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Designing a fair and feasible loss and damage finance mechanism

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Cover photo: A man stands amid the devastation caused by Hurricane Dorian in Grand Bahama, the Bahamas, in September 2019. © Commonwealth Secretariat / Flickr

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Contents

Key messages

- **Vulnerable countries and communities are already experiencing severe losses and damages from unavoidable climate change impacts, and they urgently need finance to support their recovery, protect human rights and development gains, and prepare for future displacement and livelihood losses.**

- **Eight years after the Warsaw International Mechanism on Loss and Damage was established, efforts to mobilise finance for affected countries remain stalled, mainly due to disagreements over liability and compensation.**

- **Breaking this stalemate is a priority for developing countries and may be critical to the perceived legitimacy of the climate negotiations. The immediate task is to find ways to advance loss and damage finance within the existing constraints, without closing off more equitable alternatives.**

- **Drawing on our research, including stakeholder interviews, we propose mobilising loss and damage finance imminently on the basis of solidarity, accounting for local needs, historical responsibility and the "polluter pays" principle, and the well-established notion of "common but differentiated responsibilities and respective capabilities".**

- **At the Glasgow Climate Change Conference (COP26), countries can take a first step by pledging bilateral finance for loss and damage. The Executive Committee for the Warsaw Mechanism can also initiate a process to identify the most viable near-term options for channelling finance.**

- **National-level loss and damage systems should be set up to thoroughly assess needs within countries, ensure that finance flows respect principles of country ownership, additionality and transparency, and ensure that finance reaches the most vulnerable communities.**

- **Given the scale of global needs, a formal, dedicated loss and damage finance mechanism should remain the long-term goal. Including loss and damage as part of the post-2025 climate finance target under the Paris Agreement could be a first step towards this.**

Introduction

In the lead-up to the Glasgow Climate Change Conference (COP26), mobilising "loss and damage" finance for highly vulnerable countries has been widely cited as a top priority – especially for those already facing catastrophic and escalating climate change impacts (AP 2021; Herrera 2021; Huq and Soderberg 2021; UNFCCC 2021a; World Resources Institute 2021).

Loss and damage (L&D) refers to impacts of climate change that cannot (or have not) been avoided through mitigation or adaptation (Roberts and Pelling 2018). The world's poorest and least-developed countries, which have contributed very little to global greenhouse gas emissions, face many of the worst impacts (Adelman 2016; Lyster 2017): from extreme weather events such as hurricanes, to slow-onset events such as sea-level rise that are gradually rendering places uninhabitable (Burkett 2015). These impacts not only threaten human rights (Toussaint and Martínez Blanco 2020), but also limit countries' ability to pursue development goals such as poverty reduction, health and food and water security.

The need to provide finance for loss and damage under the United Nations Framework Convention on Climate Change (UNFCCC) was first raised by the Alliance of Small Island States (AOSIS) in 1991, proposing that "the financial burden of loss and damage suffered by the most vulnerable small island and low-lying countries… as a result of sea level rise shall be distributed in an equitable manner amongst the industrialized developed countries" (AOSIS 1991).

In 2013, after two decades of advocacy by AOSIS members and other vulnerable Parties, the Warsaw International Mechanism on Loss and Damage (WIM) was established. In 2015, loss and damage and the WIM's mission were embedded in Article 8 of the Paris Agreement.

There is mounting evidence that, due to inadequate efforts to curb carbon emissions to date, loss and damage is already a lived reality for the poorest communities in the world (Roberts and Pelling 2018). Moreover, climate change impacts often compound and create feedback loops, leading to the loss of livelihoods, homelands and cultures (Wrathall et al. 2015). Humanitarian aid and disaster responses cannot adequately address these losses.

It is also clear that even with stepped-up mitigation and adaptation efforts, even more severe climate change impacts will be unavoidable in the coming decades (Hoegh-Guldberg et al. 2018). Studies have estimated that annual loss and damage finance needs in developing countries will reach US$200–580 billion by 2030 (Markandya and González-Eguino 2019; Richards and Schalatek 2017). With an estimated 216 million people projected to be forced to migrate within their countries due to water scarcity, sea-level rise and other climate change impacts, timely action on loss and damage is also essential to avert humanitarian crises and ensure equitable transitions (Clement et al. 2021).

Yet efforts to mobilise finance under the Warsaw Mechanism have stalled. To date, the WIM has focused on knowledge-gathering and coordination activities, not on enhancing action and support through finance, technology and capacity-building (Richards and Schalatek 2017; Gewirtzman et al. 2018). This has left vulnerable countries with very limited resources to support or compensate affected communities.

Recognising the urgency of the issue, this briefing paper examines how a fair and feasible financing mechanism for loss and damage could be developed. It identifies near-term actions – starting at COP26 – to mobilise L&D finance on the basis of solidarity, as well as paths forward towards a formal, dedicated L&D mechanism that is better suited to mobilising finance at scale in the longer term.

The analysis presented here draws on insights from a broad range of sources, gathered through (i) a comprehensive literature review; (ii) 13 semi-structured interviews with climate negotiators, members of the WIM Executive Committee (ExCom), representatives of marginalised groups within the UNFCCC, and civil society actors; (iii) input from key experts at a virtual session of the 2021 GOBESHONA Global Conference, where we presented our initial findings; and (iv) ad-hoc political engagement, including observing the 12th WIM ExCom meeting, following L&D discussions at the 2021 Subsidiary Bodies conference, attending consultations on the operationalisation of the Santiago Network, and participating in informal discussions with the civil society Loss and Damage Collaboration group.

Understanding barriers to loss and damage finance

Progress on L&D finance has been stalled by several factors, starting with basic definitions. The term "loss and damage" is not formally defined within the climate policy architecture (Boyd et al. 2017), and different actors have interpreted and operationalised the term as it fits with their own agendas.

Furthermore, the widespread view of loss and damage as the "residual" impacts (Huq et al. 2013; James et al. 2014) not avoided through mitigation or adaptation can lead to L&D being treated as a concern for the distant future, after all options for climate action have been exhausted. In reality, as noted above, there is mounting evidence that unavoidable losses are already occurring and will only get worse, even with ambitious climate action (Roberts et al. 2014).

Some experts and developed-country negotiators, meanwhile, have argued that loss and damage is already covered by post-disaster humanitarian aid on one side, and adaptation finance on the other, so there is no need for a dedicated L&D finance mechanism (Vulturius and Davis 2016; Boyd et al. 2017). However, neither of those channels is adequately addressing the needs of communities that are already experiencing loss and damage.

A third, critical challenge is disagreement over questions of liability (Doelle 2014; Lees 2017). Several developing-country negotiators, scholars and advocates have long argued that industrialised countries, which have produced the vast majority of carbon emissions to date and have benefited from carbon-intensive economic growth as well as colonialism and exploitation, have a moral responsibility to compensate poor countries for losses and damages from climate change (Adelman 2016; Page and Heyward 2017; CSO Equity Review 2019). This view underpins AOSIS' original call for loss and damage finance and decades of demands from developing countries since then (Huq et al. 2013; Roberts et al. 2014; Thomas and Benjamin 2018).

Indeed, the concept of "common but differentiated responsibilities and respective capabilities" is central to the UNFCCC. However, industrialised countries increasingly resist being assigned responsibility for climate change (Friman and Hjerpe 2015). As climate litigation has proliferated around the world, some have pushed back on loss and damage provisions that could imply legal liability or any obligation to provide finance or other compensation (Adelman 2016; Mace and Verheyen 2016; Roberts et al. 2017).

These political barriers and the Parties' conflicting interests have slowed progress under the Warsaw Mechanism and limited its capacity and decision-making power (Gewirtzman et al. 2018; Mace and Verheyen 2016). Some countries have cited the COP21 decision adopting the Paris Agreement, which states that Article 8 "does not provide any basis for liability or compensation", to oppose L&D finance mobilisation (Vanhala and Hestbaek 2016; Sharma 2017). Year after year, there has been no official agenda item on loss and damage at the COPs beyond the work of the ExCom, effectively sidelining the issue (Vulturius and Davis 2016).

The financial and economic context within which loss and damage discussions take place creates further structural barriers. For example, development finance has been criticised for

A child stands in what remains of his community after Hurricanes Eta and Iota hit Central America in quick succession in 2020, causing devastating floods. © EUROPEAN UNION / FLICKR

allowing Western donors to exercise their interests and agendas in developing countries, while also trapping them in debt (Ovaska 2003; Andrews 2009). Several studies have shown the majority of climate finance does not actually reach the countries that need it most – or the most vulnerable and at risk communities on the ground (Remling and Persson 2015; Soanes et al. 2017; WaterAid 2020).

On a practical level, the bureaucratic structures of international finance, such as stringent accreditation requirements, long lag times in finance mobilisation and the project-based model in general, make access to finance highly challenging for most vulnerable countries (Wang and Rai 2015). Such constraints, unless resolved, are likely to also limit the effectiveness of any loss and damage finance that is mobilised.

Given these barriers, establishing an L&D finance mechanism that truly embodies the UNFCCC's foundational equity principles appears infeasible at this time. However, vulnerable countries and communities cannot afford any further delays. In the sections that follow, we lay out a path forward to mobilise L&D finance on the basis of solidarity in the near term, while leaving open the possibility of creating a more formal, equity-based L&D financing mechanism within the UNFCCC in the future.

Guiding principles for mobilising loss and damage finance

Despite some disagreements on how to apply it, the concept of "common but differentiated responsibilities and respective capabilities" (CBRD-RC) is generally understood to mean that wealthy countries, which have a greater ability to take on the costs of addressing climate change and greater responsibility for causing it, should cut their own emissions faster than developing countries, and also provide financial support to those countries for mitigation and adaptation (Adelman 2016). Based on our research and analysis, we propose five principles for extending this concept to loss and damage:

1. No strict liability or compensation, at least in the near term

Our research indicates that a new financing mechanism should not attempt to attribute strict liability for loss and damage, or be structured around compensation. We recognise the growing role of climate litigation, as well as improvements in the attribution of impacts to climate change.

A liability and compensation approach to a multilateral L&D mechanism, however, would impose high demands if it requires attributing specific losses and damage to climate change.

Such an approach would likely create a cumbersome, easily thwarted institutional process for establishing countries' obligation to provide funding or their right to receive it (Huggel et al. 2015), with potentially negative consequences for developed and developing country Parties alike. That, in turn, would generate large uncertainties with respect to the levels and timing of funding that can eventually be accessed and hinder the mobilisation of L&D finance that is urgently needed on the ground. It would also continue to prompt the strong political resistance that has stymied progress on loss and damage until now.

2. Solidarity and common but differentiated responsibilities

In the near term, finance for loss and damage could instead be mobilised on the basis of solidarity as well as CBRD-RC, with an emphasis on historical responsibility, capacity to pay, and the "polluter pays" principle. Extending this principle to loss and damage, similar to how it is applied to mitigation and adaptation finance, would fill a critical gap in the international climate regime.

Solidarity-based finance contributes to the aims of protecting development gains and the legitimacy of the international climate regime. Despite not assigning strict liability, it does not close it off, and it still references the core dimensions of internationally agreed-upon standards of climate justice. Instead of a cumbersome legal process, the Parties would focus on offsetting the losses suffered by poor and vulnerable communities due to sudden- and slow-onset climate change impacts.

Solidarity-based models have limitations, particularly given the reluctance of developed countries to mobilise funding. However, a formal mechanism within the UNFCCC, akin to the Green Climate Fund, would also be solidarity-based, albeit implicitly. For example, there is currently no formal mandate for specific countries to provide a certain amount of climate finance through the GCF each year. Adopting a solidarity-based model for loss and damage would likely have the same effect, while sidestepping contentious negotiations. In our interviews, civil society actors also emphasised the urgency with which finance is required. A solidarity-based model would enable immediate progress on L&D, while efforts continue to establish a more formal mechanism within the UNFCCC in the longer term.

Climate change is exacerbating water scarcity in arid regions, threatening habitability. Above, a family on a rural road in Namibia. © ALAN J. HENDRY / UNSPLASH

3. No exemption from liability

The purpose of a solidarity-based approach is to unlock finance for vulnerable countries and communities as quickly as possible – but this should not come at the expense of denying their legal rights, or those of any other potential plaintiffs. For this reason, it is crucial that solidarity-based finance not foreclose the possibility of pursuing compensatory justice. This is also critical given the scale of loss and damage finance required, which is unlikely to be met by solidarity-based finance alone. Ensuring that finance provided is actually needs-based requires leaving open alternative avenues through which affected communities, such as Indigenous Peoples and youth, could still seek compensation.

4. National ownership and accessibility for the vulnerable

Loss and damage finance must be structured to address the types of losses and damages that vulnerable people experience, including non-economic ones, such as the loss of cultural heritage. This means that funding cannot be effectively delivered using the same project-based model that dominates mitigation and adaptation funding. A new L&D finance mechanism will have to set up or utilise existing national and local systems for identifying relevant losses and damages and disbursing support at very granular levels to affected communities and individuals, within much shorter timescales than in conventional climate finance. It will therefore need to be grounded in national ownership and local mechanisms for managing funds, with the earnest engagement of affected communities.

Existing national accredited and implementing entities under the Green Climate Fund could serve as hubs for this process. Systems also need to be in place to ensure that funds are reaching the intended populations and that processes are transparent and legitimate.

5. Additionality

Our interviews highlight the need for L&D finance to be additional to the funding commitments that developed countries have already made for mitigation and adaptation in poorer countries. The modalities of an L&D finance mechanism should be designed to ensure that funds for loss and damage can be traced and distinguished, to ensure the legitimacy of additionality claims.

In practice, finance for loss and damage will sometimes be hard to distinguish from investments in adaptation. However, technical challenges should not inhibit the ability of parties to set up institutional arrangements that can ensure the additionality of L&D finance. This can also be aided by the systems of national ownership mentioned above, which can ensure that L&D finance is being ringfenced and used as intended.

Financing instruments and activities

As noted earlier, the lack of a formal definition of loss and damage leads to a high degree of politicisation of the issue, including conflicting interpretations of what counts as adaptation and what is already funded through climate and development finance (Vulturius and Davis 2016; Boyd et al. 2017). Table 1 lists the types of activities that could be funded to avert, minimise or address loss and damage. That framing was introduced by developed-country actors and has come to dominate discussions of L&D finance, though the WIM's mandate is only to address loss and damage. We draw on our literature review to suggest clear boundaries between activity types.

A clear take-away is that while activities to avert and minimise loss and damage are already funded through mitigation and adaptation finance, respectively, activities aiming to address L&D remain largely unfunded, with the exception of some disaster risk reduction finance and humanitarian aid. Given the large economic estimates of L&D (Richards and Schalatek 2017), a lack of additional financing that is defined as L&D risks leaving countries and communities far short of the financial support they require.

Table 1. Types of activities to fund when minimising, averting and addressing loss and damage

	Sudden-onset events	Slow-onset events
Averting loss and damage (addressed through mitigation finance)		
	Decarbonisation measures	Decarbonisation measures
	Reforestation and land use management	Reforestation and land use management
	Behaviour change	Behaviour change
Minimising loss and damage (addressed through adaptation finance)		
	Early warning systems triggering effective pre-event prevention and response actions	Forecasting and early warning triggering pre-event risk reduction
	Preventative building measures (retrofitting and new building codes to increase the resilience of infrastructure)	Physical risk reduction measures (e.g. dykes and sea walls)
	Contingency planning	Other risk reduction measures (e.g. climate-resilient agriculture)
	Vulnerability reduction and capacity-building	Vulnerability reduction and capacity-building
Addressing loss and damage (as yet unfunded through climate finance)		
Economic loss and damage	Compensation and other social protection measures	Planned relocation /assisted migration
	Short and long-term recovery and rehabilitation	Reskilling and alternative livelihoods provision
	Rebuilding damaged infrastructure	Compensation and other social protection measures
	Planned relocation / assisted migration	
	Support for rebuilding livelihoods	
	Insurance and risk transfer	
Non-economic loss and damage	Recognition and repair of loss (whether or not accompanied by financial payments)	Recognition and repair of loss (whether or not accompanied by financial payments)
	Enabling access / safe visits to abandoned sites	Enabling access / safe visits to abandoned sites
	Active remembrance (e.g. through museum exhibitions, school curricula)	Active remembrance (e.g. through museum exhibitions, school curricula)
	Counselling	Counselling
	Official apologies	Official apologies

Sources: Linnerooth-Bayer and Hochrainer-Stigler (2015), Gewirtzman et al. (2018), Roberts and Pelling (2018), Wallimann-Helmer et al. (2019), and Pandit Chhetri et al. (2021).

Table 2 lists potential existing financial instruments and mechanisms that could be adapted to fund activities to address loss and damage in a just and equitable manner. The most conventional form of climate finance is public, international finance from either bilateral or multilateral resources. An idealised funding mechanism for L&D would incorporate new and additional funding to address L&D within these models, by establishing a separate financial mechanism akin to the Adaptation Fund, for instance, or opening a new window of funding for L&D within existing funds, such as the GCF. However, our interview data reveals that such a funding mechanism is highly politically infeasible in the immediate term due to the institutional, structural and political barriers imposed by the climate finance architecture.

Therefore, we turn to other potential sources of international finance, such as solidarity funds, as alternatives for the near term. For example, the EU Solidarity Fund model could be adapted, with wealthy countries paying into a joint fund that is then allocated to countries facing losses and damages on the basis of need, or when their capacity limits are reached (for a description of the model, see Hochrainer-Stigler et al. 2017).

At the national level, potential funding mechanisms include national disaster funds as well as social protection schemes, which periodically reserve a proportion of a country's budget to address disasters and extreme weather events. For example, Mexico has a national disaster fund that channels resources from the federal budget into specific reconstruction programmes following an extreme weather event (World Bank, 2012). Similarly, Bangladesh has established a national loss and damage mechanism, funded by a trust fund and public-private partnership agreements (Haque et al 2018).

National mechanisms in countries facing losses and damages would ensure that immediate support is available following a climate-induced extreme weather event. They would also enable those countries to dictate how and where finance is utilised, as opposed to the project-based model of conventional climate finance. However, the climate justice principles that underpin the UNFCCC would demand that those national mechanisms be financed by those whose carbon emissions caused the losses and damages. Until a formal international L&D fund is in place, the national mechanisms could be linked to solidarity funds, with developed countries directly paying into national funds set up and governed by developing countries.

Our interviews also revealed that along with public finance, some civil society actors favour "innovative" sources of finance for loss and damage, citing the urgency of the needs and the political constraints to finance mobilisation under the UNFCCC. The innovative sources they suggested aim to abide by the "polluter pays" principle, funding L&D responses through air passenger levies, for example, or carbon taxes on fossil fuels. Although potentially fraught with challenges, such as dependence on market forces, these could be additional sources of finance that could flow directly and automatically into national level disaster funds or

Table 2. Financing instruments for addressing loss and damage

Type of funding	Funding source
International / public finance	International climate finance (bilateral or multilateral)
	International disaster funds (humanitarian aid, emergency services or assistance loans)
	Philanthropic or solidarity funds
	Contingency loans
National finance	National disaster funds
	Self-funding from population
	Social protection schemes (social funds and reserve funds from national budget)
'Innovative' finance	Air passenger levy
	Carbon tax on fossil fuels
	Debt swaps / debt relief / debt cancellation
	Shifting fossil fuel subsidies
	Litigation
Insurance and risk transfer	Insurance and micro-insurance (setting premiums to reflect risk)
	Catastrophe bonds / resilience bonds
	Risk pooling

Sources: Linnerooth-Bayer and Hochrainer-Stigler (2015), Gewirtzman et al. (2018), Roberts and Pelling (2018), Wallimann-Helmer et al. (2019), and Schaefer, Jorks and Seck (2021).

national mechanisms when a loss and damage event occurs. This would once again give the right of self-determination to developing countries, and would sidestep the need for reaching consensus at a COP.

Finally, insurance and financial risk transfer schemes are often promoted as instruments to finance loss and damage, particularly by developed countries (Puig et al. 2019). While they can be useful in some contexts, such as to cover crop losses due to extreme events, they have been widely criticised as unsuitable for addressing slow-onset climate change impacts or non-economic losses and damages (Linnerooth-Bayer and Hochrainer-Stigler 2015; Gewirtzman et al. 2018). They are also unlikely to work in areas facing escalating and frequent extreme climate change impacts.

There are also equity considerations. Conventional insurance premiums are likely to be unaffordable to vulnerable communities, and poorer populations generally have little access to formal insurance schemes (Adelman 2016). If subsidised or well designed, however, with developed countries paying the premiums for insurance and risk transfer, insurance could be a potential solution for certain types of losses and damages, particularly in the absence of international climate finance.

How should loss and damage finance be distributed?

No matter how much finance is mobilised, it is likely to cover only a fraction of the losses and damages caused by climate change in any given year. This means it is important to prioritise the allocation of limited resources. Not only do funds need to be fairly distributed among different potential recipients, but governments will have to provide for people affected by both slow-onset and sudden-onset events. The nature of slow-onset climate change impacts means that losses and damages are less visible than those from a single extreme event, even if cumulatively, they may sometimes be much worse. (For example, a farmer can lose one year's harvest due to a storm, or see crop yields halved in the long term; or a coastal village might be ravaged by a typhoon but be able to rebuild, while sea-level rise and coastal erosion could make an entire neighbourhood permanently uninhabitable.) Weighing such different impacts and finding appropriate resources to compensate affected people is no small challenge.

Our literature review and interviews found a consensus that vulnerability to climate change is the most important criterion for prioritising finance for loss and damage. Interviewees also referred to the need to account for adaptive capacity, exposure, urgency and levels of resilience when determining distribution. Overall, a "needs-based approach" was emphasised, with a thorough needs assessment required to identify which countries would face the greatest losses and damages due not only to their physical exposure, but also their capacity and social vulnerability.

The UNFCCC defines vulnerability as "the degree to which a system is susceptible to, or unable to cope with, adverse effects of climate change, including climate variability and extremes", and a function of the probability of occurrence of a hazard, exposure, sensitivity and adaptive capacity (UNFCCC n.d.).

Articles 4.8 and 4.9 of the UNFCCC provide an indicative list of groups of developing countries with "specific needs and concerns" when it comes to facing the impacts of climate change, which include Small Island Developing States (SIDS) and Least Developed Countries (LDCs). Moreover, groups such as the Climate Vulnerable Forum (CVF) and the Vulnerable Twenty (V20) have been established in an attempt to highlight specific countries to prioritise when allocating finance.

Besides stating the obvious – that the most vulnerable populations should receive support – none of these approaches provide clear guidance on how to prioritise the allocation of resources (Horstmann 2011). The challenge is that each situation is a unique combination of geographies,

Rising sea levels are causing salinisation of both groundwater and the river Satkhira in the Sundarbans region of Bangladesh. By 2050, some 18 million people in the country could be displaced by sea-level rise alone.

threats and needs, making it difficult to compare. In the context of adaptation, definitions have been left vague enough to avoid addressing the political and ethical dilemma of ranking the vulnerability of countries with the objective of prioritising resource allocation (Klein 2009; Klein and Möhner 2011). Decisions on distributing L&D finance are also deeply normative and value-laden, based on individual perceptions of who or what is worthy compensation, rather on an objective, "correct" form of allocation.

Several interviewees suggested that creating regional funding entities would ease the allocation process, as recipients are likelier to share similar characteristics and face similar risks. These regional funds, if coupled with capacity-building measures, could then use tailored frameworks to capture the specific components of vulnerability for each population. The Caribbean Development Bank Community Disaster Risk Reduction Fund, for instance, has proposed a tool for assessing household-level vulnerability to disasters in coastal and small communities (Caribbean Development Bank 2020). In line with the definition of vulnerability provided by the UNFCCC, the score is established based on metrics capturing the level of exposure to hazards, sensitivity and adaptive capacity.

Utilising this approach, funds could be allocated and held by regional or country-level entities based on exposure indexes, and then distributed locally based on more thorough needs assessments. Such entities would have the advantage of building expertise on the specific losses and damages faced in each place, enabling a faster and more appropriate response. For instance, a programme could reach communities that are usually marginalised or discriminated against within their own countries.

Another approach suitable for sudden-onset events is to establish a threshold that, once surpassed, would be declared a "loss and damage event", qualifying those affected to access L&D finance. For example, criteria such as a specified percentage loss of GDP, or a percentage of population impacted, could be used to determine whether an event qualifies for access to L&D finance (Heinrich Böll Stiftung 2021). Such an approach was also adopted by the EU Solidarity Fund, which considered an event eligible if damages surpassed 0.6% of the country's gross national income (Hochrainer-Stigler et al. 2017).

Potential hosts for a loss and damage finance mechanism

Ideally, a loss and damage fund would sit within the WIM, to allow alignment with the UNFCCC and the WIM's other activities. However, that is politically infeasible, at least in the near term, due to the need for consensus to establish such a fund. However, interviewees did suggest that moving towards a governance structure within the WIM could be a long-term goal. Such a structure could complement the WIM's technical and knowledge-gathering activities. Another benefit would be that the WIM could also keep track of other sources of finance, such as humanitarian funding or finance for recovery or rehabilitation, that are being used to cover the costs of L&D activities, and account for them when assessing the total amount of finance flowing to L&D.

Another potential option suggested by stakeholders and interviewees is a third window of the GCF, focused on loss and damage, in addition to the mitigation and adaptation windows. This could reduce the fragmentation of climate finance and enable better alignment with mitigation and adaptation finance. Once again, however, this is politically infeasible, due to push-back from developed-country members of the GCF board against distinguishing loss and damage from adaptation. The GCF's modalities would also need to be adapted to fund L&D, moving away from a project-based model to one more suitable for sudden-onset events.

All this means that external avenues of financing on the basis of solidarity are likely to be most suitable for the immediate term in mobilising finance for L&D with the urgency required. Table 3 presents a feasibility assessment of different options for both the near and long term.

Table 3. Feasibility assessment of fund host options

Options	Advantages	Challenges
Financial arm of the WIM	Better alignment with the WIM's existing knowledge-gathering and coordination activities Close ties with UNFCCC architecture and other relevant processes (e.g. global stocktake) Aligned with and within WIM's existing mandate, with potential to build on ExCom and Santiago Network	Establishment would require consensus within the UNFCCC, which is highly unlikely due to contention around L&D in the negotiations Low capacity and resources of the WIM and slow-moving nature may not address urgency Contribution to already highly fragmented climate finance architecture and increased administrative burden on recipient countries
New window of the GCF	Reduced fragmentation of climate finance landscape and increased efficiency Increased coordination with existing finance for mitigation and adaptation, which can help avoid duplication Reduced administrative burden on recipient countries by using existing structures Continues to strengthen the global governance of climate finance system	Lack of political will for opening any new windows, with significant delays even if consensus were reached Existing funding modalities are not equipped for L&D, particularly sudden-onset events (e.g. project-based funding model) Prominent definitions of L&D within GCF see it as part of adaptation, an obstacle to ensuring additionality Existing criticisms of GCF (high administrative burdens, complex architecture, stringent accreditation requirements, projects having long lag times and not addressing local needs)
External to UNFCCC architecture (e.g. solidarity fund)	Sidestep bureaucracy of negotiations and avoid delays Greater autonomy to individual countries to develop their own approaches Avoid need for consensus and sidestep highly political nature of negotiations on L&D Potential for consistence with human rights principles	Countries not held accountable to commitments under UNFCCC Structure dependent on goodwill of developed countries to take action, which is currently missing Greater challenges in ensuring climate justice principles are respected

Source: Authors' own work.

Time to act: Recommendations for COP26 and beyond

Loss and damage is not a future challenge – it is the lived reality of ever-growing numbers of poor and vulnerable people who cannot afford to wait any longer for financial support. With this in mind, based on our research we have several recommendations for the WIM ExCom, negotiators in Glasgow, and national governments more broadly:

- **Begin mobilising needs-based finance for loss and damage:** In order to deliver finance for loss and damage as soon as possible, countries should mobilise L&D finance in the near term on the basis of solidarity, in line with the principle of "common but differentiated responsibilities and respective capabilities". At COP26, groups of countries could take an important step forward by announcing pledges of bilateral finance for loss and damage.

- **Include L&D finance as part of the post-2025 climate finance target**: Given that the large scale of loss and damage finance required is unlikely to be met by solidarity finance alone, it is important to continue to work towards a formal L&D finance mechanism within the UNFCCC, such as under the WIM. This is crucial to meet the needs of vulnerable countries and communities in the long term, and to legitimise L&D as part of climate finance discussions. Including L&D as part of the post-2025 climate finance target would be a first step towards this.

- **Establish a process for identifying suitable mechanisms for delivering L&D finance:** Given the wide range of options for financing instruments to address L&D, including numerous potential hosts, the WIM ExCom itself could agree at COP26 to conduct a process for assessing and identifying the most viable options for channelling L&D finance, with the aim of setting up a formal mechanism in the future.

- **Support setting up national systems for distributing L&D finance:** Such systems, which could utilise existing national disaster funds or national accredited entities of the GCF, should be designed to ensure that finance is reaching the people who need it most, and ringfence funds for L&D as separate and additional to funding for mitigation and adaptation. Strong transparency and accountability systems are also crucial, to ensure that finance is used appropriately.

- **Convene national-level needs assessments in countries facing losses and damages:** National governments in countries facing significant losses and damages should conduct comprehensive needs assessments to determine which activities need to be funded in different contexts, and how finance should be distributed at subnational levels. At COP26, discussions will take place on the modalities of the Santiago Network on Loss and Damage, which is mandated to provide technical assistance to vulnerable countries and communities. This could be harnessed as an opportunity to build the capacity of the national mechanisms proposed above, to enable them to conduct needs assessments and serve as national "hubs" for L&D finance.

For many developing-country Parties, delivery on loss and damage finance will be the key indicator of COP26's success. Tangible progress is therefore essential for safeguarding the perceived legitimacy of the climate negotiations, protecting development gains in vulnerable countries, and upholding the core principles of the UNFCCC.

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