Oxford Climate Policy Blog

Initiating debates on international climate policy

The New Loss and Damage Pilot Funding Arrangements

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The Sharm el Sheikh Decision

On 20 November 2022, a Decision was taken at Sharm el Sheikh on "funding arrangements for responding to loss and damage associated with the adverse effects of climate change" which is widely regarded as historic and as the principal outcome of the 2022 UN climate conference (COP 27/CMA4). In a nutshell, the Decision:

- *acknowledges* the "urgent and immediate need" for fnancial resources to assist particularly vulnerable developing countries "in responding to loss and damage associated with the adverse effects of climate change … in the context of ongoing and ex post (including rehabilitation, recovery and reconstruction) action", and
- *decides* to establish:
  1. "***new funding arrangements***" for assisting particularly vulnerable developing countries in responding to loss and damage … and that these new arrangements complement and include sources, funds, processes and initiatives under and outside the Convention and the Paris Agreement".
  2. a ***loss and damage response fund*** "in the context of establishing the new funding arrangements", and
  3. "a ***transitional committee*** on the operationalization of the new funding arrangements … to make recommendations … for consideration and adoption by [COP 28/CMA 5, December 2023] with a view to operationalizing the funding arrangements, including the [L&D Response Fund]"

The Need for Innovative Sources

It is welcome that the response actions that are meant to be supported by these L&D funding arrangements are indeed L&D ***response*** actions as characterized in our L&D Response Fund Elements Note (see Figure 1). Moreover, the GCF precedent (see Box) shows that it is possible to draft a Governing Instrument for a new multilateral fund within a year, but it also shows that this is just the beginning of making such a fund operational. If the GCF experience is anything to go by, then it would be 2027 when the new L&D Response Fund would take its frst investment decision.

Moreover, as Adil Najan pointed out in his recent Conversation piece: "Real as the jubilation is for developing countries, it is also tempered. And rightly so. For developing countries, there is a real danger that this turns

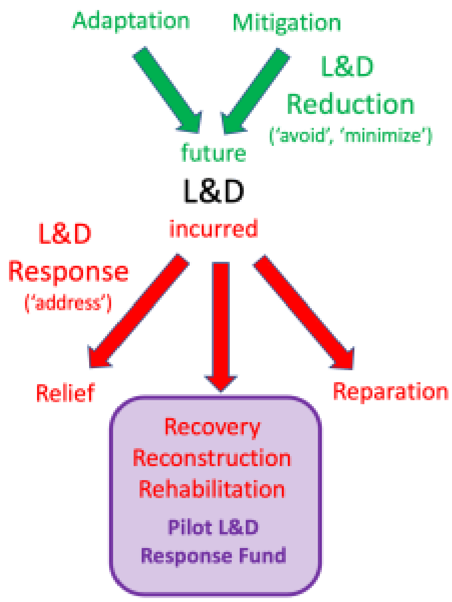

Figure 1 in [*Elements of a Pilot Loss and Damage Response Fund*]

out to be another ‘placebo fund’, to use Oxford University researcher Benito Müller’s term – an agreed-to funding arrangement without any agreed-to funding commitments.”

The GCF has to date managed to attract $1.25bn per annum for each mitigation and adaptation [2] and it would not be unreasonable to use this as a benchmark for the new L&D Response Fund. The question is whether this could be generated from traditional national budget sources without eating into the GCF contributions? I fear not, but fortunately, the Decision recognizes “the need for support from a wide variety of sources, including innovative sources”[3] The good news is (*viz*. Annex 1 below):

- there are a variety of innovative sources that could deliver (far beyond) the GCF-benchmarked contributions, and
- using them at scale would also obviate the toxic debate of which countries should contribute to the new L&D Response Fund!

2010: The COP in Cancun, Mexico (COP 16), decides to establish a GCF and a Transitional Committee to operationalise it.
2011: GCF’s Governing Instrument is adopted in Durban, South Africa (COP 17).
2012: GCF’s governing Board holds its first meetings.
2014: Following the establishment of its operational principles and guidelines, GCF commences its initial resource mobilization.
2015: The first investment decisions are taken.
2016: Marks GCF’s first full year of operations.

Box 1. [*Establishing the Green Climate Fund*]

The Need for Innovative Response Tools

The funding disbursement model for the new L&D Response Fund will have to differ drastically from the way in which is currently done in the multilateral climate funds which is to submit project proposals through an elaborate pipeline with an investment decision that can take many months, if not years.

James Cameron, in his recent *Don't set sights on a single massive global loss and damage fund: start small and start now*, gives an illuminating account of some type of response tool: insurance! (see Annex 2 below). Clearly insurance schemes will have to be used as response tools under the new funding arrangements for L&D response, and equally clearly, they will have to be tailor-made to ft responding to adverse climate impacts, something that is not necessarily part of the skill-set of the TC members. These and other response tools will have to be tailored by relevant technical experts (possibly under the guidance of the TC).

The Need for Urgent Action

The Decision is unequivocal about the "urgent and immediate need" to operationalize these new funding arrangements, and I concur with James Cameron that we should not waste time but "create a pilot project and start getting the money fowing to where it is needed [and at the same time] work on a longer-term loss and damage facility would carry on, with the intention of getting it up an running in the years after 2024, while still piloting innovative new sources of funding and loss and damage response tools."

The ideas put forward in the above-mentioned Elements Note remain valid and should be proposed for adoption at COP 28 (December 2023) as part of the new funding arrangements, in particular to establish for a period ending in 2026

- a **Technical Expert Body** for designing and piloting tailor-made L&D response tools; and
- a **Pilot Account**, managed by the Adaptation Fund Board, to receive funding for designing and piloting L&D response tools as well as for starting to pilot innovative sources of L&D funding, in particular new shares of proceeds, in 2024.[4]

Annex 1. Innovative Funding Sources

The paper coining the phrase “placebo fund”, written in the run-up to the 2009 Copenhagen climate conference, was focussed on using earmarked shares of emission auction proceeds as innovative source of climate fnance and related that: “In early October 2008, the Environment Committee (ENVICom) of the European Parliament put forward an amendment to the Commission ETS proposal, concerning the ‘earmarking article’ (Art. 10, §3). Whereas the original Commission language suggested at least 20% the revenues generated from the auctioning of allowances … should be used (i.e. earmarked) for climate change, the ENVICom amendment requires that the 100% of the revenue shall be used for climate change, with at least 50% for developing countries. This means, given the Commission estimates of auctioning revenue, that in 2020, €37 billion would be earmarked for developing countries.”[pp.5-6]

Moreover, a July 2009 Climate Dialogue article on the same theme pointed out that “There have been alternative ‘innovative fnancing’ proposals that would bypass national treasuries altogether. The Norwegian government has put forward the idea of retaining a number of emission permits at the international level in order to auction them internationally and to distribute the proceeds directly to developing countries. Another proposal by the Group of Least Developed Countries envisages a passenger levy for international air travel, again levied internationally and distributed to poorer countries. These two instruments could cover a signifcant proportion of the fnancial underpinning for developing countries in a new climate deal.”

The International Air Passenger Adaptation Levy (IAPAL), Submitted in December 2008 to the AWC-LCA at COP 14 in Poznan, would at the time have generated between $8bn and $10bn annually, while a new innovative source, a 5% share of proceeds on the Voluntary Carbon Market, currently under consideration, is projected to generate $2.5bn annually by 2030.

Arguably the most direct innovative source would be a *Share of Proceeds from the Voluntary Carbon Market (VCM) to the relevant entities of the fnancial mechanism of the Paris Agreement for supporting developing countries in adapting and/or responding to adverse climate impacts*. For more on this idea (originally just for adaptation), see “Safeguarding Social Integrity in the Voluntary Carbon Market.”

Annex 2. Innovative Response Tools

"*We then need to optimize the public funds available by leveraging philanthropic and private sector participation. A particularly promising group of partners is insurers, which not only oversee a large pool of investment capital, but also quantify for fnancial markets the size of the risk of climate loss in different regions.*

We are already beginning to see examples of public, philanthropic and insurer partnerships to support climate adaptation in vulnerable communities and ecosystems. Founded in 2007, the Caribbean Catastrophe Risk Insurance Facility (CCRIF) became the world's frst multi-country risk pool. Through contributions from numerous international governments alongside the World Bank – coupled with insurance and asset management partners – CCRIF has been able to provide low-cost insurance policies to member countries against various natural disasters. This ultimately provides fnancial liquidity in the face of catastrophic events while encouraging climate adaptation. In all, CCRIF has made approximately $244.8 million in pay-outs since its inception.

Another example is the insurance broker Howden, which launched seven projects for charities this year, with 15 more planned for next year. The projects demonstrate the potential for parametric insurance – when certain thresholds are reached, money is automatically released – to meet some of the cost of loss and damage, and to respond to the need for increased resilience in climate-vulnerable countries. One such project is the catastrophe bond Howden, through its foundation, and other insurance groups, have developed with the Danish Red Cross. When levels of volcanic ash and prevailing winds reach a pre-agreed level that indicates highly populated areas are at risk from a volcanic eruption, funds are immediately paid out to the Red Cross so they can get aid to where it is needed at once."

Notes

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⇧**2** Over the past four-yearly replenishments, the GCF managed to secure on average $10bn

⇧**3** Para. 6.e

⇧**4** As explained in the Elements Note (Section II.a), this is possible, and it is essential if one wishes to attract a share of proceeds from the Voluntary Carbon Market