WWF Submission on the funding arrangements for responding to loss and damage associated with the adverse effects of climate change including a focus on addressing loss and damage.

15th February 2023

WWF is pleased to respond to the call to Parties, observers and other non-party stakeholders to submit inputs on the structure of the 2nd Glasgow Dialogue and the workshops addressing loss and damage associated with climate change impacts as outlined in the decision paragraph 4 (Transition Committee) and 5 (recommendations to operationalize the funding arrangements and the loss and damage fund). We provide our views and inputs below.

Summary:

1. As per para. 7 of the COP/CMA decision, the UNFCCC Secretariat has been asked to organize two workshops in 2023. WWF recommends that:
   - The first workshop focuses on the institutional arrangements of the LDF, including its coordination and complementarity with existing funding arrangements.
   - The second workshop focuses on sources of finance, including both public and private, and innovative or alternative sources of finance (described below).

2. As per the Annex of the Transition Committee, there will be three meetings of the Transitional Committee in 2023. The focus of the meetings should be:
   - First Meeting: Co-chair appointments, organizational modalities, unpacking COP27 decisions and reflecting on all the submissions.
   - Second Meeting: Discussion of the position of the Transition Committee members on the LDF and funding arrangements and coming to some kind of agreement.
   - Third Meeting: Preparing the draft of the governing instrument of the LDF.

3. The 2nd Glasgow Dialogue should reflect the discussions on funding arrangements had in the Transitional Committee and in the Glasgow Dialogue workshops to date.
**Context:**

At COP27 in Sharm el-Sheikh, the COP and CMA adopted a decision (1/CP.27 - /CMA.4) to establish new funding arrangements for assisting developing countries that are particularly impacted by the adverse effects of climate change. The COP and CMA further decided to establish a fund with a focus on addressing loss and damage and also established a transitional committee on the operationalization of the new funding arrangements by COP28. WWF is pleased to submit our recommendations on operationalizing the funding arrangement and the loss and damage fund, principles and sources of loss and damage finance, themes of the upcoming workshops and the transition committee meetings and what needs to be delivered at COP28.

1. **Loss and Damage Funding Arrangements:**

   The Loss and Damage Funding arrangements should be understood as a mosaic of funding instruments and institutions both within and outside the United Nations Framework Convention on Climate Change (UNFCCC), including but not limited to:

   a. A dedicated fund Loss and Damage Fund (LDF) under the Convention as the main vehicle for delivering rapid L&D support, providing:
      - Short time finance - Relief funds and relief support.
      - Long term finance - to address with slow onset events and long-lasting impacts.

   b. Loss and Damage funding outside of the Convention:
      - Relief funds and relief support.
      - Insurance companies - delivering support in a longer term.
      - Banks supporting issuance of “Cat-bonds” (catastrophe bonds).
      - Banks (possibly multilateral development banks, MDBs) supporting issuance of other possible types of bonds, including L&D Bonds (see below).
      - Other bilateral and multilateral support.

   There needs to be a process established regarding the funding flows outside of the UNFCCC fund for loss and damage. These sources of funding need to provide a periodical update to the COP and CMA on overall fund allocation. It could be the role for the Standing Committee on Finance (SCF) to include such information in the biennial assessment or that could be a be part of the Transparency Framework for Parties.
2. Dedicated Loss and Damage Fund (LDF) under the UNFCCC:
The new Fund will require several institutional arrangements to become operational. This includes:

- **A Governing Instrument:**
  The main document that will outline the structure of the Fund, its rules and bodies. This should be the main output of the work of the Transitional Committee during its work in 2023.

- **A Trustee:**
  The permanent Trustee should be selected in an open and transparent process - with an Interim Trustee being appointed by COP for no more than two years. While any regional or global MDB could serve this role, including the World Bank, the African Development Bank or Asian Development Bank would be good candidates in our view.

- **Secretariat and Host Country:**
  The Fund will require a Secretariat to function properly. It should have an independent, dedicated Secretariat that will be based in a host country selected by an open and transparent process.

- **Governance Body (e.g. Board):**
  The Fund should be overseen by a Governance Body (e.g. Board) composed of representatives from all Parties and constituencies. Its exact composition...
should be decided in the Governing Instrument, however a majority developing country representation (as in the case for the Adaptation Fund) would be a preferred solution. A possible division of seats could look for example like this:

- 3 seats from each of the five regional UN groups
- 2 seats each for LDCs and SIDS
- X number of seats for CSO representatives - e.g. one each representing ENGO, YOUNGO, Indigenous constituencies etc.

The LDF Board should meet frequently (online, with one or two face-to-face meetings a year to limit the carbon footprint and funds needed for travel). Importantly, it should have the option for emergency online meetings when the situation requires it. The Board meetings should be open and transparent to observer constituencies.

The Board of the Fund should be accountable under the authority and guidance of the COP and the CMA.

- Executive Director (ED) or Manager of the Fund: The ED of the Fund would play a larger role than her/his counterparts in other similar institutions. They would be not only a manager of the Secretariat, but also have the authority to disburse resources through the Fast Response Window (see below). That authority would be subject to Board scrutiny.

- Short and streamlined direct access options: Long application processes and onerous procedures are a barrier for disaster-stricken communities. Unlike other existing funds, the LDF will require a short response time and streamlined procedures for gaining access to the funds so it can appropriately and timely react to climate disasters as they happen. The Secretariat would need to prepare procedures that would allow disbursement of funds within weeks, not months/years.

- Short term support/ Fast Response Window: Going beyond direct access, the LDF should contain a Fast Response Window. It should contain a certain percentage of LDF’s resources and be at the disposal of the LDF’s Executive Director, ready to be disbursed (under proper procedure) within hours, or days to support relief efforts after climate disasters. This option needs to be agreed by the COP and CMA, reflected in the Governing Instrument of the Fund, and give direction to the Board of the LDF as one of the key considerations of the fund.

- Long Term Support
  The long-term support for the LDF should also follow a similar principle of direct access and streamlined procedures for gaining access to the fund. The
funds from this window will help to address with slow onset events; economic and non-economic losses such as loss of ecosystems and biodiversity, impacts on indigenous peoples and local communities; post-disaster relief; long-lasting impacts, etc. The funding will be approved by the LDF board meetings which should happen on a regular basis.

3. Principles/elements of the new funding arrangements:
   The funding arrangements should be based on several elements, including:
   - Eligibility - all developing countries should be eligible for L&D funding. However, we should not exclude that in the future this could be extended to highly vulnerable and affected communities in other countries - especially for urgent relief efforts.
   - Direct access - The arrangements should direct access, which will take into account the specificity of the funding, where time can be of the essence.
   - Grants basis - All loss and damage funding should be grants based, as a matter of climate equity because communities affected by climate disasters will rarely be able to repay the loans.
   - Base of contributors - while Annex II countries are required to provide support under UNFCCC, other countries have certain responsibilities for the climate crisis owing to their respective capabilities. This includes larger
economies considered Non-Annex II countries, who should also be considered potential donors for L&D funding arrangements, albeit in a more voluntary manner.

- New and additional - All resources for L&D finance arrangements should be new and additional, not a re-channelling of existing pledges or diversification of funds from other thematic allocations (i.e. mitigation and adaptation). Otherwise this will impact negatively on the whole climate change effort and eventually lead to increased requirements for L&D.
- Types of support: Funding for loss and damage should support both economic and non-economic losses and damages. Non-economic losses include, for example, loss of an ecosystem. In this case, funds could be allocated to creating a new ecosystem in a similar geographical location etc.

4. Sources of finance:
   - Public finance should be a main source of funding for loss and damage funding arrangements in general, and LDF in particular.
   - Private finance, especially in the form of insurances and bonds, while an important supplement, cannot replace public L&D funding, as private finance is not reliable enough.
   - Debt relief through bilateral support.
   - A special type of L&D bond could become an important part of the loss and damage funding sources, in the form of long-maturity (20-100 years) bonds issued by the LDF with the support of the Trustee and paid for or guaranteed by governments of developed and/or rich countries. Those bonds could then be issued as needed (perhaps with a certain yearly cap), rather than relying only on public finance which cannot be enough.
   - All these sources of finance could be supported by several alternative sources of finance:
     ⇒ Financial Transaction Tax
     ⇒ Global Aviation Tax/Airline Ticket Tax
     ⇒ Global Shipping Tax
     ⇒ Global taxation of revenues of fossil fuels companies.
     ⇒ Global tax on crypto currencies and crypto transactions, including the sale of non-fungible tokens (NFTs) (possibly based on their carbon footprint)

5. Coordination and complementarity of existing funding arrangements
   The process will have to develop answers and solutions for the following problems:
   - What funding is new and additional.
   - Rules for coordination between existing funds (e.g. the GCF and AF) and the new institutions.
   - How and in what capacity the existing funding will be involved.
• How to coordinate with other bilateral and multilateral support to achieve the scale needed for facing challenges of addressing loss and damage.

6. Process: How to get there:
A. As per the Para 7 of the COP/CMA decision, the UNFCCC Secretariat has been asked to organize two workshops in 2023:
   • The first workshop should focus on the institutional arrangements of the LDF including its coordination and complementarity with existing funding arrangements.
   • The second workshop should focus on sources of finance, including both public and private, and innovative or alternative sources of finance (described above).
B. As per the Annex of the Transition Committee, there will be three meetings of the Transitional Committee in 2023 with the first meeting taking place no later than 31st March. The focus of the meetings should be.
   • First Meeting: Co-chair appointments, organizational modalities, unpacking COP27 decisions and reflecting on all the submissions.
   • Second Meeting: Discussion of the position of the Transition Committee members on the LDF and funding arrangements and coming to some kind of agreement.
   • Third Meeting: Preparing the draft of the governing instrument of the LDF.
C. The Glasgow Dialogue should reflect the discussions on funding arrangements had in the Transitional Committee and in the Glasgow Dialogue workshops to date.

7. What COP28 needs to deliver:
• Full operationalization of the Loss and Damage Fund (Trustee, Secretariat, Governance Mechanism/Body) with concrete and substantial funding pledged as well as an understanding of funding arrangements of loss and damage.
• The launch of a host selection process.
• The launch of a process for arrangement for alternative sources of funds.