements to address loss and damage in order to respond to the COP27 mandate and ensure accountability as well as equity in the way it is implemented and fulfilled in the long-term.

This becomes ever more important as the number of actors within and outside the UNFCCC engaged in some funding activities of relevance to loss and damage in response to extreme weather and rapid-onset events grows, although most, such as humanitarian and development finance actors, acknowledge they have limited ability within their respective institutional arrangements to provide finance for addressing loss and damage.²⁵ They are part of what has been termed a ‘mosaic of solutions’ in providing financing relevant for loss and damage. However such provision, the little stones of the mosaic to stay with the picture, is scattered and uncoordinated, lacking in transparency and accountability and failing to merge together to adequately and comprehensively deal with the growing need and complexity of addressing loss and damage, without a multilateral coordinating entity.

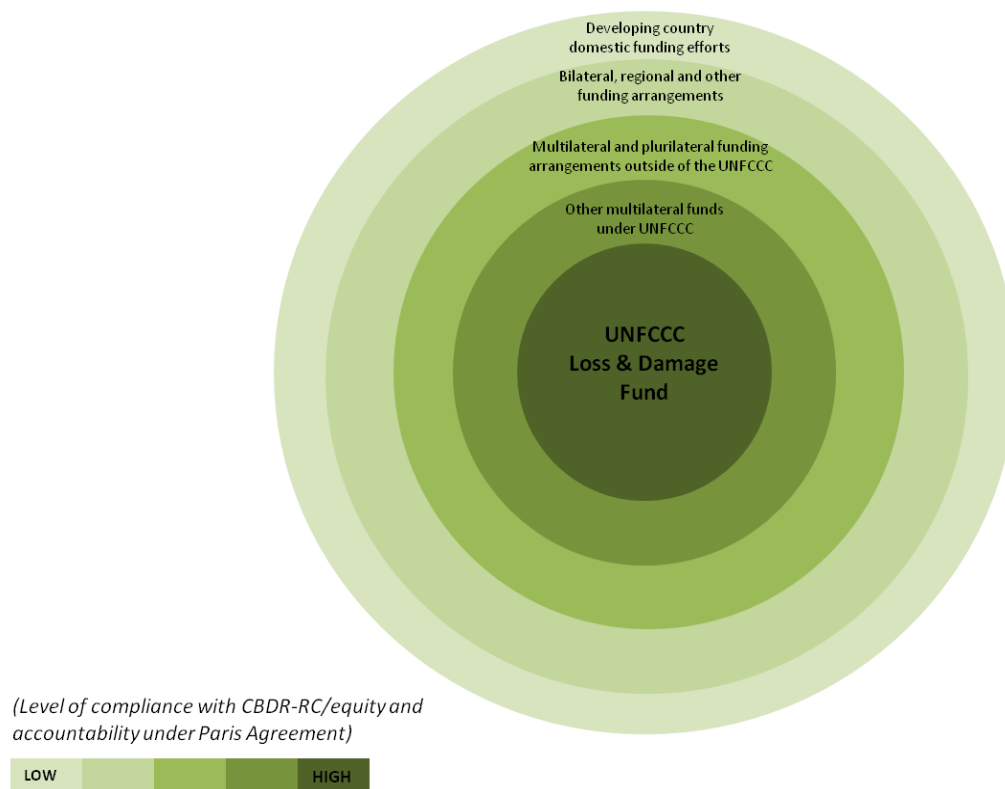
While it is clear that the LDF alone will not be sufficient to respond to all loss and damage finance needs, as the main multilateral fund for financing to address loss and damage and as an operating entity under the UNFCCC Financial Mechanism and also serving in the same function for the Paris Agreement it has the **mandate, authority and legitimacy to fulfill a coordinating function** to ensure complementarity and coherence in funding arrangements to address loss and damage. Instead of a ‘mosaic of solutions’, a **better image is thus one of concentric circles with the LDF at its core**. The concentric circles (or ‘layers’) of additional financing arrangements both inside and outside the UNFCCC indicate the decreasing levels of compliance with the responsibilities and principles under the UNFCCC such as CBDR and accountability under the Paris Agreement moving away from that core (see Figure 3 below).

²³ <https://www.theglobalfund.org/en/country-coordinating-mechanism/>

²⁴ G77 & China finance draft text on matters related to funding arrangements for responding to loss and damage, including a focus on addressing loss and damage. November 15, 2022. Available: https://unfccc.int/sites/default/files/resource/G77_Finance_L_D_Funding_Arrangements_Draft_Text_General_2022_11_15_Final.pdf

²⁵ This was articulated by a range of humanitarian, development and climate finance organizations during their presentations at the 1st meeting of the TC in Luxor. Relevant presentations are available at: <https://unfccc.int/event/TC1>.

Figure 3: Accountability and CBDR in the emerging loss and damage funding architecture



As the **leading multilateral fund in the consolidating loss and damage finance architectures**, the LDF would fulfill a key coordination task and signaling function to ensure broader complementarity and coherence of its distinct pieces. It would develop working and coordination arrangements with other relevant bodies under the Convention (including the WIM and the other operating entities of the financial mechanism) and other relevant international institutions outside of the UNFCCC as part of the LDF's role in catalyzing and coordinating financial support to developing countries to address loss and damage throughout the evolving loss and damage finance landscape. This would involve providing definitional and methodological leadership for loss and damage finance, setting up registries and sharing good practices as well as providing guidance for enhanced research such as on non-economic loss and damage where understanding and capacities have yet to be built to inform comprehensive loss and damage impact assessments of recipient countries. The LDF would also provide tracking, accountability and oversight over additional funding for addressing loss and damage from within existing funds under the UNFCCC and Paris Agreement as well as for funding mobilized and disbursed outside of the UNFCCC framework, including with respect to determining its additionality to financing provided for mitigation and adaptation or as a humanitarian response.²⁶

²⁶ Bakhtaoui I et al (2022). Operationalizing Finance for Loss and Damage: From Principles to Modalities. Stockholm Environment Institute. Available: <https://doi.org/10.51414/sei2022.045>. See also Sharma-Khushal S, Schalatek L, Singh H, White H (2022). The Loss and Damage Finance Facility Why and How. CAN International, Christian Aid, Heinrich Böll Stiftung (Washington, DC), Practical Action, Stamp Out Poverty. Available: <https://us.boell.org/en/2022/05/31/loss-and-damage-finance-facility-why-and-how>