Criteria for Assessing Finance to Address Loss and Damage

Joint submission by: Climate Action Network (CAN), Global Campaign to Demand Climate Justice (DCJ), and Women and Gender Constituency (WGC)

Introduction

We are in the era of loss and damage. As the global community has not yet been able to sufficiently reduce emissions at the scale and timeframe required, and as the consequences of climate change now often extend *beyond* what people can adapt to, there is an urgent need to support developing countries and communities to comprehensively address loss and damage. This will require that developed countries provide new and additional finance to countries and communities in the Global South to address the economic and non-economic losses and damages associated with climate change, including:

- In the aftermath of extreme climate events such as floods and fires (e.g. for repairing roads and other infrastructure);
- For medium-term recovery and rehabilitation (e.g. compensation to and retraining for those who lost their livelihood as a result of climate impacts; temporary relocation);
- For slow onset events such as sea-level rise and for longer-term planning, policy frameworks, and transformative programming (e.g. permanent relocation or a transition to alternative livelihoods); and
- For addressing irreversible damage (e.g. loss of biodiversity, including extinction of species; loss of culture; loss of heritage; forced migration, loss of territory).

Recognizing the need to address loss and damage, at the 27th Conference of Parties (COP 27) governments agreed to establish a new fund explicitly designed to address loss and damage. In addition to the to-be-operationalized Loss and Damage Fund, there are numerous multilateral, bilateral, and private sector funding streams that some consider to be part of the so-called funding arrangements for loss and damage.[1]

Given the distinct purpose of loss and damage finance and the need to ensure that such finance does not detract from or get double counted as Official Development Assistance (ODA),

[1] UNFCCC. https://unfccc.int/documents/628198

humanitarian assistance, or climate adaptation and mitigation finance, there is a need to more clearly define and assess what constitutes finance to address loss and damage.[2]

To that end, this paper puts forward six key criteria to be used in assessing what counts as finance for loss and damage:

1. Recognize and aim to comprehensively address loss and damage;
2. Be obligatory and compensatory, with funding provided as grants and non-debt creating instruments;
3. Be new, additional, predictable, and adequate;
4. Be equitably governed and provided, including by prioritizing direct access for all developing countries and affected communities therein;
5. Ensure the meaningful and effective participation of affected communities; and
6. Acknowledge, respect, and promote intersectional human rights.

Each of these criteria is spelled out in more detail below.

Criteria to Assess Loss and Damage Finance

There is no agreed upon definition for loss and damage and no common classification for what constitutes finance to address loss and damage . This lack of clarity makes it difficult to discern what government contributions should be counted towards addressing loss and damage (as opposed, for example, to ODA or their obligations to provide finance for adaptation or mitigation) and which institutions are best placed to manage and disburse funding to address loss and damage.

The set of criteria below should be used to help define and assess finance to address loss and damage. To be part of the loss and damage funding arrangements, funding to address loss and damage must:

1. **Recognize and aim to comprehensively address loss and damage**

   The onus rests on the contributors to explain what they consider as contributions to loss and damage finance and on the funding mechanism to specify their commitment to and approach to comprehensively provide finance for addressing loss and damage. Contributors must publicly and transparently list their assumptions and criteria used to classify whether a contribution is being provided for averting, minimizing or addressing loss and damage.

   Some funding mechanisms very directly and explicitly support countries to address loss and damage and are clearly part of the loss and damage funding arrangements. The Santiago Network for Loss and Damage**,** for example has a mandate to "catalyze the

[2] For the purposes of this paper, loss and damage finance encompasses both the funding *mechanisms* for loss and damage and the funding *streams*.

technical assistance of relevant organizations, bodies, networks and experts, for the implementation of relevant approaches for averting, minimize and addressing loss and damage at the local, national and regional level, in developing countries that are particularly vulnerable to the adverse effects of climate change."[3]

The Loss and Damage Fund, which was agreed to in November 2022 at COP 27, too will support developing countries to address loss and damage.

Other mechanisms that some define as actors relevant for loss and damage funding arrangements, such as the multilateral development banks or multilateral funds including the Global Facility for Disaster Reduction and Recovery (GFDRR) or the Global Risk Financing Facility (GRiF), do not specifically mention loss and damage in their materials. In these cases, compliance with more than one of several key indicators would demonstrate that the entity recognizes and aims to address loss and damage including:

- A recognition of the limits of adaptation;
- Focus on reconstruction, restoration and rehabilitation;
- Financial support for communities displaced by climate-related disasters with temporary and permanent relocation; and
- Financial support for both economic losses such as infrastructure repair and restoration in addition to non-economic losses, including but not limited to loss of heritage, loss of culture, and loss of biodiversity.

2. **Be obligatory and compensatory, with funding provided as grants and non-debt creating instruments**

Loss and damage is a fundamental issue of justice. Countries which have done least to contribute to the climate crisis are now contending with extreme losses and damages, up to including irreversible loss of biodiversity, culture, heritage, and territory. As such, it is critical that loss and damage finance be given in the spirit of a duty or an obligation to compensate countries and communities for the losses and damages endured—not in the form of aid or charity.

Key indicators that loss and damage finance is based on principles of "obligatory and compensatory funding" include:

- Finance is provided as grants and other non-debt creating sources of finance, as it is both unjust and untenable to ask developing countries to take on more debt or depend on private sector finance in order to address the impacts of a crisis they, historically, have done little to create;
- Finance is offered in full cost grants, as incremental cost approaches place unnecessary burden on countries already suffering the consequences of loss and damage;

[3] https://unfccc.int/documents/626561

- There are no accessibility restrictions based on recipient developing country income or aid eligibility classifications; and
- The absence of words such as “assistance,” “aid,” or “charity” to describe the funding or fund.

3. **Be new, additional, predictable, and adequate**
   As noted above, finance for loss and damage has a distinct purpose of supporting countries and communities to manage the consequences of climate change that they can no longer adapt to. It is distinct from mitigation finance, which is focused on helping *avert* loss and damage; it is distinct from adaptation finance, which is focused on helping communities *adapt* to climate impacts; it is distinct from ODA, which is government aid; and it is distinct from humanitarian assistance, which is mostly a form of charity from governments, multilateral institutions, private sector and individuals.

   Given the importance of *each* of these types of finance, and recognizing that each of these priorities are currently underfunded, it is critical that finance for loss and damage be new and additional to ODA, humanitarian assistance, and to other types of climate finance, such as mitigation and adaptation funding.

   In addition, recognizing that it is critical that funding is both predictable–allowing countries to plan for its use—and adequate to meet the current and future needs and in a form that does not create debt, it is critical that loss and damage finance not rely on voluntary replenishments, but that relevant funding institutions/mechanisms have the ability to accept and manage innovative sources of finance such as a share of proceeds and revenue from targeted taxes and levies.

4. **Be equitably governed and provided, including by prioritizing direct access for all developing countries and affected communities therein**
   The way in which loss and damage funding is governed and provided will determine its ultimate success and impact on the ground. Key indicators that an institution has equitable governance and operational modalities, and therefore will deliver the best results include:

   - Ensure majority representation of developing countries at the governance level, which is critical to ensure that decision-making power is fairly distributed among those contributing and receiving funding;
   - Decisions of the governing body/council/ board are taken by consensus; if consensus is not possible, decision making can be accomplished through majority voting procedures. Voting power should *always* be separated from financial contribution;
   - Meaningful transparency at the governance level, including when board and other key meetings take place, agendas and outcomes of board and other key meetings, the presence and participation of observers, and webcasting of meetings;

- Meaningful participation of communities adversely impacted by climate change and who have been made vulnerable through historic marginalization such as women, Indigenous Peoples, persons with disabilities, and youth; and
- Ensure finance can be accessed directly, timely and un-bureaucratically by all developing countries, and prioritize funding arrangements that devolve financial decision-making for individual projects and intervention to the most local level possible following the principle of subsidiarity.

5. **Ensure the meaningful and effective participation of and accountability towards affected communities**

   Communities living in the era of and dealing with loss and damage are often the best placed to help ensure the most effective design, implementation, and evaluation of funding.

   Among the key indicators of meaningful and effective participation of affected communities are:
   - Allowing for and prioritizing and simplifying enhanced direct access to funding, including by affected communities and vulnerable and marginalized groups, including women, youth, and Indigenous Peoples;
   - Ensuring the meaningful participation–including the ability to intervene and influence decision making–within a funding mechanism's governance structure;
   - Establishing accessible, effective and transparent mechanisms for affected communities to raise concerns, lodge complaints, and seek redress if they fear, perceive or experience negative impacts or improprieties related to the loss and damage projects;
   - Developing and enforcing robust safeguards that address potential adverse social and environmental impacts of projects. Ensure that these safeguards are rigorously adhered to throughout the intervention's lifecycle; and
   - Ensuring that the loss and damage interventions involve affected community members in the planning, implementation, monitoring and evaluation processes. This must ensure that initiatives align with their needs and priorities, knowledge, and cultural contexts.

6. **Acknowledge, respect, and promote intersectional human rights**

   Addressing loss and damage is a human rights issue. Loss of livelihoods, of territories, of homeland, of culture all violate fundamental human rights of people, communities and future generations. It is therefore particularly critical that any institution funding loss and damage *acknowledges* the human right implications of loss and damage, including their intersectionality; does not commit *new* human rights violations; and that actions supported by the fund will not only respect ("do no harm") but actively promote human rights ("do good"). This must include special efforts of redressing historical marginalization and discrimination of particularly vulnerable population groups, including women, youth and Indigenous Peoples.

Among the key indicators of respecting and promoting human rights are:

- Specific acknowledgement of the need to respect and promote human rights, and core policies and guidance in operational procedures and modalities that are people-centered and human-rights-based (such as dedicated gender or Indigenous Peoples policies);
- Actively consult with local communities and affected groups, and respect Indigenous Peoples' right to Free, Prior and Informed Consent (FPIC), as an iterative process before and during interventions on their lands and territories;
- Guaranteeing the human right of access to information, through pro-active information disclosure and transparency arrangements that maximize information provision to the broader public and specifically affected communities on funding arrangements, their terms, beneficiary and impacts, including through provision in local languages; and
- Effective and accessible mechanisms to ensure timely and adequate redress for human rights harms caused by the activities of funding institutions.

Conclusion

There is an urgent need to generate significant funding to address loss and damage. Whether that funding will truly support the needs of developing countries particularly vulnerable to the adverse impacts of climate change will depend on the nature of both the funding stream and funding entity.

Our hope is that this paper contributes to our collective ability to determine what qualifies as finance for addressing loss and damage. This is vital to ensure that country and community needs related to loss and damage are met. Additionally, it is essential to meet related financial requirements for adaptation, mitigation, humanitarian assistance, and official development assistance.

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