Climate Change Loss and Damage

14th October 2021
Online event

Event report

Climate Change Loss and Damage

4th Deliberative Dialogue Report

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ICCCAD
International Centre for Climate Change and Development

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About the event

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IIED is a policy and action research organisation. We promote sustainable development to improve livelihoods and protect the environments on which these livelihoods are built. We specialise in linking local priorities to global challenges. IIED is based in London and works in Africa, Asia, Latin America, the Middle East and the Pacific, with some of the world's most vulnerable people. We work with them to strengthen their voice in the decision-making arenas that affect them — from village councils to international conventions.

The International Centre for Climate Change and Development (ICCCAD) is one of the leading research and capacity building organisations working on climate change and development in Bangladesh. ICCCAD's aim is to develop a world-class institution that is closely related to local experience, knowledge and research in one of the countries that is most affected by climate change. Its mission is to gain and distribute knowledge on climate change and, specifically, adaptation and thereby helping people to adapt to climate change with a focus on the global south.

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Climate Change Loss and Damage:

4th Deliberative Dialogue Report

The Loss and Damage (L&D) discourse was initiated three decades ago, became institutionalised under the UNFCCC process through the Warsaw International Mechanism (WIM) in 2013 and was given formal recognition in the Paris Agreement in 2015. Since then, while L&D has been considered as an issue needing resolution in solidarity with the climate vulnerable and poorer countries under the international climate regime, there has been a significant gap in the understanding on the actions and support (technology, capacity and finance) needed to tackle L&D at national, local and community levels. This in turn is impeding constructive, concrete action on the ground in terms of appropriate policies, delivery mechanisms to provide finance and support.

Through a series of deliberative dialogues IIED and ICCCAD aim to support Least Developed Countries (LDCs), Small Island Development States (SIDS) and other actors from vulnerable developing countries address this issue by jointly exploring solutions to four critical questions: (i) Where and what type of action and support is needed?; (ii) What works and in which contexts?; (iii) How such action and support can be delivered?; and (iv) How it can be financed?. Through these deliberative dialogues, we hope collectively to:

Create space for vulnerable developing countries and community members to tell their stories about L&D, communicate their priorities for action, share their solutions, and propose policy recommendations.

Co-generate a shared narrative and collective vision for L&D action that is based on evidence and build a global coalition of allies committed to communicating that vision in formal and informal spaces.

Establish a process that builds confidence between vulnerable developing countries (LDCs, SIDS), climate activists and developed countries on how to work differently together.

This process will culminate with the launch of a joint 'Political Roadmap' for action to avert, minimise and address L&D risks by 2030.

The first deliberative dialogue in this series concluded on 1st July 2021, considering the question of 'What are the realities of Climate Change Loss and Damage and what should we consider in responding?'. The second deliberative dialogue finished on 23rd July 2021, looking at the kinds of action and support needed to tackle Loss and Damage. The third deliberative dialogue concluded on 9th September, covering the topic of localised delivery of L&D actions.

The fourth and final deliberative dialogue in this series was held on 14th October 2021, following a meeting with an Advisors and Friends Group on 6th October 2021 where the issues and approach for the wider deliberative dialogue were consolidated. The fourth deliberative dialogue had participation from a range of stakeholders including vulnerable developing countries, CSOs, NGOs, developed countries and multilateral agencies.

How can action and support be financed to tackle Climate Change Loss and Damage?

To tackle Loss and Damage (L&D), adequate finance would be needed for early action, response and recovery from slow as well as rapid onset climatic events. Given the dynamic and broad spectrum on L&D impacts, the financing options will have to be agile as well as responsive to medium to long term needs to tackle L&D impacts. The fourth deliberative dialogue would seek to understand the practical financing needs of the vulnerable countries, the existing sources of finance and gaps thereof and how it can be delivered. This discussion will build on the discussions of the last three deliberative dialogue, where practical solutions were identified on what are the realities of L&D; what kind of action and support is needed; and how it can be delivered. This deliberative dialogue will explore this through the following thematic areas:

Session 1. What are the financing needs?

Challenges

The impacts of climate change, both slow and rapid onset, are increasing in both frequency and intensity. Exposed countries and communities around the world will need to deal with the losses and damages associated with these impacts both now and in the future. Responding to, and recovering and rehabilitating from, climate impacts requires resources. Resources currently available for adaptation actions which can minimise L&D are already insufficient.

In earlier dialogues support for early warning early action has been highlighted, noting not only the needs for early warning systems for extreme weather events (including the slow onset of drought), but the support to communicate that knowledge to decision makers at all levels – from community to politicians. This kind of anticipatory action can be used to build resilience in affected populations to withstand impacts when they occur. Identifying, ahead of time, the locations and systems unable to withstand different kinds of shocks (following a methodology developed for asset management) would support anticipatory resilience building, be a framework to institutionalise roles and responsibilities in the event of a shock, and pre-define ways of reaching vulnerable communities before, during and after crises.

When a L&D event occurs, effective rapid-response humanitarian-type response is needed (ideally both anticipatory and post-event) that reaches all levels. Short- and long-term rehabilitation work after an event requires financing, including addressing non-economic L&D such as support for those suffering trauma or protecting those newly exposed to abuse, violence or exploitation after an event. Amongst those long-term actions might be processes of preparing communities for dignified migration or having an education that can prepare youths for new forms of work in other places (noting the proposal for migrant friendly cities in Bangladesh where young people can move for education and establish a community where family members can then join later).

Addressing these financing needs domestically is a huge challenge given the structural problems of indebtedness and growth of compounding debts at the national level. Of course, not all debt is climate related, however when 50% of IDA countries (the International Development Association of the World Bank) are at high risk of debt distress or already in debt distress, exposure to climate hazards can reduce credit worthiness (do industries fail climate stress tests?), and enduring L&D will wipe out significant

proportions of GDP in one action, as well as reduce the ability to service debt as countries mobilise to protect populations after an extreme weather event, for instance. Some highly climate vulnerable countries (including many SIDS) are ineligible for the most concessional loans as they are categorised into higher income brackets based on per capita calculations. Debt cancellations and debt swaps have been noted as long term tools to address compounding debt, and pausing debt servicing after a disaster could be a tool to reallocate budget to disaster response.

Priority solutions co-identified by participants

Loss and damage finance must be separate from adaptation finance. Addressing loss and damage requires resources, including finance. Where USD 100billion was dedicated to climate adaptation, no such financial commitment has been made for loss and damage. Although adaptation can work to minimise and reduce future loss and damage, there are limits to adaptation. Addressing loss and damage requires resources—funds that are specifically dedicated to recovering and rehabilitating from climate impacts. This is not a unique idea--documents submitted to the WIM demanded finance for loss and damage from climate change from predictable sources of at least $50bn per year by 2020, with plans to increase to at least $200bn per year by 2030. Although particpants strongly felt that L&D funding should be separate, they emphasized that currently adaptation finance is itself grossly underfunded and so it is important that it does not take away from existing and committed adaptation finance.

"Climate finance for L&D is neglected within current financing."

Loss and damage finance must reach the most vulnerable and the poorest. Poor people are those worst affected by climate impacts. Consequently, they are also those who experience the greatest loss and damage from climate impacts. National and international funding for addressing loss and damage is extremely limited within LDCs and SIDs. When funding is made available, participants highlighted that poor people (especially those in informal urban settlements) are often excluded from the fiscal space. This exclusion is not just related to cliamte change finance, much of the compensation related to the recent COVID-19 pandemic in developing coutnries did not reach those living in informal urban settlements. In many cases, this comes down to factors such as entitlement and legitimacy. A lack of land tenure and legal identity mean that poor people in cities are not accounted for and cannot access entitlements. It is thus imperative, that loss and damage finance maps onto and reaches those most vulnerable to L&D.

"Identity, entitlement, and invisibility are important criteria. In cities hit by tsunamis…all the money that came in went to formal and not informal settlements."

Needs-assessments are critical. Loss and damage finance is critical. However, estimating the type and scale of finance that is needed is a difficult task. Participants highlighted that arbitrarily choosing the amount of finance to be committed to loss and damage will not work. Rather, there must be a strong evidence-based approach to financing, one that includes bottom-up needs-assessments. Identifying, ahead of time, the locations and communities unable to withstand different kinds of shocks, and what would be needed by communities to support rehabilitation and recovery, would mean that decisions around the type, scale, and amount of finance is needs-driven. NAPs and NDCs are one avenue for LDCs and SIDs to communicate these loss and damage needs explicitly and comprehensively. These needs-assessments will also help in ensuring that financial requirements in addressing non-economic loss and damages are also considered.

"[There is a] need for needs analysis and bottom-up approach - what would the needs for L&D be?"

Session 2. How to get the finance to most vulnerable countries and communities?

Challenges

International flows of finance must get to the climate vulnerable *countries* that most need funds to address L&D, and it must also reach the *communities* that are most affected by climate induced L&D. These fund flow also need to be timely to enable countries and communities take early/ anticipatory action and respond to humanitarian crisis in time, while responding to medium- and long-term risks.

There are several crucial principles that are relevant to discussions of financing L&D, and how to get finance to those most affected by L&D. These include the 'Polluter Pays Principle' and the 'Do No Harm' rule, which relate closely to calls for compensation and climate justice. Such principles point towards the need for transfers of finance at scale from Global North to Global South. This is aligned with the UNFCCC's principles of equity and of 'Common but Differentiated Responsibilities and Respective Capabilities' (CBDR-RC). In addition to these formal principles, civil society has generated momentum[1] around Solidarity as a key principle for international cooperation in addressing L&D with dignity. The broader solidarity concept has given rise to pro-poor and humanitarian principles[2], including humanity, impartiality, and 'leave no one behind'. International L&D finance needs to reach the most climate vulnerable countries and communities in time[3]. This may provoke the question of who is 'most' climate vulnerable, and how can LDCs, SIDS, and small island states facing existential threat be prioritized. For example, the ND-GAIN index has tried to represent nations' vulnerability and readiness. A matrix like this would need to be made comprehensive to represent the diverse vulnerabilities that LDCs and SIDS face in diverse contextual realities: a country-level multicriteria analysis could identify sectors, communities etc. that are most likely to suffer L&D. The criteria could also identify financial vulnerability in respect of needs to address L&D (as well as fiscal space available to responds to shocks).

Establishing a new fund at the international level is one route to focusing efforts and attention on L&D financing. However, to address the L&D happening already today, designing, agreeing on an operationalizing the structure and routes to access a new fund may take a long time to establish, be expensive to maintain and may not deliver impact for some time.

It is also critical to consider what principles should apply to ensure finances reach the people and places that need it most *within* countries. At the national level, how should finance for addressing L&D be distributed to those who need it? There is a need to ensure that such finance reaches people and communities in need, and that communities themselves know what rights to support they may have so they can be prepared to access funds. National governments will need to undertake vulnerability assessment based on a range of parameters and then use it to prioritize sub-national regions and communities for fund disbursement. However, in the case of L&D, timely fund delivery will be equally important to ensure funds are available for anticipatory action, early action to take communities to safety before a disaster strikes and for post disaster humanitarian and recovery options. The Principles for Locally-Led Adaptation (LLA) can also apply to L&D action, to ensure that decision making power, agency, and finance reaches local actors. These principles advocate for devolving decision making to the lowest appropriate level and addressing structural inequalities faced by marginalized groups such as women, children, people with disabilities, displaced people and Indigenous Peoples. They push towards a 'Whole of Society' approach, whereby decisions are made at the lowest most effective level (integrated subsidiarity) but action is implemented across levels, not in isolation. Another factor important with be adequacy of finance – vulnerable countries and communities will need access to adequate finance to enable to respond to L&D risks in a holistic manner.

Transparency is linked to all of the above principles, and is explicitly included in the sets of Locally-led Adaptation and human rights principles. To ensure transparency (and accountability), it is of vital importance to track who has access to funding and how it is being used. There must also be a distinction drawn between funds going to adaptation and L&D – one suggestion could be to consider funds spent

[1] Heinrich Boll Stiftung et al (2021) Source: Link available here
[2] Bread for the World et al (2019) Source: Link available here
[3] Zurich Flood Resilience Alliance (2020) Source: Link available here

after the adaptation threshold has been crossed as L&D financing (which is often *after* an extreme event). The OECD financial reporting mechanisms would need updating and reforming to change how the adaptation Rio Marker is used.

Priority solutions co-identified by participants

Principles can bring people together to understand how and why finance should flow between and within countries to reach the most vulnerable. Participants identified that the issue of historic responsibility for climate change must be considered in assessing where financing should be sourced, and that there will be a need for solidarity with other countries by wealthy countries as they address their own increasing instances of L&D. Burden sharing is a feature of the Paris Agreement and the UNFCCC. Providing finance based on principles guided by solidarity and climate justice framing would also overcome the issues of allocation based on national per capita income which prevents many island states, severely exposed to climate risk, from accessing affordable finance. Principles to approach L&D financing should also consider the timeframes that actions to address L&D may need to cover--anticipatory action will have different requirements than an action during and event and action to help rehabilitate after an event.

"You can't have just one financing model, especially at the community level"

There are a range of existing mechanisms through which L&D finance can be delivered to the local level. During the recent COVID pandemic, greater use was made of social protection mechanisms where funds are rapidly disbursed to preidentified recipients. Participants stressed the need for rapid disbursal, suggesting tools like localised hubs where decentralised finance can be accessed quickly. Other existing mechanisms that could be used to channel L&D financing are credit unions, susu networks or faith based channels: already existing socially endorsed channels of finance. As community groups practice using small amounts of funding and then aggregate they would be able to access other forms of support (through the government sector programmes or otherwise).

"Administration fees take up quite a lot of the money from funds – are those that really need the help getting the money?"

Greater volumes of finance are needed to provide support. Participants noted that whilst mechanisms exist that could be suitable for delivering finance for L&D (e.g. the Small Grants programme under the GEF) greater volumes would be required to provide adequate support. This would also apply to the Caribbean Catastrophe Risk Insurance Facility, where participants suggested that other countries or entities should be able to contribute to it. Contrastingly, the GCF, though mandated to act on L&D, would require significant changes to fulfil its mandate on L&D. The long timeframes for disbursal were noted, as well as the cost of administration fees (though this issue applies more broadly).

"if you take 4 years to get a GCF project through, then you will endure another 3 category 5 cyclones in that time"

Session 3. What sources of finance are available and in what form it can be delivered?

Challenges

Through the COP26 negotiations processes, LDCs and SIDS are seeking new, additional and dedicated stream of financing for L&D. As things stand**, there are insufficient volumes to address L&D, and financing action does not neatly fit into any single category of sustaiable development, climate or humanitarian financing.** L&D impacts affect each of these silos and there is poor top-down coordination between them to take responsibility for funding L&D actions. An example of this gap might

be financing education programmes to equip today's primary school aged children to be skilled for future dignified migration when slow onset events mean staying in the original location becomes beyond adaptation.

Under existing arrangeents, **the Green Climate Fund (GCF) is currently the only named financial mechanism under the UNFCCC named by the COP to support L&D. There are debates over its utility in this role**. The GCF already funds proposals that mainly avert or minimise L&D (they have funded fewer that address L&D), however the access modalities are extremely challenging and time consuming, and the appetite for risk is low with many conditions attached to access, discouraging practical L&D proposals. The legal processes involved in changing the GCF fund structure to have a dedicated L&D window or to alter investment criteria are possible but politically frought.

Domestic public finacing can be beyond the scope of government as compounding indebtedness and structural barriers on access to concessional credit, as discussed under theme 1, limit fiscal space. Multilateral development banks currently provide access to contingency finance that is rapidly disbursed when a trigger is reached (e.g. a cyclone of certain category). However, this finance is often in the form of debt and, additionally, by earmarking funds for contingency, the country is unable to use that proportion of its MDB allocation for persuing other development priorities or adaptation actions. Progressive domestic tax regimes (like a property tax) could be reformed to incentivise more climate resilient infrastrucure in communuties or developments by granting tax relief on capital expenduture in anticipation of future loss and damage, and potentially topped up by international sources. However, these incremental reforms may not reach those most financially vulnerable to shock and instead, as evidenced in Bangladesh, we often see households themselves finacning the greatest proportion of a disaster response (which of course fails many measures of climate justice).

New funds could be sourced through greater justice-based contribtuions from industrialised countries, risk can be shared across geographies and markets through insurance products, and new finance could be drawn from "innovative" sources like a robin hood tax, a Finacial Transaction Tax, Special Drawing Rights, Bonds (like Jamaica's Catastrophe Bond), re-allocating fossil fuel subsidies, debt cancellation/service payment pauses, air passenger levy, carbon taxes, etc. **These sources each have different levels of suitability, sustainability, feasibility and some are more appropriate for some contexts/risks than others**. For instance, insurance is more appropriate for rapid onset probabilistic events (but then if the vulnerable are paying the insurance premiums, is that just?). Carbon taxes fulfil pollutor pays principles, but when the world shifts to low carbon economies, it would become an unsustainable source of finance and fresh agreements would be required for a new source. An 'innovative' model for a new L&D fund could be based on the International Oil Pollution Control (IOPC) Fund, estabished by International Maritime Organisation Treaty. The IOPC centrally collect revenue from oil transporters for disbursement in the case of oil spills to restore beaches to the state they were before a spill, or to compensae hoteliers and fishermen for the lost of revenue (further explanation found here). In the context of L&D, this model could collect funds from high carbon emiters (guided by the principles dicussed under Theme 2 and alongside a mechanism to discourage continued high emissions) and disbursed in a L&D event.

A mosaic of sources and instruments will be required to meet L&D needs over different timescales. These could feed into national solidarity funds able to disburse funds through different windows geared towards different purposes. One window could operate like a catastrophe fund, being able to nimbley react to rapid onset events as well as attract and disburse funds for slow onset L&D impacts. Another might provide finance for anticipatory action, for non-economic L&D, or for risk reduction actions. The African Risk Capacity was established to support African governments to to strengthen their disaster risk management systems and access rapid and predictable financing when disaster strikes through risk pooling and risk transfer. The Ethiopian Humanitarian Fund also pools and disburses humanitarian financing to respond to disasters, including climate related disasters.

Priority solutions co-identified by participants

The appropriateness of different sources of finance for L&D will be different over different time horizons. There is a need to address L&D today. However, there is also a need to set up mechanism to secure finance in the mid to long term. Moreover, L&D is dynamic and the costs of addressing L&D will increase over time. This means that different sources of finance will need to be mobilised. Participants noted the constrained budgets for development aid, humanitarian aid, adaptation finance and the inadequacy of L&D finance to date. Providers of finance may look for more innovative sources of finance to avoid the political constraints on delivering more grant based finance, which raises complications of its own.

"L&D impacts are going to be increasing. Issue of sustainability to build into that time horizon – whatever is established must be able to grow as L&D needs grow in coming decades…"

A dedicated fund to supply finance to L&D actions is favoured by many participants. There is a clear need to pursue ambitious action on L&D and it was felt that a dedicated fund would not only focus political and advocacy efforts, but also support the specific needs of finance to address L&D and be guided by climate justice informed principles. Participants suggested that using existing mechanisms to deliver this finance (especially to the local level) would be beneficial given the time and resources required to establish new mechanisms. Funds accessed nationally should be incentivised to be disbursed to the local level, and there ought to be an emphasis on intervention outcomes (not just the speed of e.g. loans mobilised).

"[I am] In favour of new dedicated fund – because this can influence ongoing UNFCCC debates"

In the delivery of finance, a process of experimentation is required. Space for both innovation and learning is necessary in the development of financing mechanism to address L&D. These mechanisms can be honed and tested for future advocacy.

"Set up these [financing] mechanisms so we have examples that are tested for future advocacy"

Transparency on L&D financing could be improved by securing clarity on it conceptually. Suggestions on how to practically address transparency issues included the development of a L&D Rio Marker to track allocations of spending internationally, as well as the suggestion that actions to minimise and avert L&D should be classed as adaptation spending, leading L&D financing to focus on addressing L&D.

"Transparency of funding is important – bilateral funding way is less transparent"

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A series of deliberative dialogues have been initiated to co-generate a shared narrative and practical solutions for tackling climate change loss and damages (L&D), with vulnerable developing countries, CSOs, NGOs, developed countries, and other key actors. The fourth event focused on identifying solutions on how can action and support be financed to tackle climate change loss and damage.

Event Materials

Climate change

Keywords:
Loss and damage, Small Island Developing States (SIDS), Least Developed Countries (LDC) voices

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