

Glasgow Dialogue needs to deliver on Loss and Damage Finance Facility

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Key Messages

- Despite the failure in setting up a dedicated financial mechanism for loss and damage, the only demand met was in the form of a 'Glasgow Dialogue' between relevant stakeholders to discuss funding arrangement.
- This Policy Brief will chart a path to provide guidance for the L&D Finance Facility's rapid set up, setting expectations for the Glasgow Dialogue during the Subsidiary Body (SBs) meeting in Bonn.
- The expected outcome of the Glasgow Dialogue is to set-out the architecture and process through which to secure a COP decision to set up a Loss & Damage Facility by COP27 and its full operationalization by COP28.

What is Loss and Damage finance?

With a 1 degree increase in temperature above pre-industrial levels, climate change is already causing mayhem in different parts of the world. The term Loss and Damage (capitalised letters) refers to the political debate under the United Nations Framework Convention on Climate Change (UNFCCC) following the establishment of the Warsaw Mechanism for Loss and Damage in 2013, which is to 'address loss and damage associated with impacts of climate change, including extreme events and slow onset events, in developing countries that are particularly vulnerable to the adverse effects of climate change.' Lowercase letters (losses and damages) have been taken to refer broadly to harm from (observed) impacts and (projected) risks and can be economic or noneconomic (IPCC, 2018). Poor and vulnerable countries and communities being the least responsible for climate change with the lowest carbon footprints are already facing the majority of its negative impacts, in the form of both extreme weather events like hurricanes, and floods and slow onset processes such as sea-level rise.

The projected total economic cost of loss and damage is estimated to be 290-580 billion USD in 2030, 551-1,016 billion USD in 2040, and 1,132-1,741 billion in 2050 in developing countries alone (Markandya and González-Eguino, 2019).

Increased efforts to scale up finance to commensurate with the need of the most vulnerable is crucial for the communities to tackle the impacts from human induced climate change that they are currently confronting to rebuild their livelihood as well as economies. The needs for mitigation and adaptation finance are hardly addressed to the extent needed as made evident by the fact that the 100 billion USD goal has yet to be met. Hence finance for averting and minimising loss and damage needs massive upscaling and must be new and additional to the agreed 100 billion.

Originally, the term "Loss and Damage" under the UNFCCC was referred to the inevitable impacts of climate change that countries could not reasonably adapt to. Today, even the definition of the term is a major contentious issue due to major political controversies. Some still prefer to keep it under adaptation umbrella.

However, the biggest milestone achieved for Loss and Damage advocates was the Paris Agreement which clearly separate Article 7 on Adaptation and Article 8 on Loss and Damage, highlighting it as the third pillar of climate change.

Over the past several years, it has become even more and more evident that Loss and Damage is not the same as adaptation and requires its own funding stream. While the issue of a lack of a common definition to frame and address loss and damage remains, Article 9.8 of the Paris agreement provides a legal basis to tackle finance for loss and damage under the Financial Mechanism of the Convention and its operating entities (Serdeczny et al., 2021). As both the frequency and the intensity of climate impacts grows, the issue of securing a financial mechanism to address loss and damage is now more imperative than ever.

The first scientific assessment of the IPCC on loss and damage came in the Special Report on 1.5C (SR15) back in 2018, where it explicitly identified a rise in “residual risks” as temperatures increased, such as the decline of coral reefs and coastal livelihoods (Carbon Brief, 2018). The Report acknowledged the near certainty of loss and damage associated with the adverse effects of climate change. With time, IPCC reports have cited stronger implications towards loss and damage. IPCC Fifth Assessment Report (AR5) primarily associates losses and damages with extreme weather events and economic impacts, and treats it primarily as a future risk, while present value of losses and damages from slow-onset processes and non-economic losses receive much less attention (Van der Geest and Warner, 2021) .

IPCC Sixth Assessment Report is the first scientific report which explicitly highlights the importance of loss and damage in both international climate policy and climate science. The report notes that there is less discussion of the “existential dimension” of loss and damage, highlighting the inevitable harm and unavoidable transformation for some people and systems, resulting from climate change. The report also emphasises that assessment of non-economic losses and damages – including loss of societal beliefs and values, cultural heritage and biodiversity – is “lacking and needs more attention”. The complexity of defining loss and damage extends to the term “loss and damage” itself. The Summary for Policymakers (SPM) – the most politically relevant section of the report – includes no references to “loss and damage”, but does include 15 references to “losses and damages”. It states with high confidence that: “With increasing global warming, losses and damages will increase and additional human and natural systems will reach adaptation limits” (Chandrasekhar et al., 2022).

UN Secretary-General Antonio Guterres declared the IPCC Working Group I Report of the Sixth Assessment a ‘Code Red for Humanity’, highlighting already overstressed and limited coping capacities (United Nations, 2021).

Glasgow Dialogue decision at COP26

In a world experiencing increasing injustice and inequality, voices from the civil society representing frontline communities took the spotlight which pushed the agenda of securing a Loss and Damage Finance Facility during negotiations at COP26. As a result of the focused campaign by civil society, and of vulnerable developing countries articulating the importance of scaling up finance for Loss & Damage became the make or break issue of COP26. Under the pressure of CSOs and the most significant group of developing countries that is G77+China Group, the demand for “Glasgow financial facility for loss and damage” was gathering momentum.

However, the only loss and damage financial demand that made it into the final text was to establish a 'Glasgow Dialogue' between relevant stakeholders to discuss funding arrangements.

73. *Decides to establish the Glasgow Dialogue between Parties, relevant organizations and stakeholders to discuss the arrangements for the funding of activities to avert, minimize and address loss and damage associated with the adverse impacts of climate change, to take place in the first sessional period of each year of the Subsidiary Body for Implementation, concluding at its sixtieth session (June 2024);*

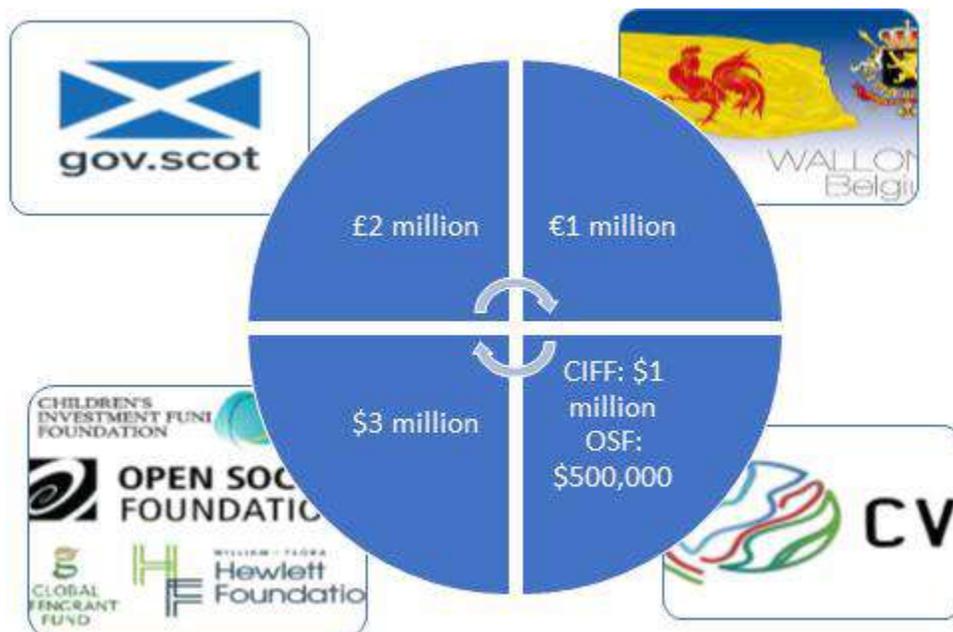
Despite not agreeing to a robust structure during COP26, with the process running through 2024, this is the first time where the need for a separate and dedicated stream for loss and damage finance has been recognized in a COP decision, which is a major milestone in the fight against Loss and Damage.

The latest development on the Dialogue is that as Subsidiary Body for Implementation (SBI) was mandated to organize the Glasgow Dialogue in cooperation with the Executive Committee of the Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts, the Dialogue will take place on the 7th, 8th and 11th June during the Subsidiary Meetings at Bonn.

The mandated event should be undertaken under the current work of the SBI on loss and damage finance-related issues to ensure that the outcomes of the Glasgow Dialogue are correctly reflected in the recommendations for the consideration of the COP/CMA to mobilise the establishment of the Loss and Damage Finance Facility. Such an approach is consistent with the COP and CMA's reiteration of the urgency of scaling up action and support, as appropriate, including finance, technology transfer and capacity building, for loss and damage.

Loss and Damage Finance Efforts

A positive outcome of COP26, despite raging failure in securing the Glasgow Facility for Loss and Damage, is the pledge by several government and philanthropies as a sign of Solidarity for those in frontline vulnerable communities facing the crude brunt of climate change.



Scottish Government Fund

Scotland has committed to playing a convening role on loss and damage, creating space for shared learning, collaboration and setting a common agenda. By the end of COP26, the initial fund pledged by Scottish First Minister Nicola Sturgeon of £1m, doubled to £2m, to “address” loss and damage (Evans et al., 2021). Following this, the Climate Justice Resilient Fund (CJRF) has launched a new partnership with the Scottish Government to deploy the initial £1 million to address loss and damage (Scottish Government, 2021). The Scotland-CJRF partnership is the first international funding from a Global North government that will explicitly support measures to address loss and damage due to climate change and this will serve as a pilot, providing a leading example to other donors regarding what to fund and how.

Government of Wallonia

Scotland’s leadership encouraged others to commit funding explicitly for addressing loss and damage where government of Wallonia, a region of Belgium, which committed €1 million (The Brussels Time, 2021).

Philanthropic Organizations

Following the pledge from the Scottish Government, 5 more leading philanthropies contributed an initial 3 million US dollars to support vulnerable countries hit by loss and damage resulting from climate change (CIFF, 2021). Among the philanthropies supporting the facility are the Children’s Investment Fund Foundation, the European Climate Foundation, the William and Flora Hewlett Foundation, the Open Society Foundations, and the Global Green Grants Fund.

During COP26, these blocs invited all parties and non-parties to the UNFCCC support the prospective Glasgow Loss and Damage Facility to help meet the needs of the world’s most vulnerable people.

CVF-V20 Fund

The most recent development in L&D Fund is the V20 L&D Finance Facility. Finance ministers of the V20 group of vulnerable nations, a coalition of 55 developing countries, have agreed to design and test a funding facility to address the losses and damages of lives, livelihoods and infrastructure caused by climate impacts, using their own resources from a joint CVF-V20 multi donor fund. In the absence of international support to help communities recover from climate disasters, the facility aims to practically demonstrate why it is needed and how it can help affected communities. The Children’s Investment Fund Foundation and the Open Society Foundation have respectively committed \$1m and \$500,000 towards the facility and the group is seeking further donations, including from G7 and G20 countries.

The V20 is expecting to present its facility design at COP27 climate talks in Sharm el-Sheikh in Egypt in November. By then, it hopes that some of the funds would have been disbursed to communities hit by climate impacts in V20 countries as part of pilot projects, taking the idea forward to stand as the center of discussions during the mandated Glasgow Dialogue and COP27 and beyond (Farand, 2022).

Loss and Damage Finance Facility: Guidance Principles

We are now at one of the most critical stages of the Loss and Damage negotiations. COP27 has received a clear mandate from frontline communities, civil society organisations, and the G-77+China which represent

the UNFCCC's largest negotiation bloc, - representing 6 out of every 7 people in the world – to deliver a Loss and Damage Finance Facility (CAN, 2022). This Policy Brief attempts to chart a path to provide guidance for the L&D Finance Facility's rapid set up, setting expectations for the Glasgow Dialogue during the Subsidiary Body (SBs) meeting in Bonn through to COP27 in Egypt, presenting and discussing the key work required going forward.

1. **Recognise the urgency and mobilise action on Loss and Damage:** Vulnerable communities are already facing major climate change impacts, and they need finance as soon as possible. This means new approaches and functional mechanisms are required to quickly harvest a pot of money dedicated for Loss and Damage and the mobilise the finance available to flow more quickly. Upon recognition of the urgency, the expected outcome of the Glasgow Dialogue is to ensure a COP decision to set up a Loss & Damage Facility by COP27 and its full operationalization by COP28.
2. **Make Loss and Damage finance additional:** As already reiterated several times, Loss and Damage is the residual impact of climate change that is beyond mitigation and adaptation limits. Due to being a separate agenda from mitigation and adaptation, any dedicated finance streams for Loss and Damage should be new, and additional to the \$100 billion per year that developed countries have already pledged, and not reallocated from other equally important purposes.
3. **Mobilise ASEG:** The Action and Support Expert Group (ASEG) being the WIM's specific working group on action and support, it is important that any arrangements for Loss and Damage finance have iterative learning baked into their mandates. Thus, the ASEG should dedicate efforts to set up the Finance Facility to support and facilitate a learning-by-doing process, using designated Focal Points (DFP) in each region to manage and disburse funds.
4. **Provide needs-based finance:** With differing status quo of the different regions of the world, finance for loss and damage should be disbursed based on the needs on the ground. This will require a careful analysis of the architecture of the region, the nature of disasters and the exposure and vulnerability of the frontline communities and cater to address their needs. For LDCs and SIDS, along with most of the developing countries, the L&D Finance must be in the form of grants, and not loans or insurance.
5. **Ensure national ownership:** Country ownership is essential in ensuring that finance reaches the populations that are most vulnerable and in need. Thus, first and foremost it is critical to support developing countries in enabling national level systems to distribute Loss and Damage finance to ensure country ownership, gender responsiveness and self-determination over how finance is used and its reach to those in need. This could be facilitated by the fully operationalised Santiago Network for Loss and Damage.
6. **Structure of finance:** Loss and Damage Finance should harness finance from various sources and should act as a global solidarity fund, bringing together a mosaic of finance to ensure it effectively supports a comprehensive response to cope with climate impacts. An international platform would incentivise collaboration between social development, humanitarian and climate actors. The disbursement structure needs more research and considerations, based on existing gaps. A recent study (Mechler and Deubeli, 2021) suggests a risk-based three-tiered Loss and Damage finance framework: finance for transformation, risk finance, and curative finance. In addition, innovative mechanisms should complement the existing structure, some of which includes the levy on air and maritime transport, carbon pricing etc.

7. **Access of finance:** Requirements that funding (whether from the financing facility directly or via national funds) be distributed to and in the control of communities enduring the greatest impacts of climate change. Hence a detailed mechanism needs to be designed, in consultation with the varying National and local governments, to cater to on the ground needs and ease of access of finance for set causes which will enable communities to shift from vulnerability to resilience and then towards prosperity.
8. **Governance of facility:** It must include strong requirements to protect against the risk for conflicts of interests to unduly influence how the finance is distributed and centre the representation and decision-making of communities of the most vulnerable (based on a set criteria), particularly in the Global South, including women, indigenous peoples, youth, and local communities. Hence it is important to devolve decision making at the lowest level possible to effectively address needs on the ground.

Conclusion

Loss and damage is a lived reality now where people face devastating impacts of climate change and cascading crises on a daily basis, trapping people in poverty and heavily threatening their human rights. Nine years after the creation of the Warsaw International Mechanism on Loss and Damage, vulnerable communities are still only getting minimal help, mainly as post disaster humanitarian aid. Substantial progress on securing Loss and Damage finance is an urgent humanitarian priority.

The expected outcome of the Glasgow Dialogue is to set-out the architecture and process through which to secure a COP decision to set up a Loss & Damage Facility by COP27 and its full operationalization by COP28. This Policy Brief intends to aid climate negotiators to break the stalemate on loss and damage and provide much-needed support to the people on the front lines of climate change.

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